



COMMONWEALTH
OF PUERTO RICO



COMPREHENSIVE
ANNUAL FINANCIAL REPORT



2002
FISCAL YEAR ENDED
JUNE 30, 2002



COMMONWEALTH OF PUERTO RICO

COMPREHENSIVE ANNUAL FINANCIAL REPORT

About our cover:

A life filled with opportunities

The vital objective of the Commonwealth of Puerto Rico is moving forward with its development agenda for the 21st century. Creating jobs for our youth, providing diverse educational offerings, guaranteeing health care quality and access, fair housing and improving life quality are all goals geared towards strengthening the capacity of our Island to internally generate resources and set the foundations for the future.

We strongly believe, as the cover of this financial report illustrates, that economic goals, such as productivity growth, are reached when the satisfaction of basic human needs is attained, lifting what we have denominated as “The People’s Happiness Index”.

Figures on employment rates and per capita income are important, since they represent our commitment to the human beings they represent: talented, hard working, dedicated, highly educated Puerto Ricans who are ready for a shift from quantitative to qualitative; from bare survival and mass production to creative production and living. Progress in this context means individual, cultural and spiritual change, community development, and environmental renewal.

In the years to come, Puerto Rico will complete a significant part of its development agenda. It will implement new concepts, expand its information infrastructure, and increase its production indexes. Yet, the real big achievement of all will be a new a life filled with opportunities.



FISCAL YEAR ENDED JUNE 30, 2002



COMMONWEALTH OF PUERTO RICO

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2002

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2002



Commonwealth of Puerto Rico
Honorable Sila María Calderón
Governor

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INTRODUCTORY SECTION

May 30, 2003

To the Honorable Governor of Puerto Rico,
Members of the Legislature and People of Puerto Rico

It is a pleasure to submit, for your information, the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Puerto Rico (the Commonwealth) as of and for the fiscal year ended June 30, 2002. This report, presented in three sections: introductory, financial and statistical, is the primary means of reporting the Commonwealth's financial activities. The financial section of this report, described below, has been prepared in conformity with several newly adopted governmental accounting standards, headed by Governmental Accounting Standards Board Statement No. 34 (GASB No. 34), *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. The objective of the new reporting model is to provide a clear picture of the Commonwealth as a single, unified entity as well as providing traditional fund based financial statements.

The introductory section, which is not audited, includes this letter of transmittal, general information about the Commonwealth, a list of the Commonwealth's principal elected and appointed officials, an organizational chart, and a reproduction of the Certificate of Achievement for Excellence in Financial Reporting that the Commonwealth received for its June 30, 2001 CAFR. The financial section contains the independent auditors' report, management's discussion and analysis (MD&A), and the basic financial statements as listed in the table of contents. The financial section also includes the notes to the basic financial statements and other supplementary information. The statistical section, which is not audited, includes selected financial and demographic information, generally presented on a multi-year 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 the 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 various funds and component units of the Commonwealth in accordance with generally accepted accounting principles in the United States of America. We have included all the necessary disclosures to enable the reader to gain a thorough understanding of the Commonwealth's activities.

The financial reporting entity includes all funds of the Commonwealth, which is the primary government, as well as all its component units. In accordance with Governmental Accounting Standards Board Statement 14, the Commonwealth financial reporting entity includes forty-nine component units; three are blended component units, seven are major discretely presented component units, thirty-six are nonmajor discretely presented component units and three are fiduciary component units. Component units are legally-separate entities for which the primary government is financially accountable, or other organizations, the nature and significance of whose relationship with the Commonwealth are such that exclusion would cause the Commonwealth's basic financial statements to be misleading and incomplete. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Discretely presented component units, both major and 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.

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
- The Children's Trust

Discretely Presented Component Units:

- Agricultural Services and Development Administration
- Automobile Accident Compensation Administration
- Caribbean Basin Projects Financing Authority
- Corporation for the Development of the Arts, Sciences and Film Industry of Puerto Rico
- Economic Development Bank for Puerto Rico
- Employment and Training Enterprises Corporation
- Farm Insurance Corporation of Puerto Rico
- Fine Arts Center Corporation
- Governing Board of the 9-1-1 Service
- Government Development Bank for Puerto Rico
- Industries for the Blind, Mentally Retarded and Other Disabled Persons of Puerto Rico
- Institutional Trust of the National Guard of Puerto Rico
- Land Authority of Puerto Rico
- Musical Arts Corporation
- National Parks Company of Puerto Rico
- Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
- Puerto Rico Aqueduct and Sewer Authority
- Puerto Rico and Caribbean Cardiovascular Center Corporation
- Puerto Rico Conservatory of Music Corporation
- Puerto Rico Convention Center District Authority
- Puerto Rico Council on Higher Education
- Puerto Rico Electric Power Authority
- Puerto Rico Exports Development Corporation
- Puerto Rico Government Investment Trust Fund
- Puerto Rico Health Insurance Administration
- Puerto Rico Highway and Transportation Authority
- Puerto Rico Industrial Development Company

Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control
Facilities Financing Authority
Puerto Rico Infrastructure Financing Authority
Puerto Rico Land Administration
Puerto Rico Maritime Transportation Authority
Puerto Rico Medical Services Administration
Puerto Rico Metropolitan Bus Authority
Puerto Rico Municipal Finance Agency
Puerto Rico Ports Authority
Puerto Rico Public Broadcasting Corporation
Puerto Rico School of Plastic Arts
Puerto Rico Solid Waste Authority
Puerto Rico Telephone Authority
Right to Employment Administration
State Insurance Fund Corporation
Tourism Company of Puerto Rico
University of Puerto Rico

Fiduciary Component Units:

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

Independent Auditors

Commonwealth statutes require an annual audit by independent certified public accountants. The firm of KPMG 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 2001-2002. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Commonwealth for the fiscal year ended June 30, 2002, are free of material misstatements. The independent auditor's report on the basic financial statements is included in the financial section of this report.

Internal Controls

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

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

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

Budget and Fiscal Policy

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

The annual budget is prepared by the Puerto Rico Office of Management and Budget, working with the Planning Board, the 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 said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided by law”*.

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

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

The Legislature may amend the budget submitted by the Governor, but may not increase 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 her 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, 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 its operating and other expenses until a new budget is approved.

Governmental Activities

General governmental activities are accounted for in governmental funds. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions. The new reporting model as defined by GASB No. 34 established criteria for the determination of major funds. The general fund is the primary operating fund of the Commonwealth. The general fund is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, education and economic development. Other major funds are the debt service fund, which accounts for the accumulation of resources predominantly for, and the payment of the Commonwealth general long-term bonds' principal, interest and related costs, and the Public Building Authority capital project fund, which accounts for the financial resources used for the acquisition and construction of major capital facilities. 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

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the government is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Commonwealth's enterprise operations are accounted for in: the Unemployment Insurance and Lotteries funds, both major funds. The Puerto Rico Water Pollution Control Revolving Fund, the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, the Disability Insurance Fund, and the Drivers' Insurance Fund are all 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 trust and agency funds. Pension trust funds are established through trust agreements specifying how the fund will operate. Agency funds are custodial in nature and do not report fund balances. The pension trust funds include the Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities, Puerto Rico Judiciary Retirement System and the Puerto Rico System of Annuities and Pensions for Teachers, fiduciary component units of the Commonwealth.

The agency fund consists of the Special Deposits Fund, which includes predominantly deposits under the custody of the Courts of Justice for alimony payments.

Cash Management Policies and Practices

The Commonwealth maintains a cash pool for its cash and cash equivalents. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest bearing accounts in the Government Development Bank for Puerto Rico (GDB), a discretely presented component unit. In addition, the Puerto Rico Government Investment Trust Fund (PRGITF), was created by the Commonwealth pursuant to Act No. 176 of August 11, 1995, and began operations on December 4, 1995. The PRGITF is a no-load diversified collective investment trust that was created for the purpose of providing eligible governmental investors with a convenient and economical way to invest in a professionally managed money market portfolio. The deposits on hand and the investments purchased are not collateralized, secured or guaranteed by the Commonwealth or any of its agencies, instrumentalities or political subdivisions.

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

Capital Assets

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

Debt Administration

As of June 30, 2002, the Commonwealth had a number of debt issues outstanding. The Commonwealth has maintained an **A-** credit rating from Standard and Poor's Corporation and a **Baa1** from Moody's Investor Service on general obligation bond issues, and we expect that these classifications will be maintained or improved in future years.

The Constitution of the Commonwealth limits the amount of debt service that can be incurred with respect to issued or guaranteed debt to 15% of internal revenues, as therein defined. As of June 30, 2002, the Commonwealth is in compliance with the debt limitation requirement. See the computation of the legal debt margin, on page No. 3 in the statistical section. More detailed information about long-term debt can be found in the notes to the basic financial statements.

Risk Financing

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

Financial Advisor and Fiscal Agent

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

GDB was the first governmental entity in Puerto Rico to obtain a Certificate of Achievement for Excellence in Financial Reporting for its CAFR. It has received the award for the years ended June 30, 1994 through 2001. The Government Development Bank for Puerto Rico is presented as a major discretely presented component unit.

ECONOMIC CONDITIONS AND OUTLOOK

Puerto Rico enjoyed almost two decades of economic expansion through fiscal year 2001. Almost every sector of the economy participated, and record levels of employment were achieved. Factors behind this expansion included government-sponsored economic development programs, periodic declines in the value of the United States dollar, which is the currency used in the Commonwealth, increases in the level of federal transfers, a significant expansion in construction investment driven by infrastructure projects and private investment, primarily in housing, the relatively low cost of borrowing, and low oil prices.

The economy of Puerto Rico is closely linked to the United States economy. The following exogenous variables are affected by the United States economy: exports, direct investment, transfer payments, interest rates, inflation, and tourist expenditures. During fiscal year 2002 (July 2001 through June 2002), approximately 89% of Puerto Rico's exports went to the United States mainland, which was also the source of approximately 50% of Puerto Rico's imports.

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. The Planning Board estimates that in fiscal year 2002 manufacturing generated \$30.0 billion, or 42.2%, of gross domestic product, as compared with fiscal year 2001 when it generated \$28.8 billion, or 41.6%, 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 currently accounts for approximately 48.4% of total employment, and generated \$27.2 billion, or 38.2%, of Puerto Rico's gross domestic product in fiscal year 2002, as compared with \$26.7 billion, or 38.6%, of gross domestic product in fiscal year 2001. The development of the services sector has shown a strong interaction with manufacturing, tourism, construction, and agriculture.

Tourism makes a significant contribution to economic activity. Total visitors' expenditures accounted for 3.5% of the island's gross domestic product in fiscal year 2002. An estimated 4.4 million visitors spent \$2.5 billion in Puerto Rico in fiscal year 2002. San Juan has become the largest homeport for cruise ships in the Caribbean and the fourth largest home port for cruise ships in the world.

Growth in the construction sector contributed to increased economic activity from fiscal year 1998 through fiscal year 2002. During that period, construction investment increased 27.5%. Puerto Rico is heavily dependent on oil imports for the production of electricity. As a result of the construction of two cogeneration plants, however, one of which is fueled by liquefied natural gas and the other by coal, Puerto Rico's dependence on oil imports for the production of electricity has been reduced from 99% to 72%.

The Planning Board's preliminary reports of the performance of the Puerto Rico economy during fiscal year 2002 indicate that the economy registered a decline of 0.2% in real gross product. Gross product in fiscal year 1998 was \$35.1 billion (\$32.4 billion in 1996 prices) and gross product in fiscal year 2002 was \$45.2 billion (\$35.2 billion in 1996 prices). This represents an increase in gross product of 28.7% from fiscal year 1998 to fiscal year 2002 (8.6% in 1996 prices).

In terms of personal income, in fiscal year 2002, aggregate personal income was \$42.6 billion (\$38.0 billion in 1996 prices) and personal income per capita was \$11,069 (\$9,861 in 1996 prices).

According to the Puerto Rico Department of Labor and Human Resources Household Employment Survey, during fiscal year 2002, total monthly employment averaged 1,169,600 compared to 1,158,000 in fiscal year 2001, an increase of 1.0%. Notwithstanding the increase in average monthly employment, due to a higher labor participation rate and a significant increase in the civilian population aged 16 years and over, the unemployment rate increased from 10.5% during fiscal year 2001 to 12.0% during fiscal year 2002.

Major Initiatives

Individual Income Taxes

Resident individuals are subject to tax on their taxable income from all sources. As a result of legislation enacted in 1999 and 2000, there are several changes in income tax brackets applicable to future taxable years. However, due to significant limitation of available resources, the Commonwealth has deferred further reduction in income tax rates through fiscal year 2004, in an effort to maintain revenue levels, and avoid budgetary shortfalls. On April 11, 2001 the Commonwealth approved legislation to reduce capital gain tax rate from 20% to 10%.

Industrial Incentives Program

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

For many years, US companies operating in Puerto Rico enjoyed a special tax credit that was available under Section 936 of the US Internal Revenue Code. Originally, the credit provided an effective 100% federal income tax exemption for most operating income, as well as qualifying investment income from Puerto Rico sources. Amendments to Section 936 made in 1993 (the 1993 Amendments) instituted certain methods for calculating the tax credit and limited the amount of the credit that a qualifying company can claim.

As a result of amendments incorporated in the Small Business Job Protection Act of 1996, (the 1996 Amendments), the tax credit is now being phased-out over a ten-year period for existing 936 credit claimants and is no longer available for corporations that established operations in Puerto Rico after October 13, 1995 (including existing 936 Corporations, if they establish new product lines in Puerto Rico). The 1996 Amendments also moved the credit based on the economic activity limitation to Section 30A of the Code and phased it out over 10 years. In addition, the 1996 Amendments eliminated the credit previously available for income derived from certain qualified investments in Puerto Rico.

Because of the credit limitations and impending phase-out of Sections 30A and 936, a large number of entities previously operating under the provisions of those sections have restructured their operations in Puerto Rico, in whole or in part, to become controlled foreign corporations (CFC). The Puerto Rico Office of Tax Exemption has received notification of over sixty (60) corporations that have converted part or all of their operations under Puerto Rico tax incentives laws to CFCs. These include most major pharmaceutical, instrument and electronics manufacturing companies in Puerto Rico. CFCs operate under transfer pricing rules for intangible income that are different from those corporations operating under Sections 30A and 936. In many cases, they are allowed to attribute a larger share of this income to their Puerto Rico operations, but must make a royalty payment “commensurate with income” to their US affiliates. Section 936 companies were exempted from Puerto Rico withholding taxes on any cost-sharing payments they might have opted to make, but CFCs are subject to a ten percent Puerto Rico withholding tax on royalty payments.

Proposed New US Tax Regime for Companies Doing Business in Puerto Rico

The Commonwealth is currently developing and implementing a comprehensive economic plan, which requires some actions to be taken by the US Congress. Congress would need to enact legislation being proposed by the Commonwealth which would amend the US Internal Revenue Code to provide a new and permanent tax regime applicable to US based businesses that have operations in Puerto Rico or other US possessions. The Plan has three substantive components. First, Sections 30A and 936 would be allowed to expire according to their terms and would not be amended to remove the limitations that became effective at the end of calendar year 2001. Second, Section 956 would be amended to exclude from current US taxes 90% of the otherwise taxable investments in “US property” made by a qualified possessions CFC out of its qualified possessions income. Third, transition rules would be provided for companies now conducting operations in Puerto Rico. The new Section 956 exclusion and the related transition rule would be effective for CFCs taxable years beginning after December 31, 2001. No assurance can be given at this time as to the likelihood of the passage of this legislation.

Public Sector Debt

Historically, the Commonwealth has maintained, as a matter of fiscal policy, a prudent relationship between the growth of public sector debt and the growth of the economic base required to service that debt. During certain fiscal years, however, public sector debt increased at a greater rate than the rate of gross product primarily due to an increase in the amount of debt incurred to finance certain key infrastructure projects, which are important to the development of the economy and are expected to produce long-term economic benefits, and debt incurred to refinance outstanding debt to enable Puerto Rico to benefit from the historically low levels of interest rates and realize debt service savings. During fiscal year 2002, public sector debt increased 10.5%, compared to a 2.3% increase in gross product for the same fiscal year.

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 citizens. The Governor of Puerto Rico has established three long-range priorities which she expressed in her February 2002 state message. Those priorities, named “El Proyecto Puertorriqueño para el Siglo XXI”, are: (1) to provide the Commonwealth a

clean and corruption-free government, (2) to establish and promote an economic development program and to fight for the citizens employments, and (3) to establish a government that works for the family and its working members.

The Commonwealth's economic development program is based on the fundamental, interrelated changes in technology, demographics and institutions, which are transforming the global economy. These changes provide the challenges and opportunities that encompass the economic development strategy.

The economic program is based on: 1) jump-starting the manufacturing sector, 2) regionalizing (decentralizing) economic development planning and implementation and 3) "Operación Manos Tecnológicas" to enable industries to acquire and develop more advanced technologies.

Initiatives to achieve the economic development program objectives have begun in the following five areas: 1) Legislation towards economic development through tax incentives; 2) Institutional development, through economic stimulation through the Puerto Rico Industrial Development Company; 3) New promotional strategies for economic development to build on Puerto Rico's competitive strengths with primary focus on competitive manufacturing clusters in pharmaceutical manufacturing, medical instruments and electronics and information technologies products; 4) Refocused strategic projects targeted to include a transshipment port for the South coast of Puerto Rico, and the "Golden Triangle" tourism convention center and world trade complex in San Juan; and 5) Federal legislative proposal calling for an amendment to the US Internal Revenue Code of 1986 to provide a new and permanent tax regime applicable to US-Based businesses.

A major project within the Governor's long-term agenda is the continuation of the program for Special Communities. As of December 2001, there were 686 communities included in this program with 784 projects being developed. During 2002, the Office for the Special Communities received \$21.4 million from the primary government and \$115 million from component units. On November 21, 2002 the Legislature of the Commonwealth approved Joint Resolution No. 1027 authorizing GDB to transfer \$500 million as a contribution to the Special Communities Perpetual Trust, a new, irrevocable and permanent trust created as a public corporation. The Trust's principal purpose is to fund development projects which address the infrastructure and housing needs of underprivileged communities. The Commonwealth will primarily focus in three objectives: community organization, cleanliness of the communities and the development of new projects.

Financial Condition

The MD&A, which can be found immediately following the independent auditor's report, provides an overview of the Commonwealth's financial activities addressing both governmental and business-type 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.

Estimated Fiscal Year 2003 Compared to Actual Fiscal Year 2002

It is projected that general fund total revenues for fiscal year 2003 will be \$7,836 million, representing an increase of \$334 million, or 4.5%, from actual fiscal year 2002 revenues. The major changes from fiscal year 2002 are expected to be: (i) increases in income taxes from individuals of \$325 million and in corporate income taxes of \$140 million; (ii) increases in excise taxes on alcoholic beverages and cigarettes of \$76 million and \$54 million, respectively, motor vehicle excise taxes of \$86 million, other excise taxes of \$65 million; (iii) an increase in electronic lottery of \$29 million; (iv) a decrease in miscellaneous non-tax revenues of \$378 million and in income taxes withheld from non-residents of \$22 million; and (v) decreases in tollgate taxes of \$24 million, taxes on dividends of \$20 million and federal excise taxes of \$9 million.

Other Information

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a ***Certificate of Achievement for Excellence in Financial Reporting*** to the Commonwealth of Puerto Rico for its CAFR for the fiscal years ended from June 1996 through 2001. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for the preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

We believe the CAFR of the Commonwealth of Puerto Rico as of and for the fiscal year ended June 30, 2002 continues to conform to GFOA standards and we are submitting it to the GFOA to determine its eligibility for a Certificate of Achievement for Excellence in Financial Reporting.

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, universities, and component units of the Commonwealth. We sincerely appreciate the dedicated efforts of all these individuals.

This year we implemented several new GASB standards, including Statement No. 34 requirements. The report could not have been accomplished without the professionalism and dedication of José Alberto Soliván Galio and Miguel Rivera Rivera from our accounting staff as well as the rest of the personnel of the central government accounting area. Also, we would like to give special thanks to our independent auditors, KPMG LLP, especially to Anthony D. Cruz and Eduardo Herencia for their advice and commitment.

This report, submitted for the seventh consecutive year to compete for the “Certificate of Achievement for Excellence in Financial Reporting,” of the Government Finance Officers Association of the United States and Canada, continues our commitment to the citizens of the Commonwealth of Puerto Rico, the Governor, the Legislature, and the financial community, to maintain our basic financial statements in conformance with the highest standards of financial accountability.

Respectfully submitted,

Juan A. Flores Galarza
Secretary of Treasury

COMMONWEALTH OF PUERTO RICO

PRINCIPAL OFFICIALS

Sila M. Calderón
Governor

Members of the Cabinet

César Miranda
Chief of Staff

Ferdinand Mercado
Secretary of State

Anabelle Rodríguez
Secretary of Justice

Juan A. Flores Galarza
Secretary of the Treasury

César Rey
Secretary of Education

Víctor Rivera Hernández
Secretary of Labor and
Human Resources

Johnny Rullán
Secretary of Health

Luis Rivero Cubano
Secretary of Agriculture

Fernando Fagundo
Secretary of Transportation and
Public Works

Milton Segarra
Secretary of Economic
Development and Commerce

Yolanda Zayas
Secretary of Family Affairs

Ileana Echegoyen
Secretary of Housing

Luis Enrique Rodríguez
Secretary of Natural and
Environmental Resources

Javier A. Echevarría
Acting Secretary of
Consumer Affairs

Jorge Rosario
Secretary of Sports and
Recreation

Miguel Pereira
Secretary of Corrections and
Rehabilitation

LEGISLATIVE OFFICERS

Antonio Fas Alzamora
President, Senate

Carlos Vizcarrondo
Speaker, House of
Representatives

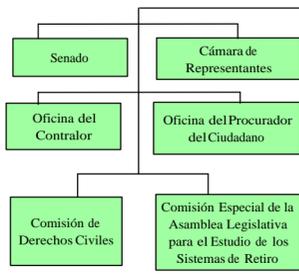
FISCAL OFFICERS

Melba Acosta
Director, Office of Management
and Budget

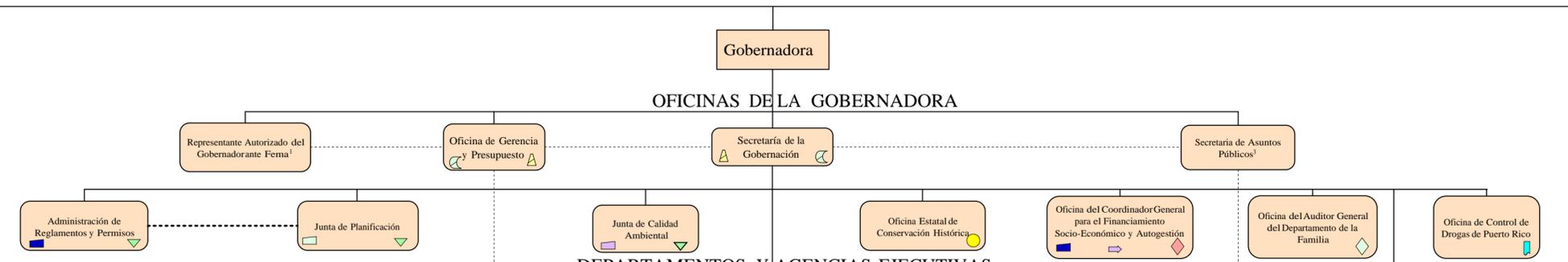
Héctor Méndez
President, Government
Development Bank for
Puerto Rico

ESTRUCTURA DEL ESTADO LIBRE ASOCIADO DE PUERTO RICO

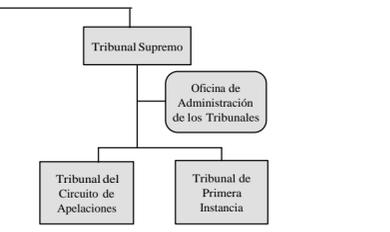
RAMA LEGISLATIVA



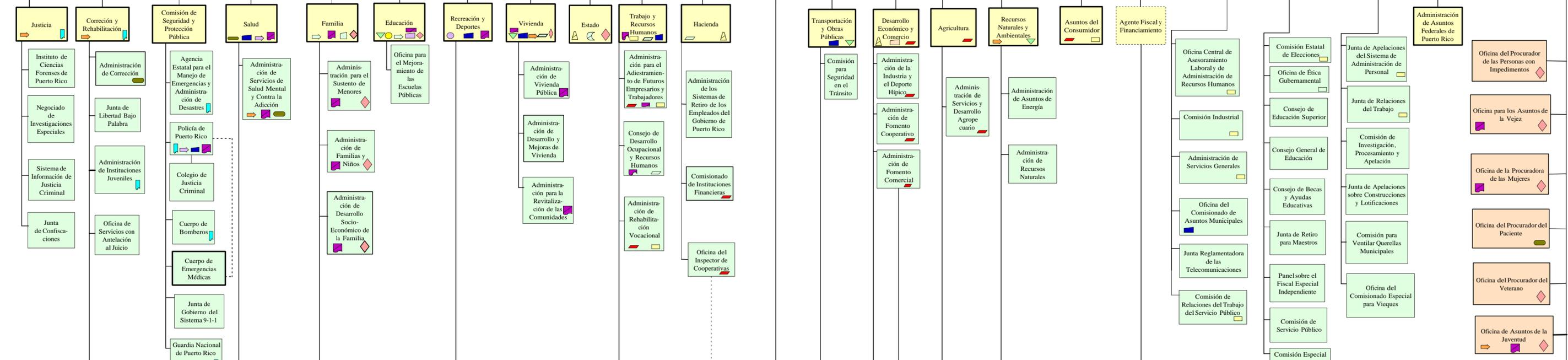
RAMA EJECUTIVA



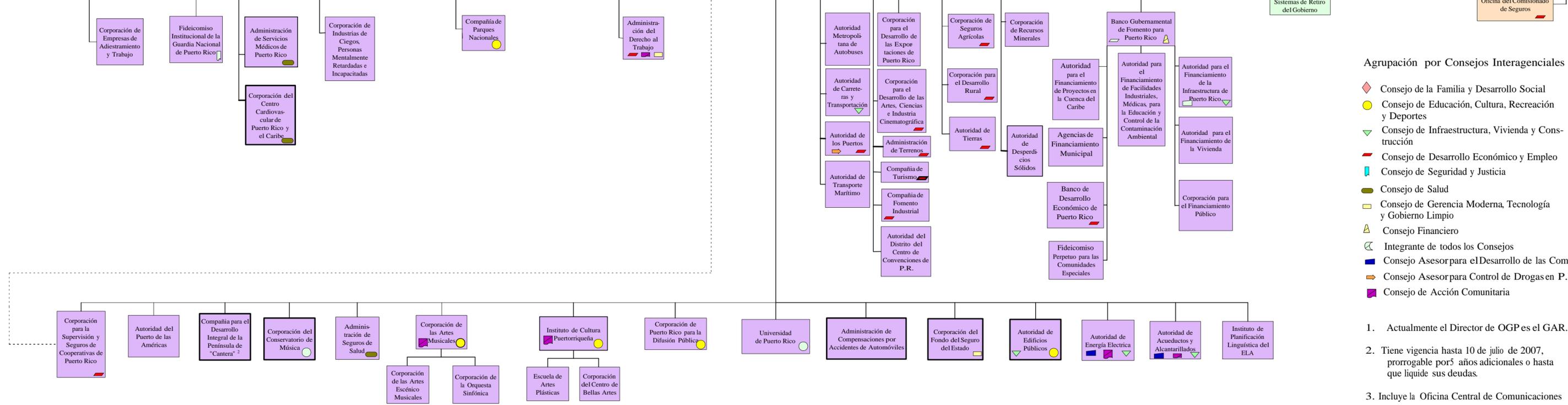
RAMA JUDICIAL



DEPARTAMENTOS Y AGENCIAS EJECUTIVAS



CORPORACIONES PÚBLICAS



Agrupación por Consejos Interagenciales

- ◆ Consejo de la Familia y Desarrollo Social
- Consejo de Educación, Cultura, Recreación y Deportes
- ▽ Consejo de Infraestructura, Vivienda y Construcción
- ▬ Consejo de Desarrollo Económico y Empleo
- ⚡ Consejo de Seguridad y Justicia
- Consejo de Salud
- Consejo de Gerencia Moderna, Tecnología y Gobierno Limpio
- ▲ Consejo Financiero
- ☞ Integrante de todos los Consejos
- Consejo Asesor para el Desarrollo de las Comunidades Especiales
- ➡ Consejo Asesor para Control de Drogas en P.R.
- Consejo de Acción Comunitaria

1. Actualmente el Director de OGP es el GAR.
2. Tiene vigencia hasta 10 de julio de 2007, prorrogable por 5 años adicionales o hasta que liquide sus deudas.
3. Incluye la Oficina Central de Comunicaciones

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Puerto Rico

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

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



Thomas A. Drew
President

Jeffrey L. Esser
Executive Director

FINANCIAL SECTION

Independent Auditors' Report

The Honorable Governor and Legislature of the
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, 2002, 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 opinions on these financial statements based on our audit. We did not audit the financial statements of the Public Building Authority capital project fund (a major fund) which represents 2% and 0%, respectively, of the assets and revenue of the governmental activities. We also did not audit the financial statements of the following activities, funds and component units:

- Public Housing Administration, the Office for the Improvements of Public Schools and the Office for the Administration of the Assets of the Puerto Rico Urban Renewal and Housing Corporation which collectively represent 8% and 3%, respectively of the assets and revenue of the general fund and 3 percent of both the assets and revenue of the governmental activities.
- The Additional Lottery System, which represents 85% and 35%, respectively of the assets and revenue of the lotteries fund and 24% and 26%, respectively of the assets and revenue of the business-type activities.
- Public Building Authority special revenue and debt service funds, which collectively represent 5% and 9%, respectively of the assets and revenue of the aggregate remaining fund information and 3 percent and 1 percent, respectively of the assets and revenue of the governmental activities.
- The Pension Trust funds, which represent 69% and 66%, respectively of the assets and revenue of the aggregate remaining fund information.
- Entities identified in note 2, that are presented as discretely presented component units, which collectively represent 66% and 85%, respectively of the assets and revenue of the aggregate discretely presented component units.

These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the activities, funds and component units indicated above, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the 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 of Puerto Rico, as of June 30, 2002, 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.

As described in notes 1 and 4, the Commonwealth has implemented a new financial reporting model, as required by GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments:Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No.6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* as of July 1, 2001.

The management's discussion and analysis on pages 3 through 16 and the schedule of funding progress on page 138 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other 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. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These financial statements and combining 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 report of the 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 of this report listed in the table of contents 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.

KPMG LLP

April 30, 2003

Stamp No. 1901316 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis

Year ended June 30, 2002

Management of the Commonwealth of Puerto Rico (the Commonwealth) provides this Management's Discussion and Analysis for the readers of the Commonwealth's basic financial statements. This narrative overview and analysis of the financial activities of the Commonwealth is for the fiscal year ended June 30, 2002. We encourage readers to consider this information with the Commonwealth's basic financial statements that follow.

Because the Commonwealth is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Commonwealth's financial position and results of operations.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-Wide Highlights

Net Assets – The liabilities of the Commonwealth exceeded its assets at fiscal year ending June 30, 2002 by \$9.403 billion and are presented as “net assets (deficit)”. Of this amount, \$1.9 billion and \$774.4 million, respectively, were reported as net assets “invested in capital assets, net of related debt” and “restricted” for other specified purposes, while the remaining unrestricted portion consists of a deficit of approximately \$12 billion. The accumulated deficit is principally the result of the Commonwealth's practice of issuing debt and transferring such funds to its discretely presented component units in order for them to carry out the corresponding construction programs. Accordingly, there is a significant amount of debt that is reported at the primary government level for which its related asset is reported within the component units column.

Changes in Net Assets – The Commonwealth's total net deficit increased by \$1.636 billion (a 21% increase) in fiscal year 2002. The governmental activities deficit increased by \$1.628 billion (a 19% increase), while net assets of the business-type activities showed a decrease of \$7.9 million (a 1% decrease).

Fund Highlights

Governmental Funds – Fund Balances – As of the close of fiscal year 2002, the Commonwealth's governmental funds reported a combined ending fund balance of \$1.1 billion, a decrease of \$43 million in comparison with the prior year. Of this total amount, \$662 million represents unreserved fund balances, of which \$120 million pertains to the debt service fund, \$379 million pertains to the special revenue fund and \$356 million pertains to the capital projects fund leaving a net deficit of \$193 million in the general fund.

Long-Term Debt

The Commonwealth's total long-term debt obligations increased by \$1,468 million (8.8%) during the current fiscal year. The key factor in this increase was the issuance of \$2.7 billion of general obligation bonds. In addition, the Government Development Bank for Puerto Rico, a major discretely presented component unit, securitized approximately \$2.443 billion in loans and advances made to the Commonwealth and to other discretely presented component units. From this amount, approximately \$1.5 billion represents amounts that were due by the Commonwealth's agencies for different purposes, that were overdue and for which there were no previously appropriated resources for their repayment. As a result of the above transaction, as discussed in note 14 to the basic financial statements, these debts which were refunded with Commonwealth appropriation bonds will now be repaid from Commonwealth appropriations not to exceed \$225 million through a period not to exceed 30 years, beginning in fiscal year 2002-03.

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis

Year ended June 30, 2002

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

Government-wide Financial Statements

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

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

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

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

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis

Year ended June 30, 2002

- ***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: Commonwealth Unemployment Insurance Trust Fund (by the Commonwealth Employment Security Bureau) and the Lotteries.

Both of these programs operate with minimal assistance from the governmental activities of the Commonwealth.

- ***Discretely Presented Component Units*** – These are operations for which the Commonwealth has financial accountability but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The Commonwealth's discretely presented component units are presented in two categories, major and 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 seven discretely presented major component units are:

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

The Commonwealth's 36 other (or nonmajor) component units are combined into a single column for reporting in the fund 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 government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other states and local governments, uses fund accounting to 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 statements. All of the funds of the

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis

Year ended June 30, 2002

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 assists 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 revenue, expenditures, and changes in fund balances 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 three major governmental funds. That is, each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances. The Commonwealth's three major governmental funds are – the general fund, the debt service fund, and the Public Buildings Authority capital projects fund. The remaining nonmajor governmental funds are grouped and presented in a single column in the governmental fund financial statements. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

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

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis

Year ended June 30, 2002

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

Notes to the 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 financial statements can be found immediately following component units financial statements.

Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Total assets and total liabilities of the Commonwealth at June 30, 2002 amounted to \$11.179 billion and \$20.582 billion, respectively, for a net deficit of \$9.403 billion, compared to \$7.768 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 citizens; 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.

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis

Year ended June 30, 2002

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 citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets. At the end of the current fiscal year, the Commonwealth is able to report positive balances in two categories of net assets, and a deficit, both for the government as a whole, as well as for its separate governmental and business-type activities.

As explained earlier, 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.

Commonwealth's Net Assets – Primary Government (expressed in thousands)

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Current assets	\$ 3,038,075	822,603	3,860,678
Capital assets	5,393,435	2,195	5,395,630
Other assets	1,493,736	429,092	1,922,828
Total assets	<u>9,925,246</u>	<u>1,253,890</u>	<u>11,179,136</u>
Current liabilities	4,835,998	229,708	5,065,706
Noncurrent liabilities	15,260,880	255,743	15,516,623
Total liabilities	<u>20,096,878</u>	<u>485,451</u>	<u>20,582,329</u>
Invested in capital assets, net of related debt	1,909,137	310	1,909,447
Restricted	4,616	769,804	774,420
Unrestricted	<u>(12,085,385)</u>	<u>(1,675)</u>	<u>(12,087,060)</u>
Total net assets (deficit)	<u>\$ (10,171,632)</u>	<u>768,439</u>	<u>(9,403,193)</u>

Changes in Net Assets

The Commonwealth's net deficit increased by \$1.6 billion or 21.1% from last year's total net deficit. Approximately 50% of the Commonwealth's total revenue came from taxes, while 29% resulted from grants and contributions (primarily federal financial assistance). Charges for various goods and services provided 12% of the total revenue. The Commonwealth's expenses cover a range of services. The largest expenses were for education and public housing and welfare. In 2002, governmental activities' expenses exceeded program revenue, resulting in the use of \$7.5 billion in general revenue (mostly taxes). On the other hand, program revenue from business-type activities in 2002 exceeded expenses by approximately \$95 million.

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis

Year ended June 30, 2002

Commonwealth of Puerto Rico's Changes in Net Assets – Primary Government (expressed in thousands)

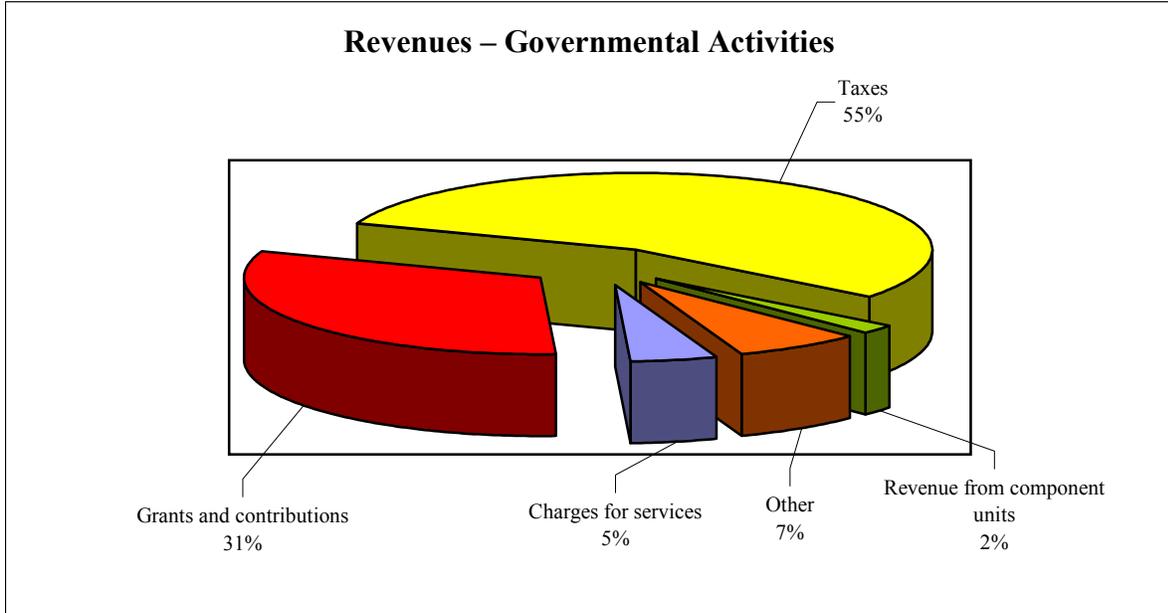
	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Revenue:			
Program revenue:			
Charges for services	\$ 535,423	1,021,070	1,556,493
Operating grants and contributions	3,400,729	26,509	3,427,238
Capital grants and contributions	187,512	—	187,512
	<u>4,123,664</u>	<u>1,047,579</u>	<u>5,171,243</u>
General revenue:			
Income taxes	4,446,570	—	4,446,570
Property taxes	102,554	—	102,554
Excise taxes	1,713,098	—	1,713,098
Other taxes	1,963	—	1,963
Revenue from component units	228,118	3,370	231,488
Other	775,852	80,775	856,627
	<u>7,268,155</u>	<u>84,145</u>	<u>7,352,300</u>
Total revenue	<u>11,391,819</u>	<u>1,131,724</u>	<u>12,523,543</u>
Expenses:			
General government	1,429,265	—	1,429,265
Public safety	1,883,061	—	1,883,061
Health	1,990,852	—	1,990,852
Public housing and welfare	2,803,742	—	2,803,742
Education	3,477,373	—	3,477,373
Economic development	632,083	—	632,083
Intergovernmental	467,957	—	467,957
Interest and other	646,120	16,902	663,022
Lotteries	—	603,768	603,768
Unemployment	—	331,754	331,754
	<u>13,330,453</u>	<u>952,424</u>	<u>14,282,877</u>
(Decrease) increase in net assets before transfers	(1,938,634)	209,123	(1,729,511)
Transfers	187,183	(187,183)	—
Special item – Puerto Rico Housing Bank and Finance Agency residual capital liquidation	123,785	—	123,785
Decrease in net assets	(1,627,666)	(7,883)	(1,635,549)
Net assets (deficit), beginning of year (as restated)	(8,543,966)	776,322	(7,767,644)
Net assets (deficit), end of year	<u>\$ (10,171,632)</u>	<u>768,439</u>	<u>(9,403,193)</u>

COMMONWEALTH OF PUERTO RICO

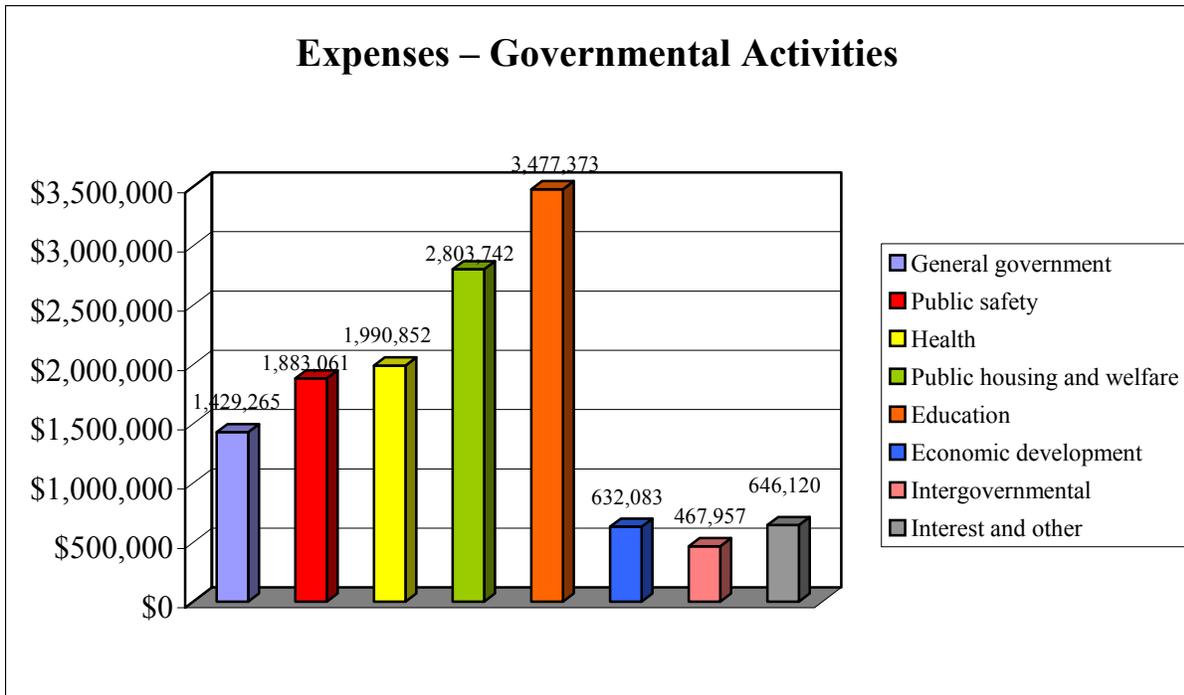
Management's Discussion and Analysis

Year ended June 30, 2002

**Revenue – Governmental Activities
Fiscal Year 2002**



**Expenses – Governmental Activities
Fiscal Year 2002**



COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis

Year ended June 30, 2002

Governmental Activities

Governmental activities increased the Commonwealth's net deficit to \$10.2 billion. The decrease in net assets by the business-type activities is explained below. A comparison of the cost of services by function for the Commonwealth's governmental activities is shown below, along with the revenue used to cover the net expenses of the governmental activities (expressed in thousands).

Governmental Activities – Expenses Net of Program Revenue

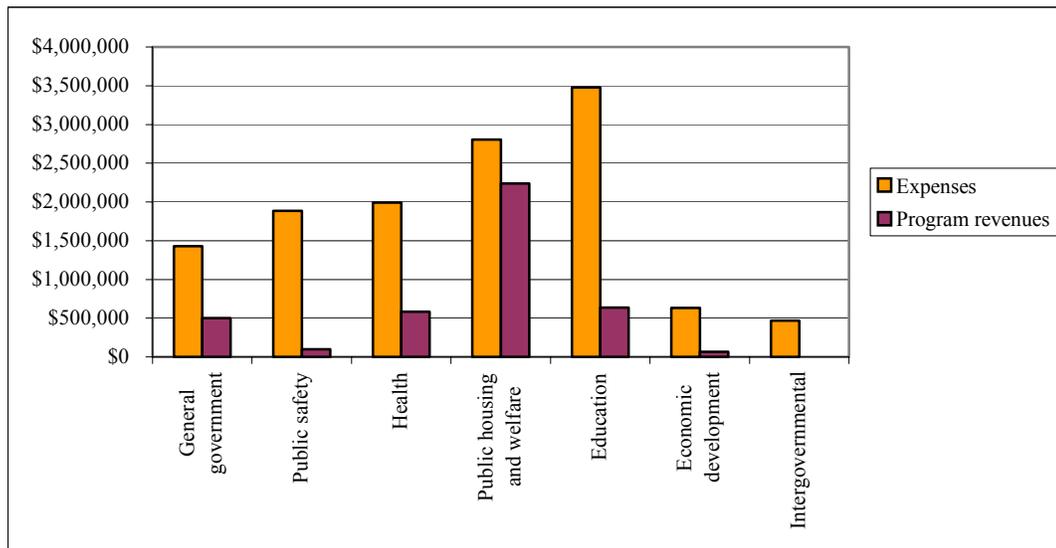
Expenses:	
General government	\$ (927,974)
Public safety	(1,784,065)
Health	(1,406,691)
Public housing and welfare	(564,690)
Education	(2,841,367)
Economic development	(567,925)
Intergovernmental	(467,957)
Interest and other	<u>(646,120)</u>
Total governmental activities net expenses	(9,206,789)
General revenue:	
Taxes	6,264,185
Revenue from component units	228,118
Special item – Puerto Rico Housing Bank and Finance Agency residual capital liquidation	123,785
Transfers	<u>187,185</u>
Other	<u>775,852</u>
Increase in governmental activities net deficit	<u>\$ (1,627,666)</u>

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis

Year ended June 30, 2002

Expenses and Program Revenue – Governmental Activities Fiscal Year 2002



Business-Type Activities

The business-type activities decreased the Commonwealth's net assets by \$7.9 million. This resulted predominantly from a \$33.5 million increase in net assets by the Commonwealth's Revolving Funds (nonmajor funds) offset by a \$47.6 million decrease in the net assets of the unemployment insurance fund. The Commonwealth's Revolving Funds represent loan funds which receive operating and capitalization grants from the U.S. Environmental Protection Agency and generate interest income through its lending activities. The net assets presented in this fund primarily represents the accumulation of interest earnings since the fund's inception.

