Commonwealth of Puerto Rico

Comprehensive Annual Financial Report
Year Ended June 30, 2010

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2010

Commonwealth of Puerto Rico

Honorable Luis G. Fortuño Burset
Governor

Prepared by:

Puerto Rico Department of the Treasury

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COMMONWEALTH OF PUERTO RICO

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INTRODUCTORY SECTION

CPA JESUS F. MENDEZ RODRIGUEZ
SECRETARY OF TREASURY

April 27, 2011

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, 2010. This report, presented in three sections, Introductory, Financial, and Statistical, is the primary means of reporting the Commonwealth's financial activities.

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

Profile of the Commonwealth

The Puerto Rico Department of the Treasury is responsible for the preparation of this report. The responsibility for the accuracy of presented data and the completeness and fairness of the presentation, including all of the disclosures, rests on the Commonwealth's management. To the best of our knowledge and belief, the following data, as presented, is accurate in all material respects and is presented in a manner designed to set forth the financial position and the results of operations of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth as of June 30, 2010 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. We have included all the necessary disclosures to enable the reader to gain a thorough understanding of the Commonwealth's activities.

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

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is able to either impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial

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burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

Certain component units, despite being legally separate from the primary government, are blended with the primary government. Blended component units provide services exclusively to the Commonwealth and thus are reported as if they were part of the primary government. The Commonwealth has four blended component units.

Discretely presented component units are legally separate from the primary government and are reported as discretely presented component units because the Commonwealth appoints a majority of these organizations governing bodies and either is able to impose its will on them or a financial benefit/burden situation exists. Discretely presented component units, both major and nonmajor, are reported in a separate column in the government wide financial statements to emphasize that they are not part of the primary government and to differentiate their financial position and results of operations from those of the primary government. The Commonwealth has 48 discretely presented component units of which six are considered major component units and 42 nonmajor component units.

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

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

Blended Component Units:

Public Buildings Authority

Puerto Rico Maritime Shipping Authority

Puerto Rico Sales Tax Financing Corporation

The Children's Trust

Discretely Presented Component Units:

Major Component Units:

Government Development Bank for Puerto Rico

Puerto Rico Aqueduct and Sewer Authority

Puerto Rico Electric Power Authority

Puerto Rico Health Insurance Administration

Puerto Rico Highways and Transportation Authority

University of Puerto Rico

Nonmajor Component Units:

Agricultural Services and Development Administration

Automobile Accidents Compensations Administration

Cardiovascular Center Corporation of Puerto Rico and the Caribbean

Company for the Integral Development of the Península de Cantera

Corporation for the Caño Martín Peña ENLACE Project

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

Culebra Conservation and Development Authority

Economic Development Bank for Puerto Rico

Employment and Training Enterprises Corporation

Farm Insurance Corporation of Puerto Rico

Fine Arts Center Corporation

Governing Board of the 9-1-1 Service

Institute of Puerto Rican Culture

Institutional Trust of the National Guard of Puerto Rico

Land Authority of Puerto Rico

Musical Arts Corporation

National Parks Company of Puerto Rico

Port of the Americas Authority

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

Puerto Rico Conservatory of Music Corporation

Puerto Rico Convention Center District Authority

Puerto Rico Council on Higher Education

Puerto Rico Government Investment Trust Fund

Puerto Rico Industrial Development Company

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

Puerto Rico Infrastructure Financing Authority

Puerto Rico Land Administration

Puerto Rico 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 Public Private Partnerships Authority

Puerto Rico School of Plastic Arts

Puerto Rico Solid Waste Authority

Puerto Rico Telephone Authority

Puerto Rico Tourism Company

Puerto Rico Trade and Export Company

Right to Employment Administration

Special Communities Perpetual Trust

State Insurance Fund Corporation

Fiduciary Component Units:

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico and its Instrumentalities

Puerto Rico Judiciary Retirement System

Puerto Rico System of Annuities and Pensions for Teachers

Independent Auditors

Commonwealth statutes require an annual audit by independent certified public accountants. The firm of Deloitte & Touche LLP was selected by the Commonwealth to perform the audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America for the fiscal year 2010. The goal of an independent audit is to provide reasonable assurance that the financial statements of the Commonwealth for the fiscal year ended June 30, 2010 are fairly stated in all material respects in accordance with U.S. generally accepted accounting principles. The independent auditors' report on the basic financial statements is included in the financial section of this report.

