Commonwealth of Puerto Rico

Comprehensive Annual Financial Report
Year Ended June 30, 2011

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2011

Commonwealth of Puerto Rico

Honorable Luis G. Fortuño Burset
Governor

Prepared by:

Puerto Rico Department of the Treasury

Jesús F. Méndez Rodríguez, CPA
Secretary of the Treasury

Jaysel D. Chevres Santiago, CPA
Assistant Secretary of Central Accounting

This document is available on the Puerto Rico Department of the Treasury homepage
On the World Wide Web: http://www.hacienda.gobierno.pr

COMMONWEALTH OF PUERTO RICO

TABLE OF CONTENTS

INTRODUCTORY SECTION

CPA JESUS F. MENDEZ RODRIGUEZ
SECRETARY OF TREASURY

April 27, 2012

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

It is my pleasure to present the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Puerto Rico (the "Commonwealth") for the fiscal year ended June 30, 2011. This report, presented in three sections, Introductory, Financial, and Statistical, is the primary means of reporting the Commonwealth's financial activities.

The Introductory Section includes this letter of transmittal, general information about the Commonwealth, a list of the Commonwealth's principal elected and appointed officials and an organizational chart. The Financial Section includes the independent auditors' report, management's discussion and analysis (MD&A), the audited basic financial statements as listed in the table of contents and the notes thereto and the required supplementary information. The statistical section set forth selected unaudited financial and demographic information for the Commonwealth on a multiyear basis.

Profile of the Commonwealth

The Puerto Rico Department of the Treasury is responsible for the preparation of this report. The responsibility for the accuracy of presented data and the completeness and fairness of the presentation, including all of the disclosures, rests on the Commonwealth's management. To the best of our knowledge and belief, the following data, as presented, is accurate in all material respects and is presented in a manner designed to set forth the financial position and the results of operations of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. We have included all the necessary disclosures to enable the reader to gain a thorough understanding of the Commonwealth's activities.

The financial reporting entity consists of the primary government, other organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is able to either impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. Certain component units, despite being legally separate from the primary government, are blended with the primary government. Blended component units provide services exclusively to the Commonwealth and thus are reported as if they were part of the primary government. The Commonwealth has four blended component units.

Discretely presented component units are legally separate from the primary government and are reported as discretely presented component units because the Commonwealth appoints a majority of these organizations governing bodies and either is able to impose its will on them or a financial benefit/burden situation exists. Discretely presented component units, both major and nonmajor, are reported in a separate column in the government wide financial statements to emphasize that they are not part of the primary government and to differentiate their financial position and results of operations from those of the primary government. The Commonwealth has 49 discretely presented component units of which six are considered major component units and 43 nonmajor component units.

In addition, the Commonwealth has three (3) fiduciary component units which have been omitted from the government-wide financial statements, as their resources are not available to fund the operations of the Commonwealth.

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

***Blended Component Units**:*

Public Buildings Authority

Puerto Rico Maritime Shipping Authority

Puerto Rico Sales Tax Financing Corporation

The Children's Trust

***Discretely Presented Component Units**:*

Major Component Units:

Government Development Bank for Puerto Rico

Puerto Rico Highways and Transportation Authority

Puerto Rico Electric Power Authority

Puerto Rico Aqueduct and Sewer Authority

University of Puerto Rico

Puerto Rico Health Insurance Administration

Nonmajor Component Units:

Agricultural Enterprise Development Administration

Automobile Accidents Compensations Administration

Cardiovascular Center Corporation of Puerto Rico and the Caribbean

Company for the Integral Development of the Península de Cantera

Corporation for the Caño Martín Peña ENLACE Project

Corporation for the Development of the Art, Science and Film Industry of Puerto Rico

Culebra Conservation and Development Authority

Economic Development Bank for Puerto Rico

Employment and Training Enterprises Corporation

Farm Insurance Corporation of Puerto Rico

Fine Arts Center Corporation

Governing Board of the 9-1-1 Service

Institute of Puerto Rican Culture

Institutional Trust of the National Guard of Puerto Rico

Land Authority of Puerto Rico

Musical Arts Corporation

National Parks Company of Puerto Rico

Port of the Americas Authority

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives

Puerto Rico Conservatory of Music Corporation

Puerto Rico Convention Center District Authority

Puerto Rico Council on Higher Education

Puerto Rico Government Investment Trust Fund

Puerto Rico Industrial Development Company

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

Puerto Rico Infrastructure Financing Authority

Puerto Rico Land Administration

Puerto Rico and Municipal Islands Maritime Transport Authority

Puerto Rico Medical Services Administration

Puerto Rico Metropolitan Bus Authority

Puerto Rico Municipal Finance Agency

Puerto Rico Ports Authority

Puerto Rico Public Broadcasting Corporation

Puerto Rico Public Private Partnerships Authority

Puerto Rico School of Plastic Arts

Puerto Rico Telephone Authority

Puerto Rico Tourism Company

Puerto Rico Trade and Export Company

Right to Employment Administration

Special Communities Perpetual Trust

Solid Waste Authority

State Insurance Fund Corporation

University of Puerto Rico Comprehensive Cancer Center

Fiduciary Component Units:

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico

Puerto Rico Judiciary Retirement System

Puerto Rico System of Annuities and Pensions for Teachers

Independent Auditors

Commonwealth statutes require an annual audit by independent certified public accountants. The firm of Deloitte & Touche LLP was selected by the Commonwealth to perform the audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America for the fiscal year 2011. The goal of an independent audit is to provide reasonable assurance that the financial statements of the Commonwealth for the fiscal year ended June 30, 2011 are fairly stated in all material respects in accordance with U.S. generally accepted accounting principles. The independent auditors' report on the basic financial statements is included in the financial section of this report.

Internal Controls

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

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

Certain departments, agencies, and political subdivisions are subject to the requirements of the U.S. Office of Management and Budget Circular A-133. As a result, these entities are audited for compliance with the requirements of the federal financial assistance programs. These audits are performed at the department or agency level. The Commonwealth has provided for the possible cost disallowance that may arise from these audits, as well as from other audits that may be performed by federal grantors.

Budget and Fiscal Policy

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

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

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

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

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

Governmental Activities

General governmental activities of the Commonwealth are accounted for in five major governmental funds. These funds are: general, pledged sales and use tax, debt service, COFINA special revenue, and COFINA debt service. Nonmajor governmental funds are combined in a single column in the governmental fund financial statements, and individually identified in the supplementary combining nonmajor governmental funds' financial statements of this report.

Business-type Activities

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

The Commonwealth's major proprietary operations comprise the following activities: the Unemployment Insurance Fund and the Lotteries Fund (which includes the Lottery of Puerto Rico and the Additional Lottery System). The Disability Insurance Fund, the Drivers' Insurance Fund, the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund are all nonmajor proprietary funds combined in a single column in the proprietary fund financial statements, and individually identified in the supplementary combining nonmajor proprietary funds' financial statements of this report.

Fiduciary Operations

Fiduciary funds are used to account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. These include the pension and agency funds. Pension trust funds are established through trust agreements specifying how the fund will operate. Agency funds are custodial in nature and do not report fund balances.

The pension funds include the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico and its Instrumentalities, the Puerto Rico Judiciary Retirement System, and the Puerto Rico System of Annuities and Pensions for Teachers.

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

Cash Management Policies and Practices

The Commonwealth maintains a cash pool for its cash and cash equivalents. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest-bearing accounts in the Government Development Bank for Puerto Rico, a discretely presented component unit. In addition, the Puerto Rico Government Investment Trust Fund (PRGITF) was created by the Commonwealth pursuant to Act No. 176 of August 11, 1995, as a no-load diversified collective investment trust that 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.

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

Capital Assets

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

Debt Administration

The Commonwealth had a number of debt issues outstanding. The Commonwealth's general obligation and appropriation debt is currently rated "Baa1" by Moody's Investors Service, "BBB" by Standard & Poor's Ratings Services, and "BBB+" by Fitch, Inc.

Section 2, Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes are backed by the full faith, credit and taxing power of the Commonwealth shall not be issued if the amount of the principal and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenues raised under the provisions of the Commonwealth Legislation and deposited into the Treasury of Puerto Rico in the two fiscal years preceding the fiscal year of such proposed issuance. 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 through payments by the commonwealth on such guaranteed debt. At June 30, 2011, the Commonwealth is in compliance with the debt limitation requirement. See the computation of the legal debt margin in the statistical section of this report. More detailed information about the long-term debt can be found in the notes to the basis financial statements.

Risk Financing

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

Financial Advisor and Fiscal Agent

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

Economic Conditions and Outlook

The Commonwealth's economy is recovering from a recession that began in the fourth quarter of fiscal year 2006. The Puerto Rico Planning Board's preliminary reports of the performance of the Puerto Rico's economy during fiscal year 2011 indicate that the economy registered a contraction of 1% compared to a contraction of 3.8% in 2010 in total real gross product. However, there are indicators that the economy is beginning to move forward, including an increase in retail sales, reduction in unemployment rate among other positive indicators.

Puerto Rico has a diversified economy with manufacturing and services comprising its principal sectors. Manufacturing is the largest sector in terms of gross domestic product. Manufacturing in Puerto Rico is now more diversified than during the earlier phases of its industrial development and includes several industries less prone to business cycles. In the last three decades, industrial development has tended to be more capital intensive and more dependent on skilled labor.

The services sector, which includes finance, insurance, real estate, wholesale and retail trade, tourism, and other services, has shown a strong interaction with manufacturing, tourism, construction, and agriculture.

In terms of per capita income in fiscal year 2011 was $16,241; in 2010 was $15,203; in 2009 was $14,786; in 2008 was $14,217; and in 2007 was $13,244.

According to the Puerto Rico Department of Labor and Human Resources, during fiscal year 2011, the labor force was 1.28 million compared to 1.31 million in fiscal year 2010. The average unemployment rate was 15.9 % during the fiscal year 2011.

Major Initiatives

The administration has just enacted tax reform and is expected to focus now on pension reform, both intended to achieve longer term structural balance.

Tax Reform

The tax reform initiative, the final piece of which was passed by the Legislature in January 2011, is designed to replace revenues lost through significantly lower personal and corporate income tax rates with a temporary excise tax on certain manufacturers and ultimately by implementation of a source income rule for multi-national corporations. The restructuring of the tax system is intended to stimulate the economy and promote private sector investment by providing tax relief to individuals and corporations, simplifying the tax system, and reducing tax evasion. The top corporate tax rate is reduced immediately from 41% to 30% and then to 25% in 2014 and there will be tax relief across all corporate income tax brackets. All individual tax payers will likewise have tax relief; the number of tax deductions will be reduced from 28 to 10 and the average tax rate will be reduced 49% by fiscal 2016. Act No. 1 of 2011 conditions the implementation of the tax reductions applicable to individuals and corporations after fiscal year 2014 on the Commonwealth's ability to continue its path towards fiscal stability. The Commonwealth is expecting to provide taxpayers aggregate annual savings of $1.2 billion for the next six fiscal years, commencing in taxable year 2011.

The reduction in income tax revenues resulting from the implementation of the tax reform is expected to be offset by additional revenues produced by a temporary excise tax on transactions between manufacturers and distributors that are members of the same non-resident holding or control group that produce in Puerto Rico; enhanced enforcement efforts; and increased economic activity produced by the tax relief measures.

The excise tax, enacted in December 2010 as Act 154 and effective January 1, 2011, includes tax credits for the affected companies who maintain employment of at least 90% of the current level, and will be phased out by fiscal 2016 when it is replaced by revenues from the source income rule. Such excise tax affects foreign corporations or partnerships that are principally engaged in the manufacturing of pharmaceuticals and electronics. The Commonwealth collected approximately $1.8 billion from the excise tax payments during the first year of implementation (from February 2011 through January 2012) of Act 154 and expects to raise $5.6 billion for the six-year period that the excise tax is in place.

Pension Reform

In order to address the growing unfunded pension and non-pension benefit obligations and funding shortfalls of the three government retirement systems, the Governor of Puerto Rico submitted two bills to the Legislative Assembly to address in part the retirement systems' financial condition. One of such bills was enacted as Act No. 96 on June 16, 2011 ("Act 96"). On June 23, 2011, in accordance with Act 96, $162.5 million of funds on deposit in the Corpus Account of the Puerto Rico Infrastructure Development Fund (the "Corpus Account"), which is under the custody and control of the Puerto Rico Infrastructure Financing Authority, were contributed to the Employees Retirement System and invested in capital appreciation bonds issued by COFINA maturing annually on August 1, 2043 through 2048 and accreting interest at a rate of 7%. The principal amount of the COFINA bonds will grow to an aggregate amount of approximately $1.65 billion at their maturity dates.

The second bill submitted by the Governor was enacted as Act No. 114 of July 5, 2011 ("Act 114") and Act No. 116 of July 6, 2011 ("Act 116"). These Acts provide an increase in employer contributions to the Employee Retirement System and the Teachers Retirement System of 1% of covered payroll in each of the next five fiscal years and by 1.25% of covered payroll in each of the following five fiscal years. As a result of these increases, the Employee Retirement System and the Teachers Retirement System would receive approximately $36 million and $14 million, respectively, in additional employer contributions during fiscal year 2012, and the additional employer contributions are projected to increase gradually each fiscal year (by an average aggregate increase of $71 million per fiscal year) to approximately $494 million and $195 million, respectively, by fiscal year 2021. The additional employer contributions for fiscal year 2012 have been included in the approved budget for such fiscal year.

In addition to these measures, on August 8, 2011, the Board of Trustees of the Employees Retirement System adopted a new regulation regarding the rules relating to the concession of personal loans to its members, which, among other changes, lowers the maximum amount of those loans from $15,000 to $5,000. This change is expected to improve gradually the Employees Retirement System's liquidity.

Tax Regime for Companies Doing Business in Puerto Rico

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

Public Sector Debt

Historically, the Commonwealth has maintained, as a matter of fiscal policy, a prudent relationship between the growth of public sector debt and the growth of the economic base required to service that debt. During certain fiscal years, however, public sector debt increased at a greater rate than the rate of gross product primarily due to an increase in the amount of debt incurred to finance certain key infrastructure projects, which are important to the development of the economy and are expected to produce long-term economic benefits. In addition, certain debt was refinanced to enable Puerto Rico to benefit from the historically low levels of interest rates and realize debt service savings. During fiscal year 2011, public sector debt increased 3.7%.

Prospects for the Future

The Commonwealth is committed to research and pursue solutions to improve the Commonwealth's competitive economic performance and the quality of life for its people. The Commonwealth's economic development program is focused on initiatives aimed at producing more diversified and sustainable economic development.

In January 2009, the administration began to implement a multi-year Fiscal Stabilization Plan and Economic Reconstruction Plan, which sought to achieve fiscal balance and restore economic growth. The Fiscal Stabilization Plan was central to safeguarding the Commonwealth's investment-grade credit rating and restoring Puerto Rico's economic growth and development. The fiscal stabilization plan's operating expense reduction measures have resulted in savings of approximately $837 million, and the tax revenue enforcement measures, and the temporary and permanent revenue raising measures have resulted in additional revenues of $933 million during fiscal year 2011.

To balance the impact of the Fiscal Stabilization Plan, the administration developed and is implementing an economic reconstruction program designed to stimulate growth in the short term and lay the foundation for long-term economic development. The Economic Reconstruction Plan consists of two main components: (i) two economic stimulus programs, and (ii) a supplemental stimulus plan. The two economic stimulus programs aimed at reigniting growth and counterbalancing any adverse effects associated with the Fiscal Stabilization Plan. The Supplemental Stimulus Plan was designed to provide investment in strategic areas with the objective of laying the foundations for long-term growth in Puerto Rico. The coordinated implementation of the Supplemental Stimulus Plan is expected to reinforce continuity in reigniting economic growth while making key investments for long-term development.

In addition, the administration designed and began to implement the Strategic Model for a New Economy, a series of economic development initiatives to enhance Puerto Rico's overall economic competitiveness and strengthen specific industry sectors. The current administration is emphasizing the following initiatives to enhance Puerto Rico's competitive position: (i) overhauling the permitting process, (ii) reducing energy costs, (iii) reforming the tax system, (iv) promoting the development of various projects through public-private partnerships, (v) implementing strategic initiatives targeted at specific economic sectors, and (vi) promoting the development of certain strategic/regional projects. These economic development initiatives are intended to support the prospects of long-term and sustainable growth.

Financial and Economic Condition

The MD&A, which can be found immediately following the independent auditors' report, provides an overview of the Commonwealth's financial activities addressing both governmental and business activities reported in the government wide financial statements. In addition, the MD&A focuses on the Commonwealth's major funds. Component units and fiduciary activities are excluded from the MD&A. Furthermore, the MD&A provides an overview of additional economic factors affecting the Commonwealth.

Acknowledgements

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

The report could not have been accomplished without the professionalism and dedication of Jaysel D. Chevres, as well as the rest of personnel of the Central Government Accounting area. This report confirms our commitment to the people of Puerto Rico, the Governor, the Legislature, and the financial community to maintain our basic financial statements in conformity with the highest standards of financial accountability.

Respectfully submitted,

Hon. Jesús F. Méndez Rodríguez, CPA
Secretary of the Treasury

COMMONWEALTH OF PUERTO RICO

PRINCIPAL OFFICIALS

Luis G. Fortuño Burset
Governor

Members of the Cabinet

Marcos Rodríguez Ema
Chief of Staff

Kenneth D. McClintock Hernández
Secretary of State

Guillermo A. Somoza Colombani
Secretary of Justice

Jesús F. Méndez Rodríguez
Secretary of the Treasury

Edward Moreno Alonso
Acting Secretary of Education

Miguel A. Romero Lugo
Secretary of Labor and Human Resources

Lorenzo González Feliciano
Secretary of Health

Miguel Santiago Córdova
Acting Secretary of Agriculture

Rubén A. Hernández Gregorat
Secretary of Transportation and Public Works

José R. Pérez Riera
Secretary of Economic Development and Commerce

Yanitsia Irizarry Méndez
Secretary of Family Affairs

Miguel B. Hernández Vivoni
Secretary of Housing

Daniel J. Galán Kercadó
Secretary of Natural and Environmental Resources

Luis G. Rivera Marín
Secretary of Consumer Affairs

Henry E. Neumann Zayas
Secretary of Sports and Recreation

Jesús González Cruz
Secretary of Corrections and Rehabilitation

LEGISLATIVES OFFICERS

Thomas Rivera Schatz
President, Senate

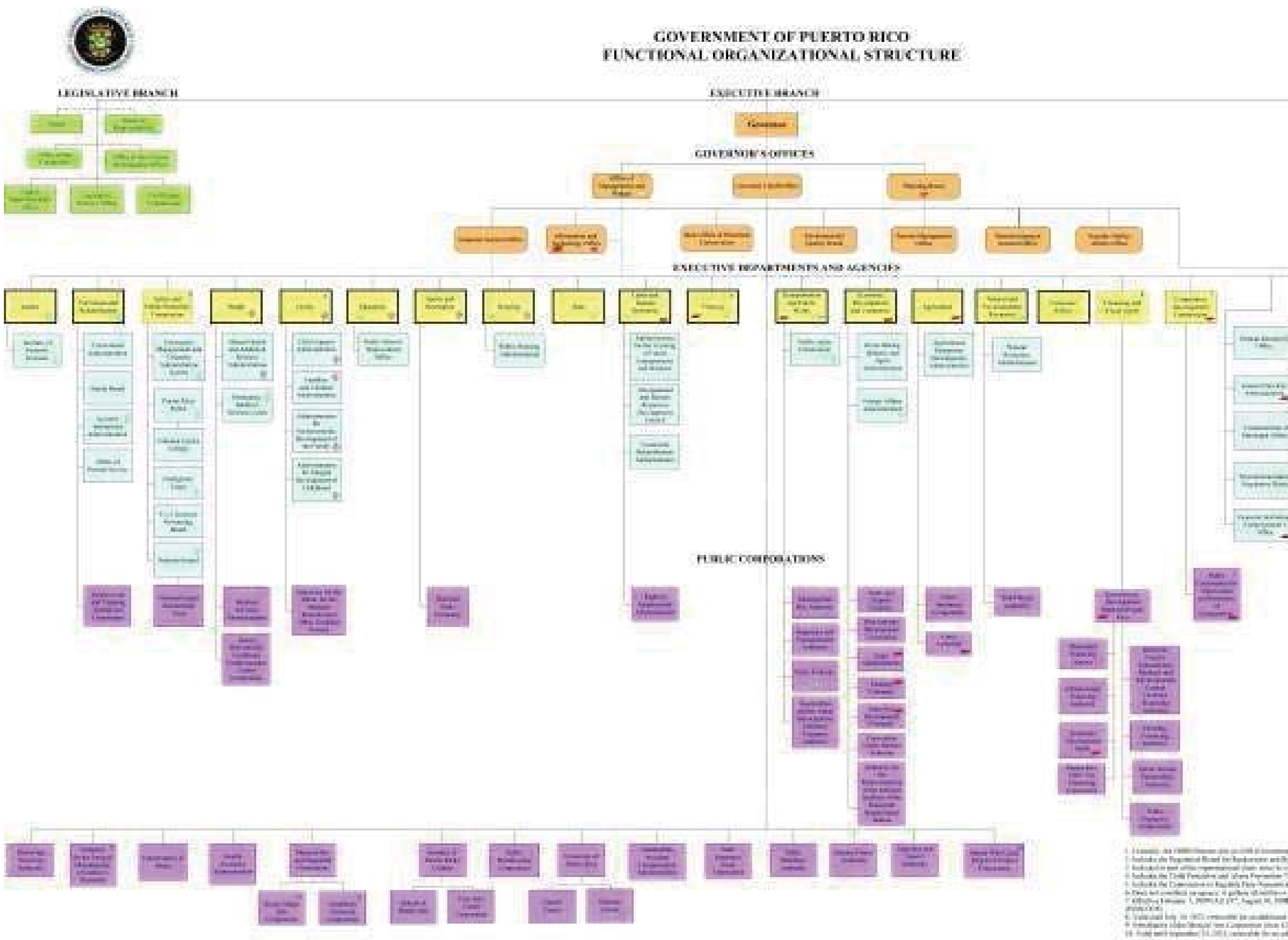
Jenniffer González Colón
Speaker, House of Representatives

FISCAL OFFICERS

Juan Carlos Pavía
Director, Office of Management and Budget

Juan Carlos Batlle
President, Government Development Bank for Puerto Rico

GOVERNMENT OF PUERTO RICO
FUNCTIONAL ORGANIZATIONAL STRUCTURE



FINANCIAL SECTION

Deloitte.

Deloitte & Touche LLP
Torre Chardon
350 Chardon Ave.
Suite 700
San Juan, PR 00918-2140
USA

Tel: +1 787 759 7171
Fax: +1 787 756 6340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico (the "Commonwealth"), as of and for the year ended June 30, 2011, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the following activities, funds, and component units:

- Puerto Rico Public Housing Administration, Human Resources and Occupational Development Council, the Office for the Administration of the Assets of the Urban Renovation and Housing Corporation of the Commonwealth of Puerto Rico, and the Office for the Improvements of Public Schools, which collectively represent 20% and 4%, respectively, of the assets and revenues of the governmental activities and 28% and 4%, respectively, of the assets and revenues of the general fund;

- The Unemployment Insurance Fund, which is both a major fund and 35% and 42%, respectively, of the assets and revenues of the business-type activities. The Additional Lottery System, which represents 78% and 46%, respectively, of the assets and revenues of the lotteries fund and 12% and 44%, respectively, of the assets and revenues of the business-type activities. The Disability Insurance Fund, the Drivers' Insurance Fund, the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, which represent 54% and 4%, respectively, of the assets and revenues of the business-type activities and 6% and 2%, respectively, of the assets and revenues of the aggregate remaining fund information;

- Public Buildings Authority special revenue, debt service, and capital project funds; The Children's Trust special revenue and debt service funds; and the Puerto Rico Maritime Shipping Authority debt service fund, which collectively represent 5% and .05%, respectively, of the assets and revenues of the governmental activities and 6% and .28%, respectively, of the assets and revenues of the aggregate remaining fund information;

- Entities identified in note 2 that are presented as discretely presented component units, which collectively represent 72% and 91%, respectively, of the assets and revenues of the aggregate discretely presented component units.

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

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth, as of June 30, 2011, and the respective changes in financial position and respective cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, during fiscal year 2011, the Commonwealth adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

The management's discussion and analysis on pages 18 through 47 and the schedules of funding progress on pages 254 and 255 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commonwealth's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

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

As discussed in Note 20 to the basic financial statements, the Pension Trust Funds' unfunded actuarial accrued liability and funded ratio as of June 30, 2011, were approximately $33,115 million and 11%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico, the Commonwealth of Puerto Rico Judiciary Retirement System, and the Puerto Rico System of Annuities and Pensions for

Teachers, comprising the Pension Trust Funds, will not be able to fully fund pensions after the fiscal years 2014, 2019, and 2022, respectively, if measures are not taken to reduce the unfunded actuarial accrued liability and increase the funded ratio of the Pension Trust Funds.

Deloitte & Touche LLP

April 27, 2012

Stamp No. E26135
affixed to original.

The following is a narrative overview and analysis of the financial activities of the Commonwealth of Puerto Rico (the "Commonwealth" or the "Government") for the fiscal year ended June 30, 2011. The management discussion and analysis ("MD&A") is intended to serve as an introduction to the basic financial statements, which have the following components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the Commonwealth's financial activities; (c) identify any material changes from the original budget; and (d) highlight individual fund matters. We encourage readers to review this information in conjunction with the Letter of Transmittal, which is located in the Introductory Section of this report, and the Commonwealth's basic financial statements, including the notes to the financial statements, which are located after this analysis. During fiscal year 2011, the Commonwealth implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement introduced new terms that are defined in Note 24 to the basic financial statements.

FINANCIAL HIGHLIGHTS – Primary Government

General Fund Highlights

- Total General Fund actual revenues on a budget basis (excluding other financing sources) for fiscal year 2011 was $8 billion, representing an increase of approximately $61.3 million, or .7%, from original budgeted revenues.

- Total actual expenditures[2] on a budget basis of $9.1 billion represented a decrease of $565 million when compared with fiscal year 2010. Furthermore, budgetary deficit as a percentage of revenues improved from 44% in 2009 to 27% in 2010 and to 14% in 2011.

- Transfers out and other payments for debt service includes lines of credits extended by GDB to the Commonwealth to refinance $490.9 million of interest accrued during such fiscal year and a portion of principal due on July 1, 2011 on the Commonwealth's general obligation bonds. These lines were repaid through the issue of PR Public Improvement Refunding Bonds Series 2011 A & C. Also, during the fiscal year 2011, PBA also used a line of credit from GDB to make payments of approximately $147.8 million of interest accrued during such fiscal year on its Commonwealth's guaranteed bonds, which line of credit was refinanced with the proceeds of a series of

[1] The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commonwealth's management. The independent auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. Therefore, the independent auditors did not audit such information and did not express an opinion on it.

[2] Total actual expenditures include $28.7 million paid and accrued during fiscal year 2011 as part of the early retirement benefits established by Act No 70.

Commonwealth guaranteed bonds issued by PBA. This line of credit was repaid through the issue of Government Facilities Revenue Bonds Series 2011 S.

- The General Fund balance deficit for fiscal year 2011 was reduced by $296.2 million, a 54% reduction in the General Fund deficit when compared to fiscal year 2010.

Government-wide Highlights

- The Commonwealth reported a deficit in net assets at year-end of $33.7 billion, comprised of $15.1 billion in total assets offset by $48.8 billion in total liabilities.

- Total liabilities at year end were $48.8 billion, comprised of $48.5 billion in governmental activities and $349.6 million in business-type activities.

- The Commonwealth's governmental activities had total revenues and transfers of $15.9 billion, which were less than total expenses of $19.2 billion.

- The total expense of all the Commonwealth's programs, which includes $1.3 billion in business-type activities, was $20.6 billion.

Long-term Debt

- Total long-term obligations of the primary government as of June 30, 2011 were $45.7 billion, of which $1.6 billion are due within one year. Long-term obligations of the primary government increased by $2.5 billion, or 5.7%, when compared to the prior fiscal year.

MAJOR FINANCIAL ELEMENTS

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

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

Debt – Comprises bonds and notes of the Commonwealth and component units. The Commonwealth's policy has been and continues to be to prudently manage its debt within the constitutional limitation. Debt of component units, other than bond anticipation notes, is generally supported by the revenues of such units from rates charged for services or products and Commonwealth's pledged revenues. However, certain debt of component units is supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or taxes. Direct debt of the Commonwealth is issued pursuant to specific legislation approved in each particular case. Debt of component units is issued in accordance with their enabling statutes. Government Development Bank for Puerto Rico ("GDB"), as fiscal agent of the Commonwealth, must approve the specific terms of each debt issuance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Commonwealth's basic financial statements. The Commonwealth's basic financial statements include three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains additional required supplementary information in addition to the basic financial statements themselves.

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

Government-wide Financial Statements

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

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

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

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

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

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

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

- ***Blended Component Units*** – Although legally separate entities, these are in substance part of the primary government's operations. Therefore, data from blended component units are integrated into the appropriate funds for reporting purposes. The Commonwealth's four blended component units are:
  - Public Buildings Authority
  - Puerto Rico Maritime Shipping Authority
  - Puerto Rico Sales Tax Financing Corporation ("COFINA" by its Spanish acronym)
  - The Children's Trust

- ***Discretely Presented Component Units –*** These are operations for which the Commonwealth has financial accountability, but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business type activities described above. The Commonwealth's discretely presented component units are presented in two categories: (i) major; and (ii) nonmajor. This separation is determined by the relative size of the entities' assets, liabilities, revenue, and expenses in relation to the total of all component units.

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

  The Commonwealth's six discretely presented major component units are:
  - Government Development Bank for Puerto Rico
  - Puerto Rico Aqueduct and Sewer Authority
  - Puerto Rico Electric Power Authority
  - Puerto Rico Health Insurance Administration
  - Puerto Rico Highways and Transportation Authority
  - University of Puerto Rico

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

Fund Financial Statements

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

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

  The Commonwealth has five major governmental funds. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit). The Commonwealth's five major governmental funds are:

  - The General Fund
  - The Pledged Sales and Use Tax Fund
  - The Debt Service Fund
  - The COFINA Special Revenue Fund
  - The COFINA Debt Service Fund

  The remaining nonmajor governmental funds are grouped and presented in a single column in the governmental funds financial statements. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

  The Commonwealth adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The statement of revenue and expenditures — budget and actual — budget basis — general fund only presents the information for the general fund for which there is a legally adopted budget, as required by GAAP. See Note 3 to the basic financial statement for a reconciliation of the statement of revenue and expenditures — budget and actual — budget basis — general fund with the statement of revenues, expenditures, and changes in fund balance (deficit) for the general fund. This statement is presented on the page immediately following the reconciliation of the statement of revenues, expenditures, and changes in fund balances (deficit) to the statement of activities — governmental funds.

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

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

Component Units Financial Statements

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

Notes to Basic Financial Statements

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

Required Supplementary Information and Supplementary Information

The basic financial statements include a section of required supplementary information immediately following its notes. This section includes information of funding progress for the Commonwealth's three separate retirement systems, supplemental schedule of expenditures by agency-budget and actual budget basis-general fund, nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds and nonmajor discretely presented component units.

GOVERNMENT'S FISCAL STABILITY AND ECONOMIC GROWTH INITIATIVES

In January 2009, the administration began to implement a multi-year Fiscal Stabilization Plan and Economic Reconstruction Plan, which sought to achieve fiscal balance and restore economic growth. The Fiscal Stabilization Plan was central to safeguarding the Commonwealth's investment-grade credit rating and restoring Puerto Rico's economic growth and development.

To balance the impact of the Fiscal Stabilization Plan, the administration developed and is implementing an economic reconstruction program designed to stimulate growth in the short term and lay the foundation for long-term economic development.

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

Results of the Government's Fiscal Stability and Economic Growth Initiatives

The results of the Government's fiscal stability and economic growth initiatives are summarized as follows:

- General Fund revenues, on a budget basis, for fiscal year 2011 were $400 million above the previous fiscal year and $61.3 million above original budget.
- Revenues generated from the local Sales and Use Tax (IVU by its Spanish acronym) increased by 3.1% in 2011 compared to the previous year.
- Budgeted deficit as a percentage of revenues was reduced from 44% in fiscal year 2009 to 27% in fiscal year 2010; and to 14 % in 2011.
- General Fund deficit as of June 30, 2011 amounted to $251 million, a $296 million or 54% reduction when compared to a deficit of $547 million as of June 30, 2010 and an 83% reduction when compared to deficit as of June 30, 2009.
- $1.2 billion in annual savings to individual and corporation taxpayers for the next six fiscal years, commencing in taxable year 2011 to promote economic development and job creation.
- The Government estimates that the fiscal stabilization plan's operating expense reduction measures have resulted in annual savings of approximately $837 million, and that the tax revenue enforcement measures, and the temporary and permanent revenue raising measures have resulted in additional revenues of $933 million during fiscal year 2011.
- The Government estimates annual savings of approximately $62 million in salary expenditures as a result of the voluntary termination benefit program.
- Improvements in the investment grade credit rating in order to safeguard and strengthen fiscal operations, reduce financing costs, stimulate the economy and protect real estate valuation.
- In December 2011, the Economic Activity Index (EAI) increased by .5%, entering on a positive side for the first time since March 2006.
- Bankruptcies dropped to 9% in 2011, compared with the fiscal year 2010, the first drop since March 2006.
- Home sales totaled approximately 15,600, a 30.4% improvement over the previous year.

- Cement sales, a significant indicator of construction activity, have plummeted throughout the economic depression, dropping 13.5% in 2008, 29.6% in 2009 and 20% in 2010, before turning the corner in fiscal year 2011 to increase by 5.2%.
- Retail sales increased 2.8% in 2011.
- Exports fell by 4.9% in 2009, but then increased 1.4% in 2010 and 5.2% in 2011, when, at $64.8 billion, they registered the highest level in Puerto Rico history.
- Car sales fell by 11.6% and 15.6% in 2008 and 2009, respectively, and then, increased by 17.3% in 2010, and 1.5% in 2011.
- On the tourism sector, hotel occupancy dropped 1.8% in 2009, but then increased 1.2% in 2010 and 2.2% in 2011.
- New corporation registrations increased from .3% in fiscal year 2010, to 14% in fiscal year 2011.

Fiscal Stabilization Plan

The Fiscal Stabilization Plan had three main objectives: (i) stabilize the short-term fiscal situation; (ii) safeguard and strengthen the Commonwealth's investment-grade credit rating; and (iii) achieve budgetary balance. The Fiscal Stabilization Plan, which was generally contained in Act No. 7 of March 9, 2009, as amended ("Act 7"), included (i) a gradual operating expense-reduction plan through reduction of operating expenses, including payroll, which is the main component of the government expenditures, and the reorganization of the Executive Branch; (ii) a combination of temporary and permanent revenue raising measures, coupled with additional tax enforcement measures; and (iii) certain financial measures discussed below.

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

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

Act 7 extended the term of collective bargaining agreements with public employees that had expired at the time of its enactment or that would expire while it is in effect, for a period of two years (until March 9, 2011) and provided that during this period such collective bargaining agreements could not be renegotiated or renewed. Act No. 73 of May 17, 2011 ("Act 73") extended the term of the noneconomic clauses of such collective bargaining agreements for an additional period of two years (until March 9, 2013) and provided that the economic clauses may be negotiated considering primarily the fiscal condition of the applicable agency and the Government and the safeguarding of services to the people. Act 73 further provides that for the negotiation of any economic clauses, OMB must evaluate the current and projected fiscal condition of the applicable agency of the Government and issue a certification as to the available resources, if any, for such negotiations.

The second element of the expense-reduction measures, which pertains to other operating expenses, was conducted through an austerity program in combination with other expense reduction measures. The austerity program mandated a 10% reduction in other operational expenses, including cellular phone use, credit cards, and official vehicles.

In July 2010, the Governor renewed an executive order issued in September 2009 requiring all agencies and public corporations to reduce modify or cancel service contracts to achieve a cost reduction of at least 15%. The executive order covers advertising, consulting, information technology, accounting, legal and other services (except for direct services to the public), and grants the Fiscal Restructuring and Stabilization Board created under Act 7 (the "Fiscal Board") the power to monitor agencies and public corporations in order to ensure the required 15% minimum cost reduction. Each agency or public corporation had 30 days to report the following to the Fiscal Board: (i) all service contracts currently in effect, (ii) all canceled and/or modified contracts and the corresponding savings, (iii) justification for any remaining contracts in light of the mission of the agency or public corporation, and (iv) the reasonableness of the fees or compensation terms for each remaining contract.

In July 2010, the Governor also renewed another executive order issued in September 2009 requiring all agencies and public corporations to report the following to the Fiscal Board within 30 days: (i) all lease contracts currently in effect, (ii) the uses of leased premises, (iii) the needs for such premises, (iv) the terms and conditions of each lease, and (v) budgeted amounts for rent and other related expenses. During fiscal year 2010, the administration achieved savings by, among other things, consolidating operations of one or more agencies or public corporations and renegotiating leases to obtain more favorable terms.

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

Revenue Raising Measures – The goal of achieving fiscal and budgetary balance required a combination of measures that included the introduction of permanent and temporary tax increases. The Fiscal Plan included six temporary and four permanent revenue increasing measures. The temporary revenue increasing measures consisted of: (i) a 5% surtax on income of certain individuals, (ii) a 5% surtax on income of certain corporations, (iii) a 5% income tax on credit unions (commonly known as "cooperativas" in Puerto Rico), (iv) a 5% income tax on Puerto Rico international banking entities, (v) a special property tax on residential and commercial real estate, and (vi) a moratorium on certain tax credits. The temporary measures were initially set to be in effect for up to three fiscal years beginning in fiscal year 2010. Act 1 of 2011, however, limited the duration of the 5% surtax on income derived by certain individuals and corporations and the special property tax to two years. The permanent measures include (i) modifications to the alternative minimum tax for individuals and corporations, (ii) an increase in the excise tax on cigarettes, (iii) a new excise tax on motorcycles, and (iv) an increase in the excise tax on alcoholic beverages. The total revenues from these temporary and permanent measures for fiscal year 2010 were $428 million, and for 2011 were $450 million.

Financial Measures – The administration has also carried out several financial measures designed to achieve fiscal stability throughout the Fiscal Stabilization Plan implementation period. These measures included, among others, (i) a financing or bond issuance program, the proceeds of which were used to bridge the budgetary imbalance during the Fiscal Stabilization Plan implementation period and fund some of the Economic Reconstruction Plan initiatives, (ii) the restructuring of the securities held in the Corpus Account of the Infrastructure Development Fund and (iii) the restructuring of a portion of the Commonwealth's debt service.

These financial measures were anchored on the bond-issuance program of COFINA. Act 7, in conjunction with Act No. 91 of May 13, 2006, as amended ("Act 91 of 2006"), and Act No. 1 of January 14, 2009 ("Act 1 of 2009"), allocated to COFINA, commencing on July 1, 2009, 2.75% (one-half of the tax rate of 5.5%) of the sales and use tax imposed by the central government, thus increasing COFINA's financing capacity and allowing the Commonwealth to achieve fiscal stability throughout the implementation period of the Fiscal Stabilization Plan.

During fiscal years 2009 and 2010, COFINA issued approximately $5.6 billion and $3.6 billion, respectively, of revenue bonds payable from sales and use tax collections transferred to COFINA. The proceeds from these bond issues were used for, among other uses, paying approximately $1.9 billion of the Commonwealth's obligations that did not have a designated source of repayment, paying or financing approximately $4.8 billion of operational expenses constituting a portion of the Commonwealth's deficit, and funding the Local Stimulus Fund and the Stabilization Fund for fiscal year 2011 with approximately $500 million and $1 billion, respectively.

Act No. 3, which was approved by the Legislative Assembly of the Commonwealth on January 14, 2009 ("Act 3"), authorized the sale of the securities held in the Corpus Account. Puerto Rico Infrastructure Financing Authority ("PRIFA") sold the securities in January 2009 and used the proceeds to, among other things, make a deposit to the General Fund of approximately $319 million, which was applied to cover a portion of the Commonwealth's budget deficit and make a transfer to GDB of approximately $159 million as a capital contribution. The gross proceeds resulting from the sale were approximately $884 million.

Another financial measure taken has been the restructuring of a portion of the Commonwealth's debt service on the Commonwealth's general obligation bonds and bonds of Public Buildings Authority ("PBA") that are guaranteed by the Commonwealth and are payable from Commonwealth budget appropriations. During fiscal year 2010, the Commonwealth refinanced $512.9 million of interest accrued during such fiscal year on the Commonwealth's general obligation bonds and $164.5 million of interest accrued during such fiscal year on PBA bonds. During fiscal year 2011, the Commonwealth refinanced $490.9 million of interest accrued during such fiscal year and principal due on July 1, 2011 on the Commonwealth's general obligation bonds. During fiscal year 2011, PBA also used a line of credit from GDB to make payments of approximately $147.8 million of interest accrued during such fiscal year on its Commonwealth guaranteed bonds, which line of credit was refinanced with the proceeds of a series of Commonwealth guaranteed bonds issued by PBA.

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

Economic Reconstruction Plan

To balance the impact of the Fiscal Stabilization Plan, the administration developed and is implementing an economic reconstruction program designed to stimulate growth in the short term and lay the foundation for long-term economic development. The Economic Reconstruction Plan consists of two main components: (i) two economic stimulus programs, and (ii) a supplemental stimulus plan.

Economic Stimulus Programs – The cornerstone of Puerto Rico's short-term economic reconstruction plan was the implementation of two economic stimulus programs aimed at reigniting growth and counterbalancing any adverse effects associated with the Fiscal Stabilization Plan. The economic stimulus programs consisted of Puerto Rico's participation in ARRA (also referred to herein as the "Federal Stimulus") and a local plan (the "Local Stimulus") designed to complement the Federal Stimulus.

- ***Federal Stimulus Program*** – Puerto Rico was awarded with $6.8 billion in stimulus funds from ARRA. The funds are distributed in four main categories: relief to individuals, budgetary and fiscal relief, taxpayers' relief, and capital improvements. In terms of government programs, the Federal Stimulus allocates funds to education, agriculture and food assistance, health, housing and urban development, labor, and transportation, among others. As of October 14, 2011, PRIFA, which is responsible for the administration of ARRA in Puerto Rico, reported that approximately $5.5 billion in ARRA funds had been disbursed, representing approximately 79% of awarded funds.

- ***Local Stimulus Program*** – The administration formulated the Local Stimulus to supplement the Federal Stimulus and address specific local challenges associated with the local mortgage market, the availability of credit, and the infrastructure and construction sectors. Despite the fact that the Local Stimulus amounted to a $500 million investment by the government, it is estimated that its effect would be greater due to certain lending programs, which are being coordinated in collaboration with commercial banks in Puerto Rico. The administration has been disbursing funds under the $500 million local stimulus program. Most municipalities have received disbursements earmarked to pay outstanding debts and fund local projects. The administration has also disbursed funds allocated towards job training programs, a strategic water distribution project in a southern municipality and the revamping of the Puerto Rico permits system. It is estimated that approximately $400 million of Local Stimulus funds will be used for infrastructure projects. As of September 30, 2011, approximately $360 million of Local Stimulus funds had been disbursed.

Supplemental Stimulus Plan – The Supplemental Stimulus Plan was designed to provide investment in strategic areas with the objective of laying the foundations for long-term growth in Puerto Rico. The coordinated implementation of the Supplemental Stimulus Plan is expected to reinforce continuity in reigniting economic growth while making key investments for long-term development. The Supplemental Stimulus Plan is being conducted through a combination of direct investments and guaranteed lending. Specifically, the Supplemental Stimulus Plan targets critical areas such as key infrastructure projects, public capital improvement programs, private-sector lending to specific industries, and the export and research-and-development knowledge industries. The Supplemental Stimulus Plan takes into account the strategic needs that Puerto Rico must fulfill in order to become a more competitive player in its region and in the global economy.

On September 1, 2010, the Governor signed Act No. 132, also known as the Real Estate Market Stimulus Act of 2010 ("Act 132"), which provides certain incentives to help reduce the existing housing inventory. The incentives provided by Act 132 were effective from September 1, 2010 through June 30, 2011, and were subsequently extended until October 31, 2011 by Act No. 115 of July 5, 2011. On November 1, 2011, the Government approved Act No. 216 ("Act 216"), which provides incentives similar to the ones available under Act 132 and establishes an orderly transition to gradually reduce those incentives without disrupting the functioning of the housing market in Puerto Rico. The incentives provided by Act 216 are limited to residential real property and are effective from November 1, 2011 to December 31, 2012.

Economic Development Program

The Department of Economic Development and Commerce of the Commonwealth, in coordination with other government agencies, is in the process of implementing the *Strategic Model for a New Economy*, which consists of a comprehensive, long-term, economic development program aimed at improving Puerto Rico's overall global relevance, competitiveness, and business environment, and increasing private-sector capital formation and participation in the economy. These initiatives are centered on the dual mission of fostering multi-sector growth while reducing costs and barriers to business and investment, and are a medium-to-long-term counterpart to the Economic Plan and the Supplemental Stimulus Plan described above.

The current administration is emphasizing the following initiatives to enhance Puerto Rico's competitive position: (i) overhauling the permitting process, (ii) reducing energy costs, (iii) reforming the tax system, (iv) promoting the development of various projects through public-private partnerships, (v) implementing strategic initiatives targeted at specific economic sectors, and (vi) promoting the development of certain strategic/regional projects.

- ***Permitting Process*** – The first initiative, the reengineering of Puerto Rico's permitting and licensing process, has already been achieved. On December 1, 2009, the Governor signed into law Act No. 161, known as the Law for the Restructuring & Unification of the Permit Evaluation & Authorization Process, which overhauls the existing permitting and licensing process in Puerto Rico in order to provide for a leaner and more efficient process that fosters economic development. In the short term, this restructuring is focused on eliminating the significant backlog of unprocessed permits that are currently in the pipeline of various government agencies. In the long term, this law seeks to significantly reduce the number of inter-agency processes and transactions currently required by creating a centralized, client-focused system that simplifies and shortens the permitting process for applicants. The Integrated Permits System (SIP by its Spanish acronym), as the new Puerto Rico permits process is called, became operational on December 1, 2010. Through September, 2011, 38,500 permits requests have been filed and 88% of these have already been resolved

- ***Energy Policy*** – On July 19, 2010, the Governor signed Acts No. 82 ("Act 82") and 83 ("Act 83"), providing for, among other things, the adoption of a new energy policy, which is critical for Puerto Rico's competitiveness. Presently, fluctuations in oil prices have a significant effect on Puerto Rico's overall economic performance. Act 82, known as the "Public Policy on Energy Diversification through Renewable and Alternative Sources", focuses on reducing Puerto Rico's dependence on fossil fuels, particularly oil, through the promotion of diverse, renewable-energy technologies. This new energy policy seeks to lower energy costs, reduce energy-price volatility, and establish environmentally sustainable energy production through a reduction in ecologically harmful emissions. Act 82 creates a Renewable Portfolio Standard, recognizing many sources of renewable energy utilizing various technologies, setting a hard target of 12% renewable energy production by 2015 and 15% by 2020, and a requirement for retail energy providers to establish a plan to reach 20% renewable energy production by 2035. Moreover, Act 83, also known as the "Green Energy Incentives Act", assembles under one law the incentives for the construction and use of renewable energy sources. Act 83 offers new benefits to stimulate the development of green energy projects, creates Renewable Energy Certificates (RECs) and creates the Green Energy Fund (the "GEF").

- ***Tax Reform*** – The tax reform consists of two phases focused on providing tax relief to individual and corporations, promoting economic development and job creation, simplifying the tax system and reducing tax evasion through enhanced tax compliance measures.

  The first phase, enacted as Act No. 171 of November 15, 2010, applies to the 2010 tax return and provides a tax credit to each individual and corporate taxpayer. The tax credit applicable to individuals and determined by reference to the tax liability ranges from 7% for those taxpayers in higher brackets to 15% for taxpayers in the lowest bracket. Corporate taxpayers will also be entitled to a 7% tax credit determined by reference to the tax liability; provided, that such taxpayer paid the statutorily required Christmas bonus for 2010. Also, the corporate net operating loss carry forward is extended from 7 years to 10 years. This first phase was expected to provide individual and corporate taxpayers with aggregate savings of $309 million for taxable year 2010.

  The second phase, enacted as Act 1 of 2011, (i) promotes employment by doubling the earning income credit and increasing the maximum applicable income to qualify for such credit; (ii) provides a $400 tax credit to individuals over 65 years of age with an income below $15,000; (iii) significantly reduces individual income tax rates and limited the deductions; and (iv) significantly reduces corporate income tax rates. The second phase was projected to provide taxpayers aggregate annual savings of $1.2 billion for the next six fiscal years, commencing in taxable year 2011.

  The reduction in income tax revenues resulting from the implementation of the tax reform is expected to be offset by the additional revenues produced by (i) an expanded income tax source rule and a new excise tax imposed on entities that purchase products manufactured in Puerto Rico by their affiliates under the provisions of Act 154, discussed below, (ii) enhanced enforcement efforts, including the statutorily required reporting of certain client information by financial institutions to the Treasury Department, and (iii) increased economic activity produced by the tax relief measures. The combined effect of the tax reform measures and the revenue and enforcement measures is expected to be revenue positive.

Act 1 of 2011 conditions the implementation of the tax reductions applicable to individuals and corporations after fiscal year 2014 on the Commonwealth's ability to continue its path towards fiscal stability. Specifically, the tax relief provisions for individuals and corporations for taxable years 2014 through 2016 will only be implemented if (i) OMB certifies that the expense control target has been met, (ii) the Treasury Department certifies that General Fund revenue target has been met and (iii) the Planning Board certifies a year-over-year target increase in gross domestic product.

Act 154 – Expanded Income Taxation and New Excise Tax. Act 154, approved on October 25, 2010, as amended, seeks, among other things, to balance the tax burden among the taxpayers and increase the tax revenues of the Government. Act 154 modified the income taxation of certain nonresident alien individuals, foreign corporations and foreign partnerships (each a taxpayer) by expanding the circumstances in which such persons would be subject to Puerto Rico income taxation, and the act imposed an excise tax on the acquisition of certain personal property manufactured or produced in whole or in part in Puerto Rico and on the acquisition of certain manufacturing services carried out in Puerto Rico. Act 154 applies to income realized and acquisitions occurring after December 31, 2010.

The Act provides that, in certain circumstances, taxpayers will be deemed to be engaged in trade or business in Puerto Rico and taxable in Puerto Rico with respect to a portion of taxpayer's income where the taxpayers engage in significant transactions with other persons that are members of the same controlled group. Where a person engages in significant transactions with a member of the same controlled group that has gross receipts of seventy-five million dollars or more in any of the last three years and that manufactures or produces goods in Puerto Rico, or provides services in connection with the manufacture or production of goods in Puerto Rico, the person will not be subject to income tax, will instead be subject to the excise tax in lieu of any income tax. The excise tax will apply for a period of six years. The excise tax is based on the value of the personal property or services acquired and will be 4% for calendar year 2011, declining to 3.75% in 2012, 2.75% in 2013, 2.5% in 2014, 2.25% in 2015 and 1% in 2016. On December 29, 2010, the Treasury Department adopted regulations that provide certain tax credits against the temporary excise tax that lessen its impact on affected taxpayers subject to the temporary excise tax. These regulations became effective on January 1, 2011. The regulations address implementation and interpretation issues and include provisions regarding certain applicable credits against the tax subject to maintaining a baseline employment and other conditions. The Government estimates that this excise tax will affect foreign corporations or partnerships that are principally engaged in the manufacturing of pharmaceuticals and electronics. The Government raised approximately $1.6 billion from the excise tax during the first year of implementation of Act 154 and $5.6 billion for the six year period that the excise tax is in place.

In connection with the expansion of the taxation of foreign persons by Act 154, the Government obtained a legal opinion regarding the creditability of the excise tax for U.S. federal income tax purposes. The opinion concludes that this excise tax should be creditable against U.S. federal income tax. That conclusion was based in part upon a determination that the expansion of the taxation of foreign persons and the imposition of the excise tax more likely than not satisfy the constitutional requirements of due process and the Commerce Clause of the United States Constitution, for reasons discussed therein.

On March 30, 2011, the United States Internal Revenue Service (the "IRS") issued Notice 2011-29 addressing the creditability of the new excise tax imposed by Act 154. Notice 2011-29 provides that the provisions of the new Puerto Rico excise tax are novel and the determination of its creditability requires the resolution of a number of legal and factual issues. Pending the resolution of those issues, the IRS will not challenge a taxpayer's position that the excise tax is a tax in lieu of an income tax under Section 903. The IRS also provided that any change in the foregoing tax credit treatment of the excise tax after resolution of the pending issues will be prospective and will apply to excise tax paid or accrued after the date that further guidance is issued.

- ***Public-Private Partnerships*** – The Government believes that the Public-Private Partnerships (the "PPPs") represent an important tool for economic development, particularly in times of fiscal difficulties. PPPs are long-term contracts between government and nongovernmental entities such as private companies, credit unions, and municipal corporations to develop, operate, manage or maximize infrastructure projects and/or government services. PPP contracts are centered on the concept of risk transfer. The nongovernmental partner takes on certain responsibilities and risks related to the development and/or operation of the project in exchange for certain benefits. PPPs can play a pivotal role in restoring investment in infrastructure and bringing about economic growth.

  PPPs provide the opportunity for the government to lower project development costs, accelerate project development, reduce financial risk, create additional revenue sources, establish service quality metrics, re-direct government resources to focus on the implementation of public policy, create jobs and attract new investment. Puerto Rico has opportunities for the establishment of PPPs in the areas of toll roads, airports and maritime ports, public schools, water provision, correctional facilities, and energy, among others.

  On June 8, 2009, the Legislative Assembly approved Act No. 29 ("Act 29"), which established a clear public policy and legal framework for the establishment of PPPs in Puerto Rico to further the development and maintenance of infrastructure facilities, improve the services rendered by the Government and foster the creation of jobs. Act 29 created the Public-Private Partnerships Authority (the "PPP Authority"), the entity tasked with implementing the Commonwealth's public policy regarding PPPs. On December 19, 2009, the PPP Authority approved regulations establishing the administrative framework for the procurement, evaluation, selection, negotiation and award process for PPPs in Puerto Rico.

  During fiscal year 2010, the PPP Authority engaged various financial advisors to assist it in the evaluation and procurement of various projects in the energy, transportation, water and public school infrastructure sectors. During the fourth quarter of fiscal year 2010, the PPP Authority published desirability studies for four public-private partnership priority projects and commenced procurement for such projects.

  As part of the Government's PPPs initiative, the PPP Authority and the Puerto Rico Highways and Transportation Authority (collectively, the "Sponsors") recently completed the procurement for a concession of toll roads PR-22 and PR-5 (the "Toll Roads"). On June 10, 2011, the Sponsors selected Autopistas Metropolitanas de Puerto Rico, LLC ("Metropistas"), a consortium comprised of Goldman Sachs Infrastructure Partners and Abertis Infraestructuras, as the winning proponent based on a bid of $1.1 billion. On June 27, 2011, Metropistas and the Highways and Transportation Authority executed the concession agreement for the Toll Roads (the "Concession Agreement") and, on September 22, 2011, the parties successfully completed the financial closing. As a result of this transaction, the Puerto Rico Highways and Transportation Authority received a lump-sum payment of $1.1 billion and a commitment to invest $56 million in immediate improvements and comply with world-class operating standards.

- ***Sector Initiatives*** – The administration will complement the previously mentioned initiatives with specific strategic initiatives with the objective of creating jobs and increasing economic activity across various sectors of the Puerto Rico economy. The Commonwealth has natural or structural competitive advantages in several areas, such as pharmaceutical and biotechnology manufacturing. These advantages provide opportunities for the development of regional clusters in high-tech manufacturing, research and development, tourism, renewable energy, international trade and professional services. The specific initiatives will be designed to promote sustainable economic growth while accelerating to a knowledge-based and innovation driven economy, focused mainly in the development of human capital and intellectual property, thus diversifying Puerto Rico's economic base.

- ***Strategic/Regional Projects*** – The administration has also targeted strategic/regional projects that will generate investments in various regions of the Island in order to foster balanced economic development. One of the strategic projects for the northern region is called the Urban Bay (formerly known as the Golden Triangle), an urban redevelopment project that incorporates the areas of Old San Juan, Puerta de Tierra, Isla Grande, including the Puerto Rico Convention Center District (the "District"), and Condado, as well as other communities in the vicinity of historic San Juan Bay. The aim of the Urban Bay project is to develop San Juan Bay into a major tourism, recreation, commercial and residential sector which serves the local community and becomes a major attraction for leisure and business travelers, both local and external. Construction of the immediate improvements on the project footprint is already underway. Another projects, are:

    - Science City - also represents a critical effort to move Puerto Rico to the forefront of science, technology and research and development. It seeks to leverage the significant competitive advantages in the knowledge-based sectors that put Puerto Rico in an ideal position to undertake this type of development. Through the recently enacted Law No. 208 of October 20, 2011, the benefits of investing in and performing science and technology research and development activities in the newly denominated "Science District" were expanded through the inclusion of such activities as eligible for tax exemption under the Economic Incentives Act.
    - Redevelopment of the old Roosevelt Roads navy facility in Ceiba, which is a key element in the administration's strategy to create jobs and reignite the economy of Puerto Rico's eastern region, including Ceiba, Naguabo, Vieques, and Culebra. This tourist complex will include hotels, casinos, eco-tourist attractions, international airport, retail, yacht marina, and cruise ship ports.
    - Redevelopment of the Aguadilla airport to serve as the second international airport of Puerto Rico and as a regional logistics hub. The Government is in the process of submitting a formal application to obtain a Foreign Trade Zone designation for the Aguadilla airport.

Voluntary Termination Benefit Program

On July 2, 2010, the Commonwealth enacted Act No. 70 ("Act 70") to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act 70 applies to agencies and component units whose budgets are funded in whole or in part by the Commonwealth's General Fund.

Act 70 established that early retirement benefits ("early retirement program") will be provided to eligible employees that have completed between 15 to 29 years of credited services in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee' salary, as defined. In this early retirement program, the Commonwealth will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited services in the Retirement System.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System ("incentivized resignation program") or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement ("incentivized retirement program"). Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years.

Additionally, eligible employees that choose to participate in the early retirement program or in the incentivized resignation program are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth.

Based on the number of employees who agreed to participate in this voluntary termination benefit program (approximately 3,000 employees at June 30, 2011), the Government estimates annual savings of approximately $62 million in salary expenditures, net of $27 million in annual pension payments.

In addition, Act 70 allows certain component units of the Commonwealth that operate with their own resources to implement a similar program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. The benefits and the requirements are the same provided by Act 70, except as follows: in the early retirement benefit program, the component unit will make the employee and the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System; and in the incentivized retirement program, the component unit will make the employee and the employer contributions to the Retirement System for a five year period. At June 30, 2011, approximately 600 employees of these component units agreed to participate in this voluntary termination benefit program. At the same time, Act 70 has a positive actuarial impact on the unfunded actuarial accrued liability of the Retirement System.

Unfunded Pension and Non-Pension Post-Employment Benefit Obligations and Funding Shortfalls of the Retirement Systems

One of the challenges every administration has faced during the past 20 years is how to address the growing unfunded pension benefit obligations and funding shortfalls of the three Government retirement systems (the Employees Retirement System, the Teachers Retirement System and the Judiciary Retirement System) that are funded principally with budget appropriations from the Commonwealth's General Fund. As of June 30, 2011, the date of the latest actuarial valuations of the retirement systems, the unfunded actuarial accrued liability (including basic and system administered benefits) for the Employees Retirement System, the Teachers Retirement System and the Judiciary Retirement System was $23.7 billion, $9.1 billion and $319 million, respectively, and the funded ratios were 6.8%, 20.8% and 16.7%, respectively.

Based on current employer and member contributions to the retirement systems, the unfunded actuarial accrued liability will continue to increase significantly, with a corresponding decrease in the funded ratio, since the annual contributions are not sufficient to fund pension benefits, and thus, are also insufficient to amortize the unfunded actuarial accrued liability. Because annual benefit payments and administrative expenses of the retirement systems have been significantly larger than annual employer and member contributions, the retirement systems have been forced to use investment income, borrowings and sale of investment portfolio assets to cover funding shortfalls.

Based on the assumptions used in the latest actuarial valuations, including the expected continued funding shortfalls: (i) the Employees Retirement System, the largest of the three retirement systems, would deplete its net assets (total assets less liabilities, including the principal amount of certain pension obligation bonds) by fiscal year 2014; (ii) the Teachers Retirement System would deplete its net assets by fiscal year 2022; and (iii) the Judiciary Retirement System would deplete its net assets by fiscal year 2019. The estimated years for depletion of the assets could vary depending on how actual results differ from the assumptions used in the actuarial valuations, as well as based on any future changes to the contribution and benefits structures of the retirement systems. As a result of the increases in employer contributions to the Employees Retirement System and the Teachers Retirement System adopted in July 2011, as described below, the Administrator of the Retirement Systems projects that the period before depletion of the assets of these two systems will be extended by three to four years.

Since the Commonwealth and other participating employers are ultimately responsible for any funding deficiency in the three retirement systems, the depletion of the assets available to cover retirement benefits will require the Commonwealth and other participating employers to cover annual funding deficiencies. It is estimated that the Commonwealth would be responsible for approximately 74% of the combined annual funding deficiency of the three retirement systems, with the balance being the responsibility of the municipalities and participating public corporations.

The Commonwealth also provides non-pension post-employment benefits that consist of a medical insurance plan contribution. Annual benefit costs, which amounted to approximately $170.2 million for fiscal year 2010 and $165.9 million for fiscal year 2011, are funded on a pay-as-you-go basis from the General Fund and are valued using actuarial principles similar to the way that pension benefits are calculated. Commonwealth's contributions made for these benefits amounted to approximately $114.2 million for fiscal year 2010 and $125.4 million for fiscal year 2011. Based on the latest actuarial valuations, as of June 30, 2011, the aggregate unfunded actuarial accrued liability of these benefits for the three retirement systems was $2.5 billion.

Because of its multi-year fiscal imbalances previously mentioned, the Commonwealth has been unable and is currently unable to make the actuarially recommended contributions to the retirement systems. If the Commonwealth fails to take action in the short-term to address the retirement systems' funding deficiency, the continued use of investment assets to pay benefits as a result of funding shortfalls and the resulting depletion of assets could adversely affect the ability of the retirement systems to meet the rates of return assumed in the actuarial valuations, which could in turn result in an earlier depletion of the retirement systems' assets and a significant increase in the unfunded actuarial accrued liability. Ultimately, since the Commonwealth's General Fund is required to cover a significant amount of the funding deficiency, the Commonwealth would have difficulty funding the annual required contributions unless it implements significant reforms to the retirement systems, obtains additional revenues, or takes other budgetary measures.

In order to address the growing unfunded pension and non-pension benefit obligations and funding shortfalls of the three Government retirement systems, in February 2010, the Governor established a special commission to make recommendations for improving the financial solvency of the retirement systems. The special commission submitted a report to the Governor on October 21, 2010.

As a result of the special commission's report and the Government's analysis, the Governor submitted two bills to the Legislative Assembly to address in part the retirement systems' financial condition. One of such bills was enacted as Act No. 96 of June 16, 2011 ("Act 96"). On June 23, 2011, in accordance with Act 96, $162.5 million of funds on deposit in the Corpus Account of the Puerto Rico Infrastructure Development Fund (the "Corpus Account"), which is under the custody and control of the Puerto Rico Infrastructure Financing Authority ("PRIFA"), were contributed to the Employees Retirement System and invested in capital appreciation bonds issued by COFINA maturing annually on August 1, 2043 through 2048 and accreting interest at a rate of 7%. The principal amount of the COFINA bonds will grow to an aggregate amount of approximately $1.65 billion at their maturity dates.

The second bill submitted by the Governor was enacted as Act No. 114 of July 5, 2011 ("Act 114") and Act No. 116 of July 6, 2011 ("Act 116"). These Acts provide an increase in employer contributions to the Employee Retirement System and the Teachers Retirement System of 1% of covered payroll in each of the next five fiscal years and by 1.25% of covered payroll in each of the following five fiscal years. As a result of these increases, the Employee Retirement System and the Teachers Retirement System would receive approximately $36 million and $14 million, respectively, in additional employer contributions during fiscal year 2012, and the additional employer contributions are projected to increase gradually each fiscal year (by an average aggregate increase of $71 million per fiscal year) to approximately $494 million and $195 million, respectively, by fiscal year 2021. The additional employer contributions for fiscal year 2012 have been included in the approved budget for such fiscal year. With respect to the increases in the employer contributions corresponding to the municipalities, Act 116 provides that the increases for fiscal years 2012, 2013 and 2014 will be paid for by the Commonwealth from the General Fund budget, representing approximately $6.3 million, $12.8 million and $19.7 million in fiscal years 2012, 2013 and 2014, respectively.

In addition to these measures, on August 8, 2011, the Board of Trustees of the Employees Retirement System adopted a new regulation regarding the rules relating to the concession of personal loans to its members, which, among other changes, lowers the maximum amount of those loans from $15,000 to $5,000. These changes are expected to improve gradually the Employees Retirement System's liquidity.

GENERAL FUND FINANCIAL ANALYSIS

Since 2000, the Commonwealth has faced a number of fiscal challenges, including an imbalance (a deficit) between its General Fund total revenues and expenditures. The deficit reached its highest level in fiscal year 2009. Prior to fiscal year 2009, the Government bridged the deficit through the use of non-recurring measures, such as borrowing from GDB or in the bond market, postponing the payment of various government expenditures, such as payments to suppliers and utility providers, and other one-time measures such as the use of derivatives and borrowings collateralized with government owned real estate and uncollected General Fund revenues. In January 2009, the Government began to implement a multi-year plan designed to achieve fiscal balance, restore sustainable economic growth and safeguard the investment-grade ratings of the Commonwealth bonds. This plan included certain expense reduction measures that, together with various temporary and permanent revenue raising measures, have allowed the government to reduce the deficit. These measures are briefly discussed below under the heading "Fiscal Stabilization and Economic Reconstruction Plan".

For fiscal year 2011, the deficit was $1.1 billion, consisting of the difference between total recurring revenues of $8 billion and total expenditures for such fiscal year of $9.1 billion. For fiscal year 2010, the deficit was $2 billion, consisting of the difference between total recurring revenues of $7.6 billion and total expenditures for such fiscal year of $9.6 billion. The deficits for fiscal years 2011 and 2010 decreased by 47% and 38%, respectively, when compared to the deficit for prior year. During the last two fiscal years, the Government has been able to reduce the deficit by both increasing its revenues and reducing its expenditures. The Government's ability to continue reducing the deficit will depend in part on its ability to continue increasing revenues and reducing expenditures, which in turn depends on a number of factors, including improvements in general economic conditions.

Results for Fiscal Year 2011

Total General Fund recurring revenues, budgetary basis, (excluding other financing sources) for fiscal year 2011 were $8 billion, representing an increase of approximately $400 million from actual recurring revenues of $7.6 billion for fiscal year 2010 and an increase of approximately $61.3 million from estimated revenues for fiscal year 2011 of $7.9 billion.

The increase in General Fund total revenues is mainly due to an increase of $170.1 million in tax withholdings from non-residents and the collection of $677.8 million as a result of the new temporary excise tax and the expansion of the taxation of certain foreign persons adopted as Act No. 154 of October 25, 2010, as amended (“Act No. 154”) as part of the tax reform (discussed below under “Tax Reform”). This increase was partially offset by a decrease of $407 million and $18.5 million in collections from income tax on individuals and entertainment machine licenses, respectively. The decrease in individual income taxes is due to the tax relief provided to individual taxpayers as part of the tax reform and to current economic conditions. The Government had expected that the decrease in General Fund net revenues as a result of the tax relief provided to taxpayers as part of the tax reform would be offset principally by the temporary excise tax imposed on certain foreign persons by Act No. 154. For the year 2011, the excise tax payments amounted to $1.6 billion, which was consistent with the Government’s projection of collections from the excise tax. The Government’s expectations with respect to the impact of the tax reform on fiscal year 2011 revenues were met.

Expenditures for fiscal year 2011 were approximately $9.1 billion, which represented an increase of approximately $127 million or 1.4% of original budgeted expenditures and exceeded total General Fund revenues (excluding other financing sources) by $1.1 billion, or 14%. The difference between total expenditures and total General Fund revenues (excluding other financing sources) is referred to herein as the “deficit” and was covered principally by proceeds from a COFINA bond issuance and proceeds from bonds issued to refinance debt service payments.

During fiscal years 2011 and 2010, the Commonwealth did not face an aggregate shortfall of cash due to the fiscal stabilization plan implemented by the current administration. During the fiscal year 2009, the Commonwealth faced an aggregate cash shortfall of $1.2 billion that, when added to the deficit of $3.3 billion, provided for approximately $4.5 billion in excess expenditures and cash shortfall. The difference between General Fund revenues and total expenditures for such fiscal year was principally paid from proceeds of bond issues made by COFINA and the restructuring of the corpus account of the Puerto Rico Infrastructure Financing Authority (“PRIFA”) pursuant to the fiscal stabilization plan.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets (Deficit)

Net assets (deficit) may serve over time as a useful indicator of a government’s financial position. Total assets and total liabilities of the Commonwealth’s primary government at June 30, 2011 amounted to $15.1 billion and $48.8 billion, respectively, for a net deficit of $33.7 billion, compared to a $30.4 billion net deficit at the beginning of the current year.

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

An additional portion of the Commonwealth’s net assets (deficit) represents resources that are subject to external restrictions on how they may be used. An otherwise positive remaining balance would be used to meet the Commonwealth’s ongoing obligations to its residents and creditors. Internally imposed designations of resources are not presented as restricted net assets.

The net deficit of the primary government primarily results from the Commonwealth’s practice of issuing debt and transferring such funds to the component units so that they can carry out the construction projects.

The primary government retains the debt while the component units report the corresponding asset financed by such debt.

Total primary government assets decreased by $1.1 billion during fiscal year 2011 when compared to the prior fiscal year. This decrease is mainly due to the decrease of $1.1 billion in restricted investments.

Total primary government liabilities increased by $2.1 billion during the current fiscal year when compared to the prior fiscal year.