FINANCIAL ANALYSIS OF THE COMMONWEALTH'S INDIVIDUAL FUNDS

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

Governmental Funds

The focus of the Commonwealth's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Commonwealth's governmental funds reported combined ending fund balance of \$1.1 billion, a decrease of \$43 million or 3.8% in comparison with the prior year. There is \$439 million of fund balance reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior fiscal year (\$305 million), (2) to pay debt service (\$34.8 million), or (3) for a variety of other restricted purposes (\$99 million).

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis

Year ended June 30, 2002

The general fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, unreserved fund deficit of the general fund was \$193 million, while the total fund balance reached \$173 million. The fund balance of the Commonwealth's general fund decreased by \$143.6 million as a result of the current fiscal year change in financial position. This is a 45.2% decrease from the prior year. Also, see additional related comments in the following section titled General Fund Budgetary Highlights.

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 assets decreased by \$7.9 million as a result of operations in the proprietary funds. This resulted from a \$47.6 million decrease (9.2% from prior year) in net assets by the unemployment insurance fund and an increase of net assets of \$39.7 million (15.2% from prior year) by the Commonwealth's other nonmajor enterprise funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget and the final amended budget remained substantially the same except for reclassification of expenditures made throughout the year. The fiscal year 2002 year-end general fund actual expenditures, including debt service, were \$8.542 billion, \$1.682 billion greater than the final budget. Such additional appropriations were made incrementally during the year. The additional appropriations, excluding the debt service, can be briefly summarized as follows:

- The Puerto Rico Land Administration received \$69.958 million in supplemental appropriations for increased expenses.
- The Department of Education received \$53.872 million in supplemental appropriations for increased expenses.
- The Department of Health received \$33.552 million in supplemental appropriations for increased expenses.
- The Puerto Rico General Court of Justice received \$19.726 million in supplemental appropriations for increased expenses.
- Five additional agencies received supplemental appropriations totaling \$66.168 million for increased expenses.

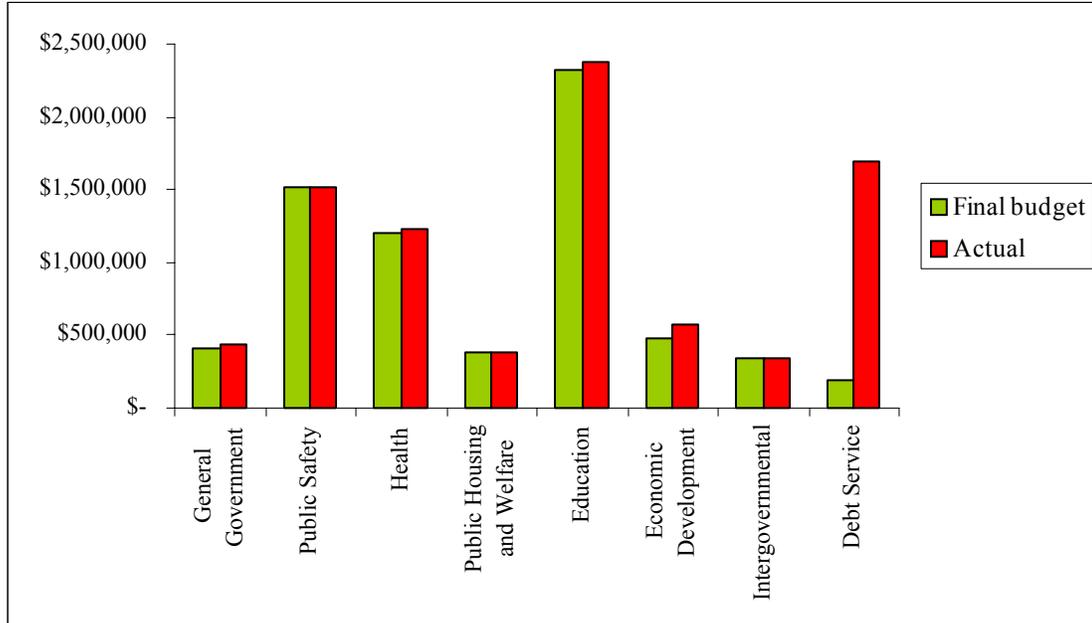
The excess debt service actual expenditures over the amended budget in the amount of approximately \$1.5 billion responds to the Commonwealth appropriation bonds refunding transaction discussed in the long-term debt highlights above.

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis

Year ended June 30, 2002

Expenditures – General Fund Budget vs. Actual Fiscal Year 2002



As of June 30, 2002, there was an excess of revenue and other sources over expenditures and other uses of \$257.7 million, resulting predominantly from a line of credit in the amount of \$268 million obtained to finance the 2001 general fund deficit.

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, 2002, amounts to \$7.1 billion, net of accumulated depreciation of \$1.7 billion, leaving a book value of \$5.4 billion. This investment in capital assets includes land, buildings, building improvements, equipment, and construction in progress.

The net book value of capital assets at June 30, 2002 is distributed by function/activity in the following proportions: general government, 8%; public safety, 12%; health, 4%; public housing and welfare, 44%; and education, 32%. Actual expenditures to purchase or construct capital assets were approximately \$508 million for the year. A significant portion of this amount was used to construct and reconstruct educational facilities. Depreciation charges for the year totaled \$151 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 OF PUERTO RICO

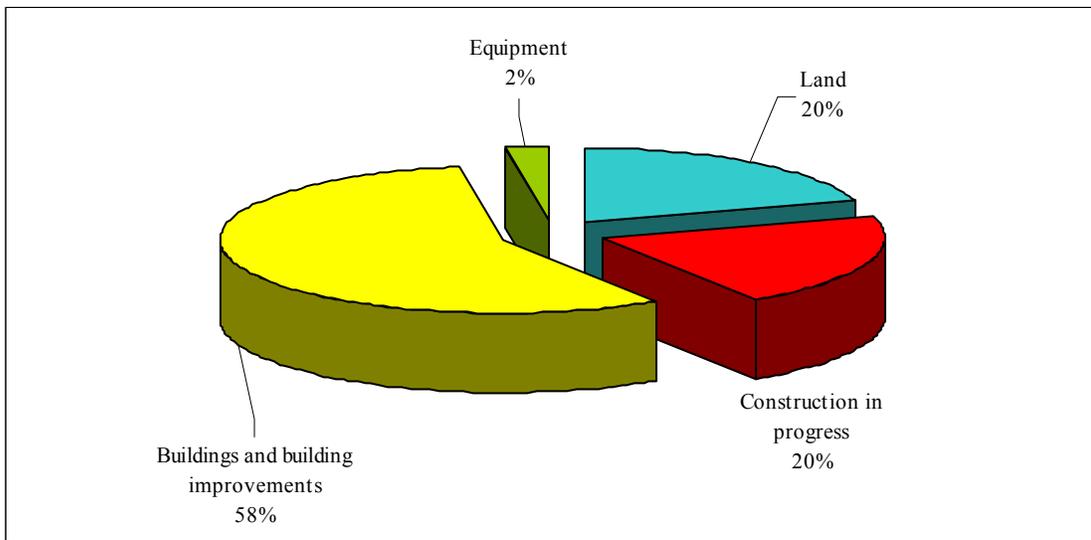
Management’s Discussion and Analysis

Year ended June 30, 2002

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 12 to the basic financial statements that accompany this report.

**Commonwealth’s Capital Assets – Primary Government
(expressed in thousands)**

	<u>Governmental activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 1,095,676	—	1,095,676
Construction in progress	1,104,049	—	1,104,049
Buildings and building improvements	3,066,081	—	3,066,081
Equipment	127,629	2,195	129,824
Total capital assets	\$ 5,393,435	2,195	5,395,630



Debt Administration

The authority of the Commonwealth to incur debt is described in Article X, Section 25, of the Constitution of the Commonwealth. In 1987, the Commonwealth created the Executive Bond Oversight Commission and the Legislative Bond Oversight Commission. The commissions meet jointly to review all proposed debt issuances. Both commissions must approve each financing plan before obligations are issued. The legislation that created the bond oversight commissions also created the position of Commonwealth Bond Advisor, who advises the commissions, and must approve the pricing and fees associated with any debt issuance.

General obligation bonds are backed by the full faith and credit of the Commonwealth, including the Commonwealth’s power to levy additional taxes to ensure repayment of the debt. Accordingly, all general obligation debt currently outstanding was approved by a vote of the citizens.

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis

Year ended June 30, 2002

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 (hereinafter, internal revenue) in the two fiscal years preceding the then current fiscal year. Section 2, Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded. At June 30, 2002, the Commonwealth is in compliance with the debt limitation requirement.

Moody's and Standard & Poor's have given the Commonwealth's bonds ratings of "Baal" and "A-", respectively. Ratings reflect only the respective views of the rating agencies and an explanation of the significance of each rating may be obtained only from the respective rating agency.

The Commonwealth's total long-term obligations increased by \$1.468 billion during the current fiscal year, representing an 8.8% increase. Additional information on the Commonwealth's long-term debt obligations can be found in note 14 to the basic financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the Commonwealth of Puerto Rico is currently 12.5%, which is an increase from a rate of 10.5% a year ago.

Based on the projections of the Commonwealth's Planning Board, the Puerto Rico economy is expected to reflect a real growth of 2.7% for the fiscal year 2003. In nominal terms, the projection of the Planning Board anticipates an increase of 6.8% for the next fiscal year.

The consolidated budget for the fiscal year 2002-03 amounts to \$21,849 million. From this amount, \$15,898 million is assigned to operating expenses, \$3,263 million to a permanent capital improvements program, and \$2,687 million for the debt service.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Commonwealth's finances for all of the Commonwealth's citizens, taxpayers, customers, and 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: Commonwealth of Puerto Rico, Área de Contabilidad Central, P.O. Box 9024140, San Juan, Puerto Rico 00902-4140.

COMMONWEALTH OF PUERTO RICO

Statement of Net Assets (Deficit)

June 30, 2002
(In thousands)

	Primary government			Component units
	Governmental activities	Business-type activities	Total primary government	
Assets				
Cash and cash equivalents	\$ 214,070	676,353	890,423	2,331,855
Cash and cash equivalents in governmental banks	815,885	77,299	893,184	199,711
Investments	251,710	—	251,710	5,473,235
Receivables, net of allowance for uncollectibles:				
Taxes	938,597	—	938,597	—
Unemployment, disability, and drivers' insurance premiums	—	63,037	63,037	—
Intergovernmental	246,717	—	246,717	58,323
Accounts	133,075	—	133,075	556,138
Loans	55,051	—	55,051	1,618,594
Accrued interest	5,157	3,812	8,969	150,407
Other	21,966	13,627	35,593	53,625
Due from:				
Primary government	—	—	—	15,730
Component units	275,336	23,336	298,672	750,475
Other governmental entities	2,702	—	2,702	255,005
Internal balances	34,861	(34,861)	—	—
Inventories	37,447	—	37,447	245,259
Prepaid expenses	5,501	—	5,501	50,919
Restricted assets:				
Cash and cash equivalents	81,582	—	81,582	620,522
Cash and cash equivalents in governmental banks	1,223,836	573	1,224,409	319,995
Investments and other restricted assets	33,731	317,532	351,263	4,361,928
Other long-term investments	—	—	—	1,561,809
Long-term receivables from:				
Intergovernmental	—	1,884	1,884	—
Loans	—	—	—	284,125
Other long-term amounts due from:				
Primary government	—	—	—	67,794
Component units	—	108,952	108,952	8,845
Real estate held for sale or future development	89,516	—	89,516	239,651
Deferred expenses and other assets	65,071	151	65,222	252,554
Capital assets, net of accumulated depreciation:				
Land and other nondepreciable assets	2,199,725	—	2,199,725	9,658,684
Depreciable assets	3,193,710	2,195	3,195,905	14,551,989
Total assets	\$ 9,925,246	1,253,890	11,179,136	43,687,172

COMMONWEALTH OF PUERTO RICO

Statement of Net Assets (Deficit), continued

June 30, 2002
(In thousands)

	Primary government			Component units
	Governmental activities	Business-type activities	Total primary government	
Liabilities				
Accounts payable and accrued liabilities	\$ 875,169	6,935	882,104	2,119,576
Deposits and escrow liabilities	—	—	—	4,876,733
Tax refunds payable	262,024	—	262,024	—
Due to:				
Primary government	—	—	—	298,672
Component units	13,317	—	13,317	509,612
Other governmental entities	—	—	—	45,061
Securities lending transactions and reverse repurchase agreements	—	—	—	434,397
Interest payable	273,400	—	273,400	361,933
Deferred revenue	72,034	24,387	96,421	97,364
Other current liabilities	112,928	—	112,928	—
Tax revenue anticipation notes payable	800,000	—	800,000	—
Due to primary government – long-term portion	—	—	—	108,952
Due to component units – long-term portion	—	—	—	255,752
Deferred revenue long-term portion	48,373	—	48,373	58,618
Unemployment benefits payable	—	150,088	150,088	—
Unpaid claims for automobile accident workers' compensation, and other insurance	—	—	—	1,050,508
Liabilities payable within one year:				
Commonwealth appropriation bonds	42,543	—	42,543	—
Bonds	242,878	—	242,878	616,330
Notes	1,157,613	950	1,158,563	607,669
Capital leases	10,969	—	10,969	—
Compensated absences	776,292	2,428	778,720	189,052
Lottery prizes	—	44,920	44,920	—
Other long-term liabilities	196,831	—	196,831	67,695
Liabilities payable after one year:				
Commonwealth appropriation bonds	2,797,362	—	2,797,362	986,184
Bonds	8,458,411	—	8,458,411	14,506,044
Notes	212,216	1,988	214,204	459,853
Capital leases	104,464	—	104,464	—
Compensated absences	417,504	1,508	419,012	279,347
Net pension obligation	3,220,050	—	3,220,050	—
Lottery prizes	—	252,247	252,247	—
Other long-term liabilities	2,500	—	2,500	394,467
Total liabilities	20,096,878	485,451	20,582,329	28,323,819
Net assets				
Invested in capital assets, net of related debt	1,909,137	310	1,909,447	11,963,748
Restricted for:				
Trust – nonexpendable	—	—	—	1,261,578
Capital projects	2,531	163,245	165,776	65,069
Debt service	—	—	—	991,093
Payment of unemployment and related benefits	—	606,559	606,559	—
Affordable housing and related loan insurance programs	2,085	—	2,085	369,830
Student loans and other educational purposes	—	—	—	56,804
Other	—	—	—	368,923
Unrestricted (deficit)	(12,085,385)	(1,675)	(12,087,060)	286,308
Total net assets (deficit)	\$ (10,171,632)	768,439	(9,403,193)	15,363,353

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Activities
 Year ended June 30, 2002
 (In thousands)

Functions	Expenses		Program revenue		Net (expense) revenue and changes in net assets		Component units
	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Primary government activities	Total	
Primary government:							
Governmental activities:							
General government	\$ 1,429,265	323,176	178,115	(927,974)	—	(927,974)	—
Public safety	1,883,061	35,895	63,101	(1,784,065)	—	(1,784,065)	—
Health	1,990,852	116,075	468,086	(1,406,691)	—	(1,406,691)	—
Public housing and welfare	2,803,742	27,831	2,085,000	(564,690)	—	(564,690)	—
Education	3,477,373	2,171	572,838	(2,841,367)	—	(2,841,367)	—
Economic development	632,083	30,275	33,589	(567,925)	—	(567,925)	—
Intergovernmental	467,957	—	—	(467,957)	—	(467,957)	—
Interest and other	646,120	—	—	(646,120)	—	(646,120)	—
Total governmental activities	13,330,453	535,423	3,400,729	(9,206,789)	—	(9,206,789)	—
Business-type activities:							
Lotteries	603,768	758,992	—	—	155,224	155,224	—
Unemployment	331,754	238,475	—	—	(93,279)	(93,279)	—
Other	16,902	23,603	26,509	—	33,210	33,210	—
Total business-type activities	952,424	1,021,070	26,509	—	95,155	95,155	—
Total primary government	\$ 14,282,877	1,556,493	3,427,238	(9,206,789)	95,155	(9,111,634)	—
Component units:							
Government Development Bank for Puerto Rico	\$ 622,767	533,282	251,673	—	—	—	216,936
Puerto Rico Highway and Transportation Authority	439,816	166,348	201,227	—	—	—	(72,241)
Puerto Rico Electric Power Authority	2,181,165	2,166,632	—	—	—	—	(14,533)
Puerto Rico Aqueduct and Sewer Authority	816,559	316,574	25,824	—	—	—	(474,161)
Puerto Rico Infrastructure Financing Authority	139,778	—	—	—	—	—	(139,778)
Puerto Rico Health Insurance Administration	1,365,476	348,979	—	—	—	—	(1,016,497)
University of Puerto Rico	1,020,220	163,637	207,264	—	—	—	(649,319)
Nonmajor component units total	1,865,533	1,309,523	16,290	30,537	—	—	(509,183)
Total component units	\$ 8,451,314	5,004,975	501,051	—	—	—	(2,658,776)
General revenue:							
Taxes:							
Income taxes				\$ 4,446,570	—	4,446,570	—
Property taxes				102,554	—	102,554	—
Excise taxes				1,713,098	—	1,713,098	346,601
Other taxes				1,963	—	1,963	—
Revenue from global tobacco settlement agreement				37,153	—	37,153	—
Revenue from Puerto Rico Telephone Authority				71,357	—	71,357	—
Revenue from Government Development Bank for Puerto Rico				35,300	—	35,300	—
Revenue from Puerto Rico Infrastructure Financing Authority				—	3,370	3,370	—
Revenue from Puerto Rico Aqueduct and Sewer Authority				27,851	—	27,851	—
Revenue from Tourism Company of Puerto Rico				66,504	—	66,504	—
Revenue from State Insurance Fund Corporation				27,126	—	27,126	—
Grants and contributions not restricted to specific programs				46,117	44,320	90,437	6,639
Payments from primary government				90,940	36,455	127,395	2,378,062
Unrestricted investment earnings				472,642	—	472,642	364,187
Other				—	—	—	106,581
Special item – Puerto Rico Housing Bank and Finance Agency residual capital liquidation				123,785	—	123,785	—
Transfers				187,183	(187,183)	—	—
Payment from agency fund				129,000	—	129,000	—
Total general revenue and transfers				7,579,123	(103,038)	7,476,085	3,202,070
Change in net assets (deficit)				(1,627,666)	(7,883)	(1,635,549)	543,294
Net assets (deficit) – beginning of year				(8,543,966)	776,322	(7,767,644)	14,820,059
Net assets (deficit) – end of year				(10,171,632)	768,439	(9,403,193)	15,363,353

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Balance Sheet – Governmental Funds

June 30, 2002
(In thousands)

Assets	General	Debt service	PBA capital projects	Other governmental funds	Total governmental funds
Cash:					
Cash and cash equivalents	\$ 164,449	—	—	49,621	214,070
Cash and cash equivalents in governmental banks	58,399	282,910	—	474,576	815,885
Investments	—	—	—	251,710	251,710
Receivables, net of allowance for uncollectibles					
Taxes	920,572	18,025	—	—	938,597
Intergovernmental	246,717	—	—	—	246,717
Accounts	120,229	—	—	12,846	133,075
Loans	55,015	—	—	36	55,051
Accrued interest	2,446	2,544	—	167	5,157
Other	21,966	—	—	—	21,966
Due from:					
Other funds	34,861	—	—	80,086	114,947
Component units	257,301	—	—	18,035	275,336
Other governmental entities	—	—	—	2,702	2,702
Restricted assets:					
Cash and cash equivalents	14,436	—	61,131	6,015	81,582
Cash and cash equivalents in governmental banks	998,661	—	89,217	135,958	1,223,836
Other restricted assets	33,731	—	—	—	33,731
Real estate held for sale	44,805	—	—	44,711	89,516
Total assets	\$ <u>2,973,588</u>	<u>303,479</u>	<u>150,348</u>	<u>1,076,463</u>	<u>4,503,878</u>

COMMONWEALTH OF PUERTO RICO

Balance Sheet – Governmental Funds, continued

June 30, 2002
(In thousands)

Liabilities and Fund Balances	General	Debt service	PBA capital projects	Other governmental funds	Total governmental funds
Liabilities:					
Accounts payable and accrued liabilities	\$ 732,586	—	99,864	42,719	875,169
Tax refunds payable	262,024	—	—	—	262,024
Due to:					
Other funds	80,086	—	—	—	80,086
Component units	13,317	—	—	—	13,317
Notes payable	89,849	—	—	—	89,849
Bonds payable	—	159,145	—	64,813	223,958
Interest payable	17,188	145,752	—	49,668	212,608
Deferred revenue	705,401	—	—	—	705,401
Tax revenue anticipation notes	800,000	—	—	—	800,000
Accrued compensated absences	—	—	—	8,192	8,192
Other liabilities	99,710	9,327	—	23,086	132,123
Total liabilities	2,800,161	314,224	99,864	188,478	3,402,727
Fund balances:					
Reserved for:					
Encumbrances	232,970	—	—	72,455	305,425
Debt service	34,824	—	—	—	34,824
Capital projects	2,732	—	—	—	2,732
Assets in liquidation	73,727	—	—	—	73,727
Long-term receivables	7,914	—	—	—	7,914
Low income housing assistance	14,391	—	—	—	14,391
Unreserved (deficit), reported in:					
General fund	(193,131)	—	—	—	(193,131)
Debt service funds	—	(10,745)	—	130,961	120,216
Special revenue funds	—	—	—	378,852	378,852
Capital projects funds	—	—	50,484	305,717	356,201
Total fund balances (deficit)	173,427	(10,745)	50,484	887,985	1,101,151
Total liabilities and fund balances	\$ 2,973,588	303,479	150,348	1,076,463	4,503,878

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Reconciliation of the Balance Sheet to the Statement of Net Assets Governmental Funds

June 30, 2002
(In thousands)

Amounts reported for governmental activities in the statement of net assets
are different because:

Total fund balances of governmental funds	\$ 1,101,151
Inventories and prepaid expenses that are not available to pay for current period expenditures, and therefore are not recognized in the funds	42,948
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds (beginning balance)	5,393,435
The difference between the proceeds of Qualified Zone Academic Bonds (QZAB Bonds) issued and the amounts paid to escrow agent to “early-defease” such bonds is deferred in the statement of net assets and amortized over the life of the QZAB Bonds. Since such difference did not provide current financial resources, it is not reported in the funds	(48,373)
Deferred revenue in governmental funds that are recognized as revenue in the governmental activities	633,367
Debt issued by the Commonwealth have associated costs that are paid from current available resources in the funds. However, these costs are deferred on the statement of net assets	49,298
Net pension asset of the Puerto Rico Judiciary Retirement System recognized in governmental activities is not a financial resource and therefore is not reported in the funds	15,773
Liabilities, including Commonwealth appropriation bonds, bonds payable, notes payable, capital leases payable, long-term portion of compensated absences and other long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(17,298,439)
Interest liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(60,792)</u>
Deficit of governmental activities	<u>\$ (10,171,632)</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Revenue, Expenditures, and Changes in Fund Balances –
Governmental Funds

Year ended June 30, 2002
(In thousands)

	<u>General</u>	<u>Debt service</u>	<u>PBA capital projects</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenue:					
Taxes:					
Income taxes	\$ 4,843,852	—	—	—	4,843,852
Property taxes	—	102,554	—	—	102,554
Excise taxes	1,713,098	—	—	—	1,713,098
Other taxes	1,963	—	—	—	1,963
Charges for services	535,423	—	—	—	535,423
Revenue from global tobacco settlement agreemen	—	—	—	37,153	37,153
Revenue from component units:					
Puerto Rico Telephone Authority	71,337	—	—	—	71,337
Government Development Bank for Puerto Ricc	35,300	—	—	—	35,300
Puerto Rico Aqueduct and Sewer Authority	—	26,816	—	1,035	27,851
Tourism Company of Puerto Rico	66,504	—	—	—	66,504
State Insurance Fund Corporation	27,126	—	—	—	27,126
Intergovernmental	3,634,358	—	—	—	3,634,358
Interest and investment earnings	61,623	4,197	—	25,120	90,940
Other	357,857	—	—	113,558	471,415
Total revenue	11,348,441	133,567	—	176,866	11,658,874
Expenditures:					
Current:					
General government	1,153,614	—	—	126,136	1,279,750
Public safety	1,659,280	—	—	—	1,659,280
Health	1,983,727	—	—	—	1,983,727
Public housing and welfare	2,726,129	—	—	—	2,726,129
Education	3,233,362	—	—	109,640	3,343,002
Economic development	637,794	—	—	—	637,794
Intergovernmental	450,043	16,126	—	—	466,169
Capital outlays	149,854	—	337,556	20,224	507,634
Debt service:					
Principal	1,658,263	323,369	—	80,427	2,062,059
Interest and other	148,793	285,305	—	130,022	564,120
Debt issuance costs	22,538	17,115	—	10,574	50,227
Total expenditures	13,823,397	641,915	337,556	477,023	15,279,891
Excess of expenditures over revenue	(2,474,956)	(508,348)	(337,556)	(300,157)	(3,621,017)
Other financing sources (uses):					
Transfers from other funds	406,687	274,773	210	285,265	966,935
Transfers to other funds	(366,080)	—	—	(413,672)	(779,752)
Notes payable issued	508,253	—	603,733	491,514	1,603,500
Discount on bonds issued	(2,334)	—	(13,741)	—	(16,075)
Commonwealth appropriation bonds issued	1,504,321	—	—	—	1,504,321
Refunding bonds issued	—	1,439,845	—	196,993	1,636,838
Payment to escrow agent	(47,235)	(1,422,730)	—	(195,846)	(1,665,811)
Payment from agency fund	129,000	—	—	—	129,000
Total other financing sources	2,132,612	291,888	590,202	364,254	3,378,956
Special item – Puerto Rico Housing Bank and Finance Agency residual capital liquidation	198,785	—	—	—	198,785
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	(143,559)	(216,460)	252,646	64,097	(43,276)
Fund balances (deficit), beginning of year (as restated)	316,986	205,715	(202,162)	823,888	1,144,427
Fund balances (deficit), end of year	\$ 173,427	(10,745)	50,484	887,985	1,101,151

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities – Governmental Funds

Year ended June 30, 2002
(In thousands)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances – total governmental funds	\$ (43,276)
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 as depreciation expense. This is the amount by which capital outlays (\$507,634) exceeded depreciation (\$151,470) in the current period	356,164
In the statement of activities, only the losses on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in the net asset differs from the change in fund balance by the cost of the asset sold	(9,868)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental fund	1,227
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds (\$4,728,584) exceeded repayments (\$3,727,870)	(1,000,714)
Income tax revenue that are not currently available are deferred in the governmental funds, but are accruable as revenue in the statement of activities. This is the amount by which deferred revenue decreased during the year	(397,282)
Governmental funds do not report transfers of long-term assets or liabilities because such transfers do not represent financial resources, however they are recorded in the statement of activities. This amount represents the assumption by the Commonwealth of a long-term line of credit from a former component unit (see note 21)	(75,000)
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. This amount represents the increase in inventory (\$37,447) and prepayments (\$5,501) for the year	42,948
Debt issuance costs are expenditures to governmental funds, but are deferred assets in the statement of net assets. This is the amount of debt issue costs for the year	50,227
Certain interest and other costs reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount equivalent to the increase in interest payable (\$60,792), combined with the amortization of debt issue costs (\$929), and the net accretion of debt issue discount (\$20,279)	(82,000)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditure in the governmental funds. This is the amount by which the net increases in net pension obligation (asset) (\$588,167), christmas bonus liability (\$13,726) and other liabilities (\$461) exceeded the net decreases in accrued compensated absences (\$5,916), liability in federal cost disallowances (\$53,241), and liability for legal claims and judgments (\$73,105)	(470,092)
Change in deficit of governmental activities	\$ <u>(1,627,666)</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Revenue and Expenditures – Budget and Actual –
Budget Basis – General Fund

Year ended June 30, 2002
(In thousands)

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue:				
Income taxes	\$ 5,063,000	5,063,000	4,778,800	(284,200)
Excise taxes	1,731,000	1,731,000	1,735,846	4,846
Other taxes	81,000	81,000	84,537	3,537
Charges for services	143,000	143,000	154,525	11,525
Intergovernmental	40,000	40,000	30,595	(9,405)
Revenue from component units:				
Puerto Rico Telephone Authority	—	—	71,399	71,399
Government Development Bank of Puerto Rico	—	—	10,000	10,000
Tourism Company of Puerto Rico	—	—	36,953	36,953
Other	284,000	284,000	283,302	(698)
Total revenue	<u>7,342,000</u>	<u>7,342,000</u>	<u>7,185,957</u>	<u>(156,043)</u>
Expenditures:				
Current:				
General government	604,807	405,707	425,665	(19,958)
Public safety	1,486,249	1,520,659	1,512,623	8,036
Health	1,156,252	1,205,486	1,232,738	(27,252)
Public housing and welfare	372,219	384,711	389,306	(4,595)
Education	2,277,212	2,322,163	2,373,121	(50,958)
Economic development	471,376	480,188	569,514	(89,326)
Intergovernmental	337,303	338,070	337,011	1,059
Debt service:				
Principal	101,697	101,697	1,570,585	(1,468,888)
Interest and other	101,280	101,280	112,163	(10,883)
Debt issuance cost	—	—	19,449	(19,449)
Total expenditures	<u>6,908,395</u>	<u>6,859,961</u>	<u>8,542,175</u>	<u>(1,682,214)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>433,605</u>	<u>482,039</u>	<u>(1,356,218)</u>	<u>(1,838,257)</u>
Other financing sources (uses):				
Transfers in	123,000	123,000	139,255	16,255
Transfer out	(556,605)	(605,039)	(583,809)	21,230
Notes payable issued	—	—	427,514	427,514
Commonwealth appropriation bonds issued	—	—	1,504,321	1,504,321
Discount on bonds issued	—	—	(2,334)	(2,334)
Payment from agency fund	—	—	129,000	129,000
Total other financing sources (uses)	<u>(433,605)</u>	<u>(482,039)</u>	<u>1,613,947</u>	<u>2,095,986</u>
Excess of revenue and other sources over expenditures and other uses	<u>\$ —</u>	<u>—</u>	<u>257,729</u>	<u>257,729</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Net Assets –
Proprietary Funds

June 30, 2002
(In thousands)

	Business-type activities – enterprise funds			
	Unemployment insurance	Lotteries	Other funds	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 561,406	14,921	100,026	676,353
Cash and cash equivalents in governmental banks	—	51,597	25,702	77,299
Accounts and loans receivable, net:				
Insurance premiums, net	58,657	—	4,380	63,037
Component units	—	—	23,336	23,336
Accrued interest	49	—	3,763	3,812
Other	7,786	5,399	442	13,627
Restricted cash in governmental banks	—	573	—	573
Restricted investments	—	30,788	34,497	65,285
Total current assets	627,898	103,278	192,146	923,322
Noncurrent assets:				
Loans receivable, excluding current portion, net:				
Component units	—	—	108,952	108,952
Intergovernmental	—	—	1,884	1,884
Restricted investments	—	252,247	—	252,247
Capital assets, net	—	2,195	—	2,195
Other	—	135	16	151
Total assets	627,898	357,855	302,998	1,288,751
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	—	5,551	1,384	6,935
Due to other funds	2,439	32,422	—	34,861
Deferred revenue	6,121	18,249	17	24,387
Compensated absences	—	1,662	766	2,428
Lottery prizes	—	44,920	—	44,920
Unemployment, disability and drivers' insurance benefits payable	149,129	—	959	150,088
Notes payable	—	950	—	950
Total current liabilities	157,689	103,754	3,126	264,569
Noncurrent liabilities:				
Compensated absences	—	1,231	277	1,508
Lottery prizes	—	252,247	—	252,247
Notes payable	—	1,988	—	1,988
Total liabilities	157,689	359,220	3,403	520,312
Net assets				
Invested in capital assets, net of related debt	—	310	—	310
Restricted for:				
Unemployment, disability, and drivers' insurance benefits	470,209	—	136,350	606,559
Capital projects	—	—	163,245	163,245
Unrestricted	—	(1,675)	—	(1,675)
Total net assets (deficit)	\$ 470,209	(1,365)	299,595	768,439

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Revenue, Expenses, and Changes in Net Assets –
Proprietary Funds

Year ended June 30, 2002
(In thousands)

	Business-type activities – enterprise funds			Total
	Unemployment insurance	Lotteries	Other funds	
Operating revenue:				
Insurance premiums	\$ 238,154	—	18,453	256,607
Lottery ticket sales	—	758,643	—	758,643
Interest	—	—	5,150	5,150
Other	321	349	—	670
Total operating revenue	<u>238,475</u>	<u>758,992</u>	<u>23,603</u>	<u>1,021,070</u>
Operating expenses:				
Unemployment, disability and drivers' insurance benefits	331,754	—	5,448	337,202
Lottery prizes	—	469,799	—	469,799
General, administrative and other operating expenses	—	133,969	11,454	145,423
Total operating expenses	<u>331,754</u>	<u>603,768</u>	<u>16,902</u>	<u>952,424</u>
Operating income (loss)	<u>(93,279)</u>	<u>155,224</u>	<u>6,701</u>	<u>68,646</u>
Nonoperating revenue (expenses):				
Contributions from federal government	44,320	—	26,509	70,829
Contributions from Puerto Rico Infrastructure Financing Authority	—	—	3,370	3,370
Investment earnings	35,590	—	865	36,455
Transfers from general fund	—	—	2,229	2,229
Transfers to general fund	(34,188)	(155,224)	—	(189,412)
Total nonoperating revenue (expenses)	<u>45,722</u>	<u>(155,224)</u>	<u>32,973</u>	<u>(76,529)</u>
Change in net assets	(47,557)	—	39,674	(7,883)
Net assets (deficit) at beginning of year (as restated)	<u>517,766</u>	<u>(1,365)</u>	<u>259,921</u>	<u>776,322</u>
Net assets (deficit) at end of year	<u>\$ 470,209</u>	<u>(1,365)</u>	<u>299,595</u>	<u>768,439</u>

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO

Statement of Cash Flows –
Proprietary Funds

Year ended June 30, 2002
(In thousands)

	Business-type activities – enterprise funds			
	Unemployment insurance	Lotteries	Other funds	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 240,371	757,642	17,628	1,015,641
Other receipts	321	—	—	321
Payments to suppliers and employees	—	(572,226)	(8,454)	(580,680)
Payments of unemployment, disability, and drivers' insurance benefits	(315,336)	—	(5,783)	(321,119)
Principal collected on loans	—	—	85	85
Loans originated	—	—	(30,988)	(30,988)
Management fees paid	—	—	(1,226)	(1,226)
Net cash provided by (used in) operating activities	<u>(74,644)</u>	<u>185,416</u>	<u>(28,738)</u>	<u>82,034</u>
Cash flows from noncapital financing activities:				
Intergovernmental grants and contributions	44,320	—	26,509	70,829
Transfers from general fund	—	—	5,600	5,600
Proceeds from issuance of notes payable to component units	—	1,053	—	1,053
Operating transfers to general fund	(34,188)	(155,224)	—	(189,412)
Net cash provided by (used in) noncapital financing activities	<u>10,132</u>	<u>(154,171)</u>	<u>32,109</u>	<u>(111,930)</u>
Cash flows from capital and related financing activities:				
Purchase of equipment	—	(29)	—	(29)
Principal payments – notes payable	—	(638)	—	(638)
Net cash used in capital and related financing activities	<u>—</u>	<u>(667)</u>	<u>—</u>	<u>(667)</u>
Cash flows from investing activities:				
Proceeds from sales and maturities of investments	—	—	2	2
Interest received on deposits and investments	35,640	—	2,938	38,578
Purchases of investments	—	(11,508)	(42)	(11,550)
Net cash provided by (used in) investing activities	<u>35,640</u>	<u>(11,508)</u>	<u>2,898</u>	<u>27,030</u>
Net increase (decrease) in cash and cash equivalents	(28,872)	19,070	6,269	(3,533)
Cash and equivalents at beginning of year	590,278	48,021	119,459	757,758
Cash and cash equivalents at end of year	\$ <u>561,406</u>	<u>67,091</u>	<u>125,728</u>	<u>754,225</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (93,279)	155,224	6,701	68,646
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	—	359	—	359
Decrease (increase) in accounts and loans receivable	382	(1,350)	(33,086)	(34,054)
Interest earned on deposits loans and investments	(34,187)	—	(2,872)	(37,059)
Changes in operating assets and liabilities:				
Increase in other assets	—	(108)	(12)	(120)
Increase in accounts payable and accrued liabilities	—	604	920	1,524
Increase in due to other funds	29,815	13,303	—	43,118
Increase in deferred revenue	4,068	5,255	8	9,331
Increase (decrease) in compensated absences	—	1,858	(90)	1,768
Increase in obligation for unpaid lottery awards	—	10,271	—	10,271
Increase (decrease) in unemployment benefits payable	18,557	—	(307)	18,250
Total adjustments	<u>18,635</u>	<u>30,192</u>	<u>(35,439)</u>	<u>13,388</u>
Net cash provided by (used in) operating activities	\$ <u>(74,644)</u>	<u>185,416</u>	<u>(28,738)</u>	<u>82,034</u>
Schedule of noncash capital financing, noncapital financing, and investing activities				
Noncash investing activities – increase in fair value of investments	\$ —	—	866	866

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO

Statement of Fiduciary Net Assets – Fiduciary Funds

June 30, 2002
(In thousands)

Assets	Pension trust funds	Agency fund
	<u> </u>	<u> </u>
Cash and cash equivalents:		
Unrestricted	\$ 72,429	396,818
Restricted	2,236	—
Cash and cash equivalents in governmental banks:		
Unrestricted	108,424	205,883
Restricted	4,928	—
Investments:		
Debt and equity securities	3,068,294	11,780
Investment in PRTA Holdings, at appraised value	383,180	—
Other	34,037	—
Receivables, net:		
Accounts	47,452	14,904
Loans and advances	614,782	—
Accrued interest and dividends	46,147	—
Other	32,879	—
Other assets	43,391	533
	<u>4,458,179</u>	<u>629,918</u>
Liabilities		
Accounts payable and accrued liabilities	170,997	629,918
Securities lending transactions	42,323	—
Bonds payable	23,653	—
Notes payable	14,000	—
	<u>250,973</u>	<u>629,918</u>
Net Assets		
Net assets held in trust for pension and other benefits	\$ <u>4,207,206</u>	<u>—</u>

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, 2002

(In thousands)

Additions:	
Contributions:	
Sponsor	\$ 405,405
Participants	361,105
Special	32,387
Total contributions	<u>798,897</u>
Additions:	
Interests	143,386
Dividends	37,030
Net decrease in fair value of investments, including realized losses on sale and maturities of investments	(541,725)
Investment expenses	(10,400)
Total investment loss	<u>(371,709)</u>
Other income	<u>16,842</u>
Total additions	<u>444,030</u>
Deductions:	
Pension and other benefits	935,074
Refunds of contributions	37,194
General and administrative expenses	46,857
Total deductions	<u>1,019,125</u>
Net decrease in net assets held in trust for pension and other benefits	(575,095)
Net assets held in trust for pension and other benefits:	
Beginning of year	<u>4,782,301</u>
End of year	<u>\$ 4,207,206</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Assets – Major Component Units

June 30, 2002
(In thousands)

	Government Development Bank for Puerto Rico	Puerto Rico Highway and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Health Insurance Administration	University of Puerto Rico	Nonmajor component unit	Total component unit
Assets									
Current assets:									
Cash and cash equivalents	\$ 1,906,218	33,665	165,255	14,173	—	16,051	19,830	176,663	2,331,855
Cash and cash equivalents in governmental banks	—	22	—	3,623	14,836	7,513	73,080	100,637	199,711
Investments, including collateral from securities lending transactions	2,570,394	—	—	—	622,606	—	128,824	2,151,411	5,473,235
Receivables, net:									
Intergovernmental	19,898	5,414	—	3,213	—	4,529	21,217	4,052	58,323
Accounts	—	5,175	309,647	47,137	722	—	8,826	184,631	556,138
Loans	1,579,259	—	—	—	—	—	—	39,335	1,618,594
Accrued interest	101,701	3,794	3,482	—	20,512	28	—	20,890	150,407
Other governmental entities	250	—	108,428	24,141	—	—	23,698	98,488	255,005
Other	—	—	—	—	—	13,128	11,986	28,511	53,625
Due from:									
Primary government	—	—	6,327	—	—	—	7,570	1,833	15,730
Component units	651,611	3,296	17,121	—	—	—	11,439	67,008	750,475
Inventories	—	—	195,779	11,701	—	—	6,629	31,150	245,259
Prepaid expenses	—	3,655	20,420	—	1,569	—	14,853	10,422	50,919
Total current assets	6,829,331	55,021	826,459	103,988	660,245	41,249	327,952	2,915,031	11,759,276
Noncurrent assets:									
Restricted assets:									
Cash and cash equivalents	78,243	19,649	303,054	495	49,763	—	—	169,318	620,522
Cash and cash equivalents in governmental banks	—	45,455	—	27,095	78,996	—	2,031	166,418	319,995
Investments and other restricted assets	1,697,470	867,717	603,731	—	—	—	20,242	1,172,768	4,361,928
Other long-term investments	—	—	—	—	1,244,443	—	—	317,366	1,561,809
Receivables:									
Loans	—	—	—	—	—	—	2,647	281,478	284,125
Due from:									
Primary government	—	—	36,754	—	—	—	31,040	—	67,794
Component units	—	—	—	—	—	—	—	8,845	8,845
Real estate held for sale or future development	35,244	—	—	—	—	—	350	204,057	239,651
Capital assets, not being depreciated	4,220	6,326,117	1,216,885	281,455	654,651	—	166,752	1,008,604	9,658,684
Capital assets depreciable, net	12,405	5,504,164	3,142,514	4,116,673	495	661	388,366	1,386,711	14,551,989
Deferred expenses and other assets	19,532	75,199	66,560	21,498	22,248	13	—	47,504	252,554
Total noncurrent assets	1,847,114	12,838,301	5,369,498	4,447,216	2,050,596	674	611,428	4,763,069	31,927,896
Total assets	\$ 8,676,445	12,893,322	6,195,957	4,551,204	2,710,841	41,923	939,380	7,678,100	43,687,172

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Assets – Major Component Units, continued
June 30, 2002
(In thousands)

	Government Development Bank for Puerto Rico	Puerto Rico Highway and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Health Insurance Administration	University of Puerto Rico	Nonmajor component units	Total component units
Liabilities									
Current liabilities:									
Accounts payable and accrued liabilities	\$ 189,811	310,370	392,861	219,949	62,778	28,131	78,852	836,824	2,119,576
Deposits and escrow liabilities	4,162,700	—	133,510	6,233	—	—	—	574,290	4,876,733
Due to:									
Primary government Component units	237,027	—	—	23,336	—	—	—	38,309	298,672
Other governmental entities	—	—	—	31,979	2,117	—	508	475,008	509,612
Securities lending transactions and reverse repurchase agreements	—	—	11,645	20,288	—	—	—	13,128	45,061
Interest payable	170,000	—	—	—	—	—	—	264,397	434,397
Deferred revenue	15,382	112,625	123,183	20,193	39,735	—	212	50,603	361,933
Notes payable, current portion	—	—	—	—	—	—	—	97,364	97,364
Bonds payable, current portion	398,746	—	125,000	—	—	—	—	83,923	607,669
Accrued compensated absences	129,809	81,925	280,070	1,296	23,935	—	20,185	79,110	616,330
Unpaid claims for automobile accident, workers' compensation, and other insurance	3,244	—	73,987	29,033	123	—	16,512	66,153	189,052
Current portion of other long-term liabilities	—	13,292	19,481	—	—	185	310	1,050,323	1,050,508
Total current liabilities	5,306,719	518,212	1,159,737	352,307	128,688	28,333	116,579	3,664,027	11,274,602
Noncurrent liabilities:									
Due to:									
Primary government Component units	—	—	—	108,952	—	—	—	—	108,952
Deferred revenue	—	—	41,422	—	9,816	—	17,000	228,936	255,752
Notes payable	—	300,000	5,000	—	—	—	—	17,196	58,618
Commonwealth appropriation bonds	10,029	—	—	712,130	10,331	—	—	154,853	459,853
Bonds payable	1,357,509	4,400,490	4,347,858	833,174	1,984,440	—	430,326	253,694	986,184
Accrued compensated absences	—	19,627	120,412	19,475	108	626	90,422	1,152,247	14,506,044
Other long-term liabilities	—	18,000	29,183	56,469	—	15	43,590	28,677	279,347
Total noncurrent liabilities	1,367,538	4,738,117	4,543,875	1,730,200	2,004,695	641	581,338	2,082,813	394,467
Total liabilities	6,674,257	5,256,329	5,703,612	2,082,507	2,133,383	28,974	697,917	5,746,840	28,323,819
Net Assets									
Invested in capital assets, net of related debt	16,625	7,169,108	113,475	2,698,448	210,156	629	151,908	1,603,399	11,963,748
Restricted for:									
Trust – nonexpendable	—	—	—	—	1,261,578	—	—	—	1,261,578
Capital projects	—	27,771	—	—	8,240	—	5,196	23,862	65,069
Debt service	45,868	410,098	367,351	—	10,098	—	38,898	118,780	991,093
Affordable housing and related loan insurance programs	369,830	—	—	—	—	—	—	—	369,830
Student loans and other educational purposes	—	—	—	—	—	—	56,804	—	56,804
Other specified purposes	1,569,865	30,016	11,519	(255,437)	14,606	12,320	(11,343)	328,631	368,923
Unrestricted	—	—	—	—	(927,220)	—	—	(143,412)	286,308
Total net assets	2,002,188	7,636,993	492,345	2,468,697	577,458	12,949	241,463	1,931,260	15,363,353

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Activities
Major Component Units

Year ended June 30, 2002
(In thousands)

Component units	General revenue and transfers												
	Expenses	Charges for services	Program revenue	Net revenue (expenses) and changes in net assets	Payments from primary government	Payments from (to) other component units	Grants and contributions not restricted to specific programs	Taxes	Interest and investment earnings	Miscellaneous	Change in net assets	Net assets, beginning of year	Net assets, end of year
Government Development Bank for Puerto Rico	\$ 622,767	533,282	251,673	216,936	—	—	—	—	760	—	217,696	1,784,492	2,002,188
Puerto Rico Highway and Transportation Authority	439,816	166,348	—	(72,241)	—	—	—	313,807	33,207	—	274,773	7,362,220	7,636,993
Puerto Rico Electric Power Authority	2,181,165	2,166,632	—	(14,533)	—	—	—	—	25,766	16,557	27,790	464,555	492,345
Puerto Rico Aqueduct and Sewer Authority	816,559	316,574	25,824	(474,161)	147,981	128,849	—	—	—	5,546	(191,785)	2,660,482	2,468,697
Puerto Rico Infrastructure Financing Authority	139,778	—	—	(139,778)	90,071	(128,849)	—	—	142,202	—	(36,354)	613,812	577,458
Puerto Rico Health Insurance Administration	1,365,476	348,979	—	(1,016,497)	1,010,041	—	—	—	3,842	5,265	2,651	10,298	12,949
University of Puerto Rico	1,020,220	163,637	207,264	(649,319)	672,291	—	3,789	—	1,970	38	28,769	212,694	241,463
Nonmajor component units total	1,865,533	1,309,523	16,290	(509,183)	457,678	—	2,850	32,794	156,440	79,175	219,754	1,711,506	1,931,260
Total component units	\$ 8,451,314	5,004,975	501,051	(2,658,776)	2,378,062	—	6,639	346,601	364,187	106,581	543,294	14,820,059	15,363,353

See accompanying notes to basic financial statements.