Internal Controls

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

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

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

Budget and Fiscal Policy

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

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

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

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

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

Governmental Activities

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

Business-type Activities

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

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

Fiduciary Operations

Fiduciary funds are used to account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. These include the pension 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 the Commonwealth of Puerto Rico and its Instrumentalities, the Puerto Rico Judiciary Retirement System, and the Puerto Rico System of Annuities and Pensions for Teachers.

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

Cash Management Policies and Practices

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

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

Capital Assets

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

Debt Administration

As of June 30, 2010, the Commonwealth had a number of debt issues outstanding. The Commonwealth had a “BBB-” credit rating from Standard & Poor’s Rating Services and an “A3” from Moody’s Investor Service on general obligation bond issues. In August 2010, Moody’s reaffirmed its “A3” rating on the Commonwealth’s general obligation bonds. Moody’s also changed its outlook on the credit from stable to negative, indicating that the funded status of the Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico represents a challenge that could affect Puerto Rico’s credit rating in the future. In March 2011, Standard & Poor’s upgraded to “BBB” the credit rating on the Commonwealth’s general obligation bonds with a stable outlook on the credit rating in the future. These classifications may vary in future years. Section 2 of Article VI of the Constitution of Puerto Rico provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit and taxing power of the Commonwealth shall not be issued if the amount of the principal of and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceeds 15% of the average annual revenue raised under the provisions of the Commonwealth Legislation and conveyed into the Treasury of Puerto Rico in the two fiscal years preceding the current fiscal year. Section 2 of Article VI does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded. See the computation of the legal debt margin in the statistical section of this report. More detailed information about the long-term debt can be found in the notes to the basis financial statements.

Risk Financing

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

Financial Advisor and Fiscal Agent

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

Economic Conditions and Outlook

The Commonwealth’s economy has experienced four straight years of recession, which started earlier, was deeper, and is lasting longer than the U.S. national recession. The Puerto Rico Planning Board’s preliminary reports of the performance of the Puerto Rico’s economy during fiscal year 2010 indicate that the economy registered a decrease of 3.8% in total real gross product. However, there are indicators that the economy is beginning to stabilized, including a slowing of employment losses and increasing retail sales.

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

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

Tourism makes a significant contribution to economic activity. An estimated $3.6 billion were spent by visitors in Puerto Rico during fiscal year 2010. San Juan has become the largest home port for cruise ships in the Caribbean and the fourth largest home port for cruise ships in the world.

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

According to the Puerto Rico Department of Labor and Human Resources, during fiscal year 2010, the labor force was 1.31 million compared to 1.35 million in fiscal year 2009. The average unemployment rate increased from 13.4% during fiscal year 2009 to 16% in fiscal year 2010.

Major Initiatives

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

Tax Reform

The tax reform initiative, the final piece of which was passed by the Legislature in January 2011, is designed to replace revenues lost through significantly lower personal and corporate income tax rates with a temporary excise tax on certain manufacturers and ultimately by implementation of a source income rule for multi-national corporations. The restructuring of the tax system is intended to stimulate the economy and promote private sector investment by providing tax relief to individuals and corporations, simplifying the tax system, and reducing tax evasion. The top corporate tax rate is reduced immediately from 41% to 30% and then to 25% in 2014 and there will be tax relief across all corporate income tax brackets. All individual tax payers will likewise have tax relief; the number of tax deductions will be reduced from 28 to five and the average tax rate will be reduced 49% by fiscal 2016. The loss of income tax revenue is expected to be more than offset by a temporary excise tax on transactions between manufacturers and distributors that are members of the same non-resident holding or control group that produce in Puerto Rico. The excise tax, enacted in December 2010 as Act 154 and effective January 1, 2011, includes tax credits for the affected companies who maintain employment of at least 90% of the current level, and will be phased out by fiscal 2016 when it is replaced by revenues from the source income rule.

Pension Reform

In order to address the growing unfunded pension and non-pension benefit obligations and funding shortfalls of the three government retirement systems, in February 2010, the Governor of Puerto Rico established a special commission to make recommendations for improving the financial solvency of the retirement systems. The individual recommendations made by the members of the special commission are being analyzed with the intent of presenting a comprehensive and consensus legislation package during 2011. The Secretary of Labor, who chaired the special commission, is evaluating, in particular, proposing additional employer contributions to improve the funding ratio.