COMMONWEALTH'S NET ASSETS (DEFICIT) – PRIMARY GOVERNMENT
JUNE 30, 2011
(Expressed in thousands)

	Governmental activities	Business-type activities	Total
Current assets	$ 3,264,534	$ 584,140	$ 3,848,674
Capital assets	7,766,690	1,660	7,768,350
Other assets	2,935,147	594,001	3,529,148
Total assets	13,966,371	1,179,801	15,146,172
Current liablities	4,611,611	183,693	4,795,304
Noncurrent liabilities	43,862,961	165,882	44,028,843
Total liabilities	48,474,572	349,575	48,824,147
Invested in capital assets, net of related debt	3,691,871	1,660	3,693,531
Restricted	1,495,558	840,241	2,335,799
Unrestricted	(39,695,630)	(11,675)	(39,707,305)
Total net assets (deficit)	$ (34,508,201)	$ 830,226	$ (33,677,975)

COMMONWEALTH'S NET ASSETS (DEFICIT) – PRIMARY GOVERNMENT
JUNE 30, 2010
(Expressed in thousands)

	Governmental activities	Business-type activities	Total
Current assets	$ 3,754,128	$ 625,687	$ 4,379,815
Capital assets	7,393,801	1,586	7,395,387
Other assets	3,944,000	538,760	4,482,760
Total assets	15,091,929	1,166,033	16,257,962
Current liablities	4,277,200	199,816	4,477,016
Noncurrent liabilities	42,038,268	169,307	42,207,575
Total liabilities	46,315,468	369,123	46,684,591
Invested in capital assets, net of related debt	3,866,328	1,586	3,867,914
Restricted	2,941,461	505,906	3,447,367
Unrestricted	(38,031,328)	289,418	(37,741,910)
Total net assets (deficit)	$ (31,223,539)	$ 796,910	$ (30,426,629)

Changes in Net Assets (Deficit)

The Commonwealth's net deficit increased by $3.2 billion or 10.5% from last year's total net deficit, as restated. Approximately 47.5% of the Commonwealth's total revenue came from taxes, while 40% resulted from grants and contributions (primarily federal financial assistance). Charges for services provided represented 10.4% of the total revenue. The Commonwealth's expenses cover a range of services. The largest expenses were for general government, education, public housing and welfare, health, and public safety, which presented a combined increase of .12% when compared with prior fiscal year. In 2011, governmental activities' expenses exceeded program revenue by $12.1 billion, resulting in the use of $8.9 billion of general revenue (mostly taxes and transfers). On the other hand, program revenue from business type activities in 2011 exceeded expenses by approximately $270 million.

Governmental activities increased the Commonwealth's net deficit by $3.2 billion.

Business type activities decreased the Commonwealth's net deficit by $57.8 million.

COMMONWEALTH OF PUERTO RICO
CHANGES IN NET ASSETS (DEFICIT) - PRIMARY GOVERNMENT
YEAR ENDED JUNE 30, 2011
(Expressed in thousands)

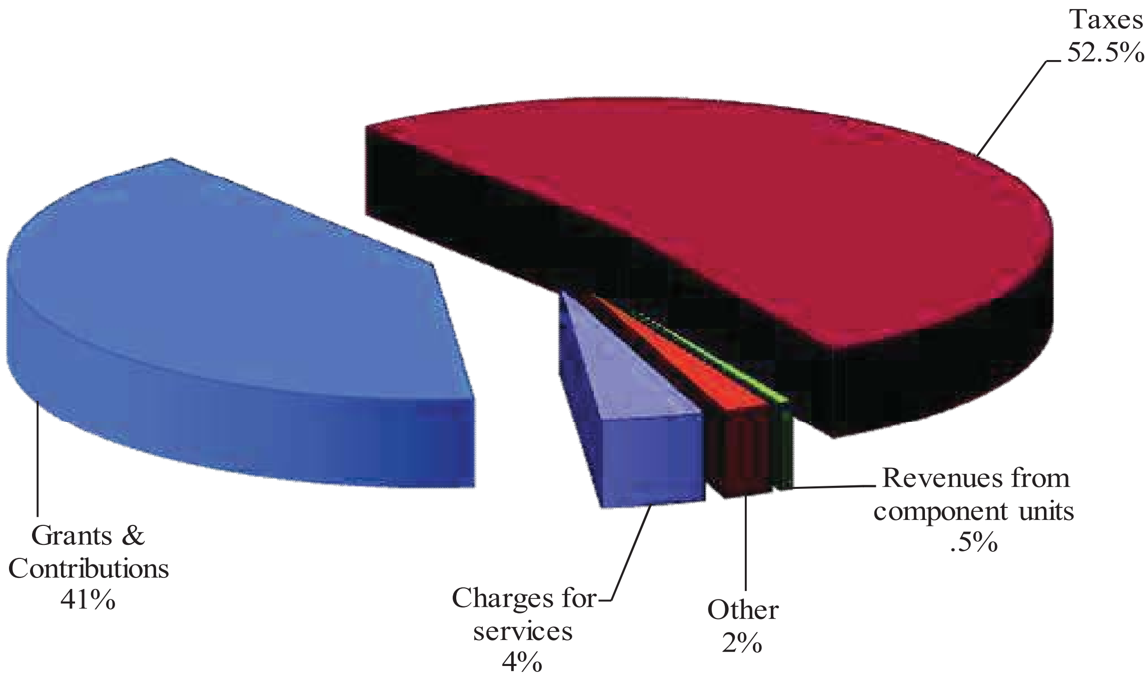
	Governmental activities	Business-type activities	Total
Revenues:			
Program revenues:			
Charges for services	$ 632,005	$ 1,192,724	$ 1,824,729
Operating grants and contributions	6,006,310	450,689	6,456,999
Capital grants and contributions	457,725	-	457,725
	7,096,040	1,643,413	8,739,453
General revenues:			
Income taxes	4,726,036	-	4,726,036
Sales and use tax	1,129,006	-	1,129,006
Excise taxes	2,106,784	-	2,106,784
Other taxes	317,292	-	317,292
Revenues from component units	84,610	-	84,610
Other	305,425	17,900	323,325
	8,669,153	17,900	8,687,053
Total revenues	15,765,193	1,661,313	17,426,506
Expenses:			
General government	2,880,614	-	2,880,614
Public safety	2,205,782	-	2,205,782
Health	3,022,000	-	3,022,000
Public housing and welfare	3,937,901	-	3,937,901
Education	4,469,337	-	4,469,337
Economic develoment	517,921	-	517,921
Payment of obligations of component units	6,411	-	6,411
Intergovernmental	430,941	-	430,941
Interest and other	1,807,230	40,044	1,847,274
Lotteries	-	697,746	697,746
Unemployment	-	635,145	635,145
Total expenses	19,278,137	1,372,935	20,651,072
Increase (decrease) in net assets before transfers	(3,512,944)	288,378	(3,224,566)
Transfers	230,551	(230,551)	-
Change in net assets (deficit)	(3,282,393)	57,827	(3,224,566)
Net assets (deficit), beginning of year (as restated)	(31,225,808)	772,399	(30,453,409)
Net assets (deficit), end of year	$ (34,508,201)	$ 830,226	$ (33,677,975)

COMMONWEALTH OF PUERTO RICO
CHANGES IN NET ASSETS (DEFICIT) - PRIMARY GOVERNMENT
YEAR ENDED JUNE 30, 2010
(Expressed in thousands)

	Governmental activities	Business-type activities	Total
Revenues:			
Program revenues:			
Charges for services	$ 600,473	$ 1,218,613	$ 1,819,086
Operating grants and contributions	6,536,125	544,393	7,080,518
Capital grants and contributions	129,947	-	129,947
	7,266,545	1,763,006	9,029,551
General revenues:			
Income taxes	4,857,035	-	4,857,035
Sales and use tax	1,087,053	-	1,087,053
Excise taxes	1,145,538	-	1,145,538
Other taxes	326,343	-	326,343
Revenues from component units	76,758	-	76,758
Other	314,158	21,260	335,418
	7,806,885	21,260	7,828,145
Total revenues	15,073,430	1,784,266	16,857,696
Expenses:			
General government	3,156,646	-	3,156,646
Public safety	2,228,000	-	2,228,000
Health	2,843,744	-	2,843,744
Public housing and welfare	3,726,041	-	3,726,041
Education	4,543,362	-	4,543,362
Economic develoment	292,037	-	292,037
Payment of obligations of component units	196,898	-	196,898
Intergovernmental	533,939	-	533,939
Interest and other	1,648,875	20,180	1,669,055
Lotteries	-	720,992	720,992
Unemployment	-	820,261	820,261
Total expenses	19,169,542	1,561,433	20,730,975
Increase (decrease) in net assets before transfers	(4,096,112)	222,833	(3,873,279)
Transfers	265,852	(265,852)	-
Change in net assets (deficit)	(3,830,260)	(43,019)	(3,873,279)
Net assets (deficit), beginning of year (as restated)	(27,393,279)	839,929	(26,553,350)
Net assets (deficit), end of year	$ (31,223,539)	$ 796,910	$ (30,426,629)

Revenues – Governmental Activities

Year ended June 30, 2011



Governmental Activities

Governmental activities increased the Commonwealth's net deficit by $3.2 billion. A comparison of the cost of services by function for the Commonwealth's governmental activities is shown below, along with the revenue used to cover the net expenses of the governmental activities.

COMMONWEALTH'S GOVERNMENTAL ACTIVITIES -
EXPENSES NET OF PROGRAM REVENUE
Year ended June 30, 2011
(Expressed in thousands)

Net expense:	
General government	$ (2,225,971)
Public safety	(2,102,364)
Health	(1,909,481)
Public housing and welfare	(172,015)
Education	(3,169,237)
Economic development	(358,447)
Payment of obligations of component units	(6,411)
Intergovernmental	(430,941)
Interest and other	(1,807,230)
Total governmental activities expenses, net of program revenue	(12,182,097)
General revenues:	
Taxes	8,279,118
Revenues from component units	84,610
Transfers from business-type activities	230,551
Other revenue	305,425
Total governmental activities general revenue	8,899,704
Increase in governmental activities net deficit	$ (3,282,393)

Business Type Activities

The business type activities decreased the Commonwealth's net deficit by $57.8 million.

Financial Analysis of the Commonwealth's Individual Funds

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

GOVERNMENTAL FUNDS

The focus of the Commonwealth's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2011, the Commonwealth's governmental funds reported combined ending fund balance of $1.6 billion. The expenditures exceeded the revenues by $3.8 billion. However, this was offset by other financing sources amounting to $2.8 billion in the governmental funds. This year, the excess of expenditures over revenue decreased by $562 million compared with the prior year. Other financing sources decreased by $2.3 billion compared to prior year.

The general fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, the total general fund balance had a total deficit of $251 million. The fund's deficit of the Commonwealth's general fund decreased by $296.2 million as a result of the current fiscal year's change in financial position. This is a 54% decrease when compared to total general fund deficit reported in fiscal year 2010.

The debt service fund is the fund in which the Commonwealth accumulates the resources for the payment of the long-term debt. At end of the fiscal year, the fund balance of the debt service fund decreased by $55 million when compared to prior fiscal year. Bonds and interest payable decreased by $45.1 million compared with the prior year.

PROPRIETARY FUNDS

The Commonwealth's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As discussed in the business type activities above, the Commonwealth's net deficit decreased by $57.8 million as a result of operations in the proprietary funds. This resulted from an increase in net assets of $5 million by the unemployment insurance fund, decrease in net deficit of $13.8 million in the lotteries fund and an increase of net assets of $39 million by the Commonwealth's other proprietary funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Commonwealth's investment in capital assets for its governmental and business type activities as of June 30, 2011 amounts to $11.3 billion, less accumulated depreciation and amortization of $3.5 billion, leaving a book value of $7.8 billion. This investment in capital assets includes land, construction in progress, buildings, building improvements and equipment as infrastructure.

The net book value of capital assets at June 30, 2011 is distributed by function/activity in the following proportions: general government, 41%; public safety, 5%; health, 1%; public housing and welfare, 33%; education, 6%; and economic development, 14%. Capital outlays were approximately $452 million for the fiscal year. Depreciation and amortization charges for the fiscal year totaled $265 million.

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

COMMONWEALTH'S CAPITAL ASSETS - PRIMARY GOVERNMENT
JUNE 30, 2011
(Expressed in thousands)

	Governmental activities	Business-type activities
Land	$ 867,215	$ -
Construction in progress	1,117,079	-
Buildings and building improvements, net	5,118,329	-
Equipment, furniture, fixtures, vehicles and software, net	189,562	1,660
Infrastructure, net	474,505	-
Total capital assets	$ 7,766,690	$ 1,660

Debt Administration

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

The Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth are not to be issued if the amount of the principal of, and interest on, such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenue raised under the provisions of Commonwealth legislation and conveyed into the treasury (internal revenues) in the two fiscal years preceding the current fiscal year. Section 2, Article VI of the Constitution of the Commonwealth does not limit the amount of debt that the Commonwealth may guarantee as long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. At June 30, 2011, the Commonwealth is in compliance with the debt limitation requirement.

The Commonwealth's policy has been and continues to be to prudently manage such debt within the constitutional limitation. Debt of municipalities, other than bond anticipation notes, is supported by real and personal property taxes and municipal license taxes. Debt of public corporations, other than bond anticipation notes, is generally supported by the revenues of such corporations from rates charged for services or products. However, certain debt of public corporations is supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or taxes.

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

The Commonwealth's general obligation and appropriation debt is currently rated "Baa1" by Moody's Investors Service ("Moody's"), "BBB" by Standard & Poor's Ratings Services ("S&P"), and "BBB+" by Fitch, Inc. ("Fitch").

OTHER MATTERS

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

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

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

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

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

Derivative Instruments – The Commonwealth accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swap options, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. Certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value by governments in their government-wide financial statements. The changes in fair value of hedging derivative instruments do not affect investment revenue but are reported as deferrals. Alternatively, the changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. As of June 30, 2011, the outstanding notional amount of the Commonwealth's various swap agreements was $3.8 billion.

GLOBAL ECONOMIC FACTORS AFFECTING THE COMMONWEALTH

The Commonwealth's economy is recovering from a recession that began in the fourth quarter of fiscal year 2006. Although Puerto Rico's economy is closely linked to the United States economy, in recent fiscal years the performance of the Puerto Rico economy has not been consistent with the performance of the United States economy. For fiscal years 2007, 2008, 2009 and 2010 Puerto Rico's real gross national product decreased by 1.2%, 2.9%, 4.0% and 3.8%, respectively, while the United States real gross domestic product grew at a rate of 1.8% and 2.7% during fiscal years 2007 and 2008, respectively, contracted during fiscal year 2009 at a rate of 3%, and grew by 0.9% in fiscal year 2010. According to the Puerto Rico Planning Board's (the "Planning Board") latest projections made in March 2011, which take into account the preliminary results for fiscal year 2010, the economic impact of the disbursement of funds from the American Recovery and Reinvestment Act of 2009 ("ARRA"), and other economic factors, it is projected that the real gross national product for fiscal year 2011 contracted by 1%. The real gross national product for fiscal year 2012, however, is forecasted to grow by 0.7%.

The Planning Board's revised forecast for fiscal year 2011 took into account the estimated effects on the Puerto Rico economy of the Government's fiscal stabilization plan, the impact of the initial phase of the tax reform, the disbursement of funds from ARRA, the continuation of the fiscal stabilization plan, and the activity expected to be generated from the Government's local stimulus package. The revised forecast also considered the effect on the Puerto Rico economy of general and global economic conditions, the U.S. economy, the volatility of oil prices, interest rates and the behavior of local exports, including expenditures by visitors. The Planning Board's forecast for fiscal year 2012 projects an increase in gross national product of 0.7% in constant dollars. The Planning Board's forecast for fiscal year 2012 took into account the estimated effect of the projected growth of the U.S. economy, tourism activity, personal consumption expenditures, federal transfers to individuals and the acceleration of investment in construction due to the Government's local stimulus package and the establishment of public-private partnerships. It also took into account the disbursement of the remaining ARRA funds, and the continuation of the implementation of the tax reform.

The United States economy started the contraction in fiscal year 2009 principally due to the downturn in the housing market and the world-wide financial crisis, which continued affecting fiscal years 2010 and 2011. These crises have made it more difficult for U.S. businesses and consumers to access credit, and have significantly reduced the value of financial assets. As a result of the declines in home values and assets prices, the U.S. Federal Reserve reported that the net worth of American households was reduced by nearly $11 trillion. These developments in the United States have had a significant and negative impact on the Commonwealth's economy. In addition, other variables contributing to the decrease of the Commonwealth's gross national product was the continuous contraction of the manufacturing and construction sectors, the volatility of oil prices experienced during the last years, and the budgetary pressures on government finances.

In terms of budgetary pressures, the Commonwealth has experienced a structural deficiency between recurring government revenues and expenditures. Prior to the current fiscal year, the government bridged the deficit resulting from the structural deficiency through the use of non-recurring measures, such as borrowing from GDB or in the bond market, postponing the payment of various government expenses, such as payments to suppliers and utilities providers, and other onetime measures such as the use of derivatives and borrowings collateralized with government owned real estate. However, during 2009, the current administration took over the Commonwealth and implemented the Fiscal Stabilization Plan and the Economic Reconstruction Plan, among other initiatives, as fully explained before on this MD&A under the heading "General Fund Financial Analysis".

Due to the Commonwealth dependence on oil for power generation and the level of consumption of gasoline by Puerto Rico residents, the high level of oil prices accounted for an increased outflow of local income during the last years. Oil accounts for approximately 70% of Puerto Rico's energy resources and each $10 increase in the average price of oil costs the Puerto Rico economy approximately $750 million annually and could lower Puerto Rico's economic growth by 0.6%. Although the situation improved significantly during fiscal year 2009, oil prices remained volatile during fiscals 2010 and 2011. During 2009, the current administration adopted an energy-diversification policy that includes a conversion to alternate energy sources, such as natural gas, whose cost is much lower and stable than oil. The Commonwealth, under the actual capital improvement program, has a multi-million dollar new natural gas pipeline project under development, among other new energy sources alternatives.

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

Construction represents a relatively small segment of the economy compared to other sectors. However, it has made significant contributions to the growth of economic activity due to its multiplier effect on the whole economy. Since its peak in fiscal year 2000, real construction investment has declined at an average annual growth rate of 8.7%. Such rates of interest started to decrease significantly in fiscal year 2005, as a consequence of the current contraction of the local economic activity. During the last four fiscal years (from fiscal year 2007 to 2010) real construction investment decreased at an average annual rate of 17.0%. During the same time period, the total value of construction permits, in current dollars, decreased at an average annual rate of 16.8%. Public investment has been an important component of construction investment. During fiscal year 2010, approximately 49.3% of the total investment in construction was related to public projects, which represents an increase in its share of total construction investment compared to 37.9% in fiscal year 2000.

Most of the external factors that affect the Puerto Rico economy (other than oil prices) are determined by the policies and performance of the United States economy. These external factors include exports, direct investment, the amount of federal transfer payments, the level of interest rates, the rate of inflation, and tourist expenditures. During fiscal year 2010, approximately 68.1% of Puerto Rico’s exports went to the United States mainland, which was also the source of approximately 51.2% of Puerto Rico’s imports. In fiscal year 2010, Puerto Rico experienced a positive merchandise trade balance of $20.8 billion.

According to the Household Survey, the number of persons employed in Puerto Rico during fiscal year 2011 averaged 1,077,000, a decrease of 2.3% compared to previous fiscal year; and the unemployment rate averaged 15.9%. At January 31, 2012, the Household Survey reported 1,096,000 persons employed in Puerto Rico and an unemployment rate of 15.1%.

Requests for Information

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

COMMONWEALTH OF PUERTO RICO

STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Totals Primary Government	Component Units
ASSETS:				
Cash and cash equivalents in commercial banks	$ 437,712	$ 71,285	$ 508,997	$ 1,403,775
Cash and cash equivalents in governmental banks	298,086	75,274	373,360	339,659
Cash and cash equivalents in U.S. Treasury — restricted	-	339,666	339,666	-
Investments	136,943	-	136,943	4,819,694
Collateral from securities lending transactions	-	-	-	84,284
Receivables — net of allowance for uncollectibles:				
Income taxes	1,317,030	-	1,317,030	-
Sales and use tax	96,652	-	96,652	-
Unemployment and other insurance premiums	-	54,013	54,013	41,493
Intergovernmental	321,733	845	322,578	31,712
Accounts	160,638	-	160,638	1,056,200
Loans	170,242	-	170,242	4,316,080
Accrued interest	1,374	1,649	3,023	254,142
Other governmental entities	-	-	-	382,285
Other	41,106	5,662	46,768	125,713
Due from:				
Primary government	-	-	-	279,545
Component units — net of allowance for doubtful accounts amounting to $53.1 million in Governmental Activities	58,330	-	58,330	280,709
Other governmental entities	7,091	-	7,091	-
Internal balances	(35,746)	35,746	-	-
Inventories	11,231	-	11,231	484,957
Prepaid expenses	24,459	-	24,459	33,733
Other assets	11,965	-	11,965	-
Restricted assets:				
Cash and cash equivalents in commercial banks	302,560	1,343	303,903	1,464,882
Cash and cash equivalents in governmental banks	1,227,927	107,729	1,335,656	329,503
Receivables	-	4,568	4,568	-
Loans receivable from component units	-	413,449	413,449	-
Investments	1,081,420	35,157	1,116,577	5,318,568
Other	19,940	1,251	21,191	181,997
Long-term investments	-	-	-	1,453,866
Long-term receivables from:				
Loans	-	-	-	166,012
Other governmental entities	-	-	-	81,069
Other	-	-	-	102,761
Long-term amounts due from:				
Primary government	-	-	-	101,698
Component units	-	-	-	4,192,406
Real estate held for sale or future development	47,892	-	47,892	328,447
Capital assets:				
Land and other nondepreciable assets	1,984,294	-	1,984,294	7,329,075
Other capital assets (net of depreciation/amortization)	5,782,396	1,660	5,784,056	22,947,964
Deferred outflows of resources	142,805	-	142,805	181,302
Deferred expenses and other assets	318,291	30,504	348,795	498,558
TOTAL ASSETS	$13,966,371	$1,179,801	$15,146,172	$58,612,089

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Totals Primary Government	Component Units
LIABILITIES:				
Accounts payable and accrued liabilities	$ 840,187	$ 11,791	$ 851,978	$ 2,521,583
Deposits and escrow liabilities	-	-	-	6,221,831
Tax refunds payable	430,172	-	430,172	-
Due to:				
Primary government	-	-	-	100,695
Component units	312,325	-	312,325	495,434
Other governmental entities	45,212	469	45,681	357,104
Securities lending transactions and reverse repurchase agreements	-	-	-	1,141,703
Interest payable	655,792	-	655,792	635,368
Deferred revenue	324,751	24,789	349,540	108,815
Insurance benefits payable	-	86,338	86,338	-
Liability for automobile accident insurance and workmen compensation claims	-	-	-	363,304
Termination benefits payable	39,014	-	39,014	-
Due to primary government — long-term portion	-	-	-	424,228
Due to component units — long-term portion	-	-	-	3,977,681
Due to other governmental entities — long-term portion	-	249	249	139,953
Securities lending transactions and reverse repurchase agreements — long-term portion	-	-	-	50,800
Deferred revenue — long-term portion	-	-	-	12,194
Liability for automobile accident insurance and workmen compensation claims — long-term portion	-	-	-	587,315
Hedging derivative instruments — interest rate swaps	135,012	-	135,012	215,550
Investment derivative instruments — interest rate swaps	254,871	-	254,871	-
Liabilities payable within one year:				-
Commonwealth appropriation bonds	-	-	-	8,985
Bonds	374,027	-	374,027	740,192
Notes	191,857	-	191,857	816,849
Capital leases	5,606	-	5,606	1
Compensated absences	709,810	2,512	712,322	210,068
Lottery prizes	-	57,324	57,324	-
Voluntary termination benefits payable	34,386	470	34,856	32,374
Other long-term liabilities	258,589	-	258,589	185,135
Liabilities payable after one year:				-
Commonwealth appropriation bonds	743,184	-	743,184	812,210
Bonds	28,752,109	-	28,752,109	20,796,465
Notes	1,558,017	-	1,558,017	6,851,955
Capital leases	223,968	-	223,968	99
Net pension obligation	9,325,352	-	9,325,352	-
Net postemployment benefit obligation	174,918	-	174,918	-
Compensated absences	720,755	2,300	723,055	358,449
Lottery prizes	-	161,162	161,162	-
Voluntary termination benefits payable	297,784	2,171	299,955	134,745
Other long-term liabilities	2,066,874	-	2,066,874	769,032
Total liabilities	48,474,572	349,575	48,824,147	49,070,117
NET ASSETS (DEFICIT):				
Invested in capital assets — net of related debt	3,691,871	1,660	3,693,531	8,875,668
Restricted for:				
Trust — nonexpendable	-	-	-	165,269
Capital projects	178,833	-	178,833	255,061
Debt service	1,241,779	-	1,241,779	890,192
Lending activities	-	509,316	509,316	-
Payment of insurance benefits	-	330,925	330,925	-
Affordable housing and related loan insurance programs	3,087	-	3,087	486,765
Student loans and other educational purposes	-	-	-	108,600
Net assets in liquidation	31,243	-	31,243	-
Other	612,340	-	612,340	119,381
Unrestricted net assets (deficit)	(40,267,354)	(11,675)	(40,279,029)	(1,358,964)
TOTAL NET ASSETS (DEFICIT)	$ (34,508,201)	$830,226	$ (33,677,975)	$ 9,541,972

See accompanying notes to basic financial statements. (Concluded)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011
(In thousands)

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets (Deficit)			
						Primary Government			
Functions	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
PRIMARY GOVERNMENT:									
Governmental activities:									
General government	$ 2,880,614	$ 352,572	$ 302,071	$ -	$ -	$ (2,225,971)	$ -	$ (2,225,971)	$ -
Public safety	2,205,782	46,868	56,550	-	-	(2,102,364)	-	(2,102,364)	-
Health	3,022,000	143,366	969,153	-	-	(1,909,481)	-	(1,909,481)	-
Public housing and welfare	3,937,901	39,718	3,328,651	-	397,517	(172,015)	-	(172,015)	-
Education	4,469,337	1,794	1,298,306	-	-	(3,169,237)	-	(3,169,237)	-
Economic development	517,921	47,687	51,579	-	60,208	(358,447)	-	(358,447)	-
Payment of obligations of component units	6,411	-	-	-	-	(6,411)	-	(6,411)	-
Intergovernmental	430,941	-	-	-	-	(430,941)	-	(430,941)	-
Interest and other	1,807,230	-	-	-	-	(1,807,230)	-	(1,807,230)	-
Total governmental activities	19,278,137	632,005	6,006,310	-	457,725	(12,182,097)	-	(12,182,097)	-
Business-type activities:									
Unemployment insurance	635,145	272,105	406,352	-	-	-	43,312	43,312	-
Lotteries	697,746	890,508	-	-	-	-	192,762	192,762	-
Nonmajor proprietary funds	40,044	30,111	44,337	-	-	-	34,404	34,404	-
Total business-type activities	1,372,935	1,192,724	450,689	-	-	-	270,478	270,478	-
TOTAL PRIMARY GOVERNMENT	$20,651,072	$1,824,729	$6,456,999	$ -	$457,725	$ (12,182,097)	$270,478	$ (11,911,619)	$ -

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011
(In thousands)

		Program Revenues				Net (Expenses) Revenues and Changes in Net Assets (Deficit)			
						Primary Government			
Functions	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
COMPONENT UNITS:									
Government Development Bank for Puerto Rico	$ 882,487	$ 642,504	$279,609	$ -	$ -	$ -	$ -	$ -	$ 39,626
Puerto Rico Highways and Transportation Authority	1,147,756	260,974	-	-	182,657	-	-	-	(704,125)
Puerto Rico Electric Power Authority	4,713,089	4,422,997	-	-	13,577	-	-	-	(276,515)
Puerto Rico Aqueduct and Sewer Authority	1,001,759	724,108	-	-	27,851	-	-	-	(249,800)
University of Puerto Rico	1,423,132	237,717	176,653	-	5,580	-	-	-	(1,003,182)
Puerto Rico Health Insurance Administration	2,017,294	764,426	-	-	-	-	-	-	(1,252,868)
Nonmajor component units	3,277,714	1,646,736	26,940	19,347	22,960	-	-	-	(1,561,731)
TOTAL COMPONENT UNITS	$14,463,231	$8,699,462	$483,202	$19,347	$252,625	-	-	-	(5,008,595)
GENERAL REVENUES:									
Taxes:									
Income taxes						4,726,036	-	4,726,036	-
Sales and use tax						1,129,006	-	1,129,006	-
Excise taxes						2,106,784	-	2,106,784	335,907
Other taxes						317,292	-	317,292	-
Revenue from global tobacco settlement agreement						71,097	-	71,097	-
Revenue from State Insurance Fund Corporation						51,179	-	51,179	-
Revenue from Puerto Rico Tourism Company						23,738	-	23,738	-
Revenue from Governing Board of 9-1-1 Services						9,693	-	9,693	-
Grants and contributions not restricted to specific programs						-	-	-	210,080
Payments from primary government						-	-	-	2,702,971
Unrestricted investment earnings — net						71,144	17,900	89,044	298,710
Other						163,184	-	163,184	117,264
Transfers						230,551	(230,551)	-	-
Total general revenues and transfers						8,899,704	(212,651)	8,687,053	3,664,932
CHANGE IN NET ASSETS (DEFICIT)						(3,282,393)	57,827	(3,224,566)	(1,343,663)
								-	
NET ASSETS (DEFICIT) — Beginning of year (as restated) (Note 4)						(31,225,808)	772,399	(30,453,409)	10,885,635
NET ASSETS (DEFICIT) — End of year						$ (34,508,201)	$ 830,226	$ (33,677,975)	$ 9,541,972

See accompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2011
(In thousands)

	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
ASSETS							
CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS	$ 389,878	$ -	$ 13,136	$ -	$ -	$ 34,698	$ 437,712
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	46,006	-	228,654	-	-	23,426	298,086
INVESTMENTS	-	-	-	-	-	136,943	136,943
RECEIVABLES:							
Income taxes	1,317,030	-	-	-	-	-	1,317,030
Sales and use tax	-	96,652	-	-	-	-	96,652
Intergovernmental	294,529	-	27,204	-	-	-	321,733
Accounts	159,049	-	-	-	-	1,589	160,638
Loans	170,203	-	-	-	-	39	170,242
Accrued interest	777	-	145	-	-	452	1,374
Other	-	-	-	-	-	41,106	41,106
DUE FROM:							
Other funds	42,311	-	-	-	-	104,364	146,675
Component units	24,593	-	-	-	-	33,737	58,330
Other governmental entities	648	-	-	-	-	6,443	7,091
OTHER ASSETS	11,965	-	-	-	-	-	11,965
RESTRICTED ASSETS:							
Cash and cash equivalents in commercial banks	50,044	-	5,384	-	4,973	242,159	302,560
Cash and cash equivalents in governmental banks	112,242	-	494,989	347,701	14,788	258,207	1,227,927
Investments	435,837	-	-	156,894	488,689	-	1,081,420
Due from other funds	-	-	-	-	96,652	-	96,652
Other restricted assets	19,200	-	-	-	740	-	19,940
REAL ESTATE HELD FOR SALE OR FUTURE DEVELOPMENT	42,955	-	-	-	-	4,937	47,892
TOTAL ASSETS	$3,117,267	$96,652	$769,512	$504,595	$605,842	$888,100	$5,981,968

(Continued)

COMMONWEALTH OF PUERTO RICO

BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2011
(In thousands)

	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
LIABILITIES AND FUND BALANCES (DEFICIT)							
LIABILITIES:							
Accounts payable and accrued liabilities	$ 792,442	$ -	$ -	$ 24	$ -	$ 44,300	$ 836,766
Tax refunds payable	430,172	-	-	-	-	-	430,172
Due to:							
Other funds	180,737	96,652	-	-	-	1,684	279,073
Other governmental entities	16,247	-	-	-	-	28,965	45,212
Component units	287,308	-	-	-	-	25,017	312,325
Notes payable	32,179	-	-	-	-	-	32,179
Bonds payable	-	-	252,605	-	-	81,002	333,607
Interest payable	148,026	-	221,278	-	-	82,219	451,523
Deferred revenue	1,417,120	-	-	-	-	129,493	1,546,613
Termination benefits payable	39,014	-	-	-	-	-	39,014
Other current liabilities	25,082	-	-	-	-	2,364	27,446
Total liabilities	3,368,327	96,652	473,883	24	-	395,044	4,333,930
FUND BALANCES (DEFICIT):							
Nonspendable	17,747	-	-	-	-	-	17,747
Spendable:							
Restricted	551,699	-	26,490	504,571	605,842	378,680	2,067,282
Committed	629,591	-	269,139	-	-	39,624	938,354
Assigned	14,512	-	-	-	-	74,752	89,264
Unassigned	(1,464,609)	-	-	-	-	-	(1,464,609)
Total fund balances (deficit)	(251,060)	-	295,629	504,571	605,842	493,056	1,648,038
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	$ 3,117,267	$96,652	$769,512	$504,595	$605,842	$888,100	$ 5,981,968

See accompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS (DEFICIT) — GOVERNMENTAL FUNDS
JUNE 30, 2011
(In thousands)

TOTAL FUND BALANCE OF GOVERNMENTAL FUNDS	$ 1,648,038
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS (DEFICIT) ARE DIFFERENT THAN THE AMOUNTS REPORTED IN THE GOVERNMENTAL FUNDS BECAUSE:	
Inventories and prepaid expenses that are not reported in governmental funds and are reported in the statement of net assets (deficit)	35,690
Deferred outflows of resources	142,805
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	7,766,690
Deferred revenue reported in the governmental funds are recognized as revenue in the governmental activities	1,221,862
Debt issued by the Commonwealth have associated costs that are paid from current available resources in the funds. However, these costs are deferred in the statement of net assets (deficit)	318,291
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accounts payable and accrued liabilities	(3,421)
Voluntary termination benefits payable	(332,170)
Derivative instruments interest rate swaps	(389,883)
Appropriation bonds	(743,184)
Bonds payable	(28,792,529)
Notes payable	(1,717,695)
Capital leases payable	(229,574)
Compensated absences	(1,430,565)
Net pension obligation	(9,325,352)
Net postemployment benefit obligation	(174,918)
Interest payable	(204,269)
Other long-term liabilities	(2,298,017)
TOTAL NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$ (34,508,201)

See accompanying notes to basic financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT)
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
REVENUES:							
Taxes:							
Income taxes	$ 4,749,942	$ -	$ -	$ -	$ -	$ -	$ 4,749,942
Sales and use tax	555,990	573,016	-	-	-	-	1,129,006
Excise taxes	2,106,784	-	-	-	-	-	2,106,784
Property taxes	241,719	-	-	-	-	-	241,719
Other taxes	83,589	-	-	-	-	-	83,589
Charges for services	632,005	-	-	-	-	-	632,005
Revenue from global tobacco settlement agreement	71,097	-	-	-	-	-	71,097
Revenues from component units	84,610	-	-	-	-	-	84,610
Intergovernmental	6,002,950	-	122,187	-	-	1,075	6,126,212
Interest and investment earnings	22,138	-	1,433	554	796	3,608	28,529
Other	200,029	-	-	-	7,738	2,627	210,394
Total revenues	14,750,853	573,016	123,620	554	8,534	7,310	15,463,887
EXPENDITURES:							
Current:							
General government	1,145,340	-	-	63	39	139,436	1,284,878
Public safety	2,044,398	-	-	-	-	-	2,044,398
Health	2,928,477	-	-	-	-	4,359	2,932,836
Public housing and welfare	3,734,850	-	-	-	-	1,254	3,736,104
Education	4,450,805	-	-	-	-	2,527	4,453,332
Economic development	460,878	-	-	-	-	108	460,986
Payment of obligations of component units	-	-	-	6,411	-	-	6,411
Intergovernmental	429,702	-	-	-	-	469	430,171
Capital outlays	227,003	-	-	-	-	225,479	452,482
Debt service:							
Principal	658,752	-	1,081,697	-	-	105,336	1,845,785
Interest	312,462	-	523,040	-	540,574	206,114	1,582,190
Other — debt issuance costs	-	-	19,797	-	-	-	19,797
Total expenditures	16,392,667	-	1,624,534	6,474	540,613	685,082	19,249,370
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,641,814)	573,016	(1,500,914)	(5,920)	(532,079)	(677,772)	(3,785,483)

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT)
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
OTHER FINANCING SOURCES (USES):							
Transfers in	$ 2,443,735	$ -	$ 722,456	$ 1,167,924	$ 573,016	$ 797,448	$ 5,704,579
Transfers out	(1,069,590)	(573,016)	(658,146)	(1,557,605)	(1,167,924)	(447,747)	(5,474,028)
Proceeds from long term debt issued	559,626	-	544,675	-	327,512	252,322	1,684,135
Issuance of refunding bonds	-	-	1,364,475	-	-	-	1,364,475
Payments to refunded bonds escrow agent	-	-	(483,515)	-	-	-	(483,515)
Sale of capital assets	4,081	-	-	-	-	-	4,081
Discount on bonds issued	-	-	(20,253)	-	-	-	(20,253)
Capital leases	198	-	-	-	-	-	198
Termination fee on swap agreements	-	-	(23,854)	-	-	-	(23,854)
Total other financing sources (uses)	1,938,050	(573,016)	1,445,838	(389,681)	(267,396)	602,023	2,755,818
NET CHANGE IN FUND BALANCES (DEFICIT)	296,236	-	(55,076)	(395,601)	(799,475)	(75,749)	(1,029,665)
FUND BALANCES (DEFICIT) — Beginning of of year, as restated	(547,296)	-	350,705	900,172	1,405,317	568,805	2,677,703
FUND BALANCES (DEFICIT) — End of year	$ (251,060)	$ -	$ 295,629	$ 504,571	$ 605,842	$ 493,056	$ 1,648,038

See accompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) TO THE STATEMENT OF ACTIVITIES-GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

NET CHANGE IN FUND BALANCES (DEFICIT) — Total governmental funds		$ (1,029,665)
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. In the current period, these amounts are:		
Capital outlays	452,482	
Less: depreciation and amortization expense	(264,692)	187,790
The net effect of various transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net assets.		185,099
The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Proceeds from issuance of long-term debt	(2,950,271)	
Principal payments of long-term debt	2,300,370	
Other	(179,309)	(829,210)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets (deficit).		(4,651)
Some revenues in the statement of activities do not provide current financial resources, and therefore, are deferred in governmental funds. Also, revenues related to prior periods that became available during the current period are reported in governmental funds but are eliminated in statement of activities. This amount is the net adjustment.		(49,421)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(1,783,801)
Changes in fair value of investment derivative instruments do not require the use of current financial resources and, therefore, are not reported as investment revenue in governmental funds.		42,615
Generally, inventory and prepayments are recorded as expenditures in the governmental funds when purchased rather than capitalized as an asset. However, these assets are capitalized in the statement of net assets (deficit).		(1,149)
CHANGE IN NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES		$ (3,282,393)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL — BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2011
(In thousands)

	Original Budget	Amended Budget	Actual
REVENUES:			
Income taxes	$ 5,374,500	$ 4,912,500	$ 4,909,212
Property taxes	340,000	238,000	241,719
Excise taxes	860,000	1,532,000	1,576,940
Other taxes	82,000	82,000	83,327
Sales and use taxes	604,000	555,000	553,020
Charges for services	231,000	191,000	228,003
Intergovernmental	344,000	341,000	333,031
Revenues from component units	54,000	24,000	23,738
Other	43,000	43,000	44,829
Total revenues	7,932,500	7,918,500	7,993,819
EXPENDITURES — Current:			
General government	1,409,914	1,458,443	1,410,070
Public safety	1,886,318	1,929,538	1,947,739
Health	1,501,706	1,628,061	1,654,661
Public housing and welfare	458,976	467,814	466,226
Education	2,951,861	2,970,843	2,800,677
Economic development	368,293	395,139	417,853
Intergovernmental	371,619	370,869	378,243
Total expenditures	8,948,687	9,220,707	9,075,469
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(1,016,187)	(1,302,207)	(1,081,650)
OTHER FINANCING SOURCES (USES):			
Notes payable issued	-	-	559,626
Transfer in from COFINA	1,061,000	1,381,020	1,551,965
Transfer in from Debt Service Fund and Lotteries Fund	156,000	122,000	861,515
Transfer out and other payments for debt service	(200,813)	(200,813)	(1,547,564)
Total other financing sources (uses)	1,016,187	1,302,207	1,425,542
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	$ -	$ -	$ 343,892

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF NET ASSETS (DEFICIT) — PROPRIETARY FUNDS
JUNE 30, 2011
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
ASSETS:				
Current assets:				
Cash and cash equivalents in commercial banks	$ -	$ 71,224	$ 61	$ 71,285
Cash and cash equivalents in governmental banks	-	13,422	61,852	75,274
Cash and cash equivalents in commercial banks — restricted	870	-	473	1,343
Cash and cash equivalents in governmental banks — restricted	15,852	-	91,877	107,729
Cash and cash equivalents in U.S. Treasury — restricted	339,666	-	-	339,666
Insurance premiums receivables — net	50,143	-	3,870	54,013
Intergovernmental receivable	845	-	-	845
Due from other funds	-	-	2,682	2,682
Loans receivable from component unit — restricted	-	-	16,547	16,547
Accrued interest receivable	1,337	-	312	1,649
Other receivables	39	5,586	37	5,662
Restricted receivables	-	-	4,568	4,568
Total current assets	408,752	90,232	182,279	681,263
Noncurrent assets:				
Loans receivable from component unit — restricted	-	-	396,902	396,902
Due from other funds	-	55,575	18,116	73,691
Restricted investments	-	-	35,157	35,157
Capital assets — net	-	1,660	-	1,660
Other noncurrent assets	-	30,504	-	30,504
Other restricted assets	-	-	1,251	1,251
Total assets	408,752	177,971	633,705	1,220,428
LIABILITIES AND NET ASSETS (DEFICIT):				
Current liabilities:				
Accounts payable and accrued liabilities	-	9,141	2,650	11,791
Due to other funds	16,729	23,095	803	40,627
Due to other governmental entities	-	-	469	469
Deferred revenue	10,513	12,206	2,070	24,789
Compensated absences	-	1,629	883	2,512
Lottery prizes	-	57,324	-	57,324
Termination benefits	-	470	-	470
Insurance benefits payable	85,783	-	555	86,338
Total current liabilities	113,025	103,865	7,430	224,320
Noncurrent liabilities:				
Due to other governmental entities	-	-	249	249
Lottery prizes, excluding current portion	-	161,162	-	161,162
Compensated absences, excluding current portion	-	1,071	1,229	2,300
Termination benefits	-	2,171	-	2,171
Total liabilities	113,025	268,269	8,908	390,202
NET ASSETS (DEFICIT):				
Invested in capital assets — net of related debt	-	1,660	-	1,660
Restricted for payment of insurance benefits	295,727	-	35,198	330,925
Restricted for lending activities	-	-	509,316	509,316
Unrestricted	-	(91,958)	80,283	(11,675)
TOTAL NET ASSETS (DEFICIT)	$295,727	$ (90,298)	$624,797	$ 830,226

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
OPERATING REVENUES:				
Insurance premiums	$ 272,105	$ -	$ 22,106	$ 294,211
Lottery ticket sales	-	890,088	-	890,088
Interest	-	-	8,005	8,005
Other	-	420	-	420
Total operating revenues	272,105	890,508	30,111	1,192,724
OPERATING EXPENSES:				
Insurance benefits	635,145	-	3,413	638,558
Lottery prizes	-	560,464	-	560,464
General, administrative, and other operating expenses	-	137,282	16,933	154,215
Total operating expenses	635,145	697,746	20,346	1,353,237
OPERATING INCOME (LOSS)	(363,040)	192,762	9,765	(160,513)
NONOPERATING REVENUES (EXPENSES):				
Contributions from U.S. government	406,352	-	44,337	450,689
Contributions to component unit	-	-	(19,698)	(19,698)
Interest and investment earnings	12,823	256	4,821	17,900
Total nonoperating revenues	419,175	256	29,460	448,891
INCOME BEFORE TRANSFERS	56,135	193,018	39,225	288,378
TRANSFERS FROM OTHER FUNDS	-	-	3,073	3,073
TRANSFERS TO OTHER FUNDS	(51,205)	(179,175)	(3,244)	(233,624)
NET CHANGE IN NET ASSETS (DEFICIT)	4,930	13,843	39,054	57,827
NET ASSETS (DEFICIT) — Beginning of year, as restated	290,797	(104,141)	585,743	772,399
NET ASSETS (DEFICIT) — End of year	$ 295,727	$ (90,298)	$624,797	$ 830,226

See accompanying notes to basic financial statements.

STATEMENT OF CASH FLOWS — PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	$ 282,624	$ 890,717	$ 22,125	$1,195,466
Other receipts	-	153	3	156
Payments to suppliers	-	(56,448)	(8,401)	(64,849)
Payments to employees	-	(75,839)	(8,199)	(84,038)
Payments of lottery prizes	-	(565,880)	-	(565,880)
Payments of insurance benefits	(665,838)	-	(3,731)	(669,569)
Other payments	-	-	(520)	(520)
Net cash provided by (used in) operating activities	(383,214)	192,703	1,277	(189,234)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Intergovernmental grants and contributions	406,737	-	44,337	451,074
Contributions to component unit	-	-	(19,698)	(19,698)
Transfers from other funds	-	-	3,307	3,307
Transfers to other funds	(52,783)	(203,369)	(3,244)	(259,396)
Net cash provided by (used in) noncapital financing activities	353,954	(203,369)	24,702	175,287
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Capital expenditures	-	(603)	-	(603)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest collected on deposits, investments and loans	12,823	256	8,722	21,801
Loans originated	-	-	(56,144)	(56,144)
Principal collected on loans	-	-	18,605	18,605
Proceeds from sales and maturities of investments	-	-	7,851	7,851
Purchases of investments	-	-	(8,491)	(8,491)
Net cash provided by (used in) investing activities	12,823	256	(29,457)	(16,378)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(16,437)	(11,013)	(3,478)	(30,928)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR, AS RESTATED	372,825	95,659	157,741	626,225
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 356,388	$ 84,646	$154,263	$ 595,297

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF CASH FLOWS — PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income (loss)	$(363,040)	$ 192,762	$ 9,765	$ (160,513)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Interests earned on deposits, loans and investments	-	-	(8,002)	(8,002)
Depreciation	-	473	-	473
Changes in operating assets and liabilities:				
(Increase) decrease in accounts and loans receivable	18,478	(1,035)	1	17,444
Decrease in in due from other funds	-	-	7	7
Increase in other assets	-	(212)	-	(212)
Decrease in other restricted assets	-	-	118	118
Increase in accounts payable and accrued liabilities	-	2,510	706	3,216
Decrease in due to other governmental entities	-	-	(515)	(515)
Decrease in obligation for unpaid lottery awards	-	(5,416)	-	(5,416)
Increase (decrease) in deferred revenues	(7,960)	1,665	(552)	(6,847)
Increase (decrease) in compensated absences	-	(685)	67	(618)
Increase in termination benefits payable	-	2,641	-	2,641
Decrease in liability for insurance benefits payable	(30,692)	-	(318)	(31,010)
Total adjustments	(20,174)	(59)	(8,488)	(28,721)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$(383,214)	$ 192,703	$ 1,277	$ (189,234)

See accompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF FIDUCIARY NET ASSETS — FIDUCIARY FUNDS
JUNE 30, 2011
(In thousands)

	Pension Trust	Special Deposits-Agency
ASSETS:		
Cash and cash equivalents in commercial banks — unrestricted	$ 495,293	$ 697,988
Cash and cash equivalents in governmental banks:		
Unrestricted	55,698	661,560
Restricted	411,946	-
Collateral for securities lending transactions	208,475	-
Investments:		
Debt and equity securities — at fair value	4,261,593	-
Other	91,087	1,270
Receivables — net:		
Accounts	190,299	-
Loans and advances	1,682,890	-
Accrued interests and dividends	11,839	-
Other	62,252	9,393
Capital assets — net	31,155	-
Other assets	39,019	-
Total assets	7,541,546	1,370,211
LIABILITIES:		
Accounts payable and accrued liabilities	104,202	1,370,211
Securities lending transactions	208,475	-
Interest payable	13,876	-
Other liabilities	37,862	-
Bonds payable	3,003,482	-
Total liabilities	3,367,897	1,370,211
NET ASSETS — Held in trust for pension and other benefits	$ 4,173,649	$ -

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS — PENSION TRUST FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

ADDITIONS:	
Contributions:	
Sponsor	$ 633,744
Participants	448,094
Special	236,884
Total contributions	1,318,722
Investment income and investment expense:	
Interest	231,143
Dividends	14,435
Net change in fair value of investments	906,927
Investment expenses	(11,327)
Net investment income	1,141,178
Other income	50,235
Total additions	2,510,135
DEDUCTIONS:	
Pension and other benefits	1,910,014
Refunds of contributions	99,660
General and administrative	79,848
Interest on bonds payable	189,342
Total deductions	2,278,864
NET CHANGE IN NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS	231,271
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS:	
Beginning of year	3,942,378
End of year	$ 4,173,649

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2011
(In thousands)

	Major Component Units								
ASSETS	**Government Development Bank for Puerto Rico**	**Puerto Rico Highways and Transportation Authority**	**Puerto Rico Electric Power Authority**	**Puerto Rico Aqueduct and Sewer Authority**	**University of Puerto Rico**	**Puerto Rico Health Insurance Administration**	**Major Component Units Totals**	**Nonmajor Component Units Totals**	**All Component Units Totals**
CURRENT ASSETS:									
Cash and cash equivalents in commercial banks	$ 649,956	$ 24,354	$ 64,845	$ 62,630	$ 98,824	$ 29,029	$ 929,638	$ 474,137	$ 1,403,775
Cash and cash equivalents in governmental banks	-	2,604	11	-	2,180	95,411	100,206	239,453	339,659
Investments	3,775,241	-	-	-	73,998	-	3,849,239	970,455	4,819,694
Restricted assets:									
Cash and cash equivalents in commercial banks	526,765	-	-	-	8,397	-	535,162	162,407	697,569
Cash and cash equivalents in governmental banks	-	-	-	-	-	1,321	1,321	225,907	227,228
Investments	565,404	-	-	-	54,650	-	620,054	128,690	748,744
Other restricted assets	-	-	-	-	-	-	-	30,578	30,578
Collateral from securities lending transactions	-	-	-	-	-	-	-	84,284	84,284
Receivables — net:									
Insurance premium	-	-	-	-	-	-	-	41,493	41,493
Intergovernmental	-	-	-	3,344	15,761	-	19,105	12,607	31,712
Accounts	-	1,966	705,712	89,651	49,938	25,129	872,396	183,804	1,056,200
Loans and advances	4,212,463	-	-	-	-	-	4,212,463	103,617	4,316,080
Accrued interest	231,028	-	-	-	-	-	231,028	23,114	254,142
Other governmental entities	-	3,998	230,190	39,624	10,712	24,409	308,933	73,352	382,285
Other	-	-	-	-	3,622	-	3,622	122,091	125,713
Due from:									
Primary government	18,628	-	67,656	14,173	40,843	71,501	212,801	66,744	279,545
Component units	-	3,810	178,910	20,141	17,350	-	220,211	60,498	280,709
Inventories	-	-	424,656	28,572	4,570	-	457,798	27,159	484,957
Prepaid expenses	-	5,395	-	6,130	4,104	80	15,709	18,024	33,733
Total current assets	9,979,485	42,127	1,671,980	264,265	384,949	246,880	12,589,686	3,048,414	15,638,100

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2011
(In thousands)

	Major Component Units								
ASSETS (Cont'd)	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	Puerto Rico Health Insurance Administration	Major Component Units Totals	Nonmajor Component Units Totals	All Component Units Totals
NONCURRENT ASSETS:									
Restricted assets:									
Cash and cash equivalents in commercial banks	$ -	$ 2,943	$ 545,697	$ 166,930	$ 4,802	$ -	$ 720,372	$ 46,941	$ 767,313
Cash and cash equivalents in governmental banks	-	32,062	-	42,922	-	-	74,984	27,291	102,275
Investments	1,007,948	780,130	628,784	-	99,441	-	2,516,303	2,053,521	4,569,824
Other restricted assets	67,934	26,261	-	-	-	-	94,195	57,224	151,419
Investments	-	-	-	-	-	-	-	1,453,866	1,453,866
Receivables:									
Loans, interest, and other	-	-	-	-	3,313	-	3,313	162,699	166,012
Other governmental entities	1,882	138	-	-	64,986	-	67,006	14,063	81,069
Other	-	-	95,407	-	-	-	95,407	7,354	102,761
Due from:									
Primary government	64,278	-	-	-	24,720	-	88,998	12,700	101,698
Component units	4,131,043	-	-	-	-	-	4,131,043	61,363	4,192,406
Real estate held for sale or future development	126,641	-	-	-	-	-	126,641	201,806	328,447
Capital assets, not being depreciated	59,300	2,432,129	1,132,002	1,778,747	159,090	-	5,561,268	1,767,807	7,329,075
Capital assets, depreciable — net	11,750	8,664,984	5,680,600	5,433,273	811,634	167	20,602,408	2,345,556	22,947,964
Deferred outflows of resources	-	63,299	69,142	-	-	-	132,441	48,861	181,302
Deferred expenses and other assets	59,548	112,346	108,733	54,889	68,590	-	404,106	94,452	498,558
Total noncurrent assets	5,530,324	12,114,292	8,260,365	7,476,761	1,236,576	167	34,618,485	8,355,504	42,973,989
TOTAL	$15,509,809	$12,156,419	$9,932,345	$7,741,026	$1,621,525	$247,047	$47,208,171	$11,403,918	$58,612,089

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2011
(In thousands)

	Major Component Units								
LIABILITIES AND NET ASSETS (DEFICIT)	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	Puerto Rico Health Insurance Administration	Major Component Units Totals	Nonmajor Component Units Totals	All Component Units Totals
LIABILITIES:									
Current liabilities:									
Accounts payable and accrued liabilities	$ 48,215	$ 149,769	$ 968,715	$ 229,000	$ 93,402	$277,770	$ 1,766,871	$ 754,712	$ 2,521,583
Deposits and escrow liabilities	5,521,023	-	39,505	6,146	-	-	5,566,674	548,540	6,115,214
Due to:									
Primary government	-	4,838	-	16,547	-	7,239	28,624	72,071	100,695
Component units	-	34,303	29,084	77,346	49,427	-	190,160	305,274	495,434
Other governmental entities	-	6,570	193,852	36,029	1,402	-	237,853	119,251	357,104
Securities lending transactions and reverse repurchase agreements	970,819	-	-	-	-	-	970,819	170,884	1,141,703
Interest payable	30,722	246,990	183,314	61,862	5,022	-	527,910	105,393	633,303
Deferred revenue	-	-	-	19,269	-	-	19,269	89,546	108,815
Notes payable, current portion	90,981	-	166,465	241,744	790	-	499,980	316,869	816,849
Commonwealth appropriation bonds, current portion	-	-	-	8,985	-	-	8,985	-	8,985
Bonds payable, current portion	68,559	129,980	361,060	3,123	28,800	-	591,522	148,670	740,192
Accrued compensated absences, current portion	3,892	11,478	87,274	12,738	31,359	458	147,199	62,869	210,068
Voluntary termination benefits payable	2,200	-	-	-	-	188	2,388	29,986	32,374
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-	363,304	363,304
Capital leases	-	-	-	-	-	-	-	1	1
Current portion of other long-term liabilities	95,548	-	69,408	8,432	2,337	-	175,725	9,410	185,135
Total current liabilities	6,831,959	583,928	2,098,677	721,221	212,539	285,655	10,733,979	3,096,780	13,830,759

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2011
(In thousands)

	Major Component Units								
LIABILITIES AND NET ASSETS (DEFICIT) (Cont'd)	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	Puerto Rico Health Insurance Administration	Major Component Units Totals	Nonmajor Component Units Totals	All Component Units Totals
Noncurrent liabilities:									
Due to:									
Primary government	$ -	$ -	$ -	$ 396,902	$ -	$ -	$ 396,902	$ 27,326	$ 424,228
Component units	-	1,294,307	-	1,002,179	77,072	171,080	2,544,638	1,433,043	3,977,681
Other governmental entities	-	-	-	-	123,356	-	123,356	16,597	139,953
Deposits and escrow liabilities	32,665	-	-	73,952	-	-	106,617		106,617
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	50,800	50,800
Interest payable	-	-	-	-	-	2,065	2,065		2,065
Deferred revenue	-	-	-	-	-	-	-	12,194	12,194
Notes payable	5,180,091	-	34,036	-	1,218	-	5,215,345	1,636,610	6,851,955
Commonwealth appropriation bonds	4,812	-	-	654,611	-	-	659,423	152,787	812,210
Bonds payable	845,394	6,256,981	7,500,192	1,913,021	614,934	-	17,130,522	3,665,943	20,796,465
Accrued compensated absences	767	10,911	139,903	33,704	126,108	305	311,698	46,751	358,449
Voluntary termination benefits payable	-	77,132	-	-	-	1,979	79,111	55,634	134,745
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-	587,315	587,315
Capital leases	-	-	-	-	-	-	-	99	99
Hedging derivative instruments — interest rate swaps	-	97,547	69,142	-	-	-	166,689	48,861	215,550
Other long-term liabilities	29,979	92,667	259,890	11,024	93,951	64,291	551,802	217,230	769,032
Total noncurrent liabilities	6,093,708	7,829,545	8,003,163	4,085,393	1,036,639	239,720	27,288,168	7,951,190	35,239,358
Total liabilities	12,925,667	8,413,473	10,101,840	4,806,614	1,249,178	525,375	38,022,147	11,047,970	49,070,117
NET ASSETS (DEFICIT):									
Invested in capital assets — net of related debt	71,050	3,262,710	17,070	3,374,252	337,279	167	7,062,528	1,813,140	8,875,668
Restricted for:									
Trust — nonexpendable	-	-	-	-	-	-	-	165,269	165,269
Capital projects	-	65,697	77,606	-	5,389	-	148,692	106,369	255,061
Debt service	-	520,347	-	-	52,088	-	572,435	317,757	890,192
Affordable housing and related loan insurance programs	362,049	-	-	-	-	-	362,049	124,716	486,765
Student loans and other educational purposes	-	-	-	-	93,945	-	93,945	14,655	108,600
Other specified purposes	-	-	-	24,482	1,703	-	26,185	93,196	119,381
Unrestricted	2,151,043	(105,808)	(264,171)	(464,322)	(118,057)	(278,495)	920,190	(2,279,154)	(1,358,964)
Total net assets (deficit)	2,584,142	3,742,946	(169,495)	2,934,412	372,347	(278,328)	9,186,024	355,948	9,541,972
TOTAL	$15,509,809	$12,156,419	$9,932,345	$7,741,026	$1,621,525	$ 247,047	$47,208,171	$11,403,918	$58,612,089

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF ACTIVITIES — MAJOR COMPONENT UNITS
YEAR ENDED JUNE 30, 2011
(In thousands)

		Program Revenues					General Revenues and Transfers								
	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Net Revenues (Expenses) and Changes in Net Assets (Deficit)	Payments From Primary Government	Payments from (to) Other Component Units	Grants and Contributions Not Restricted to Specific Programs	Excise Taxes	Interest and Investment Earnings	Other	Change in Net Assets (Deficit)	Net Assets (Deficit), Beginning of Year (As Restated)	Net Assets (Deficit), End of Year
Major component units:															
Government Development Bank for Puerto Rico	$ 882,487	$ 642,504	$279,609	$ -	$ -	$ 39,626	$ 555	$ -	$ -	$ -	$ -	$ -	$ 40,181	$ 2,543,961	$2,584,142
Puerto Rico Highways and Transportation Authority	1,147,756	260,974	-	-	182,657	(704,125)	-	-	-	271,388	23,377	-	(409,360)	4,152,306	3,742,946
Puerto Rico Electric Power Authority	4,713,089	4,422,997	-	-	13,577	(276,515)	-	-	-	-	4,087	-	(272,428)	102,933	(169,495)
Puerto Rico Aqueduct and Sewer Authority	1,001,759	724,108	-	-	27,851	(249,800)	129,992	-	-	-	4,578	3,012	(112,218)	3,046,630	2,934,412
University of Puerto Rico	1,423,132	237,717	176,653	-	5,580	(1,003,182)	768,158	71,214	194,160	-	2,993	28,068	61,411	310,936	372,347
Puerto Rico Health Insurance Administration	2,017,294	764,426	-	-	-	(1,252,868)	1,217,049	-	-	-	4,991	-	(30,828)	(247,500)	(278,328)
Nonmajor component units	3,277,714	1,646,736	26,940	19,347	22,960	(1,561,731)	587,217	(71,214)	15,920	64,519	258,684	86,184	(620,421)	976,369	355,948
	$14,463,231	$8,699,462	$483,202	$19,347	$252,625	$(5,008,595)	$2,702,971	$ -	$210,080	$335,907	$298,710	$117,264	$(1,343,663)	$10,885,635	$9,541,972

See accompanying notes to basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying basic financial statements of the Commonwealth are presented in conformity with Generally Accepted Accounting Principles (GAAP) for governments in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying basic financial statements present the financial position of the Commonwealth and its various funds, the results of operations of the Commonwealth and its various funds and fund types, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2011 and for the year then ended. The basic financial statements include the various departments, agencies, boards, commissions, public trusts and public corporations, and any other organizational units governed by the Puerto Rico Legislature and/or officers of the Commonwealth.

(a) Financial Reporting Entity

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

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

(b) Component Units

Component units are entities that are legally separate organizations for which the Commonwealth's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete. GAAP details two methods of presentation: (i) 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 (ii) discrete presentation of the component units' financial data in columns separate from the Commonwealth's balances and transactions. The Commonwealth is financially accountable because it appoints the members of the governing authorities of each of the component units and because it is able to impose its will on these organizations or because the organizations provide specific financial benefits or impose specific financial burdens on the Commonwealth. The financial statements of the component units discussed below have been included in the financial reporting entity either as blended component units or as discretely presented component units in accordance with GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

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

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

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

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

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

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

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

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

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

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

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

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

Major Component Units

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

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

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

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

Puerto Rico Highways and Transportation Authority (PRHTA) — PRHTA is governed by the Secretary of DTPW. PRHTA has broad powers to carry out its responsibilities in accordance with DTPW's overall transportation policies. These powers include, among other things, the complete control and supervision of any highway facilities constructed, owned, or operated by PRHTA, the ability to set tolls for the use of the highway facilities, and the power to issue bonds, notes, or other obligations. PRHTA plans and manages the construction of all major projects relating to the Commonwealth's toll highway system, undertakes major repairs, and maintains the toll ways. The Commonwealth has the ability to significantly influence the toll rates charged by PRHTA.

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

Nonmajor Component Units

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

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

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

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

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

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

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

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

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

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

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

Governing Board of the 9-1-1 Service (911 Service) — The 911 Service is governed by a five member board comprising the Chief of Police, the Executive Director of the Medical Emergency Services, the Director of the State Emergency Management Agency, the Chief of the Puerto Rico Firefighters Corps, and one member appointed by consensus of the four ex-officio members to represent the public interest. The 911 Service is responsible for providing an efficient service of fast response to emergency calls through the 911 number and transferring these to the appropriate response agencies using technological and human resources to safeguard lives and properties.

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

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

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

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

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

Port of the Americas Authority (PAA) — PAA is governed by an eleven member board comprising of the Secretary of DTPW, the Secretary of Economic Development and Commerce, the Executive Director of Puerto Rico Industrial Development Company, the Majors of the Municipalities of Ponce, Peñuelas and Guayanilla and five private citizens appointed by the Governor with the consent of the Senate. The purpose of the PAA is to provide an alternative to container transshipment port in the south of Puerto Rico.

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (PCSDIPRC) — PCSDIPRC is governed by a nine member board comprising of the Administrator of the Cooperative Development Administration, the Commissioner of Financial Institutions of Puerto Rico, the Secretary of the Treasury of the Commonwealth, the Inspector of Cooperatives, three citizens representing the cooperative movement, one representative of the Puerto Rico Cooperatives League, and one private citizen representing the public interest. PCSDIPRC has the responsibility of providing to all the cooperatives and the Federation of Cooperatives of Puerto Rico insurance coverage over the stocks and deposits, and for monitoring the financial condition of the insured cooperatives, and the uninsured cooperatives when requested by the Inspector of Cooperatives. The Commonwealth has the ability to impose its will on PCSDIPRC.

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

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

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

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

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

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

Puerto Rico Infrastructure Financing Authority (PRIFA) — PRIFA is governed by a seven member board comprising of five members appointed the board of the directors of GDB, the Secretary of the Treasury of the Commonwealth and one member appointed by the Governor. The President is appointed by the Governor from among its members. Its responsibilities are to provide financial, administrative, consulting, technical, advisory, and other types of assistance to other component units and governmental instrumentalities of the Commonwealth, which are authorized to develop infrastructure facilities and to establish alternate means for financing them. PRIFA's boards of directors' members are executives on a trustworthy position, named and supervised by the Governor. The Commonwealth provides financial support to PRIFA through legislative appropriations.

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

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

Puerto Rico Medical Services Administration (PRMeSA) — PRMeSA is governed by a ten member board comprising the Secretary of the Department of Health of the Commonwealth, who is the Chairman, the Dean of the Medical Sciences Faculty of the UPR, the President of the Board of the Puerto Rican Cancer Society, the Mayor of the Municipality of San Juan, the Administrator of the State Insurance Fund Corporation, the Administrator of the Administration of Mental Health and Anti — Addiction Services, the President of the Medical Policy and Administration Committee, the Secretary of the Department of Family, and two members appointed by the Secretary of the Department of Health of the Commonwealth. Its purpose is to plan, organize, operate, and administer the centralized health services, provided in support of the hospital and other functions, offered by the member institutions and users of the medical complex known as the Puerto Rico Medical Center. The Commonwealth provides financial support to PRMeSA through legislative appropriations.

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

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

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

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

Puerto Rico Public Private Partnerships Authority (PPPA) — PPPA is governed by a five member board of directors comprising the President of GDB, the Secretary of the Treasury, the President of the Planning Board and two members appointed by the Governor, one member selected by the President of the Senate of Puerto Rico and another member, by the Speaker of the Puerto Rico House of Representatives. PPPA is the only government entity authorized and responsible for implementing public policy on Public Private Partnerships established by Act No. 29 of June 8, 2009 and to determine the functions, services or facilities for which such Partnerships will be established.

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

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

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

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

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

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

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

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

University of Puerto Rico Comprehensive Cancer Center (UPRCCC) — UPRCCC is governed by an eleven member board comprising of five ex-officio members: the President of the University of Puerto Rico (the UPR), the Chancellor of Medical Sciences Campus of the UPR, the Secretary of the Department of Health of the Commonwealth, the Dean of the UPR School of Medicine and the Director of the Office of Management and Budget of the Commonwealth. The remaining six (6) members are as follows: one member who is a representative of the medical faculty of the Medical Science Campus, appointed by the President of the University; one member who is a cancer research specialist of the Medical Science Campus of the University, appointed by the President of the University; one member who is a cancer patient residing in Puerto Rico, appointed by the President of the University; and three citizens of Puerto Rico who have shown commitment to the fight against cancer, one of which will be a member of the "Liga Puertorriqueña Contra el Cancer", appointed by the Governor.

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

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

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

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

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

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

University of Puerto Rico
P.O. Box 23400
San Juan, PR 00931-3400

Agricultural Enterprises and Development Administration
P.O. Box 10163
Santurce, PR 00909

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

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

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

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

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

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

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

Employment and Training Enterprises Corporation
P.O. Box 366505
San Juan, PR 00936-6505

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

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

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

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

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

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

Musical Arts Corporation
P.O. Box 41227
San Juan, PR 00940-1227

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

Port of the Americas Authority
P.O. Box 195534
San Juan, PR 00919-5534

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

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

Puerto Rico Convention Center District Authority
P.O. Box 19269
San Juan, PR 00907

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

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

Puerto Rico Industrial Development Company
P.O. Box 362350
San Juan, PR 00940

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

Puerto Rico Infrastructure Financing Authority
P.O. Box 41207 – Minillas Station
San Juan, PR 00940

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

Puerto Rico and Municipal Islands Maritime
Transport Authority
P.O. Box 4305
Puerto Real, PR 00740

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

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

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

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

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

Puerto Rico Public Private Partnership Authority
P.O. Box 42001
San Juan, PR 00940-2001

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

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

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

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

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

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

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

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

University of Puerto Rico Comprehensive Cancer Center
P.O. Box 23400
San Juan, PR 00931-3400

The financial statements of the discretely presented component units have a year end of June 30, 2011, except for the Puerto Rico Telephone Authority, which has a year end of December 31, 2010.

Fiduciary Component Units — The three employee retirement systems administer pension funds for the Commonwealth and its political subdivisions. The three systems are subject to legislative and executive controls, and the administrative expenses are subject to legislative budget controls. These component units, while meeting the definition of a component unit and are legally separate, are presented in the fund financial statements along with other fiduciary funds of the Commonwealth. They have been omitted from the government wide financial statements, as their resources are not available to fund operations of the Commonwealth. The three systems, as governmental retirement plans, are excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

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

Puerto Rico Judiciary Retirement System (JRS) — JRS is governed by the same board of trustees as ERS. JRS is a single employer defined benefit plan, administered by ERS, which covers all active judges or retired judges of the judiciary branch of the Commonwealth.

Puerto Rico System of Annuities and Pensions for Teachers (TRS) — TRS is governed by a nine member board comprising three ex-officio members, which are the Secretary of the Department of Education, the Secretary of the Treasury of the Commonwealth, the President of GDB, and one member who is a representative of a teachers' organization designated by the Governor; three teachers appointed by the Governor, one of which represents currently certified teachers in active service, and two who represent retired teachers; one member who is a representative of the entity that represents the proper unit under Act No. 45 of February 25, 1998, as amended; and one additional member, as representative of the public interest, with knowledge of and experience in the administration and operation of financial systems, appointed by the Governor. The Commonwealth reports TRS as a single employer pension plan. TRS provides retirement benefits to all teachers of the Department of Education of the Commonwealth, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education of the Commonwealth, teachers who work in the Teachers' Association of Puerto Rico, and those who practice in private institutions accredited by the Department of Education of the Commonwealth. TRS provides retirement, death, and disability benefits.

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

Employees' Retirement System of the
Government of the Commonwealth of Puerto Rico
P.O. Box 42003 - Minillas Station
Santurce, PR 00940

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

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

(c) Government Wide Financial Statements

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

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

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

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

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

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

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

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

Governmental Fund Financial Statements — The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. Principal revenue sources considered susceptible to accrual include tax revenue, net of estimated overpayments (refunds) and amounts considered not collectible, which are recorded as taxpayers earn income (income taxes), as sales are made (consumption, sales and use taxes) and as cash is received (miscellaneous taxes). For this purpose, the Commonwealth considers income tax revenue to be available if collected within 120 days after the end of the current fiscal year end, property tax revenue if collected within 90 days after the end of the current fiscal year, and consumption sales and use tax if collected within 30 days after the end of the current fiscal year. In applying the susceptible to accrual concept to federal grants, there are essentially two types of revenue. For the majority of grants, moneys must be expended by the Commonwealth on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employees' vested annual vacation and sick leave are recorded as expenditures when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2011 has been reported only in the government wide financial statements.