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(1) Summary of Significant Accounting Policies

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

The accompanying basic financial statements of the Commonwealth have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). This statement establishes new financial reporting requirements for state and local governments. The Commonwealth adopted the provisions of GASB No. 34 as well as other statements referred to below as of July 1, 2001. They require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected. With the implementation of GASB No. 34, the Commonwealth has prepared required supplementary information titled Management's Discussion and Analysis, which precedes the basic financial statements.

As previously mentioned, other GASB Statements and Interpretations were required to be implemented in conjunction with GASB No. 34. Therefore, the Commonwealth has implemented the following GASB Statements in the current fiscal year: GASB Statement No. 35 – *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, GASB Statement No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, GASB Statement No. 38 – *Certain Financial Statement Note Disclosures*, and Interpretation No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

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, 2002, and for the year then ended. The basic financial statements include the various departments, agencies, boards, commissions, public trusts, and public corporations and any other organizational units governed by the Puerto Rico Legislature and/or officers of the Commonwealth.

(a) *The Financial Reporting Entity*

The accompanying basic financial statements include all departments, agencies, and governmental entities whose funds are under the custody and control of the Secretary of the Treasury of the Commonwealth, and the Commonwealth's component units pursuant to Act No. 230 of July 23, 1974, as amended, known as Commonwealth of Puerto Rico Accounting Law. The Commonwealth has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Commonwealth to impose its will on that organization or (2) the potential for the

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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 and incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Commonwealth's balances and transactions; or discrete presentation of the component units' financial data in columns separate from the Commonwealth's balances and transactions. The Commonwealth can impose its will on each of the component units through appointment of their governing authorities. The financial statements of the component units discussed below have been included in the financial reporting entity either as blended component units or as discretely presented component units in accordance with GASB Statement No. 14, *The Financial Reporting Entity* (GASB No. 14).

Blended Component Units

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

Public Buildings Authority (PBA) – The PBA is governed by a seven-member board of which the Secretary of the Department of Transportation and Public Works (DTPW) is a permanent member and the other six members are appointed by the Governor with the advice and consent of the Senate. These members are appointed for a period of five years. 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) – The PRMSA is governed by the President of the Government Development Bank for Puerto Rico (GDB). The operations of PRMSA consist of servicing the long-term liability to third parties that resulted from the sale of certain maritime operations formerly owned and operated by PRMSA. The Commonwealth is required to annually appropriate funds in its general operating budget to provide for the payment of principal and interest on such debt [see note 14(d)].

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The Children's Trust (the Trust) – The Trust is governed by a seven-member board comprised by the Governor of Puerto Rico, who is the Chairman, the President of GDB, the Director of the Office of Management and Budget (OMB), the Secretary of Justice, and three private citizens appointed by the Governor with the 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 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 dated November 23, 1998, between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth.

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

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

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

Discretely Presented Component Units

The following component units, consistent with GASB No. 14, are discretely presented in the financial statements because of the nature of the services they provide and the Commonwealth's ability to impose its will. These have been classified by management between major and nonmajor component units.

Major Component Units

GDB – GDB is governed by a seven-member board appointed by the Governor. GDB acts as fiscal agent, depository of funds, disbursing agent, 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 public corporations and the Commonwealth's municipalities.

Puerto Rico Highway and Transportation Authority (PRHTA) – The PRHTA is governed by the Secretary of the 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 toll highway system, undertakes major repairs, and maintains the toll ways.

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Puerto Rico Electric Power Authority (PREPA) – PREPA is governed by a nine-member board. Seven members are appointed by the Governor with the advice and consent of the Senate, and the remaining two members represent the consumers' interest and are 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 of Puerto Rico and owns and operates the Commonwealth's electrical power generation and distribution system.

Puerto Rico Aqueduct and Sewer Authority (PRASA) – PRASA is governed by a nine-member board composed by five members appointed by the Governor, the Secretary of DTPW, the President of GDB, and two members elected in a referendum carried out by the Puerto Rico Consumer Affairs Department. PRASA owns and operates the system of public water supply and sanitary sewer facilities. PRASA is authorized, among other things, to borrow money and issue revenue bonds for any of its corporate purposes. Through the approval of Act No. 328 of 1998, PRASA was authorized to enter into privatization contracts for the administration of its operations. As discussed in note 15 (a), the Commonwealth guarantees the principal and interest payments of certain outstanding bonds and of all future bonds issued to refinance those outstanding bonds, and other loans under the State Revolving Fund Program.

Puerto Rico Infrastructure Financing Authority (PRIFA) – PRIFA is governed by the board of directors of GDB and the Secretary of the Treasury of the Commonwealth. Its responsibilities are to provide financial, administrative, consulting, technical, advisory, and other types of assistance to other component units and governmental instrumentalities of the Commonwealth, which are authorized to develop infrastructure facilities and to establish alternate means for financing them.

Puerto Rico Health Insurance Administration (PRHIA) – PRHIA is governed by a seven-member board comprised of the Secretary of Health of the Commonwealth, the Secretary of the Treasury of the Commonwealth, the Insurance Commissioner of Puerto Rico, and four additional members appointed by the Governor, with the consent of the Senate, including two professionals with competence in the insurance industry and health services, and two representing the public interest. 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.

University of Puerto Rico (UPR) – The UPR is governed by a nine-member board of trustees comprised of the Secretary of Education of the Commonwealth and eight members, including one full-time student and two professors, representing the public interest in higher education that are appointed by the Governor with the advice and consent of the Senate. Board members are appointed for a period of six years. The terms for the student and professors are of one year.

Nonmajor Component Units

Agricultural Services and Development Administration (ASDA) – The ASDA is governed by the Secretary of Agriculture of the Commonwealth. The purpose of ASDA is to provide a wide variety of services and incentives to the agricultural sector.

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Automobile Accident Compensation Administration (AACA) – The AACA is governed by a five-member board comprised of one member of the Cabinet of the Governor and four members 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.

Caribbean Basin Projects Financing Authority (CBPFA) – The CBPFA is governed by a seven-member board consisting of the Secretary of State of the Commonwealth, the Economic Development Administrator, the President of GDB, the President of Economic Development Bank for Puerto Rico and three citizens, including at least two from the private sector, appointed by the Governor with the advice and consent of the Senate. CBPFA is authorized to issue revenue bonds and to loan the proceeds thereof to finance projects for the development of the Caribbean Basin countries that were authorized to receive investments of funds under the provisions of Section 936 of the U.S. Internal Revenue Code.

Corporation for the Development of the Arts, Sciences, and Film Industry of Puerto Rico (CDASFIPR) – The CDASFIPR is governed by an eleven-member board of directors comprised, among others, of the Secretary of Economic Development and Commerce, the Chairman of the Board of the Puerto Rico Public Broadcasting Corporation, the Secretary of the Treasury of the Commonwealth, the Executive Director of the Institute of Puerto Rican Culture (IPRC), and three private citizens, appointed by the Governor with the advice and consent of the Senate. At least two of these private citizens must have proven interest, knowledge, and experience in arts, sciences, and the film industry. CDASFIPR was created with the purpose of developing the production of local films in Puerto Rico.

Economic Development Bank for Puerto Rico (EDB) – EDB is governed by a nine-member board comprised of the President of GDB, who is the Chairman, the Secretary of Agriculture of the Commonwealth, an officer from the Department of Economic Development and Commerce, the Executive Director of the Puerto Rico Industrial Development Company, the Executive Director of the Tourism Company of Puerto Rico, and four other members representing the private sector and appointed by the Governor with the consent of the Senate. Private sector members are appointed for a 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, 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.

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

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

Fine Arts Center Corporation (FACC) – The FACC is governed by the board of directors of the IPRC. FACC was created with the purpose of administering the Fine Arts Center.

Governing Board of the 9-1-1 Service (911 Service) – The Governing Board of 9-1-1 Service (the Board) is comprised of the Commissioner of Security and Public Protection, 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-official members to represent the public interest. The 911 Service is responsible for providing an efficient service of fast response to emergency calls through the 9-1-1 number and transferring these to the appropriate response agencies using technological and human resources to safeguard lives and properties.

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

Institutional Trust of the National Guard of Puerto Rico (ITNGPR) – The ITNGPR is administered by a seven-member board comprised of the Adjutant General of the Puerto Rico National Guard, who is the chairman, the President of GDB, or an officer appointed by him, who is the vice-chairman, the Secretary of Justice of the Commonwealth, and four members of the Puerto Rico National Guard appointed by the Governor, including three from the armed forces as per recommendation from the Adjutant General and one community representative. 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.

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

Musical Arts Corporation (MAC) – The MAC is governed by a seven-member board appointed by the Governor with the consent of the Senate including the president of the board of IPRC. MAC was created to promote the development of the arts and cultural programs of the Commonwealth.

National Parks Company of Puerto Rico (NPCPR) – The NPCPR is governed by a nine-member board comprised of the Secretary of Recreation and Sports of the Commonwealth (the Secretary), who is the chairman, the Secretary of Education of the Commonwealth, the Executive Director of the Tourism Company of Puerto Rico (TCPR), the Secretary of Natural and Environmental Resources of the Commonwealth, or any officer appointed by their respective agencies, and five members appointed by the Governor with the recommendation of the Secretary and with recognized interest

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and trajectory in the development and preservation of parks in the private sector. The NPCPR is responsible for the operation of all national parks and the protection, conservation, and use of parks, beaches, forests, natural, and historical monuments for the optimum enjoyment of present and future generations.

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (PCSDIPRC) – The PCSDIPRC (formerly the Corporation of Stock and Deposit Insurance for the Savings and Loans Cooperatives) is governed by a nine-member board consisting of the Commissioner of Financial Institutions of Puerto Rico, the Insurance Commissioner of Puerto Rico, the Administrator of the Cooperative Development Administration, the Secretary of the Treasury of the Commonwealth, the Director of OMB, the President of GDB, two citizens representing the cooperative movement, 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, for monitoring the financial condition of the insured cooperatives, and of uninsured cooperatives when requested by the Commissioner of Financial Institutions of Puerto Rico.

Puerto Rico and Caribbean Cardiovascular Center Corporation (PRCCCC) – The PRCCCC is governed by a five-member board comprised 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 two additional members appointed by the Governor with the consent of the Senate, one of which should be from the Cardiology Society of Puerto Rico and another a member of a cardiology foundation properly registered in the Department of State of the Commonwealth. The purpose of the PRCCCC is to provide special treatment to patients suffering from cardiovascular diseases.

Puerto Rico Conservatory of Music Corporation (PRCMC) – The PRCMC is governed by a seven-member board appointed by the Governor. 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.

Puerto Rico Convention Center District Authority (PRCCDA) – The PRCCDA is governed by a board comprised of nine members, three of which shall be from the public sector and six of which shall be from the private sector. The public sector members are comprised of the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Executive Director of the Puerto Rico Tourism Company, and the Mayor of the Municipality of San Juan. The private sector members are individuals having experience in the areas of hospitality, tourism, real estate, or convention centers who are appointed by the Governor with the advice and consent of the Senate. PRCCDA was created to develop, own, finance, plan, design, construct, operate, manage, and promote the new Puerto Rico Convention Center, currently under development.

Puerto Rico Council on Higher Education (PRCHE) – The PRCHE is governed by a board comprised of eight members appointed by the Governor with the advice and consent of the Senate

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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.

Puerto Rico Exports Development Corporation (PREDC) – The PREDC is governed by the board of GDB. PREDC's purpose is to encourage the economic development of Puerto Rico by promoting the export of products and services of Puerto Rico to other countries and maintaining commercial facilities for lease to the public and private sector.

Puerto Rico Government Investment Trust Fund (PRGITF) – The 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, the financial statements of the PRGITF are not included in the accompanying basic financial statements because each primary government and component unit investor is already presenting as cash or investment their corresponding share of the assets of the PRGITF (see note 4).

Puerto Rico Industrial Development Company (PRIDCO) – PRIDCO is governed by a seven-member board comprised of the Secretary of Economic Development and Commerce of Puerto Rico, 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 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 also administers the Special Incentives Program. This program provides governmental funds, appropriated by the Legislature, for reimbursement to manufacturers for allowable start-up costs or for improvement in infrastructure that results in better manufacturing facilities.

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

Puerto Rico Land Administration (PRLA) – The PRLA is governed by an eleven-member board comprised of the Governor of Puerto Rico, who serves as president, the Secretary of the Treasury of

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the Commonwealth, the Secretary of Agriculture of the Commonwealth, the Secretary of DTPW of the Commonwealth, the Secretary of Housing of the Commonwealth, the Economic Development Administrator, the President of the Planning Board, and four other 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.

Puerto Rico Maritime Transportation Authority (PRMTA) – The PRMTA is under the control of the Secretary of DTPW of the Commonwealth. Its purpose is to administer and operate the maritime transportation services (ferries operations) formerly operated by the Puerto Rico Ports Authority.

Puerto Rico Medical Services Administration (PRMSA) – The PRMSA is governed by a ten-member board comprised of the Secretary of Health of the Commonwealth, who is the Chairman, the Dean of the Medical Sciences Faculty of the UPR, the President of Board of the Puerto Rican Cancer Society, the Mayor of the Municipality San Juan, the Administrator of the State Insurance Fund Corporation (SIFC), the Secretary of the Department of Family Affairs of the Commonwealth, the Administrator of the Administration of Mental Health and Anti-Addiction Services, the President of the Medical Policy and Administration Committee, and two consumers appointed by the Secretary of Health of the Commonwealth. It was created to plan, organize, operate, and administer the centralized health services, provided in support of the hospital and other functions offered by the member institutions and users of the medical complex known as the Puerto Rico Medical Center.

Puerto Rico Metropolitan Bus Authority (PRMBA) – The PRMBA is governed by the Secretary of Transportation and Public Works of the Commonwealth. PRMBA provides transportation to passengers within the San Juan Metropolitan Area. This service is financed by Commonwealth and federal government appropriations and passenger fares.

Puerto Rico Municipal Finance Agency (PRMFA) – The PRMFA is governed by a five-member board comprised of the President of GDB, who is the Chairman, 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) – The 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 Economic Development Administrator, the Executive Director of the Tourism Company of Puerto Rico, and one private citizen appointed for a period of four years by the Governor with the advice and consent of the Senate. The purpose of PRPA is to administer all ports and aviation transportation facilities of the Commonwealth and to render other related services.

Puerto Rico Public Broadcasting Corporation (PRPBC) – The PRPBC is governed by an eleven-member board of directors comprised of the Secretary of Education of the Commonwealth, the President of the UPR, the Executive Director of IPRC, and eight private citizens, appointed by the Governor with the advice and consent of the Senate. At least three of these private citizens must have proven interest, knowledge, and experience in education, culture, art, science, or radio and

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television. PRPBC was created with the purpose of integrating, developing, and operating the radio, television, and electronic communication facilities that belong to the Commonwealth.

Puerto Rico School of Plastic Arts (PRSPA) – The 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.

Puerto Rico Solid Waste Authority (PRSWA) – The PRSWA is governed by an eleven-member board appointed by the Governor with the advice and consent of the Senate. PRSWA provides alternatives for processing of solid waste and encourages recycling, reuse, and recovery of resources from waste.

Puerto Rico Telephone Authority (PRTA) - The PRTA is governed by a five-member board comprised of 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 Telecomunicaciones de Puerto Rico, Inc. for the benefit of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities.

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

State Insurance Fund Corporation (SIFC) – The SIFC is governed by a seven-member board appointed by the Governor with the advice and consent of the Senate. The Board is comprised by 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 employees' interest, a representative of the employees' interest, and two members without any of these interests. Members are appointed for a period of six years. SIFC provides workers' compensation and disability insurance to public and private employees.

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Tourism Company of Puerto Rico (TCPR) – The TCPR is governed by a seven-member board comprised 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.

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 Highway and Transportation Authority P.O. Box 42007 San Juan, PR 00940-2007
Puerto Rico Electric Power Authority P.O. Box 364267 San Juan, PR 00936-4267	Puerto Rico Aqueduct and Sewer Authority P.O. Box 7066 San Juan, PR 00916-7066
Puerto Rico Infrastructure Financing Authority P.O. Box 42001 San Juan, PR 00940-2001	Puerto Rico Health Insurance Administration P.O. Box 4264 San Juan, PR 00902-4264
University of Puerto Rico P.O. Box 364984 San Juan, PR 00936-4984	Agricultural Services and Development Administration P.O. Box 9200 San Juan, PR 00908-0202
Automobile Accident Compensation Administration P.O. Box 364847 San Juan, PR 00936-4847	Caribbean Basin Projects Financing Authority P.O. Box 42001 San Juan, PR 00940-2001

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Corporation for the Development of the Arts, Sciences and Film Industry of Puerto Rico P.O. Box 362350 San Juan, PR 00936-2350	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 San Juan, PR 00908-0200
Fine Arts Center Corporation P.O. Box 41287 – Minillas Station Santurce, PR 00940-1287	Governing Board of the 9-1-1 Service P.O. Box 27020 San Juan, PR 00927-0200
Industries for the Blind, Mentally Retarded, and Other Disabled Persons of Puerto Rico P.O. Box 13382 San Juan, PR 00908	Institutional Trust of the National Guard of Puerto Rico P.O. Box 9023786 San Juan, PR 00902-3786
Land Authority of Puerto Rico P.O. Box 9745 San Juan, PR 00908-9745	Musical Arts Corporation P.O. Box 41227 – Minillas Station San Juan, PR 00940-1227
National Parks Company of Puerto Rico P.O. Box 9022089 San Juan, PR 00902-2089	Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives P.O. Box 195449 San Juan, PR 00919-5449
Puerto Rico and Caribbean Cardiovascular Center Corporation P.O. Box 366528 San Juan, PR 00936-6528	Puerto Rico Conservatory of Music Corporation 350 Lamar Street and Roosevelt Avenue San Juan, PR 00918-2199
Puerto Rico Convention Center District Authority P.O. Box 19269 San Juan, P.R 00910-1269	Puerto Rico Council on Higher Education P.O. Box 19900 San Juan, PR 00910-1900
Puerto Rico Exports Development Corporation P.O. Box 195009 San Juan, PR 00936-5009	Puerto Rico Government Investment Trust Fund P.O. Box 42001 – Minillas Station San Juan, PR 00940-2001
Puerto Rico Industrial Development Company P.O. Box 362350 San Juan, PR 00936-2350	Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority P.O. Box 42001 – Minillas Station San Juan, PR 00940-2001

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

Puerto Rico Maritime Transportation Authority
P.O. Box 362829
San Juan, PR 00940-2829

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 190-0909
San Juan, PR 00919-0909

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

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

Puerto Rico Telephone Authority
P.O. Box 360998
San Juan, PR 00936-0098

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

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

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

The financial statements of the discretely presented component units have a year-end of June 30, 2002 except for the Puerto Rico Telephone Authority, which has a year-end of December 31, 2001.

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.

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Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (the ERS) – The 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 Insurance Commissioner of Puerto Rico, 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 single-employer pension plan. ERS is the administrator of a defined-benefit pension plan, which covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their own retirement 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 persons joining the government on or after January 1, 2000.

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

Puerto Rico System of Annuities and Pensions for Teachers (TRS) – The TRS is governed by a five-member board comprised of the Secretary of Education of the Commonwealth, the Secretary of the Treasury of the Commonwealth, the President of GDB and two participating members (one of whom is a retiree and the other the president of one of the teachers organizations) appointed by the Governor with the advice and consent of the Senate for four years. The Commonwealth reports TRS as a single-employer pension plan. TRS provides retirement benefits to all teachers of the Department of Education of the Commonwealth, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education of the Commonwealth, teachers who work in the Teachers' Association of Puerto Rico, and those who practice in private institutions accredited by the Department of Education of the Commonwealth. TRS provides retirement, death, and disability benefits.

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

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

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

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

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(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 consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- ***Restricted Net Assets*** – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- ***Unrestricted Net Assets*** – These consist of net assets which 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.

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

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

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commonwealth considers most revenue to be available if collected within up to 120 days of the end of the current fiscal year-end. 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 and use taxes), and as cash is received (miscellaneous taxes). 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 is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2002, has been reported only in the government-wide financial statements.
- Interest and principal on general long-term obligations are recorded when due, except for interest and principal due in July 1 of the following fiscal year.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.
- Debt service expenditures, federal funds cost disallowances, other long-term obligations, and amounts subject to judgments under litigation are recorded only when payment is due.

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

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Each proprietary fund has the option under GASB Statement No. 20 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 each primary government and the component units 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 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. The new model as defined in GASB No. 34 establishes criteria (%age of the assets, liabilities, revenue, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. 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 all financial transactions, except those required to be accounted for in another fund.

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Included are transactions for services such as general government, public safety, health, public housing and welfare, and education.

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

Public Buildings Authority Capital Projects Fund – The Public Buildings Authority's capital projects fund is used to account for the financial resources used for the acquisition or construction of major capital facilities not financed by proprietary fund types, pension trust funds, and discretely presented component units.

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

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

Fiduciary Funds

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

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

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

Discretely Presented Component Units

Discrete presentation of component units is used to present the financial information of entities that do not qualify to be blended, in accordance with GASB No. 14, 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 in accordance with the appropriate accounting methods as discussed below.

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The accrual basis of accounting is used by proprietary fund types, pension trust funds, and all proprietary discretely presented component units. Under the accrual basis, revenue is recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash.

(f) *Statutory (Budgetary) Accounting*

The Commonwealth's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with GAAP. Revenue is generally recognized when cash is received, net of tax refunds claimed by taxpayers as of year-end. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenue. Expenditures are generally recorded when the related expenditure is incurred or encumbered. Encumbrances 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, which amended the then existing appropriations and encumbrances lapsing provisions of Act No. 230 of July 23, 1974. Unencumbered appropriations lapse at year-end. Amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

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

Federal grants' activities carry a cumulative deficit of approximately \$150.4 million at June 30, 2002, representing federal expenditures in prior years that have remained unclaimed. This deficit has been subsidized with operating transfers from the budgetary funds. To the extent the Commonwealth recovers previously unreimbursed expenses from the federal government, such recoveries are treated as a transfer-in to the budgetary funds from the federal grants' funds.

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 for a reconciliation of the statement of revenue and expenditures – budget and actual – budget basis – general fund with the statement of revenue, expenditures and changes in fund balance (deficit) for the general fund.

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

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

The Commissioner of Financial Institutions of Puerto Rico (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 such institution. The

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amount of collateral securities to be pledged for the security of public deposits shall be established by rules and regulations promulgated 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 from these resources is retained in the fund.

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

(h) *Securities Purchased Under Agreements to Resell*

Certain component units of the Commonwealth enter into purchases of securities with simultaneous agreements to resell. The 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.

(i) *Securities Lending Transactions*

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

(j) *Investments*

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

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

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

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(k) Receivables

Tax receivables in the general fund include predominantly amounts owed by taxpayers for individual and corporate income taxes, net of estimated uncollectible amounts. A portion of these income tax receivables is recognized 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. Tax receivables also include amounts owed by taxpayers on income earned in periods prior to June 30, 2002, estimated to be collectible but not currently available. Unemployment, disability, and driver's insurance receivable in the enterprise funds are stated net of estimated allowances for uncollectible accounts.

Taxes receivable also include the amount that the Municipal Revenue Collection Center (CRIM, as per its Spanish acronym), a municipal corporation, is required to remit to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth. The amount to be remitted is based on the special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation, which is levied by the Commonwealth but collected by CRIM on the Commonwealth's behalf [see note 14(c)].

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 represent amounts owed to the Commonwealth for reimbursement of expenditures incurred pursuant to federally funded programs.

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

Loans of the general fund represent predominantly amounts owed by public corporations and municipalities for public insurance and rent paid by the general fund on their behalf.

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

(l) Inventories

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

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(m) Restricted Assets

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

(n) Real Estate Held for Sale

Real estate held for sale is stated at their estimated net realizable value determined by management based on previous units sales, commitment, or appraisal values.

(o) Capital Assets

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

The method to deflate the current cost of the same or a similar asset using an approximate price index was used to estimate the historical cost of certain land, buildings, and building improvements because invoices and similar documentation was 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 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 lives of capital assets are as follows:

	<u>Years</u>
Buildings and buildings improvements	20-50
Equipment, furniture, fixtures, and vehicles	5-15

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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:

	<u>Years</u>
Buildings and buildings improvements	3-50
Equipment, furniture, fixtures, and vehicles	3-40
Infrastructure	10-50

(p) Tax Refunds Payable

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

(q) Deferred Revenue

Deferred revenue at the governmental fund level arises when potential revenue does not meet both the "measurable" and "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. Also included in deferred revenue at all levels is the undistributed food commodity inventories.

(r) Long-Term Debt

The liabilities reported in the government-wide financial statements include Commonwealth 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

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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.

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

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

(t) *Accounting for Pension Costs*

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the Commonwealth's financial reporting entity is considered to be a sponsor of three single-employer defined-benefit pension plans: ERS; JRS; and the TRS. This is because substantially all the participants in the three pension trust funds are part of the financial reporting entity of the Commonwealth. For the purpose of the basic financial statements, and as disclosed in note 19, the Commonwealth's annual pension cost, measured on the accrual basis of accounting, for the year ended June 30, 2002 amounted to approximately \$1 billion. However, the amount recognized as pension expenditure in the governmental funds was recorded under the modified accrual basis, and amounted to approximately \$438 million. The excess of the annual required contribution over the statutorily required contributions increased the net pension obligation at June 30, 2002 to approximately \$3.2 billion. This amount is presented in the statement of net assets of the governmental activities as of June 30, 2002.

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.

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(u) Postemployment Benefits

In addition to the pension benefits described in note 19, the Commonwealth provides postemployment health care benefits and a Christmas bonus for its retired employees in accordance with local law. Substantially all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. Health care benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share of not more than \$60 per month for each retiree. During the year ended June 30, 2002, the cost of providing health care benefits amounted to approximately \$27 million for approximately 51,000 retirees. The Christmas bonus paid to the retired employees during the year ended June 30, 2002 was \$300 per retiree and the total amount was approximately \$23 million for approximately 85,000 retirees. These benefits are recorded as expenditures when paid in the general fund.

(v) Compensated Absences

The vacation policy of the Commonwealth generally provides for the accumulation of 2.5 days per month, except for the teachers who accrue 4 days per month. Vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of 60 days. Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid leave at the current rate, if the employee has at least 10 years of service with the Commonwealth. Accrued compensated absences of the primary government at June 30, 2002 amounting to approximately \$1.2 billion is presented in the statement of net assets. Compensated absence accumulation policies for the blended component units and component units vary from entity to entity based on negotiated agreements and other factors agreed upon between the management of these entities and their employees.

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

(w) Interfund and Intraentity Transactions

The Commonwealth has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-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 receivables and payables 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.

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Second are intraentity balances between the primary government funds and discretely presented component units that are tantamount to long-term debt financing. The primary government's liability is reported in the statement of net assets, the proceeds in the primary government's funds and the asset in the discretely presented component units' statement of net assets.

(x) *Lottery Revenue and Prizes*

The revenue, expenses, and prizes awarded by the Lottery of Puerto Rico and the Additional Lottery System, reported within the lotteries enterprise fund, are recognized as drawings are held. Moneys collected prior to June 30 for tickets related to drawings to be conducted subsequent to June 30 are reported as deferred revenue. Unpaid prizes awarded as of June 30 are reported as a fund liability. For prizes payable in installments, the Commonwealth purchases deep discount securities through GDB, which are reported as restricted assets and lottery prizes payable.

(y) *Risk Management*

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

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

(z) *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 debt service, capital projects, special revenue and enterprise funds; and discretely presented component units to conform to the accounting classifications used by the Commonwealth in the basic financial statements.

(aa) *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.

(bb) *Future Adoption of Accounting Pronouncements*

The GASB issued GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which is effective for fiscal years beginning after June 15, 2003. The Commonwealth and its component units have not adopted the requirements of this statement.

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(2) Component Units

The Commonwealth follows the provisions of GASB No. 14. The basic financial statements of the Commonwealth of Puerto Rico include the financial statements of the following component units that were audited by other auditors:

- Agricultural Services and Development Administration
- Automobile Accident Compensation Administration
- Corporation for the Development of the Arts, Sciences, and Film Industry of Puerto Rico
- Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities
- Employment and Training Enterprises Corporation
- Farm Insurance Corporation of Puerto Rico
- Fine Arts Center Corporation
- Governing Board of the 9-1-1 Service
- Industries for the Blind, Mentally Retarded, and Other Disabled Persons of Puerto Rico
- Institutional Trust of the National Guard of Puerto Rico
- Land Authority of Puerto Rico
- Musical Arts Corporation
- National Parks Company of Puerto Rico
- Public Buildings Authority
- Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
- Puerto Rico and Caribbean Cardiovascular Center Corporation
- 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 Exports Development Corporation
- Puerto Rico Health Insurance Administration
- Puerto Rico Highway and Transportation Authority
- Puerto Rico Judiciary Retirement System
- Puerto Rico Land Administration
- Puerto Rico Maritime Transportation Authority
- Puerto Rico Medical Services Administration
- Puerto Rico Metropolitan Bus Authority
- Puerto Rico Ports Authority
- Puerto Rico Public Broadcasting Corporation
- Puerto Rico School of Plastic Arts
- Puerto Rico Solid Waste Authority
- Puerto Rico System of Annuities and Pensions for Teachers
- Right to Employment Administration
- State Insurance Fund Corporation
- University of Puerto Rico

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(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; 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 said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided by law."

The annual budget, which is developed utilizing elements of performance-based program budgeting and zero-based budgeting, includes an estimate of revenue and other resources for the ensuing fiscal year under: (1) laws existing at the time the budget is submitted; and (2) legislative measures proposed by the Governor and submitted with the proposed budget, as well as the Governor's recommendations as to appropriations that in her judgment are necessary, convenient, and in conformity with the four-year investment 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 approval by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with her 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 2002 amounted to approximately \$4.5 billion. The Legislature also made several special budgetary appropriations to the general fund throughout the year, which amounted to approximately \$3.0 billion.

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

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For budgetary purposes, encumbrance accounting is used. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of budgetary appropriations and GAAP fund balances and do not constitute expenditures or liabilities on a GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the general fund at the end of the fiscal year lapse 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, 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 balance sheet of 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 Commonwealth's Department of the Treasury and OMB have the responsibility to ensure that budgetary spending control is maintained on an individual department basis. The OMB may transfer part or all of any unencumbered balance within a department to another department subject to legislative approval. Budgetary control is exercised through the Puerto Rico Integrated Financial Accounting System (PRIFAS). PRIFAS ensures that encumbrances or expenditures are not processed if they exceed the department's total available spending authorization, which is considered its budget. The legal level of budgetary control is at the individual department level for general fund expenditures, principal and interest due for the year for the debt service fund, and by bond authorization for capital expenditures.

(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

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revenue and other sources of financial resources over expenditures and other uses of financial resources for the year ended June 30, 2002 is presented below for the general fund (expressed in thousands):

Excess of revenue and other sources over expenditures and other uses – budget basis	\$ 257,729
Entity differences:	
Deficiency of revenue and other sources over expenditures and other uses for:	
Nonbudgeted funds	(394,348)
Inclusion of agencies with independent treasuries	(30,699)
Timing differences:	
Adjustment for encumbrances	96,592
Current year expenditure against prior year encumbrances	(128,924)
Basis of accounting differences:	
Net decrease in taxes receivable (net of tax refunds)	(466,657)
Net increase in other receivables	51,662
Net decrease in deferred revenue	445,408
Proceeds from lines of credit reported as other financing source on GAAP basis used for payment of prior years' expenditures	69,016
Qualified Zone Academic Bonds QZAB reported as an other financing source on a GAAP basis, not on a budgetary basis	93,746
Payment to refunded bond escrow agent to defease QZAB reported as an other financing use on a GAAP basis, not on a budgetary basis	(47,235)
Proceeds from short-term line of credit reported as other financing source on a budgetary basis but as fund liability on a GAAP basis	<u>(89,849)</u>
Deficiency of revenue and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ (143,559)</u>

(c) Deficit Net Assets

The following activities funds and component units reflect deficit fund balance/net liabilities at June 30, 2002 (expressed in thousands):

Primary government:	
Governmental activities	<u>\$ 10,171,632</u>
Debt service fund – Commonwealth of Puerto Rico	<u>\$ 10,745</u>
Enterprise fund – Lotteries	<u>\$ 1,365</u>
Components units:	
Land Authority of Puerto Rico	<u>\$ 136,973</u>
Tourism Company of Puerto Rico	<u>\$ 43,979</u>
Puerto Rico and Caribbean Cardiovascular Center Corporation	<u>\$ 24,699</u>
Agricultural Services and Development Administration	<u>\$ 12,724</u>
Employment and Training Enterprises Corporation	<u>\$ 8,053</u>

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The Commonwealth's governmental activities show a deficit of approximately \$10.2 billion, mostly attributed to long-term debt amounting to approximately \$15 billion, which was required to be recognized in the statement of net assets pursuant to the adoption of GASB No. 34. On the other hand, the discretely presented component units report net assets of approximately \$15 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 as well, 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.

In the past, the Commonwealth has also provided financial resources to finance the deficit of component units. In addition, certain loans and obligations of TCPR and LAPR with GDB were restructured pursuant to Act No. 164, of December 17, 2001, described in note 14 (d).

(4) Accounting Changes, Changes in Reporting Entity, and Restatements

During fiscal year 2001-02, the Commonwealth implemented several new accounting standards and an interpretation issued by GASB.

GASB No. 34, as amended by GASB No. 37, establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial reporting model used by state and local governments, including statement formats and changes in fund types and elimination of account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statement balances were required.

GASB No. 35 establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB No. 34. The UPR, reported as a discretely presented component unit, adopted the requirements of GASB No. 35.

GASB No. 38 requires certain note disclosures when GASB No. 34 is implemented. The provisions of these new standards have been incorporated into the basic financial statements and notes.

GASB Interpretation No. 6 clarifies the application of existing standards for distinguishing the respective portions of certain types of liabilities that should be reported as (1) governmental fund liabilities and (2) general long-term liabilities of the government. The provisions of this interpretation have been incorporated into the basic financial statements and notes.

These new accounting standards caused most of the accounting changes, changes in reporting entity, and restatements described on the ensuing discussions below (refer to note 12 for capital assets restatements, also as a result of implementation of GASB No. 34). Changes and restatements for reasons other than the adoption of the above pronouncements are also explained below.

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The following schedule reconciles the June 30, 2001 fund balance/net assets as previously reported by the primary government to beginning fund balance/net assets, as restated (expressed in thousands).

	June 30, 2001, fund balance/net assets, as previously reported	Prior period adjustments			June 30, 2001, fund balance/net assets, as restated	
		Fund reclassifications	Change in reporting entity	Change in basis of accounting		Correction of errors
General	\$ 272,016	66,010	—	—	(21,040)	316,986
Debt service funds:						
Debt service	\$ 205,715	—	—	—	—	205,715
Puerto Rico Maritime Shipping Authority	6,483	(6,483)	—	—	—	—
Total	\$ 212,198	(6,483)	—	—	—	205,715
Capital projects funds:						
PBA capital project	\$ (120,786)	(81,376)	—	—	—	(202,162)
Commonwealth's capital projects	205,820	(205,820)	—	—	—	—
Office for the Improvement of the Public Schools	62,642	(62,642)	—	—	—	—
Total	\$ 147,676	(349,838)	—	—	—	(202,162)
Nonmajor governmental funds:						
Commonwealth's capital project	\$ —	205,820	—	—	—	205,820
The Children's Trust	—	483,604	—	—	—	483,604
PBA special revenue	—	20,893	—	—	44,711	65,604
PBA debt service	—	60,483	—	—	—	60,483
Puerto Rico Maritime Shipping Authority	—	6,483	—	—	1,894	8,377
Total	\$ —	777,283	—	—	46,605	823,888
Enterprise funds:						
Unemployment insurance	\$ —	647,919	—	(130,153)	—	517,766
Disability insurance	—	96,882	—	(318)	—	96,564
Drivers' insurance	—	34,883	—	(1,247)	—	33,636
Lotteries	(1,325)	—	—	—	(40)	(1,365)
Puerto Rico Water Pollution Control Revolving Fund	—	—	129,721	—	—	129,721
Total	\$ (1,325)	779,684	129,721	(131,718)	(40)	776,322
Trust and agency funds:						
Pension trust	\$ 4,782,301	—	—	—	—	4,782,301
Unemployment insurance	647,919	(647,919)	—	—	—	—
Disability insurance	96,882	(96,882)	—	—	—	—
Drivers' insurance	34,883	(34,883)	—	—	—	—
The Children's Trust	483,604	(483,604)	—	—	—	—
Other expendable trust	3,368	(3,368)	—	—	—	—
Total	\$ 6,048,957	(1,266,656)	—	—	—	4,782,301

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Upon adoption of GASB No. 34 and its fund overview and definitions provisions, the Commonwealth reclassified certain funds as presented in the "reclassification of funds" column on the above schedule.

The Puerto Rico Water Pollution Control Revolving Fund is presented as an enterprise fund instead of as a component unit as it was presented in fiscal year 2001.

The unemployment, disability, and drivers' insurance activities were reported as enterprise funds. Certain adjustments to the beginning fund balance were made to convert net assets and results of operations of these programs from modified accrual basis to accrual basis required for enterprise funds. These activities were reported as trust and agency funds during fiscal year 2001.

The beginning fund balance of PBA special revenue fund was restated (increased) by \$44.7 million to recognize property held for sale that was left unrecorded in prior years.

The Puerto Rico Housing Administration (PRHA), a Commonwealth agency forming part of the general fund, restated (increased) its beginning fund balance by \$14.1 million predominantly to correct prior years' overcapitalization of debt. Also, the Office for the Administration of the Assets of CRUV, also part of the general fund, restated (decreased) beginning fund balance by \$35.1 million, mostly as a result of correcting prior years' overstatement in assets. The net restatement in the general fund as a result of these corrections of errors amounted to a net decrease in beginning fund balance of approximately \$21 million.

The PRMSA, a blended component unit forming part of a nonmajor debt service fund, restated (increased) its beginning fund balance by \$1.9 million to recognize revenue not recorded in prior years.

The following table summarizes changes to fund equities as previously reported in the balance sheet by certain discretely presented component units. The changes resulted primarily from implementation of these GASB statements, new inclusions or exclusions from prior years' presentation and reclassifications in the manner of presentation of certain component units (expressed in thousands):

Beginning net assets, as previously reported	\$ 10,988,831
Component units included (excluded) in fiscal year 2002:	
University of Puerto Rico	212,694
Puerto Rico Housing Bank and Finance Agency	(404,291)
Nonmajor component units	92,690
	<u>10,889,924</u>
Restatements:	
Puerto Rico Highway and Transportation Authority	5,531,227
Puerto Rico Infrastructure Financing Authority	(1,439,951)
Governmental Development Bank for Puerto Rico	52,407
Nonmajor component units	(213,548)
	<u>(1,020,865)</u>
Beginning net assets, as restated	\$ <u>14,820,059</u>

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The UPR was reported in previous years as a public university fund. With the implementation of GASB No. 34 and No. 35, the UPR is now reported within the same column as all other discretely presented component units. Changes in the beginning net assets of the UPR relates to the adoption of GASB No. 35, mostly attributed to the depreciation of capital assets, which was not previously required.

The beginning net assets' restatement noted in PRHTA and PRIFAwere predominantly due to the inclusion of infrastructure assets and recognition of long-term debt, respectively, not previously recognized prior to adoption of GASB No. 34.

Puerto Rico Housing Bank and Finance Agency (the Housing Bank) merged with and into GDB through the approval of Act No. 103 of August 11, 2001, as amended; therefore, it will not be presented as a separate component unit in fiscal year 2002. In addition to this merger, the beginning net assets of GDB were also restated as a result of the adoption of GASB statements described above.

(5) Puerto Rico Government Investment Trust Fund (PRGITF)

The 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, 2002, consisted of certificates of deposit, bank notes, corporate obligations, commercial paper, and U.S. government and agencies obligations, all of which may be considered highly-liquid. However, the participants' investments are subject to the ability of the 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.

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The dollar amount of the deposits on hand at June 30, 2002, 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):

	<u>Balance outstanding</u>	<u>%age of total</u>
Primary government:		
Commonwealth	\$ 195,478	51.90%
Office for the Improvement of the Public Schools	18,842	5.00%
Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities	501	0.13%
Public Buildings Authority	521	0.14%
The Children's Trust	159	0.04%
Total for primary government	<u>215,501</u>	<u>57.21%</u>
Discretely presented component units:		
Puerto Rico Land Administration	58,116	15.43%
State Insurance Fund Corporation	38,837	10.31%
Puerto Rico Aqueduct and Sewer Authority	11,203	2.97%
Puerto Rico Council on Higher Education	10,719	2.85%
Government Development Bank for Puerto Rico	9,556	2.54%
Puerto Rico Infrastructure Financing Authority	6,486	1.72%
Institutional Trust of the National Guard of Puerto Rico	3,237	0.86%
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives	543	0.14%
Puerto Rico School of Plastic Arts	140	0.04%
National Parks Company of Puerto Rico	40	0.01%
Puerto Rico Highway and Transportation Authority	40	0.01%
Puerto Rico Electric Power Authority	36	0.01%
Total for discretely presented component units	<u>138,953</u>	<u>36.89%</u>
Other governmental entities	<u>22,211</u>	<u>5.90%</u>
Total for all participants	<u>\$ 376,665</u>	<u>100.00%</u>

The deposits at June 30, 2002 were invested in securities with a cost which approximates fair value, plus accrued interest, for approximately \$377.4 million.

(6) Deposits and Investments

Under Commonwealth statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury's agents in the Commonwealth's name. In addition, the Commonwealth maintains deposits with GDB and EDB, two discretely presented component units, and the U.S. government (for unemployment insurance).

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

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

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

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

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

Category 1: Insured or registered, or securities held by the Commonwealth or its agents in the Commonwealth's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name.

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

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

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

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Primary Government

The carrying amount of deposits with financial institutions of the primary government at June 30, 2002 consists of the following (expressed in thousands):

Unrestricted:		
Carrying amount of deposits in commercial banks	\$	329,017
Carrying amount of deposits in governmental banks		893,184
Carrying amount of deposits in U.S. government		<u>561,406</u>
Subtotal		<u>1,783,607</u>
Restricted:		
Carrying amount of deposits in commercial banks		81,582
Carrying amount of deposits in governmental banks		<u>1,224,409</u>
Subtotal		<u>1,305,991</u>
Total carrying amount of deposits as reported on the primary government statement of net assets	\$	<u><u>3,089,598</u></u>
Bank balance of deposits in commercial banks:		
Category 1	\$	359,228
Category 2		554,823
Category 3		<u>72,340</u>
Total bank balance of deposits in commercial banks	\$	<u><u>986,391</u></u>

The bank balance of deposits in governmental banks, which as of June 30, 2002, is uninsured and uncollateralized, is approximately \$2.4 billion. Deposits of approximately \$561 million with the U.S. government represent unemployment insurance taxes collected from employers that are transferred to the Federal Unemployment Insurance Trust Fund in the U.S. Treasury.

Unrestricted deposits include approximately \$214 million of deposits from the Commonwealth that are invested in the Puerto Rico Government Investment Trust Fund (see note 5). Such amount has been included as cash and cash equivalents in the primary government statement of net assets.

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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 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, 2002 is broken down as follows (expressed in thousands):

Primary government	\$ 2,161,798
Discretely presented components units	<u>922,846</u>
Total reporting entity	3,084,644
Municipalities of Puerto Rico	560,468
Other nongovernmental entities	353,371
Certificates of indebtedness	294,591
Escrow accounts	<u>266,656</u>
Total deposits per GDB and EDB	\$ <u><u>4,559,730</u></u>

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

	<u>Category</u>			<u>Carrying amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Unrestricted – commercial paper	\$ <u>39,700</u>	<u>—</u>	<u>—</u>	<u>39,700</u>
Investments not subject to categorization:				
P.R. Government Trust Fund				680
External investment pool				73,061
Guaranteed investment contracts				<u>138,269</u>
Total unrestricted	<u>39,700</u>	<u>—</u>	<u>—</u>	<u>251,710</u>
Restricted:				
Fannie Mae discount note	33,731	—	—	33,731
U.S. government and agencies securities	<u>34,497</u>	<u>—</u>	<u>—</u>	<u>34,497</u>
Subtotal	<u>68,228</u>	<u>—</u>	<u>—</u>	<u>68,228</u>
Investments not subject to categorization – deep discount securities				<u>283,035</u>
Total – restricted				<u>351,263</u>
Total	\$ <u>107,928</u>	<u>—</u>	<u>—</u>	<u>602,973</u>

Deep discount securities included as restricted investments are purchased through GDB to fund Lotto prizes of \$200,000 or more, payable on an installment basis. Investments in zero coupon U.S. Treasury strips (with maturity dates that coincide with pay-out schedules of the Lotto prizes) constitute collateral for

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the prizes. As of June 30, 2002, the fair value of such collateral amounts to approximately \$310 million. Annuity contracts are recorded at present value of future installment prize payments. Interest earned is not recognized as revenue, but credited to obligations for unpaid prize awards.