Tax Regime for Companies Doing Business in Puerto Rico

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

Public Sector Debt

Historically, the Commonwealth has maintained, as a matter of fiscal policy, a prudent relationship between the growth of public sector debt and the growth of the economic base required to service that debt. During certain fiscal years, however, public sector debt increased at a greater rate than the rate of gross product primarily due to an increase in the amount of debt incurred to finance certain key infrastructure projects, which are important to the development of the economy and are expected to produce long-term economic benefits. In addition, certain debt was refinanced to enable Puerto Rico to benefit from the historically low levels of interest rates and realize debt service savings. During fiscal year 2010, public sector debt increased 7%.

Prospects for the Future

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

The administration has developed and commenced implementing a multi-year Fiscal Stabilization and Economic Reconstruction Plan that seeks to achieve fiscal balance and restore economic growth and acknowledges that fiscal stabilization is central to safeguarding the Commonwealth's investment-grade credit rating and restoring Puerto Rico's economic growth and development. During the first quarter of 2010, the Legislative Assembly enacted three bills providing for the implementation of this plan, which is composed of two main elements: the Fiscal Stabilization Plan (the "Fiscal Plan") and the Economic Reconstruction Plan (the "Economic Plan").

Fiscal Stabilization Plan

The Fiscal Plan has three main objectives: (i) to stabilize the short-term fiscal situation; (ii) to safeguard and strengthen the Commonwealth's credit rating; and (iii) to achieve budgetary balance by fiscal year 2013. The Fiscal Plan, which is generally contained in Act No. 7 of March 9, 2009 (Act 7), includes expense-reduction measures, tax revenue enforcement measures, tax revenue increasing measures, and financial measures, as discussed in the enclosed MD&A.

Financial and Economic Condition

The MD&A, which can be found immediately following the independent auditors' report, provides an overview of the Commonwealth's financial activities addressing both governmental and business-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. Furthermore, the MD&A provides an overview of additional economic factors affecting the Commonwealth.

Other Information

Acknowledgements

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

The report could not have been accomplished without the professionalism and dedication of Alejandro Sánchez, Omar Rodríguez and Reylam Guerra from our accounting team as well as the rest of the personnel of the Central Government Accounting area. This report confirms our commitment to the people of Puerto Rico, the Governor, the Legislature, and the financial community to maintain our basic financial statements in conformity with the highest standards of financial accountability.