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

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

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

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

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

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

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

(e) Fund Accounting

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

Governmental Funds

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

Pledged Sales and Use Tax Fund — The pledge sales and use tax fund in used to account for and report the sales tax revenue and the corresponding transfer to COFINA debt service fund for the payment of debt.

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

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

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

Nonmajor Governmental Funds — The Commonwealth reports the following blended component units within the nonmajor governmental funds: Public Buildings Authority, The Children's Trust, and the Puerto Rico Maritime Shipping Authority. If a component unit is blended, the governmental fund types of the component unit should be blended with those of the primary government by including them in the appropriate combining statements of the primary government. Although the primary government's General Fund is usually the main operating fund of the reporting entity, the General Fund of a blended component unit should be reported as a Special Revenue Fund. Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Fund — This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Major Proprietary Funds

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

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

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

Nonmajor Proprietary Funds — The Commonwealth reports the following nonmajor proprietary funds: Disability Insurance, Drivers' Insurance, Puerto Rico Water Pollution Control Revolving Fund, and Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund.

Fiduciary Funds

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

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

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

Discretely Presented Component Units

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

(f) Reconciliation of Government-wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances (deficit) as reflected on the governmental funds balance sheet and total net assets (deficit) of governmental activities as shown on the government-wide statement of net assets is presented in an accompanying schedule to the governmental funds balance sheet. The asset and liability elements which comprise the difference are related to the governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

A summary reconciliation of the difference between net change in fund balances (deficit) as reflected on the governmental funds statement of revenues, expenditure, and changes in fund balances (deficit) and change in net assets (deficit) of governmental activities as shown on the governmental-wide statement of activities is presented in an accompanying schedule to the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit). The revenue and expense elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

(g) Statutory (Budgetary) Accounting

The Commonwealth's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with GAAP. Revenue is generally recognized when cash is received, net of tax refunds claimed by taxpayers as of year-end. Short term and long-term borrowings may be used to finance budgetary excess of expenditures over revenue. Expenditures are generally recorded when the related expenditure is incurred or encumbered. Encumbrances generally lapse the year following the end of the fiscal year when the encumbrance was established, as established by Act

No. 123 of August 17, 2001. Unencumbered appropriations lapse at year-end. Amounts required for settling claims and judgments against the Commonwealth and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

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

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

(h) Cash and Short Term Investments

The Commonwealth follows the practice of pooling cash. The balance in the pooled cash accounts is available to meet current operating requirements, and any excess is invested in various interest bearing accounts with the Government Development Bank for Puerto Rico and with the Puerto Rico Government Investment Trust Fund (PRGITF). Cash and cash equivalents include investments with original maturities of 90 days or less from the date of acquisition.

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

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

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

(i) Securities Purchased under Agreements to Resell

Certain component units of the Commonwealth enter into purchases of securities with simultaneous agreements to resell the same securities (“repurchase agreements”). The amounts advanced under these agreements generally represent short–term loans and are reflected as an asset. The securities underlying these agreements mainly consist of U.S. government obligations, mortgage-backed securities, and interest bearing deposits with other banks. Repurchase agreements are authorized transactions under their respective enabling legislation and/or authorized by GDB.

(j) 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. Cash received as collateral on securities lending transactions and investments made with that cash are reflected as investments. Securities received as collateral are reported as investments if the component unit has the ability to pledge or sell them without a borrower default. Liabilities resulting from these securities lending transactions also are reported in the statement of net assets. Securities lending transactions collateralized by letters of credit or by securities that the component unit does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the statement of net assets.

(k) Investments and Investment Contracts

Investments and investment contract mainly include U.S. government and agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, investment contracts, and corporate debt and equity obligations. Investments and investment contracts, are carried 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 (guaranteed investment contracts), which are carried at cost; and investment positions in 2a-7 like external investment pools, which are carried at the pool's share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Investment income, including changes in the fair value of investments, is presented as investment earnings in the statement of activities, the statement of revenues, expenditures, and changes in fund balances (deficit) — governmental funds, and the statement of revenues, expenses, and changes in fund net assets (deficit) — proprietary funds. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in the change in the fair value of investments.

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

(l) Receivables

Tax receivables in the general fund include predominantly amounts owed by taxpayers for individual and corporate income taxes, net of estimated uncollectible amounts. Income tax receivables are recognized as revenue when they become measurable and available based on actual collections during the 120 days following the fiscal year end related to tax returns due before year end. Taxes receivables also include amounts owed by taxpayers on income earned in periods prior to June 30, 2011, estimated to be collectible but not currently available, and thus are reported as deferred revenue in the general fund. Unemployment, disability, and driver's insurance receivables in the enterprise funds are stated net of estimated allowances for uncollectible accounts.

The sales and use tax receivable is recognized as revenue when it becomes measurable and available based on actual collections during the 30 days following the fiscal year-end related to sales and use tax returns due before year-end.

Excise tax receivable is recognized as revenue when it becomes measurable and available based on actual collections during the 30 days following the fiscal year-end related to transactions that occurred before year-end. Act 154 of October 25, 2010 imposes a new temporary excise tax on the acquisition of certain personal property manufactured or produced in whole or in part in Puerto Rico and on the acquisition of certain manufacturing services carried out in Puerto Rico by nonresident alien individuals, foreign corporations and foreign partnerships. Act 154 applies to income realized and acquisitions occurring after December 31, 2010. Act No 154 provides that, in certain circumstances, taxpayers will be deemed to be engaged in trade or business in Puerto Rico and taxable in Puerto Rico with respect to a portion of taxpayer's income where the taxpayers engage in significant transactions with other persons that are members of the same controlled group. Where a person engages in significant transactions with a member of the same controlled group that has gross receipts of seventy-five million dollars or more in any of the last three years and that manufactures or produces goods in Puerto Rico, or provides services in connection with the manufacture or production of goods in Puerto Rico, the person will not be subject to income tax, will instead be subject to the excise tax in lieu of any income tax. The excise tax will apply for a period of six years. The excise tax is based on the value of the personal property or services acquired and will be 4% for calendar year 2011, declining to 3.75% in 2012, 2.75% in 2013, 2.5% in 2014, 2.25% in 2015 and 1% in 2016.

Real property tax payments for the fiscal year ended June 30, 2011 were due September 1, 2010 and March 1, 2011. Property tax revenue represents payments received during the year and payments received (against the current fiscal year and prior years' levies) within the first three months of the following fiscal year reduced by tax refunds for the fund financial statements. Additionally, the government wide financial statements recognize real property tax revenues (net of refunds) which are not available to the governmental fund type in the fiscal year for which the taxes are levied. Act No. 7 of March 9, 2009, as amended, imposed an additional real property tax on residential and commercial real properties with appraised values in excess of approximately $210,000. This tax applied during fiscal years 2010 and 2011 and amounted to 0.591% of such properties' appraised value as determined by the Municipal Revenue Collection Center (CRIM). Act No. 1 of January 31, 2011 eliminated this additional real property tax commencing the quarter ended June 30, 2011.

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

The accounts receivable from nongovernmental customers of the component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the primary government and other component units that arise from service charges although deemed fully collectible, are evaluated for collectability

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

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

(m) Inventories

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

(n) Restricted Assets

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

(o) Real Estate Held for Sale

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

(p) Capital Assets

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

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

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

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

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

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

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

	Years
Buildings and building improvements	3–50
Equipment, furniture, fixtures, vehicles and software	3–20
Intangibles, other than software	3–5
Infrastructure	10–50

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

(q) Tax Refunds Payable

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

(r) Deferred Revenue

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

(s) Long-term Debt

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

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

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

(t) Derivative Instruments

The Commonwealth accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. Certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value by governments in their government-wide financial statements. The changes in fair value of hedging derivative instruments are reported as deferred inflows or deferred outflows. The changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. See Note 23 for disclosure information relating to hedging and investment derivative instruments.

(u) Accounting for Pension Costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers, as amended by GASB Statement No. 50*, Pension Disclosures, the Commonwealth's financial reporting entity is considered to be a sponsor of three defined benefit pension plans: JRS, TRS and ERS. This is because substantially all the participants in the three pension trust funds are part of the financial reporting entity of the Commonwealth. For the purpose of the basic financial statements, and as disclosed in Note 20, the Commonwealth's annual pension cost, measured on the accrual basis of accounting, for the year ended June 30, 2011 amounted to approximately $2.2 billion. However, the amount recognized as pension expenditure in the governmental funds was recorded under the modified accrual basis, and amounted to approximately $874 million. The excess of the annual required contribution over the statutorily required contributions increased the net pension obligation at June 30, 2011 to approximately $9.3 billion. This amount is presented in the statement of net assets (deficit) of the governmental activities as of June 30, 2011.

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

(v) Other Postemployment Benefits

In addition to the pension benefits described in Note 21, the Commonwealth provides other postemployment benefits (OPEB) such as summer and Christmas bonus, and post-employment healthcare benefits for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

The Christmas bonus and the summer bonus benefits are provided by the Commonwealth statutes. The Christmas bonus and the summer bonus paid by the Commonwealth to the retired employees during the year ended June 30, 2011 was $600 per retiree and the total amount was approximately $112 million. These benefits are recorded as expenditures when paid in the general fund.

Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share of not more than $100 per month for each retiree. During the year ended June 30, 2011, the cost of providing healthcare benefits amounted to approximately $125 million.

(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 leave at the current rate, if the employee has at least 10 years of service with the Commonwealth. Accrued compensated absences of the primary government at June 30, 2011 amounting to approximately $1.5 billion are presented in the statement of net assets (deficit). Compensated absence accumulation policies for the blended component units and discretely presented component units vary from entity to entity based on negotiated agreements and other factors agreed upon between the management of these entities and their employees.

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

(x) Termination Benefits

Commonwealth accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits. Pursuant to the provisions of GASB Statement No. 47*, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

(y) Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the general fund during the fiscal year to control expenditures. The cost of those goods received and services rendered on or before June 30 are recognized as expenditures. For GAAP reporting purposes, encumbrances outstanding at year end are reported within the restricted, committed, and assigned GAAP fund balance classifications and do not constitute expenditures or liabilities on GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the general fund at the end of the fiscal year lapses immediately. Appropriations, other than in the general fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

(z) Interfund and Intraentity Transactions

The Commonwealth has the following types of transactions among funds:

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

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

(aa) Lottery Revenue and Prizes

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

(ab) Risk Management

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

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

(ac) Tobacco Settlement

The Commonwealth follows GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue*, as amended by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, (the "TB"), which provides accounting guidance for entities created to obtain the rights to all or a portion of future tobacco settlement resources and for the governments that create such entities.

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

(ad) Reclassifications

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

(ae) Use of Estimates

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

(af) New Accounting Standards Adopted

The following new accounting standards were adopted by the Commonwealth effective July 1, 2010:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Governments are required to classify and report amounts in the appropriate fund balance classifications by applying accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to financial statements is required. Governments are also required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications. GASB Statement No. 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to financial statements. The objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

The financial reporting impact resulting from the implementation of GASB Statement No. 54 is the inclusion of new classifications in the fund balance section of the balance sheet, based on the extent to which the Commonwealth is bound to observe constraints imposed upon the resources in the governmental funds. Fund balance has been reported in Nonspendable and Spendable, which includes Restricted, Committed, Assigned or Unassigned Fund Balance classifications.

GASB Statement No. 59, *Financial Instruments Omnibus*, updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. GASB Statement No. 59 includes the following guidance:

- Emphasizes the applicability of U.S. Securities and Exchange Commission requirements to certain external investment pools — known as 2a7-like pools — to provide users more consistent information on qualifying pools.

- Addresses the applicability of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to certain financial instruments to clarify which financial instruments are within the scope of that pronouncement and to provide greater consistency in financial reporting.

- Applies the reporting provisions for interest-earning investment contracts of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to unallocated insurance contracts to improve the consistency of reporting by pension and OPEB plans.

There was no impact on the Commonwealth's financial statements as a result of the implementation of GASB Statement No. 59.

(ag) Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2011:

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

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which: (i) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration; and (ii) the operator collects and is compensated by fees from third parties. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. This Statement improves financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement is effective for financial statements for periods beginning after June 15, 2012.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (i) FASB Statements and Interpretations; (ii) Accounting Principles Board Opinions; and (iii) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

- GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement provides financial reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period. GASB Statement No. 63 also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of GASB Statement No. 63 are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

- GASB Statements No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions — An Amendment of GASB Statement No. 53*. This Statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of GASB Statement No. 64 are effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged.

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

- GASB Statement No. 66, *Technical Corrections — 2012*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

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

2. COMPONENT UNITS

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

Blended component units:

Public Buildings Authority
Puerto Rico Maritime Shipping Authority
The Children's Trust

Discretely presented component units:

Agricultural Enterprises Development Administration
Automobile Accidents Compensation Administration
Cardiovascular Center Corporation of Puerto Rico and the Caribbean
Company for the Integral Development of the "Península de Cantera"
Corporation for the "Caño Martín Peña" ENLACE Project
Corporation for the Development of Arts, Science and Film Industry of Puerto Rico
Culebra Conservation and Development Authority
Economic Development Bank for Puerto Rico
Employment and Training Enterprises Corporation
Farm Insurance Corporation of Puerto Rico
Fine Arts Center Corporation
Governing Board of the 911 Service
Institute of Puerto Rican Culture
Institutional Trust of the National Guard of Puerto Rico
Land Authority of Puerto Rico
Musical Arts Corporation
National Parks Company of Puerto Rico
Port of the Americas Authority

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
Puerto Rico Aqueduct and Sewer Authority
Puerto Rico Conservatory of Music Corporation
Puerto Rico Council on Higher Education
Puerto Rico Electric Power Authority
Puerto Rico Health Insurance Administration
Puerto Rico Highways and Transportation Authority
Puerto Rico Industrial Development Company
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental,
Control Facilities Financing Authority
Puerto Rico Infrastructure Financing Authority
Puerto Rico Land Administration
Puerto Rico and Municipal Islands Maritime Transport Authority
Puerto Rico Medical Services Administration
Puerto Rico Metropolitan Bus Authority
Puerto Rico Municipal Finance Agency
Puerto Rico Ports Authority
Puerto Rico Public Broadcasting Corporation
Puerto Rico Public Private Partnership Authority
Puerto Rico School of Plastic Arts
Puerto Rico Telephone Authority
Puerto Rico Trade and Export Company
Right to Employment Administration
Solid Waste Authority
Special Communities Perpetual Trust
State Insurance Fund Corporation
University of Puerto Rico

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(a) Budgetary Control

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

The annual budget, which is developed utilizing elements of program budgeting, includes an estimate of revenue and other resources for the ensuing fiscal year under: (i) laws existing at the time the budget are 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 capital improvements plan adopted by the Puerto Rico Planning Board.

The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon passage by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by two thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Governor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. This permits the Commonwealth to continue making payments for its operating and other expenses until the new budget is approved. The appropriated annual budget for fiscal year 2011 amounted to approximately $8.9 billion. The Legislature also made several special budgetary appropriations to the general fund throughout the year, which amounted to approximately $272 million.

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

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

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

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

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

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

(b) Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenue and other financing sources over expenditures and other financing uses for the year ended June 30, 2011 is presented below for the general fund (expressed in thousands):

Excess of revenues and other financing sources over expenditures and other financing uses — budget basis	$ 343,892
Entity differences-excess (deficiency) of revenues and other financing sources under expenditures and other financing uses for:	
Nonbudgeted funds	(72,314)
Inclusion of agencies with independent treasuries	(13,939)
Timing differences:	
Adjustment for encumbrances	194,773
Current year expenditures against prior year encumbrances	(134,814)
Basis of accounting differences:	
Net increase in taxes receivable (net of tax refunds and deferred revenues)	131,067
Net decrease in other receivables	(152,429)
Excess of revenues and other financing sources over expenditures and other financing uses — GAAP basis	$ 296,236

(c) Deficit Net Assets

The following activities, funds, and discretely presented component units reflect deficit fund balance/net assets at June 30, 2011 (expressed in thousands):

Primary Government:	
Governmental activities	$ 34,508,201
General fund	251,060
Enterprise fund-Lotteries	90,298
Component units:	
Puerto Rico Infrastructure Financing Authority	1,562,923
Puerto Rico Health Insurance Administration	278,328
Special Communities Perpetual Trust	243,456
Puerto Rico Medical Services Administration	182,464
Puerto Rico Electric Power Authority	169,495
Agricultural Enterprises Development Administration	105,434
Automobile Accidents Compensations Administration	47,078
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	42,171
Puerto Rico Metropolitan Bus Authority	11,514
Puerto Rico Public Private Partnerships Authority	11,276
Land Authority of Puerto Rico	8,198
Puerto Rico and Municipal Islands Maritime Transportation Authority	8,108
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	4,093
Musical Arts Corporation	3,600
Employment and Training Enterprises Corporation	1,924
Right to Employment Administration	1,257

The Commonwealth's governmental activities show a deficit of approximately $34.5 billion, mostly attributed to the Commonwealth outstanding bonds amounting to approximately $29.1 billion, which are recognized in the statement of net assets (deficit). The deficit is attributable to the accumulated effect of high operating expenses in the government along with a decrease in estimated revenues as well as the primary government issuing debt, the proceeds of which are to certain extent transferred to component units and to other governments, and which are not presented in these basic financial statements. On the other hand, the discretely presented component units report net assets of approximately $9.5 billion. This inverse relationship between the governmental activities and component units' net assets reveal the operational structure of the Commonwealth where the primary government issues debt, the proceeds of which are predominantly transferred to the component units and to other governments, that are not presented in these basic financial statements, to finance their capital projects and other operational needs. The Commonwealth includes within the annual budgetary appropriation process the necessary funds to cover the annual debt service requirements of the aforementioned debt, most of which are the result of Act No. 164 of December 17, 2001, described in Note 15(d).

Governmental Activities also include COFINA's deficit amounting to $13.5 billion principally attributed to bonds payable amounting to $14.4 billion; the proceeds of which were used to pay obligations of the Commonwealth of Puerto Rico and for other uses.

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

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

4. RESTATEMENTS

Subsequent to the issuance of the Commonwealth's basic financial statements for the year ended June 30, 2010, management of various funds and component units determined that their respective 2010 financial statements were misstated.

Primary Government — The following table summarizes changes to net assets at the beginning of the year as previously reported in the statement of activities by the governmental activities and the business-type activities. The changes resulted primarily from restatements to correct errors in the prior year's financial statements of the Public Buildings Authority, a blended component unit presented within governmental activities (see Note 2) and the Unemployment Insurance Fund, Disability Insurance Fund, and Drivers' Insurance Fund, presented within business-type activities, which are audited by other auditors (expressed in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals Primary Government
Net assets (deficit) — beginning of year, as previously reported	$ (31,223,539)	$ 796,910	$ (30,426,629)
Restatement adjustments — principally understatement of liabilities	(2,269)	(24,511)	(26,780)
Net assets (deficit) — beginning of year, as restated	$ (31,225,808)	$ 772,399	$ (30,453,409)

The following table summarizes the effect of the Public Buildings Authority's restatement on fund balance at the beginning of the year as previously reported in the statement of revenues, expenditures, and changes in fund balances (deficit) by the governmental funds (expressed in thousands):

	Other Governmental	Total Governmental
Fund balances (deficit) — beginning of year — as previously reported	$ 567,947	$ 2,676,845
Restatement adjustment — overstatement of accounts payable	858	858
Fund balances (deficit) — beginning of year, as restated	$ 568,805	$ 2,677,703

The net assets of the Unemployment Insurance Fund, Disability Insurance Fund, and Drivers' Insurance Fund as of June 30, 2010, in the statement of revenues, expenses and changes in fund net assets (deficit) of the proprietary funds, as previously reported, have been restated to reflect a decrease of $24,511, which represents the correction of errors, principally understatement of liabilities. A summary of the effect of the restatements in the fiscal year 2010 statement of revenues, expenses, and changes in fund net assets (deficit) of the proprietary funds is as follows (expressed in thousands):

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Totals Proprietary
Net assets (deficit) — beginning of year — as previously reported	$ 309,660	$ (104,141)	$ 591,391	$ 796,910
Restatement adjustments — principally understatement of liabilities	(18,863)	-	(5,648)	(24,511)
Net assets (deficit) — beginning of year, as restated	$ 290,797	$ (104,141)	$ 585,743	$ 772,399

Discretely Presented Component Units — The following table summarizes changes to net assets at the beginning of the year as previously reported in the statement of activities by certain discretely presented component units. The changes resulted primarily from restatements to correct errors in the prior year's financial statements of certain component units (expressed in thousands):

Net assets — beginning of year — as previously reported	$ 10,733,710
Restatements of nonmajor component units audited by other auditors (Note 2)	(36,566)
Restatements of major component units audited by other auditors (Note 2)	188,491
Net assets — beginning of year — as restated	$ 10,885,635

5. PUERTO RICO GOVERNMENT INVESTMENT TRUST FUND (PRGITF)

PRGITF was created by Act No. 176, of August 11, 1995, and began operations on December 4, 1995. PRGITF is a no load diversified collective investment trust administered by GDB that was created for the purpose of providing eligible governmental investors of Puerto Rico with a convenient and economical way to invest in a professionally managed money market portfolio. PRGITF is not an investment company or a mutual fund and is not subject to regulation or registration under the investment company Act of 1940. Units issued by PRGITF are not subject to regulation or registration under the Securities and Exchange Act of 1933, as amended, because the units are issued by a government entity. The deposits on hand and the investments purchased are not collateralized, secured, or guaranteed by the Commonwealth or any of its agencies, instrumentalities, or political subdivisions.

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

The investment securities on hand at June 30, 2011, consisted of certificates of deposit and time deposits, money market funds, securities purchased under agreements to resell, corporate obligations, commercial paper, and U.S. government and sponsored agencies obligations, all of which may be considered highly liquid. However, the participants' investments are subject to the ability of PRGITF to receive payment from the securities' issuer when due. The liquidity of certain investments and changes in interest rates may affect PRGITF's yield and the fair value of its investments.

The dollar amount of the deposits on hand at June 30, 2011 at $1.00 per unit of participation, was reported in the individual financial statements of each of the participants, and combined in the basic financial statements as follows (expressed in thousands):

	Balance Outstanding	Percentage of Total
Primary government:		
Puerto Rico Sales Tax Financing Corporation	$ 157,427	32.89 %
Commonwealth	153,989	32.17
The Children's Trust	25,749	5.38
Puerto Rico Public Buildings Authority	54	0.01
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	2	-
Total for primary government	337,221	70.45
Discretely presented component units:		
Government Development Bank for Puerto Rico	117,362	24.52
Puerto Rico Aqueduct and Sewer Authority	17,033	3.56
Institutional Trust of the National Guard of Puerto Rico	3,896	0.81
State Insurance Fund Corporation	1,037	0.22
Solid Waste Authority	621	0.13
Puerto Rico Land Administration	536	0.11
Puerto Rico Infrastructure Financing Authority	405	0.08
Puerto Rico Electric Power Authority	258	0.05
Puerto Rico Highways and Transportation Authority	170	0.04
Total for discretely presented component units	141,318	29.52
Other governmental entities	149	0.03
Total for all participants	$ 478,688	100.00 %

The deposits at June 30, 2011 were invested in securities with a cost that approximates fair value, plus accrued interest, for approximately $479 million. The external portion of PRGITF was not considered significant for separate reporting in the accompanying basic financial statements.

As June 30, 2011, the PRGITF's investments were rated AAA to A- by Standard and Poor's. U.S. Government securities carry the explicit guarantee of the U.S. Government.

Following is a table of the investments and other assets held at June 30, 2011, presented at amortized cost (expressed in thousands):

Commercial paper	$ 215,993
U.S. government and sponsored agencies obligations	94,527
Securities purchased under agreements to resell	94,018
Money market funds	6,859
Certificates of deposit and time deposits	38,500
Corporate obligations	29,274
Liabilities in excess of other assets	(483)
Total	$ 478,688

6. DEPOSITS AND INVESTMENTS

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

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

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

The carrying amount of deposits of the primary government at June 30, 2011 consists of the following (expressed in thousands):

	Carrying Amount			Bank
	Unrestricted	Restricted	Total	Balance
Commercial banks	$ 508,997	$ 303,903	$ 812,900	$ 762,304
Governmental banks	373,360	1,335,656	1,709,016	2,219,357
U.S. Treasury	339,666	-	339,666	339,666
Total	$ 1,222,023	$ 1,639,559	$ 2,861,582	$ 3,321,327

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

At year-end, the Commonwealth's bank balance of deposits in commercial banks amounting to approximately $762 million was covered by federal depository insurance or by collateral held by the

Commonwealth's agent in the Commonwealth's name. Deposits of approximately $339.7 million with the U.S. Treasury represent unemployment insurance taxes collected from employers that are transferred to the federal Unemployment Insurance Trust Fund in the U.S. Treasury. These deposits are uninsured and uncollateralized. The bank balance of deposits in governmental banks, which as of June 30, 2011 amounted to approximately $2.2 billion are also uninsured and uncollateralized. These deposits in governmental banks are maintained with GDB and EDB. Deposits maintained in GDB and EDB are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk, because in the event of GDB's or EDB's failure, the Commonwealth may not be able to recover these deposits.

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

The bank balance of GDB's and EDB's deposits at June 30, 2011 is broken down as follows (expressed in thousands):

Primary government	$ 2,146,295
Discretely presented components units	732,951
Total pertaining to the Commonwealth	2,879,246
Municipalities of Puerto Rico	596,744
Other nongovernmental entities	108,877
Escrow accounts	652,308
Certificate of indebtedness	1,771,133
Total deposits per GDB and EDB	$ 6,008,308

Unrestricted deposits include approximately $479 million that are invested in PRGITF (see Note 5). Such amount has been included as cash and cash equivalents and investments in the statement of net assets (deficit).

Investments

Custodial Credit Risk — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the primary government may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The governmental activities, had approximately $83,684,000 in nonparticipating investment contract (guaranteed investment contract), and $1,521,000 in other investments that were exposed to custodial risk as uninsured, unregistered and held by the counterparties or by their trust departments or agents, but not in the primary government's name.

All of the Commonwealth's investments in U.S. Treasury securities and mortgage-backed securities guaranteed by Government National Mortgage Association (GNMA) carry the explicit guarantee of the U.S. government and are presented as "No Risk" in the credit risk tables.

Governmental Activities — The following table summarizes the type and maturities of investments held by the governmental activities at June 30, 2011 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (In Years)				
Investment Type	**Within One Year**	**After One to Five Years**	**After Five to Ten Years**	**After Ten Years**	**Total**
U.S. government securities	$354,553	$ -	$ -	$ -	$ 354,553
U.S. government agencies notes:					
Association (FNMA)	-	374,097	-	-	374,097
U.S. corporate bonds and notes	31,011	-	-	-	31,011
Money market funds	58,654	-	-	-	58,654
PRGITF	183,176	-	-	-	183,176
External investment pools — fixed–income securities:					
Dreyfus Government Cash Management	102,659	-	-	-	102,659
Others	-	-	-	27,443	27,443
Nonparticipating investment contracts:					
Bayerische Hypo-und Vereinsbank AG	-	-	-	83,684	83,684
Others	1,565	1,521	-	-	3,086
Total debt securities and fixed–income investment contracts	$731,618	$375,618	$ -	$111,127	$1,218,363

Reconciliation to the government-wide statement of net assets:	
Unrestricted investments and investment contracts	$ 136,943
Restricted investments and investment contracts	1,081,420
Total	$1,218,363

The credit quality ratings (Standard and Poor's) and fair value by investment type for the investments reported by the governmental activities at June 30, 2011 consist of the following (expressed in thousands):

	Credit Risk					
			Rating			
Investment Type	**No Risk**	**AAA To A-**	**BBB+ to B-**	**CCC**	**Not Rated**	**Total**
U.S. government securities	$354,553	$ -	$ -	$ -	$ -	$ 354,553
U.S. government agencies notes:						
FNMA	-	374,097	-	-	-	374,097
U.S. corporate bonds and notes	-	31,011	-	-	-	31,011
Money market funds	-	-	-	-	58,654	58,654
PRGITF	-	183,176	-	-	-	183,176
External investment pools — fixed–income securities:						
Dreyfus Government Cash Management	-	102,659	-	-	-	102,659
Others	-	27,443	-	-	-	27,443
Nonparticipating investment contracts:						
Bayerische Hypo-und Vereinsbank AG	-	83,684	-	-	-	83,684
Others	1,521	-	-	-	1,565	3,086
Total debt securities and fixed–income investment contracts	$356,074	$802,070	$ -	$ -	$60,219	$1,218,363

The Commonwealth classified approximately $154 million of investments presented in PRGITF as cash and cash equivalents.

Business Type Activities — The following table summarizes the type and maturities of investments held by the business-type activities at June 30, 2011 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (In Years)				
Investment Type	**Within One Year**	**After One to Five Years**	**After Five to Ten Years**	**After Ten Years**	**Total**
U.S. government securities	$ -	$1,007	$ 111	$ 1,041	$ 2,159
Mortgage and asset-backed securities:					
GNMA	-	-	-	2,552	2,552
FNMA	65	-	74	1,155	1,294
Federal Home Loan Mortgage Corporation (FHLMC)	-	-	326	1,852	2,178
Commercial mortgages	-	-	-	1,810	1,810
Asset–backed securities	-	1,561	244	-	1,805
U.S. corporate bonds and notes	-	2,236	2,597	1,446	6,279
Foreign government bonds and notes	-	217	577	-	794
U.S. municipal notes	-	-	-	669	669
Total debt securities and fixed–income investment contracts	$ 65	$5,021	$3,929	$10,525	19,540
External investment pools — equity securities:					
SPDR S&P 500ETF Trust					9,597
MFC ISHARES TR Russell 2000 index Fund					2,774
MFC ISHARES TR MSCI EAFE Index Fund					2,069
MFC Vanguard Tax-Managed Intl Fund					1,177
Total					$35,157
Reconciliation to the government-wide statement of net assets:					
Unrestricted investments and investment contracts					$ -
Restricted investments and investment contracts					35,157
Total					$35,157

The credit quality ratings (Standard and Poor's) and fair value by investment type for the investments reported by the business-type activities at June 30, 2011 consist of the following (expressed in thousands):

	Credit Risk					
	Rating					
Investment Type	**No Risk**	**AAA To A-**	**BBB+ to B-**	**CCC**	**Not Rated**	**Total**
U.S. government securities	$2,159	$ -	$ -	$ -	$ -	$ 2,159
Mortgage and asset-backed securities:						
GNMA	2,552	-	-	-	-	2,552
FNMA	-	1,294	-	-	-	1,294
FHLMC	-	2,178	-	-	-	2,178
Commercial mortgages	-	1,810	-	-	-	1,810
Asset–backed securities	-	1,805	-	-	-	1,805
U.S. corporate bonds and notes	-	4,690	1,589	-	-	6,279
Foreign government bonds and notes	-	794	-	-	-	794
U.S. municipal notes	-	669	-	-	-	669
Total debt securities	$4,711	$13,240	$1,589	$ -	$ -	$19,540

Component Units — Cash and cash equivalents of the component units at June 30, 2011 consist of (expressed in thousands):

	Carrying Amount			Bank
	Unrestricted	Restricted	Total	Balance
Commercial banks	$ 1,403,775	$ 1,464,882	$ 2,868,657	$ 2,950,096
Governmental banks	339,659	329,503	669,162	732,951
Total	$ 1,743,434	$ 1,794,385	$ 3,537,819	$ 3,683,047

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

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

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

As of June 30, 2011, the component units had approximately $1.9 million of cash and cash equivalents that were exposed to custodial credit risk as uninsured and uncollateralized.

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

- U.S. government and agencies obligations
- Certificates of deposit and time deposits
- Bankers' acceptances
- Obligations of the Commonwealth of Puerto Rico and municipalities
- Federal funds sold
- Securities purchased under agreements to resell ("repurchase agreements')
- World Bank securities
- Corporate debt, including investment contracts
- External investment pools
- Stock of corporations created under the laws of the United States of America or the Commonwealth

- Options, futures, and interest-rates swap agreements for hedging and risk control purposes, as well as for the creation of synthetic products that qualify under any of the foregoing investment categories.

- Open-end mutual funds with acceptable underlying assets and rated AAA by Standard & Poor’s or Aaa by Moody’s Investors Service.

- A few component units, principally SIFC, are also allowed to enter into foreign currency investments, under certain limitations.

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

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

The following table summarizes the type and maturities of investments held by the component units at June 30, 2011 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (In Years)				
Investment Type	**Within One Year**	**After One to Five Years**	**After Five to Ten Years**	**After Ten Years**	**Total**
U.S. government securities	$1,164,468	$ 650,802	$ 492,753	$ 102,285	$ 2,410,308
U.S. government agencies notes:					
Federal Home Loan Bank (FHLB)	274,407	703,784	26,923	-	1,005,114
FNMA	90,478	190,606	44,815	54,941	380,840
FHLMC	15,816	153,808	24,645	2,431	196,700
Federal Farm Credit Bank (FFCB)	-	174,524	12,213	-	186,737
Other	3,468	3,594	2,271	-	9,333
Mortgage and asset–backed securities:					
GNMA	11,077	155,293	3,259	537,277	706,906
FNMA	8,001	6,629	117,534	498,882	631,046
FHLMC	-	29,081	93,345	367,104	489,530
Commercial mortgages	-	-	713	40,167	40,880
Asset–backed securities	714	35,000	948	3,856	40,518
Other	3,236	1,721	8,450	-	13,407
U.S. corporate bonds and notes	145,701	470,617	137,012	27,077	780,407
Foreign government bonds and notes	2,341	4,241	1,532	-	8,114
U.S. municipal notes	5,073	91,538	116,177	622,935	835,723
Commonwealth agency bonds and notes	92,785	397,877	330,477	544,256	1,365,395
Money market funds	252,050	-	-	-	252,050
Negotiable certificates of deposit	104,545	-	-	-	104,545
Repurchase agreements	281,021	-	-	-	281,021
PRGITF	118,400	-	-	-	118,400
External investment pools — fixed–income securities	154,506	326	-	4,735	159,567
Nonparticipating investment contracts	112,192	-	-	560,984	673,176
Others	261,455	28,696	1,496	3,199	294,846
Total debt securities and fixed–income investment contracts	$3,101,734	$3,098,137	$1,414,563	$3,370,129	10,984,563
Equity securities:					
U.S. corporate stocks					285,434
Non U.S. corporate stocks					87,395
External investment pools — equity securities					146,246
Limited partnership/private equity					88,490
Total					$11,592,128
Reconciliation to the government-wide statement of net assets:					
Unrestricted investments and investment contracts					$ 6,273,560
Restricted investments and investment contracts					5,318,568
Total					$11,592,128

All investments in U.S. Treasury securities and mortgage-backed securities guaranteed by GNMA carry the explicit guarantee of the U.S. government and are presented as "No Risk" category in the table below. The credit quality ratings for investments held by the component units at June 30, 2011 are as follows (expressed in thousands):

	Credit Risk					
	Rating					
Investment Type	**No Risk**	**AAA To A-**	**BBB+ to B-**	**CCC**	**Not Rated**	**Total**
U.S. government securities	$2,410,308	$ -	$ -	$ -	$ -	$ 2,410,308
U.S. government agencies notes:						
FHLB	-	1,005,114	-	-	-	1,005,114
FNMA	-	380,840	-	-	-	380,840
FHLMC	-	196,700	-	-	-	196,700
FFCB	-	186,737	-	-	-	186,737
Other	-	9,333	-	-	-	9,333
Mortgage and asset–backed securities:						
GNMA	706,906	-	-	-	-	706,906
FNMA	-	631,046	-	-	-	631,046
FHLMC	-	489,530	-	-	-	489,530
Commercial mortgages	-	38,068	-	-	2,812	40,880
Asset–backed securities	-	39,265	890	158	205	40,518
Other	-	17	10,214	-	3,176	13,407
U.S. corporate bonds and notes	-	397,302	376,803	-	6,302	780,407
Foreign government bonds and notes	-	6,897	203	-	1,014	8,114
U.S. municipal notes	-	834,070	-	-	1,653	835,723
Commonwealth agency bonds and notes	-	25,832	1,119,711	-	219,852	1,365,395
Money market funds	8,774	104,387	-	-	138,889	252,050
Negotiable certificates of deposit	-	-	-	-	104,545	104,545
Repurchase agreements	-	-	-	-	281,021	281,021
PRGITF	-	118,400	-	-	-	118,400
External investment pools — fixed–income securities	-	108,062	-	-	51,505	159,567
Nonparticipating investment contracts	-	631,373	41,803	-	-	673,176
Others	-	-	-	-	294,846	294,846
Total debt securities and fixed–income investment contracts	$3,125,988	$5,202,973	$1,549,624	$ 158	$1,105,820	$10,984,563

Certain component units classified approximately $22.9 million of investments presented in PRGITF as cash and cash equivalents.

The component units had approximately $1,183,374,000 in various types of U.S. Government and agency securities, mortgage-backed securities and other investments that were exposed to custodial credit risk as uninsured, unregistered and held by the counterparties or by their trust departments or agents, but not in the component units' name.

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. SIFC limits its exposure to foreign currency risk by limiting the total amount invested to 5% of the portfolio. As of June 30, 2011, the SIFC had the following investments denominated in foreign currency (expressed in thousands):

Description	Currency	Fair Value
Common stock:	Australian Dollar	$ 4,407
	British Pound	6,586
	Canadian Dollar	4,975
	DKK	834
	Euro	16,106
	Hong Kong dollar	4,486
	Japanese Yen	17,638
	Norwegian Krone	2,862
	Singapore Dollar	1,192
	Swedish Krona	540
	Swiss Franc	7,394
Preferred stock —	Euro	2,301
Total equity securities		$ 69,321

Fiduciary Funds — Cash and cash equivalents of the fiduciary funds at June 30, 2011 consist of the following (expressed in thousands):

	Carrying Amount			Bank
	Unrestricted	Restricted	Total	Balance
Commercial banks	$ 1,193,281	$ -	$ 1,193,281	$ 1,190,584
Governmental banks	717,258	411,946	1,129,204	947,808
Total	$ 1,910,539	$ 411,946	$ 2,322,485	$ 2,138,392

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

Custodial Risk — Custodial credit risk is the risk that, in the event of a bank failure, the fiduciary funds' deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits with GDB, Bank of New York, and with other non Puerto Rico commercial banks are uninsured and uncollateralized, as these entities are exempt from compliance with the collateralization requirement.

The Commonwealth was exposed to the following custodial credit risk arising from the balances of deposits maintained by the fiduciary funds in commercial and component units' banks at June 30, 2011 (expressed in thousands):

Insured and collateralized with securities held by the entity or by its agent in the entity's name	$ 3,678
Collateralized with securities held by the pledging financial intitution's trust department or agent in the entity's name	693,827
Uncollateralized	1,440,887
Total	$ 2,138,392

Investments — The fair value of investments in marketable securities held by the Pension Trust Fund as of June 30, 2011, is as follows (in thousands):

Bonds and notes:	
U.S. government and sponsored agencies' securities	$ 374,511
Municipal bonds	32,200
COFINA Bonds	162,500
U.S. corporate bonds	640,289
Total bonds and notes	1,209,500
Stocks and non-exchange traded funds:	
U.S. corporate stocks	396,517
Non-U.S. corporate stocks	105,166
Non-exchange traded mutual funds:	
Equity and other funds:	
U.S.	1,499,970
Non-U.S.	502,303
Fixed income funds:	
U.S.	359,358
Non-U.S.	188,779
Total stocks and non-exchange traded mutual funds	3,052,093
Private equity investments	91,087
Total investments	$ 4,352,680

Pursuant to Act No. 96 of June 16th, 2011, during the fiscal year ended June 30, 2011, ERS received a special contribution of $162.5 million from the Puerto Rico Infrastructure Financing Authority, a component unit of the Commonwealth. The contribution was invested in the COFINA Bonds, which provide for a 7% accretion rate and maturity dates between 2043 and 2048. The COFINA Bonds are included as part of investments in the accompanying statement of fiduciary net assets, while the related contribution is included as part of sponsors' contributions for the year ended June 30, 2011, in the statement of changes in fiduciary net assets.

The Pension Trust Fund's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2011:

Custodial Credit Risk Related to Investments — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Pension Trust Fund may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2011, securities investments were registered in the name of the Pension Trust Fund and were held in the possession of the Pension Trust Fund's custodian banks, State Street Bank and Trust and Bank of New York, except for securities lent.

Credit Risk — All fixed-income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted-average credit quality of either "A" or better using either Standard and Poor's or Moody's Investor Service credit ratings. TRS's investment guidelines prohibit the investments in securities with expected maturity dates beyond 30 years. Positions that drift below investment grade should be reported to a management representative of the TRS and monitored carefully. TRS portfolio is not expected to have more than 5% invested in securities that have drifted after purchase below investment-grade quality. JRS investment policy limits the investment in corporate debt securities to the top ratings issued by nationally recognized statistical rating organizations.

The Pension Trust Fund's U.S. government and sponsored agencies' securities portfolio includes approximately $71,779,000 of U.S. Treasury notes and approximately $45,134,000 of mortgage-backed securities guaranteed by Government National Mortgage Association (GNMA), which carry the explicit guarantee of the U.S. government.

The Moody's ratings of bonds as of June 30, 2011, excluding U.S. Treasury notes, mortgage-backed securities guaranteed by GNMA, and the COFINA Bonds are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa	U.S. government and sponsored agencies securities	$ 331,893
Aaa	Asset-backed securities	1,916
A3	U.S. government and sponsored agencies securities	1,366
Aaa	U.S. corporate bonds	48,572
Aa2	U.S. corporate bonds	25,917
Aa2	U.S. government issues	158
Aa3	U.S. corporate bonds	45,295
A1	U.S. corporate bonds	59,082
A1	Asset-backed securities	8
A2	U.S. corporate bonds	110,131
A3	U.S. corporate bonds	87,318
Baa1	U.S. corporate bonds	69,314
Baa2	U.S. corporate bonds	111,829
Baa2	Mortgage-backed securities	42
Baa3	U.S. corporate bonds	45,908
Ba3	U.S. corporate bonds	8,097
B2	U.S. corporate bonds	428
B3	U.S. corporate bonds	537
B3	Asset-backed securities	40
B3	Mortgage-backed securities	76
NR	U.S. corporate bonds	2,256
NR	Mortgage-backed securities	118
Ba1	U.S. coporate bonds	12,494
Ba2	U. S. coporate bonds	4,679
Ba2	Mortgage-backed securities	253
A1	Municipal bonds	173,143
A2	Municipal bonds	1,622
A3	Municipal bonds	3,106
Aa1	Municipal bonds	2,053
Aa1	Mortgage-backed securities	481
Aa2	Municipal bonds	9,998
Aa3	Municipal bonds	216
Aaa	Municipal bonds	2,433
Baa1	Municipal bonds	2,129
C	Asset and mortgage-backed securities	109
CA	Asset and mortgage-backed securities	244
Caa1	Asset and mortgage-backed securities	1,091
Caa2	Asset-backed securities	125
Caa3	Mortgage-backed securities	424
WR	Corporate bonds	3,506
	Subtotal	1,168,407
	U.S. Treasury notes and bonds	21,951
	Government National Mortgage Association (GNMA)	19,142
	Total bonds and notes	$ 1,209,500

In addition, the Pension Trust Fund invests in shares of the State Street Global Advisor Intermediate Credit Index Non Lending Fund (the “SSgA Intermediate Fund”). The investment objective of the SSgA Intermediate Fund is to replicate the Barclays Capital U.S. Intermediate Credit Bond Index by investing exclusively in fixed income securities. Shares of the SSgA Intermediate Fund can be redeemed on a daily basis at their net asset value (NAV) and have no redemption restrictions. The Pension Trust Fund’s investment in the SSgA Intermediate Fund is included as part of non-exchange traded mutual funds.

Moody’s credit ratings for the underlying investments comprising the SSgA Intermediate Fund as of June 30, 2011, are as follows (in thousands):

Moody’s Rating	Investment Type	Fair Value
Aaa	Government sponsored/Corporate bonds	$ 68,188
Aa	Government sponsored/Corporate bonds	102,008
A	Government sponsored/Corporate bonds	208,237
Baa	Government sponsored/Corporate bonds	169,704
Total		$ 548,137

Concentration of Credit Risk — No ERS and JRS investment in marketable securities in any organization represents 5% or more of ERS and JRS net assets held in trust for pension benefits. There are no TRS investments in any one issuer that represent 5% or more of total investments as of June 30, 2011. TRS investment guidelines specify that no more than 5% of a manager’s assets at market shall be invested in the securities of any single issuer.

As of June 30, 2011, the Pension Trust Fund owned shares in the State Street Global Advisors’ S&P 500 Flagship Securities Lending Fund (the “S&P 500 Fund”), the Russell 3000 Index Non Lending Fund (the “Russell 3000 Fund”), the Morgan Stanley Investment Management Active International Allocation Trust (the “Morgan Stanley Fund”), the Invesco International Equity Trust Fund (the “Invesco Fund”), and the SSgA Intermediate Fund, as follows (in thousands):

Fund Name	Shares	Fair Value
S&P 500 Fund	1,623,291	$ 431,968
Russell 3000 Fund	84,154,306	1,068,002
Morgan Stanley Fund	15,999,984	281,072
SSGA Intermediate Fund	318,633,779	548,137
Invesco Fund	6,086,146	221,231
Total		$ 2,550,410

The investment objectives of the S&P 500 Fund and the Russell 3000 Fund are to match the return of the Standard & Poor’s 500 Index and the Russell 3000 Index, respectively. The objective of the Morgan Stanley Fund is to achieve capital appreciation through exposure to non U.S. markets. The objective of the Invesco Fund is to achieve capital appreciation by investing primarily in the securities of foreign companies. Shares of these funds can be redeemed on a daily basis at NAV and have no redemption restrictions. The Pension Trust Fund’s investment in these funds is included as part of non-exchange traded mutual funds.

As of June 30, 2011, the investments underlying the S&P 500 Fund, the Russell 3000 Fund, the Morgan Stanley Fund, the Invesco Fund, and the SSgA Intermediate Fund had the following sector allocations:

Sector	S&P 500 Fund	Russell 3000 Fund	Morgan Stanley Fund	Invesco Fund	SSgA Intermediate Fund
Information technology	18%	18%	7%	4%	4%
Health care	12%	12%	7%	7%	0%
Financials	15%	16%	20%	21%	33%
Energy	13%	12%	9%	12%	5%
Consumer staples	11%	9%	9%	10%	10%
Industrials	11%	12%	15%	9%	6%
Consumer discretionary	11%	12%	11%	10%	4%
Utilities	3%	4%	2%	5%	7%
Telecommunication services	3%	3%	5%	10%	7%
Materials	4%	5%	14%	12%	4%
Government sponsored	0%	0%	0%	0%	20%
Totals	100%	100%	100%	100%	100%

Interest Rate Risk — In accordance with their investment policy, ERS and JRS manage their exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. ERS and JRS are expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable, investment grade core fixed-income securities. ERS investments in equity securities are not subject to the maximum maturity policy since they do not carry a maturity date. TRS is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable investment-grade core fixed-income securities. TRS investment guidelines specify that the duration of the portfolio is expected to vary no more than between 75% and 125% of the duration of the respective benchmark.

The contractual maturities of investments in debt securities as of June 30, 2011, are as follow (in thousands):

			Investment Maturities (In Years)			
	Maturity Between	Fair Value	Less Than 1	Between 1-5	Between 5-10	More Than 10
U.S. government and sponsored agencies' securities	(2011–2051)	$ 374,511	$ 31,225	$ 88,126	$ 64,917	$ 190,243
Corporate bonds	(2011–2051)	640,289	42,173	224,083	227,566	146,467
Municipal bonds	(2012–2033)	32,200	4,288	6,929	10,867	10,116
COFINA Bond		162,500				162,500
Total bonds		$ 1,209,500	$ 77,686	$ 319,138	$ 303,350	$ 509,326

As of June 30, 2011, investment maturities as a percentage of total debt securities are as follows:

Maturity	Maximum Maturity
Less than one year	6%
One to five years	26%
More than five to ten years	25%
More than ten years	43%
Total	100%

The average maturity of the investments underlying the SSgA Intermediate Fund was approximately 4.3 years as of June 30, 2011.

Foreign Currency Risk — As of June 30, 2011, ERS and JRS investments in the Morgan Stanley Fund amounting to approximately $281 million represented 100% of the total commingled fund. Also, as of June 30, 2011, ERS and TRS owned approximately $221 million in shares of the Invesco Fund, which represented approximately 89% of the total commingled fund. The Pension Trust Fund owned approximately $401 million in shares of the State Street Intermediate Index Bond Fund, which represents 14% of the total comingled fund.

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

The Pension Trust Fund's investments and deposits exposed to foreign currency risk as of June 30, 2011, are as follows:

Investment Type	**Local Currency**	**Fair Value (in thousands)**
Foreign currency	Japanese Yen	$ 161
Total cash exposed to foreign currency risk		$ 161
Shares of the Invesco Fund	Various (refer to countries below)	$ 221,231
Shares of the SSgA Intermediate Fund	Various (refer to countries below)	400,775
Shares of the Morgan Stanley Fund	Various (refer to countries below)	281,072
Common stock	Australian Dollar	6,057
Common stock	British Sterling Pound	22,498
Common stock	Danish Krone	6,583
Common stock	Euro Currency	16,958
Common stock	Hong Kong Dollar	4,269
Common stock	Japanese Yen	22,480
Common stock	Norwegian Krone	1,492
Common stock	South Africa Rand	1,113
Common stock	Singapore Dollar	2,758
Common stock	South Korean Won	877
Common stock	Swedish Krona	8,374
Common stock	Swiss Franc	10,767
Common stock	Turkish Lira	940
Total securities exposed to foreign currency risk		$ 1,008,244

As of June 30, 2011, the Morgan Stanley Fund had an asset mix and country allocation as follows:

Morgan Stanley:

Assets Mix	**Percent**
Cash and equivalents	2.26
Future contracts	7.21
Equity securities	90.53
Total	100.00

Country Allocation	**Currency**	**Currency Code**	**Portfolio Percent**
Australia	Dollars	AUD	4.79
Hong Kong	Dollars	HKD	1.50
Singapore	Dollars	SGD	2.20
Japan	Yen	JPY	13.93
Japan Global Survivor	Yen	JPY	4.69
Asia x Pacific			27.11
Austria	Euro	EUR	0.64
Belgium	Euro	EUR	0.58
EMU	Euro	EUR	5.20
European Union Growth	Euro	EUR	3.64
Finland	Euro	EUR	1.23
France	Euro	EUR	6.06
Germany	Euro	EUR	11.19
Italy	Euro	EUR	0.02
Netherlands	Euro	EUR	2.63
Spain	Euro	EUR	1.14
Euro Europe			32.33
Denmark	Kroner	DKK	1.11
Norway	Kroner	NOK	1.98
Sweden	Krona	SEK	3.56
Switzerland	Francs	CHF	7.22
United Kingdom	Pounds	GBP	16.38
Non-Euro Europe			30.25
China	Yuan Renmimbi	CNY	0.55
Indonesia	Rupiahs	IDR	0.41
Philipines	Philipine Peso	PHP	0.88
South Korea	Won	KRW	1.37
Thailand	New Dollars	TWD	0.82
Asia Emerging			4.03
Poland	Zlotych	PLN	0.57
Russia	Ruble	RUB	0.94
Emerging Europe			1.51
Brazil	Brazilian Real	BRL	0.76
Mexico	Mexican Peso	MXN	0.85
Latin America			1.61
Emerging			7.15
Agriculture			0.90
Thematic			0.90
Cash			2.26
Total			100.00

In addition, the composition of the underlying investments in the Invesco Fund and the SSgA Intermediate Fund by country, as of June 30, 2011, was as follows:

Invesco Fund

	Currency	Percentage
Europe:		
Denmark	Danish Krone	1%
Finland	Euro	1%
France	Euro	9%
Germany	Euro	6%
Italy	Euro	3%
Netherlands	Euro	2%
Norway	Norwegian Krone	3%
Spain	Euro	6%
Switzerland	Swiss Franc	8%
United Kingdom	Sterling Pound	14%
Total Europe		53%
Pacific Basin:		
Australia	Australian Dollar	7%
Hong Kong	Hong Kong Dollar	3%
Japan	Japanese Yen	25%
Total Pacific Basin		35%
Emerging markets	Various	6%
Canada	Canada Dollar	6%
Total investments		100%

SSgA Intermediate Fund

	Currency	Percentage
Europe:		
Germany	Euro	4 %
Switzerland	Swiss Franc	2 %
United Kingdom	Sterling Pound	4 %
Total Europe		10 %
Pacific Basin:		
Australia	Australian Dollar	1 %
Japan	Japanese Yen	1 %
Total Pacific Basin		2 %
Americas:		
Canada	Canada Dollar	5 %
Mexico	Mexican Peso	1 %
Brazil	Brazilian Real	1 %
U.S.	U.S. Dollar	66 %
Total Americas		73 %
Supranational	Various	7 %
Other	Various	8 %
Total investments		100 %

7. SECURITIES LENDING TRANSACTIONS

During the year, the pension trust funds, included within the fiduciary funds, the Government Development Bank (GDB), the Economic Development Bank (EDB), ant the State Insurance Fund Corporation (SIFC), discretely presented component units, entered into securities lending transactions. These transactions are explained below:

Pension Trust Funds

The Retirement System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit equal to approximately 102% of the market value of the domestic securities on loan and 105% of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily, and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At year end, the Retirement System has no credit risk exposure to borrowers because the amounts that the Retirement System owes the borrowers (the “collateral”) exceeded the amounts the borrowers owe to the Retirement System (the “loaned securities”). At June 30, 2011, the collateral received represented 102% of the fair value of the domestic securities lent.

The securities on loan for which collateral was received as of June 30, 2011, consisted of the following (expressed in thousands):

Descrpition	Fair Value of Underlying Securities
U.S. government and sponsored agencies' securities	$ 39,352
U.S. equity securities	79,260
U.S. corporate debt securities	9,645
Non U.S. equity securities	5,074
Non-exchange traded mutual funds:	
U.S.	65,551
Non U.S.	4,831
Total	$ 203,713

The underlying collateral for these securities had a fair value of approximately $208 million as of June 30, 2011. The collateral received was invested in a short term investment fund sponsored by the custodian bank and is presented as collateral for securities lending transactions in the accompanying statement of fiduciary net assets.

As of June 30, 2011, the distribution of the short-term investment fund by investment type is as follows:

Investment Type	Percentage
Securities bought under agreements to resell	13.37 %
Commercial paper	20.60 %
Certificates of deposit	17.78 %
Floating rate notes	31.39 %
Interest bearing	0.19 %
Time deposits	16.67 %
	100 %

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

Component Units

GDB

The following is selected information concerning securities sold under agreements to repurchase (expressed in thousands):

Carrying amount at June 30, 2011	$ 970,819
Maximum amount outstanding at any month-end	970,819
Average amount outstanding during the year	650,176
Weighted average interest rate for the year	2.43 %
Weighted average interest rate at year-end	0.13 %

The following summarizes the activity of securities sold under agreements to repurchase for the year ended June 30, 2011 (expressed in thousands):

	Beginning Balance	Issuances	Maturities	Ending Balance
GDB Operating Fund	$ 1,058,835	$ 4,477,337	$ 4,565,353	$ 970,819

All sales of investments under agreements to repurchase are for fixed terms. In investing the proceeds of securities sold under agreements to repurchase, GDB's policy is for the term to maturity of investments to be on or before the maturity of the related repurchase agreements. At June 30, 2011, the total amount of securities sold under agreements to repurchase mature within one year.

EDB

EDB's investment policies, as authorized by Act number 22 of July 24, 1985, Article 3, allow management to purchase securities under agreements to resell. The following table summarizes certain information about these agreements (expressed in thousands):

Carrying amount at June 30, 2011	$ 281,021
Average amount outstanding during the year	342,263
Maximum amount outstanding at any month-end	431,259
Weighted average interest rate for the year	0.85 %
Weighted average interest rate at year-end	0.79 %
Weighted average maturity (years)	0.10 %

EDB's investment policies establish the minimum amount of acceptable collateral. The market prices of the collateral are revised monthly and the margin amount adjusted accordingly. The aggregate market value of the securities underlying the agreements outstanding at June 30, 2011 was $303.5 million.

As of June 30, 2011, securities sold under agreements to repurchase were collateralized with mortgage-backed securities, other government agencies securities, and other investments with a market value of $148.5 million.

The activity for securities sold under agreements to repurchase during 2011 was as follows (expressed in thousands):

	Beginning Balance	Issuances	Maturities	Ending Balance	Amounts Due Within One year
Securities sold under agreements to repurchase	$ 177,750	$ 286,384	$ 326,734	$ 137,400	$ 86,600

SIFC

The Commonwealth statutes and the SIFC's board of directors' policies permit the SIFC to use its investments to enter into securities lending transactions, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, securities and/or irrevocable bank letter of credit. The SIFC's securities custodian, JP Morgan Chase Bank, N.A., as agent of the SIFC, manages the securities lending program and receives cash, securities, or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the SIFC unless the borrower defaults. The collateral requirement is equal to 102% for securities issued in the United States of America and 105% for securities issued outside of the United States of America, of the fair value of the securities lent. Additional collateral has to be provided by the next business day if it's fair value falls to less than 100% of the fair value of the securities lent. All security loans can be terminated on demand by either the 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 investment of the cash collateral. Such matching existed at year-end. At year end, the SIFC has no credit risk exposure to borrowers because the amounts the SIFC owes the borrowers exceed the amounts the borrowers owe SIFC. Contracts with the lending agents require them to indemnify the SIFC if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the SIFC for income distributions by the securities' issuers while the securities are on loan.

Securities lent as of June 30, 2011 had a fair value of $150.1 million and were secured with collateral received with a fair value of $152.6 million. Securities lent for which cash was received as collateral as of June 30, 2011 consist of the following (expressed in thousands):

Description	Fair Value of Underlying Securities
Corporate bonds and notes	$ 24,340
Equity securities	14,486
U.S. sponsored agencies bonds and notes	10,616
U.S. Treasury notes and bonds	33,697
	$ 83,139

Cash collateral received as of June 30, 2011 amounted to $84.3 million and was invested as follows (expressed in thousands):

Description	Fair Value of Underlying Securities
Resell agreements	$ 40,203
Foreign certificates of deposit with other banks	8,000
Comercial paper	14,037
Certificates of deposit with other banks	10,000
Corporate bonds and notes	12,044
	$ 84,284

In addition, the SIFC had the following lending obligations as of June 30, 2011 for which securities were received as collateral (expressed in thousands):

	Fair Value	
Description	Securities Lent	Investment Collateral Received
U.S. Treasury notes and bonds	$ 61,594	$ 62,849
U.S. Sponsored agencies bonds and notes	5,335	5,444
	$ 66,929	$ 68,293

8. INVESTMENTS IN LIMITED PARTNERSHIPS

Pursuant to the Statement of Investment Guidelines for the Government of Puerto Rico, the pension trust funds and the component units invested approximately $15 million in limited partnerships during the year ended June 30, 2011. The investments were as follows:

- During fiscal year 2011, there were no contributions to Guayacán Fund of Funds, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc. as general partner, which has total commitments of $55.5 million (of which $45 million are from pension trust funds and the remaining balances from private corporate investors). This fund invests in the United States of America and international private equity partnerships that in turn invest in private companies.

- During fiscal year 2011, there were no contributions to Guayacán Fund of Funds, II, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc. as general partner, which has total commitments of $62 million (of which $50 million are from the pension trust funds and the remaining balances from private corporate investors). The fund invests in a broad range of U.S. and international private equity investment partnerships that, in turn, will make equity and equity related investments primarily in private businesses.

- During fiscal year 2011, approximately $5.8 million were invested in Guayacán Fund of Funds III, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc., as general partner, that has total commitments of $81.8 million (of which $40 million are from the State Insurance Fund Corporation and the remaining balances from private corporate investors.) This fund seek to provide investors with a superior investment return and extensive diversification by investing in seventeen (17) private equity investment partnerships in the United States and Europe.

- During fiscal year 2011, there were no contributions to Guayacán Private Equity Fund, L.P., a Delaware limited partnership, organized by Advent Morro Equity Partners, Inc. as general partner, that has total commitments of $41.9 million (of which $10 million are from the pension trust funds, $20 million are from a component unit and the remaining balance from the private corporate investors in Puerto Rico). This fund invests in Puerto Rico private equity.

- During fiscal year 2011, approximately $6.2 million were invested in Guayacán Private Equity Fund II, L.P. a Delaware limited partnership, organized by Advent/Morro Partners as general partner, that has total commitments of $69 million (of which $15 million are from pension trust funds and $30 million are from components units, and the remaining balance from the private corporate investors in Puerto Rico). This fund invests in Puerto Rico private equity.

- During fiscal year 2011, approximately $5.4 million were invested in GF Capital Private Equity Fund, L.P., a limited partnership, organized under the laws of the State of Delaware, in which the pension trust funds have a total commitment of $25 million. The purpose of the partnership is to make private equity investments in a variety of industries, including media and entertainment, branded consumer products, and software for media and telecommunications applications. The partnership initiatives are focused on companies capitalized at between $20 million to $400 million with a representation of buyouts, growth capital, and recapitalizations.

- During fiscal year 2011, there were no contributions to Chase Capital Partners Private Equity Fund of Funds Corporate Investors II, LTD, a limited partnership, organized by Chase as general partner, in which the pension trust funds have a total commitment of $20 million. The fund's investment strategy is to capitalize on a globally diversified portfolio of private equity investment opportunities across various sectors including buyouts, growth equity, venture capital, and other special situations through partnership and direct investments.

- During fiscal year 2011, there were no contributions to Chase Capital Partners Private Equity Fund of Funds II, LTD, a limited partnership, organized by J.P. Morgan Alternative Asset Management, Inc. as investment manager, in which the pension trust funds have a total commitment of $15 million. The fund's investment strategy is to capitalize on a globally diversified portfolio of private equity investments opportunities across various sectors, including buyouts, growth equity, venture capital and other special situations through partnership, investments, and direct investments.

- During fiscal year 2011, there were no contributions to Invesco Venture Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC as general partner, in which the pension trust funds have a total commitment of $5.5 million. The partnership was organized to invest in other collective investments funds investing in alternative assets, including primarily U.S. and international funds that focus on both early- and later-stage venture capital investments.

- During fiscal year 2011, there were no contributions to Invesco Non U.S. Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC as general partner, in which the pension trust funds have a total commitment of $4.5 million. The partnership was organized to invest in other collective investments funds investing in alternative assets, including primarily investments focusing on non U.S. buyouts, expansion capital, turnaround, mezzanine, and distressed investment partnerships.

- During fiscal year 2011, there were no contributions to Invesco U.S. Buyout & Expansion Capital Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC as general partner, in which the pension trust funds have a total commitment of $3.7 million. The partnership was organized to invest in other collective investment funds investing in alternative assets, including primarily investments focusing on small, mid-size, and large domestic buyout transactions.

- During fiscal year 2011, there were no additional contributions to Venture Capital Fund, Inc., a Puerto Rico Corporation, organized pursuant to Act No. 3 of October 6, 1987, as amended, known as the Puerto Rico Capital Investment Funds Act, that is managed by Advent-Morro Equity Partners (Advent-Morro Equity Partners, Inc.) in which the pension trust funds have a total commitment of $800 thousands. Advent-Morro is a Puerto Rico based private equity firm. The fund was created to make private equity investments in operating companies that are based, or are operating, or a combination of both, in Puerto Rico. Since inception, the fund has invested in 25 companies some of which it continues to provide capital for their expansion.

- The pension trust funds have a commitment and cumulative contribution of $1.7 million in Martineau Bay, which represents an investment in a hotel resort that filed under Chapter 11 of the United States Bankruptcy Code.

  The fair value of the pension trust funds' investments in limited partnerships at June 30, 2011, amounted to approximately $91 million and is presented within other investments in the statement of fiduciary net assets – fiduciary funds. The fair values of these investments have been estimated by the corresponding general partner or fund manager of these partnerships and disclosed in its respective separate audited financial statements. The allocations of net gain and net loss to the limited partners are based on certain percentages, as established in the limited partnership agreements. The difference between the fair value of the investments and the total cumulative contributions is mostly due to distributions made.

As of June 30, 2011, the pension trust funds and discretely presented component units had capital commitments and contributions as follows (expressed in thousands):

	Public Sector Commitments	Fiscal Year Contributions	Cumulative Contributions
Guayacán Fund of Funds, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	$ 25,000	$ -	$ 23,820
Puerto Rico System of Annuities and Pensions for Teachers	20,000	-	19,056
Subtotal	45,000	-	42,876
Guayacán Fund of Funds II, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	25,000	-	23,681
Puerto Rico System of Annuities and Pensions for Teachers	25,000	-	23,681
Subtotal	50,000	-	47,362
Guayacán Fund of Funds III, L.P.			
Component Unit:			
State Insurance Fund Corporation	40,000	5,824	11,727
Guayacán Private Equity Fund, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	5,000	-	4,645
Puerto Rico System of Annuities and Pensions for Teachers	5,000	-	4,645
Component unit:			
Economic Development Bank for Puerto Rico (1)	20,000	-	18,578
Subtotal	30,000	-	27,868
Guayacán Private Equity Fund II, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	15,000	2,500	17,244
Component unit:			
Economic Development Bank for Puerto Rico (1)	20,000	2,000	13,795
State Insurance Fund Corporation	10,000	1,681	6,898
Subtotal	45,000	6,181	37,937
Other Funds			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	45,800	5,350	40,054
Puerto Rico System of Annuities and Pensions for Teachers	28,714	-	26,428
Subtotal	74,514	5,350	66,482
Total	$284,514	$17,355	$234,252

(1) Information related to the Economic Development Bank for Puerto Rico was obtained from unaudited financial statements provided by the respective fund.

9. RECEIVABLES AND PAYABLES

Governmental Activities

Receivables in the governmental funds include approximately $1.4 billion of accrued income, excise and sales and use taxes. Intergovernmental receivables include $294 million from the federal government and $27.2 million from CRIM. In addition, the enterprise funds include $66.2 million of unemployment, disability, and drivers' insurance premium receivable. Payables in the governmental funds include approximately $836.8 million of trade accounts due to suppliers for purchase of merchandise and services rendered and $430.2 million of tax refunds payable.

In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue,* as amended (the "TB"), a receivable of $40.6 million was recorded as other receivable in the government wide financial statements for estimated shipments from January 1 to June 30, 2011, which will be applied to debt service upon collection. Additionally, the TB indicated that the Trust designated as the TSA should recognize a liability for the bonds payable and an expense (and liability if unpaid) in the same period in its stand-alone financial statements. The expense (and liability if unpaid) recognizes the contractual obligation to remit the proceeds of the bond sold to the settling government (the "Commonwealth"). Since the Trust is reported as a blended component unit, the TB indicates these remittances should be reported as transfers into the fund receiving the proceeds and transfers out in the fund that accounts for the activities of the TSA. Since the Trust has no contractual obligation, under its enabling legislation or elsewhere, to remit all bond proceeds or assets related to the GSA to the settling government (the "Commonwealth"), the Trust has not recognized an expense and liability for unpaid proceeds from the bonds since it records the expense as amounts are disbursed as grants to its settling government (including its instrumentalities) or third parties.

Component Units

GDB

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

GDB's management believes that no losses will be incurred by GDB with respect to principal and interest on most of its loans to the public sector (including municipalities) and, as a result, no allowance for loan losses is generally established for them. For public sector loans, excluding municipalities, GDB's management bases its position in that in the past, the Director of the Commonwealth's Office of Management and Budget (OMB) has included in the budget of the Commonwealth appropriations to assist the Commonwealth and certain public sector corporations, agencies, and instrumentalities in repaying their loans with GDB. The Legislature of the Commonwealth (the "Legislature") has generally approved these appropriations, and such practice is anticipated to continue in the future. Further, in accordance with Act No. 164 of December 17, 2001, GDB is no longer allowed to originate loans to any governmental entity for which the source of repayment consists of appropriations from the Commonwealth's general fund without first obtaining the approval of the Legislature, except for (i) loans up to an aggregate amount of $100,000,000 as long as, among other things, GDB obtains the written approval of the Governor and the Director of OMB, (ii) loans to any financially troubled governmental entity to enable it to honor its debt obligations, and (iii) loans to the Secretary of the Treasury under legislation authorizing the Secretary to borrow funds in anticipation of tax revenues.

Although management of GDB believes that no additional losses of principal and interest will be incurred by GDB with respect to loans outstanding to the public sector at June 30, 2011, there can be no assurance that the Director of the OMB will include amounts for loan repayments in the Commonwealths' budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to GDB by the Commonwealth or public sector entities requiring the Commonwealth's support, or that the proceeds from any future bond issuances by COFINA or certain public entities which have financed their capital improvement programs with GDB, will be sufficient to cover the outstanding amount of extra-constitutional or capital improvement program debt at June 30, 2011. The participation of certain public entities in the bond market has been delayed waiting for the credit rating of such entities to improve or for more favorable market conditions. Because of the relationship among GDB, the public sector entities, the Director of the OMB, and the Legislature, the timing and amount of any financial assistance and bond proceeds to be used to repay certain public sector loans cannot be reasonably estimated by GDB. GDB, however, has in the past collected the outstanding principal and interest at the contractual rate on loans repaid from Commonwealth's appropriations or bond proceeds. Accordingly, no allowance has been established in the case of public sector loans for any shortfall between the present value of the expected future cash flows and the recorded investment in the loans.