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

Component Units

Cash, cash equivalents, and investments of the component units at June 30, 2002 consist of (expressed in thousands):

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,531,566	940,517	3,472,083
Investments	<u>7,035,044</u>	<u>4,327,318</u>	<u>11,362,362</u>
Total	<u>\$ 9,566,610</u>	<u>5,267,835</u>	<u>14,834,445</u>

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

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

	<u>Carrying amount</u>	<u>Bank balance</u>
Deposits in commercial banks	\$ 2,952,377	2,961,323
Deposits in governmental banks	<u>519,706</u>	<u>514,133</u>
Total	<u>\$ 3,472,083</u>	<u>3,475,456</u>
Bank balances of deposits in banks:		
Category 1		\$ 625,015
Category 2		18,198
Category 3		<u>2,832,243</u>
Total bank balance of deposits in banks		<u>\$ 3,475,456</u>

The bank balance of deposits in governmental banks is uninsured and uncollateralized. Such deposits are maintained with GDB and EDB.

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

	Category			Carrying amount
	1	2	3	
Unrestricted:				
Mortgage-backed securities	\$ 445,955	—	—	445,955
U.S. government and agencies securities	3,509,006	12,391	233,074	3,754,471
Negotiable certificates of deposit	191,086	—	97,950	289,036
Stocks	272,388	—	5,652	278,040
Corporate bonds	334,575	—	28,526	363,101
Commercial paper	19,548	131,129	14,996	165,673
Repurchase agreements	34,000	—	27,111	61,111
Short-term investment	—	—	10,011	10,011
Foreign and municipal bonds	11,886	—	—	11,886
Money market funds	—	—	98,550	98,550
Subtotal	<u>4,818,444</u>	<u>143,520</u>	<u>515,870</u>	<u>5,477,834</u>
Investments not subject to categorization:				
Guaranteed investment contracts				1,218,395
Puerto Rico Government Investment Trust Fund				116,529
Investment pool				114,553
Securities lending underlying securities				49,352
Money market funds				36,230
Foreign currency purchase contracts				12,151
Limited partnership/private equity				<u>10,000</u>
Total – unrestricted				<u>7,035,044</u>
Restricted:				
U.S. government and agencies securities	1,582,369	—	165,142	1,747,511
Foreign and municipal bonds	—	—	952,678	952,678
Mortgage-backed securities	—	1,011,031	—	1,011,031
Repurchase agreements	170,000	—	—	170,000
Commonwealth debt securities	23,067	—	—	23,067
Negotiable certificates of deposit	9,601	—	29	9,630
Corporate bonds	10,305	—	—	10,305
Stocks	21,053	—	—	21,053
Subtotal carried forward	<u>\$ 1,816,395</u>	<u>1,011,031</u>	<u>1,117,849</u>	<u>3,945,275</u>

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June 30, 2002

	Category			Carrying amount
	1	2	3	
Subtotal brought forward	<u>\$ 1,816,395</u>	<u>1,011,031</u>	<u>1,117,849</u>	<u>3,945,275</u>
Investments not subject to categorization:				
Guaranteed investment contracts				373,833
Investment pool				<u>8,210</u>
Total – restricted	<u>1,816,395</u>	<u>1,011,031</u>	<u>1,117,849</u>	<u>4,327,318</u>
Total	<u>\$ 6,634,839</u>	<u>1,154,551</u>	<u>1,633,719</u>	<u>11,362,362</u>

Unrestricted repurchase agreements of approximately \$34 million and \$27.1 million belong to EDB and SIFC, respectively. As of June 30, 2002, the fair value of the collateral for the repurchase agreements amounted to approximately \$34.8 million for EDB which consisted primarily of investment securities held in custody by EDB's agent, and \$27.1 million for SIFC, which consisted primarily of investment securities held by SIFC's agent but not in SIFC's name.

In addition, restricted repurchase agreements of approximately \$170 million belong to GDB. As of June 30, 2002, the fair value of the collateral for the repurchase agreements amounted to approximately \$170 million and consisted primarily of investment securities held in custody by GDB's agent.

Certain discretely presented component units classified approximately \$22.4 millions of investments in PRGITF as cash and cash equivalents.

Fiduciary Funds

The carrying amount of deposits with financial institutions of the fiduciary funds at June 30, 2002 consists of (expressed in thousands):

Unrestricted:		
Carrying amount of deposits in commercial banks	\$ 469,247	
Carrying amount of deposits in governmental banks	<u>314,307</u>	
Subtotal		<u>783,554</u>
Restricted:		
Carrying amount of deposits in commercial banks	2,236	
Carrying amount of deposits in governmental banks	<u>4,928</u>	
Subtotal		<u>7,164</u>
Total carrying amount of deposits as reported on the statement of fiduciary net assets	\$	<u><u>790,718</u></u>

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Bank balance of deposits in commercial banks:	
Category 1	\$ 469,247
Category 2	—
Category 3	<u>2,236</u>
Total bank balance of deposits in commercial banks	<u>\$ 471,483</u>

The bank balance of deposits in governmental banks, amounting to \$319.2 million at June 30, 2002, is uninsured and uncollateralized.

Custodial credit risk classification for short-term investments and investments of the fiduciary funds are as follows (expressed in thousands):

	Category			Carrying amount
	1	2	3	
Investment in preferred stock of PRTA				
Holdings	\$ —	—	383,180	383,180
Stocks	3,632	987,894	1,065,755	2,057,281
U.S. government and agencies securities	—	436,830	—	436,830
Mortgage-backed securities	6,333	—	—	6,333
Corporate bonds	—	417,514	126,068	543,582
Short-term investments	225	—	—	225
State and local government bonds	<u>1,590</u>	<u>—</u>	<u>—</u>	<u>1,590</u>
Subtotal	11,780	1,842,238	1,575,003	<u>3,429,021</u>
Investments not subject to categorization:				
Mortgage loans				400
Limited partnerships/private equity				<u>67,870</u>
Total	<u>\$ 11,780</u>	<u>1,842,238</u>	<u>1,575,003</u>	<u>3,497,291</u>

Uninsured or uncollateralized investments at June 30, 2002 shown above belong mainly to the ERS.

The ERS classified \$501,000 of investments in PRGITF as cash and cash equivalents.

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(7) Securities Lending Transactions

Primary Government

During the year, the ERS and the JRS, included within the fiduciary funds, and the SIFC and the AACA, two discretely presented component units, entered into securities lending transactions. These transactions amounting to \$42.3 million, pertaining to the retirement systems, and \$199.7 million, pertaining to the discretely presented component units, at June 30, 2002, are included within investments and the corresponding securities lending liability in the statement of fiduciary net assets and the statement of net assets, respectively.

Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities and Puerto Rico Judiciary Retirement System (the Retirement Systems)

The Retirement Systems' securities custodian, as agent for the Retirement Systems, manages the securities lending program and receives liquid collateral. The collateral requirement amounted to approximately 102.5 of the fair value of the securities lent. The collateral securities cannot be pledged or sold unless the borrower defaults. Securities lending obligations for which collateral was received as of June 30, 2002 consist of the following (expressed in thousands):

Securities lent	Fair value of underlying securities
Corporate bonds	\$ 3,593
Equity securities	37,685
	\$ <u>41,278</u>

Collateral received amounted to \$42.3 million and it was invested as follows: \$7.5 million in commercial paper and \$34.8 million in repurchase agreements. The relationship between maturities of the investments and the Retirement Systems' loans cannot be determined.

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

Component Units

SIFC

The Commonwealth statutes and the SIFC's board of directors' policies permit SIFC to use its investments to enter into securities lending transactions. The SIFC's securities custodian, as agent of SIFC, manages the securities lending program and receives cash, securities, or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by SIFC unless the borrower defaults. The collateral requirement is equal to 102% for securities issued in the United States and 105% for securities

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issued outside of the United States, of the fair value of the securities lent. Additional collateral has to be provided by the next business day if its value falls to less than 100% of the fair value of the securities lent. At year-end, SIFC has no credit risk exposure to borrowers because the amounts SIFC owes the borrowers exceed the amounts the borrowers owe SIFC. Contracts with the lending agents require them to indemnify SIFC if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay SIFC for income distributions by the securities' issuers while the securities are on loan.

All security loans can be terminated on demand by either SIFC or the borrower, 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. Securities lending obligations for which cash was received as collateral as of June 30, 2002 consist of the following (expressed in thousands):

Securities lent	Fair value of underlying securities
Equity securities	\$ 5,651
U.S government, agencies, and instrumentalities obligations	114,030
Corporate bonds and notes	23,526
	\$ 143,207

Cash collateral received amounted to \$145.7 million and it was invested as follows: \$27.1 million in repurchase agreements, \$5 million in corporate bonds and notes, \$98.5 million in money market funds, and \$15 million in commercial paper.

In addition, SIFC had the following securities lending obligations collateralized by securities as of June 30, 2002 (expressed in thousands):

Securities lent	Fair value of underlying securities	Securities collateral received
U.S. government and agencies obligations	\$ 117,951	120,490

Securities lending transactions collateralized by securities that cannot be pledged or sold unless the borrower defaults are not reported as assets and liabilities in the accompanying balance sheets.

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AACA

AACA lends securities to broker/dealers and other entities (borrowers) for collateral that will be returned in the future for the same securities. The custodial bank manages the securities lending program and receives cash, government securities, and letters of credit as collateral. The program provides for an initial minimum collateralization of 102% of the market value of the securities lent plus accrued income. Additional collateral has to be provided by the close of the next business day if its value falls to less than 100%. The contract with the custodial bank requires that should a collateral deficiency occur beyond the custodian's responsibilities, the deficiency should be allocated pro rata among all client lenders within the program.

Either the custodian bank or the borrower can terminate all security loans at any time. Cash collateral is invested in the program's agent short-term investment pools, which at fiscal year-end had a weighted average maturity of approximately 30 days. The relationship between securities of the investment pool and AACA loans cannot be determined.

The following represents the balances relating to the securities lending transactions as of June 30, 2002 (expressed in thousands):

<u>Securities lent</u>	<u>Fair value of underlying securities</u>	<u>Securities collateral received</u>
U.S. Treasury bills, bonds, and notes	\$ 27,613	28,459
Common stocks and preferred stocks	5,083	5,261
Corporate bonds	3,516	3,629
U.S. agencies	14,688	15,082
Foreign government bonds	1,558	1,603
Totals	<u>\$ 52,458</u>	<u>54,034</u>

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

At year end, AACA has no credit risk exposure to borrowers because the amounts AACA owes the borrowers exceed the amounts the borrowers owe AACA.

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(8) Investments in Limited Partnerships

Pursuant to the Statement of Investment Guidelines for the Government of Puerto Rico, the pension trust funds and a component unit invested approximately \$9 million in limited partnerships during the fiscal year ended June 30, 2002. The investments were as follows:

- \$563,000 was invested in Guayacán Funds of Funds, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc. as general partner, that has total commitments of \$55.5 million of which \$45 million are from public pension funds and the remaining balance from the private corporate investors. This fund invests in United States and international private equity partnerships that in turn invest in private companies.
- \$4.9 million was invested in Guayacán Private Equity Fund, L.P., a Delaware limited partnership, organized by Advent/Morro Partners as general partner, that has total commitments of \$41.9 million of which \$10 million are from the government pension 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.
- \$3.5 million was invested in Guayacán Fund of Funds II, L.P., a Delaware limited partnership, organized by Grupo Guayacán as general partner, that has total commitments of \$62 million of which \$50 million are from the government pension funds and the remaining balance from the private corporate investors in Puerto Rico. The fund invests in a broad range of United States and international private equity investment partnerships that, in turn, will make equity and equity-related investments primarily in private businesses.

The carrying value of these investments at June 30, 2002 amounted to \$67.9 million and is presented within investments in the statement of net assets.

The allocations of net gain and net loss to the limited partners are based on certain percentages, as established in the limited partnership agreements.

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As of June 30, 2002, the primary government and discretely presented component unit had capital commitments and contributions as follows (expressed in thousands):

	<u>Public sector commitments</u>	<u>Fiscal year contributions</u>	<u>Cumulative contributions</u>
Guayacán Funds of Funds, LP			
Primary government:			
Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities	\$ 25,000	313	22,317
Puerto Rico System of Annuities and Pensions for Teachers	20,000	250	17,853
Subtotal	45,000	563	40,170
Guayacán Fund of Funds II, LP			
Primary government:			
Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities	25,000	1,750	11,313
Puerto Rico System of Annuities and Pensions for Teachers	25,000	1,750	11,313
Subtotal	50,000	3,500	22,626
Guayacán Private Equity Fund, LP			
Primary government:			
Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities	5,000	831	3,930
Puerto Rico System of Annuities and Pensions for Teachers	5,000	831	3,930
Component unit – GDB	20,000	3,323	15,718
Subtotal	30,000	4,985	23,578
Total	\$ 125,000	9,048	86,374

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During fiscal year 2002, Guayacán Funds of Funds, L.P. made a temporary return of capital of \$676,000 to the ERS and \$541,000 to the TRS.

(9) Receivables and Payables

Receivables in the general fund include approximately \$920 million of accrued income and excise taxes and \$247 million of receivable from the federal government. In addition, the enterprise funds include \$59 million, \$3 million, and \$1 million of accrued unemployment, disability, and drivers' insurance premium receivable, respectively.

Payables in the general fund include approximately \$733 million of trade accounts due to suppliers for purchase of merchandise and services rendered and \$262 million of tax refunds liability.

(10) Interfund and Intraentity Transactions

Interfund receivables and payables at June 30, 2002 are summarized as follows (expressed in thousands):

Due from/to other funds:

Receivable fund	Payable fund	Amount
PBA capital project fund	General fund	\$ 56,984
Commonwealth's capital projects fund	General fund	23,102
General fund	Enterprise fund – lotteries	32,422
General fund	Enterprise fund – unemployment insurance	2,439
		\$ 114,947

Transfers from/to other funds

Transferee fund	Transferor fund	Amount
Nonmajor governmental funds	General fund	\$ 285,265
Debt service fund	Nonmajor governmental funds	196,397
Debt service fund	General fund	78,376
General fund	Nonmajor governmental funds	217,275
General fund	Enterprise fund – lotteries	155,224
General fund	Enterprise fund – unemployment	34,188
Nonmajor enterprise funds	General fund	2,229
PBA capital project fund	General fund	210
		\$ 969,164

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The principal purposes of the interfund transfers are to:

- Distribute the increase in net assets of the lotteries fund for the use of the general fund, as required by the lotteries enabling legislation.
- Make funds available for debt service payments in both the debt service fund and the general fund.
- Unemployment fund's distribution of surplus cash belonging to the general fund for the payment of administrative expenses.
- Recognize as transfers the rental payments made by the Commonwealth's agencies on properties leased by the nonmajor funds of the PBA, a blended component unit of the Commonwealth.

Interfund receivables and payables represent the pending settlements of the aforementioned transfers.

Due from/to primary government and component units (expressed in thousands):

Receivable entity/fund	Amount	Payable entity/fund	Amount
Governmental activities	\$ 275,336	Government Development Bank for Puerto Rico	\$ 237,027
		Puerto Rico and Caribbean Cardiovascular Center Corporation	18,035
		Puerto Rico Ports Authority	14,280
		Governing Board of the 9-1-1 Service	5,994
Business-type activities	<u>132,288</u>	Puerto Rico Aqueduct and Sewer Authority	<u>132,288</u>
	<u>\$ 407,624</u>		<u>\$ 407,624</u>
Puerto Rico Electric Power Authority	\$ 43,081	Governmental activities	\$ 43,081
University of Puerto Rico	38,610	Governmental activities	38,610
Puerto Rico Metropolitan Bus Authority	<u>1,833</u>	Governmental activities	<u>1,833</u>
	<u>\$ 83,524</u>		<u>\$ 83,524</u>

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The amount owed by PRASA of \$132.3 million represents construction loans granted by the Puerto Rico Water Pollution Control Revolving Fund, a nonmajor enterprise fund, to finance the construction of capital assets for PRASA.

The amount receivable by PREPA from the primary government includes \$31.6 million representing an agreement with the Commonwealth by which the Commonwealth will pay the outstanding fuel adjustment subsidy receivable which amounted originally to \$94 million. This amount owed by the Commonwealth is presented within notes payable in the statement of net assets of the governmental activities.

The amount receivable by the UPR from primary government represents a resolution approved by the Legislature to pay \$48.4 million to the UPR on behalf of the Puerto Rico Department of Health over the course of eight years. The outstanding balance of \$38.6 million is presented by the Commonwealth within notes payable in the statement of net assets of the governmental activities.

Due to from/to component units (expressed in thousands):

<u>Receivable entity</u>	<u>Amount</u>	<u>Payable entity</u>	<u>Amount</u>
Tourism Company of Puerto Rico	\$ 49,107	Puerto Rico Convention Center District Authority	\$ 49,107
University of Puerto Rico	11,439	Puerto Rico Medical Services Administration	11,439
Economic Development Bank for Puerto Rico	10,542	Puerto Rico Exports Development Corporation	10,542
Puerto Rico Electric Power Authority	9,230	Puerto Rico Medical Services Administration	9,230
Puerto Rico Electric Power Authority	7,891	Puerto Rico Aqueduct and Sewer Authority	7,891
Puerto Rico Ports Authority	7,190	Puerto Rico Maritime Transportation Authority	7,190
Farm Insurance Corporation of Puerto Rico	5,900	Agricultural Services and Development Administration	5,900
Puerto Rico Highway and Transportation Authority	3,296	Puerto Rico Aqueduct and Sewer Authority	3,296
Balance carried forward	\$ 104,595	Balance carried forward	\$ 104,595

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<u>Receivable entity</u>	<u>Amount</u>	<u>Payable entity</u>	<u>Amount</u>
Balance brought forward	\$ 104,595	Balance brought forward	\$ 104,595
Land Authority of Puerto Rico	3,012	Agricultural Services and Development Administration	3,012
Government Development Bank for Puerto Rico	1,227	Puerto Rico Infrastructure Financing Authority	1,914
Agricultural Services and Development Administration	<u>102</u>	Farm Insurance Corporation of Puerto Rico	<u>102</u>
	<u>108,936</u>		<u>109,623</u>
Government Development Bank for Puerto Rico	650,384	Puerto Rico Aqueduct and Sewer Authority	20,792
		Puerto Rico Infrastructure Financing Authority	10,019
		University of Puerto Rico	17,508
		State Insurance Fund Corporation	10,350
		Economic Development Bank for Puerto Rico	13,357
		Puerto Rico Ports Authority	250,493
		Puerto Rico Industrial Development Company	59,632
		National Parks Company of Puerto Rico	434
		Tourism Company of Puerto Rico	53,349
		Agricultural Services and Development Administration	25,114
		Land Authority of Puerto Rico	48,198
		Puerto Rico Metropolitan Bus Authority	313
		Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	125,452
		Puerto Rico Solid Waste Authority	17,730
		Employment and Training Enterprises Corporation	<u>3,000</u>
			<u>655,741</u>
	<u>\$ 759,320</u>		<u>\$ 765,364</u>

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The immaterial difference between due from/to component units resulted from the time lag between the dates that transactions are recorded by each discretely presented component unit and other reconciling items.

The balance due to the GDB amounting to \$655.7 million represents loans payable to GDB at June 30, 2002.

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

Primary government:		
Governmental activities	\$	272,193
Business-type activities		<u>1,053</u>
		273,246
Other governmental entities and municipalities		1,113,386
Private sector (net of \$34,610 presented within restricted assets)		<u>192,627</u>
Total loans receivable	\$	<u><u>1,579,259</u></u>

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

Expenses of the primary government include approximately \$2.4 billion in capital and operational contributions to the component units, comprised as follows (expressed in thousands):

Puerto Rico Health Insurance Administration	\$	1,010,041
University of Puerto Rico		672,291
Puerto Rico Aqueduct and Sewers Authority		147,981
Puerto Rico Infrastructure Financing Authority		90,071
Nonmajor component units		<u>457,678</u>
Total contributions from primary government to component units	\$	<u><u>2,378,062</u></u>

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(11) Restricted Assets

Restricted assets included in the basic financial statements at June 30, 2002 consist of cash, investments, and other assets to be used for the following purposes (expressed in thousands):

Primary government:

Debt service and sinking fund requirements	\$	904,834
Payment of lottery prizes		283,608
Construction fund		150,348
Cash available for deposit to sinking fund		126,962
Emergency fund		100,000
Other restricted assets of the Public Housing Administration		36,263
Disability benefits		34,497
Residual receipts from sale of properties		11,905
Proceeds from sales of assets		<u>8,837</u>
Total for primary government	\$	<u>1,657,254</u>

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

Governmental activities:

Accounts payable	\$	133,857
Interest payable		16,867
Tax revenue anticipation notes payable		800,000
Bonds and notes payable within one year		<u>33,731</u>
Liabilities payable from restricted assets – governmental activities	\$	<u>984,455</u>

Business-type activities:

Lottery prizes payable within one year	\$	30,788
Lottery prizes payable after one year		<u>252,247</u>
Liabilities payable from restricted assets – business-type activities	\$	<u>283,035</u>

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Component units:		
Debt service and sinking fund requirements	\$	3,836,928
Construction funds		727,255
Escrow		213,088
Financial assistance programs		184,810
Contingency reserve		82,864
Self-insurance fund		81,598
Other		53,761
Maintenance reserve fund		46,329
Educational fund		22,273
Development of infrastructure projects		17,109
Payment of incentive to farmers		10,644
Reserve for reinsurance claims		4,532
General reserve fund		3,710
Severance payment		3,497
Court order restriction		3,325
Film industry development activities		2,591
Purchase of assets		1,837
EDA reserve fund		1,766
Malpractice insurance fund		1,500
New Millennium Commission		216
Renewal and replacement fund		949
Judicial claim fund		852
Penalties		760
EPA monitoring		152
Child care		41
Disability insurance		37
Hurricane damages		21
Total for components units	\$	<u>5,302,445</u>

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(12) Capital Assets

Capital assets activity for the year ended June 30, 2002 is as follows (expressed in thousands):

Primary Government

	Beginning balance (as restated)	Increases	Decreases	Ending balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,063,792	32,388	504	1,095,676
Construction in progress	770,611	344,884	11,446	1,104,049
Total capital assets, not being depreciated	<u>1,834,403</u>	<u>377,272</u>	<u>11,950</u>	<u>2,199,725</u>
Capital assets, being depreciated:				
Buildings and building improvements	4,552,011	110,961	230	4,662,742
Equipment	248,766	19,401	4,155	264,012
Total capital assets, being depreciated	<u>4,800,777</u>	<u>130,362</u>	<u>4,385</u>	<u>4,926,754</u>
Less accumulated depreciation for:				
Buildings and building improvements	1,470,955	125,706	—	1,596,661
Equipment	117,086	25,764	6,467	136,383
Total accumulated depreciation	<u>1,588,041</u>	<u>151,470</u>	<u>6,467</u>	<u>1,733,044</u>
Total capital assets, being depreciated, net	<u>3,212,736</u>	<u>(21,108)</u>	<u>(2,082)</u>	<u>3,193,710</u>
Governmental activities capital assets, net	<u>\$ 5,047,139</u>	<u>356,164</u>	<u>9,868</u>	<u>5,393,435</u>
Business-type activities:				
Total capital assets, being depreciated – equipment	\$ 4,725	29	—	4,754
Less accumulated depreciation or equipment	2,200	359	—	2,559
Total business-type activities capital assets, being depreciated, net	<u>\$ 2,525</u>	<u>(330)</u>	<u>—</u>	<u>2,195</u>

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Depreciation expense was charged to functions/programs of the primary government as follows (expressed in thousands):

Governmental activities:	
General government	\$ 16,748
Public safety	16,022
Health	6,158
Public housing and welfare	68,630
Education	42,922
Economic development	990
Total depreciation expense – governmental activities	\$ 151,470
Total depreciation business-type activities – lotteries	\$ 359

The capital assets of the primary government have been adjusted (increased) as of the beginning of the year in the amount of \$1.8 billion to include primarily the buildings and building improvements of the DTPW and the Department of Sports and Recreation, both agencies of the Commonwealth, and to recognize the changes in capitalization thresholds as part of the adoption of GASB No. 34 for the fiscal year ended June 30, 2002. This adjustment was the result of a physical inventory taking of capital assets across all the Commonwealth's agencies and a reevaluation of the legal title of such assets. The capital assets were also adjusted (decreased) as of the beginning of the year in the amount of approximately \$1.6 billion to record depreciation for capital assets as part of the adoption of the provisions of GASB No. 34. The net adjustment increase of capital assets as a result of the adoption of GASB No. 34 amounted to approximately \$200 million.

Discretely Presented Component Units

	Beginning balance (as restated)	Increases	Decreases	Ending balance
Capital assets, not being depreciated:				
Land	\$ 2,195,660	8,871	43,633	2,160,898
Art works	1,923	—	—	1,923
Construction in progress	6,778,605	1,047,597	330,339	7,495,863
Total capital assets, not being depreciated	8,976,188	1,056,468	373,972	9,658,684
Capital assets, being depreciated:				
Buildings and building improvements	5,002,018	1,994,466	78,426	6,918,058
Equipment	3,266,687	80,530	1,248,542	2,098,675
Infrastructure	16,523,482	395,968	102	16,919,348
Total capital assets, being depreciated, carried forward	\$ 24,792,187	2,470,964	1,327,070	25,936,081

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Notes to Basic Financial Statements

June 30, 2002

	Beginning balance (as restated)	Increases	Decreases	Ending balance
Total capital assets, being depreciated, brought forward	\$ 24,792,187	2,470,964	1,327,070	25,936,081
Less accumulated depreciation for:				
Buildings and building improvements	3,476,143	293,250	9,130	3,760,263
Equipment	555,219	57,253	16,200	596,272
Infrastructure	6,760,182	267,465	90	7,027,557
Total accumulated depreciation	\$ 10,791,544	617,968	25,420	11,384,092
Total capital assets, being depreciated, net	\$ 14,000,643	1,852,996	1,301,650	14,551,989
Capital assets, net	\$ 22,976,831	2,909,464	1,675,622	24,210,673

(13) Tax Revenue Anticipation Notes Payable

Tax revenue anticipation notes payable in the general fund, issued on October 5, 2001, at an interest rate of 3% and due on July 30, 2002, amounted to \$800 million at June 30, 2002 plus accrued interest of approximately \$17 million. The proceeds of the tax revenue anticipation notes were used to cover a temporary cash deficiency resulting from the timing differences between tax collections and the payments of current expenditures.

(14) Long-Term Obligations

Primary Government

(a) Summary of Long-Term Obligations

Long-term obligations at June 30, 2002 and changes for the fiscal year then ended are as follows (expressed in thousands):

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	Balance at June 30, 2001 (as restated)	Debt/ refunding debt issued	Capitalized interest	Debt paid or defeased	Notes payable refunded	Net original issue (discounts) premiums	Discount accrual	Other net increases (decreases)	Balance at June 30, 2002 (as restated)	Due within one year
Governmental activities:										
Bonds payable	\$ 7,967,054	2,700,383	—	(1,972,827)	—	104,608	18,797	(116,726)	8,701,289	242,878
Commonwealth appropriation bonds	1,380,576	1,504,321	—	(44,765)	—	(2,334)	2,107	—	2,839,905	42,543
Notes payable:										
Third parties	1,018,096	—	17,538	(7,973)	—	—	—	—	1,027,661	1,014,562
Component units:										
GDB	1,504,418	640,854	116,806	(622,607)	(1,441,934)	—	—	74,424	271,961	129,154
Other	85,104	—	—	(14,897)	—	—	—	—	70,207	13,897
Compensated absences	1,199,712	—	—	—	—	—	—	(5,916)	1,193,796	776,292
Net pension obligation	2,616,110	—	—	—	—	—	—	603,940	3,220,050	—
Obligation under capital leases	120,684	6,164	—	(11,415)	—	—	—	—	115,433	10,969
Other liabilities:										
Employees' Christmas bonus	63,434	—	—	(63,434)	—	—	—	77,160	77,160	77,160
Liability for federal cost disallowances	94,684	—	—	(1,580)	—	—	—	(51,661)	41,443	41,443
Liability for legal claims and judgments	151,333	—	—	(28,951)	—	—	—	(44,154)	78,228	78,228
Other	2,039	—	—	—	—	—	—	461	2,500	—
Total governmental activities	16,203,244	4,851,722	134,344	(2,768,449)	(1,441,934)	102,274	20,904	537,528	17,639,633	2,427,126
Business-type activities:										
Debts payable to component units	—	1,053	—	—	—	—	—	—	1,053	—
Notes payable to third parties	2,523	—	—	(638)	—	—	—	—	1,885	950
Compensated absences	1,899	—	—	—	—	—	—	2,037	3,936	2,428
Obligation for unpaid lottery prizes	286,896	—	—	(459,501)	—	—	—	469,772	297,167	44,920
Liability for insurance benefits, including IBNR	131,839	—	—	(318,953)	—	—	—	337,202	150,088	150,088
Other long-term liabilities:										
Employees' Christmas bonus	72	—	—	(396)	—	—	—	578	254	254
Total business-type activities	423,229	1,053	—	(779,488)	—	—	—	809,589	454,383	198,640
Total governmental and business-type	\$ 16,626,473	4,852,775	134,344	(3,547,937)	(1,441,934)	102,274	20,904	1,347,117	18,094,016	2,625,766

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

Compensated absences, net pension obligation, obligation for unpaid lottery awards, liability for insurance benefits, and other long-term liabilities reflect other net increases (decreases) resulting from adjustments and changes to agree these obligations to their estimated balances at June 30, 2002.

(b) Debt Limitation

The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth, are not to be issued if the 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 (hereinafter internal revenue) in the two fiscal years preceding the then current fiscal year. Section 2, Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded. Internal revenue consists principally of income taxes and excise taxes. Certain revenue, such as federal excise taxes on offshore shipments of alcoholic beverages, tobacco products, and customs duties, which are collected by the U.S. government and returned to the Commonwealth, and motor vehicle fuel taxes and license fees, which are allocated to the PRHTA, a discrete component unit, are not included as revenue for the purpose of calculating the debt limit, although they may be available for the payment of debt service. At June 30, 2002, 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 notes of the Commonwealth and any payment required to be made by the Commonwealth under its guarantees of bonds issued by blended or discretely presented component units. The good faith, credit, and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal and interest of the general obligation bonds.

Law No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. The levy is made by the CRIM, a municipal corporation, not a component unit of the Commonwealth. MRCC is required to remit the 1.03% of property tax collected to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth. During the year ended June 30, 2002, the total revenue and receivable reported by the Commonwealth amounted to approximately \$102.6 million and \$18 million, respectively, which are included in the debt service fund.

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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 accreted interest to be repaid.

Bonds payable outstanding at June 30, 2002 is as follows (expressed in thousands):

	<u>General obligation</u>	<u>Revenue bonds</u>	<u>Total</u>
Term bonds payable through 2036; interest payable semiannually at rates varying from 3% to 8%.	\$ 2,393,580	1,135,020	3,528,600
Serial bonds payable through 2024; interest payable semiannually at rates varying from 3.75% to 7.5%.	3,079,060	748,090	3,827,150
Capital appreciation bonds payable through 2031; no interest rate, yield ranging from 4.42% to 7.8%. Net of accreted discount of \$190 million.	318,548	145,796	464,344
The Children's Trust fund tobacco settlement asset-backed bonds payable through 2026; interest payable annually at rates varying from 4.625% to 6%.	—	390,170	390,170
New housing authority bonds payable through 2010; interest payable annually at rates ranging from 2.125% to 6%.	—	92,740	92,740
Appropriation refunding bonds for low-income housing payable through 2005; interest payable at rates varying from 6.9% to 8%.	57,630	—	57,630
Bond payment obligation payable through 2008; interest payable at rates varying from 3.5% to 5.5%.	33,450	—	33,450
Bond payment obligation payable through 2009; interest payable at rates varying from 3.5% to 5.5%.	44,240	—	44,240
Bond payment obligation payable through 2010; interest payable at rates varying from 1.5% to 5.5%.	48,220	—	48,220
Deferred interest bonds payable through 2002; interest payable semiannually at 8%.	50,000	—	50,000
Balance carried forward	<u>\$ 6,024,728</u>	<u>2,511,816</u>	<u>8,536,544</u>

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	<u>General obligation</u>	<u>Revenue bonds</u>	<u>Total</u>
Balance brought forward	\$ 6,024,728	2,511,816	8,536,544
Yield curve bonds payable from 2009 through 2011; no interest rate, yield of 8.914%.	15,000	—	15,000
Tax-exempt components maturing through 2007 and 2008; interest at rates ranging from 5.5% to 5.6%.	—	72,160	72,160
Indexed inverse floaters maturing through 2016 with interest at 5.70%.	—	46,000	46,000
Inverse rate bonds payable from 2009 through 2011, at an interest rate of 6%.	15,000	—	15,000
Total	<u>6,054,728</u>	<u>2,629,976</u>	<u>8,684,704</u>
Unamortized premium (discount)	103,033	(34,706)	68,327
Deferred charges arising from debt refunding	(42,818)	(9,155)	(51,973)
Savings bonds	231	—	231
Total bonds payable	<u>\$ 6,115,174</u>	<u>2,586,115</u>	<u>8,701,289</u>

During the year ended June 30, 2002, the following changes occurred in the bonds payable (expressed in thousands):

	<u>Outstanding June 30, 2001 (as restated)</u>	<u>Issued</u>	<u>Premiums/ discount (redemptions)</u>	<u>Outstanding June 30, 2002</u>
Term bonds	\$ 3,057,805	911,885	(441,090)	3,528,600
Serial bonds	3,224,925	1,637,240	(1,035,015)	3,827,150
Capital appreciation bonds	575,808	54,423	(165,887)	464,344
The Children's Trust tobacco settlement asset-backed bonds	397,005	—	(6,835)	390,170
New housing authority bonds	103,829	—	(11,089)	92,740
Appropriation refunding bonds	78,830	—	(21,200)	57,630
Auction rate notes	136,600	—	(136,600)	—
Bond payment obligations	125,910	—	—	125,910
Yield curve bonds	121,600	—	(106,600)	15,000
Balance carried forward	<u>\$ 7,822,312</u>	<u>2,603,548</u>	<u>(1,924,316)</u>	<u>8,501,544</u>

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	Outstanding June 30, 2001 (as restated)	Issued	Premiums/ discount (redemptions)	Outstanding June 30, 2002
Balance brought forward	\$ 7,822,312	2,603,548	(1,924,316)	8,501,544
Tax-exempt components	72,160	—	—	72,160
Deferred interest bonds	50,000	—	—	50,000
Indexed inverse floaters	46,000	—	—	46,000
Inverse rate bonds	15,000	—	—	15,000
Qualified zone academic bonds	—	96,835	(96,835)	—
Subtotal	8,005,472	2,700,383	(2,021,151)	8,684,704
Unamortized premium (discount)	(38,649)	—	106,976	68,327
Deferred charges arising from debt refunding	—	—	(51,973)	(51,973)
Savings bonds	231	—	—	231
Total	<u>\$ 7,967,054</u>	<u>2,700,383</u>	<u>(1,966,148)</u>	<u>8,701,289</u>

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 242,878	387,983	630,861
2004	174,370	435,042	609,412
2005	153,314	436,604	589,918
2006	236,840	449,545	686,385
2007	223,504	458,873	682,377
2008-2012	1,421,593	1,799,363	3,220,956
2013-2017	1,678,863	1,417,398	3,096,261
2018-2022	1,945,648	883,167	2,828,815
2023-2027	1,133,775	475,625	1,609,400
2028-2032	1,028,934	225,613	1,254,547
2033-2037	254,663	38,016	292,679
Total	8,494,382	<u>7,007,229</u>	<u>15,501,611</u>
Plus accreted discount	190,553		
Plus: unamortized premium	68,327		
Less: deferred charges arising from debt refunding	<u>(51,973)</u>		
Total	<u>\$ 8,701,289</u>		

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(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 blended 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 conduit for the issuance of the bonds. The repayment source for these bonds consists of Commonwealth appropriations submitted for approval of the Legislature annually during the budget preparation process of the Commonwealth. The Legislature is not legally bound to appropriate funds for such repayments.

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

Health Facilities and Services Administration	\$	565,296
Office for the Improvement of Public Schools		355,895
Puerto Rico Maritime Shipping Authority		276,915
Property tax settlement		139,694
Act No. 164 restructuring:		
PFC 2002 Series A		578,276
PFC 2002 Series B		12,018
PFC 2001 Series C		344,618
PFC 2001 Series D		40,750
PFC 2001 Series E		526,443
Total Commonwealth appropriation bonds	\$	<u>2,839,905</u>

As of July 1, 1999 approximately \$595 million (including unpaid interest) of a promissory note of the Health Facilities and Services Administration (HFSA) due to GDB was transferred to the Department of Health of the Commonwealth and restructured through Commonwealth appropriation bonds. The bonds bear interest at rates ranging between 5.90% and 6.20%. Principal and interest on the bonds are payable solely from legislative appropriations to be made pursuant to Act No. 223 of August 9, 1998. The act provides that OMB shall include in the

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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. As of June 30, 2002, approximately \$565 million were still outstanding. Debt service requirements in future years are as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 17,388	33,918	51,306
2004	24,825	32,875	57,700
2005	26,315	31,385	57,700
2006	27,894	29,806	57,700
2007	29,568	28,132	57,700
2008-2012	176,675	111,825	288,500
2013-2017	262,631	28,999	291,630
Total	<u>\$ 565,296</u>	<u>296,940</u>	<u>862,236</u>

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 through the issuance of Commonwealth appropriation bonds pursuant to Act No. 85 of June 13, 1998 (Act 85). The bonds bear interest at rates ranging from 5.0% to 5.85%. As of June 30, 2002, approximately \$356 million were outstanding. Debt service requirements in future years are as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 7,835	18,380	26,215
2004	8,290	17,925	26,215
2005	8,725	17,488	26,213
2006	9,090	17,128	26,218
2007	9,470	16,746	26,216
2008-2012	55,180	75,902	131,082
2013-2017	71,575	59,501	131,076
2008-2022	92,815	38,263	131,078
2023-2026	92,915	11,956	104,871
Total	<u>\$ 355,895</u>	<u>273,289</u>	<u>629,184</u>

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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 bonds bear interest at a variable rate ranging from 3.00% to 7.30%. Debt service requirements in future years are as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 6,770	17,387	24,157
2004	7,235	16,921	24,156
2005	7,730	16,426	24,156
2006	8,265	15,889	24,154
2007	8,850	15,304	24,154
2008-2012	54,290	66,343	120,633
2013-2017	59,223	61,337	120,560
2018-2022	61,874	58,476	120,350
2023-2026	51,316	44,321	95,637
Total	265,553	\$ 312,404	577,957
Plus accreted discount	11,362		
Total	\$ 276,915		

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 bonds were issued for approximately \$192 million, bearing interest at rates ranging from 5.87% to 7.25%. Debt service requirements in future years are as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 10,550	7,393	17,943
2004	11,185	6,755	17,940
2005	12,415	5,991	18,406
2006	13,310	5,083	18,393
2007	14,285	4,103	18,388
2008-2012	62,188	29,770	91,958
2013-2017	15,761	39,434	55,195
Total	\$ 139,694	98,529	238,223

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.

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Approximately \$1.5 billion of the aforementioned outstanding obligations belong 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). These obligations were refunded under the following series of Commonwealth appropriation bonds:

PFC 2002 Series A – This series bearing interest rates from 5.45% to 6.25% has the following debt service requirements (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ —	33,685	33,685
2004	—	33,314	33,314
2005	—	33,314	33,314
2006	—	33,314	33,314
2007	—	33,314	33,314
2008-2012	108,782	156,080	264,862
2013-2017	153,982	137,779	291,761
2018-2022	200,647	86,950	287,597
2023-2025	150,996	10,453	161,449
	614,407	\$ 558,203	1,172,610
Discount, net	(36,131)		
Total	\$ 578,276		

PFC 2002 Series B – This series bearing interest rates from 4.95% to 5.05% has the following debt service requirements (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ —	609	609
2004	—	603	603
2005	—	603	603
2006	—	603	603
2007	—	603	603
2008-2009	12,018	438	12,456
Total	\$ 12,018	3,459	15,477

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PFC 2001 Series C – This series bearing interest rates from 4% to 6.15% has the following debt service requirements (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ —	20,188	20,188
2004	8,521	19,876	28,397
2005	8,606	19,493	28,099
2006	2,149	19,367	21,516
2007	1,553	19,287	20,840
2008-2012	62,478	86,585	149,063
2013-2017	83,019	70,761	153,780
2018-2022	111,720	38,325	150,045
2023-2025	72,257	4,190	76,447
	350,303	\$ 298,072	648,375
Discount, net	(5,685)		
Total	\$ 344,618		

PFC 2001 Series D – This series bearing interest rates from 3.7% to 5% has the following debt service requirements (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ —	1,964	1,964
2004	1,250	1,921	3,171
2005	2,000	1,838	3,838
2006	17,500	1,069	18,569
2007	20,000	83	20,083
Total	\$ 40,750	6,875	47,625

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PFC 2001 Series E – This series bearing interest rates from 5.5% to 6% has the following debt service requirements (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ —	30,635	30,635
2004	—	29,873	29,873
2005	—	29,873	29,873
2006	—	29,873	29,873
2007	—	29,873	29,873
2008-2012	—	149,363	149,363
2013-2017	—	149,363	149,363
2018-2022	—	149,363	149,363
2023-2027	139,849	142,085	281,934
2028-2031	<u>388,810</u>	<u>45,172</u>	<u>433,982</u>
	528,659	\$ <u>785,473</u>	<u>1,314,132</u>
Discount, net	<u>(2,216)</u>		
Total	\$ <u>526,443</u>		

As a result of the aforementioned refunding pursuant to Act No. 164, the Commonwealth increased its aggregate debt service payments by approximately \$792 million over the next 30 years and obtained an economic gain of approximately \$104 million.

(e) Notes Payable to Third Parties

The outstanding balance of notes payable by the Commonwealth to third parties is comprised of the following (expressed in thousands):

U.S. Department of Housing and Urban Development (HUD) notes	\$ 1,013,509
Federal financial bank notes	11,569
Farmers Home Administration and HUD mortgage notes	<u>2,583</u>
Total notes payable to third parties – governmental entities	\$ <u>1,027,661</u>
Notes payable to IBM – business-type activity	<u>\$ 1,885</u>

Both HUD and the federal financial bank notes are obligations of PRHA. The notes payable to HUD bear interest at rates ranging from 3.375% to 10%. Proceeds from these notes were used for the construction and modernization of the Commonwealth’s public housing projects. These notes will be forgiven, together with accrued interest, when PRHA completes the certification and closing procedures of certain projects, and amends its annual contribution contract with HUD. In the meantime, the notes continue accruing interest, which is capitalized into the notes principal balance. Since these notes carry no specific maturity, management has classified them as due

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within one year. The following presents the composition of the notes (expressed in thousands):

Principal balance	\$ 506,628
Accrued interest	<u>506,881</u>
Total	<u>\$ 1,013,509</u>

Presently, PRPHA is working to complete the aforementioned certifications and closing procedures. At June 30, 2002, no forgiveness of the notes had been granted by HUD.

The federal financial bank notes bear interest ranging from 10.62% to 16.16% and are payable in annual installments through November 2013. These notes are paid through annual contributions from the federal government as provided in the annual contribution contract with HUD. Debt service requirements in future years are as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 934	764	1,698
2004	996	702	1,698
2005	1,060	638	1,698
2006	1,091	566	1,657
2007	1,163	494	1,657
2008-2012	5,644	1,265	6,909
2013	<u>681</u>	<u>68</u>	<u>749</u>
Total	<u>\$ 11,569</u>	<u>4,497</u>	<u>16,066</u>

The notes payable at June 30, 2002 also included approximately \$2.6 million mortgage notes payable to the Farmers Home Administration and the HUD, secured by land. The notes are due in monthly installments of varying amounts, including annual interest rates ranging between 3.125% and 9% through the year 2022. Debt service requirements in future years are as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 125	225	350
2004	56	219	275
2005	62	214	276
2006	67	208	275
2007	74	202	276
2008-2012	486	890	1,376
2013-2017	958	693	1,651
2018-2022	<u>755</u>	<u>116</u>	<u>871</u>
Total	<u>\$ 2,583</u>	<u>2,767</u>	<u>5,350</u>

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The notes payable to IBM are represented by an installment sales contract agreement entered into with the Lottery of Puerto Rico for the purchase of certain computer equipment. The sales contract agreement is payable in monthly installments of \$74,000, including interest at the rate of 5.62%, through July 2004.

(f) Notes Payable to Component Units

The Commonwealth financed certain long-term liabilities through GDB and other component units.

The outstanding balance on the financing provided by GDB is comprised of the following (expressed in thousands):

Interim financing loan provided to the Department of the Treasury	\$ 89,849
Note payable assumed from the Puerto Rico Housing Bank and Finance Agency	62,498
Puerto Rico Court Administration Office loan	42,500
Department of Agriculture loan	30,247
Disaster assistance loan	23,195
Correction Administration loan	14,412
Office of the Superintendent of the Capitol loan	<u>9,260</u>
Total debt due to GDB	271,961

The remaining outstanding balance on the financing provided by other component units is comprised of the following:

Health facilities agreement payable to the Medical Science Campus of the UPR	38,610
Note payable to Puerto Rico Electric Power Authority	<u>31,597</u>
Total debt due to other component units	<u>70,207</u>
Total – governmental activities	<u>\$ 342,168</u>

Line of credit agreement with GDB for the Traditional Lottery – business-type activities	<u>\$ 1,053</u>
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The changes in notes payable to GDB during the fiscal year 2002, included two interim financing arrangements considered fund liabilities based on their short-term nature.

The PBA capital project fund had at June 30, 2001 advances outstanding from GDB in the amount of approximately \$231 million, represented by an interim construction line of credit, as part of the construction financing activities of PBA. During the fiscal year 2002, additional funds were drawn from this line amounting to approximately \$140 million, but before the end of the year, PBA repaid the then outstanding balance of \$371 million, with the proceeds of certain bond issues.