Respectfully submitted,

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

COMMONWEALTH OF PUERTO RICO

PRINCIPAL OFFICIALS

Luis G. Fortuño Burset
Governor

Members of the Cabinet

Marcos Rodríguez - Ema
Chief of Staff

Kenneth D. McClintock Hernández
Secretary of State

Guillermo A. Somoza Colombani
Secretary of Justice

Jesús F. Méndez Rodríguez
Secretary of the Treasury

Jesús M. Rivera Sánchez
Secretary of Education

Miguel A. Romero Lugo
Secretary of Labor and Human Resources

Lorenzo González Feliciano
Secretary of Health

Javier A. Rivera Aquino
Secretary of Agriculture

Rubén A. Hernández Gregorat
Secretary of Transportation and Public Works

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

Yanitsia Irizarry Méndez
Secretary of Family Affairs

Miguel B. Hernández Vivoni
Secretary of Housing

Daniel J. Galán Kercadó
Secretary of Natural and Environmental Resources

Luis G. Rivera Marín
Secretary of Consumer Affairs

Henry E. Neumann Zayas
Secretary of Sports and Recreation

Carlos M. Molina Rodríguez
Secretary of Corrections and Rehabilitation

LEGISLATIVES OFFICERS

Thomas Rivera Schatz
President, Senate

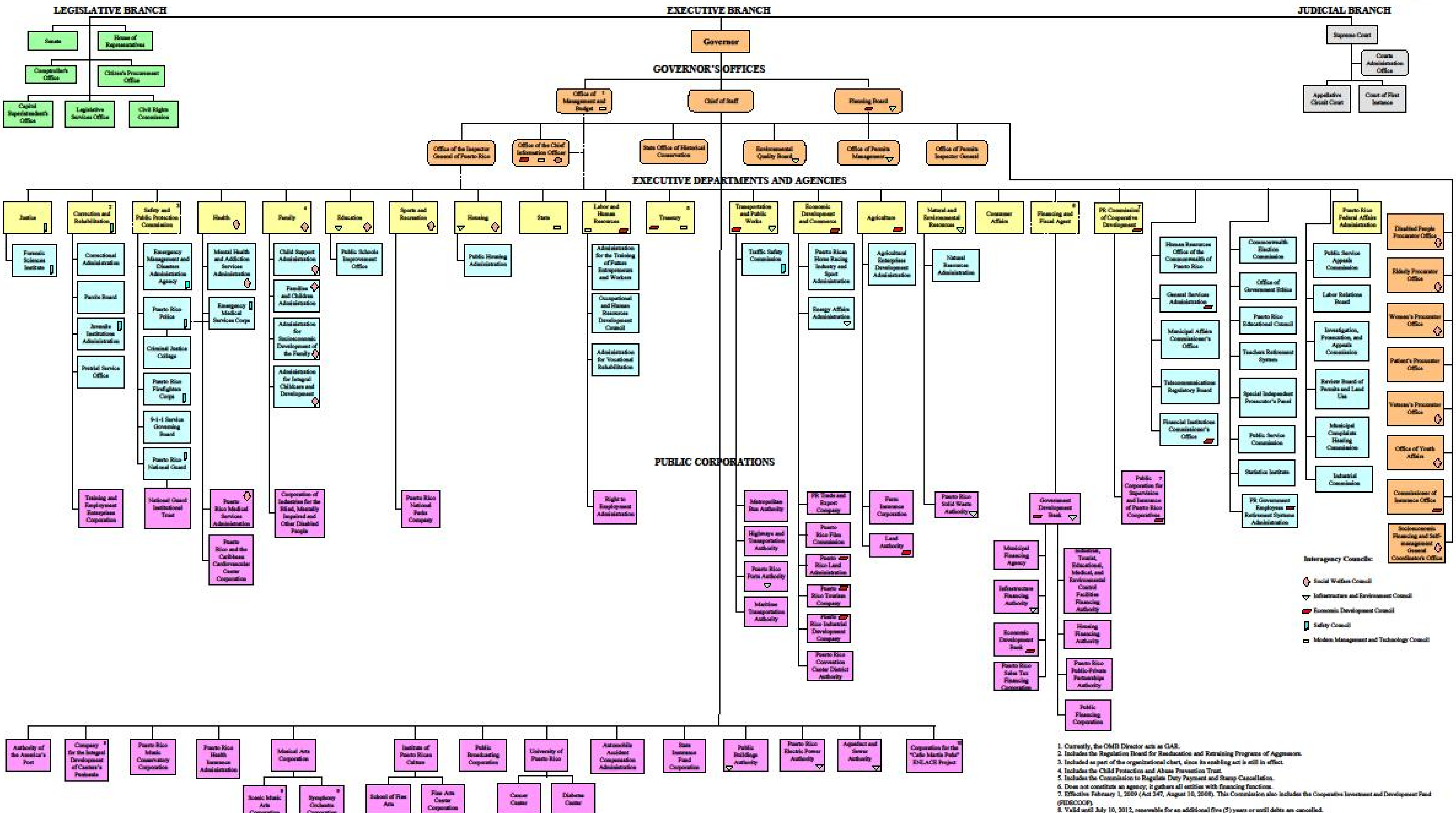
Jenniffer González Colón
Speaker, House of Representatives

FISCAL OFFICERS

Juan Carlos Pavía
Director, Office of Management and Budget

Juan Carlos Batlle
President, Government Development Bank for Puerto Rico

COMMONWEALTH OF PUERTO RICO
FUNCTIONAL ORGANIZATIONAL STRUCTURE



1. Currently, the OMB Director acts as GAR.
2. Includes the Regulation Board for Reeducation and Retraining Programs of Aggressors.
3. Included as part of the organizational chart, since its enabling act is still in effect.
4. Includes the Child Protection and Abuse Prevention Trust.
5. Includes the Commission to Regulate Duty Payment and Stamp Cancellation.
6. Does not constitute an agency; it gathers all entities with financing functions.
7. Effective February 1, 2009 (Act 247, August 10, 2008). This Commission also includes the Cooperative Investment and Development Fund (FIDECOOP).
8. Valid until July 10, 2012, renewable for an additional five (5) years or until debts are cancelled.
9. Subsidiaries of the Musical Arts Corporation (Acts 42 & 44, May 12, 1980).
10. Valid until September 24, 2024, renewable for an additional five (5) years or until debts are cancelled.