At June 30, 2011, loans to public corporations and agencies of the Commonwealth amounting to $6,002,823 were repayable from the following sources (in thousands):

Repayment Source	**Amount**
Proceeds from future bond issuances of public corporations	$ 1,646,025
Operating revenues of public entities other than the Commonwealth	1,554,059
Legislative appropriations — previously from issuance of Commonwealth's general obligation bonds	1,116,859
Legislative appropriations — previously from Dedicated Sales Tax Fund	770,799
Legislative appropriations — other	848,239
Other — including funds from federal grants	66,842
Total	$ 6,002,823

During fiscal year 2011, GDB received $63.1 million and $101.4 million of appropriations to repay principal of and interest on public sector loans whose repayment source was originally from the Dedicated Sales Tax Fund, known as FIA by the acronym of its Spanish name, created by Act No. 91 of May 13, 2006, the FIA Fund, and from future issuances of Commonwealth's general obligations bonds, respectively. The Commonwealth's general fund budget for fiscal year 2012 includes $65.1 million and $91.5 million of appropriations to repay principal of and interest on public sector loans whose repayment sources was originally form the FIA Fund and from future issuances of Commonwealth's general obligations bonds, respectively. These appropriations are based on payment schedules proposed by GDB, which are based on a period of amortization of 30 years each, at contractual interest rates. GDB will annually submit to the OMB, to be included in the Commonwealth's budget for legislative approval in each subsequent fiscal year, an amount established in the payment schedules with the terms stated above. GDB expects that future appropriations will be approved by the Legislature of the Commonwealth to comply with such schedules. However, there can be no assurance that the Director of OMB will include an amount for loan repayments in the Commonwealth's budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to GDB on these loans.

Since one of GDB's principal functions is to provide financing to the Commonwealth and its instrumentalities, GDB's loan portfolio includes loans to various departments and agencies of the Commonwealth, to various public corporations, and to municipalities, which represent a significant portion of the GDB's assets. Loans to the Commonwealth and its departments and agencies typically include working capital lines of credit payable from short-term tax and revenue anticipation notes issued by the Commonwealth, interim financing of capital improvements payable from Commonwealth general obligation bonds or revenue bonds issued by the corresponding agency and, in recent years, loans to finance the Commonwealth's budget deficit payable from the FIA Fund, uncollected taxes and annual appropriations made by the Legislature of Puerto Rico. Loans to the public sector, excluding municipalities, amounted to approximately \$6.0 billion or 38.7% of GDB's assets at June 30, 2011.

At June 30, 2011, approximately \$2.7 billion of the public sector loans are payable from legislative appropriations from, or future tax revenues of, the Commonwealth. Accordingly, the payment of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth. Significant negative changes in these factors may have an adverse impact on GDB's financial condition. From fiscal years 2003 to fiscal year 2010, the Commonwealth's recurring expenditures have exceeded its recurring revenues. These shortfalls were partially covered with loans from GDB and other nonrecurring revenues. From fiscal year 2003 to 2008, GDB granted loans to the Commonwealth aggregating to \$1,964 million to cover part of the Commonwealth's deficit. As of June 30, 2011, the outstanding principal amount of these loans was \$227 million.

In addition, at June 30, 2011, approximately \$3.3 billion of public sector loans are payable from proceeds from future bond issuances and operating income of public corporations of the Commonwealth. GDB lends funds to such public corporations for capital improvements and operating needs. The loans for capital improvements generally are construction loans and are repaid from the proceeds of future bonds issuances of the respective public corporations. Such loans may, however, also be repaid from the revenues of such public corporations, from loans provided by sources other than GDB, from federal grants, and from the sale of assets of such public corporations. The amount of outstanding loans from GDB to the public corporations fluctuates annually, depending upon the capital program needs of the public corporations, the timing and level of their capital expenditures, and their ability to gain access to the long-term capital markets. At June 30, 2011, GDB has approximately \$1.3 billion and \$1 billion of loans outstanding due from the Puerto Rico Highways and Transportation Authority and the Puerto Rico Aqueduct and Sewer Authority, representing approximately 71% of the \$3.3 billion mentioned above. The default by any such and other public sector borrowers on GDB's loans may have a material adverse effect on the financial condition and operating results of GDB.

Pension Trust Funds

Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. The maximum amount of loans to plan members for personal and cultural trip loans were \$15,000 and \$10,000, respectively, for the year ended June 30, 2011.

The allowance for loan losses is considered a general allowance for all categories of loans and interest receivable, except mortgage loans, and also a specific allowance for the special collection project loans balances.

As of June 30, 2011, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:	
Personal	$ 1,310,434
Mortgage	276,485
Cultural trips	74,762
Total loans to plan members	1,661,681
Accrued interest receivable	30,748
Total loans and interest receivable from plan members	1,692,429
Less allowance for adjustments and losses in realization	(9,539)
Total loans and interest receivable from plan members — net	$ 1,682,890

As of June 30, 2011, accounts receivable from employers consisted of the following (in thousands):

Early retirement programs	$ 41,884
Special laws	63,526
Employer and employee contributions	55,412
Interest on late payments	24,241
Total accounts receivable from employers	185,063
Less allowance for doubtful accounts receivable	(911)
Accounts receivable from employers — net	$ 184,152

According to Act No. 447, each employer must pay, on a monthly basis, the amounts corresponding to contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interests are charged as established by the System.

The accounts receivable from employers related to special laws amounts to $63.5 million as of June 30, 2011. ERS has entered into installment payment agreements with approximately 91% of these employers, while the remaining 9% of employers have not entered into installment payments with ERS.

As of June 30, 2011, accounts receivable from employers include accounts receivable from Medical Service Administration (ASEM by its Spanish acronym) of approximately $41 million, as follow (in thousands):

Employer and employee contributions	$ 21,568
Interest	18,997
Total accounts receivable from ASEM	$ 40,565

During the fiscal year 2011, the Commonwealth's Legislature approved Law 2961 assigning funds to ASEM to settle its account receivable with ERS as of June 30, 2010. On January 5, 2011, ERS received an initial payment of $54 million. In addition, on August 2011, ERS received an interest payment of $14 million. ASEM and ERS have established a 3 year payment plan for the remaining outstanding balance of employer and employee contributions owed.

10. PLEDGES OF RECEIVABLES AND FUTURE REVENUES

The Commonwealth has pledged the first two point seventy-five (2.75%) percent of the sales and use tax for the repayment of certain outstanding obligations of the Commonwealth. During 2011, COFINA, a blended component unit of the Commonwealth, responsible for the financing, payments and retirement of certain debt obligations of the Commonwealth, has issued bonds for approximately $327.5 million payable through 2050. The Commonwealth has committed to appropriate each year, from the sales and use tax, amounts sufficient to cover the principal and interest requirements on the debt issued by COFINA. COFINA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured debt is $33.2 billion and $16.8 billion, respectively. The pledged sale and use tax base amount for the fiscal year ended June 30, 2011 amounted to $572 million. For fiscal year 2011, interest paid by COFINA amounted to $540.6 million and the sales and use tax revenue recognized by the Commonwealth was $573 million.

Also, the Commonwealth has pledged part of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes (up to $11 million monthly but no more than $120 million annually) and $15 per vehicle per year from motor vehicle license fees for the repayment of the PRHTA Revenue Bonds. The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by PRHTA. PRHTA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured debt is $6.2 billion and $5.3 billion, respectively. The pledged excise tax for the fiscal year ended June 30, 2011 amounted to $120 million. For fiscal year 2011, principal and interest paid by PRHTA amounted to $120 million and $315 million, respectively, and the excise tax revenue recognized by the Commonwealth was $271 million.

Rum manufactured in Puerto Rico is subject to federal excise taxes; however, these are returned by the U.S. Internal Revenue Service (IRS) to the Commonwealth. Act No. 44, as amended, requires that in each fiscal year through fiscal year 2057, the first $117 million, of certain federal excise taxes received by the Commonwealth be transferred to the Puerto Rico Infrastructure Financing Authority ("PRIFA"). Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. treasury and returned to the Commonwealth. The Commonwealth has pledged these taxes for the repayment of PRIFA's Special Tax Revenue Bonds. The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by PRIFA. PRIFA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. The federal excise taxes securing the Bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. The level of federal excise taxes to be received by the Commonwealth is currently expected to fall, although the exact amount cannot be determined. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, Act No. 44 requires that PRIFA request additional funding. The Director of the Office of Management and Budget of the Commonwealth then includes in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency, if any. The Commonwealth's Legislature, however, is not obligated to make the necessary appropriation to cover such deficiency. Total principal and interest remaining on the secured debt is $2.5 billion and $1.5 billion, respectively. The pledged federal excise tax amount for the fiscal year ended June 30, 2011 amounted to $117 million. For fiscal year 2011, principal and interest paid by PRIFA amounted to $30.2 million and $82 million, respectively, and the excise tax revenue recognized by the Commonwealth was $117 million.

11. INTERFUND AND INTRAENTITY TRANSACTIONS

Interfund receivables and payables at June 30, 2011 are summarized as follows (expressed in thousands):

Receivable Fund	Payable Fund	
Other governmental	General	$ 104,364
COFINA Debt Service	Pledged Sales and Use Tax	96,652
Lotteries	General	55,575
General	Lotteries	23,095
Other proprietary	General	20,798
General	Unemployment	16,729
General	Other governmental	1,684
General	Other proprietary	803
		$ 319,700

Transfers from (to) other funds for the year ended June 30, 2011 are summarized as follows (expressed in thousands):

Transferee Fund	Transferor Fund	
General	COFINA Special Revenue	$ 1,551,965
COFINA Special Revenue	COFINA Debt Service	1,167,924
Debt service	General	722,456
General	Debt service	658,146
COFINA Debt Service	Pledged Sales and Use Tax	573,016
Other governmental	Other nonmajor governmental	447,747
Other governmental	General	344,061
General	Lotteries	179,175
General	Unemployment	51,205
General	Other proprietary	3,244
Other proprietary	General	3,073
Other governmental	COFINA Special Revenue	5,640
		$ 5,707,652

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

a. Transfer of ($1,167,924) from the COFINA Debt Service Fund to the COFINA Special Revenue Fund to be transferred to the General Fund to fund the Fiscal Stabilization Fund and the Local Stimulus Economic Plan and for the payment of extra constitutional debt.

b. Transfer of ($1,551,965) from the COFINA Special Revenue Fund to the General Fund for the purpose stated above.

c. Transfer of ($722,456) from the General Fund to the Debt Service Fund to make funds available for debt service payments.

d. Transfer of ($658,146) from the Debt Service Fund to the General Fund for the payment of principal and interests on notes payable.

e. Distribution of the sales and use tax for the use of COFINA Debt Service fund as required by enabling legislation for the payment of its bonds ($573,016).

f. Transfer from the PBA special revenue fund to PBA Debt Service Fund and PBA Capital Project Fund ($447,747).

g. Recognize as transfers the rental payments made by the Commonwealth's agencies on properties leased by PBA, a blended component unit of the Commonwealth ($267,105); ($71,097) related to the revenues received from the Tobacco Settlement for the agreement managed by The Children's Trust, a blended component unit of the Commonwealth; and ($5,859) to the Puerto Rico Maritime Shipping Authority for the payment of appropriation debts.

h. Transfer of ($179,175) from the Lotteries to the General Fund to distribute the increase in net assets of the Lotteries for the use of the General Fund, as required by the Lotteries enabling legislation.

i. Transfer from the Unemployment Insurance Fund's related to the distribution of surplus cash corresponding to the General Fund for the payment of administrative expenses ($51,205).

j. Transfer from the Drivers and Disability Insurance Funds related to the distribution of surplus cash to the General Fund ($3,244).

k. Provide local matching funds from the General Fund related to the federal capital grant of the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, a nonmajor enterprise fund of the Commonwealth ($3,073).

l. Transfer of ($5,640) from the COFINA Special Revenue Fund to the PBA Special Revenue Fund for the payment of principal and interest of line of credits.

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

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

Receivable Entity/Fund	**Amount**	**Payable Entity/Fund**	**Amount**
Business-type activities	$413,449	PR Aqueduct and Sewer Authority	$413,449
Governmental activities	111,474	Cardiovascular Center Corporation of PR and the Caribbean	31,670
	$524,923	Puerto Rico Ports Authority	27,326
		Puerto Rico Metropolitan Bus Authority	11,811
Government Development Bank for Puerto Rico	$ 82,906	PR Tourism Company	10,473
Puerto Rico Health Insurance Administration	71,501	Puerto Rico Industrial Development Company	7,669
PR Electric Power Authority	67,656	Puerto Rico Health Insurance Administration	7,239
University of Puerto Rico	65,563	Governing Board of the 911 Service	5,124
Company for the Integral Development of Península Canter	20,217	PR Highways and Transportation Authority	4,838
Agricultural Enterprises Development Administration	14,718	PR Medical Services Administration	3,394
PR Aqueduct and Sewer Authority	14,173	National Parks Company of PR	1,930
Puerto Rico Ports Authority	12,700		
PR Medical Services Administration	10,152		$524,923
Land Authority of Puerto Rico	6,635		
PR Infrastructure Financing Authority	3,433		
Right to Employment Administration	3,093		
PR Public Private Partnerships Authority	2,404		
University of Puerto Rico Comprehensive Cancer Center	2,000		
Solid Waste Authority	1,494		
Cardiovascular Center Corporation of PR and the Caribbean	1,490		
Puerto Rico Metropolitan Bus Authority	1,108	Governmental activities	$381,243
	$381,243		$381,243

The amount owed by PRASA of $413 million represents construction loans granted by the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, nonmajor enterprise funds, to finance the construction of capital assets for PRASA.

The amounts presented as due from primary government by the University of Puerto Rico and the Puerto Rico Electric Power Authority include $56.3 million and $12.6 million, respectively, that were recorded and presented by the Commonwealth as notes payable in the accompanying statement of net assets (deficit) of the governmental activities.

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

Receivable Entity/Fund	Amount	Payable Entity/Fund	Amount
Puerto Rico Electric Power Authority	$ 178,910	Puerto Rico Ports Authority	$ 66,918
Puerto Rico Ports Authority	34,878	Puerto Rico Aqueduct and Sewer Authority	49,576
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority	29,084	Puerto Rico and Municipal Islands Maritime Transport Authority	39,753
Puerto Rico Aqueduct and Sewer Authority	20,141	PR Highways and Transportation Authority	34,303
Land Authority of Puerto Rico	19,425	Puerto Rico Electric Power Authority	29,084
University of Puerto Rico	17,350	Puerto Rico Tourism Company	20,995
Puerto Rico Convention Center District Authority	14,929	Puerto Rico Medical Services Administration	19,538
State Insurance Fund Corporation	11,172	Agricultural Enterprises Development Administration	15,517
Puerto Rico Medical Services Administration	6,699	University of Puerto Rico	13,898
Puerto Rico Metropolitan Bus Authority	4,368	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	13,237
PR Highways and Transportation Authority	3,810	Solid Waste Authority	9,231
Puerto Rico Land Administration	1,306	Puerto Rico Metropolitan Bus Authority	5,812
		Farm Insurance Corporation of Puerto Rico	5,660
		National Parks Company of Puerto Rico	4,681
		State Insurance Fund Corporation	4,273
		Puerto Rico Convention Center District Authority	3,573
		Land Authority of Puerto Rico	3,437
		Puerto Rico Industrial Development Company	2,586
Subtotal	342,072	Subtotal	342,072
		PR Highways and Transportation Authority	1,294,307
		Puerto Rico Aqueduct and Sewer Authority	1,029,949
		Special Communities Perpetual Trust	367,902
		Port of the Americas Authority	214,525
		Puerto Rico Medical Services Administration	193,252
		Puerto Rico Health Insurance Administration	171,080
		Puerto Rico Ports Authority	156,513
		Puerto Rico Convention Center District Authority	147,600
		University of Puerto Rico	112,601
		Agricultural Enterprises Development Administration	99,482
		Puerto Rico Industrial Development Company	88,532
		Solid Waste Authority	68,948
		Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority	59,314
		Land Authority of Puerto Rico	41,834
		Company for the Integral Development of the Península de Cantera	20,175
		University of Puerto Rico Comprehensive Cancer Center	18,317
		National Parks Company of Puerto Rico	13,050
		Economic Development Bank for Puerto Rico	10,337
		Puerto Rico Infrastructure Financing Authority	10,321
		Puerto Rico Public Private Partnerships Authority	9,704
		Institute of Puerto Rican Culture	1,828
		Puerto Rico Conservatory of Music Corporation	1,472
Government Development Bank for Puerto Rico	4,131,043		4,131,043
	$4,473,115		$4,473,115

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

Primary government — governmental activities	$ 1,680,956
Other governmental entities and municipalities	1,926,430
Private sector	605,077
Total loans receivable reported by GDB	$ 4,212,463

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

Expenses of the primary government include approximately $2.7 billion in capital and operational contributions made by the primary government to the component units as follows (expressed in thousands):

Puerto Rico Health Insurance Administration	$ 1,217,049
University of Puerto Rico	768,158
Nonmajor components units	587,217
Puerto Rico Aqueduct and Sewer Authority	129,992
Government Development Bank for Puerto Rico	555
Total contributions made by primary government to component units	$ 2,702,971

12. RESTRICTED ASSETS

Restricted assets of the primary government included in the basic financial statements at June 30, 2011 consist of cash, receivables, investments, and other assets to be used for the following purposes (expressed in thousands):

Governmental activities:	
Debt service and sinking fund	$ 1,795,863
Public Housing Administration — funds received from the U.S Housing and Urban Development	1,834
Affordable housing program	1,253
Construction of governmental facilities	348,205
Payment of operational expenses and certain financing granted to the Commonwealth, among other purposes	504,595
Preservation and acquisition of natural resources	10,611
Public safety programs	9,382
Education programs	6,026
Economic development programs	17,493
Public housing and welfare programs	18,689
Health programs	16,376
General government programs	15,903
Other	15,629
Assets in liquidiation	31,243
Total restricted assets of governmental activities	$ 2,793,102
Business-type activities:	
Payment of insurance benefits	$ 444,382
Lending activities	511,145
Total restricted assets for business-type activities	$ 955,527

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

Governmental activities:	
Debt service	$ 554,084
Other	2,364
Accounts payable to contractors	169,372
Liabilities payable from restricted assets — governmental activities	$ 725,820
Business-type activities:	
Insurance benefits payable	$ 113,457
Accounts payable and accrued liabilites	1,829
Liabilities payable from restricted assets — business-type activities	$ 115,286

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

Governmental activities restricted net assets:	
Restricted for capital projects	$ 178,833
Net assets in liquidation	31,243
Payment of operational expenses and certain financing granted to the Commonwealth, among other purposes	612,340
Restricted for debt service	1,241,779
Affordable housing and related loan insurance programs	3,087
Total restricted net assets — governmental activities	$ 2,067,282

Business-type activities restricted net assets:	
Lending activities	$ 509,316
Payment of insurance benefits	330,925
Total restricted net assets — business-type activities	$ 840,241

Restricted assets of the component units included in the basic financial statements at June 30, 2011 are to be used for the following purposes (expressed in thousands):

Debt services and sinking fund requirements	$ 4,025,022
Construction and betterments funds	1,620,315
Collateral for underlying securities	1,000,118
Other uses	534,409
Educational funds	99,352
Malpractice insurance fund	8,403
Financial assistance	6,140
Industrial incentives	1,191
Total for components units	$ 7,294,950

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

Amounts 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 GDB.

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

On January 29, 2009, PRIFA entered into an escrow restructuring for the Series 2000 A and B Bonds in accordance with the provisions of Act No. 3 and sold the investments held in the Corpus Account. During the years ended June 30, 2011, 2010, and 2009, PRIFA used the remaining proceeds of the redemption to make additional contributions to the Commonwealth and GDB amounting to approximately $1.7 million, $3.3 million, and $464 million, respectively.

On June 16, 2011, the Legislature of the Commonwealth enacted Act No. 96, which required the early termination of the time deposit agreement between PRIFA and GDB. Act No. 96 also required PRIFA to contribute $162.5 million to the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the "Retirement System"). On June 23, 2011, PRIFA early terminated the time deposit agreement with GDB and made the capital contribution of $162.5 million to the Retirement System. The remaining funds from the cancellation of the time deposit agreement with GDB, which amounted to approximately $165 million were invested by PRIFA in Sales Tax Revenue Bonds Junior Subordinate, Series 2011 A (the "Sales Tax Revenue Bonds") as set forth by Act No. 96. The Sales Tax Revenue Bonds are obligations issued by COFINA. These bonds shall not be subject to redemption prior to their maturity, which range from August 1, 2046 to August 1, 2050.

13. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011 is as follows (expressed in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 873,580	$ 8,988	$ 15,353	$ 867,215
Construction in progress	1,095,355	327,532	305,808	1,117,079
Total capital assets, not being depreciated	1,968,935	336,520	321,161	1,984,294
Buildings and building improvements	7,579,502	706,016	118,386	8,167,132
Equipment, furniture, fixtures, vehicles, and software	530,043	25,121	9,771	545,393
Infrastructure	605,846	-	-	605,846
Total capital assets, being depreciated and amortized	8,715,391	731,137	128,157	9,318,371
Less accumulated depreciation and amortization for:				
Buildings and building improvements	2,847,478	214,608	13,283	3,048,803
Equipment, furniture, fixtures, vehicles, and software	324,695	37,095	5,959	355,831
Infrastructure	118,352	12,989	-	131,341
Total accumulated depreciation and amortization	3,290,525	264,692	19,242	3,535,975
Total capital assets, being depreciated and amortized, net	5,424,866	466,445	108,915	5,782,396
Governmental activities capital assets, net	$ 7,393,801	$ 802,965	$ 430,076	$ 7,766,690
Business-type activities:				
Total capital assets, being depreciated — equipment	$ 5,744	$ 1,126	$ -	$ 6,870
Less accumulated depreciation of equipment	4,158	1,052	-	5,210
Total business-type activities capital assets, being depreciated, net	$ 1,586	$ 74	$ -	$ 1,660

Depreciation and amortization expense was charged to functions/programs of the primary government for the year ended June 30, 2011 as follows (expressed in thousands):

Governmental activities:	
General government	$ 86,886
Public safety	24,289
Health	6,970
Public housing and welfare	97,053
Education	30,742
Economic development	18,752
Total depreciation and amortization expense — governmental activities	$ 264,692

The Commonwealth follows the provision of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, an amendment to GASB Statement No. 34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. Every year the Commonwealth performs an impairment analysis of its capital assets, in order to comply with the requirements of GASB Statement No. 42. The financial reporting impact resulting from this analysis had no effect on the statement of activities for the year ended June 30, 2011.

General infrastructure assets include $472 million representing actual and estimated costs of assets transferred to the Department of Natural and Environmental Resources (DNER) of the Commonwealth in 1997 upon completion of the Cerrillos Dam and Reservoir and the Portugues-River and Bucana-River Projects ("the Cerrillos Dam and Reservoir Project") by the United States (U.S.) Army Corps of Engineers. These infrastructure assets are reported within governmental activities and include dams, intake facilities, and similar items built for flood control, water supply, and recreational purposes. The depreciation is computed using the straight-line method over an estimated useful life of 50 years from the transfer date of the property. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, excluding those costs for items built for recreational purposes, amounting to $214 million. Unpaid allocated share of these construction costs associated with the Cerrillos Dam and Reservoir Project amounted to $212 million, plus accrued interest of $147 million, at June 30, 2011 (see Note 15). The Commonwealth also recorded a payable due to the U.S. Army Corps of Engineers, amounting to $13.3 million, for its estimated allocated share of the construction costs associated with the recreational part of the Cerrillos Dam and Reservoir Project, including accrued interest of $3 million. The final debt agreement between DNER and the U.S. Army Corps of Engineers for the recreational part of the Cerrillos Dam and Reservoir Project has not been finalized, and therefore, terms and conditions could differ from those estimated (see Note 15). The depreciation is computed using the straight-line method over an estimated useful life of 50 years from the transfer date of the property.

On August 17, 2001, the Legislature of the Commonwealth approved Act No. 120, which requires the conditional transfer of the ownership of certain real properties under the name of the Department of Recreation and Sports (DRS) of the Commonwealth to the municipalities of the Commonwealth. The land and the facilities were transferred at no cost to the municipalities. During the fiscal year ended June 30, 2011, land, building, and building improvements amounting to $15 million were transferred to several municipalities.

Discretely Presented Component Units

	Beginning Balance (as Restated)	Increases	Decreases	Ending Balance
Capital assets, not being depreciated/amortized:				
Land	$ 3,081,283	$ 180,969	$ 43,009	$ 3,219,243
Art works	9,400	581	-	9,981
Construction in progress	4,622,208	1,364,761	1,887,118	4,099,851
Total capital assets, not being depreciated/amortized	7,712,891	1,546,311	1,930,127	7,329,075
Capital assets, being depreciated/amortized:				
Buildings and building improvements	4,862,776	321,312	58,718	5,125,370
Equipment, furniture, fixtures, vehicles, and software	9,940,057	543,826	31,026	10,452,857
Infrastructure	26,681,735	722,726	47,720	27,356,741
Intangibles, other than software	2,293	-	-	2,293
Total capital assets, being depreciated/amortized	41,486,861	1,587,864	137,464	42,937,261
Less accumulated depreciation/amortization for:				
Buildings and building improvements	2,112,778	202,196	21,110	2,293,864
Equipment, furniture, fixtures, vehicles and software	2,003,902	160,768	23,895	2,140,775
Infrastructure	14,740,889	812,903	-	15,553,792
Intangibles, other than software	811	55	-	866
Total accumulated depreciation/amortization	18,858,380	1,175,922	45,005	19,989,297
Total capital assets, being depreciated/amortized, net	22,628,481	411,942	92,459	22,947,964
Capital assets, net	$ 30,341,372	$ 1,958,253	$ 2,022,586	$ 30,277,039

On April 6, 2006, PRIFA and PRASA entered into an assistance agreement whereby the infrastructure projects undertaken by PRIFA for PRASA's benefit (the "PRASA Projects") will be transferred to PRASA not later than 90 days after the execution of the agreement. PRIFA and PRASA must comply with certain conditions precedent to transfer, which requires among other: (1) written assignment to PRASA of such contracts in connection with such projects, which contract PRASA determines are necessary; (2) completion of the technical and financial report; (3) completion of a legal report, including an assessment of actual or potential claims for such project; and (4) completion of the land acquisition process and transfer of land to PRASA in connection with such projects. PRIFA continued to fund the completion of the projects still in development up to the maximum available for such purposes.

On June 28, 2010, PRIFA and PRASA entered into an amended assistance agreement (the "Agreement") to acknowledge PRIFA's compliance with the conditions precedent to transfer on all PRASA Projects, excluding land owned by PRIFA, and PRASA's assumption of all operation, maintenance, and safety responsibilities of all PRASA Projects. In connection with the amendment, approximately $915 million of PRIFA's capital assets were transferred to PRASA. The transfer to PRASA of land owned by PRIFA in connection with such projects of approximately $7,568,000 at June 30, 2011, has not been executed since various conditions precedent to the transfer are in the process of being completed.

During the year ended June 30, 2011, PRIFA also transferred completed construction projects amounting to approximately $321 million to municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth, from which $247.6 million related to sport facilities developed for the celebration of the XXI Central American and Caribbean Games were transferred to the Puerto Rico Recreation and Sports Department. During the year ended June 30, 2011, depreciation expense of approximately $125 thousand was charged to the general government function in the accompanying statement of activities.

In October 2010, PRIFA entered into a memorandum of understanding with Puerto Rico Public-Private Partnerships Authority, Puerto Rico Public Buildings Authority, Puerto Rico Department of Education, Puerto Rico Department of Transportation and Public Works ("DTOP", for its Spanish acronym), and the GDB for the administration of the Schools for the 21st Century Program (the "21st Century Program"). The 21st Century Program comprises the modernization of approximately ninety-one (91) public schools and the construction of ten (10) new public schools in Puerto Rico. At June 30, 2011, total investment under the Program amounted to $71.8 million.

14. TAX REVENUE ANTICIPATION NOTES PAYABLE

Act No. 1 of the Legislature of the Commonwealth, approved on June 26, 1987 ("Act No. 1"), authorizes the Secretary of the Treasury Department to issue, from time to time, notes in anticipation of taxes and revenues ("Tax Revenue Anticipation Notes" or "TRANS") so that the Secretary, in the cash flow management program designed to maximize the use of moneys in the general fund, will have an alternate means of providing a liquidity mechanism to cover any temporary cash shortages projected for a fiscal year. Act No. 139, approved on November 9, 2005, amended Section 2(g) of Act No. 1 to provide that the total principal amount of notes issued under the provisions of Act No. 1 and outstanding at any time for any fiscal year may not exceed the lesser of eighteen percent (18%) of the net revenues of the general fund for the fiscal year preceding the fiscal year in which the notes are issued or one billion five hundred million dollars ($1,500,000,000).

TRANS issued during fiscal year 2011 amounted to $1,850 million at interest rates ranging from 2.85% to 6%. TRANS proceeds were used to cover temporary cash deficiencies resulting from the timing differences between tax collections and the payments of current expenditures. TRANS were refinanced at various points during the year in order to take advantage of interest rates. The maximum amount of TRANS outstanding at any time during the year was approximately $900 million. As of June 30, 2011, the balance of TRANS outstanding was paid in full.

15. SHORT AND LONG-TERM OBLIGATIONS

(a) Primary Government

Summary of Short and Long-term Obligations — Short and long-term obligations at June 30, 2011 and changes for the year then ended are as follows (expressed in thousands):

Short Term Obligations	Balance At June 30, 2010	Debt Issued	Debt Paid	Original Issue (Discounts) Premiums	Other Net Increases (Decreases)	Balance At June 30, 2011	Due Within One Year
Notes payable to GDB	$ 134,687	$ -	$ (102,508)	$ -	$ -	$ 32,179	$ 32,179
Long Term Obligations							
Governmental activities:							
General obligation and revenue bonds	$28,597,716	$2,138,125	$(1,765,907)	$(20,253)	$ 176,455	$29,126,136	$ 374,027
Commonwealth appropriation bonds	740,077	-	-		3,107	743,184	-
Notes payable to component units:							
GDB	1,426,407	811,948	(589,578)	-	-	1,648,777	121,779
Other	62,888		(13,970)	-	20,000	68,918	37,899
Capital leases	234,984	198	(5,608)	-	-	229,574	5,606
Total bonds, notes payable and capital leases payable	31,062,072	2,950,271	(2,375,063)	(20,253)	199,562	31,816,589	539,311
Compensated absences	1,506,193	-	(740,546)	-	664,918	1,430,565	709,810
Net pension obligation	7,963,950	-	-	-	1,361,402	9,325,352	-
Net postemployment benefit obligation	132,587		-	-	42,331	174,918	-
Voluntary termination benefits payable	-	-	-	-	332,170	332,170	34,386
Other long-term liabilities	2,192,554	-	-	-	132,909	2,325,463	258,589
Total governmental activities	42,857,356	2,950,271	(3,115,609)	(20,253)	2,733,292	45,405,057	1,542,096
Business-type activities:							
Compensated absences	4,229	-	-	-	583	4,812	2,512
Obligation for unpaid lottery prizes	223,901	-	-	-	(5,415)	218,486	57,324
Termination benefits	-	-	(269)	-	2,910	2,641	470
Claims liability for insurance benefits	103,269	-	-	-	(16,931)	86,338	86,338
Total business-type activities	331,399	-	(269)	-	(18,853)	312,277	146,644
Total primary government	$43,188,755	$2,950,271	$(3,115,878)	$(20,253)	$2,714,439	$45,717,334	$1,688,740

The balances of general obligation and revenue bonds paid included within other financing uses and principal as reported in the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds do not agree with amounts reported as debt paid in the above table primarily because the above table includes debt paid on general obligation and revenue bonds, which was accrued during the fiscal year 2010 as a fund liability. The prior year fund liability mentioned above amounted to approximately $408 million and was reported as a balance sheet transaction in the fund financial statements in 2010. Also, during fiscal year 2011 the amount of approximately $338 million was accrued as a fund liability. The net effect of $70 million is the difference between the debt paid on bonds and notes in the previous table and the payments in the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds.

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

Compensated absences, net pension obligation, net postemployment benefit obligation, termination benefits, other long-term liabilities, obligation for unpaid lottery prizes, and claims liability for insurance benefits reflect other net increases (decreases) resulting from adjustments and changes to agree these obligations to their new estimated balances at June 30, 2011.

(b) Debt Limitation

The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, Section 2, Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth shall not be issued if the amounts of the principal of and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance 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 deposited into the Treasury (hereinafter “internal revenues”) in the two fiscal years preceding the fiscal year of such proposed issuance. 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 through payments by the Commonwealth on such guaranteed debt. Internal revenues consist principally of income taxes, sales and use tax, property taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Commonwealth, and motor vehicle fuel taxes, crude oil and derivative products excise taxes and license fees, which are allocated to PRHTA, a discrete 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. In addition, the portion of sales and use tax allocated to COFINA is not included as internal revenues consistent with the legislation creating COFINA, which transfers ownership of such portion of the sales and use tax to COFINA and provides that such portion is not “available resources” under the constitutional provisions relating to the payment of debt service. At June 30, 2011, the Commonwealth is in compliance with the debt limitation requirement.

(c) Bonds Payable

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

Act No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. The levy is made by CRIM, a municipal corporation, not a component unit of the Commonwealth. CRIM is required to remit the 1.03% of property tax collected to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations and revenue bonds of the Commonwealth. During the year ended June 30, 2011, the total revenue and receivable reported by the Commonwealth amounted to approximately $122 million and $27 million, respectively, which are included in the debt service fund.

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

COFINA

Bonds Payable — On June 23, 2011 COFINA issued Sales Tax Revenue Bonds, Junior Subordinate Series 2011A amounting to approximately $327.5 million. The Junior Subordinate Series 2011A bonds represent capital appreciation bonds which mature between August 1, 2043 and August 1, 2050 on which interest is capitalized at an annual rate of 7% each February and August 1 until maturity. The proceeds from the issuance of the Series 2011A bonds were deposited in an interest-bearing deposit account with GDB and will be used to pay operational expenses of the Commonwealth for fiscal year 2011 and 2012.

Bonds payable outstanding at June 30, 2011 are as follows (expressed in thousands):

	General Obligation Bonds	Revenue Bonds	Total
Term bonds payable through 2044; interest payable semiannually at rates varying from 1.29% to 6.50%.	$ 4,426,291	$ 7,022,799	$ 11,449,090
Serial bonds payable through 2041; interest payable semiannually at rates varying from 1.7% to 6.75%.	4,966,140	996,410	5,962,550
Fixed rate bonds payable through 2058; interest payable at rates varying from 3.38% to 6.50%.	-	5,002,780	5,002,780
Capital appreciation bonds payable through 2056; no interest rate, yield ranging from 3.75% to 7.48%. Net of accreted discount of $116 million. (1)	158,338	4,324,026	4,482,364
The Children's Trust Fund tobacco settlement asset-backed bonds payable through 2057; interest payable annually at rates varying from 4% to 4.25%.	-	1,415,204	1,415,204
Capital Fund Program Bonds, maturing in various dates payable through 2024; interest payable at rates varying from 2.00% to 5.00%.	-	523,060	523,060
Yield curve bonds payable from 2009 through 2031; no interest rate, yield of 2.49%.	156,500	-	156,500
LIBOR-Based Adjustable Rate Bonds due on August 1, 2057; interest payable at a rate of 1.16%.	-	136,000	136,000
Insured bonds payable from 2015 through 2021; interest payable a rate varying from 5.00% to 5.25%.	50,085	-	50,085
Total	9,757,354	19,420,279	29,177,633
Unamortized premium (discount), net	184,340	(22,602)	161,738
Deferred refunding loss, net	(108,377)	(104,858)	(213,235)
Total bonds payable	$ 9,833,317	$ 19,292,819	$ 29,126,136

(1) Revenue bonds include $793 million capital appreciation bonds convertible to fixed rate interest bonds due on August 1, 2025 to August 1, 2032.

As of June 30, 2011, debt service requirements for general obligation and revenue bonds outstanding, including accreted interest of capital appreciation bonds are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Interest Subsidy (1)	Total
2012	$ 374,027	$ 1,265,867	$ (4,200)	$ 1,635,694
2013	484,360	1,248,134	(4,200)	1,728,294
2014	507,740	1,222,638	(4,200)	1,726,178
2015	522,175	1,219,202	(4,200)	1,737,177
2016	554,210	1,196,941	(4,200)	1,746,951
2017–2021	3,176,415	5,817,506	(21,000)	8,972,921
2022–2026	3,565,921	5,207,165	(21,000)	8,752,086
2027–2031	5,024,567	4,176,318	(21,000)	9,179,885
2032–2036	6,149,927	3,073,868	(21,000)	9,202,795
2037–2041	6,697,025	1,741,281	(21,000)	8,417,306
2042–2046	7,172,215	475,248	(5,247)	7,642,216
2047–2051	6,462,596	287,477	-	6,750,073
2052–2056	5,090,170	287,477	-	5,377,647
2057–2058	10,923,621	80,042	-	11,003,663
Total	56,704,969	$ 27,299,164	$ (131,247)	$ 83,872,886
Less unaccreted interest	(27,527,336)			
Plus unamortized premium, net	161,738			
Less deferred refunding loss, net	(213,235)			
Total	$ 29,126,136			

(1) Sales Tax Revenue Bonds, First Subordinate Series 2010D and 2010E were issued as Build America Bonds. COFINA will receive a subsidy payment from the federal government equal to 35% and 45% , respectively, of the amount of each interest payment.

The table that follows represents governmental activities debt service payments on certain general obligation and revenue variable-rate bonds and the net payments on associated hedging derivative instruments (see Note 23) as of June 30, 2011. Although interest rates on variable rate debt and the current reference rates of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rates of hedging derivative instruments on June 30, 2011 will remain the same for their term.

Year Ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Hedging Derivative Instruments, Net	Total
2012	$ 2,550	$ 14,418	$ 31,935	$ 48,903
2013	2,625	14,634	31,861	49,120
2014	2,725	14,567	31,779	49,071
2015	2,825	14,498	31,696	49,019
2016	2,925	14,427	31,608	48,960
2017–2021	349,130	64,971	137,329	551,430
2022–2026	246,145	38,970	76,112	361,227
2027–2031	153,250	20,319	45,593	219,162
2032–2036	67,650	13,464	32,779	113,893
2037–2041	-	7,568	25,888	33,456
2042–2046	-	7,568	25,888	33,456
2047–2051	-	7,568	25,888	33,456
2052–2056	-	7,568	25,888	33,456
2057–2058	136,000	1,892	8,145	146,037
Total	$ 965,825	$ 242,432	$ 562,389	$ 1,770,646

COFINA's outstanding bonds are payable from amounts deposited in the Dedicated Sales Tax Fund in each fiscal year. The minimum amount to be deposited is the Pledged Sales Tax Base Amount, which for the fiscal year ended June 30, 2011, was $572,274,560. The Pledged Sales Tax Base Amount increases each fiscal year thereafter at a statutory rate of 4% up to $1,850,000,000. At June 30, 2011, the Pledged Sales Tax Base Amount, by year, is as follows (expressed in thousands):

Year Ending June 30	Amount
2012	$ 595,166
2013	618,972
2014	643,731
2015	669,480
2016	696,260
2017–2021	3,922,013
2022–2026	4,771,728
2027–2031	5,805,537
2032–2036	7,063,323
2037–2041	8,587,499
2042–2046	9,250,000
2047–2051	9,250,000
2052–2056	9,250,000
2057–2058	3,700,000
Total	$ 64,823,709

On October 5, 2010, the Commonwealth issued $103 million in Public Improvement Refunding Notes Series 2010 D (the "Notes"). The proceeds from the issuance of the Notes were used to redeem $50 million of its Public Improvement Refunding Bonds, Series 2007 A-6 and $50 million of its Public Improvement Refunding Bonds, Series 2007 A-7 (the "Bonds") and to cancel a line of credit with GDB, used to repay a drawing on the letter of credit securing the Bonds on April 30, 2010.

On February 17, 2011, the Commonwealth issued $356 million in Public Improvement Refunding Bonds, Series 2011 A. The proceeds from the issuance of the bonds were used to (1) refund a portion of the principal (but not the interest) payable on July 1, 2011 on certain general obligation bonds and notes of the Commonwealth; (2) refund, in whole or in part, certain general obligation bonds and notes of the Commonwealth; (3) repay certain GDB lines of credit used to deposit moneys in the Redemption Fund to cover a portion of the principal (but not the interest) on certain general obligation bonds and notes of the Commonwealth; (4) fund termination payments under certain interest rate swap agreements hedging the cash flows of the refunded bonds, and (5) pay certain transaction costs.

On March 2, 2011, the Commonwealth issued $275 million in Public Improvement Refunding Bonds, Series 2011 B. The Series 2011 B Bonds were directly purchased by an institutional investor and the proceeds were used to refund on a current basis, the Commonwealth's Public Improvement Refunding Bonds, Series 2007 A-8, Series 2007 A-9, and series 2008 B.

On March 17, 2011, the Commonwealth issued $442 million in Public Improvement Refunding Bonds, Series 2011 C. The proceeds from the issuance of the bonds were used to (i) repay advances made to the Commonwealth under a GDB line of credit used to make deposits to the Commonwealth's Redemption Fund for the repayment of interest (but not principal) due during fiscal year 2011 on certain general obligation bonds and notes, (ii) to pay capitalized interest on the Bonds and (iii) pay certain transactional costs.

On June 23, 2011, the Commonwealth remarketed $188 million variable rate Sub-Series 2003 C-5-2 Bonds in connection with the expiration of the existing liquidity facility for the Series C-5 Bonds, and the substitution therefore of the letter of credit. Pursuant to the terms of the resolution, in order to maintain the Series C-5-2 Bonds in the weekly rate mode, the Secretary of Treasury has elected to replace the existing liquidity facility with respect to the Series C-5 Bonds with an irrevocable, transferable, direct-pay letter of credit of Barclays Bank PLC, to be issued concurrently with the remarketing of the Series C-5-2 Bonds. The letter of credit will expire on June 21, 2013, subject to earlier termination under certain circumstances or extension. The Series C-5-2 Bonds are subject to redemption and tender for purchase prior to maturity.

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

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

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

Pursuant to the Partnership Agreement, the Limited Partners are required to provide capital contributions totaling approximately $235 million to the Partnership ("Initial Projected Equity"), subject to potential adjustment based on the amount of low-income housing credits ultimately allocated to the Projects in addition to other potential occurrences as more fully explained in the Partnership Agreement. As of June 30, 2011, the Limited Partners have provided capital contributions totaling $21 million.

Pursuant to the Partnership Agreement, the General Partner is required to provide capital contributions totaling $10 to the Partnership. Should the Partnership have not sufficient funds available to pay the outstanding balance of the developer fee thereof, as defined, the General Partner shall be required to provide additional capital contributions to the Partnership in an amount sufficient for the Partnership to pay such balance in full. The General Partner shall have no right or obligation to make any other capital contributions. As of June 30, 2011, the General Partner had provided no capital contributions. In addition, DOH as general partner shall establish the Assurance Reserve Fund at initial closing in the amount of the initial capital contribution less $4 million (plus any initial capital contribution with respect to the apartment complexes). Amounts in the Assurance Reserve Fund shall be used, (i) upon the request of the General Partner, subject to the consent of the Special Limited Partner, or (ii) upon the direction to the Special Limited Partner, to meet financial obligations of the General Partner, other than for excess development costs, as provided in the Partnership Agreement. As of June 30, 2011, such reserve was maintained in the Partnership. The amount owed to DOH for the assurance reserve fund as of June 30, 2011, amounted to $17 million.

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

On August 7, 2008, DOH and PHA entered into an interagency agreement through which PHA transferred title to the public housing rental developments to DOH for the subsequent sale to the LLC. In addition, DOH will make a grant to the Authority from funds in the Program Modernization Fund in excess of the first receipts equal to $20 million to allow the Authority to make a permanent loan to the LLC. The Authority will provide to the LLC a (i) $100 million interim construction loan to be used in connection with the financing of the rehabilitation and/or construction work on the development from the proceeds of tax-exempt bonds issued by the Authority, (ii) $386.8 million capital fund loan in proceeds from certain tax-exempt bonds issued by the Authority, and (iii) a $100 million permanent loan.

On August 7, 2008, the LLC and DOH entered into a Purchase and Sales Agreement through which the LLC acquired the surface rights of a property (the "Property") and the improvement erected on such property consisting of buildings and construction in progress with a net book value and cost of $45.9 million and $110 million, respectively, from DOH under those certain deeds of Constitution of Surface Rights and Transfer of Improvements dated August 7, 2008, which will require the LLC to rehabilitate or construct on the Property four thousand one hundred thirty-two (4,132) residential rental units (the "Units" or collectively the "Development") all of which will receive the benefit of operating subsidy and benefit of low income housing tax credit under Section 42 of the Internal Revenue Code of 1986, as amended. Eighty-four (84) of the units, all of which will be located at the Brisas de Cayey II site, are to be newly constructed. The remaining units will be modernized.

Also, on August 7, 2008, DOH entered into a loan agreement with the LLC in the amount of $102.9 million for the acquisition of the 33 residential rental properties (the "deferred purchase price note"). The LLC shall make payments equal to the amount of net available capital contributions, as defined, for the preceding calendar quarter.

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

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

The note shall be a full recourse liability of the LLC; however, none of the LLC's members has personal liability. As of June 30, 2011, the principal balance outstanding on the deferred purchase price note was $102.8 million and accrued interest was $11 million. At the same time, based on the Purchase and Sale Agreement, PHA received $92.4 million from the LLC, which was used to pay eligible project expenses incurred by PHA on an interim basis to minimize the expenditure of 2003 tax exempt bonds that were ineligible for inclusion in the credit transaction. In addition, PHA received $18.1 million from the LLC for Capital Fund Bonds funds previously expensed by the PHA from June and July 2009.

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

Additionally, on August 7, 2008, the LLC entered into a Master Developer Agreement with DOH to perform services in connection with the development, rehabilitation, and modernization of certain housing projects ("Developer Agreement"). Pursuant to the Master Developer Agreement, DOH will earn a developer's fee in the amount of $75 million for services performed and to be performed. Payment of the developer's fee shall be subject to the terms and conditions of Section 6(a) (i-iv) of the Master Developer Agreement. As of June 30, 2011, the LLC owed DOH the amount of $41 million.

Under the Partnership Agreement, projects which do not meet the final completion schedule or satisfy other completion, occupancy, rent attainment or tax-credit related requirements or other Investor Limited Partner conditions to capital contributions with respect to such projects as set forth in the Partnership Agreement may under certain conditions be required to be purchased by DOH or its designee. In such case, DOH or its designee would assume the portion of the Loan allocated to such project(s), including both moneys remaining to be disbursed and repayment obligations, and would become a new additional borrower under the loan agreement. The LLC would be released with respect to the amount of the Loan assumed. DOH or its designee could also seek to obtain a limited partner (who might or might not be the original Investor Limited Partner) and tax credit equity contributions. Such transfer does not affect the obligation of DOH to grant moneys to the Authority to fund the permanent loan. As a requirement of such purchase, DOH or its designee is required to repay equity already contributed by the Investor Limited Partner, plus interest and a purchase premium.

The Commonwealth's bonds payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America, that require rebate to the federal government of excess investments earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2011.

(d) Commonwealth Appropriation Bonds

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

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

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

During July 2006, the source for the 2007 debt service of these appropriation bonds came from PFC instead (not from legislative appropriations), through an advance of approximately $303 million. PFC got its advance repaid by COFINA, a blended component unit of the Commonwealth created in

2007 with the capacity to issue bonds to repay or refinance the advance from PFC, the appropriation bonds, the Qualified Zone Academic Bonds (QZAB) and other debt obligations to GDB, collectively referred as the extra constitutional debt. The COFINA debt in turn will be serviced with the revenues generated from the collection of the first 1% of the sales and use tax, which came in effect on November 15, 2006 (note 3c). Also during 2009, the Legislative Assembly increased COFINA's dedicated revenues by increasing the percentage of revenues generated from the sales and use tax to 2.75%.

On July 31, 2007, December 20, 2007, and June 26, 2008, COFINA, issued $2,667 million Sales Tax Revenue Bonds Series 2007A and $1,333 million Series 2007B, $499.9 million Series 2007C and $737 million Series 2008A, respectively, to refinance certain series of the Act 164 PFC Bonds outstanding and the corresponding notes issued by PFC by certain series of the Commonwealth's agencies and component units. The Series 2007A, B, C, and 2008A proceeds were deposited in escrow with the Bank of New York/Mellon as master escrow agent to pay interest for appropriation bonds through February 2011.

On October 21, 2008, PFC requested the trustee to restructure certain escrow funds. The funds had been established on July 31, 2007, for the refunding of interest on certain of PFC's taxable bonds (taxable Refunded Interest Only Escrow Requirements). After the escrow fund had been originally established, a portion of the outstanding principal of the bonds, which were the basis for the calculation of the Taxable Refunded Interest Only Escrow Requirements, was extinguished with the proceeds of bonds issued by COFINA. In addition, all the maturities of the PFC Series 2000B Bonds held in escrow were also paid on December 1, 2008. The reduction of principal as described, decreased the Taxable Interest Only Escrow Requirements, and as such, PFC instructed the trustee to restructure the escrows. The restructuring analysis provided approximately $158 million of which approximately $78 million were received by COFINA and approximately $80 million were received by the Commonwealth. In addition, COFINA received approximately $17 million in contributions from PFC. Amounts received were recorded as a special item in the statement of activities during the year ended June 30, 2009.

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

Act No. 164 restructuring	$ 497,941
Health Facilities and Services Administration	39,004
Office for the Improvement of Public Schools of Puerto Rico	80,050
Puerto Rico Maritime Shipping Authority (PRMSA)	101,210
Property tax settlement	24,979
Total Commonwealth appropriation bonds, net	$ 743,184

Act No. 164 Restructuring

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

Approximately $498 million of the aforementioned outstanding obligations belonged to the primary government, predominantly the Department of Health of the Commonwealth (health reform financing and other costs for approximately $1.1 billion) and the Department of the Treasury of the Commonwealth (the fiscal year 2001 deficit financing of $268 million and the obligation assumed for defective tax liens in the amount of approximately $132 million). The new combined bonds balance of the Act No. 164 restructuring bears interest at rates ranging from 1.25% to 6.25%. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ -	$ 27,725	$ 27,725
2013	-	22,488	22,488
2014	26,196	25,411	51,607
2015	26,284	24,683	50,967
2016	29,069	22,199	51,268
2017–2021	91,631	99,208	190,839
2022–2026	74,164	63,809	137,973
2027–2031	271,151	36,796	307,947
Total	518,495	$ 322,319	$ 840,814
Plus unamortized premium	8,289		
Less deferred refunding loss	(28,843)		
Total	$ 497,941		

Health Facilities and Services Administration

As of July 1, 1999, approximately $595 million (including unpaid interest) of a promissory note of the Health Facilities and Services Administration (HFSA) due to GDB was transferred to the Department of Health of the Commonwealth and restructured through Commonwealth appropriation bonds. The bonds bear interest at rates ranging between 6.00% and 6.10%. Principal and interest on the bonds are payable solely from legislative appropriations to be made pursuant to Act No. 223 of August 9, 1998. Act No. 223 provides that OMB shall include in the annual budget of the Commonwealth an amount equal to $56.5 million for the fiscal year 1998-99, and for the next succeeding 15 fiscal years the amount necessary to pay the principal of and interest on the bonds, up to a maximum annual amount of $57.7 million.

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

Year Ending June 30	Principal	Interest	Total
2012	$ -	$ 2,040	$ 2,040
2013	-	2,040	2,040
2014	10,665	1,720	12,385
2015	11,315	1,061	12,376
2016	12,025	361	12,386
2017	4,999	9,316	14,315
Total	$ 39,004	$ 16,538	$ 55,542

Office for the Improvement of Public Schools of Puerto Rico

Previous public schools infrastructure improvement loans provided additional funds for major repairs and improvements to the public schools in Puerto Rico. This activity is administered by the Office for the Improvement of the Public Schools of Puerto Rico (OIPS), included as part of the general fund of the primary government. These loans were refunded originally through the issuance of Commonwealth appropriation bonds pursuant to Act No. 85 of June 13, 1998 (Act 85). The new combined bonds bear interest at rates ranging from 4.10% to 5.75%. As of June 30, 2011, approximately $80 million was outstanding. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ -	$ 5,262	$ 5,262
2013	6,100	3,651	9,751
2014	-	3,532	3,532
2015	-	3,532	3,532
2016	-	3,532	3,532
2017–2021	8,535	17,122	25,657
2022–2026	73,990	12,729	86,719
Total	88,625	$ 49,360	$ 137,985
Plus unamortized premium	1,967		
Less deferred refunding loss	(10,542)		
Total	$ 80,050		

Puerto Rico Maritime Shipping Authority

A promissory note payable owed by PRMSA to GDB was assumed by the Commonwealth in connection with the sale of the maritime operations of PRMSA. Commonwealth appropriation bonds were issued to refund this liability. The new combined bonds balance bears interest at a variable rate ranging from 3.65% to 5.80%. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ -	$ 5,810	$ 5,810
2013	-	5,810	5,810
2014	12,945	5,314	18,259
2015	12,415	4,692	17,107
2016	13,060	4,038	17,098
2017–2021	49,085	10,924	60,009
2022–2026	16,690	4,873	21,563
2027–2031	10,075	1,263	11,338
Total	114,270	$ 42,724	$ 156,994
Less unamortized discount	(115)		
Less deferred refunding loss	(12,945)		
Total	$ 101,210		

Property Tax Settlement

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

Year Ending June 30	Principal	Interest	Total
2014	$ 11,469	$ 6,922	$ 18,391
2015	10,779	7,631	18,410
Total	22,248	$ 14,553	$ 36,801
Plus accreted discount	9,647		
Less deferred charges arising from debt refunding	(6,916)		
Total	$ 24,979		

(e) Advance Refunding, Defeased Bonds, and Refunding of Commonwealth Appropriation Bonds

In prior years, the Commonwealth defeased certain general obligation and other bonds by placing the proceeds of the bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2011, approximately $1.3 billion of bonds outstanding from prior years advance refunding are considered defeased.

In addition, PBA has defeased certain revenue bonds in prior years by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debts. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the statement of net assets (deficit). As of June 30, 2011, approximately $742 million of PBA bonds are considered defeased.

(f) Notes Payable to Component Units and Others

The Commonwealth has entered into various short-term line of credit agreements with GDB consisting of the following at June 30, 2011 (expressed in thousands):

Agency	Purpose	Interest Rate	Line of Credit	Outstanding Balance
Department of the Treasury	To fund information technology project	125 bp over GDB's commercial paper rate	$44,868	$14,469
Department of the Treasury	Purchase of mobile X-ray machines	125 bp over 3 month LIBOR	12,000	2,613
Department of Health	To cover diagnose and treatment costs	125 bp over 3 month LIBOR	8,000	5,018
Department of Housing	To reimburse to the Puerto Rico Housing Finance Authority, a blended component unit of GDB, for certain advances to the Santurce Revitalization Project	125 bp over 3 months LIBOR	19,282	10,079
			$84,150	$32,179

The Commonwealth financed certain other long-term liabilities through GDB and other component units. The outstanding balance at June 30, 2011 on the financing provided by GDB comprises the following, all within governmental activities (expressed in thousands):

GDB

Department of the Treasury	$ 662,734
Public Buildings Authority	400,315
Office of Management and Budget	117,524
Department of Education	113,524
Department of Transportation and Public Works	80,756
Department of Agriculture	65,439
Department of Justice	52,976
Department of Health	40,739
Police Department	33,699
Department of Housing	24,335
Puerto Rico Court Administration Office	21,584
Office of the Superintendent of the Capitol	16,484
Department of Recreation and Sports	9,755
Correction Administration	8,913
Notes payable to GDB	$ 1,648,777

Other Components Units:

Note payable to UPR	$ 56,318
Note payable to PREPA	12,600
Notes payable to other component units	$ 68,918

As of June 30, 2011, the Department of the Treasury of the Commonwealth has entered into various line of credit agreements with GDB amounting to a maximum of $1.9 billion for different purposes as presented in the following table. The purpose, interest rate, maturity date, and amount outstanding under each individual agreement at June 30, 2011 consist of the following (expressed in thousands):

Purpose	Interest Rate	Maturity	Line of Credit	Outstanding Balance
To finance payroll and operational expenditures of the Commonwealth for fiscal year 2006	5.50 %	June 30, 2036	$ 741,000	$227,122
Resources to meet appropriations in annual budget of the Commonwealth (fiscal year 2004) and federal programs expenditures	125 bp over 3 month LIBOR	June 30, 2018	640,000	148,123
Capital improvements projects of agencies and municipalities	150 bp over GDB's commercial paper rate	June 30, 2019	130,000	88,877
To pay agencies debt	125 bp over 3 month LIBOR	September 30, 2012	100,000	74,062
To finance capital improvements projects for several government agencies	7 %	June 30, 2018	105,000	73,122
Resources to cover the operational needs of the catastrophic disasters fund, (fiscal year 2004) of the Puerto Rico Health Insurance Administration and the Department of the Family	125 bp over 3 month LIBOR	September 30, 2015	79,930	43,827
Acquisition of Salinas Correctional Facilities	125 bp over 3 month LIBOR	June 30, 2018	15,000	7,597
To repay an advance made under a liquidity facility, due to a mandatory tender of the Puerto Rico Public Improvement Refunding Bonds, Series 2007 A-3	125 bp over Prime Rate	June 30, 2040	100,000	4
Total			$1,910,930	$662,734

On April 27, 2009, GDB provided to the Public Buildings Authority (PBA) a non-revolving credit facility in the maximum principal amount of $98.5 million bearing interest on the unpaid principal amount of each advance at a fluctuating annual rate equal to 1.50% over and above the Prime Rate or at such other rate determined by GDB. The proceeds of the facility were used exclusively for the payment of certain amounts due by PBA to its suppliers and service providers. All such payments shall be subject to the prior approval of GDB and shall be disbursed directly to the suppliers and service providers. The loan and the accrued interest are due on June 30, 2011 and will be payable from all funds generated by PBA and any other properties owned and pledged to GDB. As of June 30, 2011, $4.1 million were outstanding. PBA also maintains a $75 million line-of-credit agreement with GDB the proceeds of which were used for payment of operational expenses. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon maturity on June 30, 2018. As of June 30, 2011, $69 million were outstanding. The line of credit agreement is collateralized with two of the PBA's properties. Payments of principal and interest will be provided from appropriations from the Commonwealth's general budget pursuant to the provisions of Resolution No. 387 of December 21, 2005. During the fiscal year ended June 30, 2011, payments of principal and interest due for $875,924 and $5,000,000, respectively, were made by COFINA. In addition, on May 2, 2008, PBA executed two Loan Agreements with GDB for the interim financing of its Capital Improvement Program in an amount not to exceed $226 million, bearing interest at 6%. The loans and the accrued interest are due on October 31, 2011 and will be repaid from the proceeds of the next bond issuance of PBA divided into $209 million on a tax-exempt basis and $16.9 million on a taxable basis. As of June 30, 2011, $133.9 million were outstanding. On July 9, 2010, PBA executed a loan agreement with GDB for the financing of the interest component of certain outstanding revenue and revenue refunding bonds of PBA in an aggregate principal amount not to exceed $36.9 million. The loan shall mature on such date as GDB may determine but in no event later than June 30, 2012 and will be payable from the proceeds of the issuance of revenue bonds to be issued by PBA. The loan bears interest at a rate of interest per annum equal to the Prime Rate plus 150 basis points with a minimum interest rate of 6%. On September 22, 2010 and November 29, 2010, the loan agreement was amended to increase the amount of the loan to $49.2 million and $147.8 million, respectively. As of June 30, 2011, $147.9 million were outstanding. On August 18, 2010, GDB provided to PBA a non-revolving credit facility in the maximum principal amount of $93.6 million bearing interest at a fluctuating annual rate equal to 1.50% over Prime Rate or such other rate determined by GDB, with a minimum interest rate of 6%. The proceeds of the credit facility will be used for construction projects development. The credit facility is due on June 30, 2012 and will be payable from the proceeds of a future bond issuance of PBA. As of June 30, 2011, $14.5 million were outstanding. An additional line-of-credit was entered into between GDB and PBA on October 21, 2010, for the financing of the projects cost, under the Inter-Departmental Agreement, until such time as PBA issues the Qualified School Construction Bonds (the QSCBs) in an aggregate principal amount not to exceed $160 million. The outstanding principal of and the interest on credit facility will mature on August 31, 2011 and will be payable from the proceeds of the issuance of the QSCBs or from any other funds available to PBA. The credit facility bears interest at a fluctuating annual rate of 1.50% over Prime Rate, with a minimum interest rate of 6% or a maximum interest rate of 12%. On April 4, 2011, the loan agreement was amended to increase the loan amount to $721.6 million. As of June 30, 2011, $30.9 million were outstanding.

On June 5, 2006, the Office of Management and Budget entered into a $150 million line of credit agreement with GDB to provide economic assistance for disasters and emergencies. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and are payable upon the maturity of the line of credit on September 30, 2011. As of June 30, 2011, $117.5 million were outstanding.

On February 6, 2003, the Department of Education of the Commonwealth entered into a $25 million line of credit agreement with GDB for the purchase of equipment and for school improvements. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2011, $4.9 million was outstanding. On August 4, 2002, the Department of Education of the Commonwealth entered into an additional $140 million line of credit agreement with GDB in order to reimburse the Department of the Treasury of the Commonwealth for payments made on their behalf for state funds used to fund federal program expenditures. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2011, $108.6 million still remains outstanding related to the borrowing. The line of credit is expected to be repaid upon collection of the federal grants.

The Department of Transportation and Public Works of the Commonwealth entered into four line-of-credit agreements with GDB amounting to $118 million for improvement and maintenance of roads around the island. Borrowings under these lines of credit bear interest at a 7% rate and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2011, $80.8 million was outstanding.

On August 9, 1999, the Department of Agriculture of the Commonwealth entered into a $125 million non-revolving line-of-credit agreement with GDB to provide economic assistance to the agricultural sector, which sustained severe damages caused by Hurricane Georges in 1998. As of February 24, 2004, the line-of-credit increased by $50 million resulting in a total amount of $175 million. Borrowings under this line-of-credit agreement bear interest at variable rates based on 125 basis points over three-month LIBOR; starting on October 1, 2010 the outstanding balance will bear interest at a fixed rate of 7% and is payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2011, $65.4 million were outstanding.

On October 2, 2002, the Department of Justice of the Commonwealth entered into a $90 million line of credit agreement with GDB for the financing of 12 public improvement projects for the Municipality of Ponce pursuant to a court order. Borrowings under this line of credit agreement bear interest at variable rates and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2011, $19 million related to this line of credit agreement were outstanding. On August 8, 2005, the Department of Justice of the Commonwealth entered into an additional agreement (amendment) to increase line-of-credit of $90 million to $110 million to cover various projects in Ponce. Borrowings under this line of credit agreement bear interest at 7% rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2011, this line of credit agreement amounted to $34.0 million.

In August 2003, the Department of Health of the Commonwealth entered into a $30 million line of credit agreement with GDB in order to repay certain outstanding debts that the PRMeSA had with other agencies and suppliers. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2011, $22.7 million related to this line of credit agreement were outstanding. On November 8, 2004, the Department of Health entered into an additional $58.5 million line of credit agreement with GDB for the financing of a project of the Department of Health and PRMeSA. Borrowings under this line of credit agreement bear interest at variable rates based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on October 31, 2014. As of June 30, 2011, the outstanding balance of this line of credit agreement amounted to $18 million.

On July 29, 2004, the Police Department of the Commonwealth entered into a $48 million line of credit agreement with GDB for the acquisition of vehicles and high technology equipment. Borrowings under this line of credit agreement bear interest based on the All Inclusive Total Interest Cost of the Medium Term Notes, Series B, plus a mark-up of 1.25% and are payable upon the maturity of the line of credit on September 30, 2014. The outstanding balance of this line of credit agreement amounted to $33.7 million at June 30, 2011.

On December 3, 2007, the Department of Housing of the Commonwealth entered into a $30 million line-of-credit agreement with GDB for the purchase of Juan C. Cordero Dávila building. Borrowings under this line of credit agreement bear interest based on .75 basis points over three month LIBOR and are payable upon maturity of the line of credit on February 28, 2038. As of June 30, 2011, $24.3 million related to this line of credit agreement were outstanding.

On May 7, 2001, the Puerto Rico Court Administration Office (the "Office") entered into a $49.4 million nonrevolving line of credit agreement with GDB for operating purposes. Borrowings under this line of credit agreement bear interest at a variable rate of three month LIBOR plus 1%, not to exceed 8%. The Office must deposit $6 million a year, from the total fees collected on the filing of civil cases, in a special fund created by the Department of the Treasury of the Commonwealth, which is pledged for repayment until July 31, 2015. As of June 30, 2011, approximately $21.6 million remains outstanding.

On February 15, 2002, the Office of the Superintendent of the Capitol (Superintendent) entered into a $35 million line of credit agreement with GDB for the Office of the Superintendent of the Capitol parking's construction. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2011, $16.5 million remained outstanding from the line of credit agreement.

On January 18, 2005, the Department of Recreation and Sports of the Commonwealth (DRS) entered into a $17.2 million line of credit agreement with GDB for the development of a series of recreational projects at different municipalities. Borrowings under this line of credit agreement bear interest based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on June 30, 2018. The proceeds of the line of credit are used for development and improvement of recreational facilities. As of June 30, 2011, $0.5 million were outstanding. Also, on February 9, 2004, DRS entered into a $16 million line of credit agreement with GDB for the development and improvement of recreational facilities. Borrowings under this line of credit agreement bear interest on the unpaid principal amount of each advance at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2011, $0.5 million were outstanding. An additional line-of-credit was entered into between GDB and the DRS in the maximum principal amount of $17.6 million bearing interest on the unpaid principal amount of each advance at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. The line-of-credit proceeds are used for development and improvement of recreational facilities. As of June 30, 2011, $8.7 million were outstanding.

On May 12, 2004, the Correction Administration of the Commonwealth ("Correction Administration") entered into a $60 million line-of-credit agreement with GDB for improvements to certain correctional facilities. Borrowings under this line-of-credit agreement bear interest at fixed 7% rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2011, $3.8 million were outstanding. In addition, on November 24, 2010, the Correction Administration entered into an $80 million line-of-credit agreement with GDB for the construction of a new correctional medical center. Borrowings under this line-of-credit agreement bear interest at a variable rate equal to 1.50% over Prime Rate with a minimum rate of 6% and a maximum rate of 12%, upon the maturity of the line of credit on January 31, 2013. As of June 30, 2011, $5.1 million were outstanding.

As of July 1, 1999 debts of approximately $102 million payable to UPR, a discretely presented component unit, in relation to outstanding noninterest bearing debt accumulated in prior years by HFSA were transferred to the Commonwealth. On September 7, 2004, additional debts of approximately $71.2 million were also restructured and combined with the previous financing arrangement. As of June 30, 2011, $17.7 million remains outstanding of this arrangement. The Commonwealth has also agreed to pay the UPR $20 million related to Commonwealth legislative scholarships which are payable in annual installments of $5 million. In addition, during the fiscal year 2010, the OMB and the UPR signed an intra-agency agreement amounting to $36 million to pay for appropriations for fiscal years 2007 and 2008. In April 2011 the OMB settled this intra-agency agreement for $18.6 million to be payable during fiscal year 2012. Future amounts required to pay principal balances at June 30, 2011 are expected to be as follows (expressed in thousands):

Year Ending June 30	
2012	$ 31,599
2013	13,000
2014	6,719
2015	5,000
Total	$ 56,318

The noninterest bearing note payable to PREPA, a discretely presented component unit, consists of a fuel adjustment subsidy due by the Commonwealth and the refinancing during 2004 of other accumulated debt by the Commonwealth's agencies with PREPA. The outstanding balance of $12.6 million at June 30, 2011 is expected to be paid in installments of $6.3 million approximately until settlement.

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

(g) Compensated Absences

Long-term debt includes approximately $1.4 billion of accrued vacation and sick leave benefits at June 30, 2011. The total liability of compensated absences recorded as governmental and business type activities amounted to $1.4 billion and $4.8 million, respectively.

(h) Net Pension Obligation

The amount reported as net pension obligation of approximately $9.3 billion represents the cumulative amount owed by the Commonwealth for the unfunded prior years' actuarially required pension contributions to the ERS, JRS, and the TRS (collectively known as the pension plans) (see note 20). The net pension obligation has been recorded as a liability in governmental activities in the accompanying statement of net assets (deficit).

(i) Net Other Postemployment Benefits Obligation

The amount reported as net other postemployment benefits obligation of approximately $174.9 million represents the cumulative amount owed by the Commonwealth for the unfunded prior years' actuarially required other postemployment benefit contributions to the ERS, JRS, and the TRS (collectively known as the pension plans) (see Note 21). The net other postemployment benefits obligation has been recorded as a liability in governmental activities in the accompanying statement of net assets (deficit).

(j) Unpaid Lottery Prizes

The amount reported as unpaid lottery prizes represents the lottery prizes payable of the Lottery of Puerto Rico (commonly known as "Traditional Lottery") and the Additional Lottery System (commonly known as "Lotto") jointly known as the Lottery Systems at June 30, 2011. The minimum annual payments related to unpaid awards of both lotteries are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ 52,103	$ 9,209	$ 61,312
2013	24,869	9,765	34,634
2014	21,921	10,094	32,015
2015	18,696	9,887	28,583
2016	16,535	9,947	26,482
2017–2021	53,182	42,289	95,471
2022–2026	21,319	23,268	44,587
2027–2030	4,640	4,885	9,525
Total	$ 213,265	$ 119,344	$ 332,609

The minimum annual payments related to unpaid awards of Lotto excluded unclaimed prizes liability of approximately $5.2 million at June 30, 2011, which is reported as prizes payable — current portion.

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

(k) Claims Liability for Insurance Benefits

The Commonwealth provides unemployment compensation, no occupational disability, and drivers' insurance coverage to public and private employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth. These insurance programs cover workers against unemployment, temporary disability, or death because of work or employment related accidents or because of illness suffered as consequence of their employment.

The Commonwealth establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. Insurance benefit claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The liability for insurance benefits claims is reported as a current liability in the accompanying statement of net assets (deficit) business type activities — and statement of net assets (deficit) proprietary funds. The liability as of June 30, 2011, amounts to $86 million.

(l) Obligations under Capital Lease Arrangements

The Commonwealth is obligated under capital leases with third parties that expire through 2041 for land, buildings, and equipment.

The present value of future minimum capital lease payments at June 30, 2011 reported in the accompanying government wide statement of net assets (deficit) is as follows (expressed in thousands):

Year Ending June 30	
2012	$ 23,054
2013	26,303
2014	22,407
2015	22,135
2016	29,580
2017–2021	103,787
2022–2026	101,015
2027–2031	96,411
2032–2036	50,773
2037–2041	5,971
Total future minimum lease payments	481,436
Less amount representing interest costs	(251,862)
Present value of minimum lease payments	$ 229,574

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2011, include the following (expressed in thousands):

Land	$ 7,960
Buildings	254,886
Equipment	7,461
Subtotal	270,307
Less accumulated amortization	(54,700)
Total	$ 215,607

Amortization charge applicable to capital leases and included within depreciation expense of capital assets amounted to $7.2 million in 2011.