The other short-term financing arrangement consisted of an interim line of credit not to exceed \$93 million, for the purpose of completing the first installment of the outstanding obligations with

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GDB, restructured pursuant to Act No. 164 of December 17, 2001. This interim line of credit, bearing a variable interest rate based on GDB's weighted average rate for its commercial paper program is due no later than April 2003. The amount outstanding at June 30, 2002 was \$89.8 million and had accrued interest of \$321,000.

Pursuant to Act No. 103 of August 11, 2001, the Housing Bank, formerly a discretely presented component unit of the Commonwealth, merged with and into the Puerto Rico Housing Finance Corporation, a blended component unit of GDB, which was redenominated as the new Housing Finance Authority. This legislation established that pursuant to the aforementioned merger, any residual amount of net assets of the Housing Bank would be transferred to the general fund of the Commonwealth. At the same time, a \$75 million line of credit that the Housing Bank had with GDB was also assumed by the general fund of the Commonwealth pursuant to this same legislation. This line of credit, bearing a variable interest rate (approximately 5.49% at June 30, 2002) is due on June 30, 2004. The amount outstanding at June 30, 2002 was \$62.5 million after a partial payment of \$12.5 million made during the year. Annual interest commitment until the maturity of this debt assuming the rate of interest at June 30, 2002, would approximate \$3.5 million.

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 months London Interbank Offered Rate (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 will be pledged for repayment until July 31, 2012. As of June 30, 2002, approximately \$42.5 million remains outstanding. Debt service requirements in future years are as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 2,040	1,687	3,727
2004	3,977	2,023	6,000
2005	4,176	1,824	6,000
2006	4,385	1,615	6,000
2007	4,604	1,396	6,000
2008-2012	<u>23,318</u>	<u>3,288</u>	<u>26,606</u>
Total	<u>\$ 42,500</u>	<u>11,833</u>	<u>54,333</u>

On August 9, 1999, the Department of Agriculture of the Commonwealth entered into a \$125 million nonrevolving line-of-credit agreement with GDB to provide economic assistance to the agricultural sector, which sustained severe damages caused by Hurricane Georges in 1998.

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Borrowings under this line-of-credit agreement bear interest at variable rates and are payable upon the maturity of the line of credit on September 30, 2004. As of June 30, 2002, \$30.2 million were outstanding. The line of credit will be repaid from future legislative appropriations. Debt service requirements in future years are as follows (expressed in thousands):

Year ending June 30,	Principal	Interest	Total
2003	\$ 9,069	930	9,999
2004	21,178	1,059	22,237
Total	\$ 30,247	1,989	32,236

The disaster assistance loan of approximately \$93.9 million was used to repay a debt for such amount to the U.S. Federal Emergency Management Agency, which funded the Commonwealth's share of the relief grants for the residents of Puerto Rico affected by Hurricane Hugo in 1989. As of June 30, 2002, approximately \$23.2 million were outstanding. Debt service requirements in future years are as follows (expressed in thousands):

Year ending June 30,	Principal	Interest	Total
2003	\$ 11,127	1,018	12,145
2004	11,552	603	12,155
2005	516	25	541
Total	\$ 23,195	1,646	24,841

On August 28, 2000, GDB approved an amendment to the terms of two lines-of-credit agreements of the Correction Administration by which such debts would be repaid between fiscal years 2000 and 2004. The two agreements were issued by GDB in August 1998 to partially fund permanent improvements to correctional facilities. The agreements have variable interest rate and limits of \$60 million and \$15 million. Their outstanding balance as of June 30, 2002 is \$14.4 million, which requires repayment of \$14 million in 2003 and \$361,000 in 2004. Interest repayment requirements are estimated in \$226,000 in 2003 and \$10,000 in 2004.

On June 21, 2001 the Office of the Superintendent of the Capitol (Superintendent) entered into a \$10 million line-of-credit agreement with GDB for the construction of a parking lot. Borrowings under this line-of-credit agreement bear interest at a fixed rate of 8% and are payable from future legislative appropriations commencing in fiscal year 2003 through fiscal year 2006. As of June 30, 2002, only \$7.9 million had been drawn from the line of credit. Debt service requirements in future years are estimated as follows (expressed in thousands):

Year ending June 30,	Principal	Interest	Total
2003	\$ 1,684	821	2,505
2004	2,213	500	2,713
2005	2,316	323	2,639
2006	1,723	138	1,861
Total	\$ 7,936	1,782	9,718

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On February 15, 2002, the Superintendent entered into an additional \$10 million line-of-credit agreement with GDB for the acquisition and remodeling of several buildings under their jurisdiction. Borrowings under this line-of-credit agreement bear interest at a fixed rate of 8% and are payable from future legislative appropriations commencing in fiscal year 2003 through fiscal year 2008. As of June 30, 2002, only \$1.3 million had been drawn from the line-of-credit agreement. Although the amount drawn through June 30, 2002 is expected to be repaid within one year, this line of credit is nevertheless classified as long term since the maximum amount of \$10 million, when drawn completely will be repaid in various installments through fiscal year 2008.

As of July 1, 1999, approximately \$102 million from various agreements with the UPR, a discretely presented component unit, in relation to outstanding noninterest-bearing debt accumulated in prior years by the former HFSA were transferred to the Commonwealth. As of June 30, 2002, approximately \$38.6 million are outstanding. Future amounts required to pay principal balances at June 30, 2002 are as follows (expressed in thousands):

<u>Year ending June 30,</u>	
2003	\$ 7,570
2004	7,570
2005	7,570
2006	7,570
2007	7,570
2008	760
Total	<u>\$ 38,610</u>

The noninterest bearing note payable to PREPA, a discretely presented component unit, consists of approximately \$37.9 million of fuel adjustment subsidy due by the Commonwealth. The yearly amortization will vary depending on the gross electric sales for the year. The amortized amount for the year ended June 30, 2002 was approximately \$6.3 million. Future amounts required to pay principal balances at June 30, 2002 are as follows (expressed in thousands):

<u>Year ending June 30,</u>	
2003	\$ 6,327
2004	6,327
2005	6,327
2006	6,326
2007	6,290
Total	<u>\$ 31,597</u>

The Department of the Treasury of the Commonwealth entered into a line-of-credit agreement with GDB for the purpose of financing the costs of lottery a new series of tickets for the Lottery of Puerto Rico. The note establishes a credit line limit of \$2.5 million, maturing on July 1, 2007 and accruing interest at a rate of 6.5%. Annual interest payment commitments through 2007 are estimated in \$68,000. The amount outstanding as of June 30, 2002, is approximately \$1 million.

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(g) *Compensated Absences*

Long-term debt includes approximately \$1,198 million accrued vacations and sick leave benefits at June 30, 2002, representing the Commonwealth's commitment to fund such costs from future operations. The total liability of compensated absences recorded as governmental and business-type activities amounted to \$1,194 million and \$4 million, respectively.

(h) *Net Pension Obligation*

The amount reported as net pension obligation of approximately \$3.2 billion represents the cumulative amount owed by the Commonwealth for the unfunded prior years' actuarially required pension contributions to the ERS, the JRS, and the TRS (collectively known as the pension plans) (see note 19). The net pension obligation has been recorded as a governmental activity in the accompanying government-wide statement of net assets.

(i) *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, 2002. The minimum annual payments related to unpaid awards of both lotteries are as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 44,920	800	45,720
2004	28,900	2,700	31,600
2005	27,200	900	28,100
2006	25,400	6,200	31,600
2007	23,600	8,000	31,600
2008-2012	95,034	59,165	154,199
2013-2017	43,300	51,400	94,700
2018-2022	8,813	15,692	24,505
Total	<u>\$ 297,167</u>	<u>144,857</u>	<u>442,024</u>

The minimum annual payments related to unpaid prizes excluded expired tickets of approximately \$3.8 million in 2002.

The liability for unpaid lottery prizes is reported in the accompanying government-wide statement of net assets and the statement of net assets – business-type activities – enterprise funds.

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Notes to Basic Financial Statements

June 30, 2002

(j) *Liability for Insurance Benefits Claims*

The Commonwealth provides unemployment compensation, nonoccupational disability, and drivers' insurance coverage to public and private employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth. These insurance programs cover workers against unemployment, temporary disability, or death because of work or employment-related accidents, or because of illness suffered as a 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 government-wide statement of net assets and the statement of net assets – business-type activities – enterprise funds.

(k) *Obligations under Capital Lease Purchase Arrangements*

The Commonwealth is obligated under capital leases with third parties that expire through 2032 for land, buildings, and equipment. At June 30, 2002, the capitalized cost of the land, buildings, and equipment amounted to approximately \$136 million and is included in the accompanying government-wide statement of net assets within property and equipment. The present value of future minimum capital lease payments at June 30, 2002 reported in the accompanying government-wide statement of net assets is as follows (expressed in thousands):

<u>Year ending June 30,</u>	
2003	\$ 20,109
2004	18,619
2005	13,927
2006	11,859
2007	8,953
2008-2012	41,276
2013-2017	40,813
2018-2022	32,269
2023-2027	31,319
2028-2032	<u>20,638</u>
Total future minimum lease payments	239,782
Less: amount representing interest costs	<u>124,349</u>
Present value of minimum lease payments	<u>\$ 115,433</u>

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Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2002, include the following (expressed in thousands):

Land	\$	6,780
Buildings		89,112
Equipment		<u>35,826</u>
Subtotal		131,718
Less: accumulated amortization		<u>(26,444)</u>
Total	\$	<u>105,274</u>

Amortization charge applicable to capital leases and included within depreciation expense of capital assets amounted to approximately \$8.7 million in 2002.

The Commonwealth is also committed under numerous operating leases, covering land, office facilities and equipment. Rental expenditures within the governmental funds for the year ended June 30, 2002 under such operating leases were approximately \$147 million. The future minimum lease payments for these leases are as follows (expressed in thousands):

<u>Year ending June 30,</u>		
2003	\$	77,867
2004		53,358
2005		39,422
2006		23,046
2007		10,652
2008-2012		19,142
2013-2017		8,202
2018-2022		4,650
2023-2027		<u>1,915</u>
Total future minimum lease payments	\$	<u>238,254</u>

(l) Other Long-Term Liabilities

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

	<u>Governmental activities</u>	<u>Business-type- activities</u>	<u>Total</u>
Employees' Christmas bonus	\$ 77,160	254	77,414
Liability for federal cost disallowances	41,443	—	41,443
Liability for legal claims and judgments	78,228	—	78,228
Other	<u>2,500</u>	—	<u>2,500</u>
Total	\$ <u>199,331</u>	<u>254</u>	<u>199,585</u>

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Notes to Basic Financial Statements

June 30, 2002

(m) *Advance Refunding, Defeased Bonds, and Refunding of Special Promissory Notes*

The Commonwealth advance refunded certain general obligation bonds through the issuance of approximately \$1,440 million of general obligation public improvements refunding bonds during the year ended June 30, 2002. The Commonwealth used approximately \$1,422.7 million from the net proceeds of the issued bonds to purchase U.S government securities, which were deposited in an irrevocable trust fund with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities have therefore been removed from the statement of net assets. As a result of this advance refunding, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has increased its aggregate debt service payments by approximately \$278 million over the next 24 years and obtained an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$12.7 million. At June 30, 2002, approximately \$1,377 million of the bonds refunded during the year ended June 30, 2002 remain outstanding and are considered defeased.

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of bonds in an irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trusts' account assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2002, approximately \$731,430 million of bonds outstanding from prior years advance refunding are considered defeased.

In addition, the PBA a blended component unit, has defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debts 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. As of June 30, 2002, approximately \$1,477 million of PBA bonds are considered defeased.

During November 2001, the Department of Education of the Commonwealth issued a certification whereby certain Commonwealth public schools were designated as a "qualified zone academy" pursuant Section 1397E of the U.S. Internal Revenue Code of 1986, as amended. On December 12, 2001, PFC, a blended component unit of GDB, issued \$96.8 million of QZAB to finance expenditures of the Department of Education of the Commonwealth under the aforementioned program, including rehabilitation and repairs of school buildings and other facilities, the development and implementation of academic curricula, technology training for some schools and the costs of issuance of the bonds. The QZAB are payable upon its maturity on December 11, 2015, with interest costs on the bonds being absorbed by the federal government. Simultaneous with the QZAB issuance, The Children's Trust, a blended component unit of the Commonwealth, granted \$47.2 million to the Department of Education of the Commonwealth, which in turn deposited the moneys to the credit of an escrow trust account invested in guaranteed investment contracts that will be used solely for the repayment in 2015 of the QZAB. At June 30, 2002, the QZAB are considered defeased and the difference between the bonds amount and the amount deposited in the escrow account has been deferred, and is amortized into income over the term of the bonds.

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Fiduciary Funds

On August 1, 1996 the TRS entered into a loan agreement with AFICA, a discretely presented component unit, to secure AFICA's issuance of \$26.9 million of Industrial Revenue Term Bonds. The bonds were issued under a trust agreement and are secured by a pledge of certain marketable securities of the TRS.

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

Bonds payable outstanding at June 30, 2002, are as follows (expressed in thousands):

Term Bonds Series A payable through 2012 interest payable on a monthly basis at rates varying from 6.50% to 6.65%	\$ 9,010
Term Bonds Series B payable through 2022 interest payable semiannually at 5.50%	<u>14,643</u>
Total	<u>\$ 23,653</u>

Maturities of the term bonds are as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 665	1,391	2,056
2004	710	1,345	2,055
2005	755	1,296	2,051
2006	805	1,244	2,049
2007	855	1,189	2,044
2008-2012	5,220	4,953	10,173
2013-2017	6,575	3,319	9,894
2018-2022	<u>8,068</u>	<u>1,235</u>	<u>9,303</u>
Total	<u>\$ 23,653</u>	<u>15,972</u>	<u>39,625</u>

The Series A and Series B Bonds are subject to redemption, at the option of the TRS, in whole or in part on July 1, 2006, or any date thereafter at the determined redemption prices, plus accrued interest to the redemption date as follows:

July 1, 2006 through June 30, 2007	102%
July 1, 2007 through June 30, 2008	101%
July 1, 2008 and thereafter	100%

On October 26, 2001, the ERS entered into a \$100 million credit line facility agreement with a local commercial bank, bearing interest at the rate of 25 basis points over the 90-day LIBOR and maturing on September 5, 2002. During fiscal year 2002, disbursements and repayments on the credit facility amounted to \$75.5 million and \$61.5 million, respectively, resulting in an outstanding balance at June 30, 2002 of \$14 million. Interest rates at June 30, 2002 averaged approximately 2.2%.

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Discretely Presented Component Units

Notes and bonds payable are those liabilities that are paid out of resources pledged by the other component units. These notes and bonds do not constitute a liability or debt of the Commonwealth.

Notes payable outstanding at June 30, 2002 are as follows (expressed in thousands):

Component unit	Interest rate	Maturity through	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
Government Development Bank for Puerto Rico	1.46%	2003	\$ 1,271,671	6,586,838	(7,459,763)	398,746	398,746
Puerto Rico Highway and Transportation Authority	5.74%	2035	300,000	—	—	300,000	—
Puerto Rico Electric Power Authority	LIBOR minus 3%	2004	5,000	—	—	5,000	—
State Insurance Fund Corporation	Discounted notes	2019	59,360	—	(682)	58,678	905
Economic Development Bank for Puerto Rico	1.48% – 6.90%	2015	85,806	83,688	(25,000)	144,494	58,943
Puerto Rico Industrial Development Company	6.625% – 6.8125%	2012	13,325	8,146	(867)	20,604	9,075
Puerto Rico Ports Authority	Variable	2003	—	15,000	—	15,000	15,000
Total notes payable – component units			<u>\$ 1,735,162</u>	<u>6,693,672</u>	<u>(7,486,312)</u>	<u>942,522</u>	<u>482,669</u>

Notes payable of \$125 million of PREPA, not included in the table above, have no fixed maturity date and variable interest rates. For financial reporting purposes, these notes have been classified as due within one year. These had no additions or reductions during 2002.

Debt service requirements on component units' notes payable with fixed maturities at June 30, 2002, were as follows (expressed in thousands):

Year ending June 30,	Principal	Interest	Total
2003	\$ 482,669	26,737	509,406
2004	12,189	24,417	36,606
2005	57,405	23,610	81,015
2006	2,496	23,218	25,714
2007	7,103	23,048	30,151
2008-2012	48,709	108,425	157,134
2013-2017	85,724	86,811	172,535
2018-2022	53,181	63,826	117,007
2023-2027	58,300	49,085	107,385
2028-2032	77,060	30,326	107,386
2033-2037	57,686	6,741	64,427
Total	<u>\$ 942,522</u>	<u>466,244</u>	<u>1,408,766</u>

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Notes to Basic Financial Statements

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Commonwealth appropriation bonds payable outstanding at June 30, 2002 are as follows (expressed in thousands):

<u>Component unit</u>	<u>Interest rate</u>	<u>Maturity through</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Puerto Rico Aqueduct and Sewer Authority	4% – 6.15%	2031	\$ —	712,130	—	712,130	—
Tourism Company of Puerto Rico	4% – 6.15%	2031	—	127,115	—	127,115	—
Land Authority of Puerto Rico	4% – 6.15%	2031	—	111,058	—	111,058	—
Government Development Bank for Puerto Rico	4% – 6.15%	2031	—	10,029	—	10,029	—
Puerto Rico Infrastructure Financing Authority	4% – 6.15%	2031	—	10,331	—	10,331	—
Puerto Rico Solid Waste Authority	4% – 6.15%	2031	—	15,521	—	15,521	—
Total appropriation bonds – component units			\$ —	986,184	—	986,184	—

Debt service requirements on component units' appropriation bonds payable with fixed maturities at June 30, 2002, were as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ —	51,837	51,837
2004	10,295	50,295	60,590
2005	10,399	49,884	60,283
2006	2,597	49,748	52,345
2007	1,875	49,662	51,537
2008-2012	175,460	237,724	413,184
2013-2017	84,334	220,583	304,917
2018-2022	119,100	185,808	304,908
2023-2027	212,730	142,087	354,817
2028-2032	369,394	43,741	413,135
Total	\$ 986,184	1,081,369	2,067,553

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Bonds payable outstanding at June 30, 2002 are as follows (expressed in thousands):

<u>Component unit</u>	<u>Interest rate</u>	<u>Maturity through</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Government							
Development Bank for Puerto Rico	5% – 6.25%	2006	\$ 1,671,989	156,729	341,400	1,487,318	129,809
Puerto Rico							
Infrastructure Financing Authority	Variable	2028	2,069,295	—	60,920	2,008,375	23,935
University of Puerto Rico	3% – 5.75%	2030	467,909	1,868	19,266	450,511	20,185
Puerto Rico Municipal Finance Authority	5% – 8.62%	2023	1,021,771	—	64,432	957,339	64,700
Puerto Rico Ports Authority	5% – 7.30%	2021	97,565	—	7,580	89,985	7,895
Puerto Rico Aqueduct and Sewer Authority	3.5% – 8.22%	2040	440,031	412,438	17,999	834,470	1,296
Puerto Rico Highway and Transportation Authority	Various	2041	3,904,492	1,106,258	528,335	4,482,415	81,925
Puerto Rico Industrial Development Company	5.375% – 7.75%	2021	189,486	—	5,453	184,033	6,515
Puerto Rico Electric Power Authority	3.8% – 7%	2031	4,237,155	516,635	125,862	4,627,928	280,070
Total bonds – component units			\$ 14,099,693	2,193,928	1,171,247	15,122,374	616,330

Debt service requirements on component units' bonds payable with fixed maturities at June 30, 2002, were as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 616,330	662,870	1,279,200
2004	529,367	781,843	1,311,210
2005	488,980	760,753	1,249,733
2006	559,018	733,977	1,292,995
2007	539,470	705,676	1,245,146
2008-2012	2,389,194	3,037,420	5,426,614
2013-2017	2,961,077	2,505,071	5,466,148
2018-2022	2,447,799	1,906,239	4,354,038
2023-2027	2,489,787	1,308,629	3,798,416
2028-2032	1,666,013	692,443	2,358,456
2033-2037	1,099,258	343,881	1,443,139
2038-2042	646,044	80,201	726,245
Total	16,432,337	\$ 13,519,003	29,951,340
Less: discounts, net	(1,309,963)		
	\$ 15,122,374		

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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. As of June 30, 2002, \$1,935 million are considered defeased and pertain to the following component units:

<u>Component units</u>	<u>Amount outstanding at June 30, 2002 (in millions)</u>
Puerto Rico Highway and Transportation Authority	\$ 857
Puerto Rico Electric Power Authority	723
Puerto Rico Municipal Finance Agency	247
Puerto Rico Industrial Development Company	103
Puerto Rico Aqueduct and Sewer Authority	<u>5</u>
Total	<u>\$ 1,935</u>

(15) 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, 2002, the following component unit debts are guaranteed by the Commonwealth (expressed in thousands):

	<u>Maximum guarantee</u>	<u>Outstanding balance</u>
Blended component unit:		
Public Buildings Authority	\$ 2,100,000	2,106,970
Discretely presented component units:		
Puerto Rico Aqueduct and Sewer Authority	673,790	576,864
Government Development Bank for Puerto Rico	<u>625,000</u>	<u>342,000</u>
Total	<u>\$ 3,398,790</u>	<u>3,025,834</u>

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

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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 discounts) as of June 30, 2002 for the next five years and thereafter follows (expressed in thousands):

Year ending June 30,	Principal	Interest	Total
2003	\$ 64,813	63,164	127,977
2004	33,075	113,921	146,996
2005	26,276	112,888	139,164
2006	52,834	112,460	165,294
2007	55,680	112,792	168,472
2008-2012	407,356	451,920	859,276
2013-2017	379,550	352,594	732,144
2018-2022	316,350	257,573	573,923
2023-2027	272,755	183,353	456,108
2028-2032	258,969	144,762	403,731
2033-2037	232,335	38,016	270,351
Total	\$ 2,099,993	1,943,443	4,043,436

Rental income of PBA amounted to approximately \$253 million during the year ended June 30, 2002, of which \$163 million was used to cover debt service obligations.

Law 45 of July 28, 1994, states that the Commonwealth guarantees the payment of principal and interest of all outstanding bonds at the date the law was enacted and of all future bond issues to refinance those outstanding bonds of PRASA. During December 1995, PRASA issued refunding bonds to refinance all outstanding bonds amounting to approximately \$400.3 million. The outstanding balance of these refunding bonds at June 30, 2002, amounted to \$303.4 million. Law No. 140 of August 3, 2000, amended Law 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 Law No. 140, and of all future bonds and SRFP loans that may be issued until June 30, 2005. The outstanding balance of the Rural Development Serial Bonds and SRFP loans at June 30, 2002 amounted to \$141.2 million and \$132.3 million, respectively.

The Commonwealth guarantees the Adjustable Refunding Bonds, Series 1985, issued by GDB, a discretely presented component unit. The outstanding balance of these bonds amounts to \$267 million at June 30, 2002.

The Housing Bank, a former component unit of the Commonwealth, which merged with and into GDB during 2002 (see notes 4 and 21), insured mortgages granted to low- and moderate-income families through its mortgage loan insurance program. The Commonwealth guarantees up to \$75 million of such mortgage loans. As of June 30, 2002 the mortgage loan insurance program was insuring loans aggregating \$365 million. Currently, the Commonwealth has not been called to make any direct payments pursuant to these guarantees.

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(b) Appropriation Debt

At June 30, 2002, the outstanding balances of debt payable by government appropriations and which are included in the individual financial statements of these entities are as follows (expressed in thousands):

Component units:

Puerto Rico Infrastructure and Financing Authority	\$ 971,508
Puerto Rico Aqueduct and Sewer Authority	1,119,879
Government Development Bank for Puerto Rico	289,822
Tourism Company of Puerto Rico	183,837
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	125,452
Puerto Rico Land Authority	114,586
Puerto Rico Solid Waste Authority	38,034
Puerto Rico Metropolitan Bus Authority	314
Agricultural Services and Development Administration	10,000
Employment and Training Enterprises Corporation	3,000
Other governmental entities	<u>19,835</u>
	<u>\$ 2,876,267</u>

(16) Conduit Debt Obligations

From time to time, certain of the Commonwealth's component units issue revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of transportation, environmental, industrial, tourism, educational, commercial facilities, and Caribbean Basin projects deemed to be in the public interest and that are expected to provide benefits to Puerto Rico. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. Neither the Commonwealth, nor any political subdivision or component unit thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the basic financial statements of the issuing entities. As of June 30, 2002, conduit debt obligations consisted of the following bonds issued by component units (expressed in thousands):

<u>Issuing entity</u>	<u>Issued since inception to date</u>	<u>Amount outstanding</u>
Discretely presented component units:		
Caribbean Basin Projects Financing Authority	\$ <u>676,000</u>	<u>42,000</u>
Puerto Rico Ports Authority	\$ <u>155,410</u>	<u>155,410</u>
Puerto Rico Highway and Transportation Authority	\$ <u>117,000</u>	<u>116,757</u>
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	\$ <u>5,733,000</u>	<u>2,980,000</u>

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

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

(b) *Puerto Rico Ports Authority*

The PRPA issued Special Facilities Revenue Bonds (1993 Series A) under the provisions of a trust agreement between PRPA and a private bank. The proceeds from the sale of the bonds were used to finance the construction of facilities, acquisition of equipment, and improvements to the Luis Muñoz Marín International Airport, for the benefit of a major private airline. The property is owned by PRPA and leased to the private company. Pursuant to the agreement between PRPA and the private company, the bonds will be paid from the rent collected from the airline in amounts sufficient to pay principal, premium (if any), and interest on the bonds. The airline has guaranteed these payments.

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

In March 1992, PRHTA issued Special Facility Revenue Bonds for approximately \$117 million for the construction of a toll bridge. The proceeds from the sale of these bonds were transferred by PRHTA to a private entity, pursuant to a signed agreement for the construction, transfer, and operation of the bridge. The bonds shall be paid from the proceeds received by the private entity from the operations of the bridge. However, under certain circumstances, the private entity may have the right of terminating the agreement and PRHTA will assume the obligation to pay the bonds.

(d) *AFICA*

The revenue bonds of AFICA are used to finance facilities for environmental control, development of industrial and commercial companies, tourism projects, hospitals, and educational facilities. Pursuant to the loan agreements, the proceeds from the sales were borrowed by corporations and partnerships operating in Puerto Rico. The bonds are limited obligations of AFICA and, except to the extent payable from bond proceeds and investment thereof, will be payable solely from and secured by a pledge and assignment of the amounts payable under the loan agreements between AFICA and each borrower. Furthermore, payment of the principal and interest on the revenue bonds is unconditionally guaranteed by each of the borrowers, their parent companies, or letters of credit from major U.S. banks or U.S. branches of international banks.

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(17) Risk Management

The risk management program of the Commonwealth and most of its discretely component units are described in note 1(y). The following describes the risk management programs separately administered by certain discretely presented component units.

(a) UPR

The 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. The UPR carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Under Act No. 98 of August 24, 1994, the responsibility of UPR on medical malpractice claims 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 risks liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the claim liabilities amount for the current and prior fiscal years were as follows (expressed in thousands):

	<u>2002</u>	<u>2001</u>
Claims payable at beginning of year	\$ 13,465	13,355
Incurred claims and changes in estimates	4,043	5,212
Net payments for claims and adjustment expenses	<u>(4,753)</u>	<u>(5,102)</u>
Claims payable at end of year	<u>\$ 12,755</u>	<u>13,465</u>

Claims payable are reported as accounts payable and accrued liabilities in the accompanying statement of net assets.

(b) PREPA

PREPA is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Under the property and liability insurance program, PREPA provides coverage, among other things, for up to a maximum of \$250,000 for each general and liability claim, and \$2 million for each boiler and machinery and property liability claim. In addition, the property liability policy imposes windstorm and earthquake deductibles at 2% and 5% of the location's value subject to a maximum deductible of \$25 million per occurrence. PREPA purchases commercial insurance for claims in excess of coverage provided through the property and liability insurance program. PREPA considers its self-insurance fund adequate to provide for its self-insurance risk. Claims

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expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

In addition, PREPA is self-insured for damage to its transmission and distribution lines. Transmission and distribution lines amounted to approximately \$3 billion and \$2.8 billion at June 30, 2002 and 2001, respectively. PREPA's self-insurance fund provides for its self-insurance risk. This fund represents, principally net assets and restricted assets set-aside for self-insurance amounting to approximately \$77.4 million and \$73.4 million as of June 30, 2002 and 2001, respectively.

PREPA has a cost plus health insurance program covering substantially all its employees. PREPA contracted an administrator for the processing, approval, and payment of claims at cost plus an administrative fee. The accrual includes claims processed and an estimate for claims incurred but not reported.

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

	<u>2002</u>	<u>2001</u>
Claims payable at beginning of year	\$ 46,822	40,921
Incurred claims	90,269	95,344
Claims payment	<u>(98,323)</u>	<u>(89,443)</u>
Claims payable at end of year	<u>\$ 38,768</u>	<u>46,822</u>

Claims payable is reported as accounts payable and accrued liabilities in the accompanying statement of net assets.

(c) **PRASA**

PRASA is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Under the property insurance program, PRASA has a \$200 million blanket insurance on all real and personal property. The deductible for windstorm and flood is 2% and 5% for earthquake with a maximum amount of \$5 million. All other perils have a deductible of \$100,000 per occurrence except underground perils which have a \$1.5 million deductible.

The comprehensive general liability and automobile liability has basic limits of \$3 million and the umbrella is \$50 million per occurrence. The general liability coverage has a deductible of \$100,000 subject to an annual stop loss limit of \$2.25 million.

The boiler and machinery policy has an \$18 million aggregate coverage, the directors and officers liability policy has a \$12 million aggregate coverage, the travel/ accident policy has a \$2 million aggregate coverage, and the accident and health driver's policy has \$250,000 aggregate coverage.

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Also, crime insurance policy is provided with \$1 million fidelity bond, and an insurance coverage of \$500,000 for the premises, transit, and depositors forgery. There is a sublimit of \$20,000 for money orders and counterfeit currency coverage.

PRASA's insurance program is carried out by insurance brokers in coordination with PRASA's insurance office. Claims and liabilities are accounted for when it is probable that a claim has occurred and the amount of loss can be reasonably estimated. For the years ended June 30, 2002 and 2001, PRASA had a claims liability amounting to \$1.1 million and \$3 million, respectively, for insurance claims incurred but not reported.

PRASA has a cost plus health insurance program covering its managerial employees. The plan administrator has a contract for the processing, approval, and payment of claims at cost plus an administrative fee. PRASA incurred health insurance claims, including an estimate for incurred but not reported claims, of approximately \$3.3 million and \$3.2 million for the years ended June 30, 2002 and 2001, respectively.

(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 following table provides a reconciliation of the beginning and ending liability for incurred but unpaid benefits and benefit adjustment expenses for the years ended June 30, 2002 and 2001 (expressed in thousands):

	<u>2002</u>	<u>2001</u>
Liability for incurred but unpaid benefits and benefit adjustment expenses at beginning of year	\$ <u>946,431</u>	<u>870,459</u>
Incurred benefits related to:		
Insured events of the current year	223,771	259,976
Insured events of prior years	<u>162,356</u>	<u>223,620</u>
Total incurred benefits	<u>386,127</u>	<u>483,596</u>
Benefit payments related to:		
Insured events of the current year	218,825	230,868
Insured events of prior years	<u>174,110</u>	<u>176,756</u>
Total benefit payments	<u>392,935</u>	<u>407,624</u>
Liability for incurred but unpaid benefits and benefit adjustment expenses at end of year	\$ <u><u>939,623</u></u>	<u><u>946,431</u></u>

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The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as accounts payable and accrued liabilities in the accompanying statement of net assets.

The liability for compensation benefits is based on historical claims experience data, assumptions and projections as to future events, including claims frequency, severity, persistency, and inflationary trends determined by an independent actuary. The liability for benefits and expenses payable has been discounted at 3% and 5% in 2002 and 2001, respectively. The actuarial study considered the experience of SIFC from fiscal years 1987-1988 to 2001-2002, and included estimates for cases reported that have not been adjudicated and cases incurred but not reported. The actuarial study also included estimates for medical benefits, benefit adjustment expenses, and reimbursement of premiums. The assumptions used in estimating and establishing the liability are reviewed annually based on current circumstances and any adjustments resulting thereof are reflected in operations in the current period.

(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.

SIFC establishes liabilities for future benefits based on the ultimate cost of settling the benefits.

The following table provides a reconciliation of the beginning and ending liability for future benefits for the years ended June 30, 2002 and 2001 (expressed in thousands):

	<u>2002</u>	<u>2001</u>
Liability for future benefits at beginning of year	\$ 111,679	104,851
Incurred benefits related to:		
Insured events of the current year	55,772	81,958
Insured events of prior years	<u>(692)</u>	<u>(2,274)</u>
Total incurred benefits	<u>55,080</u>	<u>79,684</u>
Benefit payments related to:		
Insured events of the current year	23,044	30,298
Insured events of prior years	<u>33,015</u>	<u>42,558</u>
Total benefit payments	<u>56,059</u>	<u>72,856</u>
Liability for future benefits at end of year	<u>\$ 110,700</u>	<u>111,679</u>

The liability for future benefits is reported as account payable and accrued liabilities in the accompanying statement of net assets. AACA has recorded this liability, including administrative expenses for claim processing, based on the results of actuarial reports prepared by independent actuaries, determined under two different methods. Death, funeral, disability, dismemberment, and the basic medical hospitalization liabilities were determined using a triangulation method. The extended benefits medical hospitalization reserve uses regression methodology to predict the ultimate incurred claims for each incurred calendar quarter. Additionally, assumptions are made

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about the mortality rates of the extended benefit claimants, recognizing the impact of their traumatic injuries on life span.

Changes in the ultimate liabilities for benefit payments may be required as information develops which varies from experience, provides additional data, or, in some cases augments data, which previously were not considered sufficient for use in determining the claim liabilities.

(f) PCSDIPRC

The activity in the liability for possible losses on shares and deposits insured by PCSDIPRC during the years ended June 30, 2002 and 2001 was as follows (expressed in thousands):

	<u>2002</u>	<u>2001</u>
Balance at beginning of year	\$ 24,000	23,000
Provision for losses on shares and deposits for the year	3,960	3,886
Claim payments	(35)	(3,274)
Recoveries	328	388
Balance at end of year	<u>\$ 28,253</u>	<u>24,000</u>

(18) 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 paragraph, the Commonwealth reported approximately \$78.2 million as an amount to cover for awarded and anticipated unfavorable judgments at June 30, 2002. This amount was included as other long-term liabilities in the accompanying statement of net assets, and represents the amount estimated as a probable liability or a liability with a fixed or expected due date that will require future available financial resources for its payment. Management believes that the ultimate liability in excess of amounts provided, if any, would not be significant.

The Commonwealth and various component units are defendants in lawsuits alleging violations of civil rights. Preliminary hearings and discovery proceedings are in progress. The amounts claimed exceed \$5.2 billion; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claims are excessive and exaggerated. No provision for any liability that may result upon adjudication of these lawsuits have been recognized in the basic financial statements by the

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Commonwealth. Management believes that the ultimate liability in excess of amounts provided, if any, would not be significant.

During fiscal year 1997, the PBA's employees filed a claim requesting the payment of vacation leave amounts earned plus penalties as required by statute for such amounts not paid in accordance with the applicable laws. As of June 30, 2002, there is an accrual of \$13,000,000 for the settlement of this case. In addition, PBA is defendant and/or co-defendant in various lawsuits for alleged breach of contracts and other actions arising in the ordinary course of business.

The Commonwealth's PRHA terminated certain management services contracts for the administration of certain public housing projects. As a result, plaintiffs are claiming approximately \$40 million in compensation for damages for alleged breach of contract. The management of PHA has established a liability for an estimated loss of approximately \$6 million.

The PRMSA, a blended component unit, is a defendant in industry-wide lawsuits filed on behalf of seamen or their personal representatives alleging injury or illness based upon exposure to asbestos or other toxic substances. The Authority has accrued approximately \$4 million at June 30, 2002 to cover the estimated liability that may arise from the current cases filed with the courts.

On July 6, 2001, PHA delivered possession of the assets and projects of its HOPE VI Program to HUD, as a result of an audit report by the HUD Office of Inspector General in which they are questioning \$19.8 million in federal financial assistance applicable to the HOPE VI Program, Comprehensive Grant Program, and Economic Development and Supportive Services Program related to the revitalization initiative of an area known as the New San Juan Gateway, covering the period from April 1995 to December 1999.

The Commonwealth's escheat bank account regulations require financial institutions doing business in Puerto Rico to remit to the Commonwealth all balances in deposit accounts under their custody that have been inactive for a period of five years. The Commonwealth reimburses any claims received from the owners of those accounts for a period of 10 years from the date of receipt from the financial institution. The balance of unclaimed escheat bank accounts as of June 30, 2002 is approximately \$58 million and is included as cash and cash equivalent in the governmental activities. Approximately \$7.5 million have been established as liabilities for future claims, while the rest was recognized as revenue for the general fund.

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 law and regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under Circular A-133 of the OMB of the United States of America (OMB Circular A-133), all of which are performed at the individual agency level. Disallowance as a result of these audits may become liabilities of the Commonwealth. At June 30, 2002, based on an evaluation of pending federal disallowances, the Commonwealth has recorded approximately \$41.4 million as other long-term liabilities in the accompanying statement of net assets.

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Construction commitments at June 30, 2002 for the PBA, a blended component unit, amounted to approximately \$388 million. In addition, the Commonwealth's construction commitments for public housing facilities amounts to approximately \$195 million at June 30, 2002.

On November 23, 1998, a global settlement agreement (the Agreement) was entered into by and between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The Agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies are to continue making contributions in perpetuity. Pursuant to Act No. 173 of July 30, 1999, which created The Children's Trust, the Commonwealth assigned and transferred to The Children's Trust all payments that the Commonwealth is entitled to receive under the Agreement. Payments received under the Agreement and recognized as revenue during the year ended June 30, 2002 amounted to approximately \$37.1 million. Following is a summary of estimated payments to be received by The Children's Trust through the year ending June 30, 2025 (expressed in thousands).

<u>Year ending June 30,</u>	
2003	\$ 83,191
2004	72,696
2005	73,642
2006	74,845
2007	75,990
Thereafter	<u>1,832,147</u>
Total	<u>\$ 2,212,511</u>

Component Units

In the normal course of their operations the 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:

General Commitments and Contingencies

(a) GDB

At June 30, 2002, GDB has financial guarantees for public entities for approximately \$143.8 million and for private sector of approximately \$727.9 million. In addition, standby letters of credit to public entities were approximately \$60.2 million and to private sector were approximately \$118.6 million. Commitments to extend credit to public entities were approximately \$1.2 billion and to private sector were approximately \$27.6 million.

GDB enters into sales of securities under agreements to repurchase. These agreements generally represent short-term debts and are presented as a liability in the statement of net assets. The securities underlying these agreements, are usually held by the broker, or its agent, with whom the agreement is transacted. As of June 30, 2002, there were agreements outstanding for \$170 million and during the year, the average amount outstanding was approximately \$213 million; the maximum amount outstanding at any month-end was approximately \$250 million; and the

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weighted average interest rate for the year and at year-end was approximately 2.47% and 1.99%, respectively.

GDB issues commercial paper in the U.S. taxable and tax exempt commercial paper markets, the Euro-dollar commercial paper market and to corporations that have tax exemption under the Commonwealth's Industrial Incentives Act and qualify for benefits provided by the U.S. Internal Revenue Code Section 936. Commercial paper represents unsecured obligations of GDB. The carrying amount of commercial paper at June 30, 2002 was approximately \$399 million, the maximum amount outstanding at any month-end was approximately \$1.3 billion, the weighted average amount outstanding during the year was approximately \$1 billion, and the weighted average interest rate for the year and at year-end was approximately 2.03% and 1.46%, respectively.

At June 30, 2002, GDB had outstanding interest rate swap agreements with other financial institutions in the aggregate notional amounts of \$637 million, having a fair value (payable position) of approximately \$22 million. GDB also had an equity appreciation index embedded in a \$200 million certificate of indebtedness. Such embedded derivative has been recognized as a liability at its fair value of approximately \$31 million as of June 30, 2002. GDB is exposed to credit loss in the event of nonperformance by the other parties to the swap agreements. However, GDB does not anticipate nonperformance by the counter parties.

(b) PRHTA

As part of the PRHTA'S Urban Train project, a number of contractors have presented claims related to the project. Claims which are at various stages of analysis amount to approximately \$60 million as of June 30, 2002. From this amount, approximately \$24 million has been categorized as merited claims. Therefore, these amounts were included as accounts payable. The effect of the resolution of these claims, if any, in future years would be to increase the amounts being capitalized for the Urban Train project and increase the accounts payable in the accompanying statement of net assets.

(c) PREPA

In May 1998, the Municipality of Ponce (the Municipality) filed a complaint against PREPA in the San Juan Superior Court requesting the payment by PREPA of the full contributions in lieu of taxes and electric energy sales set aside for prior fiscal years. The complaint challenges the application by PREPA of the "net revenue" formula which reduced the amount available to pay contributions in lieu of taxes and electric energy sales set aside for the Municipality. Since the filing of this lawsuit by the Municipality, other municipalities have filed similar claims. Total claims amount to approximately \$300 million. PREPA understands it has applied and interpreted the "net revenue" formula in accordance with the enabling act which created PREPA.

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As a means of reducing its dependency on oil, PREPA has entered into power purchase contracts relating to the construction of certain cogeneration plants that will use fuels other than oil. These two cogeneration projects consist of EcoElectrica, LP's 507 megawatts liquefied natural gas plant at Guayanilla and a 454 megawatts clean coal facility at Guayama operated by an affiliate of Applied Energy Systems (AES). EcoElectrica's and AES plant started commercial operations in March 2000 and November 2002, respectively. It is expected that these two cogeneration plants will initially provide approximately one-third of the Authority's energy needs.

(d) PRIFA

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

A related trust agreement requires PRIFA to deposit to the credit of a sinking fund the federal excise taxes and other moneys deposited to the credit of the Infrastructure Fund in such amounts as are required to meet debt service requirements with respect to the bonds. Rum is the only article currently produced in Puerto Rico subject to federal excise tax, the proceeds of which are required to be transferred from the federal government to the Commonwealth.

The federal excise taxes securing the bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient to deposit the amount required by the act into the Infrastructure Fund, the act requires that PRIFA request, and the Director of the OMB include in the annual budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Commonwealth's Legislature, however, is not legally obligated to make the necessary appropriation to cover such deficiency.

On March 2, 1999, PRIFA received \$1.2 billion in connection with the sale of certain assets of PRTA, which were deposited in a corpus account, which principal may not be reduced for any reason, and that income received from the investment of moneys in a corpus account and other moneys received may be deposited in additional accounts. Moneys deposited in the additional accounts are to be used first to pay the principal 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.

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(e) PRHIA

Certain municipalities have challenged the constitutionality of Act No. 29 of July 1, 1997, which established that the CRIM would withhold from property taxes due to the municipalities an amount to cover the contributions owed to PRHIA in relation to the Health Reform. The outcome of these cases is not presently determinable.

(f) PRTA

PRTA, through its subsidiary PRTA Holdings, holds shares of Telecomunicaciones de Puerto Rico, Inc. (TELPRI). TELPRI is the Puerto Rico corporation that was organized for the purpose of acquiring the stock of Puerto Rico Telephone Company (PRTC) and Celulares Telefónica (CT) from PRTA in connection with the sale transaction of March 2, 1999, where a subsidiary of Verizon, Popular, Inc., and TELPRI's employee stock ownership plan acquired 57% of TELPRI and completed the privatization of PRTC and CT. It is contemplated that all shares of TELPRI held by PRTA Holdings will be sold in public offerings and private placements, and all dividends and proceeds received from the sale of the shares will be distributed to the ERS.

Verizon delivered a notice of claim for indemnity to PRTA related to certain alleged actions of PRTA that occurred before the closing of the sale transaction described above. The amount of indemnity sought by Verizon is approximately \$105 million, related to several matters including PRTC's exposure to a potential reduction in tariffs or required rebate to clients as a result of an adverse decision by the Federal Communications Commission (FCC) on a regulatory matter. The FCC's decision has been appealed by PRTC and is awaiting a determination by the FCC. Additionally, in connection with the privatization, the PRTA agreed to indemnify, defend, and hold TELPRI harmless for specified litigation in excess of \$50 million in the aggregate.

(g) UPR

The UPR participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133, or to compliance audits by federal grantor agencies. Although these programs have been audited through June 30, 2000 under OMB Circular A-133, and through various dates by grantor agencies, the resolution of certain previously identified questioned costs has not been resolved. The amount, if any, of expenditures which may be disallowed by the federal grantor agencies cannot be determined at this time, although the UPR's management expects such amounts, if any, will be immaterial.

Desarrollos Universitarios, Inc. (Desarrollos) was incorporated on October 2, 1996. Desarrollos is a nonprofit corporation, with the sole purpose of developing, constructing, and operating academic, residential, administrative, office, commercial, and maintenance facilities (Plaza Universitaria) for use by students, faculty members, administrators, employees, visitors, invitees, and other members of or persons and entities related to or conducting business with the UPR community, or other activities conducted in such facility. On May 11, 2000, the UPR's board of trustees ratified a Memorandum of Agreement (MOA) to establish a contractual agreement between the UPR and Desarrollos. The MOA, dated May 22, 1998, states among other things the following: (1) the UPR will lease to, or otherwise grant to, Desarrollos the right for the long-term

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use of the land, for the sole purpose of developing, constructing, and operating Plaza Universitaria; (2) Desarrollos shall finance the development of Plaza Universitaria from AFICA Bond proceeds and/or line of credit and/or any other structure of credit facility; (3) Desarrollos will own the Plaza Universitaria improvements and will lease them exclusively to the UPR, during the life of the AFICA bonds; (4) the UPR shall have the right to prepay or refinance the Bonds at any time, consistent with the restrictions on refinancing contained in the financing documents; (5) upon the payment or prepayment in full of all the AFICA Bonds, the lease on the land shall terminate and the UPR shall become, *ipso facto*, owner of all the Plaza Universitaria improvements, without the need or obligation to make any additional payment of any kind (other than any bargain purchase payment as may be required under the project documents), and (6) rental payments (lease payments) from the UPR shall have a fixed component and a variable component. The fixed component shall be in an amount sufficient to guarantee to bondholders the payment of principal and interest on the AFICA Bonds as may be established in the financing documents, and will be pledged to guarantee such payments. The variable component of the lease payments will be used to cover operating, maintenance, administrative, management, and other fees and costs, which will be established periodically and reviewed annually between the parties, as well as such amounts for reserves and special funds, which may be required under the financing documents related to the bond issue.