Revised September 2010

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico (the "Commonwealth"), as of and for the year ended June 30, 2010, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the following activities, funds, and component units:

- Puerto Rico Public Housing Administration, Human Resources and Occupational Development Council, the Office for the Administration of the Assets of the Urban Renovation and Housing Corporation of the Commonwealth of Puerto Rico, and the Office for the Improvements of Public Schools, which collectively represent 29% and 5%, respectively, of the assets and revenues of the general fund and 18% and 5%, respectively, of the assets and revenues of the governmental activities;
- The Additional Lottery System, which represents 78% and 51%, respectively, of the assets and revenues of the lotteries fund and 12% and 28%, respectively, of the assets and revenues of the business-type activities;
- Public Buildings Authority special revenue, debt service, and capital project funds, which collectively represent 5% and .01%, respectively, of the assets and revenues of the aggregate remaining fund information and 4% and 0%, respectively, of the assets and revenues of the governmental activities;
- Entities identified in note 2 that are presented as discretely presented component units, which collectively represent 67% and 96%, respectively, of the assets and revenues of the aggregate discretely presented component units.

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

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the Commonwealth, as of June 30, 2010, and the respective changes in financial position and respective cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 16 through 41 and the schedules of funding progress on pages 219 and 220 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commonwealth's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

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

As discussed in Note 1 to the basic financial statements, in 2010, the Commonwealth adopted Governmental Accounting Standards Board (GASB) Statements No. 51, *Accounting and Financial Reporting for Intangible Assets* and No. 53, *Accounting and Financial Reporting for Derivative Instruments.*

As discussed in Note 6 to the basic financial statements, the Pension Trust Funds held investments valued at approximately $2,216,192,000 (31% of total assets of the pension trust funds) as of June 30, 2010, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers.

As discussed in Note 20 to the basic financial statements, the Pension Trust Funds' unfunded actuarial accrued liability and funded ratio as of June 30, 2010, were approximately $25,177 million and 13.54%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico, the Commonwealth of Puerto Rico Judiciary Retirement System, and the Puerto Rico System of Annuities and Pensions for Teachers, comprising the Pension Trust Funds, will not be able to fully fund pensions after the fiscal years 2014, 2018, and 2020, respectively, if measures are not taken to reduce the unfunded actuarial accrued liability and increase the funded ratio of the Pension Trust Funds.

Deloitte & Touche LLP

April 27, 2011

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Management of the Commonwealth of Puerto Rico (the "Commonwealth") provides this Management's Discussion and Analysis ("MD&A") for the readers of the Commonwealth's basic financial statements. This MD&A provides a narrative overview and analysis of the financial activities of the Commonwealth for the fiscal year ended June 30, 2010, and is intended to serve as an introduction to the basic financial statements, which have the following components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the Commonwealth's financial activities; (c) identify any material changes from the original budget; and (d) highlight individual fund matters. We encourage readers to review this information together with the Commonwealth's basic financial statements that follow.

FINANCIAL HIGHLIGHTS – Primary Government

General Fund Highlights

- Total General Fund actual revenues on a budget basis (excluding other financing sources) for fiscal year 2010 was $7.59 billion, representing an increase of approximately $81 million, or 1%, from original budgeted revenues.

- Total expenditures of $9.64 billion represented a decrease of $287 million or 3% from 2009 actual expenditures on a budget basis. Furthermore, budgetary deficit as a percentage of revenues was reduced from 44% to 27%.

- The General Fund balance deficit for fiscal year 2010 was reduced by $888 million, a 62% reduction in the General Fund deficit when compared to fiscal year 2009.

Government-wide Highlights

- The Commonwealth reported a deficit in net assets at year end of $30.4 billion, comprised of $16.3 billion in total assets offset by $46.7 billion in total liabilities.

- The Commonwealth's net deficit at year end increased by $3.9 billion as a result of this year's operations. The net deficit at year end for governmental activities increased by $3.8 billion while net assets of business-type activities decreased slightly by $43 million.