The Commonwealth is also committed under numerous operating leases, covering land, office facilities, and equipment. Rental expenditure within the governmental funds for the year ended June 30, 2011 under such operating leases was approximately $223 million.

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

Year Ending June 30	
2012	$ 98,536
2013	81,042
2014	55,949
2015	35,456
2016	19,063
2017–2021	47,684
2022–2026	23,663
2027–2031	11,798
2032–2036	4,048
Total future minimum lease payments	$ 377,239

(m) Termination Benefits Payable

Voluntary Termination Benefits

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides early retirement benefits or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 applies to agencies and component units whose budgets are funded in whole or in part by the General Fund.

Act No. 70 established that early retirement benefits ("early retirement program") will be provided to eligible employees that have completed between 15 to 29 years of credited services in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. Pursuant to Act No. 70, the Commonwealth, as employer, will continue making the applicable employer contributions to the Retirement System, as well as covering the annuity payments to the employees opting for the early retirement, until both the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System ("incentivized resignation program") or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement ("incentivized retirement program"). Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years.

Additionally, eligible employees that choose to participate in the early retirement program or in the incentivized resignation program are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth.

In addition, Act No. 70 allows certain component units of the Commonwealth that operate with their own resources to implement a similar program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. The benefits and the requirements are the same provided by Act No. 70, except as follows: in the early retirement benefit program, the component unit will make the employee and the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System; and in the incentivized retirement program, the component unit will make the employee and the employer contributions to the Retirement System for a five year period.

The following table summarized the financial impact resulting for the benefits granted to participants of Act No. 70 and similar programs in the government wide financial statements as of and for the year ended June 30, 2011 (expressed in thousands):

	Primary Government			
Accrued Voluntary Termination	**Governmental Activities**	**Business-type Activities**	**Totals Primary Government**	**Component Units**
Benefits as of June 30, 2011:				
Current liabilities	$ 44,328	$ 470	$ 44,798	$ 32,374
Noncurrent liabilities	297,784	2,171	299,955	134,745
Total	$ 342,112	$ 2,641	$ 344,753	$ 167,119
Expenses for the Year Ended June 30, 2011	$ 362,136	$ 2,910	$ 365,046	$ 177,300

At June 30, 2011, unpaid long-term benefits granted on Act No. 70 were discounted at interest rates that range from 1.85% to 3.29% at the primary government level and from 0.30% to 3.41% at the component units level.

By Act No. 70, the General Fund of the Commonwealth must appropriate on an annual basis funds necessary to cover the annual payments of Act No. 70 on certain components units. Discounted termination benefits payable of these component units amounted to approximately $54.3 million as of June 30, 2011.

Involuntary Termination Benefits

The Commonwealth has a current liability of approximately $29,072,000 as of June 30, 2011 for unpaid involuntary termination benefits occurred in prior years.

(n) Other Long-term Liabilities

The remaining long-term liabilities of governmental activities at June 30, 2011 include (expressed in thousands):

Liability for legal claims and judgments (Note 19)	$ 1,380,711
Liability for salary increases granted through legislation	344,412
Liability to U.S. Army Corps of Engineers (Note 13)	224,942
Employees' Christmas bonus	139,474
Liability for federal cost disallowances (Note 19)	118,943
Liability to the Puerto Rico System of Annuities and Pensions for Teachers	43,056
Other	73,925
Total	$ 2,325,463

The Commonwealth, through laws dating back to 1954, has granted eligible police agents, various salary-related benefits such as annual salary increases, awards for years of service, and monetary benefits awarded for special assignments, among others. As of June 30, 2011, the Commonwealth's liability related to these salary-related benefits amounted to approximately $344 million.

As described in Note 13, the Commonwealth has a debt obligation with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, amounting to $214 million, excluding those costs for items built for recreational purposes. Unpaid allocated share of these construction costs amounted to $212 million, plus accrued interest of $147 million, at June 30, 2011 and it is payable on annual installment payments over a 35 year period. The expected maturity date of this debt obligation is June 5, 2046. Due payments of principal and interest on this debt obligation, including late fees, amounted to $25 million and $146 million, respectively, at June 30, 2011 and were recorded in the accompanying Governmental Funds- General Fund's financial statements as of and for the year ended June 30, 2011. This debt obligation bears interest at 6.063%. Debt service requirements on this debt obligation with fixed maturities at June 30, 2011 were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ 26,734	$ 157,023	$ 183,757
2013	1,752	11,210	12,962
2014	1,858	11,104	12,962
2015	1,971	10,991	12,962
2016	2,090	10,872	12,962
2017–2021	12,513	52,296	64,809
2022–2026	16,794	48,014	64,808
2027–2031	22,542	42,267	64,809
2032–2036	30,256	34,553	64,809
2037–2041	40,609	24,200	64,809
2032–2046	54,506	10,303	64,809
Total	$ 211,625	$ 412,833	$ 624,458

In addition, the Commonwealth has a debt obligation of $13.3 million with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the recreational part of the Cerrillos Dam and Reservoir Project, including accrued interest of $3 million, at June 30, 2011. The final debt agreement with the U.S. Army Corps of Engineers for the recreational part of the Cerrillos Dam and Reservoir Project has not been finalized, and therefore, terms and conditions could differ from those estimated. The related debt is expected to be payable on annual installment payments over a 35 year period. However, the debt has been presented as a long-term payable after one year in the accompanying statement of net assets (deficit) since the commencement date of repayment has not yet been determined.

(o) Fiduciary Funds

On February 27, 2007, the ERS's administration and GDB, acting as ERS's fiscal agent (the "Fiscal Agent"), presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the ERS's unfunded actuarial accrued liability. The ERS authorized the issuance of one or more series of bonds (the "Bonds") in order to increase the funds available to pay pension benefits to certain of its beneficiaries and reduce its unfunded accrued actuarial pension liability. The ERS pledged future employer contributions to the payment of the Bonds, invested the proceeds of the Bonds, and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

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

	Balance at June 30, 2010	Additions/ Accretion	Balance at June 30, 2011
5.85% to 6.45% Term Bonds Series A due July 1, 2058	$ 1,595,968	$ 3,287	$ 1,599,255
6.25% to 6.55% Term Bonds Series B due July 1, 2058	1,092,724	18,039	1,110,763
6.15% to 6.50% Term Bonds Series C due July 1, 2043	300,507	165	300,672
Bond discounts	(7,424)	216	(7,208)
Total	$ 2,981,775	$ 21,707	$ 3,003,482

As of June 30, 2011, the outstanding balance of the Bonds is as follows (in thousands):

Description	
Series A Bonds:	
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	$ 55,485
Term Bonds, maturing in 2023, bearing interest at 5.85%	200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%	679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%	332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%	332,000
Total Series A Bonds outstanding	1,599,255
Series B Bonds:	
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%	171,400
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%	123,263
Term Bonds, maturing in 2031, bearing interest at 6.25%	117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%	270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%	429,000
Total Series B Bonds outstanding	1,110,763
Series C Bonds:	
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%	2,672
Term Bonds, maturing in 2028, bearing interest at 6.15%	110,000
Term Bonds, maturing in 2038, bearing interest at 6.25%	45,000
Term Bonds, maturing in 2043, bearing interest at 6.30%	143,000
Total Series C Bonds outstanding	300,672
Total bonds outstanding	3,010,690
Less bonds discount	(7,208)
Bonds payable — net	$3,003,482

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

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

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

Debt service requirements in future years on pension funding bonds as of June 30, 2011 are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ -	$ 166,519	$ 166,519
2013	-	166,519	166,519
2014	-	166,519	166,519
2015	-	166,519	166,519
2016	-	166,519	166,519
2017–2021	-	666,076	666,076
2022–2026	200,000	809,195	1,009,195
2027–2031	441,213	760,565	1,201,778
2032–2036	154,666	708,935	863,601
2037–2041	1,210,220	526,825	1,737,045
2042–2046	180,550	254,552	435,102
2047–2051	-	247,568	247,568
2052–2056	362,800	247,568	610,368
2057–2058	398,200	72,707	470,907
	2,947,649	$ 5,126,586	$ 8,074,235
Plus accreted interest	63,041		
Less unamortized discount	(7,208)		
Total	$ 3,003,482		

Pledge of Employer Contributions Pursuant to Security Agreement

The ERS entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the ERS pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the "Resolution").

The Resolution and the Security Agreement constitute a contract between the ERS and the Fiscal Agent, on behalf of owners of the bonds. The pledge, covenants and agreements of the ERS set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. The pledge by the ERS funds, which consist of all employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

(p) Discretely Presented Component Units

Notes and appropriation bonds payable are those liabilities that are paid out of the component units' own resources. These notes and appropriation bonds do not constitute a liability or debt of the primary government.

The outstanding balance of notes payable at June 30, 2011 is as follows (expressed in thousands):

Component Unit	Interest rates	Maturity Through	Balance at June 30, 2010	Additions	Reductions	Balance at June 30, 2011	Amounts Due Within One Year
Government Development Bank for Puerto Rico	2.5%–6.97%	2040	$3,131,756	$3,516,889	$1,377,573	$5,271,072	$ 90,981
Economic Development Bank for Puerto Rico	1.9%-7.23%	2026	456,321	153,104	1,608	607,817	-
Puerto Rico Ports Authority	Variable	2028	570,813	-	15,830	554,983	261,572
Puerto Rico Electric Power Authority	3.25%–4.375%	2023	65,521	150,000	15,020	200,501	166,465
Puerto Rico Trade and Export Company	4.51%–6.48%	2034	197,188	300,372	137,175	360,385	423
Puerto Rico Aqueduct and Sewer Authority	0.0325	2012	244,688	-	2,944	241,744	241,744
University of Puerto Rico	3.25%–5.50%	2014	-	2,683	675	2,008	790
Puerto Rico Industrial Development Company	5.10%–8.45%	2024	83,665	21,435	5,804	99,296	6,569
Puerto Rico Tourism Company	Variable	2013	-	3,042	-	3,042	-
State Insurance Fund Corporation	Variable	2028	43,803	242,000	2,160	283,643	3,992
Puerto Rico Metropolitan Bus Authority	6.68 %	2012	40,410	-	1,577	38,833	38,833
Agricultural Enterprises and Development Administration	Variable	2011	5,604	-	124	5,480	5,480
Puerto Rico Land Authority	Variable	2011	700	-	700	-	-
Total notes payable component units			$4,840,469	$4,389,525	$1,561,190	$7,668,804	$816,849

Debt service requirements on component units' notes payable with fixed maturities at June 30, 2011 were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ 816,849	$ 312,217	$1,129,066
2013	634,898	294,879	929,777
2014	661,314	270,881	932,195
2015	1,203,740	223,247	1,426,987
2016	322,914	193,941	516,855
2017-2021	2,648,146	503,141	3,151,287
2022-2026	991,322	147,149	1,138,471
2027-2031	269,239	44,669	313,908
2032-2036	106,091	5,356	111,447
2037-2041	9,359	1,440	10,799
2042-2046	4,932	-	4,932
Total	$7,668,804	$1,996,920	$9,665,724

The table that follows represents debt service payments on a component unit's variable-rate notes payable and the net payments on associated hedging derivative instrument as of June 30, 2011. Although interest rates on variable rate debt and the current reference rate of hedging derivative instrument change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rate of the hedging derivative instrument on June 30, 2011 will remain the same for their term.

Year Ending June 30	Variable-Rate Notes Payable Principal	Variable-Rate Notes Payable Interest	Hedging Derivative Instruments, Net	Total
2012	$ 17,258	$ 12,621	$ 15,841	$ 45,720
2013	18,069	12,101	15,195	45,365
2014	18,923	11,509	14,516	44,948
2015	19,821	10,887	13,801	44,509
2016	20,765	10,236	13,050	44,051
2017–2021	119,792	40,257	10,250	170,299
2022–2026	151,907	18,507	-	170,414
2027–2029	45,174	679	-	45,853
Total	$411,709	$116,797	$ 82,653	$611,159

Commonwealth appropriation bonds payable outstanding at June 30, 2011 are as follows (expressed in thousands):

Component Unit	Interest rates	Maturity Through	Balance at June 30, 2010	Additions	Reductions	Balance at June 30, 2011	Amounts Due Within One Year
Puerto Rico Aqueduct and Sewer Authorit	1.25% - 6.15%	2031	$671,549	$ -	$7,953	$663,596	$8,985
Puerto Rico Tourism Company	4.00%–6.15%	2031	60,528	-	101	60,427	-
Land Authority of Puerto Rico	2.25%-5.80%	2031	76,715	-	-	76,715	-
Government Development Bank for Puerto Rico	4.00%–5.25%	2031	4,812	-	-	4,812	-
Puerto Rico Infrastructure Financing Authority	0.539 %	2031	4,956	-	-	4,956	-
Solid Waste Authority	1.25%–5.75%	2031	10,689	-	-	10,689	-
Total Commonwealth appropriation bonds — component units			$829,249	$ -	$8,054	$821,195	$8,985

Debt service requirements on component units' appropriation bonds payable with fixed maturities at June 30, 2011 were as follows (expressed in thousands):

Year Ending June 30	**Principal**	**Interest**	**Total**
2012	$ 8,985	$ 45,904	$ 54,889
2013	-	34,372	34,372
2014	16,846	34,898	51,744
2015	17,247	35,077	52,324
2016	19,869	32,940	52,809
2017-2021	114,095	147,143	261,238
2022-2026	174,823	117,513	292,336
2027-2031	458,569	61,565	520,134
2032-2036	25,210	467	25,677
Premium, net	35,818	-	35,818
Deferred loss, net	(50,267)	-	(50,267)
Total	$ 821,195	$ 509,879	$ 1,331,074

Bonds payable outstanding at June 30, 2011 are as follows (expressed in thousands):

Component Unit	**Interest Rates**	**Maturity Through**	**Balance at June 30, 2010**	**Additions**	**Reductions**	**Balance at June 30, 2011**	**Amount Due Within One Year**
Government Development Bank for Puerto Rico	2.6%–6.5%	2039	$ 974,449	$ -	$ 60,496	$ 913,953	$ 68,559
Puerto Rico Infrastructure Financing Authority	Variable	2048	2,998,061	-	1,026,565	1,971,496	32,175
University of Puerto Rico	3%–5.75%	2036	676,465	1,563	34,294	643,734	28,800
Puerto Rico Municipal Finance Authority	3.70%–6.00%	2031	1,197,904	-	93,673	1,104,231	94,775
Puerto Rico Ports Authority	6.50 %	2028	42,666	2,321	-	44,987	-
Puerto Rico Aqueduct and Sewer Authority	4.25%–6.15%	2050	1,909,430	9,132	2,418	1,916,144	3,123
Puerto Rico Highways and Transportation Authority	2.25%–6.50%	2046	6,517,739	12,031	142,809	6,386,961	129,980
Puerto Rico Industrial Development Company	5.10%–6.75%	2029	248,965	413	11,874	237,504	12,680
Puerto Rico Convention Center District Authority	4.00%–5.00%	2037	465,960	-	9,565	456,395	9,040
Puerto Rico Electric Power Authority	2.00%–6.125%	2040	7,495,322	581,870	215,940	7,861,252	361,060
Total bonds payable-component units			$22,526,961	$607,330	$1,597,634	$21,536,657	$740,192

Debt service requirements on component units' bonds payable with fixed maturities at June 30, 2011 were as follows (expressed in thousands):

Year Ending June 30,	**Principal**	**Interest**	**Total**
2012	$ 740,192	$ 1,018,267	$ 1,758,459
2013	614,610	1,000,498	1,615,108
2014	626,235	971,668	1,597,903
2015	629,088	941,755	1,570,843
2016	909,305	920,131	1,829,436
2017-2021	3,507,499	4,063,744	7,571,243
2022-2026	3,988,762	3,135,441	7,124,203
2027-2031	3,624,164	2,238,831	5,862,995
2032-2036	3,158,356	1,422,824	4,581,180
2037-2041	3,079,082	688,218	3,767,300
2042-2046	1,139,148	194,252	1,333,400
2047-2051	287,831	12,088	299,919
Discount, net	(555,834)	-	(555,834)
Unaccreted discount	(1,766)	-	(1,766)
Deferred loss	(210,015)	-	(210,015)
Total	$ 21,536,657	$ 16,607,717	$ 38,144,374

The table that follows represents debt service payments on two component units' variable-rate bonds and the net payments on associated hedging derivative instrument as of June 30, 2011. Although interest rates on variable rate debt and the current reference rate of hedging derivative instrument change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rate of the hedging derivative instrument on June 30, 2011 will remain the same for their term.

Year Ending	**Variable-Rate Bonds**		**Hedging Derivative**	
June 30,	**Principal**	**Interest**	**Instruments, Net**	**Total**
2012	$ -	$ 10,461	$ 33,585	$ 44,046
2013	-	10,461	33,596	44,057
2014	-	10,461	33,590	44,051
2015	-	10,461	33,590	44,051
2016	-	10,461	33,595	44,056
2017-2021	104,525	48,442	162,327	315,294
2022-2026	111,630	42,167	143,397	297,194
2027-2031	453,635	27,112	106,253	587,000
2032-2036	-	14,279	65,599	79,878
2037-2041	-	14,279	63,034	77,313
2042-2046	389,060	7,567	17,638	414,265
Total	$ 1,058,850	$ 206,151	$ 726,204	$ 1,991,205

Several component units have defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old debts. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the statement of net assets (deficit). As of June 30, 2011, the following bonds are considered defeased (expressed in million):

	Amount Outstanding
Puerto Rico Electric Power Authority	$ 4,100
Puerto Rico Highways and Transportation Authority	2,060
Puerto Rico Municipal Finance Agency	243
Total	$ 6,403

16. GUARANTEED AND APPROPRIATION DEBT

(a) Guaranteed Debt

The Commonwealth may provide guarantees for the repayment of certain borrowings of component units to carry out designated projects. At June 30, 2011, the following component unit debts are guaranteed by the Commonwealth (expressed in thousands):

	Maximum Guarantee	Outstanding Balance
Blended component unit —		
Public Buildings Authority	$ 4,325,000	$ 3,008,202
Discretely presented component units:		
Government Development Bank for Puerto Rico	267,000	267,000
Puerto Rico Aqueduct and Sewer Authority	1,004,234	1,004,234
Port of the Americas Authority	250,000	214,525
Total	$ 5,846,234	$ 4,493,961

The Commonwealth has guaranteed the payments of rentals of its departments, agencies, and component units to PBA, a blended component unit, under various lease agreements executed pursuant to the law that created PBA. Such rental payments include the amounts required by PBA for the payment of principal and interest on the guaranteed debt as authorized by law. The rental commitment to cover principal and interest on the guaranteed debt (excluding premiums and deferred refunding losses) as of June 30, 2011 and for the next five years and thereafter follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ 81,002	$ 163,671	$ 244,673
2013	78,580	159,823	238,403
2014	74,135	155,261	229,396
2015	77,920	151,199	229,119
2016	81,945	146,911	228,856
2017–2021	384,305	660,011	1,044,316
2022–2026	445,140	540,311	985,451
2027–2031	638,246	390,805	1,029,051
2032–2036	848,371	199,595	1,047,966
2037–2040	359,895	27,616	387,511
	3,069,539	$ 2,595,203	$ 5,664,742
Plus accreted value on bonds outstanding	30,341		
Plus unamortized premium, net	50,996		
Less deferred loss on bonds defeased	(142,674)		
	$ 3,008,202		

Rental income of PBA funds amounted to approximately $213 million during the year ended June 30, 2011, of which $116 million was used to cover debt service obligations.

Adjustable Refunding Bonds — The Commonwealth guarantees the Adjustable Refunding Bonds, Series 1985, issued by GDB, a discretely presented component unit. The outstanding balance of these bonds amounted to $267 million at June 30, 2011. On August 1, 2008, GDB repurchased the $267 million outstanding of its adjustable refunding bond as a result of significant increases in the interest rate of these auction rate bonds. On December 30, 2009, GDB remarketed and reissued these bonds at a fixed rate of 4.75%, maturing on December 1, 2015. These notes are subject to redemption at the option of GDB on or after June 1, 2013 at a redemption price of 101% through May 31, 2014 and 100% after June 1, 2014.

Mortgage Loan Insurance — The Puerto Rico Housing Finance Authority (the "Authority"), a component unit of GDB, provides mortgage credit insurance to low and moderate income families through its mortgage loan insurance program. The Commonwealth guarantees up to $75 million of the principal insured by the mortgage loan insurance program. As of June 30, 2011, the mortgage loan insurance program covered loans aggregating to approximately $566 million. Currently, the Commonwealth has not been called to make any direct payments pursuant to these guarantees.

Land Acquisition and Construction Loans Insurance — The Authority's land acquisition and construction loans insurance program provides mortgage credit insurance to low and moderate income families for the purchase of lots. The program is financed through legislative appropriations and proceeds from mortgage insurance premiums and any other income derived from this insurance activity. Under this program, the Authority is authorized to commit good faith and credit of the Commonwealth up to $5 million for the issuance of debenture bonds.

Act No. 45 of July 28, 1994 states that the Commonwealth guarantees the payment of principal and interest of all outstanding bonds at the date the law was enacted and of all future bond issues to refinance those outstanding bonds of PRASA. Act No. 140 of August 3, 2000 amended Act No. 45 to extend the Commonwealth guarantee to include the principal and interest payments of the Rural Development Serial Bonds and the loans under the State Revolving Fund Program (SRFP) outstanding at the effective date of Act No. 140, and of all future bonds and SRFP loans that may be issued through June 30, 2005. Act No. 386 of September 21, 2004 extended the Commonwealth guarantee to June 30, 2010. Act. No. 75 of July 12, 2010 amended section 1 of Act No. 45 of July 28, 1994 to extend the Commonwealth guarantee over the Rural Development and SRFP's borrowings to June 30, 2015.

United States Department of Agriculture (USDA) Rural Development Program assist PRASA in the financing and construction of aqueduct and sewer facilities in rural areas by purchasing revenue bonds from PRASA, the proceeds of which are used by PRASA to finance such projects. GDB provides entire financing for the projects through short-term lines of credit. As of June 30, 2011, the USDA Rural Development Program Serial Bonds consisted of twenty-four (24) separate series, issued from 1983 through 2009, bearing interest from 4.25% to 5% due in semiannual installments through 2050. The outstanding balance of the USDA Rural Development Program Serial Bonds as of June 30, 2011 was approximately $306 million. The USDA Rural Development Program Serial Bonds are guaranteed by the Commonwealth pursuant to Act No. 140 of August 3, 2000, as amended, and PRASA's net revenue is pledged toward the payment of debt service on the USDA Rural Development Program Serial Bonds.

The Puerto Rico Water Pollution Control Revolving Fund and Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (the Revolving Funds) were created by Act No. 44 of June 21, 1988 and Act No. 32 of July 7, 1997, respectively, of the Commonwealth. The Puerto Rico Water Pollution Control Revolving Fund is administered, pursuant to Act No. 44 and Act No. 9 of June 21, 1988 and June 18, 1970, respectively, as amended, by Puerto Rico Environmental Quality Board (EQB). The Puerto Rico Safe Drinking water Treatment Revolving Loan Fund is administered, pursuant to Act No. 5 of July 21, 1977, as amended, by Puerto Rico Department of Health (DOH).

Pursuant to these laws, EQB and DOH, on behalf of the Commonwealth, are authorized to enter into operating agreements and capitalization grant agreements with the U.S. Environmental Protection agency (EPA). Puerto Rico Infrastructure Financing Authority (PRIFA), a component unit of the Commonwealth, PRASA, and GDB entered into a memorandum of understanding under which each party has agreed to assume specific responsibilities in connection with the operations of the Revolving Funds.

PRASA has entered into revolving loan agreements to finance certain capital improvements. As of June 30, 2011, PRASA had outstanding approximately $413.4 million under these loan agreements.

The loan agreements are evidenced by promissory notes, which bear interest at a 2% annual rate payable semiannually. Construction loans are required to be paid in full within 20 years of the project completion date. PRASA has pledged its net revenues on a basis subordinate in all respect to the PRASA's bonds outstanding. If PRASA's pledged revenues are not sufficient for the payment of principal and interest, the payments are guaranteed by the Commonwealth under the Act No. 45 of July 28, 1994, as amended, which obligates the Commonwealth to pay principal and interest on the notes.

On March 18, 2008, PRASA issued approximately $284.8 million of Revenue Refunding Bonds, Series A and B (the "2008 Revenue Refunding Bonds"), (guaranteed by the Commonwealth) to refund PRASA's outstanding Revenue Refunding Bonds, Series 1995 (guaranteed by the Commonwealth) in the amount of approximately $262.8 million. The 2008 Revenue Refunding Bonds bear interest at rates from 5.80% to 6.10% per annum with maturity dates ranging from July 1, 2021 to July 1, 2034. The outstanding balance of the 2008 Revenue Refunding Bonds at June 30, 2011 amounted $284.8 million.

At various times during fiscal years ended 2005 and 2006, the Port of the Americas Authority, a component unit of the Commonwealth, entered into a bond purchase agreements with GDB, whereby GDB agreed to disburse to the Port of the Americas Authority from time to time certain bond principal advances up to a maximum aggregate principal amount of $70 million (Port of the Americas Authority 2005 Series A Bond), $40 million (Port of the Americas Authority 2005 Series B Bond), and $140 million (Port of the Americas Authority 2005 Series C Bond). The proceeds of the bonds were used to finance the cost of development and construction of the Port of the Americas. The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable in full on January 1, 2015 and January 15, 2015. The principal amount may be paid with any of the following: (i) a long-term bond issuance once the projects are completed; (ii) other revenue of the Port of the Americas Authority; (iii) or legislative appropriations as established in Act No. 409 of September 22, 2004 (Act No. 409). Principal and interests payments are guaranteed by the Commonwealth by Act No. 409. As of June 30, 2011, the principal outstanding under those bond purchase agreements amounted to $214.5 million.

(b) Appropriation Debt

At June 30, 2011, the outstanding balances of debt payable by Commonwealth appropriations, as described in note 15(d), which are included in the individual financial statements of the following discretely presented component units, are as follows (expressed in thousands):

Puerto Rico Public Finance Corporation (a blended component unit of GDB)	$ 1,618,284
Puerto Rico Aqueduct and Sewer Authority	677,335
Special Communities Perpetual Trust	367,902
Puerto Rico Convention Center District Authority	147,600
Agricultural Services and Development Administration	99,482
Puerto Rico Industrial Development Company	42,860
Company for the Integral Development of the "Península de Cantera"	20,175
Puerto Rico Housing Finance Authority (a blended component unit of GDB)	13,618
Puerto Rico Solid Waste Authority	10,689
National Parks Company of Puerto Rico	5,963
Government Development Bank for Puerto Rico (GDB)	4,811
Puerto Rico Infrastructure Financing Authority	3,958
Institute of Puerto Rican Culture	1,828
Total	$ 3,014,505

These balances are reported in the statement of net assets (deficit) as Commonwealth appropriation bonds payable and notes payable.

17. CONDUIT DEBT OBLIGATIONS AND NO COMMITMENT DEBT

From time to time, certain of the Commonwealth's component units issue revenue bonds to provide financial assistance to private sector entities for the acquisition and construction of transportation, environmental, industrial, tourism, educational, and commercial facilities, deemed to be in the public interest and that are expected to provide benefits to Puerto Rico. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private sector entity served by the bond issuance. Neither the Commonwealth nor any political subdivision or component unit thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the basic financial statements of the issuing entities. As of June 30, 2011, conduit debt obligations consisted of the following bonds issued by component units (expressed in thousands):

Issuing Entity	Issued Since Inception to Date	Amount Outstanding
Discretely presented component units:		
Puerto Rico Ports Authority	$ 155,410	$ 155,410
Puerto Rico Highways and Transportation Authority	270,000	160,000
Government Development Bank for Puerto Rico	1,147,475	623,785
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	6,080,000	1,343,291
Total	$ 7,652,885	$ 2,282,486

(a) Puerto Rico Ports Authority (PRPA)

PRPA issued $39,810,000 in Special Facilities Revenue Bonds under the provisions of a trust agreement dated June 1, 1993, and $115,600,000 in Special Facility Revenue Bonds, under the provisions of a trust agreement dated May 1, 1996, between PRPA and a private bank. The proceeds from the sale of the bonds were used to finance the construction, acquisition of equipment, and improvement of certain facilities at Luis Munoz Marin International Airport, for the benefit of a major private airline. The property is owned by PRPA and leased to the private company. These bonds are limited obligations of PRPA, and are payable solely from and secured by a pledge of certain payments made under the Special Facilities Agreement with the private company and certain other moneys. Neither the credit of the Commonwealth nor that of any of its political subdivisions is pledged for the repayment of these bonds. In addition, the bonds are unconditionally guaranteed by the private company's parent company. Pursuant to the agreements between PRPA and the private company, the private company has agreed to pay amounts sufficient to pay the principal of and premium, if any, and interest on the bonds. The bonds are not collateralized by any property, but are payable solely from certain pledged payments by the private company under the agreement or by the private company's parent company under its unconditional guarantee. The outstanding balance of these bonds amounted to $155 million at June 30, 2011.

(b) Puerto Rico Highways and Transportation Authority (PRHTA)

In March 1992, PRHTA issued Special Facility Revenue Bonds, 1992 Series A, B and C for approximately $117 million for the construction of a toll bridge. The proceeds from the sale of these bonds were transferred by PRHTA to a private entity, Autopistas de Puerto Rico & Compañía, S.E.

(“Autopistas”), pursuant to a signed concession agreement for the design, construction, operation and maintenance of the bridge. On October 30, 2003, PRHTA issued Special Facility Revenue Refunding Bonds, 2004 Series A, amounting to approximately $153 million for the purpose of refunding PRHTA’s Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by PRHTA to Autopistas pursuant to a new loan agreement by and between Autopistas and PRHTA. The bonds shall be paid from the proceeds received by Autopistas from the operation of the bridge.

Under certain circumstances, the concession agreement may be terminated and PRHTA is then obligated to assume the Autopista’s entire obligation to pay principal of, and interest on, the bonds outstanding, which pursuant to the signed agreement, will be paid from the net revenues of the use and operation of the bridge. PRHTA does not currently expect the concession agreement to terminate. The outstanding bonds (including accrued interest) at June 30, 2011 amounted to approximately $160 million.

(c) Government Development Bank for Puerto Rico (GDB)

In December 2003, GDB, through its Housing Finance Authority, issued $663 million in Capital Fund Program Bonds Series 2003 to lend the proceeds thereof to the Public Housing Administration in its financing of improvements to various public low and moderate income housing projects. These bonds are limited obligations of the Housing Finance Authority, which will be paid solely from an annual allocation of public housing capital funds when received from the U.S. Department of Housing and Urban Development and other funds available under the bond indenture. Accordingly, these bonds are considered no commitment debt and are excluded, along with the related assets held in trust, from the accompanying basic financial statements. The outstanding balance of these bonds amounted to $179.9 million at June 30, 2011.

On August 1, 2008, the Housing Finance Authority issued the Capital Fund Modernization Program Subordinate Bonds amounting to $384,475,000 and the Housing Revenue Bonds amounting to $100,000,000. The proceeds from the issuance were mainly used to finance a loan to a limited liability company and pay the costs of issuance. The $384,475,000 bonds are limited obligations of the Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by the U.S. Department of Housing and Urban Development, with an outstanding balance of $343.8 million at June 30, 2011. The $100,000,000 bonds are also limited obligations of the Housing Finance Authority, payable from amounts deposited in escrow accounts with a trustee and the proceeds of a loan to be made by the Housing Finance Authority to the limited liability company using moneys received as a grant from the Department of Housing of Puerto Rico. Payment of principal of the Housing Revenue Bonds is also secured by an irrevocable standby letter of credit issued by GDB. These bonds are considered no-commitment debt and, accordingly, are excluded along with the related assets held in trust, from the Housing Finance Authority’s financial statements.

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

AFICA's revenue bonds are special and limited obligations of AFICA 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 AFICA and the borrowers. Furthermore, payment of principal and interest on the revenue bonds is unconditionally guaranteed by the borrowers, their parent companies, or letters of credit generally issued by major U.S. banks or U.S. branches of international banks.

The revenue bonds are considered conduit debt and do not constitute a debt or a pledge of the good faith and credit of AFICA or the Commonwealth or any political subdivision thereof.

In connection with the issuance of revenue bonds, AFICA enters into trust agreements, whereby AFICA assigns and pledges to the trustees, for the benefit of the holders of the revenue bonds, (1) all amounts receivable by AFICA in repayment of the amounts due under the loan agreements; (2) any rights, title, and interest of AFICA in the proceeds derived from the issuance of the revenue bonds and of any securities in which moneys in any fund or account created by the trust agreements or loan agreements are invested and the proceeds derived therefrom; and (3) AFICA's rights, title, and interest in and to the loan agreements, subject to AFICA's retention of certain rights, including the right to collect moneys payable to AFICA, which are not received with respect to repayment of the loans.

Since inception and up to June 30, 2011, AFICA has issued revenue bonds aggregating to $6,080 million, $1,343 million of which was outstanding as of June 30, 2011. Of the revenue bonds outstanding at June 30, 2011, $786 million represent industrial and commercial revenue bonds; $105 million, tourism related revenue bonds; $138 million, hospital revenue bonds; and $314 million, educational revenue bonds. Pursuant to the loan agreements covering the issuance of these bonds, corporations and partnerships operating in Puerto Rico borrowed the proceeds from the bond issuances by AFICA.

18. RISK MANAGEMENT

The following describes the risk management programs separately administered by certain discretely presented component units:

(a) GDB

Starting in fiscal year 2010, as part of its risk management activities and as a condition to provide financing support to certain public corporations, GDB has entered into fiscal oversight agreements with such public corporations. The agreements require the public corporations, among other, to implement a comprehensive expense reduction program, including certain fiscal oversight controls, subject to laws and existing agreements of the public corporations, design to minimize future tariff increases to households and the private sector, and to protect and improve the credit rating of the public corporations, so that the public corporations may obtain adequate financing to fund its capital expenditure requirements and to operate its infrastructure in an efficient and reliable manner and in compliance with applicable laws and regulations. GDB's agreement to provide current financing and any future financing is expressly conditioned upon the public corporations' compliance with the covenants established in the fiscal oversight agreement and GDB's right to monitor and enforce such compliance. These agreements will be in effect until the public corporations have regained a level of financial stability and are able to secure long-term financing that will result in the continued stability of the public corporations' operations and financial condition. As of June 30, 2011, GDB's management determined that all public corporations and agencies have complied with the material terms and conditions of their respective agreements.

Also, as part of its role of providing financing to the Commonwealth and its instrumentalities to further the economic development of Puerto Rico, and as part of its risk management activities, GDB is renegotiating and/or restructuring payment terms of the loans to certain governmental entities. Some of the renegotiations/restructurings extend the period for principal repayment but provide for repayment of the contractual interest in accordance with the original terms.

Other Risks Related to Mortgage and Loans Servicing and Insurance Activities — Certain loan portfolios of the Housing Finance Authority, a blended component unit of GDB, are administered by private servicers who are required to maintain an error and omissions insurance policy. The Housing Finance Authority has a program to manage the risk of loss on its mortgage loan lending and insurance activities.

(b) UPR

UPR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Through January 1993, UPR was insured under claims-made insurance policies with respect to medical malpractice risks for $250,000 per occurrence up to an annual aggregate of $500,000. Subsequent to such date, UPR was unable to obtain insurance at a cost it considered to be economically justifiable; consequently, UPR is now self-insured for such risks. Under Act No. 98 of August 24, 1994, the responsibility of UPR is limited to a maximum amount of $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Self-insured risk liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the claims liability amount in fiscal years 2011 and 2010 were as follows (expressed in thousands):

	2011	2010
Claims payable — July 1	$ 23,425	$ 27,354
Incurred claims and changes in estimates	2,743	(2,370)
Payments for claims and adjustments expenses	(2,337)	(1,559)
Claims payable — June 30	$ 23,831	$ 23,425

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.

(c) PREPA

PREPA is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. PREPA obtains insurance policies covering all-risk property (excluding transmission and distribution lines), boiler and machinery, and public liability. The all-risk property and boiler and machinery policies have a combined coverage of $750 million per occurrence. The policies' self-retention in case of earthquake and windstorm losses is $25 million and $2 million for all other covered risks. The public general liability policy covers property damage and bodily injury to third parties with a $75 million aggregate limit in excess of the self-retention limit of $1 million per occurrence.

PREPA has a cost plus health insurance program covering substantially all employees. PREPA contracted an administrator for the processing, approval, and payment of claims plus an administrative fee. The accrual for employees' health plan includes the liability for claims processed and an estimate for claims incurred but not reported.

Changes in the balances of the health insurance program and other self-insurance risks during fiscal years 2011 and 2010 were as follows (expressed in thousands):

	2011	2010
Claims payable — July 1	$ 5,597	$ 5,552
Incurred claims	95,921	114,179
Claim payments	(94,351)	(114,134)
Claims payable — June 30	$ 7,167	$ 5,597

Claims payable are a component of accounts payable and accrued liabilities in the accompanying statement of net assets (deficit).

(d) SIFC

SIFC provides workers' compensation insurance to public and private employees. This insurance covers workers against injuries, disability, or death because of work or employment related accidents, or because illness is suffered as a consequence of their employment. SIFC establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. The liability includes estimates for cases reported that have not been adjudged and cases incurred but not reported. The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid benefits and benefit adjustment expenses for the two most recent fiscal years (expressed in thousands):

	2011	2010
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$ 778,243	$ 738,475
Total incurred benefits	525,568	556,650
Total benefit payments	(519,793)	(516,882)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$ 784,018	$ 778,243

The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as liability for automobile accident insurance and workmen compensation claims in the accompanying statement of net assets (deficit).

The liability for incurred but unpaid benefits and benefit adjustment expenses is based on historical claims experience data, assumptions and projections as to future events, including claims frequency, severity, persistency, and inflationary trends determined by an independent actuarial study. This liability has been discounted at 4.20% in 2011. SIFC's management believes that discounting such liability results in a better matching of costs and revenues since compensation benefits have a long payment cycle. The assumptions used in estimating and establishing the liability are reviewed annually based on current circumstances and trends.

SIFC's management believes that the liability for incurred but unpaid benefits and benefit adjustment expenses, actuarially determined at June 30, 2011, is a reasonable estimate of the ultimate net cost of settling benefits and benefit expenses incurred. Because actual benefit costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other social and economic factors, the process used in computing the ultimate cost of settling benefits and expenses for administering benefits is necessarily based on estimates. The amount ultimately paid may be above or below such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur.

(e) AACA

AACA operates a system of compulsory insurance for vehicles licensed to be used on public roads and highways in Puerto Rico. This insurance covers death and bodily injuries caused by automobile accidents. The annual premium is $35 per motor vehicle.

The following table provides a reconciliation of the beginning and ending liability for the future benefits for the two most recent fiscal years, presented based on undiscounted method (expressed in thousands):

	2011	2010
Liability for incurred but unpaid benefits and benefit adjustment expenses at beginning of year	$ 165,927	$ 166,352
Total incurred benefits	63,180	74,090
Total benefit payments	(62,511)	(74,515)
Liability for incurred but unpaid benefits and benefit adjustment expenses at end of year	$ 166,596	$ 165,927

The liability for future benefits is reported as liability for automobile accident insurance and workmen compensation claims in the accompanying statement of net assets (deficit). The liability covers the estimated cost of all future benefits related to claims incurred but not reported during the year. Future benefits include death and funeral, disability and accident and health benefits. AACA has recorded this liability, including administrative expenses for claim processing, based on the results of an actuarial report prepared by an independent actuary.

Changes in the ultimate liabilities for benefit payments may be required as information develops, which varies from experience, provides additional data, or, in some cases, augments data, which previously were not considered sufficient for use in determining the claim liabilities.

(f) PRIFA

PRIFA is responsible for assuring that its property is properly insured. Annually, PRIFA compiles the information of all property owned and its respective market value and purchases its property and casualty insurance policies. Insurance coverage for fiscal year 2011 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

(g) PRASA

PRASA has acquired commercial insurance to mitigate its exposure to certain losses involving real and personal property (including windstorm, flood and earthquake damages) and comprehensive general and automobile claims. Each commercial insurance policy maintained by PRASA contains specific policy limits and deductibles. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

19. COMMITMENTS AND CONTINGENCIES

Primary Government — The Commonwealth is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Commonwealth only for causes of actions set forth in said Act to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Commonwealth may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgments.

With respect to pending and threatened litigation, excluding the litigation mentioned in the following paragraphs, the Commonwealth reported approximately $281 million as an amount to cover for awarded and anticipated unfavorable judgments at June 30, 2011. This amount was included as other long-term liabilities in the accompanying statement of net assets (deficit), and represents the amount estimated as probable liability or a liability with a fixed or expected due date that will require future available financial resources for this payment. The amounts claimed exceed $17 billion; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claims are excessive and exaggerated. Management believes that the ultimate liability in excess of amounts provided, if any, would not be significant.

The Commonwealth is a defendant in two parallel lawsuits, one filed in the state court and the other at the federal court. The plaintiffs are various primary healthcare centers seeking to recover from the Commonwealth $500 million of Medicaid funds retained by the Department of Health of the Commonwealth since 1997. In February 2005, United States Court of Appeals for the First Circuit determined that the Commonwealth must return any funds withheld because of noncompliance with a federal law. As of June 30, 2011, the Commonwealth accrued $500 million for this legal contingency.

The Commonwealth is a defendant in a class action presented by parents of special education students in the areas of education and healthcare. In October 2006, the State Court of Appeals decided in favor of the parents' request to include damage claims pursuant to the same class action case although not as a remedy in the class action per se. The court now may award damages to the members of the class action and to do so it may look at the claims by dividing them into groups or consider each case individually. This will require that the parents prove the damages suffered. The Commonwealth plans to defend vigorously each individual case. As of June 30, 2011, the Commonwealth accrued $600 million for this legal contingency.

The Commonwealth receives financial assistance from the federal government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Substantially, all grants are subject to audit under Circular A-133 of the Office of Management and Budget of the United States of America (OMB Circular A-133), all of which are performed at the individual department or agency level. Disallowance as a result of these audits may become liabilities of the Commonwealth. At June 30, 2011, based on an evaluation of pending federal disallowances, the Commonwealth has recorded approximately $118.9 million as other long-term liabilities in the accompanying statement of net assets (deficit). Expenditures that are still subject to audit could be disallowed but management believes any such future disallowances would not be material to the basic financial statements.

Construction commitments at June 30, 2011, entered by PBA, amounted to approximately $72.7 million. In addition, the Commonwealth’s construction commitments for public housing facilities amounted to approximately $322 million at June 30, 2011.

On November 23, 1998, a global settlement agreement (the “Global Agreement”) was entered into by and between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies are to continue making contributions in perpetuity. Pursuant to Act No. 173 of July 30, 1999, which created the Children’s Trust (a blended component unit), the Commonwealth assigned and transferred to the Trust all payments that the Commonwealth is entitled to receive under the Global Agreement. Payments received under the agreement and recognized as revenue during the year ended June 30, 2011 amounted to approximately $71 million.

Discretely Presented Component Units — in the normal course of their operations, various component units are subject to guarantees, actions brought by third parties seeking damages or entering into commitments. Such actions are disclosed in the separately issued reports of the component units, some of which are summarized below:

(a) GDB

On August 18, 2002, the Legislature approved Law No. 198, which creates the Cooperative Development Investment Fund. The purpose of this fund is to promote the development of cooperative entities. This fund will be capitalized through contributions to be provided by GDB up to $25 million to be matched by cooperative entities. As of June 30, 2011, GDB has contributed $16.9 million to the Cooperative Development Investment Fund, $673,000 of which were contributed during the year ended June 30, 2011.

The Development Fund, a blended component unit of GDB, has entered into an agreement with the Economic Development Bank for Puerto Rico (EDB) whereby the Development Fund would guarantee a portion of loans granted by EDB under a government program named "The Key for Your Business" (the "Program"). Under the agreement, the Development Fund would assign $15 million of its capital for the Program. The Development Fund guarantees one-third of the outstanding principal balance of each loan plus accrued interest and certain other charges. The Development Fund charges one percent of the loan amount as guarantee fee and no loan can exceed $50,000. At June 30, 2011, the outstanding balance of loans guaranteed amounted to approximately $14.2 million, and the allowance for losses on guarantees amounted to approximately $1.5 million.

The Housing Finance Authority, a blended component unit of GDB, acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2011, the principal balance of the mortgage loans serviced for others is approximately as follows (expressed in thousands):

R-G Mortgage, Inc.	$ 1,439
Office for the Administration of the Assets of the Urban Renovation and Housing Corporation or its successor without guaranteed mortgage loan payments	43
Popular Mortgage, Inc.	38
Total	$ 1,520

GDB and certain of its component units are defendants in several lawsuits arising out of the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material adverse effect on the financial position and results of operations of GDB or its component units.

(b) PRHTA

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

During July 2010, PRHTA settled two legal cases amounting to approximately $62 million. On June 13, 2011, PRHTA deposited approximately $21.8 million at the Federal Court of Puerto Rico as part of the appeal process at the U.S. Court of Appeals for the First Circuit of Boston for another legal case related to a construction project.

As of June 30, 2011, PRHTA, based on legal advice, has recorded a provision of approximately $92.6 million to cover probable losses on those claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of the insurance coverage and/or the recorded provision that may arise for such claims will not be significant to the PRHTA's financial position or results of operations.

(c) PRASA

PRASA is a defendant on various lawsuits presented by customers alleging that PRASA has over billed them due to the methodology used to estimate consumption. There are two cases in which plaintiffs requested a certification of the suit as a class action and seek recovery damages in the amount of approximately $386 million, plus legal costs of around $100 million (25%) and interests and an injunction enjoining PRASA from continuing to bill using the current methodology. PRASA's potential exposure from these lawsuits cannot be presently determined and, as such, no liability is being reported on the accompanying basic financial statements.

PRASA is the defendant or codefendant in various other lawsuits. The ultimate outcome of the lawsuits cannot presently be determined. However, PRASA's management, based on the advice of legal counsels, is of the opinion that these lawsuits will not have a material impact on the basic financial statements.

(d) PREPA

PREPA is a defendant or codefendant in several lawsuits incidental to its business, some involving substantial amounts. In those instances that management and legal counsel believe that the outcome of the litigation will be unfavorable to PREPA, a provision has been made to cover the estimated liability. PREPA's management, based on discussions with legal counsel believes that the additional liability, if any, resulting from the ultimate resolution of these matters will not have a material effect on PREPA's financial position or results of operations.

On May 18, 2000, Abengoa, Puerto Rico, S.E. (Abengoa), PREPA's contractor for the repowering of San Juan steam plant units 5 and 6, unilaterally declared a termination of the contract with PREPA and filed a complaint for breach of contract. PREPA has moved for time to answer the complaint and has filed a counterclaim for the cost of the project and for all damages caused to PREPA by the alleged illegal contract termination. PREPA believes that the actions by the contractor will not materially affect the ability of PREPA to provide service nor there will be a material difference in the quality of service provided by PREPA.

In June 2004, the Office of the Comptroller of the Commonwealth of Puerto Rico (the "Comptroller") issued a report stating that PREPA overcharged its clients by approximately $49.8 million, and should reimburse this amount to such clients. After this report was made public, two lawsuits were filed by clients of PREPA against PREPA demanding the reimbursement of such alleged overcharges. PREPA's position is that the Comptroller incorrectly based his conclusion on data that is not relevant to the calculation of PREPA's rates, and that PREPA's rates were properly established in the year 2000 in accordance with applicable laws and regulations. In particular, PREPA notes that its rates properly take into consideration the cost of the fuel used by PREPA's generating facilities and the cost of the electricity purchased from the two co-generating facilities that sell power to PREPA.

In 2008, Power Technologies Corp. filed a suit against PREPA, alleging that PREPA had withdrawn from a contracting process for a new energy facility, in which Power Technologies was involved, without explanation or justification. Power Technologies seeks damages of $51.4 million. The case is currently in discovery stage.

In addition to these cases, PREPA is involved in typical litigation for an electric power utility, but management estimates the amounts of such claims are not material and will not affect adversely PREPA's operations.

(e) PRMeSA

On October 14, 2010, the Legislature of the Commonwealth approved a new article 9A to Act No. 66 of June 22, 1978, (the "Article"), authorizing PRMeSA to incur in obligations up to $285 million, under such terms and conditions approved by the Board of Member Institutions (the Board) of PRMeSA and GDB, as fiscal agent of the Commonwealth and its instrumentalities.

These additional funds shall be deposited in a special account at GDB and may only be used for the following purposes:

a. payment of debts to suppliers, agencies, institutions, reserve fund for the self-insurance (professional responsibility and inter-fund debt) of PRMeSA; and

b. to provide operational liquidity to ease PRMeSA's fiscal situation during the 2010-11 fiscal year, as determined by the agreement with GDB.

From savings generated as a result of the debt renegotiations with the agencies and institutions, PRMeSA will create a fund to cover operating expenses related to maintenance, overhaul and reconditioning of the physical plant. GDB, in its role as fiscal agent, shall possess the administrative mechanisms as it deems necessary to ensure that these funds will be used solely and exclusively for the purposes set forth in the Article. The special bank account and the funds deposited therein shall not be seized, syndicated, frozen, encumbered or otherwise affected by decisions, judgments, orders or rulings issued by courts of Justice of the Government of Puerto Rico or its agencies or public corporations during any adjudicative proceeding of administrative or judicial nature, regardless of whether they were initiated by private individuals or public institutions.

PRMeSA was required to develop and implement within one hundred eighty (180) days from the approval of the Article, an aggressive collection plan for the recovery of its accounts receivable. The Directors shall report periodically to GDB on the implementation of that plan, and report annually to the Board and GDB the collection proceeds arising from the execution of the plan. GDB was authorized as fiscal agent to undertake any necessary measures in order to, within a reasonable period of time, help PRMeSA to become and operate as an independent fiscal instrumentality.

However, once the collection plan is working as expected and providing PRMeSA the funds resources required, and became a financially independent institution as determined by GDB, PRMeSA will be required to assume the remaining established obligations.

The Commonwealth will honor the payment of the obligations authorized, with legislative appropriations made by the Legislature on the annual budgets, beginning with the fiscal year 2012-2013 and ending in the fiscal year 2023-2024.

Also, for the fiscal years 2012-2013 and 2013-2014, the Director of the Office of Management and Budget, will consign on the annual budgets, the amount corresponding to interests on the obligations incurred and, beginning on fiscal year 2014-2015, and for the next nine (9) years, the amount of $31.5 million plus interests on the obligations incurred. If in any moment the legislative appropriations or other income of PRMeSA were not sufficient to cover the payment of the obligations authorized and the accrued interest, the Secretary of the Treasury will withdraw from any amounts available in the General Fund of the Commonwealth the necessary amounts to repay the principal and interests of the line of credit.

PRMeSA has accounts receivable aggregating $19 million at June 30, 2011, from the Hospital of the Municipality of San Juan, related to medical services rendered. PRMeSA alleges that these amounts are related to services rendered during the period from June 30, 2005 to June 30, 2011.

PRMeSA filed at the Department of Justice of the Commonwealth and with the Commission for the Resolution of Controversies over Payments and Debts between Governmental Agencies, a claim demanding the resolution of this matter. On June 29, 2009, the Commission designated the OMB to serve as a mediator in this claim. As of June 30, 2011, no resolution or recommendation has been made by the OMB in connection with this controversy.

PRMeSA is a party in certain legal actions and claims related to medical malpractice arising in the ordinary conduct of its business. Although PRMeSA appears as a defendant in the claims, many of them involve medical personnel of the member institutions, and in effect, these claims are against said institutions. As a result of the deficiency as of June 30, 2011, of funds available in the Self-Insurance Fund, any unfavorable outcome may have a significant effect on the financial condition of PRMeSA.

Based on a review of current facts and circumstances, PRMeSA's management has provided for what is believed to be a reasonable estimate of the exposure to loss associated to litigation. PRMeSA has established an accrual reserve for claim losses in the amount of $7 million at June 30, 2011.

(f) PRIFA

At June 30, 2011, PRIFA is a defendant in various legal proceeding arising from its normal operations. Management, based on the advice of its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on PRIFA's financial statements. However, management is of the opinion that they will reach settlements in certain cases. A liability to cover claims and other contingencies amounting to $4.9 million has been reflected as part of accounts payable and accrued expenses in the accompanying statement of net assets (deficit).

(g) Special Communities Perpetual Trust

The Special Communities Perpetual Trust (the "Trust") has financial assistance agreements with several municipalities of the Commonwealth to provide funding for the construction, improvement and rehabilitation of certain projects of the Special Communities. At June 30, 2011, the Trust's commitments with the municipalities amounted to approximately $116.7 million, from which a total of approximately $93.3 million had been disbursed.

The Trust is a defendant in numerous legal proceedings pertaining to matters incidental to the performance its normal operations. The Trust recorded approximately $3 million to cover for awarded and anticipated unfavorable judgments at June 30, 2011. This amount represents the amount estimated as probable liability that will require future available financial resources for its payment. The amounts claimed approximate $48 million; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claims are excessive and exaggerated. Management, based on the advice of its legal counsel, believes that the ultimate liability in excess of amounts provided would likely not exceed $1.8 million.

There is a case pending in court in which the Trust is the plaintiff for the expropriation of real property. Management, based on the advice of its legal counsel, believes that the Trust will have to pay approximately $600,000 in excess of amounts already deposited with the court when the final expropriation takes place.

Environmental Commitments and Contingencies

Primary Government

The Commonwealth accounts for the pollution remediation obligations in accordance with GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*". This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care.

Once any of five specified obligating events occurs, a government is required to estimate the component of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention–related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The government commences or legally obligates itself to commence pollution remediation.

As of June 30, 2011, the pollution remediation obligation recorded in the accompanying statement of net assets (deficit) amounted to approximately $7 million, and is included in other long-term liabilities.

Component Units

The following component units' operations include activities that are subject to state and federal environmental regulations:

- *PREPA* — Facilities and operations of PREPA are subject to regulations under numerous federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, Oil Pollution Act (OPA) Resource Conservation Recovery Act (RCRA), Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and Underground Storage Tanks, among others. In February 1992, the Environmental Protection Agency (EPA) conducted a multimedia inspection of PREPA's facilities and identified several alleged instances of noncompliance related to PREPA's air, water, and oil spill prevention control and countermeasures compliance programs.

PREPA and the EPA undertook negotiations to resolve the issues regarding the deficiencies observed during the inspection and to ensure future compliance with all applicable laws and regulations. As a result of the negotiations, PREPA and the EPA reached an agreement that resulted in a consent decree (the "Consent Decree") approved by the United States federal court in March 1999. Under the terms and conditions of the Consent Decree, PREPA paid a civil penalty of $1.5 million and implemented additional compliance projects amounting $4.5 million. In addition, the Consent Decree requires that PREPA improves and implements compliance programs and operations in order to assure compliance with environmental laws and regulations.

In 2004, the United States federal court approved a modification to the Consent Decree agreed by PREPA and the EPA under which PREPA reduced, in two steps, the sulfur content in the No. 6 fuel oil used in certain generating units of its Costa Sur and Aguirre power plants (to 0.75% or less by March 1, 2005 and to 0.5% or less by March 1, 2007), and used No. 6 fuel oil with sulfur content of not more than 0.5% through July 18, 2009 at its Palo Seco and San Juan power plants. Additionally, PREPA has completed a nitrogen oxide emissions reduction program and modified the optimal operating ranges for all its units under the Consent Decree. PREPA also paid a $300,000 civil fine and reserved $200,000 to fund certain supplemental environmental projects and programs under the Consent Decree.

PREPA has audited the Consent Decree programs and a considerable number of them can be closed since their requirements have been completed. The programs can be closed under a Stipulation of Partial Termination filed jointly, in federal court, with the EPA.

Since September 2004, there has been no legal action in the United States federal court or any administrative proceeding against PREPA regarding the Consent Decree or its modification. The Consent Decree includes stipulated penalties for certain events of noncompliance. Noncompliance events must be disclosed to EPA in the corresponding report. Ordinarily, when a covered noncompliance event occurs, PREPA pays the stipulated penalty in advance in order to benefit from a 50% discount of the applicable stipulated penalty.

In 1997, as a result of an inspection carried out by EPA and the Puerto Rico Environmental Quality Board (EQB) at PREPA's Palo Seco Power Plant, the EPA issued an Administrative Order for the investigation and possible remediation of seven areas identified by the EPA at the Palo Seco Power Plant and the Palo Seco General warehouse. The Administrative Order required PREPA to carry out a Remedial Investigation/Feasibility study (RI/FS). The RI/FS required under the Order is designed to: (i) determine the nature and extent of contamination and any threat to the public health, welfare or environmental caused by any release or threatened released of hazardous substances, pollutants or contaminants at or from the site; and (ii) determine and evaluate alternatives for the remediation and control of the release or threatened release of hazardous substances, pollutants, or contaminants at or from the site. The RI/FS is still in progress. The RI was completed and a final report was submitted to EPA for evaluation. PREPA is waiting for EPA's evaluation.

The information gather under the RI reflected the presence of free product (Separate Phase Hydrocarbons) in several monitoring wells. The analysis of this product also reflected a low concentration of polychlorinated biphenyls (PCBs). PREPA and EPA entered in to an Administrative Order on Consent (CERCLA-02-2008-2022) requiring PREPA to complete a removal plan that consists of determining if the underground water has been impacted by the PCBs, the extension of the contamination and the implementation of a work plan for free product removal. Analytical data collected during this activity reflected that underground water has not been impacted by PCBs. Nevertheless, water/oil mix has been found in several monitoring wells (MWs). PCBs concentrations between 1.36 – 2.36 parts per million were detected in the oil found in 3 of the 7 MWs. Multiphase extraction (MPE) activities in the MWs where water/oil phases were found, has been performed on a weekly basis. After several MPE, this activity was discontinued at USEPA's recommendations. MWs gauging readings were performed during these activities. The last MW gauging readings reflected the presence of oil/water mix in nine MW's. Three of these wells are located off-site. This situation represents an environmental threat since the wells are located near the ocean. USEPA request the take actions to avoid the environmental threat, PREPA proposed the installation of LNAPL Barrier wall which prevent further off-site migration of LNAPL and include long term passive recovery of the LNAP. The cost of the wall barrier installation is around $1,000,000. As part of the USEPA/PREPA meetings regarding RI/FS and AOC, USEPA is considered that RI/FS will be completed as a no action ROD with some institutional controls and the AOC will be closed with the installation of the barrier wall. USEPA will notify PREPA with the final decision after discussion with other USEPA Region 2 personnel.

The remaining costs to achieve compliance have been estimated at $1,500,000. Both Orders also establish a Reimbursement of Costs condition in which PREPA agrees to reimburse EPA for all costs incurred by EPA in connection to the site. No bill has been received by PREPA, as of this date.

The Record of Decision (ROD) was published as scheduled by EPA on September 30, 2011. Alternative No. 2, Removal with On-Site Consolidation and Cover in the Non-Residential Area, was selected. From this point on, EPA resumed negotiations with the Potential Responsible Parties (PRP's), both private and public, towards signing a Consent Decree through which the PRP's would contribute enough funds to cover the costs of the remedial action and the maintenance of the site. PREPA has already approved a contribution of $1,000,000 through Resolution 3804, April 1, 2011. Notwithstanding, through further negotiations an additional contribution of $300,000 was required by EPA. This contribution will be considered by PREPA's Governing Board in the upcoming weeks. Once approved PREPA should be able to finalize the negotiations and execute the Consent Decree, subject to the ability of the other public PRP's to do the same. Once this CD is executed no further disbursements are foreseeable, but for the noncompliance of other PRP's

In 2002, PREPA received a "Special Notice Concerning Remedial Investigation/Feasibility Study for Soil" at the Vega Baja Solid Waste Disposal Superfund Site. The EPA has identified PREPA and other six entities as "potentially responsible parties", as defined in the CERCLA. In 2003, PREPA agreed to join the other potentially responsible parties in an Administrative Order on Consent (AOC) for an RI/FS, with the understanding that such agreement did not constitute an acceptance or responsibility. Under the AOC, PREPA committed up to $250,000 as its contribution to partially fund the RI/FS. At this time, RI/FS has been completed. The work proceeded in accordance with the schedule established by PREPA and the other designated potentially responsible parties. In July 2010, a proposed plan was issued identifying the Preferred Alternative to address soil contamination at the Vega Baja Solid Waste Disposal Site. EPA held a public hearing on August 3, 2010 to discuss the alternatives to address soil contamination. A Record of Decision (ROD) by EPA is scheduled for the end of September 2010 in which a determination of the selected alternative will be made.

On January 10, 2008, PREPA and Skanska Energy Services, LLC (Skanska) entered into an Engineer Procure Construct Finance Contract for the construction of the Gasoducto del Sur Project (the "Project") for an original Contract Price of $74,324,259. On December 2, 2008, the Superior Court of Ponce issued an injunction stopping all construction. On July 23, 2009, PREPA's Governing Board authorized the termination and settlement of the Contract. PREPA obtained title to all equipment and material procured and 100% of engineering documents and all pending disputes were settled for a lump-sum payment of $59,000,000 due to the Contractor. The Termination and Settlement Agreement was executed on August 7, 2009. Pursuant to an Asset Purchase Agreement dated August 17, 2009, PREPA sold the assets of the Gasoducto del Sur Project to The Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA by its Spanish acronym) for approximately $36 million. In addition, PREPA entered into a Subordinated Loan Agreement with the Government Development Bank (GDB) for $35,000,000 evidenced by a 24-month subordinated note until such time that Puerto Rico Aqueduct and Sewer Authority (PRASA) shall purchase from AFICA the Project.

- *PRASA* — On July 1, 2003, PRASA entered into an agreement (Civil Action No. 01-1709) with EPA to attain compliance with the Clean Water Act in relation to PRASA's wastewater pump stations (WWPSs) in response to a significant number of sanitary sewer bypasses from these locations. The Clean Water Act prohibits discharges of sewage from any point in the collection and treatment system other than the authorized point at the treatment facility. PRASA completed all improvement projects required by EPA for these WWPSs on or before the established completion dates in the Agreement. This Agreement also required PRASA to invest $1 million in the development and implementation of a Supplemental Environmental Project (SEP). This project consisted of the connection of three NON-PRASA communities to the PRASA's drinking water system. The connection has been completed and is awaiting completion of adjacent systems to fully integrate these systems to PRASA's service. The Agreement also required the implementation of the Preventive Maintenance Program (PMP) for all of PRASA's WWPSs. This was fully completed in December of 2010, after a three phase, EPA-approved implementation schedule. As part of the Agreement, PRASA pays stipulated penalties for pump station bypass events on a quarterly basis. The penalty calculations are based on the pumping capacity of the pump station and the time taken to correct the deficiency causing the bypass event. The amount paid during fiscal year 2011 was approximately $.4 million.

On June 22, 2006, PRASA entered into a consent decree (Civil Action No. 06-1624) with EPA that requires PRASA to implement system-wide remedial measures at all of the wastewater treatment plants operated by PRASA. The decree establishes deadlines for the compliance with the conditions set forth in the agreement and stipulates penalties for violation of any of those deadlines. PRASA was assessed a stipulated civil penalty of $1 million which was paid during fiscal year 2008. This penalty was assessed by the Court as payment for the discharge permit violations of several treatment facilities to the Clear Water Act. The agreement also required PRASA to deposit in an escrow account with GDB an additional civil penalty of $3 million. These funds are to be used for providing sewer service to a community that has not been connected to PRASA's sanitary sewer system. PRASA is currently engaged in discussion with EPA as to the specific community that will benefit from this project. As part of the agreement, PRASA pays stipulated penalties on a yearly basis for exceedances to each of PRASA's facilities to their individual discharge permits. The penalty calculations are based on frequency of the exceedances as well as the percentage of the exceedances with its respective limit. The amount paid during fiscal year 2011 was approximately $.5 million. These penalty payments are deposited into an escrow account from which a fraction of the deposited amount can be reimbursed to PRASA based on completion of specific projects and initiatives.

On May 25, 2006, PRASA entered into a plea agreement with the U.S. Department of Justice related to violations of the Clean Water Act, as amended, Title 33, USC, Sections 1131(a) and 1319(c)(2)(A). As part of the agreement (Criminal Case No. 06-CR-00202-001), PRASA paid a $9 million fine. This penalty was assessed by the Court as payment for the discharge permit violations of several treatment facilities to the Clean Water Act. In addition, the agreement required PRASA to comply with several special conditions, such as: (i) upgrade the collection and wastewater treatment system in the Ponce de León Avenue area of San Juan for a cost of not less than $10 million to prevent direct discharges to the Martín Peña Channel; (ii) upgrade nine wastewater treatment plants for a cost of not less than $109 million; and (iii) comply with the consent decree signed by PREPA with the U.S. government on June 22, 2006. The plea agreement also established stipulated penalties for violation of any on the deadlines of performance standards set forth in the agreement. Currently, PRASA is in compliance with the deadlines and requirements of this consent order and no penalties have been paid.

On December 15, 2006, an agreement (Civil Case No. KPE 2006-0858 was signed between PRASA and the Department of Health of the Commonwealth related to violations of the Safe Drinking Water Act (SDWA), as amended. The agreement was preliminary approved by the supervising court on March 15, 2007 and it was amended and finally approved by that court on June 20, 2008. PRASA agreed to implement a work plan to remediate the violations, establish preventive and mitigation measures, and execute a preventive maintenance program for the purpose of meeting the requirements of the SDWA. This Act requires the compliance with parameters of water quality and treatment techniques in PRASA's water systems. As part of the agreement, PRASA paid a penalty of $1 million during fiscal year ended June 30, 2007. The civil penalty was stipulated by the court for alleged non-compliance issues to the SDWA attended in this decree. In this Consent Decree, PRASA shall pay stipulated penalties for failing to comply with remedial measures deadlines, fail to submit deliverables or exceedances to maximum contaminant levels. During fiscal year ended June 30, 2008 and based on the amendment and final approval of the agreement, PRASA accrued approximately $2.7 million for penalties for noncompliance as stipulated by the final agreement, which were paid during fiscal year 2009. Also, as part of the penalties for noncompliance with the remedial measures of the agreement with the Department of Health during fiscal year 2009, $1.3 million were deposited in a GDB escrow account to be used for a SEP. This SEP included three projects: (1) a chemical monitoring of 67 non-PRASA systems, (2) the installation of a disinfection system in six non-PRASA systems, and (3) the connection of schools that have their own deficient water systems o PRASA's water system. During fiscal year ended June 30, 2011, PRASA paid the amount of $200,000.

On November 2007, PRASA entered into negotiation of a consent decree (Civil Action No. 10-1365) with EPA that requires PRASA to implement system wide remedial measures at all of the sludge treatment systems at the water treatment plants owned and operated by PRASA. The consent decree was lodged on May 3, 2010 and its entry date was August 24, 2010. This consent order closed previous consent orders known as PRASA II Civil Action No. 92-1511 and PRASA III Civil Action No. 00-2554. This consent order establishes deadlines for the compliance with the conditions set forth in the proposed agreement and stipulates penalties for violation of any of those deadlines.

PRASA was assessed a penalty of approximately $3.2 million which was paid during fiscal year 2011. In accordance with this consent decree, from the amount of $3.2 million, PRASA paid a civil penalty of approximately $1 million to the Treasury of the United States of America. The civil penalty was established by EPA and U.S. Department of Justice for the alleged non-compliance issues attended in this consent decree associated with the Clean Water Act. The other amount of approximately $2.2 million was deposited in an escrow account with GDB for the design and construction of a SEP. As part of this consent decree, the SEP project that will be executed by PRASA is the installation of an aeration system in the Toa Vaca Lake. The aeration system is under construction. The total amount of penalties paid under this agreement during the fiscal year 2011 was approximately $100,000. Stipulated penalties must be paid by PRASA for failing to comply with remedial measures deadlines, fail to submit deliverables or DMR's monthly reports or permit limit exceedances.

PRASA is a defendant in other environmental minor lawsuits, pending trial or final judgment. PRASA intends to vigorously defend itself against all of the allegations. PRASA's management, based on the advice of legal counsel, is of opinion that any liability that may result from such lawsuits would not have a material adverse effect on PRASA's financial positions as of June 30, 2011.

- *SWA* — SWA initiated in years prior to the year ended June 30, 2011, the implementation and development of the Strategic Plan for Recycling and Disposal of Solid Waste in Puerto Rico at an estimated cost of approximately $112 million. The first stage consists of the construction of thirty-nine (39) projects to be financed through and interim financing agreement with the Government Development Bank for Puerto Rico. The lines-of-credit under the agreement were paid by the Treasury Department of the Commonwealth through joint resolutions approved by the Legislature of Puerto Rico. SWA has continued with the planning and construction of the projects.

During May 2008, SWA approved the "Dynamic Itinerary for the Infrastructure Projects of Solid Waste in Puerto Rico". This itinerary defines the strategies for safe and efficient handling of solid waste in Puerto Rico for the next twenty-five (25) years in compliance with all applicable regulations. SWA proposes this itinerary for the purpose of adopting this plan as the official instrument to guide public policy for the development of infrastructure projects for handling and final disposition of solid waste in Puerto Rico. The projects proposed in the itinerary include programs to develop facilities for the recovery of recyclable materials (MRF's), facilities for the deposit of acceptable sludge, facilities to convert solid waste to energy, transshipment facilities and lateral expansion to sanitary stuffing systems (SRS). The development of these projects takes into consideration the closing of various SRS. The construction investment is estimated in approximately $1.9 billion. SWA projects that financing for these projects will come from both the public and private sectors.

Construction Commitments — As of June 30, 2011, the following component units maintained various unspent construction agreements as follows (expressed in thousands):

Puerto Rico Highways and Transportation Authority	$ 667,726
Puerto Rico Electric Power Authority	105,100
Puerto Rico Infrastructure Financing Authority	63,145
University of Puerto Rico	60,707
Puerto Rico Aqueduct and Sewer Authority	50,900
Company for the Integral Development of the "Peninsula de Cantera"	25,664
Puerto Rico Ports Authority	25,400
Port of the Americas Authority	19,271
Puerto Rico and Municipal Islands Maritime Transport Authority	14,900
Puerto Rico Land Administration	4,585
Governing Board of the 9-1-1 Service	3,287
Institute of Puerto Rican Culture	3,097
Puerto Rico Conservatory of Music Corporation	401
Institutional Trust of the National Guard of Puerto Rico	294
Total	$ 1,044,477

20. RETIREMENT SYSTEMS

The Commonwealth sponsors three contributory pension plans (collectively known as the "Retirement Systems"), which are reported in the accompanying statement of fiduciary net assets:

- Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS)
- The Commonwealth of Puerto Rico Judiciary Retirement System (JRS)
- Puerto Rico System of Annuities and Pensions for Teachers (TRS)

Each system is independent; thus, their assets or liabilities may not be transferred from one system to another or used for any purpose other than to benefit the participants of each system.