On December 21, 2000, the UPR entered into a lease agreement with Desarrollos in which the UPR agreed to pay directly to a trustee for the account of Desarrollos, the basic lease payments (denominated into components of principal and interest) on or before the 25th day of each month.

(h) PCSDIPRC

PCSDIPRC provides insurance coverage over the stocks and deposits of all the cooperatives and the Federation of Cooperatives of Puerto Rico. The deposit base of the cooperatives approximates \$4.9 billion at June 30, 2002.

(i) PRLA

During fiscal year 1998, PRLA was sued by Paseo Portuario and Company, S.E. (Paseo) for allegedly illegally terminating the Development Agreement for the Barrio La Marina Project in the Old San Juan Waterfront Project. Paseo requests damages for approximately \$50 million and specific contract compliance. PRLA has counterclaimed and filed a separate action claiming moneys owed pursuant to the Master Development Agreement. Both, plaintiff (Paseo) and PRLA, have filed motions for summary judgment requesting the adjudication of their respective principal claims. PRLA believes it will also succeed in the ordinary course of this litigation and therefore, that the outcome of the case should not have an adverse effect upon PRLA's financial condition.

(j) LAPR

LAPR is defendant in various claims amounting to approximately \$54.2 million. LAPR is in the process of litigating such claims but the ultimate outcome cannot presently be determined. Accordingly, no provision for any liability that may result upon a final resolution of such claims has been made in the accompanying basic financial statements. Of the amount mentioned, approximately \$11.2 million correspond to the Sugar Corporation of Puerto Rico, a blended

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component unit of LAPR. Most of these claims resulted from the closing of several sugar mills throughout the years and from environmental claims.

(k) EDB

Approximately 51% of EDB's deposits, repurchase agreements, and promissory notes represent 936 funds in 2002 received from U.S. corporations (936 corporations), which qualified for the income tax credit provided by Section 936 of the U.S. Internal Revenue Code of 1986 (the Code). The interest paid by EDB on these 936 funds constituted qualified possession source investment income (QPSII) eligible for the credit provided by Section 936 of the Code.

On August 20, 1996, the President of the United States signed a law which, among other things, eliminated the Section 936 credit for QPSII for taxable years commencing after December 31, 1995. The elimination of the Section 936 credit for QPSII is resulting in a reduction in the supply of 936 funds available for investment in Puerto Rico and to EDB.

EDB's commitments to extend credit at June 30, 2002 amounted to \$26.9 million.

Environmental Commitments and Contingencies

The following component units' operations include activities that are subject to state and federal environmental regulations:

- (i). **PREPA** – Facilities and operations of PREPA are subject to regulations under numerous federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, and the National Pollutant Discharge Elimination System (NPDES). In February 1992, the Environmental Protection Agency (EPA) performed an inspection of various facilities of PREPA and became aware of deficiencies in different areas, principally air opacity; water quality; spill prevention control and countermeasures; and underground storage tanks. As a result, PREPA agreed to, among other things, make certain capital improvements and undertake supplemental environmental projects (SEPs). PREPA also agreed to use fuel oil not exceeding a sulfur content of 1.5%, a vanadium content of 150 PPM and an asphaltene content of 8% at its generating plants. On June 20, 2002, the Government of the United States (the federal government) and PREPA executed a settlement agreement to resolve litigation over the proposed extension of PREPA's term of probation arising from certain alleged environmental violations. The U.S. District Court of Puerto Rico accepted the terms of the settlement agreement, after a hearing held on July 18, 2002, and entered an amended order of probation on July 24, 2002.
- (ii). **PRASA** – Facilities and operations of PRASA's water and sewer system are subject to regulation under numerous federal and Commonwealth environmental laws. Under agreements with the federal government, acting on behalf of EPA, PRASA and the Commonwealth are subject to consent decrees to enforce compliance with environmental laws. Accordingly, PRASA is assessed stipulated noncompliance penalties. During the year ended June 30, 2002, such penalties amounted to \$2.9 million. In addition, PRASA has committed to perform environmental projects, in lieu of penalties, in the amount of \$2

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million as of June 30, 2002. As of June 30, 2002, PRASA has a deposit with GDB, amounting to \$700,000 in escrow for environmental projects.

- (iii). **PRSWA** – PRSWA is currently involved in the implementation and development of the Infrastructure Regional Plan for Recycling and Disposal of Solid Waste in Puerto Rico. As of June 30, 2002, PRSWA has no insurance coverage for environmental risks and management believes that, at this time, there is no sufficient information available to determine the potential amount of related losses, if any, and no provision for losses has been made in the PRSWA's financial statements. Nevertheless, preventive infrastructure has been constructed to minimize any possible impact or events that occur. In addition, operational plans have been developed to incorporate good maintenance practices.
- (iv). **PRLA** – PRLA was named a potential responsible party along with the Municipality of Juncos and other third parties (collectively the PRPs) for investigation and clean-up costs under federal remediation laws for the contamination of the Juncos Landfill superfund site. On August 21, 2001, the U.S. Department of Justice (DOJ) proposed that the PRPs pay a total of \$5,500,000 in settlement of EPA past cost claims, through November 2000, land penalty and punitive damages claims relating to prior alleged noncompliance. Arrangements are underway to review EPA's cost documentation. While it is not feasible to predict the outcome of such pending investigations and remediation activities with certainty and in view of PRLA's limited involvement with the site, management, after consulting with its legal counsel, is of the opinion that the ultimate outcome of these claims will not have a material effect on PRLA's financial position or results of operations.
- (v). **PRIDCO** – Financial responsibility for clean-up costs has been and/or is being undertaken by the industrial PRPs at the two Comprehensive Environmental Response Compensation and Liability Act of 1980 (CERCLA) sites (Vega Alta and Guayama), where the federal government named PRIDCO as a PRP solely for being a part-owner of both sites. PRIDCO's participation in the site remediation efforts to date has been limited to providing in-kind support to the industrial PRP's implementation of the clean-up programs and consequently, has not involved any cash disbursements to the federal government or the industrial PRP groups. Under CERCLA and its regulations, liability for the clean-up costs and damage to natural resources and any assessment of health effects may be imposed on the present and past owners or operators of a facility from which there was a release of hazardous substances. In addition, any person who arranged for the disposal or treatment of hazardous substances at a site from which there was a release may also be liable.

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Construction Commitments

As of June 30, 2002, the following component units maintained various unspent construction agreements as follows (in thousands):

Puerto Rico Highway and Transportation Authority	\$ 1,006,000
Puerto Rico Infrastructure Financing Authority	312,600
Puerto Rico Electric Power Authority	252,800
Puerto Rico Industrial Development Company	129,000
Puerto Rico Aqueduct and Sewer Authority	124,800
Puerto Rico Ports Authority	66,550
University of Puerto Rico	15,388
Land Authority of Puerto Rico	15,200
Puerto Rico Conservatory of Music Corporation	4,440
Puerto Rico Public Broadcasting Corporation	2,423
Puerto Rico Exports Development Corporation	2,062

(19) Retirement Systems

The Commonwealth sponsors three contributory pension plans (collectively known as the Retirement Systems), which are reported in the accompanying statement of fiduciary net assets:

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

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 each system's participants.

The Retirement Systems issue publicly available financial reports that include their basic financial statements and required supplementary information for each of them, including the required trend information. Those reports may be obtained by writing to the corresponding administrator of each retirement system at the addresses detailed in note 1 to the basic financial statements.

(a) ERS

Plan Description

The ERS is the administrator of a single-employer (as related to the Commonwealth financial reporting entity) defined-benefit pension plan sponsored by the Commonwealth. ERS was created under Act No. 447 (the Act), approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers substantially all full-time employees of: (1) the Commonwealth's primary government, (2) certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own retirement systems. All regular, appointed, and temporary

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employees at the date of employment become plan participants of ERS. ERS is optional for governmental officers appointed by the Governor.

ERS provides retirement, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits generally vest after 10 years of plan participation.

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

On September 24, 1999, an amendment to the Act, which created ERS, was enacted with the purpose of establishing a defined contribution plan known as System 2000.

System 2000 became effective on January 1, 2000. Employees participating in the defined-benefit plan system at December 31, 1999, had the option to either stay in the defined-benefit plan or transfer to System 2000. Persons employed on or after January 1, 2000, are only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of plan assets, which will be invested by ERS, together with those of the defined-benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the participants' contributions (with a minimum of 8.275% of the participants' salary up to a maximum of 10%) will be invested as instructed by the participant in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Notes; (2) earn a rate equal to 75% of the return of ERS's investment portfolio (net of management fees); or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The sponsors' contributions (9.275% of the participants' salary) will be used to fund the defined-benefit plan.

System 2000 reduces the retirement age from 65 years to 60 for those employees who joined the original plan on or after January 1, 2000.

Funding Policy

Contribution requirements, which are established by law and are not actuarially determined, are as follows:

Commonwealth and other sponsors	9.275% of applicable payroll
Participants:	
Hired on or before March 31, 1990	5.775% of monthly gross salary up to \$550
	8.275% of monthly gross salary in excess of \$550
Hired on or after April 1, 1990	8.275% of monthly gross salary

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(b) JRS

Plan Description

The JRS is a single-employer defined-benefit plan, which is administered also by ERS. The system was created under Act No. 12, approved on October 19, 1954. The membership includes all judges of the Judiciary Branch of the Commonwealth.

The system provides retirement as well as death and disability benefits. Benefits vest after 10 years of service upon reaching 60 years of age.

Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the last month of compensation. The retirement annuity for which the plan participant is eligible, is limited to a minimum of 25% and a maximum of 75% of the average compensation, except for 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.

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

Funding Policy

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

(c) TRS

Plan Description

The TRS is administered by a board of trustees composed of the Secretary of the Treasury of the Commonwealth, the Secretary of Education of the Commonwealth, the President of GDB, and two participating employees, one retiree and the president of one of the teachers organizations, who is appointed by the Governor of the Commonwealth. TRS is a single-employer defined-benefit plan, which was created under Act No. 218 approved on May 6, 1951. TRS provides retirement benefits to all active teachers of the Department of Education of the Commonwealth, those holding positions in the retirement board for teachers, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education, teachers who work in the Teachers' Association of Puerto Rico, and those licensed teachers, who practice in private institutions accredited by the Department of Education of the Commonwealth.

The Plan provides retirement, death, and disability benefits. Benefits vest after completion of a given number of years of credited service based on age. Benefits are determined by the

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application of stipulated benefit ratios to the members' average compensation. Average compensation is computed based on the highest three years of compensation recognized by TRS.

The annuity for which a plan member is eligible is limited to a minimum of \$300 per month and a maximum of 75% of the average compensation.

Funding Policy

Effective January 27, 2000, participant contributions were increased to 9% of their compensation, as provided by Act No. 45 of 2000. The Commonwealth, as sponsor, matches the participants' contributions at a rate of 8.5% of the applicable payroll. Contribution rates are established by law, and are not actuarially determined.

Other relevant information on the Commonwealth's Retirement Systems is presented below (as of July 1, 2001, latest valuation date):

Membership

	<u>ERS</u>	<u>JRS</u>	<u>TRS</u>	<u>Total</u>
Retirees and beneficiaries				
currently receiving benefits	\$ 84,142	312	28,243	112,697
Current employees	<u>158,310</u>	<u>359</u>	<u>46,640</u>	<u>205,309</u>
Total	<u>\$ 242,452</u>	<u>671</u>	<u>74,883</u>	<u>318,006</u>

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Annual Pension Cost and Net Pension Obligation (Asset)

The Commonwealth's annual pension cost and net pension obligation (asset) of the three pension plans for the year ended June 30, 2002, were as follows (expressed in thousands):

	<u>ERS</u>	<u>JRS</u>	<u>TRS</u>	<u>Total</u>
Annual required contributions	\$ 802,536	6,892	172,338	981,766
Interest on net pension obligation (asset)	192,416	(1,430)	28,191	219,177
Adjustment to annual required sponsors' contributions	<u>(134,870)</u>	<u>1,002</u>	<u>(24,291)</u>	<u>(158,159)</u>
Annual pension cost	860,082	6,464	176,238	1,042,784
Statutory sponsors' contributions made	<u>(308,228)</u>	<u>(5,412)</u>	<u>(124,152)</u>	<u>(437,792)</u>
Increase (decrease) in net pension obligation (asset)	551,854	1,052	52,086	604,992
Net pension obligation (asset) at beginning of year	<u>2,263,722</u>	<u>(16,825)</u>	<u>352,388</u>	<u>2,599,285</u>
Net pension obligation (asset) at end of year	<u>\$ 2,815,576</u>	<u>(15,773)</u>	<u>404,474</u>	<u>3,204,277</u>

The net pension obligation for ERS and TRS, and the net pension asset of JRS of \$3,220 million and \$15.8 million, respectively, are recorded in the accompanying statement of net assets.

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The annual required contribution was determined by actuarial valuations for each of the pension plans as described below:

	<u>ERS</u>	<u>JRS</u>	<u>TRS</u>
Date of latest actuarial valuation	July 1, 2001	July 1, 2001	July 1, 2001
Actuarial cost method	Projected unit credit cost	Projected unit credit cost	Entry age normal
Amortization method	Level percentage of the projected payroll	Level percentage of the projected payroll	Level percentage closed
Remaining amortization period	25 years	25 years	19 years
Amortization approach	Closed	Closed	Closed
Asset valuation method	Market value	Market value	Market value
Actuarial assumptions:			
Inflation	3.5%	3.5%	3.5%
Investment rate of return	8.5%	8.5%	8.0%
Projected salary increases per annum	5.0%	5.0%	5.0%
Cost-of-living adjustments	3.0% every three years	3.0% every three years	Not applicable

Three-Year Trend Information

The three-year trend information is as follows (expressed in thousands):

Annual pension cost (APC)	<u>ERS</u>	<u>JRS</u>	<u>TRS</u>
Year ended June 30, 2002	\$ 860,082	6,464	176,238
Year ended June 30, 2001	803,526	10,052	108,156
Year ended June 30, 2000	768,761	5,244	118,101
Percentage of APC contributed			
Year ended June 30, 2002	35.8%	83.7%	70.4%
Year ended June 30, 2001	65.6%	72.6%	107.3%
Year ended June 30, 2000	63.9%	150.6%	72.9%
Net pension obligation (asset)			
Year ended June 30, 2002	2,815,576	(15,773)	404,474
Year ended June 30, 2001	2,263,722	(16,825)	352,388
Year ended June 30, 2000	2,010,051	(19,250)	378,829

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Schedule of Funding Progress (Required Supplementary Information – Unaudited)

Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (expressed in thousands):

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a percentage of covered payroll</u>
July 1, 2001	\$ 2,429,000	9,881,000	7,452,000	25%	\$ 2,549,000	292%
July 1, 2000	2,041,800	9,459,300	7,417,500	22%	2,463,400	301%
July 1, 1999	1,858,000	8,308,000	6,450,000	22%	2,275,000	284%

The Puerto Rico Judiciary Retirement System (expressed in thousands):

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>AAL</u>	<u>UAAL</u>	<u>Funded ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a percentage of covered payroll</u>
July 1, 2001	\$ 70,100	162,200	92,100	43%	\$ 26,700	345%
July 1, 2000	82,800	135,800	53,000	61%	25,700	206%
July 1, 1999	73,900	118,200	44,300	63%	26,300	168%

Puerto Rico System of Annuities and Pensions for Teachers (expressed in thousands):

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>AAL</u>	<u>UAAL</u>	<u>Funded ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a percentage of covered payroll</u>
July 1, 2001	\$ 2,284,000	3,960,000	1,676,000	58%	\$ 938,000	179%
July 1, 2000	2,509,000	3,205,000	696,000	78%	1,006,000	69%
July 1, 1999	2,314,000	2,904,000	590,000	80%	996,000	59%

On August 12, 2000, Act No. 174 was approved to allow certain participants of ERS to be eligible for early retirement upon attaining at least age 55 with 25 years of service, provided they made their election on or before April 1, 2001. Those who elected early retirement under this law will receive monthly benefits of 75% (if 25 or more years of service and age 55, or 30 or more years of service and age 50) or benefits of 65% (if 25 years of service by less than age 55) of their average compensation which is computed based on the highest 36 months of compensation recognized by ERS. In these cases, the sponsor is responsible for contributing to ERS amounts to cover the benefit payments and the sponsor contribution with respect to the participants covered until the participants reach the normal retirement age.

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(20) Subsequent Events

Primary Government

On July 18, 2002, the Commonwealth issued \$555.3 million of General Obligation Bonds consisting of \$460 million of 2003 Series A Public Improvement Bonds and \$95.3 million of 2003 Series Public Improvement Refunding Bonds. The proceeds from these bonds will be used to provide funds to carry out the capital improvement programs authorized by the Commonwealth Legislature, to refund certain General Obligation Bonds of the Commonwealth and to reimburse GDB for advances made to fund subsidies granted to homeowners under Act. No. 124 of December 10, 1993. The 2003 Series A Public Improvement Bonds will bear interest rates ranging from 4.75% to 5.25%, payable each July 1 and January 1. The principal is payable each July 1 beginning on July 1, 2008 through July 1, 2022, and a final payment of \$13 million on July 1, 2032. Also, there are term bonds of \$112.3 million and \$130.3 million due on July 1, 2027 and July 1, 2032, respectively, bearing interest at 5%. The Series 2003 A Public Improvement Refunding Bonds will bear interest rate at 5.25%, and are due on July 1, 2011 through 2013.

On August 1, 2002, the Commonwealth issued \$89.6 million 2003 A Series Public Improvement Refunding Bonds. The proceeds from the bonds were deposited into an escrow fund to refund certain General Obligation Bonds. These refunding bonds bear interest at 5.50% and are due on July 1, 2011 through 2017.

On September 25, 2002, the Commonwealth issued \$800 million tax and revenue anticipation notes for the purpose of funding a portion of the projected cash flow requirements of the general fund in fiscal year 2003, which requirements result from timing differences between expected disbursements and receipts of taxes and other revenue. The notes are due on July 31, 2003, and bear an annual interest rate of 2.5%.

On October 10, 2002, the PBA, a blended component unit of the Commonwealth, issued \$131,445,000 Government Facilities Revenue Refunding Bond Series F, \$62,000,000 Government Facilities Revenue Bonds Series G and \$272,717,418 Government Facilities Revenue Refunding Bond Series H (Forward Delivery). The proceeds from the Series F Bonds will be used for the purpose of refunding certain bonds issued under the 1978 and the 1995 Bond Resolutions. The proceeds of Series G Bonds will be used to provide fund (1) to pay a portion of the costs of construction of certain buildings and facilities to be leased by PBA to various departments and instrumentalities of the Commonwealth, (2) to pay capitalized interest, and (3) to pay cost of issuance of Series G Bonds. The proceeds of Series H Bonds will be used for the purpose of refunding certain bonds (together with the bonds being refunded with the proceeds of the Series F Bonds, the Refunded Bonds) issued under the 1970 and the 1978 Bond Resolutions. The Facilities Revenue Refunding Bonds Series F and the Series G will bear fixed interest rates ranging from 3.00% to 5.25% payable semiannually on each July 1 and January 1 of each year, beginning on January 1, 2003 through July 1, 2025. The Facilities Revenue Refunding Bonds Series H (other than the capital appreciation bonds) will bear fixed interest rates ranging from 5.00% to 5.50% payable semiannually on each July 1 and January 1 of each year, beginning July 1, 2003 through July 1, 2019. Payment of the principal of and interest on the Series H Bonds when due will be insured by bond insurance policies. The Series H Bonds (capital appreciation bonds) mature on July 1, 2011 and July 1,

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2012. Interest on the capital appreciation bonds will be compounded on each January 1 and July 1 of each year, commencing on July 1, 2003, and will be payable only at maturity.

In October 2002, The Children's Trust, a blended component unit of the Commonwealth, issued Tobacco Settlement Asset-Backed Bonds, Series 2002 amounting to \$1.2 billion. These bonds were issued to refund the Trust's Tobacco Settlement Asset-Backed Bonds Series 2000, to pay the costs of certain capital expenditures of the Commonwealth and the PRASA, to fund the reserve account at its requirements, and to pay certain cost of issuance of the Series 2002 Bonds. The bonds are secured by annual payments received by the Commonwealth under the master settlement agreement entered into by and between certain tobacco companies and the Commonwealth.

Under Act No. 17 of April 11, 1968, as amended, the Commonwealth guarantees the payment of the principal of and interest on the PBA's Government Facilities Bonds. On March 13, 2003, Act No. 86 was approved to increase the amount of the guaranty from \$2.1 billion to \$2.5 billion

Component Units

(a) GDB

(i) Payment Guarantee in favor of Ondeo de Puerto Rico, Inc.

On July 1, 2002, GDB issued a payment guarantee in favor of Ondeo de Puerto Rico, Inc. (Ondeo) in connection with a service contract for water and wastewater system management between the PRASA and Ondeo (the service contract) whereby GDB guarantees to Ondeo the full payment of the annual service fee due to Ondeo by PRASA under the service contract and any termination fee payable pursuant to such service contract. Under the provisions of Article 7 of Act 95 of June 30, 2002, any payments made by GDB under the payment guarantee, up to an amount equal to the annual service fee established under the service contract, are reimbursable annually to GDB from annual budgetary appropriations made by the Legislature of the Commonwealth.

(ii) Transfer of \$500 million to the Special Communities Perpetual Trust

On November 21, 2002, the Legislature of the Commonwealth approved Joint Resolution No. 1027, authorizing GDB to transfer \$500 million as a contribution to the Special Communities Perpetual Trust (the Trust), an entity created for the purpose of financing a variety of initiatives, primarily housing and infrastructure, directed to the betterment of disadvantaged communities across the island. The Joint Resolution calls for the disbursement of these funds from time to time, as needed by the Trust. No disbursement had been made as of the date of this report.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2002

In addition, the Legislature approved Joint Resolution No. 1028, which authorized the Special Communities Perpetual Trust to borrow up to \$500 million in order to carry out the initiatives with which it was entrusted. The Joint Resolution authorizes GDB to provide such financing, and requires the Director of OMB to include in the budget of the Commonwealth submitted annually to the Legislature, for a period of ten fiscal years starting with the budget of fiscal year 2003-2004, the sum of \$50 million plus accrued interest for the repayment of such borrowing. The appropriations shall be made from the product of the sale of public improvement bonds issued during each of said fiscal years.

(iii) *Sale of Loans to Municipal Finance Agency*

On December 5, 2002, GDB sold municipal loans and bonds of various municipalities amounting to \$448,520,000 to the PRMFA, another component unit of the Commonwealth.

(iv) *Sale of Mortgage Loans*

On September 30, 2002, the Puerto Rico Housing Finance Authority (the Housing Finance Authority), a blended component unit of GDB, sold mortgage loans with an outstanding balance of approximately \$41.5 million to a third party, for \$43 million, resulting in a gain on sale of approximately \$1.5 million. The proceeds from this sale was used to provide funds to comply with the transfer of the net assets of the former Housing Bank (see note 21), and to provide additional low-income housing assistance loans.

(v) *Issuance of Revenue Bonds*

On November 1, 2002, the Housing Finance Authority, a blended component unit of GDB, issued \$350,000,000 Single Family Mortgage Revenue Bonds, Portfolio IX (Mortgage-Backed Securities) maturing at various dates ranging from June 1, 2005 through June 1, 2034, and carrying interest rates from 6.10% through 5.60%.

The proceeds from these bonds will be used to provide funds for a program under which the Housing Finance Authority will purchase and transfer to a trustee mortgage-backed securities guaranteed by GNMA, Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation (collectively the Mortgage Certificates). The Mortgage Certificates will be backed by pools of mortgage loans made by participating lending institutions to low- and moderate-income families to finance the purchase of qualified single family residential housing in Puerto Rico. The bonds maturing on or after June 1, 2010 are subject to redemption in whole or in part, at the option of the Housing Finance Authority, prior to their stated maturity at redemption prices ranging from 100% through 102%.

The bonds are limited obligations of the Housing Finance Authority. The principal of and redemption premium, if any, and interest on the bonds will be payable solely from the proceeds of certain assets, including the Mortgage Certificates to be acquired from time to time by the Trustee, certain investments and proceeds of the bonds.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2002

(vi) Payments of Amounts Due to the Commonwealth

For the period from August 1 through December 20, 2002, the Housing Finance Authority has already paid the following amounts to the Commonwealth in relation to the special item described on note 21:

- The line of credit of \$75 million that arose from the assumption by the Commonwealth of a loan due to GDB.
- From the approximately \$123 million related to the transfer of the net assets of the former Housing Bank, the Housing Finance Authority has paid approximately \$110.2 million, with a remaining balance of approximately \$12.5 million.

(b) PRASA

On May 26, 1995, PRASA and Professional Services Group, Inc. entered into a five-year agreement, which expired in June 2002, for the operations, management, repair, and maintenance of PRASA's systems. This agreement was replaced by a new 10-year agreement entered into on May 3, 2002 with Ondo Puerto Rico, Inc. (Ondo), an affiliate of Ondo Suez, under which Ondo, effective July 1, 2002, will manage, operate, maintain, repair, and, as and when necessary or appropriate, replace the PRASA systems. This agreement has as its major objectives the elimination of PRASA's operating deficit, the elimination of unaccounted-for-water, the achievement of environmental compliance, the improvement of the planning and implementation of capital projects and the general improvement of the water and sewer service available to the residents of Puerto Rico.

Ondo will be compensated through a service fee component (the SFC), which consists of a fixed part and a variable part. The SFC may be adjusted for additions and/or deletions of components to PRASA's systems (new plants, pumping stations, etc.), for uncontrollable circumstances and for inflation. With respect to inflation, the agreement may be adjusted only during the last five years by the difference between an inflation index and 4.5%. The SFC includes all operating expenses (regardless of the actual amount of such expenses) with the exception of electricity and insurance, which are treated as pass-through costs. The SFC also includes the replacement of any system component as required during the life of the agreement. The replacement requirement applies to all system components in operation with the exception of pipelines, where the requirement is for the annual replacement of at least 0.5% of the pipes.

The agreement also provides for a variable compensation component (the VCC), which may not exceed 20% of total compensation. The VCC includes incentives for increasing PRASA revenue, reducing electricity consumption, achieving general performance improvements, and reducing PRASA operating costs.

The agreement contains a number of operating commitments to ensure that its objectives are met. The commitments include reduction of unaccounted-for-water, existing pipeline rehabilitation, pipe repair to control leaks, improvement in customer service, and achievement of environmental compliance.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2002

The agreement contains a number of events of default relating to operator nonperformance with the agreement's standards. The agreement may be cancelled without cause by PRASA after five years upon payment of a termination fee. PRASA's monetary obligations under the agreement are unconditionally guaranteed by GDB.

During October 2002, PRASA received a special budget allocation of \$365 million from The Children's Trust. The funds will be used to cover operational deficits and capital improvement projects. Furthermore, it is expected that Law No. 111 from August 7, 2002, will result in approximately \$300 million available to PRASA for capital improvement projects. This law authorizes an increase in the funds appropriated to PRIFA arising from tax collections from the sale of Puerto Rican rum in the United States.

The House of Representatives authorized a line of credit of up to \$100 million for PRASA to cover the impact of labor and other claims arising from the close of the operating contract with Professional Services Group, Inc. These resources provide sufficient liquidity to enable PRASA to cover its operational and capital improvement needs during the next three years.

(c) PREPA

On July 2, 2002, PREPA issued \$401,785,000 Power Revenue Refunding Bonds, Series KK, and \$98,125,000 Power Revenue Bonds, Series LL, to refund Refunded Power Revenue Bonds and to finance a portion of the cost of various projects under its capital improvement program, respectively. The refunding will permit PREPA to realize savings on its debt service requirements on bonds outstanding under the 1974 Agreement.

In addition, on October 3, 2002, PREPA issued \$105,055,000 Power Revenue Refunding Bonds, Series MM to refund Refunded Power Revenue Bonds.

(d) PRMFA

On December 5, 2002, PRMFA issued its 2002 Series A Bonds amounting to \$510,615,000. The bonds bear annual interest ranging from 3% to 5% and will mature in 2027. The bonds were issued primarily to provide funds for the purchase of general obligation municipal bonds of various municipalities within the Commonwealth held by GDB. The bonds are secured by and payable from the payment of principal and interest on such general obligation municipal bonds and any moneys available in a reserve fund.

(e) PRPA

On November 8, 2002, PRPA entered in a new borrowing under a line-of-credit agreement with a commercial bank. PRPA may borrow up to \$42,970,000, at LIBOR interest rate plus 60 basis points, for its capital improvement plan.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2002

(f) PRTA

PRTA had separated certain funds from the proceeds of the sale of the PRTC, to establish a contingency reserve to cover possible claims from Verizon arising from the transaction. Pursuant to authorization from Joint Resolution No. 571 of the Legislature, on June 28, 2002, PRTA transferred the balance of \$71,336,662 in this contingency reserve to the general fund of the Commonwealth. PRTA's year-end is December 31, 2001.

On October 10, 2002, the board of directors of PRTA resolved to exercise the put option available in the stockholders' agreement with Telefónica Internacional Holdings B.V. (TI Holding), which was guaranteed by Telefónica Internacional, S.A., for the sale of its investment in the stock of Telecomunicaciones Ultramarinas de Puerto Rico (TUPR). PRTA has requested from TI Holding that they confirm the agreement in order to begin the regulatory approval process for the transfer of control of FCC licenses. On January 22, 2003, PRTA received notification from TI Holding that they could not confirm the agreement to purchase the shares. They allege that the parties had intended to offset the purchase price with the dividend payments to TI Holding on the preferred stock, which dividend payments have not been made. The effects if any, of this matter on the ultimate recoverability of PRTA's carrying value of the investment in TUPR cannot be determined.

(g) UPR

On September 18, 2002, the UPR and Servicios Médicos Universitarios, Inc., as sellers, signed an asset purchase agreement with the Department of Health of the Commonwealth for the sale of the Diagnostic and Treatment Center of Trujillo Alto.

(21) Special Item

The special item consisting of the residual capital liquidation Housing Bank, a former discretely presented component unit of the Commonwealth, resulted from the merger of the Housing Bank with and into the Housing Finance Authority, a blended component unit of GDB, also a discretely presented component unit of the Commonwealth, pursuant Act No. 103 of August 11, 2001 (the Merger Act). One of the provisions of the Merger Act called for the liquidation into the general fund of the Commonwealth of the excess of assets over liabilities of the Housing Bank at the date of the merger. The excess capital of Housing Bank transferred to the general fund of the Commonwealth amounted to approximately \$198 million, which included \$75 million of residual net assets created upon the assumption by the Commonwealth of a line of credit for the same amount that Housing Bank had with GDB at the time of the merger. Since the \$75 million long-term debt assumed by the Commonwealth is not recognizable in the fund financial statements, the entire \$198 million transferred was recorded in the general fund as a revenue from Housing Bank. However, only \$124 million was recognized in the statement of activities as the \$75 million debt assumed is being recognized in the statement of net assets.

This transaction falls under the definition of special item set forth by GASB No. 34, as it is a transaction of an unusual and infrequent nature within the control of the Commonwealth's management.

**COMBINING, INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

GENERAL FUND

The general fund is the primary operating fund of the Commonwealth. The general fund is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, education and economic development. Following is the supplemental schedule of expenditures-budget and actual-general fund

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual –
Statutory Basis – General Fund

Year ended June 30, 2002
(In thousands)

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures:				
Current:				
General government:				
Senate of Puerto Rico	\$ 33,282	28,828	28,099	729
House of Representatives of Puerto Rico	37,500	37,558	36,820	738
Comptroller's Office	31,081	30,451	29,711	740
Governor's Office	12,192	19,868	19,530	338
Office of Management and Budget	227,945	13,657	31,606	(17,949)
Planning Board	10,197	10,814	10,814	—
Constructions and Land Subdivisions Appeals Board	1,324	1,283	1,272	11
Department of State	9,896	10,090	7,735	2,355
Department of the Treasury	152,472	166,708	180,515	(13,807)
Central Office of Personnel Administration	4,778	5,060	5,038	22
Commonwealth Elections Commission	26,235	27,884	23,506	4,378
Federal Affairs Administration	9,232	9,141	9,000	141
General Services Administration	1,915	2,240	1,551	689
Municipal Complaints Hearing Commission	5,427	4,307	4,092	215
Civil Rights Commission	682	678	617	61
Office of the Citizen's Ombudsman	3,629	3,527	3,505	22
Rules and Permits Administration	4,051	1,999	1,999	—
Commonwealth's Commission to Settle Municipal Complaints	192	179	167	12
Legislative Affairs Office	775	775	579	196
Commission for the Public Service Work Relations	2,123	2,037	2,031	6
Central Communications Office	1,917	2,958	2,790	168
Government Ethics Board	6,272	6,297	6,284	13
Legislative Affairs Office	9,735	7,490	6,891	599
Office of the Superintendent of the Capitol	5,194	5,168	5,072	96
Comptroller's Special Reports Joint Commission	334	437	431	6
Legislative Donation Commission	700	624	364	260
Coordination Office for Special Communities of Puerto Rico	5,727	5,649	5,646	3
Total general government	<u>604,807</u>	<u>405,707</u>	<u>425,665</u>	<u>(19,958)</u>
Public safety:				
Puerto Rico General Court of Justice	212,383	211,899	231,621	(19,722)
State Civil Defense Agency	5	5	—	5
Commission of Investigation, Processing and Appeals Board	662	677	578	99
Department of Justice	116,134	119,378	105,901	13,477
Puerto Rico Police Department	575,073	576,779	571,481	5,298
Puerto Rico Firefighters Corps	42,349	44,787	44,687	100
Puerto Rico National Guard	7,551	7,816	7,718	98
Public Service Commission	9,279	9,673	9,660	13
Consumer Affairs Department	10,375	11,297	11,287	10
Juvenile Institutions Administration	81,743	84,300	80,146	4,154
Corrections Administration	294,896	309,757	305,173	4,584
Department of Correction and Rehabilitation	2,016	3,881	3,830	51
Security and Public Protection Commission	844	1	—	1
Natural Resources Administration	24,060	27,275	27,264	11
Balance carried forward	\$ <u>1,377,370</u>	<u>1,407,525</u>	<u>1,399,346</u>	<u>8,179</u>

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual –
Statutory Basis – General Fund

Year ended June 30, 2002
(In thousands)

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance</u>
Balance brought forward	\$ 1,377,370	1,407,525	1,399,346	8,179
Parole Board	3,214	3,296	3,292	4
Forensic Sciences Institute	8,529	9,180	9,180	—
Special Prosecutor Panel	1,917	1,917	1,917	—
Pre-Trial Services Office	3,325	3,462	3,561	(99)
Correctional Health	75,706	77,906	77,906	—
Medical Emergencies Service	16,188	17,373	17,421	(48)
Total public safety	<u>1,486,249</u>	<u>1,520,659</u>	<u>1,512,623</u>	<u>8,036</u>
Health:				
Environmental Quality Board	7,728	8,126	8,043	83
Department of Health	126,327	151,509	184,861	(33,352)
Mental Health and Drug Addiction Services Administration	93,065	101,338	94,171	7,167
Drug Control	1,629	1,561	1,567	(6)
Pediatric University Hospital	14,500	14,500	15,319	(819)
Solid Waste Authority of Puerto Rico	5,003	5,317	5,641	(324)
Puerto Rico Health Insurance Administration	908,000	923,135	923,136	(1)
Total health	<u>1,156,252</u>	<u>1,205,486</u>	<u>1,232,738</u>	<u>(27,252)</u>
Public housing and welfare:				
Rural Housing Administration	7,551	8,131	8,117	14
Puerto Rico Volunteers Service Corps	11,245	12,315	11,711	604
Department of Labor and Human Resources	6,593	6,912	6,900	12
Labor Relations Board	1,254	1,266	1,222	44
Department of Housing	6,728	7,349	7,231	118
Department of Recreation and Sports	36,225	38,420	33,843	4,577
Administration for the Horse Racing Sport and Industry	2,940	3,191	3,149	42
Women's Affairs Commission	5,329	4,840	2,146	2,694
Public Housing Administration	1,151	1,286	1,285	1
Office of the Veteran's Ombudsman	1,079	1,187	1,158	29
Department of Family	30,388	32,800	32,440	360
Family and Children Administration	106,674	106,771	107,675	(904)
Minors Support Administration	8,155	7,895	7,913	(18)
Vocational Rehabilitation Administration	14,851	15,807	15,761	46
Social Economic Development Administration	68,292	72,046	72,402	(356)
Office of the Disabled Persons Ombudsman	2,014	2,165	2,155	10
Office for Elderly Affairs	2,854	2,987	2,145	842
Communities Rehabilitation Administration	4,281	4,298	4,247	51
Patient Ombusman	340	339	339	—
Office of the General Auditor Family Department	512	312	312	—
Institutional Trust of the National Guard of Puerto Rico	495	495	4,008	(3,513)
Right to Employment Administration	11,438	12,068	12,068	—
Cantera's Peninsula Integral Development Company	192	192	192	—
Puerto Rico Housing Finance Authority	41,497	41,498	50,746	(9,248)
Industries for the Blind, Mentally Retarded, and Other Disabled Persons of Puerto Rico	141	141	141	—
Total public housing and welfare	<u>\$ 372,219</u>	<u>384,711</u>	<u>389,306</u>	<u>(4,595)</u>

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual –
Statutory Basis – General Fund

Year ended June 30, 2002
(In thousands)

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance</u>
Education:				
Department of Education	\$ 1,536,016	1,579,561	1,630,671	(51,110)
State Office for Historic Preservation	1,863	1,724	1,729	(5)
General Education Council	2,067	2,109	2,188	(79)
Athenaeum of Puerto Rico	360	360	360	—
Office for the Improvement of Public Schools	—	2	2	—
Institute of Puerto Rico Culture	24,876	25,175	24,995	180
Plastic Arts School	1,629	1,687	1,707	(20)
University of Puerto Rico	677,361	677,497	677,421	76
Musical Arts Corporation	5,992	6,057	6,057	—
Fine Arts Center Corporation	2,406	2,645	2,645	—
Puerto Rico Public Broadcasting Corporation	21,077	21,657	21,657	—
Puerto Rico Conservatory of Music Corporation	3,565	3,689	3,689	—
Total education	<u>2,277,212</u>	<u>2,322,163</u>	<u>2,373,121</u>	<u>(50,958)</u>
Economic development:				
Department of Transportation and Public Works	54,001	60,774	60,336	438
Department of Natural and Environmental Resources	771	722	651	71
Department of Agriculture	16,447	17,738	36,378	(18,640)
Department of Economic Development and Commerce	13,104	13,425	8,288	5,137
Cooperative Enterprises Development Administration	2,748	2,802	2,772	30
Cooperative Enterprises Inspector's Office	705	710	707	3
Rural Development Corporation	2,108	2,427	2,418	9
Department of Economic Development and Commerce	3,241	3,123	3,117	6
Energy Affairs Administration	161	150	150	—
Culebra Conservation and Development Authority	383	404	402	2
Corporation for the Development of the Film Industry in Puerto Rico	1,344	1,500	1,347	153
Puerto Rico Infrastructure Financing Agency	71,000	71,000	71,072	(72)
Puerto Rico Aqueduct and Sewer Authority	138,304	138,304	138,304	—
Puerto Rico Industrial Development Company	40,333	40,333	40,323	10
Puerto Rico Electric Power Authority	10	10	10	—
Puerto Rico Metropolitan Bus Authority	479	479	479	—
Puerto Rico Maritime Transportation Authority	15,500	15,500	15,500	—
Tourism Company of Puerto Rico	3,506	3,506	7,577	(4,071)
Agricultural Services and Development Administration	91,723	91,723	91,723	—
Economic Development Bank for Puerto Rico	500	500	—	500
National Parks Company of Puerto Rico	14,808	14,858	14,808	50
Land Authority of Puerto Rico	—	—	3,194	(3,194)
Corporation for the Development of the Film Industry in Puerto Rico	200	200	—	200
Puerto Rico Land Administration	—	—	69,958	(69,958)
Total economic development	<u>471,376</u>	<u>480,188</u>	<u>569,514</u>	<u>(89,326)</u>
Intergovernmental:				
Vieques Commissioner's Office	575	564	620	(56)
Apelative Board of the Personnel System Administration	1,388	1,435	1,352	83
Municipal Service Administration	335,340	336,071	335,039	1,032
Total intergovernmental	<u>\$ 337,303</u>	<u>338,070</u>	<u>337,011</u>	<u>1,059</u>

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual –
Statutory Basis – General Fund

Year ended June 30, 2002
(In thousands)

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance</u>
Debt service:				
Principal	\$ 101,697	101,697	1,570,585	(1,468,888)
Interest and other	101,280	101,280	112,163	(10,883)
Debt issuance cost	—	—	19,449	(19,449)
Total expenditures	<u>202,977</u>	<u>202,977</u>	<u>1,702,197</u>	<u>(1,499,220)</u>
Other financing uses:				
Transfer-out to other funds:				
Senate of Puerto Rico	—	4,508	4,562	(54)
House of Representatives of Puerto Rico	—	36	36	—
Comptroller's Office	—	1,327	1,327	—
Puerto Rico General Court of Justice	—	1,170	1,170	—
Office of Youth Affairs	3,242	3,251	3,170	81
Office of Management and Budget	—	120	120	—
Office of Management and Budget	152,987	152,987	152,860	127
Planning Board	—	97	97	—
Constructions and Land Subdivisions Appeals Board	—	72	72	—
Vieques Commissioner's Office	—	11	11	—
Department of State	—	40	40	—
Department of the Treasury	—	13	13	—
Department of the Treasury	—	7,341	7,341	—
Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities	71,742	86,449	74,793	11,656
Central Office of Personnel Administration	—	56	56	—
Commonwealth Elections Commission	—	22	22	—
Federal Affairs Administration	—	111	111	—
General Services Administration	—	—	44	(44)
Municipal Complaints Hearing Commission	—	264	264	—
Civil Rights Commission	—	15	15	—
Puerto Rico Police Department	—	22	22	—
Department of Transportation and Public Works	—	57	57	—
Department of Natural and Environmental Resources	—	3	3	—
Department of Agriculture	—	3	3	—
Department of Economic Development and Commerce	—	37	37	—
Office of the Citizen's Ombudsman	—	112	112	—
Cooperative Enterprises Development Administration	—	46	46	—
Public Service Commission	—	57	57	—
Labor Relations Board	—	17	17	—
Department of Health	—	8,001	8,001	—
Juvenile Institutions Administration	—	1	1	—
Cooperative Enterprises Inspector's Office	—	25	25	—
Rural Development Corporation	—	5	5	—
Department of Recreation and Sports	—	4	4	—
Teachers' Pensions Board	15,354	20,111	17,754	2,357
Appellate Board of the Personnel System Administration	—	3	3	—
Rules and Permits Administration	—	1,253	1,253	—
Mental Health and Drug Addiction Services Administration	—	4	4	—
Women's Affairs Commission	—	5	5	—
State Commission for the Ventilation of Municipal Complaints	—	17	17	—
Balance carried forward	\$ 243,325	287,673	273,550	14,123

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual –
Statutory Basis – General Fund

Year ended June 30, 2002
(In thousands)

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance</u>
Balance brought forward	\$ 243,325	287,673	273,550	14,123
Corrections Administration	—	21	21	—
Plastic Arts School	—	5	5	—
Department of Economic Development and Commerce	—	170	170	—
Office of the Veteran’s Ombudsman	—	7	7	—
Family and Children Administration	—	88	88	—
Minors Support Administration	—	275	275	—
Social Economic Development Administration	—	535	535	—
Commission for the Public Service Work Relations	—	140	140	—
Parole Board	—	2	2	—
Office of the Disabled Persons Ombudsman	—	1	1	—
State Office for Historic Preservation	—	136	136	—
Central Communications Office	—	163	163	—
Puerto Rico Maritime Shipping Authority	24,191	24,191	17,084	7,107
Contributions to Political Parties	900	900	900	—
Legislative Affairs Office	—	2,254	2,254	—
Office of the Superintendent of the Capitol	—	41	41	—
Comptroller’s Special Reports Joint Commission	—	5	5	—
Legislative Donation Commission	—	76	76	—
Scholarship Council	13,416	13,416	13,416	—
Coordination Office for Special Communities of Puerto Rico	—	94	94	—
Drug Control	—	71	71	—
Department of Treasury – Transfer to Debt Service	274,773	274,773	274,773	—
Patient Ombusman	—	1	1	—
Office of the General Auditor Family Department	—	1	1	—
	<u>556,605</u>	<u>605,039</u>	<u>583,809</u>	<u>21,230</u>
Total transfers-out to other funds	\$	—	2,334	(2,334)
Discount on bonds issued	<u>—</u>	<u>—</u>	<u>2,334</u>	<u>(2,334)</u>

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes.

Public Building Authority Special Revenue Fund: A blended component unit. Its special revenue fund is used to account for the operating, maintenance, equipment replacement and other extraordinary operating and maintenance costs of the buildings and facilities that, when constructed, are leased to the Commonwealth primary government agencies.

The Children's Trust Special Revenue Fund: The Trust was created by Act No. 173 on July 30, 1999 for the purpose of providing financial assistance principally to the Commonwealth's departments to carry out projects aimed at promoting a better quality of life and well being of families, children and youth in Puerto Rico especially in areas of education, recreation and health. The operation of the trust is financed with the monies to be received by the Commonwealth from a global settlement agreement dated November 23, 1998 between certain tobacco companies and certain states, territories and other jurisdiction of the United States of America, including the Commonwealth. Pursuant to the Act, the Commonwealth assigned and transferred to the Trust all payments that the Commonwealth is entitled to receive under the Agreement. This fund is used to account for the proceeds of specific revenue resources that are legally restricted to expenditures for specific purposes.

Debt Service Funds

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

Public Buildings Authority Debt Service Fund: A blended component unit engaged in the construction and/or acquisition of building facilities for lease mainly to the Commonwealth's primary government agencies. Its debt service fund is used to account for the accumulation of resources for the payment of revenue bonds and other liabilities incurred to finance the construction of the buildings and facilities.