The Retirement Systems issue financial reports, which are publicly available and include the basic financial statements, the required trend information, and any other required supplementary information. These reports may be obtained by written request to the corresponding retirement system administrator at the addresses detailed in note 1(b).

(a) ERS

Plan Description — The ERS is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the ERS is vested on the board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government

Development Bank for Puerto Rico, the Executive Director of the Commonwealth's Human Resources Office, and the Municipal Affairs Commissioner.

As of June 30, 2011, the ERS has an unfunded actuarial accrued liability of approximately $23.7 billion, representing a 6.80% funding ratio using net assets. In the opinion of management and based on information prepared by external consulting actuaries, if measures are not taken now to deal with this situation, the ERS will not be able to fully fund pensions beginning in fiscal year 2020; however, net assets held in trust for pension benefits will be exhausted during fiscal year 2014. This situation could have a direct negative effect on the Commonwealth's general fund, since most of the employers under the ERS are government agencies obligated to make actuarial contributions to fund the ERS.

To address to these issues, the Governor of the Commonwealth (the "Governor"), by Executive Order OE-2010-10 dated March 12, 2010, created the Special Commission on the Retirement Systems Reform (the "Commission"), to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long-term solutions to improve the financial condition of the ERS.

On October 21, 2010, the Commission presented a report to the Governor that included specific recommendations addressing the current fiscal crisis and cash flow problems of ERS. Among these recommendations, the Commission proposed increasing the contribution percentages, restructuring benefits and establishing certain limitations on loans, among other.

After reviewing the Commission's report, ERS and the Commonwealth, with the assistance of the ERS external consulting actuaries, concluded that annual increases in the employers' contribution rate would be required to fully fund pensions, without having to liquidate ERS investment portfolio. Accordingly, on July 16, 2011, the Commonwealth enacted Act No. 116, an amendment to Act No. 447 of May 15, 1951, which increases the employers' contributions to the ERS. The employers' contributions to the ERS will increase from 9.275% to 10.275% effective July 1, 2011, with annual increases of 1% each July 1st from July 1, 2012 until June 30, 2016 and then with annual increases of 1.25% each July 1st from July 1, 2016 until June 30, 2021 (when the employer's contribution will reach 20.525%).

Other measures taken to improve the funding ratio of ERS, include 1) improving the collection of late contributions by receiving such contributions directly from the Centro Recaudaciones Ingresos Municipales (CRIM) when a municipality fails to send their contributions within 30 days from the due date or from the Department of Treasury of the Commonwealth (Hacienda) in the case of agencies; 2) implementation of Act No. 70 establishing early retirement incentives; 3) revision of the Employee Personal Loan Policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 4) the receipt of a special contribution from the Commonwealth that was invested in junior subordinated capital appreciation bonds issued by Corporación para el Fondo de Interés Apremiante de Puerto Rico (the "COFINA Bonds") amounting to $162.5 million.

Act No. 70 establishes a program that provides benefits for early retirement or economic incentives for voluntary employment terminations to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth (the "General Fund") and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Law

447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment. ERS will be responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make a contribution equal to 9.275% (17.55% for public corporations) of final salary of the plan member to the ERS.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The ERS consists of different benefit structures pursuant to Act No. 447 of 1951, as amended, including a cost-sharing multi-employer contributory defined benefit program and a cash balance program, similar to a cash balance plan. The ERS is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (Commonwealth Agencies, Municipalities, and Public Corporations, including the ERS) are covered by the ERS. All regular, appointed, and temporary employees of the Commonwealth at the date of employment become plan members of the ERS. The ERS is optional for Commonwealth officers appointed by the Governor and Head of Agencies.

Plan members, other than those joining the ERS after March 31, 1990, are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for a retirement annuity upon reaching the following age:

Policemen and Firefighters	Other Employees
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the ERS. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

Merit Annuity — Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation.

Deferred Retirement Annuity — A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the ERS are left within the ERS until attainment of 58 years of age.

Coordinated Plan — On the coordinated plan, the participating employee contributes a 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service.

- \$110 per month if retired with less than 55 years of age and 30 years of credited service.

- All other between \$82 and \$100 per month.

- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

Noncoordinated Plan — On the noncoordinated plan, the participating employee contributes an 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

Reversionary Annuity — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than \$240 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the average compensation of the first 20 years of credited services increased by 2% for every additional year of credited service in excess of 20 years.

Death Benefits:

Occupational:

Surviving Spouse — annuity equal to 50% of the participating employee's salary at the date of the death.

Children — \$10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee's salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of \$20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

Beneficiary — the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of death.

Postretirement — Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under Title II of the Social Security Act) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of \$750.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the ERS, plus any interest earned thereon.

Amendments to Benefits Structure for Plan Members who Joined the ERS on or After April 1, 1990 — Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the ERS effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the merit annuity for participating employees (except policemen and firemen) who have completed 30 years of creditable service.

Cost of Living Adjustment for Pension Benefits — Act No. 10 of May 21, 1992, provided for increases of 3% every three years, of the pensions paid by the ERS to those plan members with three or more years of retirement. The Act requires further legislation to grant this increase every three years, subject to the presentation of actuarial studies regarding its costs and the source of financing. Since fiscal year 1992 to 2007 there have been other acts addressing the cost of living allowance (C.O.L.A.) as Act No. 207 of August 13, 1995; Act No. 221 of August 9, 1998; Act No. 40 of June 13, 2001; Act No. 157 of June 27, 2003; and Act No. 35 of April 24, 2007.

On April 24, 2007, the Governor signed the Act No. 35 to provide for an increase of 3% of the pension paid by the ERS to those plan members whose monthly pension is less than $1,250, effective on July 1, 2008.

To protect the financial health of the ERS, the increases granted pursuant to the above laws are being financed through annual appropriations from the Commonwealth and contributions from municipalities and public corporations.

Other Benefits Granted — For fiscal years 2003 to 2007, the Commonwealth granted additional benefits to the ERS's retirees. As of June 30, 2011, these increases are being funded through special appropriations from the Commonwealth for the amount corresponding to the Commonwealth agencies and by contributions from the public corporations and municipalities.

Early Retirement Programs — During fiscal year 2008, the Commonwealth issued Act No. 70, dated July 13, 2007, to implement an early retirement program for the employees of the National Parks Company of Puerto Rico. The Municipality of San Juan issued Resolution No. 41, dated May 5, 2008, which provided an early retirement program for the municipalities' employees. Also, GDB implemented an early retirement program for its employees under the Act No. 188 of December 12, 2007. The National Parks Company of Puerto Rico has already made two payments and would reimburse the remaining balance on annuities and other benefits paid by the ERS in three installments on each July 31 starting on 2009 through 2012. The Municipality of San Juan will reimburse the annuities and other benefits paid by the ERS during a five-year period, plus the employer and employee contributions with respect to the plan members covered until they reach the normal retirement age.

The Land Authority of Puerto Rico (the "Land Authority") implemented an early retirement program for its employees under Law No. 59 of January 31, 2008. The Land Authority has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

The Right to Employment Administration (the "Administration") implemented an early retirement program for its employees under Law No. 275 of December 31, 2008. The Administration already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Environmental Quality Board (the "EQB") implemented an early retirement program for its employees under the Act No. 7 dated August 9, 2008. The EQB already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Department of Labor and Human Resources (the "Department of Labor") implemented an early retirement program for its employees under the Law 136 dated July 29, 2008. The Department of Labor already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

Amendment to Act No. 447 Effective January 1, 2000, to Create System 2000 — On September 24, 1999, Law 305, an amendment to Act No. 447 of May 15, 1951, which created the ERS, was enacted to provide for a new benefit structure, similar to a cash balance plan, known as System 2000, to cover employees joining the ERS on or after January 1, 2000.

Employees participating in the ERS as of December 31, 1999, were allowed to elect either to stay in the defined benefit structure or transfer to System 2000. People joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. Under System 2000, contributions received from participants are pooled and invested by the ERS, together with the assets corresponding to the defined benefit structure. Future benefit payments under the original defined benefit structure and System 2000 will be paid from the same pool of assets. As a different benefit structure, System 2000 is not a separate plan, and as such, is not presented separately from the original defined benefit structure, pursuant to the provisions of GASB Statement No. 25. The Commonwealth does not guarantee benefits at retirement age.

The annuity benefits to participants is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes or, (2) earns a rate equal to 90% of the return of the ERS's investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Plan members receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000 rather should be provided to those plan members that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.275% of the employee's salary for 2011) with respect to employees under System 2000 will continue but will be used to fund the defined benefit plan. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

At June 30, 2011, System 2000's membership consisted of 55,569 current participating employees.

Funding Policy — The contribution requirement to the ERS is established by law and is not actuarially determined. Required employers' contributions consist of 9.275% of applicable payroll in the cases of municipalities, central government, and public corporations. Required employee contribution consists of 5.775% of the first $550 of the monthly salary with the excess at 8.275% for the coordinated benefit structure and 8.275% of the total monthly salary for participating employee's contributions for the noncoordinated benefit structure. If necessary, additional non payroll related contributions from the Commonwealth should ultimately cover any deficiency between the participating employers' and employee's contributions and the ERS's pension benefit obligations and general and administrative deductions.

ERS, besides the contributions received from plan members and employers, also receives legislative appropriations from special laws to cover additional benefits and the increase in benefits to retired employees. In the past years, there have been laws that granted additional benefits, such as, summer and Christmas bonuses, and various increases in cost of living allowances (3%), among others.

Most of the funds used to cover these benefits are budgeted by the Commonwealth through legislative appropriations.

During the year ended June 30, 2011, ERS decreased the assumed rate of return from 7.5% in 2010 to 6.4% in 2011, which resulted in an increase of approximately $2.43 billion in the actuarial accrued liability.

(b) JRS

Plan Description — The Commonwealth of Puerto Rico Judiciary Retirement System (the "JRS") is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the "Administration") and was created by Act No. 12 on October 19, 1954 ("Act No. 12 of 1954"). The JRS is a pension trust fund of the Commonwealth and is not an employer. The JRS provides retirement benefits to the employees of the judiciary branch of the Commonwealth, through the office of the Administration of Court Facilities (the "Employer"). The JRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the JRS is vested on a board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Commissioner of Municipalities Affairs, and the Executive Director of the Human Resources Office of the Commonwealth of Puerto Rico.

As of June 30, 2011, the JRS has an unfunded actuarial accrued liability of approximately $318 million, representing a 16.7% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, the JRS will not be able to fully fund pensions during fiscal year 2019. This situation could have a direct negative effect on the Commonwealth's general fund, since the Commonwealth is the plan sponsor and is obligated to make actuarial contributions to fund the JRS.

To address these issues, JRS and the Office of the Administration of Court Facilities ("the Employer") entered into an agreement to increase the employer contributions from 20% to 30.34%, effective on July 1, 2008. Employees' contributions consist of 8% of the employees' monthly salary. Contributions from the Commonwealth should ultimately cover any deficiencies between the employer's and employee contributions and JRS pension benefit obligation and administrative costs.

The successful implementation of these measures cannot be assured, as it dependent upon future events and circumstances whose outcome cannot be anticipated.

The JRS and the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), also a pension trust fund of the Commonwealth, are administered by the Administration. The Administration allocated 1.5317% of its general and administrative expenses to the JRS during the year ended June 30, 2011. The methodology used to determine the allocation of the Administration's expenses was based on total Employer and participating employees' contributions to the JRS, divided by the aggregate total of employers and participants' contributions to the JRS and ERS, combined.

During the year ended June 30, 2011, the JRS liquidated investments of approximately $19 million to pay for administrative expenses charged by the Administration, covering several previous fiscal years.

The JRS consists of a single – employer defined benefit plan sponsored by the Commonwealth. Under the terms of Act No. 12 of 1954, as amended, all judges of the judiciary branch of the Commonwealth are plan member of the JRS.

Members of the JRS are eligible for the following benefits:

Retirement Annuity — Plan members with 10 years of credited service are eligible for retirement upon reaching 60 years of age.

Plan members are eligible for monthly benefit payments determined by the application of a stipulated benefit to the plan member's average compensation. Average compensation is computed based on the last month of compensation. The annuity for which a plan member is eligible, is limited to a minimum of 25% and a maximum of 75% of the average compensation, except for the judges of the Supreme Court for whom the annuity is limited to a minimum of 50% and a maximum of 100% of the average compensation received by the members of the Supreme Court.

Reversionary Annuity — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The payments would start after the death of the retiree, for an amount not less than $120 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation, received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for annuity of 30% of the average compensation of the first 10 years of credited services, increased by 1% for every additional year of credited service in excess of 10 years, up to a maximum of 50% of the average compensation.

Death Benefits:

Occupational:

- Surviving spouse — annuity equal to 50% of the participating employee's salary at the date of the death.

- Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 75% of the participating employee's salary at the date of the death. If no spouse survives or dies while receiving the annuity payments, each child, 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

The contributions and interest accumulated as of the date of the death, plus an amount equal to the annual compensation at the time of the death.

Postretirement:

- Surviving spouse and child, 21 or under — up to 60% of the retiree's pension.

- Other designated by the retiree — the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $500.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the JRS, plus any interest earned thereon.

Cost of Living Adjustment for Pension Benefits — Act No. 177 of 1997 provides, effective January 1, 1999, for increases of 3%, every three years, of the pensions paid by the JRS to those plan members with three or more years of retirement. The Act requires further legislation to grant this increase every three years.

Funding Policy — The contributions to the JRS are established by law and are not actuarially determined. Required contributions consist of 30.34% of applicable payroll for the employer and 8% for the participating employees. Contributions from the Commonwealth should ultimately cover any deficiency between the employer's and employees' contributions and the JRS's pension benefit obligations and administrative costs.

During the year June 30, 2011, JRS decreased the assumed rate of return from 7.5% in 2010 to 6.6% in 2011, which resulted in an increase of approximately $30 million in the actuarial accrued liability.

(c) TRS

Plan Description — The Puerto Rico System of Annuities and Pensions for Teachers (the "TRS") is a defined benefit plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The TRS is considered an integral part of the Commonwealth's financial reporting entity and is included in the Commonwealth's basic financial statements as a pension trust fund. The TRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974.

The responsibility for the proper operation and administration of the TRS is vested in a Board of Trustees (the "Board"), composed of nine members, as follows: three ex-official members, which are the Secretary of the Treasury, the Secretary of the Department of Education, and the President of GDB; one member who is a representative of a teacher's organization designated by the Governor; three teachers of TRS appointed by the Governor, one of which is a currently certified teacher in active service, and two who represented retired teachers; one member who is a representative of the entity in accordance with Act No. 45 of February 25, 1998, as amended; and one additional member, as representative of the public interest, with knowledge of and experience in the administration and operation of financial systems, appointed by the Governor.

As of June 30, 2011, TRS has an unfunded actuarial accrued liability of approximately $9 billion, resulting in a funding ratio of 21%. In the opinion of management, based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, TRS will not be able to fully fund pensions in fiscal years beginning after June 30, 2022. This situation could have a direct negative effect on the Commonwealth's general fund, since the Commonwealth is the ultimate plan sponsor and will be obligated to make actuarial contributions to fund TRS.

To attend to these issues, the Governor created the Special Commission on the Retirement Systems Reform (the "Commission") in 2010 to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long-term solutions to improve the financial condition of TRS.

On October 21, 2010, the Commission presented a report to the Governor that included specific recommendations addressing the current fiscal crisis and cash flow problems of TRS. Among these recommendations, the Commission proposed increasing the contribution percentages, restructuring benefits and establishing certain limitations on loans, among other.

After reviewing the Commission's report, TRS and the Commonwealth, with the assistance of the TRS's external consulting actuaries, concluded that annual increases in the employers' contribution rate will be required to fully fund pensions, without having to liquidate the TRS's investment portfolio. As a result of such determination, the Commonwealth approved Act No. 114 on July 5, 2011, establishing annual employer contribution increases of 1% for the fiscal years 2012 to 2016. In addition, it establishes annual employer contributions increases of 1.25% for the fiscal year 2017 to 2021.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The TRS is a defined benefit plan sponsored by the Commonwealth. Substantially, all active teachers of the Commonwealth's Department of Education are covered by the TRS under the terms of Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The new law gives the Puerto Rico Teachers Retirement System's active employees as of March 29, 2004, the option to participate in the plan. Employees recruited by the Puerto Rico Teachers Retirement System after the approval of the new law become members of the plan. All active teachers of the Department of Education become plan members of the TRS at their date of employment. Licensed teachers working in private schools or other educational organizations can be members of the TRS at their own choice as long as the required employer and employee contributions are satisfied.

The plan members of the TRS are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the TRS. The annuity for which a plan member is eligible is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

The plan members are eligible for retirement annuity benefits upon complying with the following:

Age	Years of Creditable Services	Retirement Annuity Compensation
Fifty	30 or more	75% of average compensation
Under fifty	30 or more	65% of average compensation
Sixty	At least 10, but less than 25	1.8% of average compensation times years of service
Fifty	At least 25, but less than 30	1.8% of average compensation times years of service
Forty-seven but less than Fifty	At least 25, but less than 30	95% of the annual pension that would have received with 50 years of age

Deferred Retirement Annuity — A participating employee who terminates service before age 60, after having accumulated a minimum of ten years of creditable services, qualifies for a deferred retirement annuity payable beginning at age 60. A participating employee who has completed 25 or more years of creditable services and is under the age of 47 at termination, qualifies for a deferred retirement annuity payable beginning at age 47. The vested rights described above are provided if his/her contributions to the TRS are left within the TRS until the attainment of the respective retirement age.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation becomes disabled, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months or the number of months of creditable services, if less than five years, recognized by the TRS, times years of creditable services; but not less than $400 per month.

Nonoccupational Disability Annuity — A participating employee disabled for causes not related to his/her occupation, and with at least five years of credited service, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months recognized by the TRS, times years of service; but not less than $400 per month.

Death Benefits:

Pre-retirement — The beneficiaries receive the contributions made to the plan and 2% interest accumulated as of the date of death (after discounting debts with the TRS), plus an amount equal to the annual compensation of the member at the time of death.

Post-retirement — The surviving spouse receives 50% of the retiree’s pension and if there are children under 22 years of age or disabled (until disability ceases), they receive the other 50% of the pension. If there is no surviving spouse or children who qualify, the beneficiaries receive the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $1,000.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without the right to a retirement annuity has the right to a refund of the employee contributions paid to the TRS, plus any interest earned thereon.

Early Retirement Program — On January 27, 2000, Act No. 44 was approved, which provided that effective March 9, 2000, plan members are eligible for early retirement upon attaining the age of 50 and 28 years of services in the first year of implementation and age 50 and 25 years of service in subsequent years. Those who select early retirement under these conditions will receive monthly benefits equal to 75% of their average compensation, which is computed based on the highest 36 months of compensation recognized by the TRS. Effective July 31, 2001, the option for early retirement was closed.

Special Benefits — Special benefits include the following:

- Christmas Bonus — An annual bonus of $600 for each retiree and disabled member paid each December. The TRS pays $150 per retiree and disabled member and the remaining bonus is paid by the Commonwealth.
- Summer Bonus — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July. This benefit is prorated if there are multiple beneficiaries and is funded by the Commonwealth.
- Medication Bonus — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs. Evidence of coverage is not required. This benefit is funded by the Commonwealth.
- Cost-of-Living Adjustments — Act No. 62 of September 4, 1992 provided, subject to the approval of the Legislature of the Commonwealth (the "Legislature"), for increases of 3% every three years in pensions to those plan members with three or more years of retirement. In years 1995, 1998, 2001, 2004, and 2007, the Legislature has replicated the benefit granted per Act No. 62 of September 4, 1992. This benefit is funded by the Commonwealth.
- Other Pension Increase Acts. — Act No. 128 of June 10, 1967 and Act No. 124 of June 8, 1973 provided a pension increase (form 2% to 10%) based on the monthly pension, and Act No. 47 of June 1, 1984, provided a pension increase based on credited service worked. This increase is funded by the Commonwealth.
- Cultural Loans — Act No. 22 of June 14, 1965 provides 50% repay of the interest that would be required to pay from the actives teachers and retirees. This increase is funded by the Commonwealth.
- Death Benefit — Act No. 272 of March 29, 2004 increases the death benefit of $500 to $1,000. This $500 increase is funded by the Commonwealth.

Funding Policy — Participating employees are required to contribute 9% of their compensation to the TRS, while the employer was required to contribute 8.5% of the applicable payroll until June 30, 2011. However, Act No. 114 provides for annual employer contributions increases of 1% for the fiscal years 2012 to 2016, and 1.25% annually for the fiscal years 2017 to 2021. Commonwealth contributions should ultimately cover any deficiency between the participating employees' contributions and the TRS's pension benefit obligations and administrative costs.

The special contributions of approximately $47,753,000 in 2011 represent contributions from the general fund of the Commonwealth for special benefits granted by special laws.

During the year ended June 30, 2011, TRS decreased the assumed rate of return from 8% in 2010 to 6.4% in 2011, which resulted in an increase of approximately $1.9 billion in the actuarial accrued liability.

Other relevant information on the Commonwealth's Retirement Systems is presented below (as of June 30, 2011, for ERS, JRS, and TRS):

(d) Membership as of June 30, 2011

	ERS	JRS	TRS	Total
Retirees and beneficiaries currently receiving benefits	113,191	439	36,129	149,759
Current participating employees	135,972	362	43,402	179,736
Total	249,163	801	79,531	329,495

(e) Annual Pension Cost and Net Pension Obligation

The Commonwealth's annual pension cost and net pension obligation of the three pension plans as of and for the year ended June 30, 2011 were as follows (expressed in thousands):

	ERS	JRS	TRS	Total
Annual required contributions	$ 1,734,979	$ 29,684	$ 528,170	$ 2,292,833
Interest on net pension obligation	476,528	2,708	125,931	605,167
Adjustment to annual required sponsors' contributions	(555,326)	(3,279)	(103,701)	(662,306)
Annual pension cost	1,656,181	29,113	550,400	2,235,694
Statutory sponsors' contributions made	(701,709)	(10,955)	(161,628)	(874,292)
Increase in net pension obligation	954,472	18,158	388,772	1,361,402
Net pension obligation at beginning of year	6,353,700	36,110	1,574,140	7,963,950
Net pension obligation at end of year	$ 7,308,172	$ 54,268	$ 1,962,912	$ 9,325,352

The net pension obligation for ERS, JRS and TRS of $9.1 billion, is recorded in the accompanying statement of net assets (deficit).

The following tables show the most significant actuarial methods and assumptions used to estimate the net pension obligation:

	ERS	JRS	TRS
Date of latest actuarial valuation	June 30, 2011	June 30, 2011	June 30, 2011
Actuarial-cost method	Projected unit credit cost method with straight proration based on service to decrement	Projected unit credit cost method with straight proration based on service to decrement	Entry age normal
Amortization method	30 years closed, level dollar	30 years closed, level percentage of payroll	30 years closed, level percentage of payroll
Remaining amortization period	27 years	16 years	27 years
Amortization approach	Closed	Closed	Closed

The annual required contribution for the year ended June 30, 2011, was determined by actuarial valuations for each of the pension plans as described below:

	ERS	JRS	TRS
Asset-valuation method	Market value of assets	Market value of assets	Market value of assets
Actuarial assumptions:			
Inflation	2.5 %	2.5 %	2.5 %
Investment rate of return	6.4 %	6.6 %	6.4 %
Projected payroll growth	2.5 %	- %	- %
Projected salary increases per annum	3.0% (no increase in 2010-11)	3.0 %	3.5 % (general wage inflation, plus service — based merit increase)
Cost-of-living adjustments	0.99% annually to approximate 3.0% triennial increases	0.99% annually to approximate 3.0% triennial increases	None
Mortality	Pre-retirement Mortality: For general employees and Mayors, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act 127. For other members, 25% of deaths while in active service are assumed to be occupational and 75% are assumed to be non-occupational. Post-retirement Healthy Mortality: Gender-specific mortality rates were developed based on a study of plan's experience from 2003 - 2007. Sample rates shown below are as of 2005 and are thereafter projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: RP-2000 Disabled Annuitant Mortality Rates, without projection. No provision was made for future mortality improvement for disabled retirees.	Pre-retirement Mortality: RP-2000 Employee Mortality Rates with white collar adjustments for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Among deaths while in active service, 50% are assumed to be occupational, 50% are assumed to be nonoccupational. Post-retirement Healthy Mortality: RP-2000 Healthy Annuitant Mortality Rates with white collar adjustments for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: RP-2000 Disabled Annuitant Mortality Rates, without projection. No provision was made for future mortality improvement for disabled retirees.	Pre-retirement Mortality: RP-2000 Employee Mortality Rates for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2004 to 2007. The rates are projected on a generational basis starting in 2005 using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2004 to 2007. No provision was made for future mortality improvement for disabled retirees.

The ERS, JRS, and TRS statutory contribution as a percentage of the required contribution for the current year and each of the two preceding years is as follows:

	ERS	JRS	TRS
Year ended June 30, 2011	40.44 %	36.90 %	30.60 %
Year ended June 30, 2010	36.60	39.13	34.87
Year ended June 30, 2009	47.23	50.03	43.88

(f) Three Year Trend Information

The three year trend information is as follows (dollars expressed in thousands):

	ERS	JRS	TRS
Annual pension cost (APC):			
Year ended June 30, 2011	$ 1,656,181	$ 29,113	$ 550,400
Year ended June 30, 2010	1,397,151	27,896	496,338
Year ended June 30, 2009	1,207,487	22,122	459,645
Percentage of APC contributed:			
Year ended June 30, 2011	42.4 %	37.6 %	29.4 %
Year ended June 30, 2010	38.2	39.5	33.5
Year ended June 30, 2009	49.2	50.2	42.0
Net pension obligation (asset):			
At June 30, 2011	$ 7,308,172	$ 54,268	$ 1,962,912
At June 30, 2010	6,353,700	36,110	1,574,140
At June 30, 2009	5,490,824	19,220	1,244,186

(g) Funded Status

Funded status of the pension plans as of June 30, 2011, the most recent actuarial valuation date, is as follows (dollars expressed in thousands):

	ERS	JRS	TRS	Total
Actuarial accrued liability	$ 25,457,354	$ 382,776	$ 11,448,609	$ 37,288,739
Actuarial value of assets	1,723,811	63,975	2,385,863	4,173,649
Unfunded actuarial accrued liability	$ 23,733,543	$ 318,801	$ 9,062,746	$ 33,115,090
Funded ratio	6.8 %	16.7 %	20.8 %	11.2 %
Covered payroll	$ 3,666,402	$ 31,811	$ 1,320,400	$ 5,018,613
Unfunded actuarial accrued liability as a percentage of covered payroll	647.3 %	1002.2 %	686.4 %	659.9 %

The schedule of funding progress presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations.

21. OTHER POSTEMPLOYMENT BENEFITS

The Commonwealth provides postemployment healthcare benefits through defined benefit plans that are administered by the Retirement Systems:

- Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC)
- The Puerto Rico Judiciary Retirement System Medical Insurance Plan Contribution (JRS MIPC)
- Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution (TRS MIPC)

(a) Plans Descriptions

ERS MIPC is a cost sharing multiple employer defined benefit other postemployment benefit (OPEB) plan sponsored by the Commonwealth. JRS MIPC and TRS MIPC are single employer defined benefit OPEB plans sponsored by the Commonwealth. These OPEB plans were created under Act No. 95 approved on June 29, 1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full time employees of: (1) the Commonwealth's primary government and (2) certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan. JRS MIPC covers all judges of Judiciary Branch of the Commonwealth. TRS MIPC covers all active teachers of the Department of Education of the Commonwealth.

Commonwealth employees become plan members upon their date of employment. Plan members are eligible for benefits upon reaching the following age:

ERS MIPC
Police and Firemen

50 with 25 years of credited service
58 with 10 years of credited service

Other Employees

55 with 25 years of credited service
58 with 10 years of credited service

JRS MIPC

60 with 10 years of credited service

TRS MIPC

47 with 25 years of credited service
60 with 10 years of credited service

Funding Policy — The contribution requirement of ERS MIPC, JRS MIPC and TRS MIPC are established by Act No. 95 approved on June 29, 1963. The benefits are paid directly by the Commonwealth to the insurance providers at a rate of a maximum of $100 per month per retiree. All these OPEB plans are financed on a pay-as-you-go basis. There is no contribution requirement for plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

(b) Membership as of June 30, 2011

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Retirees and beneficiaries currently receiving benefits	113,191	439	36,129	149,759
Current participating employees	135,972	362	43,402	179,736
Total	249,163	801	79,531	329,495

(c) Annual OPEB costs and Net OPEB obligation

The annual OPEB cost and the annual required contribution (ARC) were computed as part of an actuarial valuation in accordance with parameters of GASB Statement No. 45 based on current years demographic data.

The Commonwealth's annual OPEB cost and the net OPEB obligation for the postemployment healthcare benefits plans as of and for the year ended June 30, 2011 were as follows (expressed in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Annual OPEB cost:				
ARC	$ 129,395	$ 529	$ 39,925	$ 169,849
Interest on net OPEB obligation	3,878	21	1,405	5,304
Adjustment to annual required contribution	(5,937)	(37)	(1,439)	(7,413)
Annual OPEB cost	127,336	513	39,891	167,740
Statutory sponsor's contributions made	(93,541)	(310)	(31,558)	(125,409)
Increase in net OPEB obligation	33,795	203	8,333	42,331
Net OPEB obligation at beginning of year	96,946	526	35,115	132,587
Net OPEB obligation at year end	$ 130,741	$ 729	$ 43,448	$ 174,918

The net OPEB obligation for ERS MIPC, JRS MIPC, and TRS MIPC totaling $173 million is recorded in the accompanying statement of net assets (deficit).

(d) Actuarial Assumptions

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

	ERS MIPC	JRS MIPC	TRS MIPC
Date of latest actuarial valuation	June 30, 2011	June 30, 2011	June 30, 2011
Actuarial-cost method	Projected unit credit cost method with straight proration based on service to decrement	Projected unit credit cost method with straight proration based on service to decrement	Entry age normal
Amortization method	30 years closed, level dollar	30 years closed, level percentage of payroll	30 years closed, level percentage of payroll
Discount rate	4%	4%	4%
Projected payroll growth	-	3%	-
Projected salary increases	-	-	3.5% general wage inflation plus a service based merit increase
Inflation	-	-	2.5%
Remaining amortization period	27 years	16 years	27 years
Amortization approach	Closed	Closed	Closed

The ERS MIPC, JRS MIPC, and TRS MIPC statutory contributions as a percentage of the required contribution for the current year and each of the two preceding years are as follows:

	ERS MIPC	JRS MIPC	TRS MIPC
Year ended June 30, 2011	72.29 %	58.64 %	79.04 %
Year ended June 30, 2010	66.61	60.41	66.91
Year ended June 30, 2009	77.67	61.36	73.19

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long–term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short–term volatility in actuarial accrued liabilities and actuarial value of assets.

(e)Three Year Trend Information

The three year trend information is as follows (dollars expressed in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC
Annual OPEB cost:			
Year ended June 30, 2011	$ 127,336	$ 513	$ 39,891
Year ended June 30, 2010	127,189	479	42,495
Year ended June 30, 2009	111,100	421	38,033
Percentage of annual OPEB cost contributed:			
Year ended June 30, 2011	73.4 %	60.4 %	79.1 %
Year ended June 30, 2010	67.0	61.5	66.9
Year ended June 30, 2009	78.0	62.0	73.2
Net OPEB obligation:			
At June 30, 2011	$ 130,741	$ 729	$ 43,448
At June 30, 2010	96,946	526	35,115
At June 30, 2009	55,217	342	21,047

(f) Funded Status

Funded status of the postemployment healthcare benefit plans as of June 30, 2011, the most recent actuarial valuation date, is as follows (expressed in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Actuarial accrued liability (AAL)	$ 1,758,389	$ 5,810	$ 706,069	$ 2,470,268
Actuarial value of assets	-	-	-	-
Unfunded actuarial accrued liability	$ 1,758,389	$ 5,810	$ 706,069	$ 2,470,268
Funded ratio	- %	- %	- %	- %
Covered payroll	$ 3,666,402	$ 31,811	$ 1,320,400	$ 5,018,613
Unfunded actuarial accrued liability as a percentage of covered payroll	48.0 %	18.3 %	53.5 %	49.2 %

The schedule of funding progress presented as required supplementary information following the notes to the basic financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

22. DEBT SERVICE DEPOSIT AGREEMENTS

On May 26, 2005 (but effective on July 1, 2005), the Commonwealth, PFC, and GDB (together the Commonwealth) and Lehman Brothers Special Financing Inc. (Lehman) entered into Debt Service Deposit Agreements (DSD Agreements), the objective of which was for the Commonwealth to secure an upfront payment in exchange for granting Lehman the rights to earnings generated from eight of its debt service funds. On September 25, 2008, as a result of Lehman commencing a case in the United States Bankruptcy Court for the Southern District of New York under chapter 11 of the United States Code, Lehman selected Hexagon Securities LLC to act as the Qualified Dealer under the DSD Agreements and delivered Qualified Securities as permitted under the DSD Agreement. Seven of the funds are associated with the Commonwealth's PFC bonds, presented in the accompanying basic financial statements as Commonwealth appropriation bonds, and one fund is associated with the Commonwealth's general obligation bonds. The upfront payment, which amounted to $82.7 million, was received on May 26, 2005 and equaled the present value of the projected earnings income adjusted for credit timing risks as well as an appropriate amount of compensation for Lehman.

With the upfront payment made as explained above, the Commonwealth delivered to Lehman the required and scheduled debt service deposits and Lehman delivered qualified government debentures, which will mature before the next debt service payment date at an amount approximating such next debt service payment. Lehman will attempt to earn sufficient funds on the debt service deposit amounts, less its cost for the qualified government debentures, to make back the $82.7 million over time. At the same time, the Commonwealth will be managing its borrowings and investments by increasing the predictability of its cash flows from earnings on its investments and not for purpose of speculation. The Commonwealth acknowledges that, in exchange for the upfront payment received, it is foregoing its right to receive investment earnings on the deposit amounts referred to above in the future and that, by accepting the upfront payment, the Commonwealth has minimized the risks resulting from fluctuations in interest rates during the term of the DSD Agreements but also has foregone the possibility of receiving greater returns on such amounts from such fluctuations.

Under the DSD Agreements, the Commonwealth will be exposed to the payment to Lehman of a Termination Amount, as defined in the agreement, principally upon the occurrence of redemption or a defeasance of the related bonds on or prior to the last scheduled deposit date. The amount of the Termination Amount will vary depending on various market conditions, as defined in the DSD Agreements. Under certain market conditions, the Termination Amount owed to Lehman by the Commonwealth may exceed the amount of the original upfront payment received.

The $82.7 million upfront payment received by the Commonwealth was recognized as other revenue for budgetary purposes in 2005; however, under U.S. Generally Accepted Accounting Principles, such upfront payment was deferred and is being recognized proportionally over the future periods the Commonwealth would have otherwise earned such interest earnings. Unamortized balance amounted to approximately $46.1 million at June 30, 2011. During fiscal year 2011, approximately $6 million was amortized into other revenue in the accompanying statement of activities.

23. DERIVATIVE INSTRUMENTS

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the fiscal year then ended as reported in the 2011 basic financial statements are as follows (in thousands):

			Changes in Fair Value (1)		Fair Value at June 30, 2011 (2)			
Item			Classification	Amount	Classification	Amount		Notional
Governmental activities								
Cash flow hedges:								
1	Pay-fixed interest rate swap	(4)	Deferred Outflow	$ 10,209	Debt	$(38,234)		$ 280,000
2	Pay-fixed interest rate swap		Deferred Outflow	2,188	Debt	(7,247)	(5)	56,000
3	Pay-fixed interest rate swap		Deferred Outflow	2,492	Debt	(7,795)	(5)	56,000
4	Pay-fixed interest rate swap		Deferred Outflow	1,363	Debt	(3,728)	(5)	44,500
5	Pay-fixed interest rate swap		Deferred Outflow	2,265	Debt	(1,105)		32,815
6	Pay-fixed interest rate swap		Deferred Outflow	2,240	Debt	(1,124)		32,625
7	Pay-fixed interest rate swap		Deferred Outflow	2,106	Debt	(1,013)		31,280
8	Pay-fixed interest rate swap		Deferred Outflow	1,928	Debt	(941)		30,005
9	Pay-fixed interest rate swap	(4)	Deferred Outflow	514	Debt	(2,006)	(5)	14,925
10	Pay-fixed interest rate swap	(4)	Deferred Outflow	514	Debt	(2,004)	(5)	14,915
11	Pay-fixed interest rate swap		Deferred Outflow	(422)	Debt	(422)		2,650
12	Pay-fixed interest rate swap		Deferred Outflow	(1,124)	Debt	(1,124)		7,500
13	Pay-fixed interest rate swap		Deferred Outflow	702	Debt	(1,940)	(5)	14,925
14	Pay-fixed interest rate swap		Deferred Outflow	701	Debt	(1,938)	(5)	14,915
15	Pay-fixed interest rate swap		Deferred Outflow	(3,568)	Debt	(27,169)		196,770
16	Pay-fixed interest rate swap	(3)	Deferred Outflow	9,834	Debt	(37,222)		136,000
Investment derivative instruments:								
17	Pay-fixed interest rate swap	(4)	Investment Revenue	(15,133)	Investment	(15,133)	(5)	114,071
18	Pay-fixed interest rate swap	(4)	Investment Revenue	(11,361)	Investment	(11,361)	(5)	83,314
19	Basis Swap		Investment Revenue	28,424	Investment	(33,920)	(5)	1,273,778
20	Basis Swap		Investment Revenue	9,454	Investment	(11,820)	(5)	424,592
21	Forward swap	(4)	Investment Revenue	459	Investment	(4,076)		29,165
22	Forward swap	(4)	Investment Revenue	569	Investment	(5,058)		40,000
23	Forward swap	(3)	Investment Revenue	12,881	Investment	(84,877)		453,500
24	Forward swap	(3)	Investment Revenue	9,528	Investment	(88,626)		453,500

(1) Positive (negative) values represent decrease (increase) in fair value.
(2) Negative values represent the Commonwealth's payable positions. Fair value on swap excludes its accrued interest receivable or payabl
(3) Derivative instrument corresponds to Puerto Rico Sales Tax Financing Corporation ("COFINA"). Other derivative instruments correspond to the Commonwealth of Puerto Rico.
(4) Insured swap.
(5) Amortizing swaps. The notional amounts of the hedging swaps match the principal amount of the associated debt. The hedging swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled reductions in the associated debt.

The fair values of the pay-fixed interest rate swaps and the basis swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps. The fair values of the forward swaps were estimated based on the present value of their estimated future cash flows.

Accrued interest payable on swaps are presented separately from the fair values of the swaps in the Commonwealth's government-wide statement of net assets and in the governmental funds- balance sheet and amounted to $15 million at June 30, 2011.

The following table shows the derivative instrument position by counterparty at June 30, 2011 (in thousands):

	Total	
Counterparty/Swap	**Notional Amount**	**Fair Value**
Deutsche Bank AG	$ 156,500	$ (18,771)
Goldman Sachs Capital Markets	1,409,778	(71,142)
Morgan Stanley Capital Services Inc.	1,044,807	(110,184)
Royal Bank of Canada	29,840	(3,878)
UBS AG	196,770	(27,169)
Bank of New York	349,165	(47,368)
DEPFA BANK plc	567,571	(100,010)
Merrill Lynch Capital Services, Inc.	83,314	(11,361)
Total	$ 3,837,745	$ (389,883)

Hedging Derivative Instruments

The following table displays the objective and terms of the Commonwealth's hedging derivative instruments outstanding at June 30, 2011, along with the credit rating of the associated counterparty (amounts in thousands):

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms Pays	Terms Receives	Counterparty Credit Rating Moody's/S&P
1	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C-4, C-5-1 and C-5-2 bonds	$ 280,000	7/1/2008	7/1/2021	3.7658 %	67% 1M LIBOR	Aaa/AA
2	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series B-2 bonds	56,000	11/10/2008	7/1/2024	3.5820	59.80% 1M LIBOR + 0.25%	Aa3/A+
3	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series B-3 bonds	56,000	11/10/2008	7/1/2027	3.5590	58.30% 1M LIBOR + 0.24%	Aa3/A+
4	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series B-1 bonds	44,500	11/10/2008	7/1/2021	3.3080	59.80% 1M LIBOR + 0.25%	Aa3/A+
5	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	32,815	8/10/2006	7/1/2021	4.2000	CPI+.90%	A2/A
6	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	32,625	8/10/2006	7/1/2020	4.3200	CPI+1.02%	A2/A
7	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	31,280	8/10/2006	7/1/2019	4.2900	CPI+1.00%	A2/A
8	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	30,005	8/10/2006	7/1/2018	4.2600	CPI+.98%	A2/A
9	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A3 bonds	14,925	10/16/2007	7/1/2029	3.5180	66% 1M LIBOR	A2/A
10	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A2 bonds	14,915	10/16/2007	7/1/2029	3.5180	66% 1M LIBOR	A2/A
11	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2011 Series B bonds	2,650	10/16/2007	7/1/2034	3.5180	66% 1M LIBOR	A2/A
12	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2011 Series B bonds	7,500	10/16/2007	7/1/2034	3.5180	66% 1M LIBOR	A2/A
13	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A3 bonds	14,925	10/16/2007	7/1/2029	3.5180	66% 1M LIBOR	Aa1/AA-
14	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A2 bonds	14,915	10/16/2007	7/1/2029	3.5180	66% 1M LIBOR	Aa1/AA-
15	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A2 and A3 bonds and Series 2011 B bonds	196,770	10/16/2007	7/1/2034	3.5180	66% 1M LIBOR	Aa3/A+
16	Pay-fixed interest rate swap	Hedge of changes in cash flows on the COFINA 2007 Series A bonds	136,000	7/31/2007	8/1/2057	4.9200	67% 3M LIBOR +0.93%	A1/A

LIBOR: London Interbank Offered Rate Index
CPI: Consumer Price Index

For derivative instruments No. 5, 6, 7, and 8, the floating interest rate, CPI plus a spread (the rate to receive), is capped to the maximum rate permitted by Commonwealth law (12% as of June 30, 2011). This cap is equal to the cap in the hedged bond. Other swaps do not have embedded options.

During the year ended June 30, 2011, the Commonwealth terminated various hedging derivative instruments with notional amount of $505.0 million and recorded a deferred refunding loss of $67.7 million, which approximates the fair value of the swaps at the refunding date. In addition, derivative instruments No. 11, 12, and 15 were reassigned to a new hedging relationship on March 1, 2011 when the old hedging relationship was refunded with the new hedging relationship. The fair values of these derivative instruments at the inception of the new hedging relationships amounted to $8.8 million and are amortizing on a straight line basis over the life of the corresponding derivative instrument which equals the life of the hedged bond.

Risks

Credit Risk — The Commonwealth is exposed to credit risk on hedging derivative instruments that are in asset positions. When the fair value of a derivative contract is positive, the counterparty owes the Commonwealth, which creates a credit risk for the Commonwealth. When the fair value of the derivative contract is negative, the Commonwealth owes to the counterparty and, therefore, does not pose credit risk to the Commonwealth.

The Commonwealth has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents. In addition, to minimize its exposure to loss related to credit risk, it is the Commonwealth's policy to require counterparty collateral posting provisions in its derivative instruments. These terms require collateralization of the fair value of hedging derivative instruments in asset position (net of the effect of applicable netting arrangements) in excess of certain agreed threshold should the counterparty's credit rating fall below the following:

The counterparty with respect to derivative instruments No. 2, 3, and 4 is required to post collateral for the full amount of the fair value of the derivative instrument if the credit rating goes below A2 (Moody's) or A (Standard & Poor's). Each of the counterparties with respect to other derivative instruments is required to post collateral in excess of certain agreed upon thresholds (which decrease from $20.0 million to zero (full collateralization), depending on the credit rating) once the counterparty's credit rating goes below Aa3 (Moody's Investor Service) or AA- (Standard & Poor's). Collateral posted is to be in the form cash, U.S. Treasury securities, or specified Agencies securities. The Commonwealth has never failed to access collateral when required.

It is the Commonwealth's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, closeout netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

At June 30, 2011, none of the hedging derivative instruments by counterparty was in an asset position. Thus, the Commonwealth had no aggregate counterparty credit exposure neither netting arrangements as of that date.

Interest Rate Risk — The Commonwealth is exposed to interest rate risk on its swaps. On its pay-fixed, receive-variable interest rate swap, as LIBOR or the Consumer Price Index (CPI) decreases, the Commonwealth's net payment on the swap increases. Additionally, as long-term LIBOR and CPI rates decrease, the fair values of the derivative instruments in liability positions decrease.

Basis Risk — The Commonwealth is exposed to basis risk on most of its pay-fixed interest rate swaps because the variable-rate payments received by the Commonwealth on these hedging derivative instruments are based on a rate or index other than interest rates the Commonwealth pays on its hedged variable-rate debt, which is remarketed or reset daily, weekly or monthly. Under the terms of its synthetic fixed rate swap transactions, the Commonwealth pays a variable rate on its bonds based on Securities Industry and Financial Markets Association Index (SIFMA) or Prime Rate but receives a variable rate on the swaps based on a percentage of LIBOR.

Termination Risk — The Commonwealth or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The Commonwealth is at risk that the counterparty will terminate a swap at a time when the Commonwealth owes a termination payment to the counterparty. The Commonwealth has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by the Commonwealth; other Commonwealth defaults which remain uncured for 30 days after notice; Commonwealth bankruptcy; insolvency of the Commonwealth (or similar events); or a downgrade of the Commonwealth's credit ratings below Ba1 as issued by Moody's Investor Service or BB+ by Standard & Poor's for the majority of the derivative instruments. The derivative instruments that are insured by Assured Guaranty Municipal Corp. (derivative instruments No. 1, 9, and 10) may not be terminated by the counterparty unless an Insurer Event has occurred (i.e., Insurer's credit ratings fall below A3 by Moody's Investor Service or A- by Standard & Poor's) and the Commonwealth's credit ratings are downgraded below Ba1 as issued by Moody's Investor Service or BB+ by Standard & Poor's. If at the time of termination, a hedging derivative instrument is in a liability position, the Commonwealth would be liable to the counterparty for a payment equal to the liability's value as determined in accordance with the swap agreement provisions, subject to netting arrangements.

Counterparty Risk — The Commonwealth is at risk that a counterparty (or its guarantor) will not meet its obligations under the swap. If counterparty were to default under its agreement when the counterparty would owe a termination payment to the Commonwealth, the Commonwealth may have to pay another entity to assume the position of the defaulting counterparty. The Commonwealth has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents.

Rollover Risk — The Commonwealth is exposed to rollover risk on hedging derivative instruments that mature or may be terminated prior to the maturity of the hedged debt, thus re-exposing the Commonwealth to the risk being hedged. None of the Commonwealth's hedging derivative instruments matures or may be terminated prior to the maturity of the hedged debt.

Investment Derivative Instruments — The following table displays the terms of the Commonwealth's investment derivative instruments outstanding at June 30, 2011, along with the credit rating of the associated counterparty (amounts in thousands):

Item	Type	Notional Amount	Effective Date	Maturity Date	Terms Pays	Receives	Counterparty Credit Rating Moody's/S&P
17	Pay-fixed interest rate swap	$ 114,071	7/1/2008	7/1/2028	3.6815 %	67% 1M LIBOR	Baa3/BBB
18	Pay-fixed interest rate swap	83,314	7/1/2008	7/1/2024	3.6815 %	67% 1M LIBOR	A2/A
19	Basis Swap	1,273,778	7/10/2007	7/1/2035	SIFMA	67% 3M LIBOR + 0.4409%	A1/A
20	Basis Swap	424,592	7/5/2007	7/1/2035	SIFMA	67% 3M LIBOR + 0.4409%	A2/A
21	Forward swap	29,165	7/1/2012	7/1/2031	3.8510 %	67% 1M LIBOR	Aaa/AA
22	Forward swap	40,000	7/1/2012	7/1/2031	3.7684 %	67% 1M LIBOR	Aaa/AA
23	Forward swap	453,500	2/1/2012	8/1/2040	3.9500 %	67% 3M LIBOR	Baa3/BBB
24	Forward swap	453,500	2/1/2012	8/1/2040	3.9500 %	67% 3M LIBOR	A2/A

None of the investment derivative instruments have embedded options.

The Commonwealth entered into the basis swaps (derivative instruments No. 19 and 20) to hedge the portion of the fair value of the underlying liabilities attributable to the relative value/basis risk between tax-exempt and taxable rates, which can be expressed as a ratio. At June 30, 2011 and 2010, management of the Commonwealth concluded that these basis swaps were not considered as effective hedge instruments under GASB Statement No. 53. In addition, the Commonwealth and COFINA entered into the forward swaps (derivative instruments No. 21, 22, 23, and 24) in connection with the expected issuance of certain variable rate bonds. Due to changes in the market conditions since the Commonwealth and COFINA entered into these swaps, the occurrence of this expected transaction is not deemed probable and, accordingly, these forward swap agreements have been classified as investment derivative instruments at June 30, 2011 and 2010.

On June 1, 2011, the 2003 Series C-6 bonds associated with the derivative instruments No. 17 and 18 were converted from a SIFMA rate mode (SIFMA plus 1.70%) to a LIBOR rate mode (100% of 1 Month LIBOR plus 2.70%). At June 30, 2011, these hedging relationships no longer met the criteria for effectiveness and therefore, they were reclassified to investment derivative instruments. Accordingly, their deferral amounts at June 30, 2010 and the decreases in fair values of the swaps from June 30, 2010 to June 30, 2011 totaling $26.5 million are reported within the investment revenue classification in the Commonwealth's government-wide statement of activities.

Risks

Credit Risk — The Commonwealth is exposed to credit risk on investment derivative instruments that are in asset positions. When the fair value of a derivative contract is positive, the counterparty owes the Commonwealth, which creates a credit risk for the Commonwealth. When the fair value of the derivative contract is negative, the Commonwealth owes to the counterparty and, therefore, does not pose credit risk to the Commonwealth.

The Commonwealth has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents. In addition, to minimize its exposure to loss related to credit risk, it is the Commonwealth's policy to require counterparty collateral posting provisions in its derivative instruments. These terms require collateralization of the fair value of investment derivative instruments in asset position (net of the effect of applicable netting arrangements) in excess of certain agreed upon thresholds (which range from $20.0 million to zero (full collateralization) depending on the credit rating) once the credit rating of the counterparty goes below Aa3 (Moody's Investor Service) or AA- (Standard & Poor's). Collateral posted is to be in the form cash, U.S. Treasury securities, or specified Agency securities. The Commonwealth has never failed to access collateral when required.

It is the Commonwealth's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, closeout netting provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

At June 30, 2011, none of the investment derivative instruments by counterparty was in an asset position. Thus, the Commonwealth had no aggregate counterparty credit exposure neither netting arrangements as of that date.

Interest Rate Risk — The Commonwealth is exposed to interest rate risk on its swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR rates decrease, the Commonwealth's net payment on the swap increases. Additionally, as long-term LIBOR rates decrease, the fair values of these derivative instruments in liability positions decrease. On its forward starting pay-fixed, receive-variable interest rate swaps, as LIBOR rates decrease, the fair value of the swap increases. On its basis swaps, as LIBOR increases and/or SIFMA trades a higher percentage of LIBOR, the Commonwealth's net payment on the basis swap increases. Additionally, as long-term LIBOR rates decrease and/or long-term SIFMA/LIBOR ratios increase, the fair values of the basis swaps in liability positions decrease.

Counterparty Risk — The Commonwealth is at risk that a counterparty (or its guarantor) will not meet its obligations under the swap. If counterparty were to default under its agreement when the counterparty would owe a termination payment to the Commonwealth, the Commonwealth may have to pay another entity to assume the position of the defaulting counterparty. The Commonwealth has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents.

Termination Risk — The Commonwealth or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The Commonwealth is at risk that counterparty will terminate a swap at a time when the Commonwealth owes a termination payment to the counterparty. The Commonwealth has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by the Commonwealth; other Commonwealth defaults which remain uncured for 30 days after notice; Commonwealth bankruptcy; insolvency of the Commonwealth (or similar events); or a downgrade of the Commonwealth's credit ratings below Ba1 as issued by Moody's Investor Service or BB+ by Standard & Poor's for the majority of the derivative instruments. The derivative instruments that are insured by Assured Guaranty Municipal Corp. (derivative instruments No. 21) may not be terminated by the counterparty unless an Insurer Event has occurred (i.e., Insurer's credit ratings fall below A3 by Moody's Investor Service or A- by Standard & Poor's) and the Commonwealth's credit ratings are downgraded below Ba1 as issued by Moody's Investor Service or BB+ by Standard & Poor's. If at the time of termination, an investment derivative instrument is in a liability position, the Commonwealth would be liable to the counterparty for a payment equal the liability's value as determined in accordance with the swap agreement provisions, subject to netting arrangements.

Collateral Posting Requirements and Contingencies — All of the Commonwealth's derivative instruments, except for the Commonwealth's derivative instruments that are insured by Assured Guaranty Municipal Corp. and the COFINA's derivative instruments No. 16 and 23, include provisions that require the Commonwealth and COFINA to post collateral in excess of certain agreed upon thresholds (that range from $30.0 million to $50.0 million) in the event its credit rating falls below Baa1

(Moody's Investor Service) or BBB+ (Standard & Poor's). If the Commonwealth or the COFINA's credit rating falls below Baa3 (Moody's) or BBB- (Standard & Poor's), they are required to post collateral of 100% of their payable positions. The collateral posted is to be in the form of cash, U.S. Treasury securities, or specified Agency securities in the amount equal to in the form of cash, or greater to in the form of securities of the fair value of derivative instruments in liability positions net of the effect of applicable netting arrangements and applicable thresholds. If the Commonwealth or COFINA does not post collateral, the derivative instrument may be terminated by the counterparty.

At June 30, 2011, the aggregate fair value of the Commonwealth's derivative instruments with these collateral posting provisions (uninsured or where an Insurer Event has occurred) was $(134.9) million. The Commonwealth's credit rating as of June 30, 2011 was A3 (Moody's) and BBB (Standard & Poor's). Since the aggregate fair value of these derivative instruments was below each of the corresponding thresholds with the counterparties, the Commonwealth was not required to post collateral as of June 30, 2011.

At June 30, 2011, the fair value of the COFINA's derivative instrument with this collateral posting provision (derivative instrument No. 24) was $(88.6) million. Since COFINA's credit rating as of June 30, 2011 was A1 (Moody's) and A+ (Standard & Poor's), no collateral was required to be posted as of that date.

24. FUND BALANCE (DEFICIT)

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the classification of Fund Balance is based on the extent to which the Commonwealth is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

Nonspendable — includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints requiring such amounts to remain intact.

Restricted — includes fund balance amounts that are constrained for specific purposes which are externally imposed by creditors (such as through debt covenants), laws or regulations of other governments, or constrained due to constitutional provisions or enabling legislation.

Committed — includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government's formal action at the highest level of decision making authority and does not lapse at year-end. The highest level of decision authority for the Commonwealth is the Legislature and the Governor.

In accordance with the Commonwealth's Constitution, the Governor is required to submit to the Legislature an annual balanced budget of the Commonwealth for the ensuing fiscal year. The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon passage by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by two thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Governor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. The Office of Management and Budget, which respond to the Governor as part of the

Commonwealth's Executive Branch, has authority to amend the budget within a department, agency, or government unit without legislative approval.

Assigned — includes fund balance amounts that are constrained by the Commonwealth Legislature and the Governor and are intended to be used for specific purposes that are neither considered restricted or committed.

Unassigned — is the residual classification for the General Fund. In a governmental fund other than the General Fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed and assigned to that purpose.

The Commonwealth uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available, unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, unless required by law or agreement, the Commonwealth would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Commonwealth does not have a formal minimum fund balance policy.

Below is the detail included in the fund balance (deficit) classifications for the governmental funds at June 30, 2011 (expressed in thousands):

	General	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
Nonspendable:						
Minimum fund balance for natural resource preservation	$ 5,000	$ -	$ -	$ -	$ -	$ 5,000
Other assets	10,591	-	-	-	-	10,591
Education	1,374	-	-	-	-	1,374
Public housing and welfare	782	-	-	-	-	782
Subtotal	17,747	-	-	-	-	17,747
Spendable:						
Restricted for:						
Debt service	-	26,490	-	605,842	178,833	811,165
Special revenue	-	-	504,571	-	-	504,571
Public housing and welfare	14,727	-	-	-	-	14,727
Capital project	438,888	-	-	-	199,847	638,735
Education	30,936	-	-	-	-	30,936
Other purposes	67,148	-	-	-	-	67,148
Subtotal	551,699	26,490	504,571	605,842	378,680	2,067,282
Committed to:						
General Fund	593,177	-	-	-	-	593,177
Debt service	-	269,139	-	-	-	269,139
Special revenue	-	-	-	-	39,624	39,624
Public housing and welfare	35,019	-	-	-	-	35,019
Education	1,395	-	-	-	-	1,395
Subtotal	629,591	269,139	-	-	39,624	938,354
Assigned to:						
Education	14,512	-	-	-	-	14,512
Special revenue	-	-	-	-	74,752	74,752
Subtotal	14,512	-	-	-	74,752	89,264
Unassigned	(1,464,609)	-	-	-	-	(1,464,609)
Total fund balance (deficit)	$ (251,060)	$295,629	$504,571	$605,842	$493,056	$ 1,648,038

25. SUBSEQUENT EVENTS

Primary Government

On November 7, 2011, the Commonwealth approved Law Act No. 218. Act No. 218 establishes an amnesty program available until February 29, 2012, in which taxpayers may pay, outstanding income, estate, donations and special real property tax debts with a discount of 100% of any penalties, interest and surcharges ("the Program"). To benefit from the Program the taxpayer must pay the total amount of the outstanding debt as of the date of payment on or before February 29, 2012. This legislation extends the benefits to those taxpayers with outstanding debts subject to payments plans, payroll discounts and those who have tax returns under investigation.

On November 22, 2011, the Commonwealth approved law Act No. 231 which creates the Municipal Improvements Fund. The Municipal Improvements Fund will receive .01% of the deposits collected from the .05% municipal sales and uses tax collected by the Secretary of the Treasury. The collections will be deposited in an account or special fund in GDB to be distributed through legislation by the Legislative Assembly for public permanent projects and improvements in the municipalities.

On September 29, 2011, the Department of Housing of the Commonwealth received approximately $100 million from Vivienda Modernization 1, LLC for the repayment of note receivable principal and interest of $87.8 million and 12.2 million, respectively, on a note receivable.

In December 2011, the Office for the Improvements of Public Schools fully paid a noncurrent liability amounting to $88,625,000 from proceeds received from the Puerto Rico Sale Tax Financing Corporation *(known as" COFINA" by its Spanish Acronym).*

On November 23, 2011, COFINA issued its Sales Tax Revenue Bonds, First Subordinate Series 2011A amounting to approximately $734.8 million. The Series 2011A bonds mature between August 1, 2023 and August 1, 2050 bearing interest rates from 5.00% to 7.00%. The proceeds from the issuance of the Series 2011A bonds will be mainly used to refund certain outstanding bonds of COFINA and provide funds to the Commonwealth to cover operating expenses. In addition, COFINA issued its Sales Tax Revenue Bonds, First Subordinate Series 2011B amounting to approximately $45.6 million. The Series 2011B matures between August 1, 2031 and August 1, 2036 bearing fixed interest rates from 5.00% to 5.15%. The proceeds from the issuance of the Series 2011B bonds will be mainly used to refund certain outstanding bonds of COFINA.

On December 13, 2011, COFINA issued its Sales Tax Revenue Bonds, Senior Series 2011C amounting to approximately $1,006.5 million. The Series 2011C bonds will mature between August 1, 2020 and August 1, 2046 bearing interest rates from 4.00% to 6.25%. The proceeds from the issuance of the Series 2011C bonds will be mainly used to refund certain outstanding bonds of the Puerto Rico Public Finance Corporation and cover certain payments associated with swap agreements of COFINA. In addition, COFINA issued its Sales Tax Revenue Bonds, Senior Series 2011D amounting to approximately $91.1 million. The Series 2011D bonds mature between August 1, 2023 and August 1, 2036 bearing interest rates from 3.80% to 4.85%. The proceeds from the issuance of the Series 2011D bonds will be mainly used to refund certain outstanding bonds of the Puerto Rico Public Finance Corporation.

The Public Buildings Authority ("PBA") is currently involved in the "Schools for the 21st Century" program, which is a multi-agency effort with the objective of rehabilitating, renovating, and/or constructing approximately 100 public schools through the use of an innovative procurement approach that effectively transfers the risk of design, construction and maintenance to the private sector. Under this program, the Puerto Rico Public-Private Partnerships Authority ensures overall compliance with procurement requirements while the Puerto Rico Infrastructure Financing Authority serves as procurement and construction manager. The public schools included under the program will undergo major repairs of structural deficiencies, renovations of electrical and mechanical defects, and the creation of new community spaces, sciences labs, art centers, among other things.

PBA has issued its $756,449,000 aggregate principal amount of Government Facilities Revenue Bonds, Series R (Qualified School Construction Bonds-Issuer Subsidy) (the "Series R Bonds"). The proceeds of the Series R Bonds will be used to finance the rehabilitation, renovation or construction of at least 100 public schools under this program. PBA expects to finance the rehabilitation, renovation or construction of the remaining public schools through a future issuance of bonds also designated as "Qualified School Construction Bonds".

Concurrently with the issuance of the Series R Bonds, on August 24, 2011 PBA issued its $303,945,000 aggregate principal amount of Government Facilities Revenue Bonds, Series S Guaranteed by the Commonwealth. The bonds are being issued to (i) repay certain advances made to PBA by GDB under line of credit facilities to (a) pay interest due January and July 1, 2011 on certain bonds issued under the 1995 Bond Resolution and the 1970 Bond Resolution, and (b) pay a portion of the construction costs of certain buildings and facilities leased by PBA to various departments, agencies, instrumentalities and municipalities of the Commonwealth; and (ii) pay costs of issuing the bonds. The Government Facilities Revenue Bonds, Series S, repay the lines of credit principal in the amounts of $147.8 million, $16.2 million and $122 million, and accrued interest of $16 million.

In July 2011, PBA repaid the accrued interest for the line of credit of $98,500,000 with annual rate equal to 1.50%. The accrued interest paid at July 30, 2011, was in the amount of $309,490.

On December 19, 2011, PBA issued Government Facilities Revenue Bonds, Series T (Qualified Zone Academy Bonds-Direct Payment) (the "Series T Bonds") Guaranteed by the Commonwealth of Puerto Rico amounting to $121,528,000 maturing on July 1, 2030 bearing a fixed interest rate of 5.60%. The Series T Bonds are subject to redemption prior to the maturity at the option of PBA, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of the redemption, without premium, within ninety (90) days after December 22, 2014 to the extent that less than all of the available project proceeds are not expended for qualified purposes by the end of the three-year expenditure period beginning on the date of issuance. Interest on the bonds will be payable on August 1, 2012, on October 1, 2012 and quarterly thereafter on each January 1, April 1, July 1 and October 1. The proceeds will be used to pay part of the cost of renovating and rehabilitating certain public schools.

On July 11, 2011, the Commonwealth issued Public Improvement Bonds of 2011 and Public Improvement Refunding Bonds Series 2011 D and Series 2011 E amounting to approximately $602,105,000. The Public Improvement Bonds of 2011 ("2011 Bonds") consist of term bonds with a total principal of $304,000,000 maturing on July 1, 2041 and bearing interest rate of 5.75%. Interest on the 2011 Bonds will be payable semi-annually on each January 1 and July 1, commencing on January 1, 2012. The net proceeds of the 2011 Bonds will be used to carry out certain capital improvements programs authorized by the Legislature Assembly in Act No. 79 of June 1, 2011 and the refunding of bond anticipation notes issued under the Act No. 79 to finance, on an interim basis, portions of certain such capital improvements programs. In addition, the Commonwealth issued the Public Improvement Refunding Bonds Series 2011 D and Series 2011 E ("Refunding Bonds") amounting $52,190,000 and $245,915,000, respectively. The net proceeds of the Refunding Bonds were used to: (i) refund in full certain other general obligation bonds and notes of the Commonwealth, (ii) fund termination payments under certain interest rate swap agreements and a debt service deposit agreement entered into in connection with the issuance of the refunded bonds, (iii) pay capitalized interest on the Refunding Bonds, and (iv) pay certain transaction costs. The scheduled payment of principal of and interest on the Refunding Bonds, Series 2011 D with maturity dates July 1, 2019 and bearing interest at a rate of 3.875% ($5,900,000) and July 1, 2020 and bearing interest at a rate of 4.125% ($4,500,000) (the Insured Bonds), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Assured Guaranty Municipal Corp.

On March 7, 2012, the Commonwealth issued Public Improvement Refunding Bonds, Series 2012 A (General Obligation Bonds) (the "Series 2012 A Bonds"). The Series 2012 A Bonds consist of serial bonds with a principal amount of $639,445,000 maturing between July 1, 2020 and July 1, 2033 bearing interest rates from 4.00% to 5.75% and term bonds with a principal amount of $1,678,745,000 maturing between July 1, 2035 and July 1, 2041 and bearing interest rates from 5.00% to 5.50%. The proceeds from the issuance of the Series 2012 A Bonds will be used to provide funds to (i) repay the GDB lines of credit, the proceeds of which refinanced deposits to the Commonwealth's redemption fund for the payment of principal and interest due on January 1, 2012 and July 1, 2012 on certain general obligation bonds and notes of the Commonwealth, (ii) refund certain of the Commonwealth's outstanding general obligation bonds and fund associated termination payments due under an investment agreement and interest rate exchange agreements, (iii) pay capitalized interest on a portion of the Series 2012 A Bonds to April 3, 2015 and (iv) pay expenses related to the issuance and sale of the Series 2012 a Bonds.

On March 7, 2012, the Commonwealth issued Public Improvement Refunding Bonds, Series 2012 B (General Obligation Bonds) (the "Series 2012 B Bonds"). The Series 2012 B Bonds consist of serial bonds with a principal amount of $365,660,000 maturing between July 1, 2013 and July 1, 2020 bearing interest rates from 2.25% to 4.40% and a term bond with a principal amount of $49,610,000 maturing on July 1, 2033 and bearing a fixed interest rate of 5.30%. The proceeds from the issuance of the Series 2012 B Bonds will be used to provide funds (i) repay a GDB line of credit, the proceeds of which refinanced deposits to the Commonwealth's redemption fund for the payment of principal and interest due from February 1, 2012 to July 1, 2012 on certain general obligation bonds and notes of the Commonwealth, (ii) refund certain of the Commonwealth's outstanding general obligation bonds. (iii) pay capitalized interest on a portion of the Series 2012 B Bonds, and (iv) pay expenses related to the issuance and sale of the Series 2012 B Bonds.

Component Units

(a) GDB

On July 1, 2011, GDB refunded $400 million of its then outstanding Senior Notes Series 2009 C and Series 2009 D.

GDB Senior Notes 2011 — On September 13, 2011, GDB issued $450 million of Senior Notes, 2011 Series C. The Senior Notes, 2011 Series C mature on October 15, 2012 bearing fixed interest rate of 1.00%. Interest on the Senior Notes, 2011 Series C will be payable on maturity. GDB used the proceeds to provide a loan to the Secretary of the Treasury of Puerto Rico for the purpose of managing intra-year cash flow needs of the Commonwealth during fiscal year 2012.

On October 5, 2011, GDB issued $295 million of Senior Notes, 2011 Series D. The Senior Notes, 2011 Series D mature on November 8, 2012 bearing fixed interest rate of 1.00%. GDB used the proceeds to provide a loan to the Secretary of the Treasury of Puerto Rico for the purpose of managing intra-year cash flow needs of the Commonwealth during fiscal year 2012.

On October 11, 2011, GDB issued $150 million of Senior Notes, 2011 Series E. The Senior Notes, 2011 Series E mature on April 11, 2012 bearing fixed interest rate of 1.85%. Interest on the Senior Notes, 2011 Series E will be payable on a monthly basis. GDB used the proceeds for general corporate purposes, including, but not limited to, increasing its investment portfolio, making loans and purchasing obligations of the Commonwealth and its public corporations, instrumentalities and municipalities.

On November 7, 2011, GDB issued $400 million of Senior Notes, 2011 Series F. The Senior Notes, 2011 Series F mature on January 8, 2013 bearing fixed interest rate of 1.75%. Interest on the Senior Notes, 2011 Series F will be payable on maturity. GDB used the proceeds for general corporate purposes, including, but not limited to, increasing its investment portfolio, making loans and purchasing obligations of the Commonwealth and its public corporations, instrumentalities and municipalities.

On December 28, 2011, GDB issued $1,399 million of Senior Notes, 2011 Series H. The Senior Notes, 2011 Series H consist of term notes maturing on various dates from August 1, 2015 to August 1, 2026 bearing fixed interest rates ranging from 3.80% to 5.20%. The Senior Notes, 2011 Series H are subject to Redemption at the option of GDB, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption without premium on February 1, 2013 and on any day thereafter, subject to at least 30 days prior notice. Interest on the Senior Notes, 2011 Series H will be payable monthly on the first day of each month, commencing on February 1, 2012. GDB used the proceeds for general corporate purposes, including, but not limited to, increasing its investment portfolio, making loans and purchasing obligations of the Commonwealth and its public corporations, instrumentalities and municipalities, redeeming and/or purchasing all or portion of certain notes previously issued and to pay for the costs of issuance. In particular, GDB expects to use a portion of the proceeds of the Senior Notes, 2011 Series H to redeem some of the Senior Notes, 2009 Series C and D, Senior Notes, 2010 Series A and Senior Notes, 2011 Series F.

On January 12, 2012, GDB issued $398 million of Senior Notes, 2011 Series I. The Senior Notes, 2011 Series I consist of term notes maturing on various dates from August 1, 2014 to August 1, 2018 bearing fixed interest rates. Interest on the Series Notes, 2011 Series I will be payable monthly on the first day of each month, commencing on February 1, 2012. GDB used the proceeds for general corporate purposes, including, but not limited to, increasing its investment portfolio, making loans and purchasing obligations of the Commonwealth and its public corporations, instrumentalities and municipalities, redeeming and/or purchasing all or portion of certain notes previously issued and to pay for the costs of issuance. In particular, GDB expects to use a portion of the proceeds of the Senior Notes, 2011 Series I to redeem some of the Senior Notes, 2009 Series C and D, Senior Notes, 2010 Series A and Senior Notes, 2011 Series F.