Puerto Rico Maritime Shipping Authority Debt Service Fund: This is the remainder of a former shipping company owned by the Commonwealth. Its debt service fund is used to account for the accumulation of resources for the payment of the long-term liability that resulted from the sale of its marine operations. This fund is mainly subsidized from appropriations and operating transfers-in from the general fund.

Children's Trust Debt Service Fund: The debt service fund of the Trust (described above) accounts for the accumulation of resources for payment of interest and principal on long-term obligations.

Capital Project Funds

Capital project funds are used to account for the financial resources used for the acquisition or construction of major capital facilities not being 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, 2002
(In thousands)

	Special revenue			Debt service			Capital projects		Total nonmajor governmental funds
	Public Building Authority	The Children's Trust	Total	The Children's Trust	Public Building Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Total	
Assets									
Cash and cash equivalents	\$ 39,913	—	39,913	—	—	—	9,708	—	49,621
Cash and cash equivalents in governmental banks	8,461	100,826	109,287	—	—	2,414	362,875	2,414	474,576
Investments	521	186,359	186,880	64,472	—	358	—	64,830	251,710
Receivables, net of allowance for uncollectibles:									
Accounts	12,175	—	12,175	—	—	—	671	—	12,846
Loans	—	—	—	—	—	—	36	—	36
Accrued Interest	—	165	165	—	—	2	—	2	167
Due from:									
Other funds	22,993	—	22,993	—	33,991	—	23,102	33,991	80,086
Component Units	7,488	—	7,488	—	10,547	—	—	10,547	18,035
Other governmental entities	856	—	856	—	1,846	—	—	1,846	2,702
Restricted assets:									
Cash and cash equivalents	—	—	—	—	6,015	—	—	6,015	6,015
Cash and cash equivalents in governmental banks	8,837	—	8,837	—	127,121	—	—	127,121	135,958
Real estate held for sale	44,711	—	44,711	—	—	—	—	—	44,711
Total assets	\$ 145,955	287,350	433,305	64,472	179,520	2,774	396,392	246,766	1,076,463
Liabilities and Fund Balances									
Liabilities:									
Accounts payable and accrued liabilities	\$ 32,552	709	33,261	—	—	1,324	8,134	1,324	42,719
Bonds payable	—	—	—	—	64,813	—	—	64,813	64,813
Interest payable	—	—	—	—	49,668	—	—	49,668	49,668
Accrued compensated absences	8,192	—	8,192	—	—	—	—	—	8,192
Other liabilities	13,000	—	13,000	—	—	—	10,086	—	23,086
Total liabilities	53,744	709	54,453	—	114,481	1,324	18,220	115,805	188,478
Fund balances:									
Reserved for:									
Encumbrances	—	—	—	—	—	—	72,455	—	72,455
Unreserved reported in:									
Debt service funds	—	—	—	64,472	65,039	1,450	—	130,961	130,961
Special revenue funds	92,211	286,641	378,852	—	—	—	—	—	378,852
Capital Projects funds	—	—	—	—	—	—	305,717	—	305,717
Total fund balances	92,211	286,641	378,852	64,472	65,039	1,450	378,172	130,961	887,985
Total liabilities and fund balar \$	145,955	287,350	433,305	64,472	179,520	2,774	396,392	246,766	1,076,463

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenue, Expenditures and Changes in
Fund Balances – Nonmajor Governmental Funds

Year ended June 30, 2002
(In thousands)

	Special revenue			Debt service			Capital projects	Total nonmajor governmental funds	
	Public Building Authority	The Children's Trust	Total	The Children's Trust	Public Building Authority	Puerto Rico Maritime Shipping Authority			Total
Revenue:									
Revenue from global to bacco settlement agreement	—	—	—	37,153	—	—	37,153	37,153	
Interest and investment earnings	5,445	16,453	21,898	2,988	—	234	3,222	25,120	
Revenue from component unit	—	—	—	—	—	—	1,035	1,035	
Other	57,118	—	57,118	—	—	—	56,440	113,558	
Total revenue	62,563	16,453	79,016	40,141	—	234	40,375	176,866	
Expenditures:									
Current:									
General government	126,136	—	126,136	—	—	—	—	126,136	
Education	—	109,640	109,640	—	—	—	—	109,640	
Capital Outlays	—	—	—	—	—	—	20,224	20,224	
Debt service:									
Principal	—	—	—	6,835	67,267	6,325	80,427	80,427	
Interest and Other	—	—	—	25,375	86,727	17,920	130,022	130,022	
Debt issuance costs	—	—	—	—	5,320	—	5,320	10,574	
Total expenditures	126,136	109,640	235,776	32,210	159,314	24,245	215,769	477,023	
Excess (deficiency) of revenue over (under) expenditures	(63,573)	(93,187)	(156,760)	7,931	(159,314)	(24,011)	(175,394)	(300,157)	
Other financing sources (uses):									
Transfers from other funds	90,180	—	90,180	15,278	162,723	17,084	195,085	285,265	
Transfers to other funds	—	(62,513)	(62,513)	—	—	—	—	(413,672)	
Notes payable issued	—	—	—	—	—	—	491,514	491,514	
Refunding bond issues	—	—	—	—	196,993	—	196,993	196,993	
Payment to escrow agent	—	—	—	—	(195,846)	—	(195,846)	(195,846)	
Total other financing sources (uses)	90,180	(62,513)	27,667	15,278	163,870	17,084	196,232	364,254	
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	26,607	(155,700)	(129,093)	23,209	4,556	(6,927)	20,838	64,097	
Fund balances at beginning of year (as restated)	65,604	442,341	507,945	41,263	60,483	8,377	110,123	823,888	
Fund balances at end of year	92,211	286,641	378,852	64,472	65,039	1,450	130,961	887,985	

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.

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 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. 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 U.S. Environmental Protection Agency (EPA) for lending activities.

Disability Insurance: It was created by Act 139 on June 26, 1968. It is used to account for disability benefits to remedy temporarily the loss of income as consequence of disability caused by sickness or accident unrelated to the employment.

Drivers' Insurance: It was created by Act 428 on May 15, 1950. It is used to account for contributions made by the drivers and their employers to provide a social security plan for the benefit of the drivers in Puerto Rico. The plan also includes payment of benefits for health and life insurance.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Assets –
Nonmajor Proprietary Funds

June 30, 2002
(In thousands)

	Business-type activities – nonmajor enterprise funds				
	Disability insurance	Drivers’ insurance	Puerto Rico Water Control Pollution Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total nonmajor enterprise funds
Assets					
Current assets:					
Cash and cash equivalents	\$ 65,419	34,607	—	—	100,026
Cash and cash equivalents in governmental banks	—	—	14,556	11,146	25,702
Accounts and loans receivable, net:					
Insurance premiums, net	3,361	1,019	—	—	4,380
Component units	—	—	5,325	18,011	23,336
Accrued interests	454	25	3,094	190	3,763
Other	286	26	130	—	442
Restricted Investments	34,497	—	—	—	34,497
Total current assets	<u>104,017</u>	<u>35,677</u>	<u>23,105</u>	<u>29,347</u>	<u>192,146</u>
Noncurrent assets:					
Loans receivable, excluding current portion, net:					
Component units	—	—	108,952	—	108,952
Intergovernmental	—	—	1,884	—	1,884
Other	—	16	—	—	16
Total assets	<u>104,017</u>	<u>35,693</u>	<u>133,941</u>	<u>29,347</u>	<u>302,998</u>
Liabilities and Net Assets					
Current liabilities:					
Accounts payable and accrued liabilities	1,115	226	7	36	1,384
Deferred revenue	—	17	—	—	17
Compensated absences	510	256	—	—	766
Disability and drivers insurance benefits payable	882	77	—	—	959
Total current liabilities	<u>2,507</u>	<u>576</u>	<u>7</u>	<u>36</u>	<u>3,126</u>
Noncurrent liabilities – compensated absences	<u>160</u>	<u>117</u>	<u>—</u>	<u>—</u>	<u>277</u>
Total liabilities	<u>2,667</u>	<u>693</u>	<u>7</u>	<u>36</u>	<u>3,403</u>
Net assets:					
Restricted for:					
Disability and drivers insurance benefits	101,350	35,000	—	—	136,350
Capital projects	—	—	133,934	29,311	163,245
Total net assets	<u>\$ 101,350</u>	<u>35,000</u>	<u>133,934</u>	<u>29,311</u>	<u>299,595</u>

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenue, Expenses and Changes in Net Assets
Nonmajor Proprietary Funds

Year ended June 30, 2002
(In thousands)

	Business-type activities – nonmajor enterprise funds				
	Disability insurance	Drivers’ insurance	Puerto Rico Water Pollution Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total nonmajor enterprise funds
Operating revenue:					
Insurance premiums	\$ 13,985	4,468	—	—	18,453
Interest	2,023	447	2,399	281	5,150
Total operating revenue	<u>16,008</u>	<u>4,915</u>	<u>2,399</u>	<u>281</u>	<u>23,603</u>
Operating expenses:					
Disability and drivers insurance benefits	4,385	1,063	—	—	5,448
General, administrative and other operating expenses	7,702	2,488	508	756	11,454
Total operating expenses	<u>12,087</u>	<u>3,551</u>	<u>508</u>	<u>756</u>	<u>16,902</u>
Operating income (loss)	<u>3,921</u>	<u>1,364</u>	<u>1,891</u>	<u>(475)</u>	<u>6,701</u>
Nonoperating revenue:					
Contributions from federal government	—	—	11,148	15,361	26,509
Contributions from Puerto Rico Infrastructure Financing Authority	—	—	—	3,370	3,370
Investment Earnings	865	—	—	—	865
Transfers from general fund	—	—	2,229	—	2,229
Total nonoperating revenue	<u>865</u>	<u>—</u>	<u>13,377</u>	<u>18,731</u>	<u>32,973</u>
Change in net assets	4,786	1,364	15,268	18,256	39,674
Net assets at beginning of year (as restated)	96,564	33,636	129,721	—	259,921
Net assets at end of year	<u>\$ 101,350</u>	<u>35,000</u>	<u>144,989</u>	<u>18,256</u>	<u>299,595</u>

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows
Nonmajor Proprietary Funds

Year ended June 30, 2002
(In thousands)

	Business-type activities – nonmajor enterprise funds				
	Disability insurance	Drivers’ insurance	Puerto Rico Water Control Pollution Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total nonmajor enterprise funds
Cash flows from operating activities:					
Receipts from customers and users	\$ 13,158	4,470	—	—	17,628
Payments to suppliers and employees	(6,021)	(2,433)	—	—	(8,454)
Payments of disability and drivers insurance benefits	(4,705)	(1,078)	—	—	(5,783)
Principal collected on loans	—	—	85	—	85
Loans originated	—	—	(12,976)	(18,012)	(30,988)
Management fees paid	—	—	(506)	(720)	(1,226)
Net cash provided by (used in) operating activities	<u>2,432</u>	<u>959</u>	<u>(13,397)</u>	<u>(18,732)</u>	<u>(28,738)</u>
Cash flows from noncapital financing activities:					
Intergovernmental grants and contributions	—	—	11,148	15,361	26,509
Operating transfers-in from general fund	—	—	2,230	3,370	5,600
Transfers to other funds	—	—	(11,055)	11,055	—
Net cash provided by noncapital financing activities	<u>—</u>	<u>—</u>	<u>2,323</u>	<u>29,786</u>	<u>32,109</u>
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	2	—	—	—	2
Interests received on deposits and investments	1,945	504	397	92	2,938
Purchases of investments	(42)	—	—	—	(42)
Net cash provided by investing activities	<u>1,905</u>	<u>504</u>	<u>397</u>	<u>92</u>	<u>2,898</u>
Net increase (decrease) in cash and cash equivalents	4,337	1,463	(10,677)	11,146	6,269
Cash and equivalents at beginning of year	61,082	33,144	25,233	—	119,459
Cash and cash equivalents at end of year	<u>\$ 65,419</u>	<u>34,607</u>	<u>14,556</u>	<u>11,146</u>	<u>125,728</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:					
Operating income	\$ 3,921	1,364	1,891	(475)	6,701
Adjustments to reconcile operating income to net cash provided (used in) operating activities:					
Decrease (increase) in accounts and loans receivable	110	(14)	(14,990)	(18,192)	(33,086)
Interests earned on deposits, loans and investments	(2,023)	(447)	(301)	(101)	(2,872)
Changes in operating assets and liabilities:					
Increase in other assets	—	(12)	—	—	(12)
Increase in accounts payable and accrued liabilities	723	158	3	36	920
Increase in deferred revenue	—	8	—	—	8
Increase (decrease) in compensated absences	6	(96)	—	—	(90)
Decrease in disability and drivers benefits payable	(305)	(2)	—	—	(307)
Total adjustments	<u>(1,489)</u>	<u>(405)</u>	<u>(15,288)</u>	<u>(18,257)</u>	<u>(35,439)</u>
Net cash provided by (used in) operating activities	<u>\$ 2,432</u>	<u>959</u>	<u>(13,397)</u>	<u>(18,732)</u>	<u>(28,738)</u>
Schedule of noncash capital financing, noncapital financing and investing activities					
Noncash investing activities – increase in fair value of investments	\$ 866	—	—	—	866

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

The Pension Trust funds are used to account for the assets, liabilities and net assets available for pension benefits held in trust for the public employees of the Commonwealth.

Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS): ERS is the administrator of a defined-benefit pension plan which covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their 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 pension plan (System 2000) for persons joining the government on or after January 1, 2000.

Puerto Rico Judiciary Retirement System (JRS) : JRS is administered by the ERS and covers all individuals holding a position as Justice of the Supreme Court, Judge of the former Superior Court, Judge of the District Court or the Municipal Judges of the Commonwealth. The system provides retirement as well as death and disability benefits.

Puerto Rico System of Annuities and Pensions for Teachers (TRS): TRS provides retirement benefits to all teachers of the Department of Education of the Commonwealth, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education, teachers who work in the Teachers' Association of Puerto Rico, and those who practice in private institutions accredited by the Department of Education. TRS provides retirement, death and disability benefits.

Agency Fund

Agency fund is used to account for assets held by the government as an agent for individuals, private organizations and other governments. These funds are custodial in nature (assets equal liabilities) and do 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 address any other fund. It mainly includes deposits under the custody of the courts of justice for alimony payments.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Fiduciary Net Assets – Pension Trust Funds

June 30, 2002

(In thousands)

	Pension trust funds			Totals
	Employees’ Retirement System (ERS)	Teachers’ Retirement System (TRS)	Judiciary Retirement System (JRS)	
Assets				
Cash and cash equivalents:				
Unrestricted	\$ 59,610	9,848	2,971	72,429
Restricted	—	2,236	—	2,236
Cash and cash equivalents in governmental banks:				
Unrestricted	104,370	3,237	817	108,424
Restricted	4,928	—	—	4,928
Investments:				
Debt and equity securities	1,166,862	1,842,238	59,194	3,068,294
Investment in PRTA Holdings, at appraised value	383,180	—	—	383,180
Other	—	34,037	—	34,037
Receivables, net:				
Accounts	47,452	—	—	47,452
Loans and advances	268,675	345,759	348	614,782
Accrued interests and dividends	2,451	43,383	313	46,147
Due from judiciary retirement system		—	—	—
Due from general fund of the Commonwealth		—	—	—
Other	20,372	12,341	166	32,879
Capital assets, net			—	—
Other assets	17,413	25,978	—	43,391
	<u>2,075,313</u>	<u>2,319,057</u>	<u>63,809</u>	<u>4,458,179</u>
Liabilities				
Accounts payable and accrued liabilities	40,772	128,313	1,912	170,997
Securities lending transactions	40,864	—	1,459	42,323
Bonds payable	—	23,653	—	23,653
Notes payable	14,000	—	—	14,000
	<u>95,636</u>	<u>151,966</u>	<u>3,371</u>	<u>250,973</u>
Net Assets				
Net assets held in trust for pension and other benefits	\$ <u>1,979,677</u>	<u>2,167,091</u>	<u>60,438</u>	<u>4,207,206</u>

COMMONWEALTH OF PUERTO RICO

Combining Statement of Changes in Fiduciary Net Assets – Pension Trust Funds

Year ended June 30, 2002
(In thousands)

	Pension trust funds			Totals
	Employees’ Retirement System (ERS)	Teachers’ Retirement System (TRS)	Judiciary Retirement System (JRS)	
Additions:				
Contributions:				
Sponsor	\$ 293,601	106,392	5,412	405,405
Participants	259,203	99,454	2,448	361,105
Special	14,627	17,760	—	32,387
Total contributions	<u>567,431</u>	<u>223,606</u>	<u>7,860</u>	<u>798,897</u>
Additions:				
Interests	43,509	98,134	1,743	143,386
Dividends	21,792	15,039	199	37,030
Net decrease in fair value of investments including realized losses on sale and maturities of investments	(380,518)	(151,792)	(9,415)	(541,725)
Investment expenses	(4,887)	(5,195)	(318)	(10,400)
Total investment loss	<u>(320,104)</u>	<u>(43,814)</u>	<u>(7,791)</u>	<u>(371,709)</u>
Other income	14,096	2,746	—	16,842
Total additions	<u>261,423</u>	<u>182,538</u>	<u>69</u>	<u>444,030</u>
Deductions:				
Pension and other benefits	648,264	278,168	8,642	935,074
Refunds of contribution	34,842	2,352	—	37,194
General and administrative	27,304	18,481	1,072	46,857
Total deductions	<u>710,410</u>	<u>299,001</u>	<u>9,714</u>	<u>1,019,125</u>
Net decrease in net assets held in trust for pension and other benefits	(448,987)	(116,463)	(9,645)	(575,095)
Net assets held in trust for pension and other benefits:				
Beginning of year	2,428,664	2,283,554	70,083	4,782,301
End of year	<u>\$ 1,979,677</u>	<u>2,167,091</u>	<u>60,438</u>	<u>4,207,206</u>

COMMONWEALTH OF PUERTO RICO

Statement of Changes in Assets and Liabilities – Agency Fund

Year ended June 30, 2002
(In thousands)

	Balance June 30, 2001	Additions	Deletions	Balance June 30, 2002
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Assets				
Cash and cash equivalents	\$ 417,354		20,536	396,818
Cash and cash equivalents in governmental banks	271,957	3,442,075	3,508,149	205,883
Investments	5,653	6,127	—	11,780
Receivables, net:		—	—	—
Accounts	16,812	2,585	4,493	14,904
Accrued interest	2	—	2	—
Restricted assets	—	—	—	—
Other assets	533	—	—	533
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ <u>712,311</u>	<u>3,450,787</u>	<u>3,533,180</u>	<u>629,918</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 710,481	3,084,089	3,164,652	629,918
Due to other funds	1,830	—	1,830	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	\$ <u>712,311</u>	<u>3,084,089</u>	<u>3,166,482</u>	<u>629,918</u>

COMPONENT UNITS

These entities are presented because the nature and significance of their relationship with the primary government are such that their exclusion would cause the basic financial statements to be misleading. These are discretely presented in a separate column in the basic financial statements due to nature of the services they provide. The accounting principles followed by each of the component units included herein may vary depending on the type of industries these are involved (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, pages 44 to 46 of the basic statements included in the financial section of this report.

COMMONWEALTH OF PUERTO RICO

Discretely Presented Component Units
Statement of Net Assets

June 30, 2002

Assets	Government Development Bank for Puerto Rico	Puerto Rico Highway and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Health Insurance Administration
Assets:						
Current assets:						
Cash and cash equivalents	\$ 1,906,218	33,665	165,255	14,173	—	16,051
Cash and cash equivalents in governmental banks	—	22	—	3,623	14,836	7,513
Investments, including collateral from securities lending transactions	2,570,394	—	—	—	622,606	—
Receivables, net:						
Intergovernmental	19,898	5,414	—	3,213	—	4,529
Accounts	—	5,175	309,647	47,137	722	—
Loans and advances	1,579,259	—	—	—	—	—
Accrued interest	101,701	3,794	3,482	—	20,512	28
Other governmental entities	250	—	108,428	24,141	—	—
Other	—	—	—	—	—	13,128
Due from:						
Primary government	—	—	6,327	—	—	—
Component units	651,611	3,296	17,121	—	—	—
Inventories	—	—	195,779	11,701	—	—
Prepays	—	3,655	20,420	—	1,569	—
Total current assets	6,829,331	55,021	826,459	103,988	660,245	41,249
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	78,243	19,649	303,054	495	49,763	—
Cash and cash equivalents in governmental banks	—	45,455	—	27,095	78,996	—
Investments and other restricted assets	1,697,470	867,717	603,731	—	—	—
Investments	—	—	—	—	1,244,443	—
Receivables:						
Loans, interest and other	—	—	—	—	—	—
Other governmental entities	—	—	—	—	—	—
Due from:						
Primary government	—	—	36,754	—	—	—
Component units	35,244	—	—	—	—	—
Property held for sale and future development	4,220	—	—	—	—	—
Capital assets, not being depreciated	12,405	6,326,117	1,216,885	281,455	654,651	—
Capital assets, depreciable, net	19,532	5,504,164	3,142,514	4,116,673	495	661
Deferred expenses and other assets	—	75,199	66,560	21,498	22,248	13
Total noncurrent assets	1,847,114	12,838,301	5,369,498	4,447,216	2,050,596	674
Total assets	\$ 8,676,445	12,893,322	6,195,957	4,551,204	2,710,841	41,923

COMMONWEALTH OF PUERTO RICO

Discretely Presented Component Units
Statement of Net Assets

June 30, 2002

Assets	University of Puerto Rico	State Insurance Fund Corporation	Economic Development Bank for Puerto Rico	Puerto Rico Municipal Finance Agency	Puerto Rico Ports Authority	Puerto Rico Industrial Development Company
Assets:						
Current assets:						
Cash and cash equivalents	\$ 19,830	2,083	675	—	12,547	22,770
Cash and cash equivalents in governmental banks	73,080	—	507	1,568	412	—
Investments, including collateral from securities lending transactions	128,824	1,185,825	326,637	161,507	—	10,557
Receivables, net:						
Intergovernmental	21,217	—	—	—	—	—
Accounts	8,826	29,565	—	—	61,282	11,107
Loans and advances	—	—	27,316	—	—	—
Accrued interest	23,698	10,506	3,552	—	—	3,403
Other governmental entities	11,986	29,135	—	973	—	—
Other	—	16,707	—	—	—	323
Due from:						
Primary government	7,570	—	—	—	—	—
Component units	11,439	—	1,697	—	7,190	—
Inventories	6,629	7,237	—	—	684	—
Prepays	14,853	—	—	1	5,392	—
Total current assets	327,952	1,281,058	360,384	164,049	87,507	48,160
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	—	—	—	—	33,095	62,177
Cash and cash equivalents in governmental banks	2,031	—	—	457	27,253	—
Investments and other restricted assets	20,242	—	—	1,032,975	6,658	—
Investments	—	—	281,053	—	—	32,816
Receivables:						
Loans, interest and other	2,647	—	61,582	28,038	—	4,833
Other governmental entities	—	—	—	—	—	—
Due from:						
Primary government	31,040	—	—	—	—	—
Component units	—	—	8,845	—	—	—
Property held for sale and future development	350	55,536	—	—	—	—
Capital assets, not being depreciated	166,752	5,860	—	—	311,442	201,767
Capital assets, depreciable, net	388,366	111,551	11,858	—	299,573	440,098
Deferred expenses and other assets	—	—	5,909	11,615	3,822	8,492
Total noncurrent assets	611,428	172,947	369,247	1,073,085	681,843	750,183
Total assets	\$ 939,380	\$ 1,454,005	\$ 729,631	\$ 1,237,134	\$ 769,350	\$ 798,343

COMMONWEALTH OF PUERTO RICO

Discretely Presented Component Units
Statement of Net Assets

June 30, 2002

Assets	Automobile Accident Compensation Administration	Puerto Rico Land Administration	National Parks Company of Puerto Rico	Puerto Rico Medical Services Administration	Puerto Rico Exports Development Corporation	Tourism Company of Puerto Rico
Assets:						
Current assets:						
Cash and cash equivalents	\$ 11,335	195	3,730	1,349	964	77,338
Cash and cash equivalents in governmental banks	8	13,258	15,370	—	354	249
Investments, including collateral from securities lending transactions	262,657	72,001	10,011	—	27,621	—
Receivables, net:						
Intergovernmental	—	—	246	—	—	—
Accounts	5,641	4,528	1,047	7,161	622	13,001
Loans and advances	—	—	—	—	—	2,364
Accrued interest	1,893	777	—	—	74	273
Other governmental entities	—	—	23	50,773	—	—
Other	1,399	5,067	—	—	—	—
Due from:						
Primary government	—	—	—	—	—	—
Component units	—	—	—	—	—	49,107
Inventories	—	—	—	3,180	—	—
Prepays	—	—	699	—	120	1,503
Total current assets	282,933	95,826	31,126	62,463	29,755	143,835
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	—	—	7,133	4,245	—	—
Cash and cash equivalents in governmental banks	—	—	48,631	—	—	—
Investments and other restricted assets	—	—	29	—	—	—
Investments	—	—	—	—	—	—
Receivables:						
Loans, interest and other	—	—	—	—	513	13,170
Other governmental entities	—	—	—	—	—	—
Due from:						
Primary government	—	—	—	—	—	—
Component units	—	—	—	—	—	—
Property held for sale and future development	—	148,521	—	—	—	—
Capital assets, not being depreciated	901	7,515	26,977	7,322	63,364	4,024
Capital assets, depreciable, net	6,758	7,258	171,466	24,146	29,103	16,655
Deferred expenses and other assets	30	217	—	—	—	10,985
Total noncurrent assets	7,689	163,511	254,236	35,713	92,980	44,834
Total assets	\$ 290,622	259,337	285,362	98,176	122,735	188,669

COMMONWEALTH OF PUERTO RICO

Discretely Presented Component Units
Statement of Net Assets

June 30, 2002

Assets	Puerto Rico and Caribbean Cardiovascular Center Corporation	Agricultural Services and Development Administration	Land Authority of Puerto Rico	Puerto Rico Metropolitan Bus Authority	Puerto Rico Telephone Authority	Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental, Control Facilities Financing Authority
Assets:						
Current assets:						
Cash and cash equivalents	5,794	6	17,816	—	—	—
Cash and cash equivalents in governmental banks	—	—	—	2,728	224	36,394
Investments, including collateral from securities lending transactions	—	—	—	—	—	—
Receivables, net:						
Intergovernmental	—	—	—	2,633	—	—
Accounts	15,578	6,756	4,554	—	—	—
Loans and advances	—	9,516	139	—	—	—
Accrued interest	—	—	23	—	—	33
Other governmental entities	263	13,441	1,512	2,618	—	—
Other	—	96	—	—	—	—
Due from:						
Primary government	—	—	—	1,833	—	—
Component units	—	102	3,012	—	—	—
Inventories	1,820	7,127	434	7,639	—	—
Prepays	512	—	—	—	—	—
Total current assets	23,967	37,044	27,490	17,451	224	36,427
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	1,500	7,528	7,105	4,199	—	—
Cash and cash equivalents in governmental banks	—	3,116	—	—	79,693	—
Investments and other restricted assets	—	—	—	—	132,572	—
Investments	—	—	2,000	—	—	—
Receivables:						
Loans, interest and other	—	—	993	—	172,349	—
Other governmental entities	—	—	—	—	—	—
Due from:						
Primary government	—	—	—	—	—	—
Component units	—	—	—	—	—	—
Property held for sale and future development	—	—	—	—	—	—
Capital assets, not being depreciated	94	3,659	57,868	2,569	—	158,914
Capital assets, depreciable, net	46,311	18,007	10,125	56,416	—	—
Deferred expenses and other assets	—	540	1,657	—	—	3
Total noncurrent assets	47,905	32,850	79,748	63,184	384,614	158,917
Total assets	\$ 71,872	\$ 69,894	\$ 107,238	\$ 80,635	\$ 384,838	\$ 195,344

COMMONWEALTH OF PUERTO RICO

Discretely Presented Component Units
Statement of Net Assets

June 30, 2002

Assets	Public					
	Puerto Rico Solid Waste Authority	Corporation for the Supervision and Deposit Insurance of Puerto Rico	Right to Employment Administration	Puerto Rico Public Broadcasting Corporation	Fine Arts Center Corporation	Institutional Trust of the National Guard of Puerto Rico
Assets:						
Current assets:						
Cash and cash equivalents	\$ 1,527	—	2,083	1,497	2,108	8,724
Cash and cash equivalents in governmental banks	—	751	8,629	—	16	—
Investments, including collateral from securities lending transactions	—	79,546	—	—	—	4,330
Receivables, net:						
Intergovernmental	112	—	1,061	—	—	—
Accounts	2,258	—	288	356	33	1,200
Loans and advances	—	—	—	—	—	—
Accrued interest	—	221	8	499	5	26
Other governmental entities	—	263	3,236	233	—	—
Other	—	—	—	—	—	—
Due from:						
Primary government	—	—	—	—	—	—
Component units	—	—	—	—	—	—
Inventories	—	—	131	—	—	—
Prepays	373	—	4	349	117	—
Total current assets	4,270	80,781	15,440	2,934	2,279	14,280
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	21,078	—	—	8,927	61	674
Cash and cash equivalents in governmental banks	—	—	—	—	889	—
Investments and other restricted assets	534	—	—	—	—	—
Investments	1,497	—	—	—	—	—
Receivables:						
Loans, interest and other	—	—	—	—	—	—
Other governmental entities	—	—	—	—	—	—
Due from:						
Primary government	—	—	—	—	—	—
Component units	—	—	—	—	—	—
Property held for sale and future development	67,896	—	—	340	2,879	1,581
Capital assets, not being depreciated	56,302	224	445	11,890	15,267	4,501
Capital assets, depreciable, net	—	58	—	2,117	—	2,059
Deferred expenses and other assets	—	—	—	—	—	—
Total noncurrent assets	147,307	282	445	23,274	19,096	8,815
Total assets	\$ 151,577	\$ 81,063	\$ 15,885	\$ 26,208	\$ 21,375	\$ 23,095

COMMONWEALTH OF PUERTO RICO

Discretely Presented Component Units
Statement of Net Assets

June 30, 2002

Assets	Puerto Rico Maritime Transportation Authority	Puerto Rico Council on Higher Education	Farm Insurance Corporation of Puerto Rico	Employment and Training Enterprise Corporation	Caribbean Basin Projects Financing Authority	Puerto Rico Conservatory of Music Corporation
Assets:						
Current assets:						
Cash and cash equivalents	309	—	400	—	—	414
Cash and cash equivalents in governmental banks	—	1,321	—	159	5,133	—
Investments, including collateral from securities lending transactions	—	10,719	—	—	—	—
Receivables, net:						
Intergovernmental						
Accounts	4,359	372	126	1,175	—	7,148
Loans and advances	—	—	—	—	—	—
Accrued interest	—	—	—	—	—	4
Other governmental entities	—	—	—	—	—	202
Other	—	—	—	—	—	10
Due from:						
Primary government	—	—	—	—	—	—
Component units	—	—	5,900	—	—	—
Inventories	1,354	—	—	1,350	—	—
Prepays	1,227	—	20	23	—	82
Total current assets	7,249	12,412	6,446	2,707	5,137	7,856
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	—	—	4,532	—	—	682
Cash and cash equivalents in governmental banks	—	—	—	3,788	—	—
Investments and other restricted assets	—	—	—	—	—	—
Investments	—	—	—	—	—	—
Receivables:						
Loans, interest and other	—	—	—	—	—	—
Other governmental entities	—	—	—	—	—	—
Due from:						
Primary government	—	—	—	—	—	—
Component units	—	—	—	—	—	—
Property held for sale and future development	—	—	—	—	—	—
Capital assets, not being depreciated	7,470	—	—	—	—	12,884
Capital assets, depreciable, net	44,116	777	168	564	—	1,529
Deferred expenses and other assets	—	—	—	—	—	—
Total noncurrent assets	51,586	777	4,700	4,352	—	15,095
Total assets	58,835	13,189	11,146	7,059	5,137	22,951

COMMONWEALTH OF PUERTO RICO

Discretely Presented Component Units
Statement of Net Assets

June 30, 2002

Assets	Musical Arts Corporation	Puerto Rico School of Plastic Arts	Corporation for the Development of the Arts, Sciences and Film Industry	Governing Board of the 911 Service	Industries for the Blind, Mentally Retarded and Other Disabled Persons of Puerto Rico	Puerto Rico Convention Center District Authority	Total
Assets:							
Current assets:							
Cash and cash equivalents	\$ 2,969	—	—	—	30	—	2,331,855
Cash and cash equivalents in governmental banks	—	548	445	11,560	1,003	—	199,711
Investments, including collateral from securities lending transactions	—	—	—	—	—	—	5,473,235
Receivables, net:							
Intergovernmental	—	—	—	—	—	—	58,323
Accounts	66	—	—	2,049	200	4,159	556,138
Loans and advances	—	—	—	—	—	—	1,618,594
Accrued interest	—	—	—	97	—	—	150,407
Other governmental entities	201	—	—	—	—	—	255,005
Other	20	—	—	—	—	—	53,625
Due from:							
Primary government	—	—	—	—	—	—	15,730
Component units	—	—	—	—	—	—	750,475
Inventories	—	—	—	33	161	—	245,259
Prepays	—	—	—	—	—	—	50,919
Total current assets	3,256	548	445	13,739	1,394	4,159	11,759,276
Noncurrent assets:							
Restricted assets:							
Cash and cash equivalents	41	—	—	6,341	—	—	620,522
Cash and cash equivalents in governmental banks	—	—	2,591	—	—	—	319,995
Investments and other restricted assets	—	—	—	—	—	—	4,361,928
Investments	—	—	—	—	—	—	1,561,809
Receivables:							
Loans, interest and other	—	—	—	—	—	—	284,125
Other governmental entities	—	—	—	—	—	—	—
Due from:							
Primary government	—	—	—	—	—	—	67,794
Component units	—	—	—	—	—	—	8,845
Property held for sale and future development	—	—	—	—	—	—	239,651
Capital assets, not being depreciated	153	—	—	—	—	63,125	9,658,684
Capital assets, depreciable, net	273	1,113	39	93	50	35	14,551,989
Deferred expenses and other assets	—	—	—	—	—	—	252,554
Total noncurrent assets	467	1,113	2,630	6,434	50	63,160	31,927,896
Total assets	\$ 3,723	\$ 1,661	\$ 3,075	\$ 20,173	\$ 1,444	\$ 67,319	\$ 43,687,172

COMMONWEALTH OF PUERTO RICO

Discretely Presented Component Units
Statement of Net Assets

June 30, 2002

	Government Development Bank for Puerto Rico	Puerto Rico Highway and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Health Insurance Administration	University of Puerto Rico	State Insurance Fund Corporation
Liabilities and Net Assets								
Liabilities:								
Current liabilities:								
Accounts payable and accrued liabilities	\$ 189,811	310,370	392,861	219,949	62,778	28,131	78,852	160,061
Deposits and escrow liabilities	4,162,700	—	133,510	6,233	—	—	—	—
Due to:								
Primary government	237,027	—	—	23,336	—	—	—	—
Component units	—	—	—	31,979	2,117	—	508	10,350
Other governmental entities	—	—	11,645	20,288	—	—	—	772
Securities lending transactions and reverse repurchase agreements	170,000	—	—	—	—	—	—	145,657
Interest payable	15,382	112,625	123,183	20,193	39,735	—	212	—
Deferred revenue	—	—	—	—	—	—	—	36,630
Notes payable, current portion	398,746	—	125,000	—	—	—	—	905
Bonds payable, current portion	129,809	81,925	280,070	1,296	23,935	—	20,185	—
Accrued compensated absences	3,244	—	73,987	29,033	123	—	16,512	—
Reserves for automobile accident benefit payments	—	—	—	—	—	185	—	35,648
Current portion of other long-term liabilities	—	13,292	19,481	—	—	17	310	966
Total current liabilities	5,306,719	518,212	1,159,737	352,307	128,688	28,333	116,579	1,330,612
Noncurrent liabilities:								
Due to:								
Primary government	—	—	—	108,952	—	—	—	—
Component units	—	—	—	—	9,816	—	17,000	—
Securities lending transactions and reverse repurchase agreements	—	—	—	—	—	—	—	—
Interest payable	—	—	—	—	—	—	—	—
Deferred revenue	—	—	41,422	—	—	—	—	—
Notes payable	—	300,000	5,000	—	—	—	—	57,773
Commonwealth appropriation bonds	10,029	—	—	712,130	10,331	—	—	—
Bonds payable	1,357,509	4,400,490	4,347,858	833,174	1,984,440	—	430,326	—
Accrued compensated absences	—	19,627	120,412	19,475	108	626	90,422	14,100
Other long-term liabilities	—	18,000	29,183	56,469	—	15	43,590	48,856
Total noncurrent liabilities	1,367,538	4,738,117	4,543,875	1,730,200	2,004,695	641	581,338	120,729
Total liabilities	6,674,257	5,256,329	5,703,612	2,082,507	2,133,383	28,974	697,917	1,451,341
Net Assets:								
Invested in capital assets, net of related debt	16,625	7,169,108	113,475	2,698,448	210,156	629	151,908	78,797
Restricted for:								
Trust - nonexpendable	—	—	—	—	1,261,578	—	—	—
Capital projects	—	27,771	—	—	8,240	—	5,196	—
Debt service	45,868	410,098	367,351	—	10,098	—	38,898	—
Affordable housing and related loan insurance programs	369,830	—	—	—	—	—	—	—
Student loans and other educational purposes	—	—	—	—	—	—	56,804	—
Other specified purposes	—	—	—	25,686	14,606	—	—	—
Unrestricted	1,569,865	30,016	11,519	(255,437)	(927,220)	12,320	(11,343)	(76,133)
Total net assets	2,002,188	7,636,993	492,345	2,468,697	577,458	12,949	241,463	2,664
Total liabilities and net assets	\$ 8,676,445	12,893,322	6,195,957	4,551,204	2,710,841	41,923	939,380	1,454,005

COMMONWEALTH OF PUERTO RICO

Discretely Presented Component Units
Statement of Net Assets

June 30, 2002

	Economic Development Bank for Puerto Rico	Puerto Rico Municipal Finance Agency	Puerto Rico Ports Authority	Puerto Rico Industrial Development Company	Automobile Accident Compensation Administration	Puerto Rico Land Administration	National Parks Company of Puerto Rico	Puerto Rico Medical Services Administration
Liabilities and Net Assets								
Liabilities:								
Current liabilities:								
Accounts payable and accrued liabilities	\$ 1,877	2,586	67,828	55,841	8,720	4,653	13,407	50,378
Deposits and escrow liabilities	397,030	162,395	1,247	4,455	—	1,349	—	—
Due to:								
Primary government Component units	263	—	14,280	—	—	—	434	—
Other governmental entities	—	—	250,493	59,250	—	—	1,763	20,669
Securities lending transactions and reverse repurchase agreements	56,661	—	—	—	62,079	—	—	8,966
Interest payable	2,347	22,827	3,094	6,811	—	—	—	—
Deferred revenue	—	—	737	—	34,454	—	—	—
Notes payable, current portion	58,943	—	15,000	9,075	—	—	—	—
Bonds payable, current portion	—	64,700	7,895	6,515	—	—	—	—
Accrued compensated absences	—	—	—	—	2,903	841	149	6,701
Reserves for automobile accident benefit payments	—	—	—	—	110,700	—	—	—
Current portion of other long-term liabilities	5,549	—	9,267	657	—	—	—	735
Total current liabilities	522,670	252,508	369,841	142,604	218,856	6,843	15,753	87,449
Noncurrent liabilities:								
Due to:								
Primary government Component units	13,094	—	—	—	—	—	—	—
Securities lending transactions and reverse repurchase agreements	—	—	—	382	—	—	—	—
Interest payable	—	—	—	—	—	—	—	—
Deferred revenue	—	3,272	13,924	—	—	—	—	—
Notes payable	85,551	—	—	11,529	—	—	—	—
Commonwealth appropriation bonds	—	—	—	—	—	—	—	—
Bonds payable	1,591	892,639	82,090	177,518	—	—	—	—
Accrued compensated absences	—	—	—	—	—	—	—	—
Other long-term liabilities	300	—	250	501	—	38,519	4,857	—
Total noncurrent liabilities	100,536	895,911	96,264	189,930	—	38,519	5,834	9,977
Total liabilities	623,206	1,148,419	466,105	332,534	218,856	45,362	21,587	97,426
Net Assets:								
Invested in capital assets, net of related debt	(1,499)	—	302,076	560,471	—	7,104	198,443	27,427
Restricted for:								
Trust - nonexpendable Capital projects	—	—	—	—	—	—	—	—
Debt service	—	89,648	23,754	—	—	—	—	—
Affordable housing and related loan insurance programs	—	—	29,132	—	—	—	—	—
Student loans and other educational purposes	—	—	—	—	—	—	—	—
Other specified purposes	8,217	—	4,853	121,445	—	—	—	(1,866)
Unrestricted	99,707	(933)	(56,570)	(216,107)	71,766	206,871	65,332	(24,811)
Total net assets	106,425	88,715	303,245	465,809	71,766	213,975	263,775	750
Total liabilities and net assets	\$ 729,631	1,237,134	769,350	798,343	290,622	259,337	285,362	98,176

COMMONWEALTH OF PUERTO RICO

Discretely Presented Component Units
Statement of Net Assets

June 30, 2002

	Puerto Rico Exports Development Corporation	Tourism Company of Puerto Rico	Puerto Rico and Caribbean Cardiovascular Center Corporation	Agricultural Services and Development Administration	Land Authority of Puerto Rico	Puerto Rico Metropolitan Bus Authority	Puerto Rico Telephone Authority
Liabilities and Net Assets							
Liabilities:							
Current liabilities:							
Accounts payable and accrued liabilities	\$ 2,878	45,525	5,197	36,370	65,605	18,572	212,055
Deposits and escrow liabilities	—	—	—	—	7,592	—	—
Due to:							
Primary government	1,697	—	18,035	8,912	—	—	—
Component units	—	—	—	—	48,198	313	—
Other governmental entities	—	—	—	—	—	—	—
Securities lending transactions and reverse repurchase agreements	—	—	—	—	—	—	—
Interest payable	132	—	10,335	3,147	—	—	—
Deferred revenue	—	—	—	1,750	539	2,351	—
Notes payable, current portion	—	—	—	—	—	—	—
Bonds payable, current portion	—	544	2,105	6,881	1,403	3,543	—
Accrued compensated absences	—	—	—	—	—	—	—
Reserves for automobile accident benefit payments	—	486	5,370	—	9,816	—	—
Current portion of other long-term liabilities	—	—	—	—	—	—	—
Total current liabilities	4,707	46,555	41,042	57,060	133,153	24,779	212,055
Noncurrent liabilities:							
Due to:							
Primary government	8,845	53,349	—	—	—	—	—
Component units	—	—	—	25,114	—	—	—
Securities lending transactions and reverse repurchase agreements	—	—	—	—	—	—	—
Interest payable	—	—	—	—	—	—	—
Deferred revenue	—	—	—	—	—	—	—
Notes payable	—	—	—	—	—	—	—
Commonwealth appropriation bonds	—	127,115	—	—	111,058	—	—
Bonds payable	619	3,636	—	—	—	—	—
Accrued compensated absences	2,973	1,993	55,529	444	—	—	73,860
Other long-term liabilities	—	—	—	—	—	—	—
Total noncurrent liabilities	12,437	186,093	55,529	25,558	111,058	—	73,860
Total liabilities	17,144	232,648	96,571	82,618	244,211	24,779	285,915
Net Assets:							
Invested in capital assets, net of related debt	81,926	20,094	(16,272)	—	67,993	58,985	—
Restricted for:							
Trust - nonexpendable	—	—	—	—	—	—	—
Capital projects	—	—	—	—	—	—	—
Debt service	—	—	—	—	—	—	—
Affordable housing and related loan insurance programs	—	—	—	—	—	—	—
Student loans and other educational purposes	—	—	—	—	—	—	—
Other specified purposes	—	—	—	11,855	—	4,198	98,909
Unrestricted	23,665	(64,073)	(8,427)	(24,579)	(204,966)	(7,327)	14
Total net assets	105,591	(43,979)	(24,699)	(12,724)	(136,973)	55,856	98,923
Total liabilities and net assets	\$ 122,735	188,669	71,872	69,894	107,238	80,635	384,838

COMMONWEALTH OF PUERTO RICO

Discretely Presented Component Units
Statement of Net Assets

June 30, 2002

	Industrial, Tourist, Educational, Medical, and Environmental, Control Facilities Financing Authority	Puerto Rico Solid Waste Authority	Public Corporation for the Supervision and Deposit Insurance of Puerto Rico	Right to Employment Administration	Puerto Rico Public Broadcasting Corporation	Fine Arts Center Corporation	Institutional Trust of the National Guard of Puerto Rico
Liabilities and Net Assets							
Liabilities:							
Current liabilities:							
Accounts payable and accrued liabilities	\$ 4,423	11,050	29,093	3,211	2,930	558	717
Deposits and escrow liabilities	—	—	—	—	—	175	—
Due to:							
Primary government Component units	—	17,730	—	—	—	—	—
Other governmental entities	—	—	—	1,264	—	18	—
Securities lending transactions and reverse repurchase agreements	—	—	—	—	—	—	—
Interest payable	1,910	—	—	—	—	—	—
Deferred revenue	—	—	—	8,954	8,711	1,408	—
Notes payable, current portion	—	—	—	—	—	—	—
Bonds payable, current portion	43	205	862	1,271	645	61	—
Accrued compensated absences	—	—	—	—	—	—	—
Reserves for automobile accident benefit payments	—	53	—	—	103	—	—
Current portion of other long-term liabilities	—	—	—	—	—	20	—
Total current liabilities	6,376	29,038	29,955	14,700	12,389	2,230	717
Noncurrent liabilities:							
Due to:							
Primary government Component units	—	—	—	—	—	—	—
Securities lending transactions and reverse repurchase agreements	125,452	—	—	—	—	—	—
Interest payable	—	—	—	—	—	—	—
Deferred revenue	—	—	—	—	—	—	—
Notes payable	—	—	—	—	—	—	—
Commonwealth appropriation bonds	—	15,521	—	—	—	—	—
Bonds payable	—	546	—	—	966	292	—
Accrued compensated absences	—	—	—	1,135	54	—	—
Other long-term liabilities	10,581	154	—	—	—	—	—
Total noncurrent liabilities	136,033	16,221	—	1,135	1,020	312	—
Total liabilities	142,409	45,259	29,955	15,835	13,409	2,542	717
Net Assets:							
Invested in capital assets, net of related debt	18,571	90,740	224	445	12,073	18,115	6,082
Restricted for:							
Trust - nonexpendable Capital projects	—	—	—	—	—	—	—
Debt service	—	—	—	—	—	—	—
Affordable housing and related loan insurance programs	—	—	—	—	—	—	—
Student loans and other educational purposes	—	2,278	46,524	—	—	—	3,100
Other specified purposes	—	13,300	4,360	(395)	726	950	13,196
Unrestricted	34,364	—	—	—	—	(232)	—
Total net assets	52,935	106,318	51,108	50	12,799	18,833	22,378
Total liabilities and net assets	\$ 195,344	\$ 151,577	\$ 81,063	\$ 15,885	\$ 26,208	\$ 21,375	\$ 23,095