On February 8, 2012, GDB issued $1,000 million of Senior Notes, 2012 Series A. The Senior Notes, 2012 Series A consist of term notes maturing on various dates from February 1, 2015 to February 1, 2019 bearing fixed interest rates ranging from 3.448% to 4.375%. The Senior Notes, 2012 Series A are subject to redemption at the option of GDB, either in whole or in part, at a price equal to the greater of the principal amount to be redeemed or the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the 2012 Series A Notes to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the 2012 Series A Notes are to be redeemed, discounted to the date on which the 2012 Series A Notes are to be redeemed on a semiannual basis, assuming a 360-day year consisting of twelve 30-days months, at the Treasury Rate plus 50 basis points; plus, in each case, accrued interest on the 2012 Series A Notes to be redeemed to the redemption date. Interest on the 2012 Series A Notes will be payable semiannually on the first day of each February and August, commencing on August 1, 2012. GDB used the proceeds for general corporate purposes, including, but not limited to, increasing its investment portfolio, making loans to, and purchasing obligations of the Commonwealth and its public corporations, instrumentalities and municipalities and redeeming certain notes previously issued and to pay for the costs of issuance. In particular, GDB expects to use a portion of the proceeds of the 2012 Series A Notes to redeem some of the Senior Notes, 2009 Series C and D and Senior Notes, 2010 Series A and C.

Housing Finance Authority

Special Obligation Notes, 2011 Series A — On October 4, 2011, the Housing Finance Authority issued $18 million of its Special Obligation Notes, 2011 Series A (the 2011 "Notes") at an aggregate discounted price of $9,180,000. The 2011 Notes will be collateralized by certain second mortgages originated under the Home Purchase Stimulus Program and will be repaid from collections of principal and interest of the underlying collateral. The second mortgage loans will be guaranteed by the Housing Finance Authority's Act No. 87 insurance.

Restructuring of Mortgage Trust III, Collateralized Mortgage Obligations, Series A — In July 2011, the Housing Finance Authority restructured approximately $425 million face amount of Mortgage Trust III bonds and obtained $60 million of cash from related collateral. The restructuring took place as follows: 1) tender offer amounting to approximately $144 million (including expenses related to the transaction) to acquire and cancel bonds with a carrying amount of approximately $112 million, and 2) purchase AAA securities amounting to approximately $160 million to establish an escrow for the payment through maturity of bonds with a carrying amount of approximately $129 million.

Transfer of New Secure Housing Program — On January 30, 2012, the Housing Finance Authority signed an interagency agreement with DOH to initiate the transition process and facilitate the undertaking of the responsibilities of DOH's as New Secure Housing (NSHP) Program sub-grantee. As part of the transition process the Housing Finance Authority met with DOH's designated officials and reviewed Program's objectives, legal basis, grant terms, program functioning, challenges, results, pending issues and recommendations. Also a summary of the status of each implementation phase of all offsite project sites was covered. As part of the agreement, the remaining 209 vacant housing units of the Program were transferred to DOH for disposition under the DOH's regulatory parameters. The Housing Finance Authority also assumed responsibility for payment of principal and interest of the related debt of the Program. As of February 29, 2012, the line of credit of the Program had an outstanding balance of $53.1 million. Any resulting liability or recapture that could be assessed by the federal government regarding any noncompliance event of the program will be assumed by the DOH.

Public Finance Corporation — On August 18, 2011, the Public Finance Corporation ("PFC") issued its 2011 Series A Bonds (Commonwealth Appropriation Bonds) (the "2011 Series A Bonds"). The 2011 Series A Bonds consist of a term bond with a principal amount of $242,430,000 maturing on August 1, 2028 and bearing a fixed interest rate of 6.50%. The 2011 Series A Bonds are subject to redemption at the option of PFC, either in whole or in part, at par amount to be redeemed, plus accrued interest at the redemption date, without premium on August 1, 2016 and on any date thereafter, subject to at least 30 days notice. In addition, the 2011 Series A Bonds are subject to mandatory redemption, in part, in the principal amount equal to the amortization requirement, as defined, plus accrued interest, without premium from August 1, 2027 to August 1, 2028. Interest on the 2011 Series A Bonds will be payable semiannually on the first day of each August and February, commencing on February 1, 2012. The 2011 Series A Bonds were issued to repurchase a portion of its 2004 Series A Bonds, paying interest on the 2011 Series A Bonds and paying issuance costs.

On December 15, 2011, PFC issued its 2011 Series B Bonds (Commonwealth Appropriation Bonds) (the "2011 Series B Bonds"). The 2011 Series B Bonds consists of serial bonds with a principal amount of $74,985,000 maturing on various dates from August 1, 2024 to August 1, 2026 and bearing a fixed interest rate of 6.00% and a term bond with a principal amount of $362,660,000 maturing on August 1, 2031 and bearing a fixed interest rate of 5.50%. The 2011 Series B Bonds are subject to redemption at the option of PFC, either in whole or in part, at a redemption price equal to the par amount to be redeemed, plus accrued interest to the redemption date, without premium on August 1, 2021 and on any date thereafter, subject to at least 30 days notice. In addition, the 2011 Series B Bonds are subject to mandatory redemption, in part, in the principal amount equal to the amortization requirement, as defined, from August 1, 2027 to August 1, 2031. Interest on the 2011 Series B Bonds will be payable semiannually on the first day of each August and February, commencing on August 1, 2012. The 2011 Series Bonds were issued for the purpose of (i) current refunding, and redeeming on the mandatory tender date, all 2004 Series A Bonds that are not expected to be defeased with the proceeds of the COFINA Senior Series 2011 Bonds, plus accrued interest to the redemption date, (ii) paying a portion of the interest on the 2011 Series A Bonds through February 1, 2012 and a portion of the interest on the 2011 Series B Bonds through

February 1, 2015, representing no more than three years of capitalized interest on the 2011 Series B Bonds, and (iii) paying the cost of issuing the 2011 Series B Bonds.

Puerto Rico Development Fund

Closing of New Market Tax Credits Transaction **—** On February 15, 2012, the Citibank N.A. and GDB, through the Puerto Rico Development Fund (PRCDF), one of its blended component units, funded and closed the New Market Tax Credit (NMTC) transaction commenced on October 14, 2011. With the proceeds of the transaction PRCDF established a $45 million Revolving Loan Fund. A portion of the proceeds were used to acquire from the Housing Finance Authority $30.2 million worth of construction loans of for-sale affordable housing projects in low income communities in Puerto Rico. An additional $12.5 million was loaned and distributed to the respective developers' construction disbursement accounts. Professional and legal fees and transaction expenses in the aggregate amount of $1.9 million, including the Housing Finance Authority's fiscal agency fees of $0.7 million, were paid by PRCDF from the placement and sponsor fees received in the transaction.

On April 3, 2012, GDB, through PRCDF, entered into certain agreements with various financial institutions whereby GDB will guarantee up to 30% of the principal of and 180 days of interest on commercial loans issued by the financial institutions up to a maximum principal balance of $800 million. GDB's funding commitment shall never exceed $200 million.

(b) PRASA

Issuance of Debt — On September 14, 2011, PRASA issued approximately $70.2 million of Series HH of USDA Rural Development Program Bonds, at a maximum interest of 4.25% of interest, payable semiannually and maturing in semiannual installments through July 1, 2051. The funds raised by this issuance were used to partially repay the outstanding balance of the USDA Rural Development Program lines of credit for construction projects from GDB. The payment of principal and interest on these bonds is guaranteed by the Commonwealth.

On February 15, 2012, PRASA issued approximately $1,800 million of Revenue Bonds, Series 2012 A (Senior Lien) (the "Series 2012 A Bonds"), The Series 2012 A Bonds consist of serial bonds with a principal amount of $418,455,000 maturing on various dates from July 1, 2015 to July 1, 2030 and bearing fixed interest rates ranging from 4.00% to 5.50% and term bonds with a principal amount of $1,381,995,000 maturing between July 1, 2033 and July 1, 2047 and bearing interest rates from 5.00% to 6.00%. The Series 2012 A Bonds maturing after July 1, 2022 are subject to redemption at the option of PRASA, starting on July 1, 2022. The Series 2012 A Bonds were issued to (i) repay certain lines of credit provided by GDB, (ii) finance a portion of the Five–Year Capital Improvement Program, (iii) make a deposit to the newly created Budgetary Reserve Fund, (iv) pay capitalized interest on the Series 2012 A Bonds through July 1, 2013 and (v) pay the costs of issuance of the Series 2012 A Bonds.

Also, on February 15, 2012, PRASA issued approximately $295.2 million of Revenue Bonds, Series 2012B (Senior Lien) (the "Series 2012 B Bonds"). The Series 2012 B Bonds consist of serial bonds with a principal amount of $188,130,000 maturing on various dates from July 1, 2014 to July 1, 2023 and bearing fixed interest rates ranging from 3.35% to 5.00% and a term bond with a principal amount of $107,115,000 maturing on July 1, 2027 and bearing interest at 5.35%. The 2012 Series B Bonds maturing after July 1, 2015 are subject to redemption at the option of PRASA, starting on July 1, 2015. The Series 2012 B Bonds were issued to (i) provide funds to repay a bond anticipation note issued by PRASA in the aggregate principal amount of $241 million, (ii) provide funds to repay certain lines of credit provided by GDB, (iii) pay capitalized interest on the Series 2012 B Bonds through July 1, 2013, and (iv) pay the costs of issuance of the Series 2012 B Bonds.

On January 17, 2012, PRASA issued approximately $241 million of Bond Anticipation Notes, Series 2012A (Senior Lien). The proceeds were used to repay a term loan with various commercial banks that matured on January 16, 2012 and pay the costs of issuance of the 2012A Bond Anticipation Notes.

Thames Dick Corporation — Master Agreement Termination — On January 31, 1996, PRASA and Thames Dick Superaqueduct Partners, Inc. (TDSP) executed an agreement entitled Master Agreement for the North Coast Superaqueduct Project to plan, design, construct, operate and maintain North Coast Superaqueduct Project (NCSP). PRASA and TDSP have agreed to cancel the Master Agreement and transfer the responsibility to PRASA for the operation and administration of the NCSP as of July 19, 2011. The amount of $2.1 million was deposited in an Escrow account to guarantee PRASA's claims that may arise after the cut-off date. TDSP is not responsible for retained liabilities exceeding the amount in escrow. Retained liabilities are claims by or against PRASA arising out of 1996 Master Agreement through the cut-off date. PRASA requested certain remedial maintenance services to be paid by TDSP and completed by PRASA after cut-off date for the amount of $1.8 million. This remedial maintenance services included (a) reservoir cleaning and (b) the repairing of three main pumps. TDSP transferred PRASA the control of NCSP and ownership of vehicles, laboratory equipment, office equipment, and others.

Assets Transfer — On August 16, 2011, PRASA entered into an Asset Purchase Agreement (the Agreement) with the Puerto Rico Industrial, Tourism, Educational, Medical and Environmental Central Facilities Financing Authority (AFICA), a public corporation of the Commonwealth of Puerto Rico to purchase certain assets that were being used to develop the Southern Gas Pipeline Project for the total purchase price of approximately $23.5 million and assumed the rights and obligations of PREPA under a Subordinated Loan Agreement between AFICA and PREPA and a Subordinated Note and Loan Agreement of approximately $31 million.

Extension of Maturity Date — Term Loan Agreement — On September 8, 2006, PRASA entered into a $250 million term loan agreement with Banco Popular de Puerto Rico, as Administrative Agent, and a syndicate of banks. On August 17, 2011, the maturity date of this term loan was extended from September 1, 2011 to January 16, 2012. PRASA will be required to make quarterly principal payments of $736,000 on September 1, 2011 and December 1, 2011.

(c) PREPA

Long – Term Debt — During the month of July 2011, PREPA entered into a revolving line of credit with Citibank amounting to $260 million to finance fuel purchases. This credit facility has an automatic reduction provision that will lower the balance to $210 million on March 30, 2012. This line of credit matures on July 13, 2012, and bears interest at a variable rate per annum equal to the sum of 90-day LIBOR Floating Pool Rate plus the applicable Spread of 1.70%.

Natural Disaster — In September 2011, Hurricane Irene struck Puerto Rico causing significant damages across the island and to PREPA infrastructure. As a result, distribution, transmission and production components of the utility plant were seriously damaged. At this time the financial effect of the hurricane on PREPA's operations could not be determined; however, certain types of assets were insured and PREPA expects to collect all restoration costs from their insurance agencies. In addition, PREPA will claim to the Federal Emergency Management Agency (FEMA) uninsured damages caused by the hurricane.

Nonrevolving Line of Credit — During the month of October 2011, PREPA entered into a nonrevolving line of credit with the Government Development Bank (GDB) amounting to $244 million. This line of credit matures on June 30, 2012 and bears interest per annum equal to prime rate plus 150 basis points, as determined from time to time in good faith by GDB or upon written notice to PREPA, at a variable rate of interest per annum, which interest rate may be revised periodically, equal to the GDB cost of funding for variable rate loan transactions or the cost of any other obligations or source of funds used to fund the loan.

Rate Stabilization Account — During the month of November 2011, PREPA's Governing Board approved the creation of a Rate Stabilization Account ("RSA") which is going to be managed by PREPA and GDB. PREPA will make deposits to the RSA on a monthly basis from any moneys that are available after the payment of current expenses, principal and interest due, the funding of the required deposits to the Reserve Maintenance Fund, the Subordinate Obligations Fund, the Self Insurance Fund and the Capital Improvement Fund created by the Trust Agreement. Available amounts in the RSA can be used by the Authority with the approval of GDB to offset the application of a credit to consumers.

Act No. 233 — On December 11, 2011, the Commonwealth approved Act No. 233 (the "Act") amending Act No. 83 of May 2, 1941, also known as the Puerto Rico Electric and Power Authority Act. The Act modified the calculation of the Contribution in Lieu of Taxes (CILT) made by PREPA. Energy used in municipal facilities for which the municipality receives rent or right of admission revenues will not be taken into consideration in the CILT calculation. The primary purpose of Act 233 is to give relief in energy costs to customers.

Credit Ratings — On December 16, 2011, during the course of routine surveillance, Fitch Ratings affirmed the BBB+ rating to PREPA's approximately $7.8 billion in outstanding power revenue bonds with a rating outlook and stable.

On March 28, 2012, Fitch Ratings assigned a BBB+ rating to PREPA's $461.5 million power revenue bonds, series 2012 A and $19.7 million power revenue refunding bonds, series 2012 B, which are expected to price via negotiation during the week of April 9, 2012. Bond proceeds will fund a portion of planned capital expenditures through fiscal year 2013, repay short-term borrowings payable to GDB, pay capitalized interest through January 1, 2015 (2012 A bonds), and economically refund certain series of the outstanding power revenue bonds. Fitch also reaffirmed the BBB+ rating on the outstanding parity power revenue bonds. In addition, the rating outlook was revised to negative from stable.

On March 27, 2012, Moody's Investors Service assigned a Baa1 rating to PREPA's power revenue bonds, series 2012 A, and power revenue refunding bonds, series 2012 B. Moody's has also downgraded the approximately $7.8 billion of outstanding power revenue bonds to Baa1 from A3, with a stable outlook.

On March 2, 2012, GDB approved a new revolving line of credit for the amount of $50 million to finance fuel purchases. This line of credit matures on June 30, 2012, and bears interest at a variable rate per annum equal to the sum of Prime Rate plus the applicable Spread of 1.50% with a minimum rate of 6%.

PREPA expects to issue $650 million Revenue Bonds, Series 2012A, (the "Series 2012 A Bonds"), and Power Revenue Refunding Bonds, Series 2012B (the "Series 2012 B Bonds") on May 1, 2012. The Series 2012 A Bonds consist of serial bonds with a principal amount of $114,510,000 maturing on July 1, 2029 and July 1, 2042 and bearing fixed interest rates of 4.80% and 5.05%, respectively, and term bonds with a principal amount of $515,600,000 maturing on July 1, 2029 and July 1, 2042 and bearing interest rates of 5.00%. The Series 2012 A Bonds maturing after July 1, 2022 are subject to redemption at the option of PREPA, starting on July 1, 2022. The Series 2012 A Bonds were issued to (i) finance a portion of the cost of various projects under its capital improvement program, (ii) repay certain advances made to PREPA by GDB under a line of credit facility, (iii) fund a deposit to the Reserve Account in the PREPA Revenue Bonds Interest and Sinking Fund, (iv) pay capitalized interest on the Series 2012A Bonds through January 1, 2015, and (v) pay the costs of issuance of the Series 2012 A Bonds. The Series 2012 B Bonds consist of serial bonds with a principal amount of $19,890,000 maturing on July 1, 2016 and bearing fixed interest rates of 2.50% and 5.00%. The Series 2012 B Bonds were issued to (i) provide funds, together with other available moneys, to refund the Power Revenue Bonds Series II of $21,345,000, and (ii) to pay the costs of issuance of the Series 2012B Bonds.

PRHIA

Effective October 1, 2011, PRHIA decided to expand the direct contracting project to cover, in addition to Vieques and Guaynabo, the West, the Metro North, the North, the San Juan, the Northeast and the Virtual Regions. These regions, previously covered by MCS Health Management Options, Inc. under coverage for premium arrangement will be managed by Triple-S Salud, Inc. as TPA starting on November 1, 2011. Under this arrangement, Triple-S Salud, Inc. will receive a PMPM for performing administrative services. In addition, PRHIA will implement certain cost containment strategies to control costs. Among these strategies are establishing a co-payment that will apply for the unjustified use of emergency rooms, detection and control of prescription drug overuse, implementation of disease management program for respiratory conditions, modification in provider fees and better coordination of benefits for the population having other medical insurance.

On October 18, 2011, the Legislature approved Law Number 205. This Law authorizes PRHIA to open a revolving line of credit either with GDB or with a commercial bank for the sole purpose of paying health insurance premiums, health service providers and financing costs related to the line of credit. The amount of the line of credit will be limited to and guaranteed by the amount of federal funds to be received by Puerto Rico from the Federal Government's Medicaid Program as certified by PRHIA's Board of Directors and by the Puerto Rico Medicaid Program. PRHIA will be obliged to use any federal funds received to pay the line of credit. The Government of Puerto Rico will guarantee and will make the necessary appropriations to cover any balance of the line of credit in excess of federal funds received.

On March 7, 2012, PRHIA entered into a $250 million credit facility agreement with various financial institutions. Advances made under the credit facility will be used to fund monthly expenses which are eligible to be reimbursed through a confirmed and certified Available Medicaid Grant as provided in the Health Insurance Administration Act and to pay legal and closing expenses and other costs and expenses related to the transactions contemplated in the credit facility agreement. Advances made under the credit facility bear interest at a rate per annum equal to the sum of (i) the higher of, LIBOR as in effect from time to time or an interest rate equal to fifty basis points (0.50%), plus (ii) the Applicable Margin, as defined.

(d) PRHTA

On June 27, 2011, the PRHTA entered into a Toll Concession Agreement (the "Agreement") with a private company named "Autopistas Metropolitanas de Puerto Rico, LLC". The purpose of this Agreement is to finance, operate and maintain the PR-22 and PR-5 highways for a 40 years term. In this transaction, the PRHTA will receive a concession fee of $1.08 billion and will stop receiving the tolls revenues for those two highways. This transaction will benefit the PRHTA fiscal capacity in the following matters: 1) PRHTA will obtain a significant amount of cash, that will be used to defease the corresponding bonds payable, 2) a minimum of capital investment of approximately $75 million for the next 3 years need to be performed by the third party, so it will not have maintenance costs for the next 40 years, 3) increase the quality of highways in terms of security to Global Standards, and 4) savings in interest expenses of approximately $100 million annually due to the decrease in outstanding bonds by $1 billion. This Agreement was effective when the third party paid the Concession Fee on September 22, 2011.

During the execution of this transaction, PRHTA entered into a new agreement with GDB for the amount of $400 million nonrevolving line of credit. This line of credit matures on March 19, 2012 and bear interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not be less than six (6) percent.

On August 25, 2011, PRHTA entered into a new agreement with GDB for the amount of $77 million to increase the $45 million nonrevolving line of credit agreed on August 27, 2010, with the same loan terms and an extension in the maturity date until January 31, 2013.

On October 18 2011, PRHTA entered into a new agreement with GDB for the amount of $71 million for the purpose of paying certain costs incurred or to be incurred in the acquisition, construction, equipping, installation and development of certain capital improvements, and paying certain costs associated with the automatization of the PRHTA's toll collection system. This line of credit matures on August 31, 2013 and bears interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not be less than six (6) percent.

On October 20, 2011, PRHTA entered into a new agreement with GDB to modify the purpose of the $24 million nonrevolving line of credit agreed on April 19, 2011. The new purpose of the line of credit will be for paying cost incurred or to be incurred for operational purposes of the Maritime Transportation Authority.

On November 22, 2011, PRHTA entered into a new agreement with GDB for the amount of $49.3 million to increase the $45 million nonrevolving line of credit agreed on October 18, 2011, with the same loan terms.

On February 22, 2012, GDB approved an increase of $126 million to an existing nonrevolving line of credit agreement entered into on September 21, 2011, with the same terms. The increment will be used to pay operational costs of $109 million related to the second semester of fiscal year 2012, and to pay accrued interest of $17.4 million.

(e) PAA

Pursuant to the provisions of the legislative Joint Resolution No. 54 of June 10, 2011, the Commonwealth approved a budgetary appropriation for the fiscal year 2011-2012, amounting to $17,315,000, for the payment of principal and interest of the Series A Bond and the payment of interest only of the Series B and C Bonds of the PAA under the bond purchase agreements with the GDB. Such funds were made available for transfer through the GDB during August 2011.

On December 12, 2011, the Puerto Rico Governor signed the Act No. 240 of 2011, known as the *Law of the Ponce Ports Authority* (the "Act"), which establishes general guidance for the further development of the Port of the Americas and its integration to certain development strategies proposed by the Municipality of Ponce. The Act created the Ponce Ports Authority ("PPA") for continuing the development of the port and for managing the Port's future operations. The Board of

Directors of PPA shall consist of members from PAA and representatives from the Municipality of Ponce. All of the rights and duties of the Port of the Americas Authority shall be transferred to PPA.

Pursuant to the provisions of the Act, the PAA shall continue to handle the obligations, liabilities and commitments incurred prior to the enactment of the Act. The impact, if any, that the implementation of the Act may have on PAA's financial condition, cannot be determined as of the date of issuing the financial statements.

(f) PRCCDA

On July 7, 2011, as part of the Bahia Urbana Project, PRCCDA received a transfer of land from Puerto Rico Department of Transportation and Public Works, a department of the Commonwealth. As of the date the basic financial statements were available to be issued, the transferor's carrying value of the property was not available.

(g) PRCHE

On July 1, 2011, PRCHE consummated a merger with the Puerto Rico Council on General Education covered by the provisions of the Reorganization Plan No.1, of July 26, 2010, under the Act No. 182 of December 17, 2009 known as "Act of Reorganization and Modernization of the Executive Branch of the Government of Puerto Rico of 2009". A new organization was created; Puerto Rico Council on Education, and all the assets and liabilities of PRCHE were transferred and assumed by the new Council during the merge.

(h) AFICA

On August 16, 2011, PRASA executed a purchase agreement to acquire certain assets from AFICA for approximately \$20.9 million and assume PREPA's subordinated loan with AFICA with an outstanding balance of approximately \$30 million plus approximately \$1 million to be used for related costs. The subordinated loan bears interest at 150 basis points over U.S. Prime Rate, with a floor of 6%, due on August 16, 2012.

AFICA also entered into a bill of sale with PREPA of approximately \$12.5 million to cover the remaining balance owed to the Bank attributable to this transaction. Among the assets reacquired by PREPA are: (1) 75% of a project's design of approximately \$3.1 million, (2) right-of-way of approximately \$6.2 million, (3) inventory used by PREPA amounting to approximately \$2.6 million, and (4) financing costs associated with this transaction of approximately \$489,000. The subordinated loan bears interest at 150 basis points over U.S. Prime Rate, with a floor of 6%, due on September 29, 2011. Subsequently, AFICA made a principal payment of approximately \$20.9 million to the Bank.

(i) PRPA

On November 28, 2011, AMR Corp. ("AMR"), the parent company of American Airlines, filed for bankruptcy under Chapter 11 of the US Bankruptcy Law. PRPA derived 21% of its rental revenues and 22% of its landing and other fees from AMR during fiscal year 2011. PRPA's collection of revenues in the next fiscal year may be affected if AMR's bankruptcy proceedings cause delays or suspension of payments, or if AMR's operations are modified as part of the underlying corporate reorganization.

On December 28, 2011, PRPA entered into a refinancing transaction in the amount of \$678,451,920, by issuing bonds through the PRIFA as conduit. The proceeds will be used to finance and refinance some or all of the following: (i) the repayment of certain commercial loans, (ii) the payment of a swap termination fee related to one of the loans, (iii) the repayment to GDB of certain loans and lines of credit; (iv) the payment of certain amounts owed by PRPA to PREPA and (v) the payment of cost of issuance.

In December 2011, PRPA entered into certain expropriation proceedings through the Puerto Rico First Instance Court ("the Court"), to acquire certain properties and concessions owned by third parties within the Luis Muñoz Marín International Airport complex. In connection with such proceedings, on December 27, 2011, PRPA obtained a $30 million nonrevolving credit facility with the Government Development Bank, out of which $25.4 million were deposited with the Court to start the expropriation process. The advance matures on December 31, 2012 and should be repaid out from the proceeds of the Puerto Rico Public Partnership Authority's concession, or the underlying rental income to become available immediately after transfer of the ownership to PRPA.

(j) PRIFA

In October 2011, PRIFA transferred completed construction projects amounting to $28.5 million to the Department of Transportation and Public Works.

In December 2011, PRIFA issued $20,721,636 Special Revenue Bonds pursuant to an Interagency Agreement dated September 23, 2011 between PRIFA, Commonwealth of Puerto Rico Environmental Quality Board, GDB, and Commonwealth of Puerto Rico Office of Management and Budget for the purpose of making a deposit in the Revolving Fund to cover the required Commonwealth's matching contribution pursuant to certain Capitalization Grants received by the Revolving Funds from the Federal Government, and pay the cost of issuance of the Bonds.

These Bonds are limited obligations of PRIFA payable solely from and secured by funds held by the Revolving Fund in its Repayment Account, consisting of earnings from the repayments funds during the past years which, pursuant to the Enabling Act and Title VI of the Clean Water Act, can be used as collateral for the Bonds.

On December 28, 2011, PRIFA issued $669,215,000 Revenue Bonds (Ports Authority Project), Series 2011. The Revenue Bond, Series 2011 A consists of a term bond with a principal amount of $340 million maturing on June 15, 2013 and bearing a fixed interest rate of 2.99%. The Revenue Bond, Series 2011 A is subject to an extraordinary redemption prior to maturity date at the option of the Ports Authority, upon direction to PRIFA and the Trustee, in whole or in part, at a price equal to: (a) the principal amount to be redeemed plus accrued and unpaid interest to the redemption date, without premium, for bonds issued at par, (b) original offering price plus original issue discount accrued to the redemption date, plus accrued and unpaid interest to the redemption date, without premium, for bonds issued at less than stated principal amount and (c) original offering price less original issue premium amortized to the redemption date, plus accrued and unpaid interest to the redemption date, without redemption premium, for bonds issued at more than stated principal amount, on December 15, 2014 and on any day thereafter, subject to at least 30 days notice. Interest will be payable semiannually on each June 15 and December 15, commencing on June 15, 2012. PRIFA will use the proceeds to make a loan to Ports Authority to finance and refinance some or all of the following: (i) the repayment of certain commercial loans, (ii) the payment of a swap termination fee related to one of the loans, (iii) the repayment to GDB of certain loans and lines of credit; (iv) the payment of certain amounts owed by Ports Authority to PREPA and with respect to certain capital expenditures; and (v) the payment of cost of issuance.

The Revenue Bonds, Series 2011 B consist of term bonds with a principal amount of $192,830,000, maturing on various dates from December 15, 2014 to December 15, 2026 and bearing fixed interest rates ranging from 3.00% to 6.00%. The Revenue Bonds, Series 2011 B are subject to redemption prior to maturity at the option of the Ports Authority, upon direction to PRIFA and the Trustee, in whole or in part, at a price equal to the principal amount to be redeemed plus accrued and unpaid interest to the redemption date, without premium on December 15, 2021 and on any day thereafter, subject to at least 30 days notice. Interest will be payable semiannually on each June 15 and December 15, commencing on June 15, 2012. PRIFA will use the proceeds to make a loan to Ports Authority to finance and refinance some or all of the following: (i) the repayment of certain commercial loans, (ii) the payment of a swap termination fee related to one of the loans, (iii) the repayment to GDB of certain loans and lines of credit; (iv) the payment of certain amounts owed by Ports Authority to PREPA and with respect to certain capital expenditures; and (v) the payment of cost of issuance.

The Revenue Bonds, Series 2011 C consist of term bonds with a principal amount of $136,385,000, maturing on December 15, 2026 and bearing fixed interest rates ranging from 2.75.% to 3.00%. The Revenue Bonds, Series 2011 C may be converted to another term rate period, consisting of any multiple of six months or to fixed rate mode at the option of Ports Authority. The Revenue Bonds, Series 2011 C are subject to redemption from sinking fund installments at a price equal to the principal amount to be redeemed plus accrued interest to the redemption date, without premium, commencing on December 15, 2014 until December 15, 2026. Interest will be payable semiannually on each June 15 and December 15, commencing on June 15, 2012. PRIFA will use the proceeds to make a loan to Ports Authority to finance and refinance some or all of the following: (i) the repayment of certain commercial loans, (ii) the payment of a swap termination fee related to one of the loans, (iii) the repayment to GDB of certain loans and lines of credit; (iv) the payment of certain amounts owed by Ports Authority to PREPA and with respect to certain capital expenditures; and (v) the payment of cost of issuance.

In January 2012, PRIFA entered into an agreement with the Municipality of San Juan (“the Municipality”) for a sale of a parcel of land owned by PRIFA for $5 million. Pursuant to provisions set forth by the agreement, the Municipality will settle a legal claim against PRIFA in the amount of approximately $3.7 million and will pay the remaining $1.7 million in three equal installments, which are due at the date of closing, in July 2013, and July 2014. The carrying value of the asset amounted to approximately $5 million, after an impairment loss of approximately $2.4 million recognized during year ended June 30, 2011.

On February 24, 2012, PRIFA entered into an Assistance Agreement with the Puerto Rico Department of Justice (“PRDOJ”) and GDB for the purpose of the acquisition, refurbishment and maintenance of a real estate (“Property”), in which the main offices of the PRDOJ will be relocated. In connection with the Assistance Agreement, GDB provided a $35 million credit facility to PRIFA to undertake the acquisition and administration of the Property and handle the initial phase of the rehabilitation and refurbishment of the Property. On March 8, 2012, PRIFA acquired the Property for $27 million.

The credit facility is payable solely from, and secured by the assignment of, the PRDOJ lease agreement and any other existing and future lease agreement. Furthermore, the credit facility is also secured by mortgage lien on the Property.

(k) PPPA

The financial close of the 40-year administrative concession for the operation, management, maintenance, rehabilitation, tolling and expansion of Toll Roads PR-22 and PR-5 (the “Toll Roads Project”) was successfully completed on September 22, 2011.

On October 13, 2011, PPPA received a reimbursement of $15.8 million corresponding to all the costs incurred during the procurement process of the Toll Roads Project, including a professional fee charged by PPPA.

(l) PRTC

On August 26, 2011, Hotel Development Corporation's board of directors confirmed its commitment to make an additional $31,100,426 cumulative Class A Preferred Equity Investment in Coco Beach in connection with the development, construction and equipping of the JW Marriott Hotel and Stellaris Casino at Coco Beach.

(m) REA

The Government of Puerto Rico's Executive Branch Reorganization and Modernization Act of 2009 include the Department of Labor and Human Resources (the Department) Reorganizational Plan Number 9 of 2010. This Plan repeals Act No. 115 and consolidates and transfers REA's operations, personnel, assets, functions and powers to the Department. This Plan is pending approval of the Legislature.

(n) SIFC

In July 2011, the SIFC purchased a building for approximately $10,100,000.

(o) UPR

In August 2011, the $5.0 million line of credit with GDB was amended to increment its authorized balance to $75 million.

In October 2011, UPR amended a $100 million credit facility with GDB to increment its authorized balance to $125 million, to extend the revolving status of the line of credit from June 30, 2011 until October 1, 2012 and to convert the line of credit into a ten year term loan, with monthly equal principal payments plus interest starting on October 1, 2013. The maturity date of the line of credit was extended to October 1, 2022.

Pension Trust Funds

ERS - On July 6, 2011, the Commonwealth enacted Act No. 116 to establish an increase in the employer's contributions percentage and to improve the collection of employer contribution receivables. As previously discussed, this Act provides for increases in employer contributions from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

In addition, this Act, provides for the collection of late employer contributions directly from the CRIM when a municipality fails to send their contributions within 30 days from the due date or from Hacienda in the case of agencies, when they fail to send their contributions as per the agreement date.

As the liquidity of the ERS and JRS assets has been impaired by the growth of its loan portfolio, on August 8, 2011, the ERS and JRS Boards of Trustees issued Resolution No. 8054, limiting the personal and cultural loan maximum amounts to $5,000. Such limitations on loan amounts are expected to improve the liquidity of the System's assets. In addition, Resolution No. 8054 provides for certain limitations on the renewal of personal and cultural loans.

Furthermore, on September 18, 2011, the Commonwealth enacted Act No. 196, which allows ERS and JRS to pledge contributions to guarantee personal loans issued by a financial institution. Act No. 196 also allows ERS and JRS to sell personal, cultural and mortgage loans.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS — RETIREMENT SYSTEMS
JUNE 30, 2011

The Schedule of Funding Progress presents the following information for the current year and each of the two preceding years for each of the Commonwealth's Retirement Systems. All actuarially determined information has been calculated in accordance with actuarial assumptions and methods reflected in the actuarial valuations as of the indicated actuarial valuation date.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	$1,723,811	$25,457,354	$23,733,543	6.8 %	$3,366,402	647.3 %
June 30, 2010	1,664,991	19,501,761	17,836,770	8.5	3,818,332	467.1
June 30, 2009	1,842,143	18,943,586	17,101,443	9.7	4,292,552	398.4

The Commonwealth of Puerto Rico Judiciary Retirement System (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	$63,975	$382,776	$318,801	16.7 %	$31,811	1002.2 %
June 30, 2010	55,410	338,195	282,785	16.4	32,061	882.0
June 30, 2009	50,566	323,928	273,362	15.6	30,587	893.7

Puerto Rico System of Annuities and Pensions for Teachers (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Junio 30, 2011	$2,385,863	$11,448,609	$9,062,746	20.8 %	$1,320,400	686.4 %
Junio 30, 2010	2,221,977	9,279,776	7,057,799	23.9	1,370,344	515.0
June 30, 2009	2,157,593	8,721,515	6,563,922	24.7	1,418,304	462.8

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS — POSTEMPLOYMENT HEALTHCARE BENEFITS
JUNE 30, 2011

The Schedule of Funding Progress presents GASB 45 results of OPEB valuations as of fiscal years ended June 30, 2011, 2010 and 2009 for each of the Commonwealth's Retirement Systems. The schedule provides a three year information trend about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	$ -	$1,758,389	$1,758,389	- %	$3,666,402	48.0%
June 30, 2010	-	1,646,148	1,646,148	-	3,818,332	43.1
June 30, 2009	-	1,633,159	1,633,159	-	4,292,552	38.0

The Commonwealth of Puerto Rico Judiciary Retirement System (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	$ -	$ 5,810	$ 5,810	- %	$31,811	18.3 %
June 30, 2010	-	5,808	5,808	-	32,061	18.1
June 30, 2009	-	5,643	5,643	-	30,587	18.4

Puerto Rico System of Annuities and Pensions for Teachers (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	$ -	$ 706,069	$ 706,069	- %	$1,320,400	53.5 %
June 30, 2010	-	694,230	694,230	-	1,370,344	50.7
June 30, 2009	-	750,382	750,382	-	1,418,304	52.9

See accompanying independent auditors' report.

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

GENERAL FUND

The general fund is the primary operating fund of the Commonwealth. The general fund is used to account for and report all financial resources received and used for those services traditionally provided by a government, which are not required legally or by sound financial management to be accounted for in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, education, and economic development. Following is the supplemental schedule of expenditures — budget and actual — general fund.

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2011
(In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES:			
Current:			
General government:			
Senate of Puerto Rico	$ 38,549	$ 38,549	$ 41,575
House of Representatives of Puerto Rico	47,025	48,025	49,925
Comptroller’s Office	43,000	43,000	43,012
Governor’s Office	19,870	20,993	21,189
Office of Management and Budget	107,083	52,507	42,611
Planning Board	11,464	10,881	10,688
Department of State	7,145	7,263	6,494
Department of the Treasury	650,313	765,526	724,694
Central Office of Personnel Administration	4,976	5,002	4,927
Commonwealth Elections Commission	36,083	38,853	30,195
Federal Affairs Administration	4,568	4,550	5,180
General Services Administration	200	200	354
Municipal Complaints Hearing Commission	4,365	4,353	6,137
Civil Rights Commission	1,193	1,190	1,166
Office of the Citizen’s Ombudsman	5,376	5,370	5,535
Appellative Board of the Personnel System Administration	1,729	878	876
Legislative Assembly	53,260	34,126	36,135
Commissions for the Public Work Relations	3,059	1,507	1,537
Government Ethics Board	10,290	10,290	10,290
Coordination Office for Special Communities of Puerto Rico	5,181	5,166	3,587
Puerto Rico Statistics Institute	742	742	742
Corporation “Enlace” Caño Martín Peña	1,019	1,019	1,019
Information and Technology Communication Office	-	-	262
Office for the Governmental's Integrity and Efficiency	3,293	3,293	3,118
Permits Management Office	3,211	5,777	6,028
Office of the Permits Inspector General	4,186	4,295	3,631
Board for the Review of Permits and Use of Lands	981	981	964
Public Service Board of Appeals	-	2,354	2,107
Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico	242,625	242,625	247,264
Puerto Rico System of Annuities and Pensions for Teachers	91,928	91,928	91,928
Contributions to Political Parties	1,200	1,200	900
Public Buildings Authority	6,000	6,000	6,000
Total general government	1,409,914	1,458,443	1,410,070
Public safety:			
Puerto Rico General Court of Justice	347,944	347,944	347,963
Civil Defense	6,152	6,117	6,400
Commission of Investigation, Processing and Appeals Board	508	508	463
Department of Justice	127,810	120,855	127,361
Puerto Rico Police Department	729,654	792,906	794,836
Puerto Rico Firefighters Corps	64,073	63,801	63,162
Puerto Rico National Guard	7,573	17,351	23,548
Public Service Commission	7,877	8,258	8,194
Consumer Affairs Department	10,759	10,337	10,362
Juvenile Institutions Administration	57,364	62,524	65,140
Correction Administration	353,169	325,578	317,541
Natural Resources Administration	38,183	39,861	43,129
Department of Correction and Rehabilitation	3,486	5,363	5,437

(Continued)

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2011
(In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES (Continued):			
Public safety (continued):			
Parole Board	$ 2,528	$ 2,825	$ 2,817
Forensic Sciences Institute	17,037	17,083	16,927
Special Prosecutor Panel	2,000	1,994	1,994
Pre-Trial Services Office	6,175	6,302	6,873
Correctional Health	75,436	71,424	77,713
Medical Emergencies Service	25,803	25,720	25,071
Criminal Justice College	2,787	2,787	2,808
Total public safety	1,886,318	1,929,538	1,947,739
Health:			
Environmental Quality Board	6,595	6,646	17,202
Department of Health	244,846	268,068	303,484
Puerto Rico Medical Services Administration	15,160	15,160	15,160
Mental Health and Drug Addiction Services Administration	97,386	109,725	106,222
Solid Waste Authority	8,308	8,280	8,134
Puerto Rico Health Insurance Administration	1,126,360	1,217,131	1,201,408
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	3,051	3,051	3,051
Total health	1,501,706	1,628,061	1,654,661
Public housing and welfare:			
Office of Youth Affairs	4,729	4,904	4,595
New Business Training Administration	7,594	9,770	9,407
Department of Labor and Human Resources	-	384	1,820
Labor Relations Board	715	774	767
Department of Housing	17,607	21,524	23,319
Department of Recreation and Sports	38,595	43,865	41,925
Administration for the Horse Racing Sport and Industry	2,728	2,719	2,646
Women’s Affairs Commission	3,074	3,067	4,237
Public Housing Administration	1,500	1,557	1,211
Office of the Veteran’s Ombudsman	2,774	2,761	2,607
Department of Family	36,842	42,160	41,394
Family and Children Administration	181,138	180,889	186,107
Minors Support Administration	11,143	11,215	10,913
Vocational Rehabilitation Administration	18,671	19,242	19,110
Social Economic Development Administration	104,004	90,926	82,969
Office of the Disabled Persons Ombudsman	2,365	2,326	2,385
Office for Elderly Affairs	3,541	3,548	3,534
Right to Employment Administration	7,993	13,451	14,662
Company for the Integral Development of the Península de Cantera	400	400	400
Industries for the Blind, Mentally Retarded, and Other Disabled Persons of Puerto Rico	500	500	500
Patient Ombudsman	2,612	2,632	2,629
Administration for the Care and Development of the Childhood	10,451	9,200	9,089
Total public housing and welfare	458,976	467,814	466,226

(Continued)

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2011
(In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES (Continued):			
Education:			
Department of Education	$2,111,224	$2,126,954	$1,953,581
Institute of Puerto Rican Culture	22,427	25,292	25,734
Puerto Rico School of Plastics Arts	1,824	1,824	1,802
State Office for Historic Preservation	1,725	1,840	1,837
General Education Council	1,196	1,187	1,192
University of Puerto Rico	756,036	756,036	756,036
Puerto Rico Council on Higher Education	22,798	22,798	25,750
Musical Arts Corporation	7,622	8,626	8,618
Fine Arts Center Corporation	4,525	4,525	4,493
Puerto Rico Public Broadcasting Corporation	16,823	16,914	16,787
Athenaeum of Puerto Rico	500	500	500
Puerto Rico Conservatory of Music Corporation	5,161	4,347	4,347
Total education	2,951,861	2,970,843	2,800,677
Economic development:			
Department of Transportation and Public Works	58,311	60,530	66,816
Department of Natural and Environmental Resources	1,026	8,153	3,275
Department of Agriculture	17,593	21,120	21,726
Cooperative Enterprises Development Administration	3,392	3,435	3,093
Puerto Rico Highways and Transportation Authority	-	-	15,847
Rural Development Corporation	1,209	848	858
Department of Economic Development and Commerce	3,538	3,538	3,709
Energy Affairs Administration	373	872	1,038
Puerto Rico Aqueduct and Sewer Authority	-	165	170
Puerto Rico Ports Authority	900	900	900
Puerto Rico Electric Power Authority	-	-	7
Puerto Rico Metropolitan Bus Authority	33,775	33,203	35,949
Puerto Rico Land Administration	-	-	733
Puerto Rico Maritime Transportation Authority	24,157	24,178	27,270
Agricultural Enterprises Development Administration	81,243	85,312	84,780
Culebra Conservation and Development Authority	310	310	303
National Parks Company of Puerto Rico	19,939	26,853	25,976
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	527	527	150
Puerto Rico Trade and Export Company	1,000	1,000	1,050
Puerto Rico Infrastructure Financing Authority	117,000	117,000	117,000
Roosevelt Roads Redevelopment Authority	-	3,085	3,085
Puerto Rico Tourism Company	4,000	4,110	4,118
Total economic development	368,293	395,139	417,853
Intergovernmental — Municipal Services Administration	371,619	370,869	378,243
Total intergovernmental	371,619	370,869	378,243
TOTAL EXPENDITURES	$8,948,687	$9,220,707	$9,075,469
OPERATING TRANSFER-OUT TO OTHER FUNDS:			
Office of Management and Budget	-	-	267,105
Transfer of Treasury — transfer to Debt Service Fund and other funds	200,813	200,813	1,280,459
	$ 200,813	$ 200,813	$1,547,564

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Public Buildings Authority Special Revenue Fund — The operating fund of the Public Buildings Authority, a blended component unit, used to account for the operation, maintenance, equipment replacement, and other extraordinary operation and maintenance costs of the buildings and facilities that, when constructed, are leased to the Commonwealth's primary government agencies.

The Children's Trust Special Revenue Fund — The special revenue fund of the Children's Trust, a blended component unit, is used to account for the money received by the Commonwealth from a global settlement agreement dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United State of America, including the Commonwealth. The financial resources received by this fund are used to carry out projects aimed at promoting the well-being of children and youth of Puerto Rico.

Debt Service Funds

The debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest, and related costs other than bonds payable from operations of proprietary fund types, pension trust funds, and discretely presented component units. Long-term debt and interest due on July 1 of the following year are accounted for as a fund liability if resources are available as of June 30 for its payment.

The Children's Trust Debt Service Fund — The debt service fund of The Children's Trust accounts for the financial resources that are restricted, committed, or assigned to expenditure for the payment of interest and principal on long-term obligations financed with moneys to be received by the Commonwealth from the global settlement agreement signed by certain tobacco companies.

Public Buildings Authority Debt Service Fund — A blended component unit engaged in the construction and/or acquisition of building facilities for lease mainly to the Commonwealth's primary government agencies. Its debt service fund is used to account the financial resources that are restricted, committed, or assigned to expenditure for the payment of revenue bonds and other liabilities incurred to finance the construction of the buildings and facilities.

Puerto Rico Maritime Shipping Authority Debt Service Fund — This is the remainder of a former shipping company owned by the Commonwealth. Its debt service fund is used to account for the financial resources that are restricted, committed, or assigned to expenditure for the payment of the long-term liability that resulted from the sale of its marine operations. This fund is mainly subsidized from appropriations and operating transfers from the general fund.

Capital Projects Funds

Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not being financed by the Public Buildings Authority's Capital Projects Fund, proprietary fund types, pension trust funds, and discretely presented component units.

Public Buildings Authority's Capital Projects Fund — The Public Buildings Authority's capital projects fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not financed by proprietary fund types, pension trust funds, and discretely presented component units.

Commonwealth Public Improvements Funds and Other Funds — These funds present the activities of the capital improvements program of the Commonwealth, financed with the proceeds of the general obligation bonds.

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET — NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011
(In thousands)

	Special Revenue		Debt Service			Capital Projects		Total
	Public Buildings Authority	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Total Nonmajor Governmental Funds
ASSETS								
CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS	$ 34,698	$ -	$ -	$ -	$ -	$ -	$ -	$ 34,698
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	3	21,671	-	-	1,752	-	-	23,426
INVESTMENTS	-	25,816	111,127	-	-	-	-	136,943
RECEIVABLES — Net of allowance for uncollectibles:								
Accounts	918	-	-	-	-	671	-	1,589
Loans	-	-	-	-	-	39	-	39
Accrued interest	-	1	451	-	-	-	-	452
Other	530	-	40,576	-	-	-	-	41,106
DUE FROM:								
Other funds	99,578	-	-	-	-	4,786	-	104,364
Component units	33,737	-	-	-	-	-	-	33,737
Other governmental entities	6,443	-	-	-	-	-	-	6,443
RESTRICTED ASSETS:								
Cash and cash equivalents in commercial banks	-	-	-	143,426	484	32,904	65,345	242,159
Cash and cash equivalents in governmental banks	-	-	-	85,386	37	172,784	-	258,207
REAL ESTATE HELD FOR SALE OR FUTURE DEVELOPMENT	3,084	-	-	-	-	1,853	-	4,937
TOTAL ASSETS	$178,991	$47,488	$152,154	$228,812	$2,273	$213,037	$65,345	$888,100

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET — NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011
(In thousands)

	Special Revenue		Debt Service			Capital Projects		
LIABILITIES AND FUND BALANCES	Public Buildings Authority	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Total Nonmajor Governmental Funds
LIABILITIES:								
Accounts payable and accrued liabilities	$ 1,790	$ 804	$ -	$ -	$ 609	$ 20,130	$20,967	$ 44,300
Due to:								
Other funds	1,684	-	-	-	-	-	-	1,684
Other governmental entities	2,934	-	-	-	-	-	26,031	28,965
Component units	15,974	-	-	-	-	-	9,043	25,017
Bonds payable	-	-	-	81,002	-	-	-	81,002
Interest payable	-	-	-	82,219	-	-	-	82,219
Deferred revenue	88,917	-	40,576	-	-	-	-	129,493
Other current liabilities	-	-	-	-	-	2,364	-	2,364
Total liabilities	111,299	804	40,576	163,221	609	22,494	56,041	395,044
FUND BALANCES:								
Restricted for:								
Debt service	-	-	111,578	65,591	1,664	-	-	178,833
Capital projects	-	-	-	-	-	190,543	9,304	199,847
Committed to:								
Special revenue	-	39,624	-	-	-	-	-	39,624
Capital projects	-	-	-	-	-	-	-	-
Assigned to:								
Capital projects	-	-	-	-		-	-	-
Special revenue	67,692	7,060	-	-	-	-	-	74,752
Unassigned	-	-	-	-	-	-	-	-
Total fund balances	67,692	46,684	111,578	65,591	1,664	190,543	9,304	493,056
TOTAL LIABILITIES AND FUND BALANCES	$178,991	$47,488	$152,154	$228,812	$2,273	$213,037	$65,345	$888,100

See accompanying independent auditors' report.

(Concluded)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — NONMAJOR GOVERNMENTAL FUN
YEAR ENDED JUNE 30, 2011
(In thousands)

	Special Revenue		Debt Service			Capital Projects		
	Public Buildings Authority	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Total Nonmajor Governmental Funds
REVENUES:								
Interest and investment earnings	$ 157	$ 50	$ 3,400	$ -	$ 1	$ -	$ -	$ 3,608
Intergovernmental	-	-	-	-	-	-	1,075	1,075
Other	2,627	-	-	-	-	-	-	2,627
Total revenues	2,784	50	3,400	-	1	-	1,075	7,310
EXPENDITURES:								
Current:								
General government	138,923	498	15	-	-	-	-	139,436
Health	-	4,359	-	-	-	-	-	4,359
Public housing and welfare	-	1,254	-	-	-	-	-	1,254
Education	-	2,527	-	-	-	-	-	2,527
Economic development	-	-	-	-	108	-	-	108
Intergovernmental	-	469	-	-	-	-	-	469
Capital outlays	-	-	-	-	-	62,623	162,856	225,479
Debt service:								
Principal	876	-	19,610	84,850	-	-	-	105,336
Interest	4,764	-	55,410	140,081	5,859	-	-	206,114
Total expenditures	144,563	9,107	75,035	224,931	5,967	62,623	162,856	685,082
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(141,779)	(9,057)	(71,635)	(224,931)	(5,966)	(62,623)	(161,781)	(677,772)
OTHER FINANCING SOURCES (USES):								
Transfers in	315,423	2	71,095	255,875	5,859	-	149,194	797,448
Transfers out	(405,069)	-	-	-	-	-	(42,678)	(447,747)
Proceeds from long term debt issued	239,211	-	-	-	-	13,111	-	252,322
Total other financing sources	149,565	2	71,095	255,875	5,859	13,111	106,516	602,023
NET CHANGE IN FUND BALANCES	7,786	(9,055)	(540)	30,944	(107)	(49,512)	(55,265)	(75,749)
FUND BALANCES — Beginning of year (as restated)	59,906	55,739	112,118	34,647	1,771	240,055	64,569	568,805
FUND BALANCES — End of year	$ 67,692	$46,684	$111,578	$ 65,591	$ 1,664	$190,543	$ 9,304	$ 493,056

See accompanying independent auditors' report.

NONMAJOR PROPRIETARY FUNDS

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

Disability Insurance — It was created by Act No. 139 on June 26, 1968. It is used to account for disability benefits to remedy temporarily the loss of income as a result of disability caused by sickness or accident unrelated to the employment.

Drivers' Insurance — It was created by Act No. 428 on May 15, 1950. It is used to account for contributions made by the drivers and their employers to provide a social security plan for the benefit of the drivers in Puerto Rico. The plan also includes payment of benefits for health and life insurance.

Puerto Rico Water Pollution Control Revolving Fund — It was created by Act No. 44 on June 21, 1988, as amended. It is administered, pursuant to Act No. 9 of June 18, 1970, as amended, by the Puerto Rico Environmental Quality Board (EQB). Pursuant to such Act, EQB is authorized to enter into operating agreements and capitalization grant agreements with the U.S. Environmental Protection Agency (EPA) for lending activities.

Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund — It was created by Act No. 32 on July 7, 1997. It is administered, pursuant to Act No. 9 of June 18, 1970, as amended, by the Puerto Rico Department of Health (DOH). Pursuant to such act, DOH, on behalf of the Commonwealth, is authorized to enter into operating and capitalization grant agreements with the EPA for lending activities.

COMBINING STATEMENT OF NET ASSETS — NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2011
(In thousands)

	Business-Type Activities — Nonmajor Enterprise Funds				
	Disability Insurance	Drivers' Insurance	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total
ASSETS					
Current assets:					
Cash and cash equivalents in commercial banks	$ 43	$ 18	$ -	$ -	$ 61
Cash and cash equivalents in governmental banks	51,531	10,321	-	-	61,852
Cash and cash equivalents in commercial banks — restricted	473	-	-	-	473
Cash and cash equivalents in governmental banks — restricted	-	-	70,531	21,346	91,877
Insurance premiums receivables, net	2,809	1,061	-	-	3,870
Due from other funds	-	2,682	-	-	2,682
Loans receivable from component unit — restricted	-	-	11,751	4,796	16,547
Accrued interest receivable	312	-	-	-	312
Restricted receivables	-	-	3,172	1,396	4,568
Other receivables	-	37	-	-	37
Total current assets	55,168	14,119	85,454	27,538	182,279
Noncurrent assets:					
Loans receivable from component unit — restricted	-	-	255,213	141,689	396,902
Due from other funds	-	18,116	-	-	18,116
Restricted investments	35,157	-	-	-	35,157
Other restricted assets	-	-	1,251	-	1,251
Total assets	90,325	32,235	341,918	169,227	633,705
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and accrued liabilities	656	165	1,721	108	2,650
Due to other funds	803	-	-	-	803
Due to other governmental entities	314	155	-	-	469
Deferred revenue	2,051	19	-	-	2,070
Compensated absences	554	329	-	-	883
Insurance benefits payable	432	123	-	-	555
Total current liabilities	4,810	791	1,721	108	7,430
Noncurrent liabilities:					
Due to other governmental entities	164	85	-	-	249
Compensated absences	735	494	-	-	1,229
Total liabilities	5,709	1,370	1,721	108	8,908
NET ASSETS:					
Restricted for payment of insurance benefits	35,198	-	-	-	35,198
Restricted for lending activities	-	-	340,197	169,119	509,316
Unrestricted	49,418	30,865	-	-	80,283
TOTAL NET ASSETS	$ 84,616	$ 30,865	$340,197	$169,119	$624,797

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	Business-Type Activities — Nonmajor Enterprise Funds				
	Disability Insurance	Drivers' Insurance	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total
OPERATING REVENUES:					
Insurance premiums	$ 17,591	$ 4,515	$ -	$ -	$ 22,106
Interest	-	3	5,290	2,712	8,005
Total operating revenues	17,591	4,518	5,290	2,712	30,111
OPERATING EXPENSES:					
Insurance benefits	2,617	796	-	-	3,413
General, administrative, and other operating expenses	11,949	3,890	856	238	16,933
Total operating expenses	14,566	4,686	856	238	20,346
OPERATING INCOME (LOSS)	3,025	(168)	4,434	2,474	9,765
NONOPERATING REVENUES (EXPENSES):					
Contributions from U.S. government	-	-	22,157	22,180	44,337
Contributions to component unit	-	-	(16,381)	(3,317)	(19,698)
Interest and investment earnings	4,794	27	-	-	4,821
Total nonoperating revenues	4,794	27	5,776	18,863	29,460
INCOME (LOSS) BEFORE TRANSFERS	7,819	(141)	10,210	21,337	39,225
TRANSFERS FROM OTHER FUNDS	-	-	-	3,073	3,073
TRANSFERS TO OTHER FUNDS	(3,147)	(97)	-	-	(3,244)
NET CHANGE IN NET ASSETS	4,672	(238)	10,210	24,410	39,054
NET ASSETS — Beginning of year, as restated	79,944	31,103	329,987	144,709	585,743
NET ASSETS — End of year	$ 84,616	$ 30,865	$ 340,197	$ 169,119	$ 624,797

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS — NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	Business-Type Activities — Nonmajor Enterprise Funds				
	Disability Insurance	Drivers' Insurance	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	$17,657	$ 4,468	$ -	$ -	$ 22,125
Other receipts	-	3	-	-	3
Payments to suppliers	(7,468)	(933)	-	-	(8,401)
Payments to employees	(4,976)	(3,223)	-	-	(8,199)
Payments of insurance benefits	(2,745)	(986)	-	-	(3,731)
Other payments	-	-	(294)	(226)	(520)
Net cash provided by (used in) operating activities	2,468	(671)	(294)	(226)	1,277
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Intergovernmental grants and contributions	-	-	22,157	22,180	44,337
Contributions to component unit	-	-	(16,381)	(3,317)	(19,698)
Transfers from other funds	-	-	-	3,307	3,307
Transfers to other funds	(3,147)	(97)	-	-	(3,244)
Net cash provided by (used in) noncapital financing activities	(3,147)	(97)	5,776	22,170	24,702
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest collected on deposits, investments and loans	1,162	56	4,995	2,509	8,722
Loans originated	-	-	(30,224)	(25,920)	(56,144)
Principal collected on loans	-	-	13,064	5,541	18,605
Proceeds from sales and maturities of investments	7,851	-	-	-	7,851
Purchases of investments	(8,491)	-	-	-	(8,491)
Net cash provided by (used in) investing activities	522	56	(12,165)	(17,870)	(29,457)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(157)	(712)	(6,683)	4,074	(3,478)
CASH AND CASH EQUIVALENTS — Beginning of year, as restated	52,204	11,051	77,214	17,272	157,741
CASH AND CASH EQUIVALENTS — End of year	$52,047	$10,339	$ 70,531	$ 21,346	$154,263
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	$ 3,025	$ (168)	$ 4,434	$ 2,474	$ 9,765
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Interests earned on deposits, loans and investments	-	-	(5,290)	(2,712)	(8,002)
Changes in operating assets and liabilities:					
(Increase) decrease in accounts receivable	457	(44)	(412)	-	1
Decrease in due from other funds	7	-	-	-	7
Decrease in other restricted assets	-	-	118	-	118
Increase (decrease) in accounts payable and accrued liabilities	(59)	(103)	856	12	706
Decrease in due to other governmental entities	(512)	(3)	-	-	(515)
Decrease in deferred revenues	(399)	(153)	-	-	(552)
Increase (decrease) in compensated absences	77	(10)	-	-	67
Decrease in liability for insurance benefits payable	(128)	(190)	-	-	(318)
Total adjustments	(557)	(503)	(4,728)	(2,700)	(8,488)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 2,468	$ (671)	$ (294)	$ (226)	$ 1,277

See accompanying independent auditors' report.

FIDUCIARY FUNDS

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

Pension Trust Funds

The pension trust funds are used to account for the assets, liabilities, and net assets available for pension benefits held in trust for the public employees of the Commonwealth.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) — ERS is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. ERS is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities are covered by ERS.

Puerto Rico System of Annuities and Pensions for Teachers (TRS) — TRS is a defined benefit pension plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. TRS is sponsored by the Commonwealth. Substantially, all active teachers of the Commonwealth's Department of Education are covered by TRS. Licensed teachers working in private schools or other educational organizations can be members of TRS at their own choice as long as the required employer and employee contributions are satisfied.

Commonwealth of Puerto Rico Judiciary Retirement System (JRS) — JRS is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 12 on October 19, 1954. JRS provides retirement benefits to the employees of the judiciary branch of the Commonwealth, through the office of the Administration of Court Facilities.

Agency Fund

Agency fund is used to account for assets held by the Commonwealth as an agent for individuals, private organizations, and other governments. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

Special Deposits — This fund acts in a fiduciary capacity in order to account for moneys received with specified purposes for which the law does not specify its recording in any other fund. It mainly includes deposits under the custody of the courts of justice for alimony payments, escrows, revenue collections and agency accounts for which the Commonwealth act in an agent's capacity.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF FIDUCIARY NET ASSETS — PENSION TRUST FUNDS
JUNE 30, 2011
(In thousands)

	Pension Trust Funds			
	Employees' Retirement System (ERS)	Teachers' Retirement System (TRS)	Judiciary Retirement System (JRS)	Total
ASSETS:				
Cash and cash equivalents in commercial banks — unrestricted	$ 391,505	$ 97,379	$ 6,409	$ 495,293
Cash and cash equivalents in governmental banks:				
Unrestricted	51,396	3,291	1,011	55,698
Restricted	411,946	-	-	411,946
Collateral for securities lending transactions	134,319	70,938	3,218	208,475
Investments:				
Debt and equity securities, at fair value	2,396,650	1,802,853	62,090	4,261,593
Other	65,457	25,630	-	91,087
Receivables — net:				
Accounts	190,299	-	-	190,299
Loans and advances	1,275,381	406,664	845	1,682,890
Accrued interest and dividends	7,594	3,982	263	11,839
Other	15,022	47,203	27	62,252
Capital assets — net	8,951	22,204	-	31,155
Other assets	38,547	472	-	39,019
Total assets	4,987,067	2,480,616	73,863	7,541,546
LIABILITIES:				
Accounts payable and accrued liabilities	75,766	22,874	5,562	104,202
Securities lending transactions	134,319	70,938	3,218	208,475
Interest payable	13,876	-	-	13,876
Other liabilities	35,813	941	1,108	37,862
Bonds payable	3,003,482	-	-	3,003,482
Total liabilities	3,263,256	94,753	9,888	3,367,897
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS	$ 1,723,811	$ 2,385,863	$ 63,975	$ 4,173,649

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS — PENSION TRUST FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	Pension Trust Funds			
	Employees' Retirement System (ERS)	Teachers' Retirement System (TRS)	Judiciary Retirement System (JRS)	Total
ADDITIONS:				
Contributions:				
Sponsor	$ 511,707	$ 112,071	$ 9,966	$ 633,744
Participants	322,008	123,297	2,789	448,094
Special	187,674	48,581	629	236,884
Total contributions	1,021,389	283,949	13,384	1,318,722
Investment income and investment expense:				
Interest	172,783	57,008	1,352	231,143
Dividends	7,344	6,915	176	14,435
Net change in fair value of investments	472,076	421,923	12,928	906,927
Investment expenses	(6,483)	(4,682)	(162)	(11,327)
Net investment income	645,720	481,164	14,294	1,141,178
Other income	49,257	968	10	50,235
Total additions	1,716,366	766,081	27,688	2,510,135
DEDUCTIONS:				
Pension and other benefits	1,329,227	562,160	18,627	1,910,014
Refunds of contributions	91,195	8,465	-	99,660
General and administrative	47,782	31,570	496	79,848
Interest on bonds payable	189,342	-	-	189,342
Total deductions	1,657,546	602,195	19,123	2,278,864
NET CHANGE IN NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS	58,820	163,886	8,565	231,271
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS:				
Beginning of year	1,664,991	2,221,977	55,410	3,942,378
End of year	$ 1,723,811	$ 2,385,863	$ 63,975	$ 4,173,649

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
ASSETS				
CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS	$ 697,402	$ 586	$ -	$ 697,988
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	800,511	3,985,798	4,124,749	661,560
OTHER RECEIVABLES	-	9,393	-	9,393
OTHER INVESTMENTS	1,226	44	-	1,270
TOTAL ASSETS	$ 1,499,139	$ 3,995,821	$ 4,124,749	$ 1,370,211
LIABILITIES				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 1,499,139	$ 3,995,821	$ 4,124,749	$ 1,370,211
TOTAL LIABILITIES	$ 1,499,139	$ 3,995,821	$ 4,124,749	$ 1,370,211

See accompanying independent auditors' report.

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS

These entities are presented because the nature and significance of their relationship with the primary government are such that their exclusion would cause the basic financial statements to be misleading. These are discretely presented in a separate column in the basic financial statements due to 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 they are involved in (that is, banking, construction, public utilities, and so forth). The detailed information for each of these entities may be obtained directly from the administrative offices of the corresponding entities, as described in Note 1 to the basic financial statements included in the financial section of this report.

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

ASSETS	Agricultural Enterprises Development Administration	Automobile Accidents Compensations Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Company for the Integral Development of the Península Cantera	Corporation for the "Caño Martín Peña" ENLACE Project	Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	Culebra Conservation and Development Authority
CURRENT ASSETS:							
Cash and cash equivalents in commercial banks	$ 8,926	$ 10,986	$ 8,448	$ 3,512	$ 889	$11,700	$ 68
Cash and cash equivalents in governmental banks	23,388	-	-	-	-	2,243	-
Investments	-	147,514	-	-	-	-	-
Restricted assets:							
Cash and cash equivalents in commercial banks	-	-	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Other restricted assets	-	-	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-	-	-
Receivables — net:							
Insurance premium	-	666	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Accounts	5,767	-	9,380	-	-	-	2
Loans and advances	-	-	-	10	-	1,925	-
Accrued interest	-	782	-	-	-	-	-
Other governmental entities	3,129	234	1,379	518	415	540	-
Other	4,103	1,436	-	48	-	-	-
Due from:		-					
Primary government	14,718	-	1,490	20,217	-	-	-
Component units	-	-	-	-	-	-	-
Inventories	10,670	-	2,434	-	-	-	-
Prepaid expenses	1,808	-	312	42	9	-	-
Total current assets	72,509	161,618	23,443	24,347	1,313	16,408	70
NONCURRENT ASSETS:							
Restricted assets:							
Cash and cash equivalents in commercial banks	-	12	922	-	35	-	64
Cash and cash equivalents in governmental banks	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Other restricted assets	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Receivables:							
Loans, interest, and other	-	-	-	6,357	-	-	-
Other governmental agencies	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Due from:							
Primary government	-	-	-	-	-	-	-
Component units	-	-	-	-	-	-	-
Deferred outflows of resources	-	-	-	-	-	-	-
Deferred expenses and other assets	-	31	-	5	-	-	5
Property held for sale or future development	-	-	-	1,344	-	-	-
Capital assets, not being depreciated	3,656	901	103	80	3,383	-	640
Capital assets, depreciable — net	33,427	6,687	17,470	65	746	-	347
Total noncurrent assets	37,083	7,631	18,495	7,851	4,164	-	1,056
TOTAL ASSETS	$109,592	$169,249	$41,938	$32,198	$ 5,477	$16,408	$1,126

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

ASSETS	Economic Development Bank for Puerto Rico	Employment and Training Enterprises Corporation	Farm Insurance Corporation of Puerto Rico	Fine Arts Center Corporation	Governing Board of the 9-1-1- Service	Institute of Puerto Rican Culture	Institutional Trust of the National Guard of Puerto Rico
CURRENT ASSETS:							
Cash and cash equivalents in commercial banks	$ 664	$ -	$12,396	$ 8,344	$ -	$ 2,487	$ -
Cash and cash equivalents in governmental banks	2,951	-	-	-	17,637	340	5,667
Investments	313,123	-	-	-	-	-	-
Restricted assets:							
Cash and cash equivalents in commercial banks	2,846	-	-	-	-	17,329	-
Cash and cash equivalents in governmental banks	-	-	-	-	-	2,985	-
Investments	-	-	-	-	-	-	-
Other restricted assets	-	-	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-	-	-
Receivables — net:							
Insurance premium	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	1,543	79
Accounts	-	-	3,273	88	1,822	142	800
Loans and advances	88,776	-	-	-	-	-	-
Accrued interest	7,219	-	-	-	-	-	-
Other governmental entities	-	1,249	-	228	-	599	29
Other	-	-	-	-	12	-	-
Due from:							
Primary government	-	-	-	-	-	-	-
Component units	-	-	-	-	-	-	-
Inventories	-	206	-	-	28	1,760	-
Prepaid expenses	-	-	236	83	25	-	9
Total current assets	415,579	1,455	15,905	8,743	19,524	27,185	6,584
NONCURRENT ASSETS:							
Restricted assets:							
Cash and cash equivalents in commercial banks	-	-	-	546	-	-	-
Cash and cash equivalents in governmental banks	-	367	-	-	9,253	-	-
Investments	-	-	-	-	16,755	-	-
Other restricted assets	5,625	-	-	-	-	-	-
Investments	816,942	-	-	-	4,062	-	54,663
Receivables:							
Loans, interest, and other	126,093	-	-	-	-	-	-
Other governmental agencies	556	-	7,139	-	-	-	-
Other	-	-	-	-	-	-	-
Due from:							
Primary government	-	-	-	-	-	-	-
Component units	-	-	-	-	-	-	-
Deferred outflows of resources	-	-	-	-	-	-	-
Deferred expenses and other assets	4,836	-	-	-	-	-	-
Property held for sale or future development	-	-	-	-	-	-	2,452
Capital assets, not being depreciated	2,735	-	-	3,196	713	9,473	18,258
Capital assets, depreciable — net	6,667	107	189	12,578	2,086	56,290	5,650
Total noncurrent assets	963,454	474	7,328	16,320	32,869	65,763	81,023
TOTAL ASSETS	$1,379,033	$1,929	$23,233	$25,063	$52,393	$92,948	$87,607

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

ASSETS	Land Authority of Puerto Rico	Musical Arts Corporation	National Parks Company of Puerto Rico	Port of the Americas Authority	Public Corporation for the Supervision and Deposit Insurance of PR Cooperatives	Puerto Rico Conservatory of Music Corporation	Puerto Rico Convention Center District Authority
CURRENT ASSETS:							
Cash and cash equivalents in commercial banks	$ 4,348	$2,185	$ 3,819	$ -	$ -	$ 154	$ 17,143
Cash and cash equivalents in governmental banks	22,694	185	-	2,552	5,052	-	1,122
Investments	-	-	-	-	19,844	-	-
Restricted assets:							
Cash and cash equivalents in commercial banks	-	8	-	-	-	135	-
Cash and cash equivalents in governmental banks	-	546	-	-	-	-	13,300
Investments	-	-	-	-	-	-	23,565
Other restricted assets	-	-	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-	-	-
Receivables — net:					-		
Insurance premium	-	-	-	-	-	-	-
Intergovernmental	8,166	-	-	-	-	-	-
Accounts	14,501	51	383	2	-	-	8,794
Loans and advances	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	1,373	-	-
Other governmental entities	2,032	219	249	-	-	948	-
Other	-	-	-	-	7	2,767	-
Due from:							
Primary government	6,635	-	-	-	-	-	-
Component units	19,425	-	-	-	-	-	14,929
Inventories	-	-	-	-	-	-	-
Prepaid expenses	10	-	141	118	-	36	1,353
Total current assets	77,811	3,194	4,592	2,672	26,276	4,040	80,206
NONCURRENT ASSETS:							
Restricted assets:							
Cash and cash equivalents in commercial banks	-	-	22,348	-	-	1,753	-
Cash and cash equivalents in governmental banks	119	-	125	-	-	-	11,837
Investments	-	-	-	-	-	-	33,364
Other restricted assets	-	-	-	-	-	-	-
Investments	-	-	-	-	166,211	-	-
Receivables:							
Loans, interest, and other	-	-	-	-	3,300	-	-
Other governmental agencies	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	7,354
Due from:							
Primary government	-	-	-	-	-	-	-
Component units	-	-	-	-	-	-	-
Deferred outflows of resources	-	-	-	-	-	-	-
Deferred expenses and other assets	8,559	-	-	-	-	-	14,226
Property held for sale or future development	-	-	-	-	-	-	-
Capital assets, not being depreciated	82,716	568	19,148	291,668	-	34,756	281,722
Capital assets, depreciable — net	9,864	227	161,794	7	3,071	44,545	406,122
Total noncurrent assets	101,258	795	203,415	291,675	172,582	81,054	754,625
TOTAL ASSETS	$179,069	$3,989	$208,007	$294,347	$198,858	$85,094	$834,831

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

ASSETS	Puerto Rico Council on Higher Education	Puerto Rico Industrial Development Company	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental, Control Facilities Financing Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Land Administration	Puerto Rico and Municipal Islands Maritime Transport Authority	Puerto Rico Medical Services Administration	Puerto Rico Metropolitan Bus Authority
CURRENT ASSETS:								
Cash and cash equivalents in commercial banks	$ 12	$ 4,839	$ -	$ -	$ 1,848	$ 291	$ 2,871	$ 1,647
Cash and cash equivalents in governmental banks	2,473	-	9,094	1,633	42,614	-	-	2,644
Investments	-	-	-	-	8,164	-	-	-
Restricted assets:								
Cash and cash equivalents in commercial banks	-	-	-	119,867	-	-	-	-
Cash and cash equivalents in governmental banks	1,398	-	-	39,985	-	-	-	-
Investments	6,992	10,033	-	7,266	-	-	-	-
Other restricted assets	-	-	-	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-	-	-	-
Receivables — net:								
Insurance premium	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	2,668	-	-
Accounts	-	26,762	-	66,033	2,551	89	17,870	298
Loans and advances	-	318	1	-	-	-	-	-
Accrued interest	-	-	269	16	467	-	-	-
Other governmental entities	33	-	-	1,930	382	228	33,931	2,443
Other	28	1,246	-	-	524	-	-	-
Due from:			-					
Primary government	-	-	-	3,433	-	-	10,152	1,108
Component units	-	-	2,599	-	1,306	-	6,699	4,368
Inventories	-	-	-	-	-	63	2,271	3,320
Prepaid expenses	-	1,955	-	374	94	1,774	890	2,281
Total current assets	10,936	45,153	11,963	240,537	57,950	5,113	74,684	18,109
NONCURRENT ASSETS:								
Restricted assets:								
Cash and cash equivalents in commercial banks	-	-	-	-	-	-	10,996	-
Cash and cash equivalents in governmental banks	-	-	-	-	-	-	-	-
Investments	-	41,435	-	165,269	-	-	-	-
Other restricted assets	-	-	-	38,893	-	-	-	-
Investments	-	93	-	-	-	-	-	-
Receivables:			-					
Loans, interest, and other	-	335	-	-	-	-	-	-
Other governmental agencies	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Due from:			-					
Primary government	-	-	-	-	-	-	-	-
Component units	-	-	26,485	-	-	-	-	-
Deferred outflows of resources	-	-	-	-	-	-	-	-
Deferred expenses and other assets		2,070	20,872	38,269			-	542
Property held for sale or future development	-	44,332	-	-	153,678	-		-
Capital assets, not being depreciated	-	211,421	-	105,615	26,675	16,031	6,872	8,319
Capital assets, depreciable — net	258	462,025	-	125	10,091	36,922	48,733	58,389
Total noncurrent assets	258	761,711	47,357	348,171	190,444	52,953	66,601	67,250
TOTAL ASSETS	$11,194	$806,864	$59,320	$588,708	$248,394	$58,066	$141,285	$85,359

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

ASSETS	Puerto Rico Municipal Finance Agency	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation	Puerto Rico Public Private Partnerships Authority	Puerto Rico School of Plastic Arts	Solid Waste Authority	Puerto Rico Telephone Authority	Puerto Rico Tourism Company
CURRENT ASSETS:								
Cash and cash equivalents in commercial banks	$ -	$ 7,807	$ 1,682		$ 20	$ 244	$ -	$ 27,704
Cash and cash equivalents in governmental banks	5,717	-	5	1,193	154	3,189	7,963	8,243
Investments	-	-	-	-	-	19,314	-	8,333
Restricted assets:								
Cash and cash equivalents in commercial banks	3,736	16,892	1,594	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	288	-	-	-	10,847	-	-
Investments	80,834	-	-	-	-	-	-	-
Other restricted assets	28,120	2,336	-	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-	-	-	-
Receivables — net:								
Insurance premium	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Accounts	-	17,258	428	-	587	-	-	6,923
Loans and advances	-	-	-	-	-	-	-	12,587
Accrued interest	-	-	-	-	-	-	1	-
Other governmental entities	-	-	514	-	378	1,426	-	-
Other	-	-	215	-	-	1,288	-	179
Due from:			-					
Primary government	-	-	-	2,404	-	1,494	-	-
Component units	-	-	-	-	-	-	-	-
Inventories	-	-	-	6	-	-	-	-
Prepaid expenses	282	5,109	24	-	-	145	-	315
Total current assets	118,689	49,690	4,462	3,603	1,139	37,947	7,964	64,284
NONCURRENT ASSETS:								
Restricted assets:								
Cash and cash equivalents in commercial banks	-	-	-	-	33	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	411	-	3,988	-
Investments	1,140,223	-	-	-	1,312	-	-	-
Other restricted assets	12,706	-	-	-	-	-	-	-
Investments	-	-	-	-	-	500	-	46,768
Receivables:								
Loans, interest, and other	-	-	-	-	-	-	-	26,614
Other governmental agencies	-	6,368	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Due from:								
Primary government	-	12,700	-	-	-	-	-	-
Component units	-	34,878	-	-	-	-	-	-
Deferred outflows of resources	-	48,861	-	-	-	-	-	-
Deferred expenses and other assets	-	2,946	363	-	-	17	-	1,711
Property held for sale or future development	-	-	-	-	-	-	-	-
Capital assets, not being depreciated	-	523,777	83	-	-	23,432	-	14,152
Capital assets, depreciable — net	-	631,182	16,034	2	8,293	115,064	-	21,706
Total noncurrent assets	1,152,929	1,260,712	16,480	2	10,049	139,013	3,988	110,951
TOTAL ASSETS	$1,271,618	$1,310,402	$20,942	$3,605	$11,188	$176,960	$11,952	$175,235

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

ASSETS	Puerto Rico Trade and Export Company	Right to Employment Administration	Special Communities Perpetual Trust	State Insurance Fund Corporation	University of Puerto Rico Comprehensive Cancer Center	Nonmajor Component Units Totals
CURRENT ASSETS:						
Cash and cash equivalents in commercial banks	$ 11,222	$ -	$ -	$ 317,683	$ 198	$ 474,137
Cash and cash equivalents in governmental banks	2,198	8,462	-	58,475	1,565	239,453
Investments	-	-	-	454,163	-	970,455
Restricted assets:						
Cash and cash equivalents in commercial banks	-	-	-	-	-	162,407
Cash and cash equivalents in governmental banks	-	-	156,558	-	-	225,907
Investments	-	-	-	-	-	128,690
Other restricted assets	-	-	122	-	-	30,578
Collateral from securities lending transactions	-	-	-	84,284	-	84,284
Receivables — net:						
Insurance premium	-	-	-	40,827	-	41,493
Intergovernmental	-	-	-	-	151	12,607
Accounts	-	-	-	-	-	183,804
Loans and advances	-	-	-	-	-	103,617
Accrued interest	5,354	-	-	7,633	-	23,114
Other governmental entities	954	43	517	17,958	847	73,352
Other	225	16	-	109,997	-	122,091
Due from:						
Primary government	-	3,093	-	-	2,000	66,744
Component units	-	-	-	11,172	-	60,498
Inventories	-	-	-	6,401	-	27,159
Prepaid expenses	228	-	-	301	70	18,024
Total current assets	20,181	11,614	157,197	1,108,894	4,831	3,048,414
NONCURRENT ASSETS:						
Restricted assets:						
Cash and cash equivalents in commercial banks	6,508	-	-	3,724	-	46,941
Cash and cash equivalents in governmental banks	1,191	-	-	-	-	27,291
Investments	344,287	-	-	310,876	-	2,053,521
Other restricted assets	-	-	-	-	-	57,224
Investments	-	-	-	364,627	-	1,453,866
Receivables:						
Loans, interest, and other	-	-	-	-	-	162,699
Other governmental entities	-	-	-	-	-	14,063
Other	-	-	-	-	-	7,354
Due from:						
Primary government	-	-	-	-	-	12,700
Component units	-	-	-	-	-	61,363
Deferred outflows of resources	-	-	-	-	-	48,861
Deferred expenses and other assets	-	-	-	-	-	94,452
Real estate held for sale or future development	-	-	-	-	-	201,806
Capital assets, not being depreciated	60,279	-	-	13,010	4,425	1,767,807
Capital assets, depreciable — net	58,647	205	-	85,470	24,471	2,345,556
Total noncurrent assets	470,912	205	-	777,707	28,896	8,355,504
TOTAL ASSETS	$491,093	$11,819	$157,197	$1,886,601	$33,727	$11,403,918

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Agricultural Enterprises Development Administration	Automobile Accidents Compensations Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Company for the Integral Development of the Península de Cantera	Corporation for the "Caño Martín Peña" ENLACE Project	Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico
LIABILITIES:						
Current liabilities:						
Accounts payable and accrued liabilities	$ 61,319	$ 5,612	$ 29,767	$ 3,568	$ 162	$ 283
Deposits and escrow liabilities	-	-	-	-	-	-
Due to:						
Primary government	-	-	31,670	-	-	-
Component units	576	-	13,237	20,175	-	-
Other governmental entities	7,025	1,639	930	-	-	202
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-
Interest payable	-	-	-	-	-	-
Deferred revenue	-	39,478	-	-	-	-
Notes payable, current portion	5,480	-	-	-	-	-
Bonds payable, current portion	-	-	-	-	-	-
Accrued compensated absences, current portion	6,245	3,002	3,158	61	59	154
Termination benefits payable	19,958	-	-	-	-	-
Liability for automobile accident insurance and workmen compensation claims	-	166,596	-	-	-	-
Capital leases	-	-	-	-	-	-
Current portion of other long-term liabilities	-	-	87	-	-	-
Total current liabilities	100,603	216,327	78,849	23,804	221	639
Noncurrent liabilities:						
Due to:						
Primary government	-	-	-	-	-	-
Component units	114,423	-	-	-	-	-
Other governmental entities	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-
Deferred revenue						
Notes payable	-	-	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-	-
Bonds payable	-	-	-	-	-	-
Accrued compensated absences	-	-	-	90	-	-
Termination benefits payable						
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-
Hedging derivative instruments — interest rate swaps	-	-	-	-	-	-
Other long-term liabilities	-	-	5,260	-	-	-
Total noncurrent liabilities	114,423	-	5,260	90	-	-
Total liabilities	215,026	216,327	84,109	23,894	221	639
NET ASSETS (DEFICIT):						
Invested in capital assets, net of related debt	-	7,588	17,486	145	4,129	-
Restricted for:						
Trust — nonexpendable	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-
Student loans and other educational purpose	-	-	922	-	-	-
Other specified purposes	-	-	(60,579)	497	35	15,119
Unrestricted	(105,434)	(54,666)	-	7,662	1,092	650
Total net assets (deficit)	(105,434)	(47,078)	(42,171)	8,304	5,256	15,769
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 109,592	$169,249	$ 41,938	$32,198	$5,477	$16,408

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Culebra Conservation and Development Authority	Economic Development Bank for Puerto Rico	Employment and Training Enterprises Corporation	Farm Insurance Corporation of Puerto Rico	Fine Arts Center Corporation	Governing Board of the 9-1-1- Service
LIABILITIES:						
Current liabilities:						
Accounts payable and accrued liabilities	$ 8	$ -	$ 2,890	$ 1,645	$ 278	$ 1,008
Deposits and escrow liabilities	-	454,620	4	-	337	-
Due to:						
Primary government	-	-	-	-	-	5,124
Component units	-	444	-	-	-	-
Other governmental entities	-	-	83	12	285	1,881
Securities lending transactions and reverse repurchase agreements	-	86,600	-	-	-	-
Interest payable	-	6,049	-	-	-	-
Deferred revenue	-	-	788	4,485	546	-
Notes payable, current portion	-	-	-	-	-	-
Bonds payable, current portion	-	-	-	-	-	-
Accrued compensated absences, current portion	14	-	88	653	206	403
Termination benefits payable	17	-	-	-	88	161
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-
Capital leases	1	-	-	-	-	-
Current portion of other long-term liabilities	-	3,451	-	-	-	-
Total current liabilities	40	551,164	3,853	6,795	1,740	8,577
Noncurrent liabilities:						
Due to:						
Primary government	-	-	-	-	-	-
Component units	-	9,893	-	5,660	-	-
Other governmental entities	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	50,800	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Notes payable	-	607,817	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-	-
Bonds payable	-	-	-	-	-	-
Accrued compensated absences	48	2,059	-	-	455	704
Termination benefits payable	152	-	-	-	956	779
Liability for automobile accident insurance and workmen compensation claims	5	-	-	-	-	-
Capital leases	-	-	-	-	-	-
Hedging derivative instruments — interest rate swaps	-	-	-	-	-	-
Other long-term liabilities	-	10,122	-	-	-	-
Total noncurrent liabilities	205	680,691	-	5,660	1,411	1,483
Total liabilities	245	1,231,855	3,853	12,455	3,151	10,060
NET ASSETS (DEFICIT):						
Invested in capital assets, net of related debt	987	(935)	-	189	15,774	2,799
Restricted for:	-					
Trust — nonexpendable	-	-	-	-	-	-
Capital projects		-	-	-	-	9,270
Debt service	-	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	-	-
Other specified purposes	71	8,449	-	-	-	9,561
Unrestricted	(177)	139,664	(1,924)	10,589	6,138	20,703
Total net assets (deficit)	881	147,178	(1,924)	10,778	21,912	42,333
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$1,126	$1,379,033	$ 1,929	$23,233	$25,063	$52,393

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Institute of Puerto Rican Culture	Institutional Trust of the National Guard of Puerto Rico	Land Authority of Puerto Rico	Musical Arts Corporation	National Parks Company of Puerto Rico	Port of the Americas Authority	Public Corporation for the Supervision and Deposit Insurance of PR Cooperatives
LIABILITIES:							
Current liabilities:							
Accounts payable and accrued liabilities	$ 810	$ 902	$ 35,003	$ 584	$ 966	$ 8,280	$ 27,710
Deposits and escrow liabilities	-	-	11,020	-	-	-	-
Due to:							
Primary government	-	-	-	-	1,930	-	-
Component units	-	-	45,271	-	9,504	-	-
Other governmental entities	-	-	14,191	438	12,317	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-
Interest payable	-	-	-	-	343	10,276	-
Deferred revenue		-	91	614	-	-	-
Notes payable, current portion		-	-	-	-	-	-
Bonds payable, current portion	-	-	-	-	-	-	-
Accrued compensated absences, current portion	237	57	-	506	131	26	1,659
Termination benefits payable	234	-	-	347	-	-	783
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-
Current portion of other long-term liabilities	-	-	3,404	-	-	-	-
Total current liabilities	1,281	959	108,980	2,489	25,191	18,582	30,152
Noncurrent liabilities:							
Due to:							
Primary government	-	-	-	-	-	-	-
Component units	1,828	-	-	-	8,227	214,525	-
Other governmental entities	804	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-
Notes payable	-	-	-	-	-	-	-
Commonwealth appropriation bonds	-	-	76,715	-	-	-	-
Bonds payable	-	-	-	-	-	-	-
Accrued compensated absences	1,924	-	1,572	59	5,379	9	-
Termination benefits payable	2,198	-	-	-	10,930	-	-
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-
Hedging derivative instruments — interest rate swaps	-	-	-	-	-	-	-
Other long-term liabilities	-	-	-	5,041	2,621	-	-
Total noncurrent liabilities	6,754	-	78,287	5,100	27,157	214,534	-
Total liabilities	8,035	959	187,267	7,589	52,348	233,116	30,152
NET ASSETS (DEFICIT):							
Invested in capital assets, net of related debt	63,935	23,908	92,580	795	174,979	58,597	3,071
Restricted for:		-	-	-	-	-	-
Trust — nonexpendable	-	-	-	-	-	-	-
Capital projects	11,039	-	-	-	22,348		
Debt service	-	-	-	-	-		
Affordable housing and related loan insurance programs	-	-	-	-	-	-	-
Student loans and other educational purpose	-	500	-	-	-	-	-
Other specified purposes	8,430	4,562	119	409	-	-	72,831
Unrestricted	1,509	57,678	(100,897)	(4,804)	(41,668)	2,634	92,804
Total net assets (deficit)	84,913	86,648	(8,198)	(3,600)	155,659	61,231	168,706
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$92,948	$87,607	$ 179,069	$ 3,989	$208,007	$294,347	$198,858

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Conservatory of Music Corporation	Puerto Rico Convention Center District Authority	Puerto Rico Council on Higher Education	Puerto Rico Industrial Development Company	Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental, Control Facilities Financing Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Land Administration	Puerto Rico and Municipal Islands Maritime Transport Authority
LIABILITIES:								
Current liabilities:								
Accounts payable and accrued liabilities	$ 3,055	$ 6,716	$ 512	$ 29,500	$ 85	$ 110,173	$ 4,077	$ 13,339
Deposits and escrow liabilities	-	3,418	-	-	-	-	-	-
Due to:							-	-
Primary government	-	-	-	7,669	-		-	-
Component units	-	3,573	-	91,118	-		-	1,065
Other governmental entities	471	-	-	-	-	7,414	-	2,399
Securities lending transactions and reverse							-	-
repurchase agreements	-	-	-	-	-	-	-	-
Interest payable	9	10,649	-	3,762	4,006	41,779	-	-
Deferred revenue	1,166	4,597	-	-	-	-	2,466	7,223
Notes payable, current portion	-	-	-	6,569	-		-	-
Bonds payable, current portion	-	9,040	-	12,680	-	32,175	-	-
Accrued compensated absences, current portion	67	143	-	-	8	248	770	1,401
Termination benefits payable	184	-	70	577	-	385	120	134
Liability for automobile accident insurance and							-	-
workmen compensation claims	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Current portion of other long-term liabilities	-	-	-	121	-	-	-	-
Total current liabilities	4,952	38,136	582	151,996	4,099	192,174	7,433	25,561
Noncurrent liabilities:								
Due to:								
Primary government	-	-	-	-	-	-	-	-
Component units	1,472	147,600	-	-	59,314	10,321	-	38,688
Other governmental entities	9	-	-	-	-	-	-	-
Deposit and escrow liabilities	-	-	-	-		-	-	-
Securities lending transactions and reverse					-	-	-	-
repurchase agreements	-	-	-	-			-	-
Interest payable	-	-	-	-			-	-
Deferred revenue	-	4,563	-	-			5,750	-
Notes payable	-	-	-	92,727	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-	4,956	-	-
Bonds payable	-	447,355	-	224,824	-	1,939,321	-	-
Accrued compensated absences	1,092	-	546	-	-	-	-	-
Termination benefits payable	-	-	526	8,622	-	-	463	1,925
Liability for automobile accident insurance and							-	-
workmen compensation claims	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Hedging derivative instruments — interest rate swaps	-	-	-	-	-	-	-	-
Other long-term liabilities	3,061	-	-	10,004	-	4,859	34,005	-
Total noncurrent liabilities	5,634	599,518	1,072	336,177	59,314	1,959,457	40,218	40,613
Total liabilities	10,586	637,654	1,654	488,173	63,413	2,151,631	47,651	66,174
NET ASSETS (DEFICIT):								
Invested in capital assets, net of related debt	49,491	83,848	258	376,029	-	125	10,091	49,588
Restricted for:	-	-					-	-
Trust — nonexpendable					-	165,269	-	-
Capital projects	22,310	25,137	-	-		-	-	-
Debt service	-	46,281	-	35,026	-	31,987	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-	-	-
Student loans and other educational purpose	3,347	-	8,573	-	-	-	-	-
Other specified purposes	-	-	-	-	-	507	-	-
Unrestricted	(640)	41,911	709	(92,364)	(4,093)	(1,760,811)	190,652	(57,696)
Total net assets (deficit)	74,508	197,177	9,540	318,691	(4,093)	(1,562,923)	200,743	(8,108)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$85,094	$834,831	$11,194	$806,864	$59,320	$ 588,708	$248,394	$ 58,066

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Medical Services Administration	Puerto Rico Metropolitan Bus Authority	Puerto Rico Municipal Finance Agency	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation	Puerto Rico Public Private Partnerships Authority	Puerto Rico School of Plastic Arts	Solid Waste Authority
LIABILITIES:								
Current liabilities:								
Accounts payable and accrued liabilities	$ 30,444	$ 20,893	$ 552	$ 88,265	$ 2,213	$ 5,109	$ 349	$ 4,663
Deposits and escrow liabilities	-	-	77,742	1,399	-	-	-	-
Due to:	-	-	-	-	-	-	-	-
Primary government	3,394	11,811	-	-	-	-	-	-
Component units	14,552	5,812	-	-	-	-	-	74,679
Other governmental entities	56,453	8,367	-	-	525	-	-	689
Securities lending transactions and reverse	-	-	-	-	-	-	-	-
repurchase agreements	-	-	-	-	-	-	-	-
Interest payable	-	-	23,397	134	-	-	-	-
Deferred revenue	-	2,238	-	141	-	-	-	4
Notes payable, current portion	-	38,833	-	261,572	-	-	-	-
Bonds payable, current portion	-	-	94,775	-	-	-	-	-
Accrued compensated absences, current portion	13,493	4,530	-	5,483	947	67	60	305
Termination benefits payable	-	564	-	1,317	206	-	55	4,391
Liability for automobile accident insurance and	-	-	-	-	-	-	-	-
workmen compensation claims	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Current portion of other long-term liabilities	180	-	-	-	44	-	-	-
Total current liabilities	118,516	93,048	196,466	358,311	3,935	5,176	464	84,731
Noncurrent liabilities:								
Due to:								
Primary government	-	-	-	27,326	-	-	-	-
Component units	198,238	-	-	223,431	-	9,704	-	3,500
Other governmental entities	-	-	6,381	9,402	-	1	-	-
Securities lending transactions and reverse	-	-	-	-	-	-	-	-
repurchase agreements	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	1,881	-	-	-	-
Notes payable	-	-	-	293,411	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-	-	-	10,689
Bonds payable	-	-	1,009,456	44,987	-	-	-	-
Accrued compensated absences	-	-	-	-	1,266	-	488	389
Termination benefits payable	-	3,825	-	17,338	1,930	-	400	-
Liability for automobile accident insurance and	-	-	-	-	-	-	-	-
workmen compensation claims	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Hedging derivative instruments — interest rate swaps	-	-	-	48,861	-	-	-	-
Other long-term liabilities	6,995	-	-	5,448	-	-	-	-
Total noncurrent liabilities	205,233	3,825	1,015,837	672,085	3,196	9,705	888	14,578
Total liabilities	323,749	96,873	1,212,303	1,030,396	7,131	14,881	1,352	99,309
NET ASSETS (DEFICIT):								
Invested in capital assets, net of related debt	55,426	58,447	-	388,188	16,073	2	8,293	76,486
Restricted for:	-	-	-	-	-	-	-	-
Trust — nonexpendable	-	-	-	-	-	-	-	-
Capital projects	-	-	-	16,236	-	-	-	-
Debt service	-	-	131,610	253	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	-	-	1,313	-
Other specified purposes	2	-	-	3,027	1,550	-	-	177
Unrestricted	(237,892)	(69,961)	(72,295)	(127,698)	(3,812)	(11,278)	230	988
Total net assets (deficit)	(182,464)	(11,514)	59,315	280,006	13,811	(11,276)	9,836	77,651
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 141,285	$ 85,359	$1,271,618	$1,310,402	$20,942	$ 3,605	$11,188	$176,960

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Telephone Authority	Puerto Rico Tourism Company	Puerto Rico Trade and Export Company	Right to Employment Administration	Special Communities Perpetual Trust	State Insurance Fund Corporation	University of Puerto Rico Comprehensive Cancer Center	Nonmajor Component Units Totals
LIABILITIES:								
Current liabilities:								
Accounts payable and accrued liabilities	$ 4	$ 38,996	$ 4,863	$ 9,277	$ 32,751	$ 166,535	$ 1,546	$ 754,712
Deposits and escrow liabilities	-	-	-	-	-	-	-	548,540
Due to:								
Primary government	-	10,473	-	-	-	-	-	72,071
Component units	-	20,995	-	-	-	4,273	-	305,274
Other governmental entities	-	49	1,455	1,763	-	-	663	119,251
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	84,284	-	170,884
Interest payable	-	-	4,989	-	-	-	-	105,393
Deferred revenue	-	-	-	-	-	25,709	-	89,546
Notes payable, current portion	-	-	423	-	-	3,992	-	316,869
Bonds payable, current portion	-	-	-	-	-	-	-	148,670
Accrued compensated absences, current portion	-	2,518	702	-	-	15,468	-	62,869
Termination benefits payable	-	-	290	105	-	-	-	29,986
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	196,708	-	363,304
Capital leases	-	-	-	-	-	-	-	1
Current portion of other long-term liabilities	-	1,536	23	-	-	564	-	9,410
Total current liabilities	4	74,567	12,745	11,145	32,751	497,533	2,209	3,096,780
Noncurrent liabilities:								
Due to:								
Primary government	-	-	-	-	-	-	-	27,326
Component units	-	-	-	-	367,902	-	18,317	1,433,043
Other governmental entities	-	-	-	-	-	-	-	16,597
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	50,800
Deferred revenue	-	-	-	-	-	-	-	12,194
Notes payable	-	3,042	359,962	-	-	279,651	-	1,636,610
Commonwealth appropriation bonds	-	60,427	-	-	-	-	-	152,787
Bonds payable	-	-	-	-	-	-	-	3,665,943
Accrued compensated absences	-	1,038	1,220	1,083	-	27,330	-	46,751
Termination benefits payable	-	2,426	2,316	848	-	-	-	55,634
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	587,310	-	587,315
Capital leases	-	-	-	-	-	-	99	99
Hedging derivative instruments — interest rate swaps	-	-	-	-	-	-	-	48,861
Other long-term liabilities	7,026	532	5,872	-	-	116,384	-	217,230
Total noncurrent liabilities	7,026	67,465	369,370	1,931	367,902	1,010,675	18,416	7,951,190
Total liabilities	7,030	142,032	382,115	13,076	400,653	1,508,208	20,625	11,047,970
NET ASSETS (DEFICIT):								
Invested in capital assets, net of related debt	-	35,528	102,828	205	-	25,677	10,530	1,813,140
Restricted for:								
Trust — nonexpendable	-	-	-	-	-	-	-	165,269
Capital projects	-	-	-	-	-	-	29	106,369
Debt service	-	-	-	-	-	72,600	-	317,757
Affordable housing and related loan insurance programs	-	-	-	-	124,716	-	-	124,716
Student loans and other educational purpose	-	-	-	-	-	-	-	14,655
Other specified purposes	3,988	18,654	5,768	-	-	-	19	93,196
Unrestricted	934	(20,979)	382	(1,462)	(368,172)	280,116	2,524	(2,279,154)
Total net assets (deficit)	4,922	33,203	108,978	(1,257)	(243,456)	378,393	13,102	355,948
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$11,952	$175,235	$491,093	$11,819	$ 157,197	$1,886,601	$33,727	$11,403,918

See accompanying independent auditors' report.

(Concluded)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011
(In thousands)

		Program Revenues					General Revenues and Transfers								
	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Net Revenues (Expenses) and Changes in Net Assets (Deficit)	Payments from (to) Primary Government	Payments from (to) Other Component Units	Grants and Contributions Not Restricted to Specific Programs	Taxes	Interest and Investment Earnings	Other	Change in Net Assets (Deficit)	Net Assets (Deficit), Beginning of Year (as Restated)	Net Assets (Deficit), End of Year
Agricultural Enterprises Development Administration	$ 220,525	$ 92,730	$ -	$ -	$ -	$ (127,795)	$ 89,976	$ -	$ -	$ 6,924	$ -	$ -	$ (30,895)	$ (74,539)	$ (105,434)
Automobile Accidents Compensations Administration	85,086	84,069	-	-	-	(1,017)	-	-	-	-	21,510	-	20,493	(67,571)	(47,078)
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	101,292	86,564	-	-	-	(14,728)	11,975	-	-	-	55	-	(2,698)	(39,473)	(42,171)
Company for the Integral Development of the "Peninsula de Cantera"	10,988	11,565	-	-	-	577	-	-	7	-	106	-	690	7,614	8,304
Corporation for the Caño Martin Peña Enlace Project	6,127	-	-	-	-	(6,127)	8,679	-	-	-	6	-	2,558	2,698	5,256
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	2,464	339	-	-	-	(2,125)	3,767	-	-	-	-	6	1,648	14,121	15,769
Culebra Conservation and Development Authority	786	222	-	-	-	(564)	303	-	-	-	-	-	(261)	1,142	881
Economic Development Bank for Puerto Rico	70,043	54,262	-	-	474	(15,307)	-	-	-	-	16,380	1,126	2,199	144,979	147,178
Employment and Training Enterprises Corporation	6,408	7,442	-	-	-	1,034	-	-	-	-	-	109	1,143	(3,067)	(1,924)
Farm Insurance Corporation of Puerto Rico	5,118	3,064	1,154	-	-	(900)	-	-	-	-	260	25	(615)	11,393	10,778
Fine Arts Center Corporation	9,351	2,133	-	-	-	(7,218)	5,115	-	-	-	148	-	(1,955)	23,867	21,912
Governing Board of the 911 Service	14,866	22,009	-	-	-	7,143	(9,693)	-	-	-	319	2	(2,229)	44,562	42,333
Institute of Puerto Rican Culture	23,088	-	1,566	-	1,902	(19,620)	15,864	-	-	-	-	539	(3,217)	88,130	84,913
Institutional Trust of the National Guard of Puerto Rico	6,665	4,233	-	-	-	(2,432)	(1,038)	-	-	-	1,808	-	(1,662)	88,310	86,648
Land Authority of Puerto Rico	25,291	18,559	-	-	-	(6,732)	16,035	-	-	-	39	269	9,611	(17,809)	(8,198)
Musical Arts Corporation	9,189	562	-	-	-	(8,627)	8,466	-	-	-	853	316	1,008	(4,608)	(3,600)
National Parks Company of Puerto Rico	67,597	9,819	-	-	732	(57,046)	25,982	-	-	-	283	1,370	(29,411)	185,070	155,659
Port of the Americas Authority	1,053	-	-	-	-	(1,053)	16,520	-	-	-	4	-	15,471	45,760	61,231
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives	17,269	19,755	3,174	-	-	5,660	-	-	-	-	4,946	-	10,606	158,100	168,706
Puerto Rico Conservatory of Music Corporation	13,616	2,519	2,168	-	25	(8,904)	3,960	-	3,264	-	21	172	(1,487)	75,995	74,508
Puerto Rico Convention Center District Authority	79,718	27,365		-	-	(52,353)	17,822	88,899	-	-	166	6,434	60,968	136,209	197,177
Puerto Rico Council on Higher Education	29,956	514	1,706	-	-	(27,736)	27,738	-	-	-	37	85	124	9,416	9,540
Puerto Rico Industrial Development Company	139,791	67,768	-	-	-	(72,023)	966	-	-	-	3,594	10,872	(56,591)	375,282	318,691
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	3,971	430	-	-	-	(3,541)	-	-	-	-	1,614	-	(1,927)	(2,166)	(4,093)
Puerto Rico Infrastructure Financing Authority	692,652	-	-	19,347	-	(673,305)	182,974	-	-	-	7	-	(490,324)	(1,072,599)	(1,562,923)
Puerto Rico Land Administration	12,032	12,433	-	-	-	401	-	(53,303)	-	-	575	786	(51,541)	252,284	200,743
Puerto Rico and Municipal Islands Transport Authority	41,643	4,258	3,546	-	7,645	(26,194)	44,585	-	-	-	-	-	18,391	(26,499)	(8,108)
Puerto Rico Medical Services Administration	210,494	147,793	-	-	-	(62,701)	18,566	-	-	-	783	42,830	(522)	(181,942)	(182,464)
Puerto Rico Metropolitan Bus Authority	94,004	9,249	9,546	-	12,182	(63,027)	64,267	-	-	-	1	-	1,241	(12,755)	(11,514)
Puerto Rico Municipal Finance Agency	54,551	-	-	-	-	(54,551)	-	-	-	-	56,865	1	2,315	57,000	59,315
Puerto Rico Ports Authority	234,727	144,475	-	-	-	(90,252)	2,818	-	9,660	-	35	21,152	(56,587)	336,593	280,006
Puerto Rico Public Broadcasting Corporation	30,502	6,453	-	-	-	(24,049)	17,522	-	2,989	-	11	181	(3,346)	17,157	13,811
Puerto Rico Public Private Partnerships Authority	19,313	10,750	-	-	-	(8,563)	-	-	-	-	1	-	(8,562)	(2,714)	(11,276)
Puerto Rico School of Plastic Arts	6,599	679	3,080	-	-	(2,840)	1,824	-	-	-	187	-	(829)	10,665	9,836
Puerto Rico Telephone Authority	111	-	-	-	-	(111)	-	-	-	-	12	-	(99)	5,021	4,922
Puerto Rico Tourism Company	118,206	163,966	-	-	-	45,760	(16,364)	(106,810)	-	57,595	678	-	(19,141)	52,344	33,203
Puerto Rico Trade and Export Company	40,528	16,785	1,000	-	-	(22,743)	-	-	-	-	16,253	144	(6,346)	115,324	108,978
Right to Employment Administration	19,329	-	-	-	-	(19,329)	23,550	-	-	-	3	75	4,299	(5,556)	(1,257)
Solid Waste Authority	26,122	1,036	-	-	-	(25,086)	15,080	-	-	-	498	-	(9,508)	87,159	77,651
Special Communities Perpetual Trust	52,449	-	-	-	-	(52,449)	33,569	-	-	-	855	-	(18,025)	(225,431)	(243,456)
State Insurance Fund Corporation	666,950	600,160	-	-	-	(66,790)	(51,178)	-	-	-	129,768	(310)	11,490	366,903	378,393
University of Puerto Rico Comprehensive Cancer Center	7,244	12,776	-	-	-	5,532	7,567	-	-	-	3	-	13,102	-	13,102
Total nonmajor component units	$3,277,714	$1,646,736	$26,940	$19,347	$22,960	$(1,561,731)	$587,217	$ (71,214)	$15,920	$64,519	$258,684	$86,184	$(620,421)	$ 976,369	$ 355,948

See accompanying independent auditor's report.

STATISTICAL SECTION

STATISTICAL SECTION (UNAUDITED)

This part of the Commonwealth of Puerto Rico's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health. The following are the categories of the various schedules that are included in this Section:

Contents	Pages
Financial Trends Information	291–295

These schedules contain trend information to help the reader understand how the Commonwealth's financial performance and well-being have changed over time.

Revenue Capacity Information	297–298

This schedule contains information to help the reader assess the Commonwealth's most significant local revenue sources.

Debt Capacity Information	300–301

These schedules present information to help the reader assess the affordability of the Commonwealth's current levels of outstanding debt and the Commonwealth's ability to issue additional debt in the future.

Demographic and Economic Information	303–305

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Commonwealth's financial activities take place.

Operating Information	307

This schedule contains service data to help the reader understand how the information in the Commonwealth's financial report relates to the services the government provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

SCHEDULES OF FINANCIAL TRENDS INFORMATION

COMMONWEALTH OF PUERTO RICO

CHANGES IN NET ASSETS (DEFICIT) (UNAUDITED)
LAST TEN FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
EXPENSES:										
Governmental activities:										
General government	$ 2,880,614	$ 3,156,646	$ 2,460,391	$ 2,592,834	$ 2,847,596	$ 2,844,494	$ 1,827,816	$ 1,963,879	$ 2,324,715	$ 1,429,265
Public safety	2,205,782	2,228,000	2,247,480	2,161,265	1,983,782	2,217,294	2,580,951	1,950,635	1,606,272	1,883,061
Health	3,022,000	2,843,744	2,858,750	2,471,960	1,943,582	1,422,813	2,364,110	2,386,735	1,903,811	1,990,852
Public housing and welfare	3,937,901	3,726,041	3,560,871	3,194,945	3,157,877	3,287,559	3,443,886	2,919,315	3,239,366	2,803,742
Education	4,469,337	4,543,362	5,280,249	4,571,722	4,748,008	4,110,669	5,000,686	3,684,331	3,375,815	3,477,373
Economic development	517,921	292,037	779,449	471,640	554,271	564,447	1,006,945	896,925	451,945	632,083
Payment of obligations of component units	6,411	196,898	136,415	-	-	-	-	-	-	-
Intergovernmental	430,941	533,939	613,033	474,023	593,264	440,390	-	591,237	466,762	467,957
Interest and other	1,807,230	1,648,875	1,128,918	1,086,906	863,723	882,163	845,556	778,700	671,228	646,120
Total governmental activities	19,278,137	19,169,542	19,065,556	17,025,295	16,692,103	15,769,829	17,069,950	15,171,757	14,039,914	13,330,453
Business-type activities:										
Lotteries	697,746	720,992	723,287	699,005	679,274	670,425	699,407	731,344	695,888	603,768
Unemployment	635,145	820,261	467,788	269,924	192,484	207,483	197,967	142,652	343,243	331,754
Other	40,044	20,180	31,947	28,738	26,860	25,043	32,437	26,763	22,385	16,902
Total business-type activities	1,372,935	1,561,433	1,223,022	997,667	898,618	902,951	929,811	900,759	1,061,516	952,424
Total primary government expenses	20,651,072	20,730,975	20,288,578	18,022,962	17,590,721	16,672,780	17,999,761	16,072,516	15,101,430	14,282,877
PROGRAM REVENUES:										
Governmental activities:										
Charges for services	632,005	600,473	758,427	664,505	757,724	828,993	702,691	769,207	757,116	535,423
Operating grants and contributions	6,006,310	6,536,125	5,541,715	4,311,592	4,773,174	4,365,711	4,096,204	1,038,776	3,830,639	3,400,729
Earnings on investments	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions	457,725	129,947	110,847	137,916	257,514	100,990	121,083	2,592,055	173,644	187,512
Total governmental activities	7,096,040	7,266,545	6,410,989	5,114,013	5,788,412	5,295,694	4,919,978	4,400,038	4,761,399	4,123,664
Business-type activities:										
Charges for services	1,192,724	1,218,613	1,206,080	1,161,084	1,140,539	1,149,426	1,187,009	1,136,705	1,132,285	1,021,070
Operating grants and contributions	450,689	544,393	245,770	77,803	43,480	59,613	22,315	59,728	97,033	26,509
Total business-type activities	1,643,413	1,763,006	1,451,850	1,238,887	1,184,019	1,209,039	1,209,324	1,196,433	1,229,318	1,047,579
NET (EXPENSE) REVENUE:										
Governmental activities	(12,182,097)	(11,902,997)	(12,654,567)	(11,911,282)	(10,903,691)	(10,474,135)	(12,149,972)	(10,771,719)	(9,278,515)	(9,206,789)
Business-type activities	270,478	201,573	228,828	241,220	285,401	306,088	279,513	295,674	167,802	95,155
TOTAL PRIMARY GOVERNMENT NET EXPENSE	$ (11,911,619)	$ (11,701,424)	$ (12,425,739)	$ (11,670,062)	$ (10,618,290)	$ (10,168,047)	$ (11,870,459)	$ (10,476,045)	$ (9,110,713)	$ (9,111,634)

(Continued)

COMMONWEALTH OF PUERTO RICO

CHANGES IN NET ASSETS (DEFICIT) (UNAUDITED)
LAST TEN FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
GENERAL REVENUES:										
Governmental activities:										
Taxes:										
Income	$ 4,726,036	$ 4,857,035	$ 5,424,476	$ 5,493,881	$ 6,488,211	$ 6,255,391	$ 5,526,006	$ 5,191,080	$ 4,941,128	$ 4,446,570
Excise	2,106,784	1,145,538	1,118,283	1,318,866	1,475,311	2,013,998	2,101,216	1,924,610	1,894,729	1,713,098
Sales and use tax	1,129,006	1,087,053	1,089,073	910,609	583,639	-	-	-	-	-
Property taxes	233,703	227,812	-	-	-	-	-	-	-	-
Other	83,589	98,531	103,348	11,356	4,663	15,145	7,128	19,211	3,055	104,517
Revenue from global tobacco settlement agreement	71,097	75,584	90,073	82,608	69,604	66,796	106,521	70,420	101,849	37,153
Unrestricted investment earnings (losses)	71,144	(42,682)	114,699	160,926	176,674	117,080	116,686	60,585	85,565	90,940
Revenue from component units	84,610	76,758	386,182	74,389	311,732	68,745	474,069	175,729	111,752	228,118
Grants and contributions not restricted to specific programs	-	114,739	115,176	120,006	135,916	196,721	102,691	5,706	103,423	46,117
Payment from agency fund	-	-	-	-	-	-	-	-	-	129,000
Special items	-	-	175,102	3,749,348	-	(2,485)	-	(35,646)	(203,514)	123,785
Gain on sale of assets	-	-	-	-	-	19,588	-	-	-	-
Transfers	230,551	265,852	251,170	309,815	342,743	242,642	492,796	203,258	279,060	187,183
Other	163,184	166,517	96,696	299,631	71,187	203,525	322,185	384,719	214,381	472,642
Total governmental activities	8,899,704	8,072,737	8,964,278	12,531,435	9,659,680	9,197,146	9,249,298	7,999,672	7,531,428	7,579,123
Business-type activities:										
Unrestricted investment earnings	17,900	21,260	20,036	35,423	37,177	33,165	32,284	23,831	77,362	36,455
Revenue from component units	-	-	-	-	-	-	-	-	1,038	3,370
Grants and contributions not restricted to specific programs	-	-	-	-	-	-	-	-	-	44,320
Transfers	(230,551)	(265,852)	(251,170)	(309,815)	(342,743)	(242,642)	(492,796)	(203,258)	(279,060)	(187,183)
Total business-type activities	(212,651)	(244,592)	(231,134)	(274,392)	(305,566)	(209,477)	(460,512)	(179,427)	(200,660)	(103,038)
Total primary government	8,687,053	7,828,145	8,733,144	12,257,043	9,354,114	8,987,669	8,788,786	7,820,245	7,330,768	7,476,085
CHANGE IN NET ASSETS:										
Governmental activities	(3,282,393)	(3,830,260)	(3,690,289)	620,153	(1,244,011)	(1,276,989)	(2,900,674)	(2,772,047)	(1,747,087)	(1,627,666)
Business-type activities	57,827	(43,019)	(2,306)	(33,172)	(20,165)	96,611	(180,999)	116,247	(32,858)	(7,883)
TOTAL PRIMARY GOVERNMENT	$(3,224,566)	$(3,873,279)	$(3,692,595)	$ 586,981	$(1,264,176)	$(1,180,378)	$(3,081,673)	$(2,655,800)	$(1,779,945)	$(1,635,549)

(Concluded)

COMMONWEALTH OF PUERTO RICO

NET ASSETS (DEFICIT) BY COMPONENT (UNAUDITED)
LAST TEN FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2002	2003	2002
GOVERNMENTAL ACTIVITIES:											
Invested in capital assets — net of related debt	$ 3,691,871	$ 3,866,328	$ 3,888,495	$ 3,979,308	$ 3,635,271	$ 3,485,882	$ 3,774,098	$ 3,133,230	$ 1,909,137	$ 1,969,864	$ 1,909,137
Restricted	2,067,282	2,941,461	979,094	713,814	331,051	280,078	296,692	-	4,616	19,749	4,616
Unrestricted deficit	(40,267,354)	(38,031,328)	(32,053,838)	(22,385,747)	(22,405,216)	(20,975,523)	(19,987,579)	(16,789,576)	(12,085,385)	(13,942,397)	(12,085,385)
TOTAL GOVERNMENTAL ACTIVITIES NET DEFICIT	$ (34,508,201)	$ (31,223,539)	$ (27,186,249)	$ (17,692,625)	$ (18,438,894)	$ (17,209,563)	$ (15,916,789)	$ (13,656,346)	$ (10,171,632)	$ (11,952,784)	$ (10,171,632)
BUSINESS-TYPE ACTIVITIES:											
Invested in capital assets — net of related debt	$ 1,660	$ 1,586	$ 682	$ 674	$ 674	$ 1,008	$ 847	$ 1,672	$ 310	$ 1,895	$ 310
Restricted	840,241	505,906	29,209	33,803	910,479	947,507	872,215	853,194	769,804	736,947	769,804
Unrestricted net assets (deficit)	(11,675)	289,418	810,038	689,686	(153,818)	(171,015)	(202,212)	(3,037)	(1,675)	(3,260)	(1,675)
TOTAL BUSINESS-TYPE ACTIVITIES NET ASSETS	$ 830,226	$ 796,910	$ 839,929	$ 724,163	$ 757,335	$ 777,500	$ 670,850	$ 851,829	$ 768,439	$ 735,582	$ 768,439
PRIMARY GOVERNMENT:											
Invested in capital assets — net of related debt	$ 3,693,531	$ 3,867,914	$ 3,889,177	$ 3,979,982	$ 3,635,945	$ 3,486,890	$ 3,774,945	$ 3,134,902	$ 1,909,447	$ 1,971,759	$ 1,909,447
Restricted	2,907,523	3,447,367	1,008,303	747,617	1,241,530	1,227,585	1,168,907	853,194	774,420	756,696	774,420
Unrestricted deficit	(40,279,029)	(37,741,910)	(31,243,800)	(21,696,061)	(22,559,034)	(21,146,538)	(20,189,791)	(16,792,613)	(12,087,060)	(13,945,657)	(12,087,060)
TOTAL PRIMARY GOVERNMENT NET DEFICIT	$ (33,677,975)	$ (30,426,629)	$ (26,346,320)	$ (16,968,462)	$ (17,681,559)	$ (16,432,063)	$ (15,245,939)	$ (12,804,517)	$ (9,403,193)	$ (11,217,202)	$ (9,403,193)

COMMONWEALTH OF PUERTO RICO

CHANGES IN FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS (UNAUDITED)
ALL GOVERNMENTAL FUND TYPES
LAST TEN FISCAL YEARS
(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
REVENUES:										
Taxes:										
Income	$ 4,749,942	$ 5,109,313	$ 5,191,042	$ 5,493,881	$ 6,389,973	$ 6,181,995	$ 5,564,673	$ 5,061,761	$ 4,874,795	$ 4,843,852
Excise	2,106,784	1,145,538	1,118,283	1,306,416	1,475,311	2,013,998	2,101,216	1,924,610	1,894,729	1,713,098
Sales and use tax	1,129,006	1,094,208	1,081,918	910,609	583,639	-	-	-	-	-
Property taxes	241,719	227,812	-	-	-	-	-	-	-	-
Other	83,589	98,530	103,348	11,356	4,663	15,145	7,128	19,211	3,055	1,963
Charges for services	632,005	600,473	758,427	664,505	757,724	828,993	702,691	750,978	780,905	535,423
Intergovernmental	6,126,212	6,655,543	5,767,738	4,569,457	5,166,604	4,663,422	4,319,977	3,654,766	4,107,706	3,634,358
Interest and investment earnings	28,529	56,145	114,699	160,926	176,674	117,080	116,686	58,914	85,565	90,940
Other	366,101	278,874	540,854	455,439	434,024	334,591	869,338	629,426	436,668	839,240
Total revenues all governmental fund types	15,463,887	15,266,436	14,676,309	13,572,589	14,988,612	14,155,224	13,681,709	12,099,666	12,183,423	11,658,874
EXPENDITURES:										
General government	1,284,878	1,830,482	1,512,909	1,769,498	2,537,999	2,489,093	1,675,428	1,777,365	1,774,156	1,279,750
Public safety	2,044,398	2,207,228	2,071,001	2,134,919	1,864,256	2,108,152	2,409,668	1,765,199	1,424,846	1,659,280
Health	2,932,836	2,785,439	2,762,476	2,345,650	1,948,201	1,429,888	2,344,522	2,176,741	1,908,717	1,983,727
Public housing and welfare	3,736,104	3,553,699	3,428,546	3,098,684	3,048,585	3,130,373	3,320,849	2,738,016	2,953,189	2,726,129
Education	4,453,332	4,584,792	5,053,505	4,432,880	4,400,321	4,101,980	4,177,664	3,474,013	3,297,248	3,343,002
Economic development	460,986	249,899	688,460	415,976	533,253	516,444	706,066	868,926	428,621	637,794
Intergovernmental	430,171	533,762	613,033	470,395	593,247	409,727	-	528,829	465,699	466,169
Capital outlays	452,482	293,298	352,582	429,238	512,824	502,348	665,630	581,788	1,184,976	507,634
Payments of obligations of component units	6,411	196,898	136,415	-	-	-	-	-	-	-
Debt service:										
Principal	1,845,785	2,009,870	482,742	2,163,704	904,604	446,281	391,554	526,572	330,346	2,062,059
Interest and other	1,601,987	1,369,445	1,094,142	1,037,136	814,723	822,234	733,931	737,502	1,158,749	614,347
Total expenditures all governmental fund types	19,249,370	19,614,812	18,195,811	18,298,080	17,158,013	15,956,520	16,425,312	15,174,951	14,926,547	15,279,891
OTHER FINANCING SOURCES (USES):										
Transfers in	5,704,579	6,296,416	9,974,368	1,305,040	1,165,075	1,423,240	1,745,992	1,034,090	1,664,278	966,935
Transfers out	(5,474,028)	(6,030,564)	(9,723,198)	(995,225)	(822,332)	(1,180,598)	(1,253,216)	(830,832)	(1,385,218)	(779,752)
Long-term debt issued	1,684,135	4,754,372	5,965,925	1,921,363	1,140,356	1,518,355	1,619,562	3,001,116	2,241,190	3,107,821
Discount on bonds issued	(20,253)	(64,011)	(63,715)	(4,060)	-	(323)	(6,078)	(23,061)	(36,204)	(16,075)
Capital leases	198	427	292	43,850	2,975	4,580	847	2,300	58,897	-
Refunding bonds issued	1,364,475	1,163,735	237,875	2,086,240	379,498	-	-	2,372,689	1,754,686	1,636,838
Sale of capital assets	4,081	2,431	158,940	-	-	-	-	-	-	-
Upfront fee on swap agreements			35,980	-	-	-	-	-	-	-
Proceeds from termination of swap agreements		12,231	-	-	-	-	-	-	-	-
Termination fee on swap agreements	(23,854)	(40,849)	(74,671)	-	-	-	-	-	-	-
Payment for refunding of bonds	(483,515)	(1,047,297)	(183,000)	-	-	-	-	-	-	-
Bond proceeds — premium		18,045	34,842	-	-	-	-	-	-	-
Special item: payment of debt by COFINA		-	-	3,749,348	-	-	-	-	-	-
Special item: escrow restructuring		-	175,102	-	-	-	-	-	-	-
Payment to refunded bond escrow agent		-	-	(4,507,828)	-	-	-	(2,316,910)	(1,754,686)	(1,665,811)
Other	-	-	-	106,107	-	54,135	-	-	-	327,785
Total other financing sources all governmental fund types	2,755,818	5,064,936	6,538,740	3,704,835	1,865,572	1,819,389	2,107,107	3,239,392	2,542,943	3,577,741
NET CHANGE IN FUND BALANCES (DEFICIT)	$ (1,029,665)	$ 716,560	$ 3,019,238	$ (1,020,656)	$ (303,829)	$ 18,093	$ (636,496)	$ 164,107	$ (200,181)	$ (43,276)

The annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation, collected by the Municipal Revenue Collection Center on the Commonwealth's behalf, is presented as intergovernmental revenue from 2002 henceforth but as property tax in prior years.

In 2002, the Commonwealth adopted GASB No. 34. This statement requires that component units be included as expenditure by function. In prior years, such payments were reported as operating transfers-out to component units.

COMMONWEALTH OF PUERTO RICO

FUND BALANCE (DEFICIT) OF GOVERNMENTAL FUNDS (UNAUDITED)
LAST TEN FISCAL YEARS
MODIFIED-ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
GENERAL FUND:										
Nonspendable	$ 17,747	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Spendable:										
Restricted	551,699	-	-	-	-	-	-	-	-	-
Committed	629,591	-	-	-	-	-	-	-	-	-
Assigned	14,512	-	-	-	-	-	-	-	-	-
Unassigned	(1,464,609)	-	-	-	-	-	-	-	-	-
Reserved	-	1,252,903	1,247,211	723,634	993,320	770,628	810,314	1,102,232	262,758	366,588
Unreserved	-	(1,800,199)	(2,682,838)	(2,494,519)	(1,504,478)	(1,154,383)	(1,321,585)	(1,468,182)	(342,941)	(193,131)
Total General Fund	(251,060)	(547,296)	(1,435,627)	(1,770,885)	(511,158)	(383,755)	(511,271)	(365,950)	(80,183)	173,457
ALL OTHER GOVERNMENTAL FUNDS:										
Spendable:										
Restricted	1,515,583	-	-	-	-	-	-	-	-	-
Committed	308,763	-	-	-	-	-	-	-	-	-
Assigned	74,752	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-	-	-
Reserved	-	2,393,393	2,053,409	11,667	125,756	73,346	45,546	72,455	33,047	72,455
Unreserved reported in:										
Debt service funds	-	482,301	668,132	127,577	131,782	143,732	156,564	119,830	168,928	120,216
Special revenue funds	-	114,768	249,891	200,929	137,286	358,452	256,949	449,455	506,252	378,852
Capital project funds	-	233,679	424,480	520,576	223,443	219,163	437,923	744,577	228,215	356,201
Total all other governmental funds	1,899,098	3,224,141	3,395,912	860,749	618,267	794,693	896,982	1,386,317	936,442	927,724
TOTAL FUND BALANCE	$ 1,648,038	$ 2,676,845	$ 1,960,285	$ (910,136)	$ 107,109	$ 410,938	$ 385,711	$ 1,020,367	$ 856,259	$1,101,181

Note: In fiscal year 2011, the fund balance classifications were changed to conform to the requirements of GASB 54.

SCHEDULE OF REVENUE CAPACITY

COMMONWEALTH OF PUERTO RICO

GENERAL FUND NET REVENUES FOR THE LAST TEN FISCAL YEARS (UNAUDITED)
(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Administrative measures	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 244,097
Excises on off-shore shipments rum	328,527	352,301	404,265	356,827	377,872	346,272	341,166	328,921	309,958	314,253
Custom duties	-	-	3,269	4,846	14,504	9,553	26,731	34,266	25,918	30,595
From noninternal revenues	328,527	352,301	407,534	361,673	392,376	355,825	367,897	363,187	335,876	588,945
Miscellaneous	343,062	314,754	284,436	466,742	330,064	331,803	430,534	379,501	314,857	238,116
Transfer from nonbudgeted funds	-	-	-	-	-	-	-	-	123,600	80,000
Electronic lottery	55,690	80,006	75,213	105,298	71,815	55,212	68,011	86,115	89,443	57,897
Traditional lottery	46,164	42,826	51,480	46,636	73,014	62,729	64,638	65,387	67,621	61,358
Nontax revenues	444,916	437,586	411,129	618,676	474,893	449,744	563,183	531,003	595,521	437,371
Alcoholic beverages and others	18,197	15,339	14,307	16,014	15,179	14,804	14,528	14,200	13,518	14,805
Entertainment machines	251	18,712	19,263	19,682	16,930	16,981	15,019	14,393	13,932	12,874
Motor vehicles	62,945	61,717	62,853	51,994	65,501	59,525	55,669	55,638	58,426	54,896
Licenses	81,393	95,768	96,423	87,690	97,610	91,310	85,216	84,231	85,876	82,575
Others	3,814	1,864	5,159	7,224	20,235	25,681	29,927	24,334	20,539	64,626
Hotel rooms	-	-	-	-	-	-	-	-	9,056	-
5% general excise tax	-	-	-	-	193,949	551,723	557,323	535,381	505,709	486,302
Crude oil and derived products	-	-	-	-	-	-	-	-	12,925	38,619
Slot machines	24,073	23,273	23,764	23,492	23,128	23,167	85,513	76,966	90,018	36,953
Cement	1,128	1,195	1,555	2,054	2,627	2,919	3,228	3,432	3,279	3,426
Insurance premiums	23,785	24,089	26,816	42,060	39,052	43,055	28,324	27,217	26,771	24,290
Horse races	20,983	22,862	25,245	26,783	29,321	30,786	31,463	28,865	28,872	22,033
Motor vehicle	364,188	350,764	310,920	366,341	396,667	533,957	606,662	551,181	499,252	418,024
Petroleum products	4,203	4,695	4,335	8,401	6,028	5,146	5,143	4,934	5,860	5,095
Foráneas (Ley 54)	677,829	-	-	-	-	-	-	-	-	-
Cigarettes	201,965	182,501	129,429	119,124	132,399	135,267	146,527	144,733	149,487	116,055
General taxes — total	1,321,968	611,243	527,223	595,479	843,406	1,351,701	1,494,110	1,397,043	1,351,768	1,215,423

(Continued)

COMMONWEALTH OF PUERTO RICO

GENERAL FUND NET REVENUES FOR THE LAST TEN FISCAL YEARS (UNAUDITED)
(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Other beverages	$ 20,158	$ 19,081	$ 19,248	$ 19,026	$ 18,932	$ 18,745	$ 19,692	$ 17,428	$ 17,884	$ 18,234
Beer	209,568	211,785	203,386	198,879	207,813	219,379	221,902	217,568	223,309	179,737
Distilled spirits	51,237	53,930	54,767	50,189	52,283	54,056	56,641	61,306	58,389	51,734
Alcoholic beverages — total	280,963	284,796	277,401	268,094	279,028	292,180	298,235	296,302	299,582	249,705
Excise taxes — total	1,602,931	896,039	804,624	863,573	1,122,434	1,643,881	1,792,345	1,693,345	1,651,350	1,465,128
Sales and use tax	547,629	540,348	797,194	911,000	582,560	-	-	-	-	-
Inheritance and gift taxes	3,101	3,617	5,064	6,600	4,663	9,466	7,129	15,691	2,825	1,962
Taxes on dividends to 10%	26,756	29,774	48,663	59,770	138,859	66,721	80,398	70,192	49,790	62,548
Interest subject to 17%	6,985	9,902	11,738	13,657	12,112	11,536	10,489	10,108	11,278	14,310
Tollgate tax	12,607	15,034	19,372	21,610	25,083	27,396	22,973	31,579	45,321	59,515
Withholding to nonresidents	1,000,428	830,352	1,081,739	1,087,782	933,728	921,260	612,005	631,100	517,141	583,256
Partnerships	3,249	1,688	1,839	1,942	2,960	2,787	3,245	3,005	2,101	2,670
Corporations	1,674,087	1,682,321	1,375,596	1,565,534	2,002,718	1,872,458	1,870,937	1,831,027	1,776,985	1,706,137
Individuals	2,186,187	2,593,598	2,648,261	2,759,305	3,071,655	3,087,748	2,885,903	2,720,920	2,767,678	2,449,982
Income taxes — total	5,461,029	5,706,634	5,989,466	6,427,200	6,774,338	5,999,372	5,493,079	5,313,622	5,173,119	4,880,380
Property taxes	246,630	227,812	1,011	219	800	1,106	3,949	-	-	-
Tax revenues	7,391,983	6,926,253	6,891,524	7,378,682	7,995,182	7,735,669	7,374,589	7,091,198	6,910,345	6,428,083
From internal revenues	7,836,899	7,363,839	7,302,653	7,997,358	8,470,075	8,185,413	7,937,772	7,622,201	7,505,866	6,865,454
Total	$8,165,426	$7,716,140	$7,710,187	$8,359,031	$8,862,451	$8,541,238	$8,305,669	$7,985,388	$7,841,742	$7,454,399

Note: The net revenues presented above include the actual revenues and the operating transfers-in from other funds presented in the statement of revenues and expenditures — budget and actual — budget basis.

Source: Puerto Rico Treasury Department.

(Concluded)

SCHEDULES OF DEBT CAPACITY INFORMATION

COMMONWEALTH OF PUERTO RICO

LEGAL DEBT MARGIN INFORMATION (UNAUDITED)
LAST TEN FISCAL YEARS
(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Internal revenue average for two years	$ 7,592,395	$ 7,333,246	$ 7,650,006	$ 8,233,717	$ 8,327,744	$ 8,061,593	$ 7,779,987	$ 7,564,034	$ 7,185,660	$ 6,748,772
Legal debt limit — 15% of internal revenue average for two years	1,138,859	1,099,987	1,147,501	1,235,058	1,249,162	1,209,239	1,166,998	1,134,605	1,077,849	1,012,316
Maximum debt service requirement	876,205	826,812	785,298	785,298	719,927	680,742	630,685	598,547	599,611	521,035
Additional legal debt service requirement margin	262,654	273,175	362,203	449,760	529,235	528,497	536,313	536,058	478,238	491,281
Total maximum debt service requirement as a percentage of internal revenue average for two years	11.54 %	11.27 %	10.27 %	9.54 %	8.64 %	8.44 %	8.11 %	7.91 %	8.34 %	7.72 %
Legal debt margin calculation for fiscal year 2011:										
Internal revenue for the year ended June 30, 2010					$ 7,363,839					
Internal revenue for the year ended June 30, 2011					7,820,950					
Total internal revenue for the years ended June 30, 2010 and 2011					15,184,789					
Internal revenue average for the two years					7,592,395					
Legal debt limit — 15% of internal revenue average for the two years					1,138,859					
Maximum debt service requirement					876,205					
Additional legal debt service requirement as a percentage of internal revenue average for two years					$ 262,654					

Sources: Government Development Bank for Puerto Rico, General obligation debt service may not exceed 15% of the average of the internal revenues for the last two fiscal years.

COMMONWEALTH OF PUERTO RICO

RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES (UNAUDITED)
LAST TEN FISCAL YEARS
(In thousands)

	Total Debt Service	Total Governmental Expenditures	Ratio
Fiscal year:			
2011	$ 1,555,902	$ 19,249,370	8.1 %
2010	936,971	19,614,812	4.8
2009	413,967	18,195,811	2.3
2008	671,917	18,298,080	3.7
2007	606,800	17,158,013	3.5
2006	565,137	15,849,707	3.6
2005	491,394	16,425,312	3.0
2004	459,336	15,174,951	3.0
2003	362,136	14,926,547	2.4
2002	608,674	15,279,891	4.0

SCHEDULES OF DEMOGRAPHIC AND ECONOMIC INFORMATION

COMMONWEALTH OF PUERTO RICO

DEMOGRAPHIC AND ECONOMIC STATISTICS (UNAUDITED)
LAST TEN FISCAL YEARS

	Population *		Per Capita Income		Median Age	Life Expectancy (Years) (1)	School Enrollment	Labor Force (in thousands)	Unemployment Rate (%)	Gross Product (Current Prices $)**		Real Gross Product (2000 Prices $)**	
Fiscal year:													
2011	3,714	(r)	16,241		37.0	77.7	620,622	1,281	15.9	64,106	(r)	39,508	
2010	3,731	(r)	15,203	(p)	36.3	77.7	671,154	1,313	16.0	63,058	(r)	39,907	(p)
2009	3,751	(r)	14,786		36.3	77.7	649,692	1,349	13.4	62,598	(r)	41,464	
2008	3,772	(r)	14,217		37.5	77.7	685,348	1,368	11.0	61,665	(r)	43,205	
2007	3,794	(r)	13,244		37.0	77.7	710,861	1,409	10.4	59,521	(r)	44,475	
2006	3,813	(r)	12,970		36.5	77.7	731,644	1,422	11.7	56,732	(r)	45,009	
2005	3,824	(r)	12,507		36.0	77.7	714,306	1,385	10.6	53,752	(r)	44,785	
2004	3,826	(r)	11,724		35.6	77.2	764,861	1,360	11.4	5,709	(r)	43,950	
2003	3,825	(r)	11,429		35.1	77.5	746,500	1,352	12.1	47,479	(r)	42,795	
2002	3,821	(r)	10,921		34.7	77.1	808,408	1,309	12.1	45,071	(r)	41,915	

Source: Puerto Rico Planning Board, Department of Education, Department of Labor and Human Resources, and General Council of Education of the Commonwealth of Puerto Rico. The enrollment in private schools is an estimate.

* Population as of July 1 (in thousands).
** Amounts expressed in millions.
(1) Based on most recent study of 2006.
(p) Preliminary figures.
(r) Revised figures.

COMMONWEALTH OF PUERTO RICO

AVERAGE EMPLOYMENT BY SECTOR (UNAUDITED)
LAST TEN FISCAL YEARS
(In thousands)

Sector	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Agriculture	17	17	19	15	16	22	26	25	24	23
Manufacturing	99	102	112	129	135	136	138	136	134	137
Mining	a/	a/	1	1	1	a/	1	a/	a/	a/
Construction	47	54	68	82	94	88	87	88	82	84
Trade	241	240	244	257	260	271	261	253	252	236
Finance, insurance, and real estate	41	41	43	43	45	46	43	41	42	42
Transportation, communications, and public utilities	48	57	57	54	53	58	59	55	57	62
Services	344	330	353	359	364	355	349	340	328	311
Government (1)	240	261	271	279	296	280	274	268	269	257
Total	1,077	1,102	1,168	1,219	1,264	1,256	1,238	1,206	1,188	1,152

a/ Less than 1,000.
(1) Includes the Commonwealth, its municipalities, and federal government, and excludes public corporations.
Sources: Puerto Rico Department of Labor and Human Resources, Household Survey, and Puerto Rico Planning Board.

COMMONWEALTH OF PUERTO RICO

TOURISM INDICATORS (UNAUDITED)
LAST TEN FISCAL YEARS

	2011	2010 (p)	2009	2008	2007	2006	2005	2004	2003	2002
All hotels and hostelry registration	2,120,681	2,029,208	1,936,662	1,196,890	2,044,097	2,160,455	2,097,606	2,008,730	1,964,963	1,821,274
Occupancy rates	66.1 %	62.2 %	63.4 %	67.6 %	68.7 %	67.9 %	67.7 %	68.9 %	64.9 %	67.8 %
Number of rooms	14,388	14,076	13,430	13,269	13,402	13,424	13,321	12,751	12,850	11,759
Visitors' expenditures*	$ 3,713	$ 3,598	$ 3,473	$ 3,535	$ 3,414	$ 3,369	$ 3,239	$ 3,024	$ 2,677	$ 2,486

* Amounts expressed in millions of dollars.
(p) Preliminary figures.

Sources: Puerto Rico Tourism Company and Puerto Rico Planning Board.

SCHEDULE OF OPERATING INFORMATION

COMMONWEALTH OF PUERTO RICO

OPERATING INDICATORS BY FUNCTION (UNAUDITED)
LAST TEN FISCAL YEARS

Function	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Fire protection:										
Number of stations	94	95	95	95	94	94	94	98	93	93
Fire personnel and officers	1,713	1,889	2,225	2,232	2,232	2,233	2,233	1,851	1,894	1,867
Calls answered	11,013	14,021	9,698	10,146	10,441	10,435	11,514	10,716	12,340	13,256
Building inspections conducted	76,407	76,246	83,626	71,006	73,478	73,360	71,610	56,093	53,750	41,415
Police protection:										
Number of stations	192	210	193	233	238	238	234	231	228	235
Police personnel and officers	18,333	18,274	18,834	19,422	19,069	20,552	20,806	21,185	21,079	20,468
Calls answered	7,050	7,271	7,451	7,258	7,101	7,146	7,178	6,907	5,538	4,673
Water system:										
Customers	1,290,800	1,279,757	1,265,798	1,257,336	1,290,497	1,285,732	1,251,699	1,256,981	1,238,461	1,209,834
Personnel	4,919	5,001	5,617	5,839	5,830	5,544	5,459	5,442	5,580	5,633
Water consumption (millions of cubic meters)	317	325	331	327	350	365	356	359	350	349
Electric distribution system:										
Customers	1,475,126	1,469,493	1,458,636	1,449,221	1,452,529	1,450,227	1,438,699	1,419,602	1,401,301	1,383,888
Personnel	8,659	8,804	9,332	9,429	9,444	9,541	9,712	9,635	9,646	9,652
Electricity consumption (millions of kilowatt)	18,501	19,235	18,516	19,602	20,672	20,620	20,507	20,260	19,887	19,130
Electricity production (millions of kilowatt)	22,631	23,580	22,651	23,935	25,082	24,870	24,500	24,100	23,717	22,514
Education:										
Enrollment in public schools (1):										
Kindergarten to sixth grade	246,770	264,049	262,234	276,291	293,781	306,073	323,270	321,653	326,606	334,929
Seventh to ninth grade	114,658	124,343	122,506	128,641	133,171	135,166	137,717	142,305	146,896	146,837
Tenth to twelfth grade	97,203	104,731	103,255	108,028	117,205	122,251	118,491	116,829	118,519	117,072
Teachers actively teaching (in public school)	39,863	46,472	45,268	45,064	45,124	46,064	46,858	47,286	46,772	46,591
Enrollment in private schools:										
Kindergarten to sixth grade	99,975	11,614	97,004	105,724	103,442	107,358	83,548	117,622	98,719	135,655
Seventh to ninth grade	31,542	32,144	33,510	35,437	33,294	32,850	27,612	37,226	31,245	41,273
Tenth to twelfth grade	30,474	29,773	31,183	31,227	29,968	27,946	23,668	29,226	24,515	32,642
Enrollment in universities and colleges:										
Public	67,291	71,569	69,475	68,132	66,990	68,813	71,044	74,056	74,801	73,974
Private	182,901	177,803	166,143	157,306	158,412	140,734	136,650	132,735	125,041	117,578

Source: Various agencies and component units of the Commonwealth of Puerto Rico. The enrollment in private schools is an estimate.
(1) The enrollment in public schools for 2007–2008 don’t include the special education by grade.