COMMONWEALTH OF PUERTO RICO

Discretely Presented Component Units
Statement of Net Assets

June 30, 2002

	Puerto Rico Maritime Transportation Authority	Puerto Rico Council on Higher Education	Farm Insurance Corporation of Puerto Rico	Employment and Training Enterprise Corporation	Caribbean Basin Projects Financing Authority	Conservatory of Music Corporation	Musical Arts Corporation
Liabilities and Net Assets							
Liabilities:							
Current liabilities:							
Accounts payable and accrued liabilities	\$ 7,173	1,128	3,687	11,090	3	693	838
Deposits and escrow liabilities	47						
Due to:							
Primary government	—	—	—	—	—	—	—
Component units	7,190	—	102	300	—	—	—
Other governmental entities	—	—	—	—	—	—	345
Securities lending transactions and reverse repurchase agreements	—	—	—	—	—	—	—
Interest payable	—	—	—	—	—	—	—
Deferred revenue	—	—	244	788	—	157	320
Notes payable, current portion	—	—	—	—	—	—	—
Bonds payable, current portion	—	—	—	—	—	—	—
Accrued compensated absences	847	287	227	234	—	165	127
Reserves for automobile accident benefit payments	—	—	—	—	—	—	—
Current portion of other long-term liabilities	576	—	—	—	—	—	—
Total current liabilities	15,833	1,415	4,260	12,412	3	1,015	1,630
Noncurrent liabilities:							
Due to:							
Primary government	—	—	—	—	—	—	—
Component units	—	—	—	2,700	—	—	—
Securities lending transactions and reverse repurchase agreements	—	—	—	—	—	—	—
Interest payable	—	—	—	—	—	—	—
Deferred revenue	—	—	—	—	—	—	—
Notes payable	—	—	—	—	—	—	—
Commonwealth appropriation bonds	—	—	—	—	—	—	—
Bonds payable	—	—	—	—	—	—	—
Accrued compensated absences	—	—	—	—	—	625	53
Other long-term liabilities	—	253	—	—	—	443	1,526
Total noncurrent liabilities	—	253	—	2,700	—	1,068	1,579
Total liabilities	15,833	1,668	4,260	15,112	3	2,083	3,209
Net Assets:							
Invested in capital assets, net of related debt	51,587	777	168	564	—	13,970	426
Restricted for:							
Trust - nonexpendable	—	—	—	—	—	—	—
Capital projects	—	—	—	—	—	—	—
Debt service	—	—	—	—	—	—	—
Affordable housing and related loan insurance programs	—	—	—	—	—	—	—
Student loans and other educational purposes	—	9,677	4,531	504	—	466	(101)
Other specified purposes	(8,585)	1,067	2,187	(9,121)	5,134	6,432	189
Unrestricted	43,002	11,521	6,886	(8,053)	5,134	20,868	514
Total net assets	58,835	13,189	11,146	7,059	5,137	22,951	3,723
Total liabilities and net assets	\$ 58,835	\$ 13,189	\$ 11,146	\$ 7,059	\$ 5,137	\$ 22,951	\$ 3,723

COMMONWEALTH OF PUERTO RICO

Discretely Presented Component Units
Statement of Net Assets

June 30, 2002

	Puerto Rico School of Plastic Arts	Corporation for the Development of the Arts, Sciences and Film Industry	Governing Board of the 911 Service	Industries for the Blind, Mentally Retarded and Other Disabled Persons of Puerto Rico	Puerto Rico Convention Center District Authority	Total
Liabilities and Net Assets						
Liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities	200	421	1,277	297	6,482	2,119,576
Deposits and escrow liabilities	—	—	—	—	—	4,876,733
Due to:						
Primary government Component units	—	—	5,994	—	—	298,672
Other governmental entities	—	—	—	—	49,107	509,612
Securities lending transactions and reverse repurchase agreements	—	—	—	—	—	45,061
Interest payable	—	—	—	—	—	434,397
Deferred revenue	321	—	—	—	—	361,933
Notes payable, current portion	—	—	—	—	—	97,364
Bonds payable, current portion	—	—	—	—	—	607,669
Accrued compensated absences	—	—	—	—	—	616,330
Reserves for automobile accident benefit payments	—	8	453	—	—	189,052
Current portion of other long-term liabilities	—	—	1,007	—	—	1,050,508
Total current liabilities	521	429	8,731	297	55,589	67,695
Noncurrent liabilities:						
Due to:						
Primary government Component units	—	—	—	—	—	108,952
Securities lending transactions and reverse repurchase agreements	—	—	—	—	—	255,752
Interest payable	—	—	—	—	—	—
Deferred revenue	—	—	—	—	—	—
Notes payable	—	—	—	—	—	58,618
Commonwealth appropriation bonds	—	—	—	—	—	459,853
Bonds payable	—	—	—	—	—	986,184
Accrued compensated absences	196	61	—	—	—	14,506,044
Other long-term liabilities	—	—	—	—	—	279,347
Total noncurrent liabilities	196	61	—	—	—	394,467
Total liabilities	717	490	8,731	297	55,589	17,049,217
Net Assets:						
Invested in capital assets, net of related debt	1,114	39	(371)	—	3,330	11,963,748
Restricted for:						
Trust - nonexpendable	—	—	—	—	—	1,261,578
Capital projects	108	—	—	—	—	65,069
Debt service	—	—	—	—	—	991,093
Affordable housing and related loan insurance programs	—	—	—	—	—	369,830
Student loans and other educational purposes	—	—	—	—	—	56,804
Other specified purposes	—	2,591	6,341	—	4,159	368,923
Unrestricted	(278)	(45)	5,472	1,147	4,241	286,308
Total net assets	944	2,585	11,442	1,147	11,730	15,363,353
Total liabilities and net assets	\$ 1,661	\$ 3,075	\$ 20,173	\$ 1,444	\$ 67,319	\$ 43,687,172

STATISTICAL SECTION

COMMONWEALTH OF PUERTO RICO
General Governmental Expenditures by Function
All Governmental Funds

For the last ten fiscal years
(In thousands)

Function:	2002**	%	2001	2000	1999	1998	1997	1996	1995	1994	1993
General Government	\$ 1,279,750	8.3%	739,009	853,040	526,629	484,547	499,652	661,359	451,275	341,066	412,606
Public Safety	1,659,280	10.9%	1,623,362	1,310,322	1,103,606	1,241,762	1,188,814	926,498	878,673	798,367	679,354
Health	1,983,727	13.0%	954,563	972,757	625,475	656,498	508,659	245,743	231,212	192,118	109,235
Public Housing and Welfare	2,726,129	17.8%	2,315,899	2,102,410	2,485,092	1,902,902	2,086,828	1,701,434	1,681,688	1,524,344	1,402,358
Education	3,343,002	21.9%	2,308,479	2,436,267	2,272,903	2,744,630	1,960,185	1,832,271	1,760,784	1,511,610	1,260,580
Economic Development	637,794	4.2%	170,937	337,255	314,897	186,296	333,290	88,143	154,796	235,915	405,002
Intergovernmental	466,169	3.1%	222,721	373,016	318,664	55,739	496,844	306,226	207,389	184,261	504,244
Lottery Prizes*	-	-	-	-	-	-	-	-	-	-	288,041
Capital Outlays	507,634	3.3%	1,020,344	833,597	642,016	1,515,230	1,395,463	1,255,430	848,801	549,352	630,589
Debt Service:											
Principal	2,062,059	13.5%	466,467	416,369	351,722	620,866	359,851	367,198	660,133	317,561	294,983
Interest and Other	614,347	4.0%	545,001	444,595	442,614	595,053	556,835	504,480	435,549	348,260	385,664
Total Expenditures	\$ 15,279,891	100.0%	10,366,782	10,079,628	9,083,618	10,003,523	9,386,421	7,888,782	7,310,300	6,002,854	6,372,656

* In 1994 the Commonwealth made a change in its financial reporting policy for its Lotteries (Traditional and Additional). The revenue from the Lotteries were reported within the general fund until fiscal year 1993, and since 1994 have been reported in the enterprise fund. Management believes that this change adequately reflects the operations of the Lotteries.

**In 2002 the Commonwealth adopted GASB No 34. This statement requires payments to component units to be included as expenditure by function. In prior years such payments were reported as operating transfers-out to component units.

COMMONWEALTH OF PUERTO RICO
General Governmental Revenue by Source
All Governmental Funds

For the last ten fiscal years
(In thousands)

Source:	2002	%	2001	2000	1999	1998	1997	1996	1995	1994	1993
Taxes:											
Income	\$ 4,843,852	41.5%	4,536,840	4,967,138	4,413,860	3,989,239	3,622,988	3,396,724	3,242,876	2,876,542	2,418,006
Property	102,554	0.9%	-	-	-	-	-	-	-	-	77,289
Excise	1,713,098	14.7%	1,788,992	1,736,539	1,714,444	1,884,348	1,827,305	1,713,537	1,664,529	1,589,770	1,529,241
Other	1,963	0.0%	92,024	87,523	78,926	73,426	64,910	57,662	56,556	53,521	52,787
Charges for Services	535,423	4.6%	645,806	617,020	457,454	569,096	464,034	461,736	455,500	236,609	727,093
Intergovernmental	3,634,358	31.2%	3,807,049	2,971,528	3,435,765	3,009,169	3,077,042	2,545,615	2,492,443	2,328,427	2,024,451
Interest	90,940	0.8%	67,020	91,525	97,880	116,030	110,777	59,788	-	-	-
Other	736,686	6.3%	270,711	383,548	162,228	189,476	134,819	186,591	170,025	144,227	116,637
Total Revenue -											
All Governmental Fund Types	\$ 11,658,874	100.0%	11,208,442	10,854,821	10,360,557	9,830,784	9,301,875	8,421,653	8,081,929	7,229,096	6,945,504

*The annual special tax of 1.03 percent of the assessed value of all real and personal property not exonerated from taxation, collected by the Municipal Revenues Collection Center on the Commonwealth's behalf, is presented as property tax in 2002 but as intergovernmental revenue in prior years.

COMMONWEALTH OF PUERTO RICO

Computation of the Legal Debt Margin

**July 1, 2002
(In thousands)**

Statutory Margin	
Section 2, Article VI of Constitution of Puerto Rico	
(Section 2, Article VI of Constitution of Puerto Rico)	
Internal Revenue for the year ended June 30, 2001	\$ 6,632,090
Internal Revenue for the year ended June 30, 2002 (p)	7,145,000
	<hr/>
Total Internal Revenue for the years ended June 30, 2001 and 2002	\$ 13,777,090
	<hr/>
Internal Revenue average for the two years	\$ 6,888,545
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Legal Debt Limit - 15% of Internal Revenue average for the two years	\$ 1,033,282
Maximum Debt Service Requirement - 7.564% on Commonwealth Bonds maturing on 2002 and PRASA debt service paid during fiscal year 2002	521,035
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Additional Legal Debt Service Requirement Margin	\$ 512,247
	<hr/>

(p) Preliminary

Source: Government Development Bank for Puerto Rico.

COMMONWEALTH OF PUERTO RICO
Ratio of Annual Debt Service for General
Bonded Debt to Total General Expenditures
For the last ten fiscal years
(In thousands)

Fiscal Year	Total Debt Service	General Governmental Expenditures	Ratio (%)
2002	608,674	15,279,891	4.0%
2001	538,436	10,366,782	5.2
2000	507,336	10,079,628	5.0
1999	468,970	9,083,618	5.2
1998	435,894	10,003,523	4.4
1997	430,153	9,386,421	4.6
1996	424,753	7,888,782	5.4
1995	389,278	7,310,300	5.3
1994	362,294	6,002,854	6.0
1993	356,291	6,372,656	5.6

COMMONWEALTH OF PUERTO RICO

Demographic Statistics

For the last ten fiscal years

Fiscal year		Population*	Per capita income	Median age	School enrollment**	Unemployment rate (%)
2002	p	3,863	\$ 11,368	32.9	792,284	12.0
2001		3,840 r	10,816 r	32.6	799,933 r	10.5
2000		3,800 r	10,143 r	32.2	799,322 r	11.0
1999		3,765 r	9,725 r	31.8	753,705	12.5
1998		3,732 r	9,202 r	31.4	753,428	13.6
1997		3,700 r	8,827 r	31.0	749,938	13.1
1996		3,670 r	8,151 r	30.7	770,537	13.8
1995		3,641 r	7,519 r	30.3	709,559	13.8
1994		3,614 r	7,157 r	29.9	714,705	16.0
1993		3,588 r	6,861 r	29.6	741,914	16.8

* Amounts expressed in thousands

** The enrollment in private schools is an estimate

p Preliminary

r Revised

Source: Puerto Rico Planning Board, Puerto Rico Department of Education and the General Council of Education

COMMONWEALTH OF PUERTO RICO

Construction and Bank Deposits

For the last ten fiscal years

Fiscal year	Commercial construction (1)		Residential construction (1)		(2) Bank deposits *
	Number of permits	Value *	Number of permits	Value *	
2002	317	\$ 182,930	5,206	\$ 943,040	\$ 39,219,512
2001	368	170,388	4,990	932,128	37,788,557
2000	358	251,003	6,578	991,834	30,449,860
1999	286	106,186	6,498	694,714	28,423,313
1998	351	147,486	6,732	631,465	25,354,086
1997	354	149,121	6,159	635,343	23,191,572
1996	291	89,405	6,180	582,186	24,191,572
1995	346	126,021	6,678	674,797	22,876,069
1994	37	81,087	6,677	470,158	19,350,635
1993	346	89,960	5,806	493,027	18,687,652

* Amounts expressed in thousands

(1) Source: Puerto Rico Planning Board.

(2) Source: Commissioner of Financial Institutions

COMMONWEALTH OF PUERTO RICO

Miscellaneous Statistics

June 30, 2002

Statistic	Quantity
Population (millions)	3.9 (p)
Life expectancy	75.2
Area in square miles	3,426
Fire Protection:	
Number of stations	93
Number of fire personnel and officers	1,867
Calls answered	13,256
Building inspections conducted	41,415
Police Protection:	
Number of stations	235
Police personnel and officers	20,468
Total police vehicles	4,673
Water System:	
Customers	1,209,834
Water consumption (millions of cubic meter)	349
Electric Distribution System:	
Customers	1,383,888
Electricity consumption (millions of kilowatt)	191,130
Electricity production (millions of kilowatt)	22,514
Education:	
Enrollment in public schools:	
kindergarten to sixth grade	334,929
seventh to ninth grade	146,837
tenth to twelfth grade	117,072
Enrollment in private schools (2001):	
kindergarten to sixth grade	119,648
seventh to ninth grade	41,256
tenth to twelfth grade	32,542
Enrollment in universities and colleges:	
Public	73,974
Private	117,578

(p) Preliminary

Source: Various Commonwealth Public Agencies.

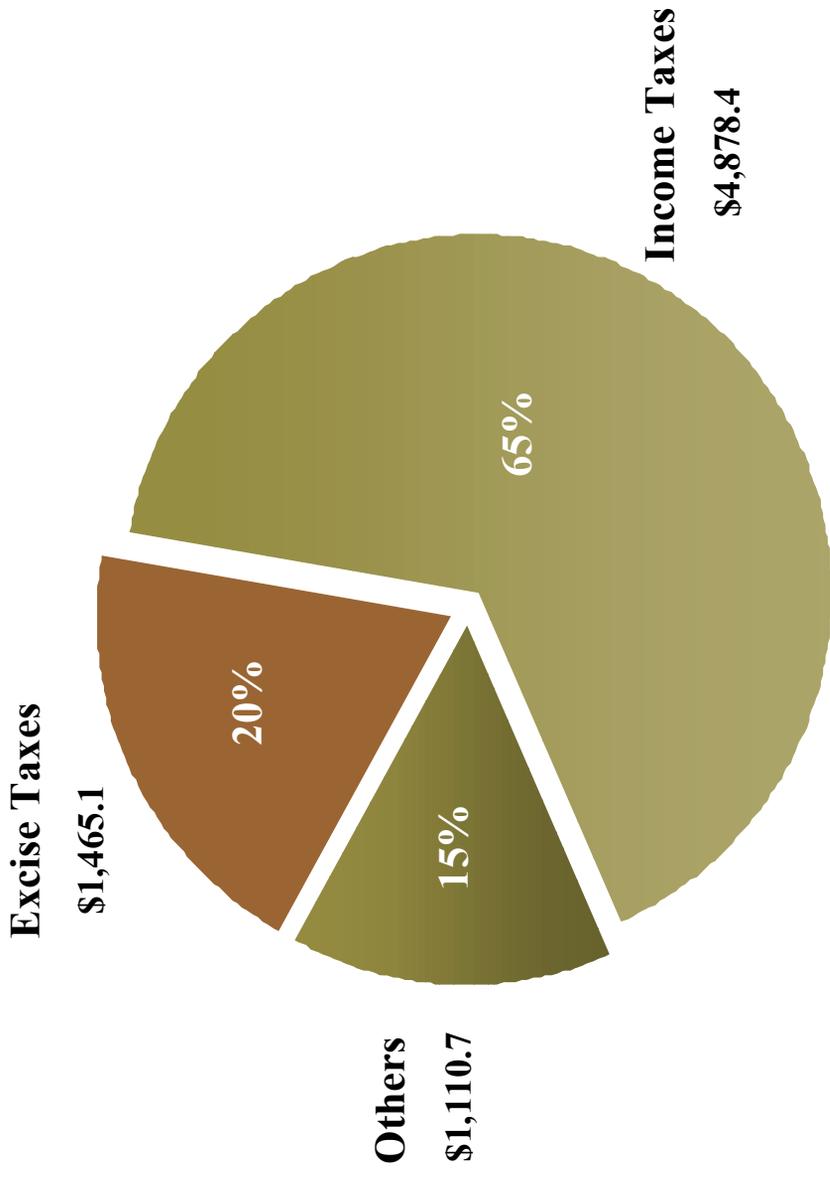
COMMONWEALTH OF PUERTO RICO
General Fund Net Revenue
For the last ten fiscal years
(in thousands)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
TOTAL	4,025,305	4,665,331	5,080,139	5,247,616	5,600,748	5,902,506	6,550,043	6,943,613	6,962,134	7,454,212
FROM INTERNAL REVENUE	3,767,832	4,357,569	4,780,492	4,974,918	5,335,879	5,630,040	6,271,392	6,647,632	6,632,090	6,828,254
TAX REVENUE	3,531,014	4,111,119	4,531,788	4,729,320	5,095,218	5,358,805	5,982,504	6,344,398	6,204,639	6,321,883
PROPERTY TAXES	12,877	4,567	7,889	5,107	8,286	5,673	2,214	1,131	287	-
INCOME TAXES, TOTAL	2,401,279	2,856,134	3,220,937	3,368,175	3,610,016	3,972,869	4,433,804	4,856,011	4,778,590	4,778,800
INDIVIDUALS	1,241,924	1,409,824	1,578,269	1,709,116	1,825,337	2,026,612	2,244,376	2,352,066	2,259,090	2,471,782
CORPORATIONS	975,134	1,107,265	1,304,612	1,348,160	1,440,691	1,527,415	1,653,762	1,781,862	1,696,766	1,584,719
PARTNERSHIPS	1,165	1,802	3,391	3,323	2,120	4,404	2,087	2,339	3,026	2,670
WITHHOLDING TO NONRESIDENTS	50,531	73,626	79,072	78,235	88,603	192,463	369,384	557,276	696,835	583,256
TOLLGATE TAX (REGULAR)	98,771	130,829	110,945	78,554	83,640	65,285	49,249	57,203	23,664	44,213
TOLLGATE TAX (PREPAYMENT)	-	93,527	109,928	100,900	126,605	105,668	65,284	53,927	25,847	15,302
INTEREST SUBJECT TO 17%	6,076	5,293	6,070	6,662	7,582	11,406	10,666	11,674	14,782	14,310
TAXES ON DIVIDENDS	27,678	33,988	28,650	43,225	35,438	39,616	38,996	39,664	58,580	62,348
INHERITANCE AND GIFT TAXES	1,072	934	1,535	1,547	4,028	1,380	1,811	3,109	7,475	1,962
EXCISE TAXES, TOTAL	1,067,535	1,200,400	1,252,327	1,304,024	1,419,353	1,312,716	1,473,827	1,410,346	1,341,949	1,458,546
ALCOHOLIC BEVERAGES, TOTAL	215,035	220,882	222,187	237,915	229,043	238,118	243,464	236,374	237,512	249,705
DISTILLED SPIRITS	48,535	45,864	50,586	54,934	51,855	48,034	47,519	49,425	46,963	51,734
BEER	159,471	168,555	162,630	172,425	167,321	178,465	181,348	170,065	177,448	179,737
OTHER BEVERAGES	7,029	6,463	8,971	10,556	9,867	11,619	14,597	16,884	13,101	18,234
GENERAL TAXES, TOTAL	852,500	979,518	1,030,140	1,066,109	1,190,310	1,074,598	1,230,363	1,173,972	1,104,437	1,208,841
CIGARETTES	106,740	115,453	107,943	107,177	120,287	111,094	119,105	115,157	119,135	116,055
PETROLEUM PRODUCTS	13,415	12,782	16,706	20,006	22,095	6,172	5,562	4,689	7,046	5,095
MOTOR VEHICLE	217,012	275,654	319,676	307,931	365,820	350,004	411,573	389,995	406,252	418,024
HORSE RACES	27,068	28,899	30,828	29,535	29,138	27,401	21,405	26,351	18,893	22,033
INSURANCE PREMIUMS	14,289	22,687	20,942	20,748	19,430	19,364	20,368	21,564	22,845	24,290
CEMENT	1,616	1,773	1,849	1,901	2,234	1,702	2,417	2,531	2,707	3,426
SLOT MACHINES	-	-	-	-	-	12,230	26,330	30,869	-	36,953
CRUDE OIL AND DERIVED PRODUCTS	130,465	152,911	139,894	157,742	158,739	51,636	70,056	24,786	1,901	32,037
5% GENERAL EXCISE TAX	325,056	346,015	367,545	396,689	446,500	468,425	520,351	525,561	508,972	486,302
HOTEL ROOMS	7,845	9,152	10,800	11,237	12,139	13,299	15,923	17,275	-	-
OTHERS	8,994	14,192	14,257	13,143	13,928	13,271	17,273	15,194	16,686	64,626
LICENSES	48,251	49,084	49,100	50,467	53,535	66,167	70,848	73,801	76,338	83,575
MOTOR VEHICLES	38,560	39,257	38,530	39,667	42,354	46,268	46,781	49,133	49,834	54,896
ENTERTAINMENT MACHINES	-	-	-	-	-	7,327	9,235	10,545	11,322	12,874
ALCOHOLIC BEVERAGES AND OTHERS	9,691	9,827	10,570	10,800	11,181	12,572	14,832	14,123	15,182	14,805
NON-TAX REVENUE	236,818	246,450	248,704	245,598	240,661	271,235	288,888	303,234	427,451	506,371
TRADITIONAL LOTTERY	70,821	62,348	63,317	60,856	52,829	57,986	59,206	63,779	57,482	61,358
ELECTRONIC LOTTERY	56,284	52,193	59,414	57,008	47,994	54,681	53,013	70,209	70,211	57,897
TRANSFER IN FROM NON-BUDGETED FUNDS	-	-	-	-	-	-	-	-	-	149,000
MISCELLANEOUS	109,713	131,909	125,973	127,734	139,838	158,568	176,669	169,246	210,665	238,116
FROM NON-INTERNAL REVENUE	257,473	307,762	299,647	272,698	264,869	272,466	278,651	295,981	330,044	344,848
CUSTOM DUTIES	89,741	122,477	112,153	77,781	61,114	72,206	61,355	50,231	43,154	30,595
EXCISES ON OFF-SHORE SHIPMENTS	167,732	185,285	187,494	194,917	203,755	200,260	217,296	245,750	286,890	314,253
ADMINISTRATIVE MEASURES	-	-	-	-	-	-	-	-	-	281,110

Note: The net revenue presented above include the actual revenue and the operating transfers-in from other funds presented in the combined statement of revenue and expenditures - budget and actual - budget basis. The administrative measures represent nonrecurring resources identified by the Commonwealth to offset revenue shortfalls.
Source: Puerto Rico Treasury Department

Commonwealth of Puerto Rico General Fund Net Revenues

For the fiscal year 2002
(In millions)

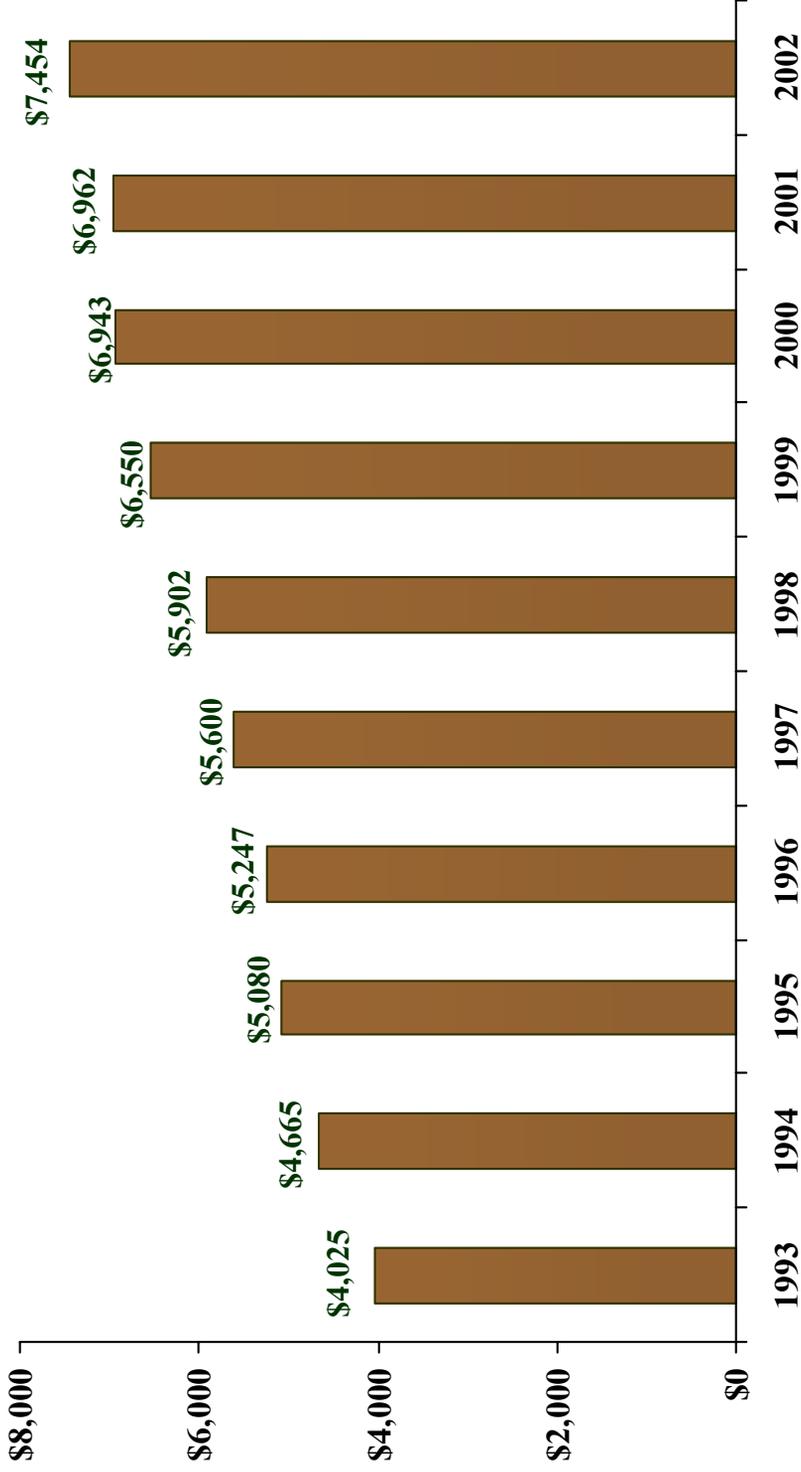


Note: The net revenue presented above include the actual revenue and the operating transfers-in from other funds presented in the statement of revenue and expenditures – budget and actual – budget basis-general fund.

Source: Puerto Rico Department of the Treasury

Commonwealth of Puerto Rico General Fund Net Revenues

For the last ten fiscal years
(In millions)

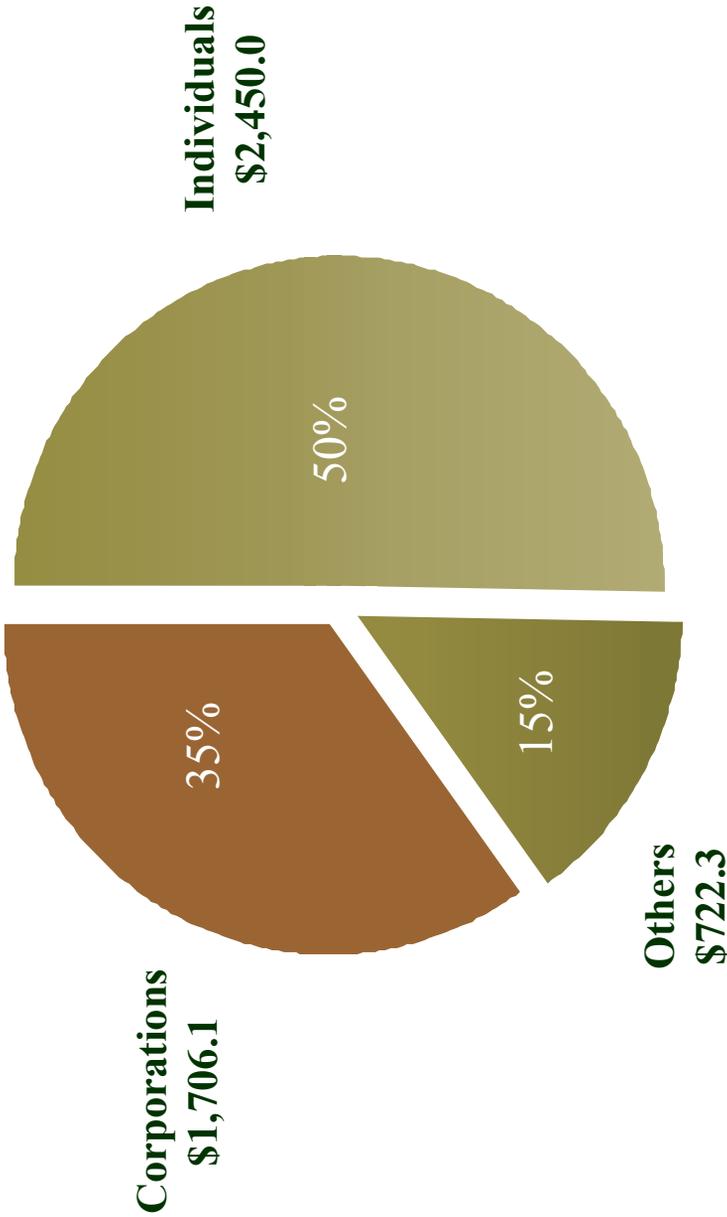


Note: The net revenue presented above, include the actual revenue and the operating transfers-in from other funds presented in the statement of revenue and expenditures – budget and actual – budget basis-general fund

COMMONWEALTH OF PUERTO RICO

Income Tax Receipts

For the fiscal year 2002
(In millions)



COMMONWEALTH OF PUERTO RICO

Gross Product

**For the last ten fiscal years
(In millions)**

	2002 (p)	2001 (r)	2000 (r)	1999 (r)	1998 (r)	1997	1996	1995	1994	1993
Gross product - (current prices)	\$ 46,176	\$ 44,211	\$ 41,442	\$ 38,281	\$ 35,111	\$ 32,342	\$ 30,357	\$ 28,452	\$ 26,641	\$ 25,133
Real gross product - (1992 prices)	\$ 31,080	\$ 31,156	\$ 30,682	\$ 29,789	\$ 28,629	\$ 27,727	\$ 26,813	\$ 25,964	\$ 25,101	\$ 24,481
Increase (decrease) in real gross product (%)	(0.2)	1.6	3.0	4.1	3.2	3.4	3.3	3.4	2.5	3.3
Puerto Rico	0.7	1.8	4.6	4.1	4.3	4.0	2.8	3.6	3.1	3.2
United States (1)										

(r) Revised

(p) Preliminary

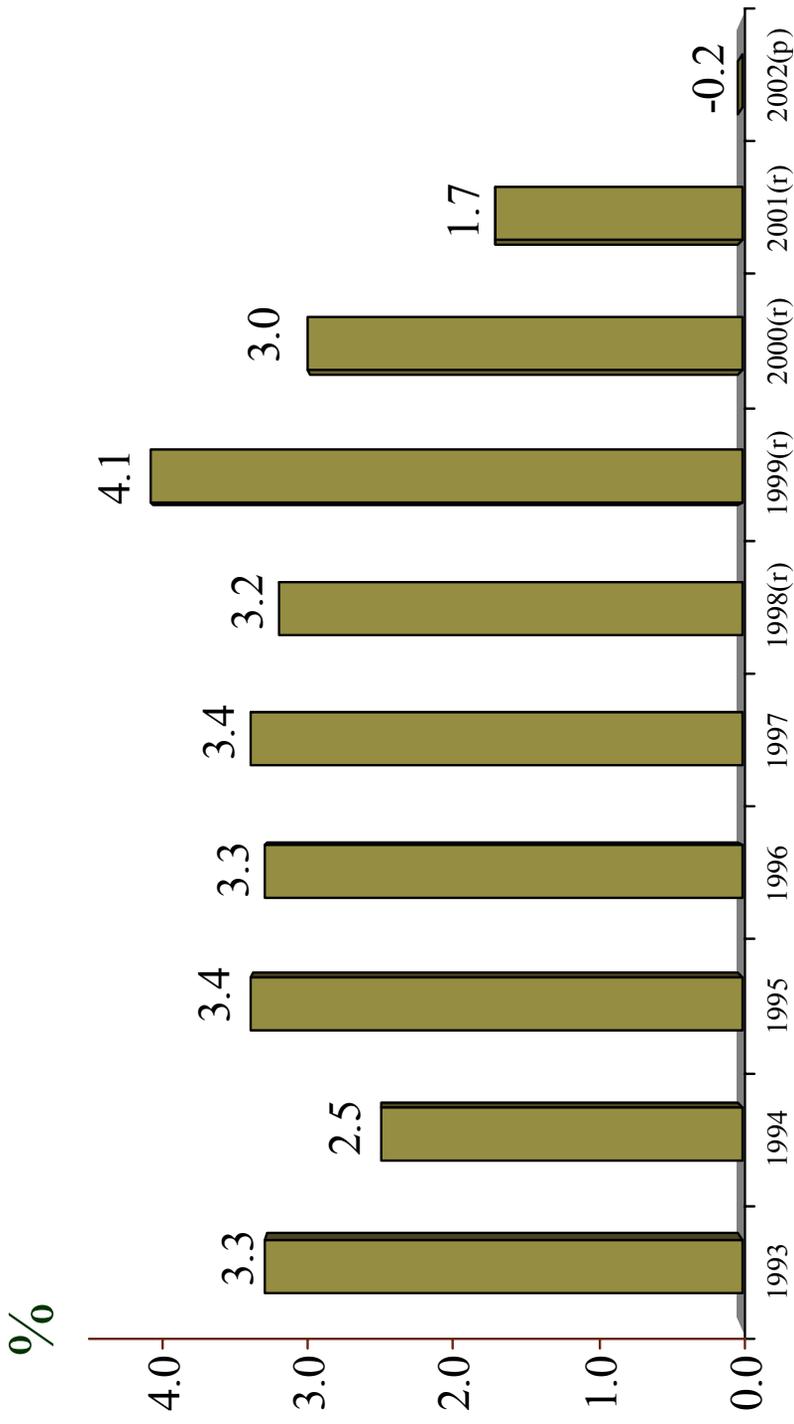
Source: Puerto Rico Planning Board and the Government Development Bank for Puerto Rico

(1) Base in 1996 Chained Method

COMMONWEALTH OF PUERTO RICO

Real Gross Product Growth

For the last ten fiscal years



(r) Revised
(p) Anticipated

Source: Puerto Rico Planning Board.

COMMONWEALTH OF PUERTO RICO

Employment and Unemployment

For the last ten fiscal years
(In thousands)

Fiscal year	Labor force	Employed	Unemployed	Unemployment rate (%)
2002	1,330	1,170	160	12.0
2001	1,293	1,158	135	10.5
2000	1,303	1,160	143	11.0
1999	1,310	1,147	163	12.5
1998	1,316	1,137	179	13.6
1997	1,298	1,128	170	13.1
1996	1,267	1,092	175	13.8
1995	1,219	1,051	168	13.8
1994	1,203	1,011	192	16.0
1993	1,201	999	202	16.8

Source: Puerto Rico Department of Labor and Human Resources, Household Survey

COMMONWEALTH OF PUERTO RICO

**Average Employment by Sector
For the last ten fiscal years
(In thousands)**

Sector	2002	2001r	2000	1999	1998	1997	1996	1995	1994	1993
Agriculture	23	22	24	27	31	31	32	34	34	34
Manufacturing	139	159	159	159	161	161	167	172	166	168
Construction	86	85	85	78	69	64	59	57	54	59
Trade	240	242	239	229	236	228	218	211	201	201
Finance, insurance and real estates	43	41	42	43	40	37	39	36	33	32
Transportation, communications and public utilities	62	56	55	59	59	59	61	59	55	54
Services	316	302	307	306	297	285	270	249	244	234
Government (1)	261	251	249	246	244	263	246	233	224	217
Total	1,170	1,158	1,160	1,147	1,137	1,128	1,092	1,051	1,011	999

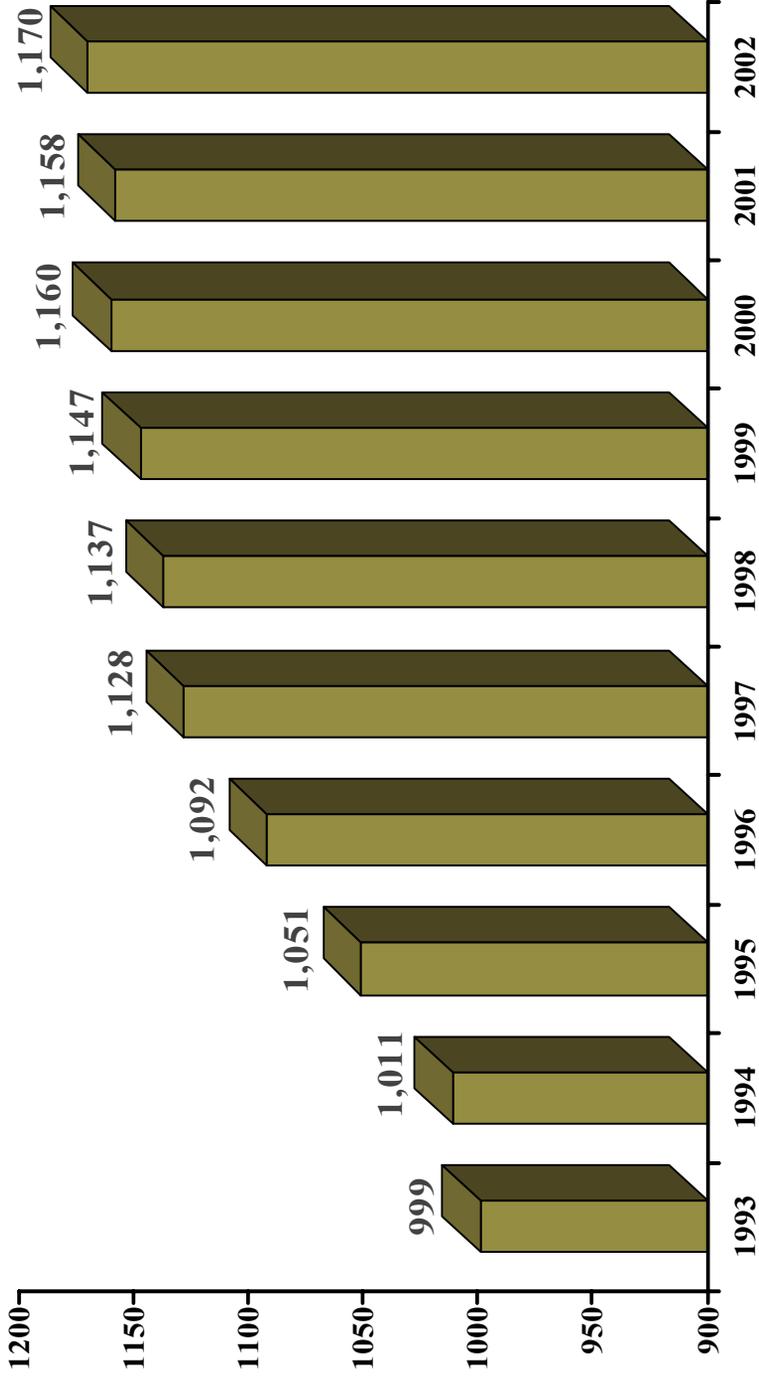
(1) Includes the Commonwealth, its municipalities and federal government, and excludes public corporations.
r revised

Sources: Puerto Rico Department of Labor and Human Resources, Household Survey

COMMONWEALTH OF PUERTO RICO

Employment

For the last ten fiscal years
(In thousands)



Source: Puerto Rico Department of Labor and Human Resources,
Household Survey.

COMMONWEALTH OF PUERTO RICO
Tourism Indicators
For the last ten fiscal years

	2002(p)	2001(r)	2000	1999	1998	1997	1996	1995	1994	1993
All hotels and hostelry registration	1,826,052	1,836,377	1,674,092	1,637,620	1,570,683	1,461,567	1,400,815	1,302,387	1,177,571	1,087,949
Occupancy rates	61.8%	66.7%	70.7%	71.9%	67.3%	69.8%	69.0%	68.0%	68.7%	68.5%
Numbers of rooms	12,778	12,353	11,928	11,102	11,848	10,869	10,265	10,251	9,519	8,581
Visitors expenditures*	\$ 2,627	\$ 2,728	\$ 2,388	\$ 2,139	\$ 2,233	\$ 2,046	\$ 1,898	\$ 1,828	\$ 1,728	\$ 1,628

*Amounts expressed in millions of dollars

(r) Revised

(p) Preliminary

Sources: Puerto Rico Tourism Company and Puerto Rico Planning Board

COMMONWEALTH OF PUERTO RICO

Government-Wide Expenses by Function

For the year ended June 30, 2002

(In thousands)

Function:	2002	%
General Government	\$ 1,429,265	10.0%
Public Safety	1,883,061	13.2%
Health	1,990,852	13.9%
Public Housing and Welfare	2,803,742	19.6%
Education	3,477,373	24.3%
Economic Development	632,083	4.4%
Intergovernmental	467,957	3.3%
Interest and Other	<u>646,120</u>	<u>4.5%</u>
Total governmental funds	<u>13,330,453</u>	<u>93.3%</u>
Lotteries	603,768	4.2%
Unemployment	331,754	2.3%
Other	<u>16,902</u>	<u>0.1%</u>
Total business-type activities	<u>952,424</u>	<u>6.7%</u>
Total Expenditures		
All Governmental Fund Types	<u>\$ 14,282,877</u>	<u>100%</u>

* In 2002 the Commonwealth adopted GASB No. 34. This statement requires the government wide financial statements, a new set of basic financial statements on accrual basis. Management believes it is not practical to restructure and convert to accrual the information presented in previous years. Therefore, the information related to the government-wide financial statements will be presented prospectively.

COMMONWEALTH OF PUERTO RICO

Government-Wide Revenue by Source

For the Year Ended June 30, 2002

(In thousands)

Source:	2002	%
General Revenues:		
Taxes:		
Income	\$ 4,446,570	35.2%
Property	102,554	0.8%
Excise	1,713,098	13.5%
Other	1,963	0.0%
Revenue from global settlement agreement	37,153	0.3%
Unrestricted investments earnings	127,395	1.0%
Revenue from component units	231,488	1.8%
Grants and contributions not restricted to specific programs	90,437	0.7%
Payment from agency fund	129,000	1.0%
Special item	123,785	1.0%
Other	<u>472,642</u>	<u>3.7%</u>
Total	<u>7,476,085</u>	<u>59.1%</u>
Program Revenues:		
Governmental Activities:		
Charges for Services	535,423	4.2%
Operating grants and contributions	3,400,729	26.9%
Capital grants and contributions	<u>187,512</u>	<u>1.5%</u>
Total	<u>4,123,664</u>	<u>32.6%</u>
Business Activities:		
Charges for Services	1,021,070	8.1%
Operating grants and contributions	26,509	0.2%
Capital grants and contributions	-	0.0%
Total	<u>1,047,579</u>	<u>8.3%</u>
Total Revenue - Governmental and Business-type Activities	<u>\$ 12,647,328</u>	<u>100.0%</u>

*In 2002, the Commonwealth adopted GASB No. 34. This statement requires the government-wide financial statements, a new set of basic financial statements on accrual basis. Management believes it is not practical to restructure and convert to accrual the information presented in previous years. Therefore, the information related to the government-wide financial statements will be presented prospectively.

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Commonwealth of
Puerto Rico

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

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



Thomas A. Thure
President

Jeffrey A. Evans
Executive Director

The Commonwealth of Puerto Rico has been honored consecutively with the “Certificate of Achievement for Excellence in Financial Reporting”, by the Government Finance Officers Association of the United States and Canada, for the fiscal years ended June 30, 1996, 1997, 1998, 1999, 2000 and 2001.

We are proud of this achievement and congratulate our associates for their excellence.