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

- Total liabilities at year end were $46.7 billion, comprised of $46.3 billion in governmental activities and $369 million in business-type activities.

- The Commonwealth's governmental activities had total revenues and transfers of $15.3 billion, which were less than total expenses of $19.2 billion.

- The total expense of all the Commonwealth's programs, which includes $1.5 billion in business-type activities, was $20.7 billion.

Long-term Debt

- Total long-term obligations of the primary government as of June 30, 2010 were $43.2 billion, of which $1.6 billion are due within one year. Long-term obligations of the primary government increased by $4.4 billion, or 11%, when compared to the prior fiscal year.

MAJOR FINANCIAL ELEMENTS

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements

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

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

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

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

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

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

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

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

  - Public Buildings Authority
  - Puerto Rico Maritime Shipping Authority
  - Puerto Rico Sales Tax Financing Corporation ("COFINA" by its Spanish acronym)
  - The Children's Trust

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

Component Units Financial Statements

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

Notes to Basic Financial Statements

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

Required Supplementary Information

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

GENERAL FUND FINANCIAL ANALYSIS

Prior to fiscal year 2009, the government bridged the deficit resulting from the structural imbalance through the use of non-recurring measures, such as borrowing from GDB or in the bond market, postponing the payment of various government expenses, such as payments to suppliers and utilities providers, and other one-time measures such as the use of derivatives and borrowings collateralized with government owned real estate. Since March 2009, the government has taken multiple steps to address and resolve this structural imbalance. These steps are discussed below under the heading "Fiscal Stabilization and Economic Reconstruction Plan".

For fiscal year 2010, the deficit was $2.0 billion, consisting of the difference between total recurring revenues of $7.6 billion and total expenditures for such fiscal year of $9.6 billion. The deficit for fiscal year 2010 decreased by 38% when compared to the deficit for fiscal year 2009.

Results for Fiscal Year 2010

Total General Fund recurring revenues (excluding other financing sources) for fiscal year 2010 were $7.6 billion, representing an increase of approximately $10 million from actual recurring revenues for fiscal year 2009 and $81 million from estimated revenues for fiscal year 2010 of $7.5 billion. The major changes in revenues from fiscal year 2009 were a decrease of $257 million in sales and use tax due to the assignment to COFINA of an additional 1.75% of the 5.5% sales and use tax imposed by the Commonwealth. This decrease was offset by an increase in property taxes of $228 million (which were not received in fiscal year 2009) and excise taxes of approximately $92 million, principally due to revenue raising measures implemented as part of Act No. 7 of March 9, 2009, as amended (Act 7).

Expenditures and other financing uses for fiscal year 2010 were approximately $10.4 billion, consisting of $9.6 billion of total expenditures and $728 million of other financing uses. Total expenditures of $9.6 billion represented an increase of approximately $58 million or less than 1% of original budgeted expenditures and exceeded total General Fund revenues (excluding other financing sources) by $2.0 billion, or 27%. The difference between total expenditures and total General Fund revenues (excluding other financing sources) is referred to herein as the "deficit".

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

Fiscal Stabilization and Economic Reconstruction Plan

In January 2009, the current administration inherited a General Fund that lacked liquidity and had a significant deficit of approximately 44%. In order to address the General Fund's immediate situation and provide a long-term solution to the recurring deficit, the administration implemented a multi-year Fiscal Stabilization Plan (the "Fiscal Plan") and Economic Reconstruction Plan (the "Economic Plan") to achieve fiscal balance and restore economic growth. The Fiscal Plan and the Economic Plan were central to safeguarding the Commonwealth's investment-grade credit rating and restoring Puerto Rico's economic growth and development. As of June 30, 2010, the Legislative Assembly had enacted several bills providing for the implementation of the Fiscal Plan and the Economic Plan. In addition, the current administration designed and began to implement the Strategic Model for a New Economy, a series of economic development initiatives to enhance Puerto Rico's overall economic competitiveness and strengthen specific industry sectors. These economic development initiatives are intended to support the prospects of long-term and sustainable growth.

Fiscal Plan

The Fiscal Plan had three main objectives: (i) stabilize the short-term fiscal situation, (ii) safeguard and strengthen the Commonwealth's investment-grade credit rating, and (iii) achieve budgetary balance. The Fiscal Plan, which was generally contained in Act 7, included operating expense-reduction measures, tax revenue enforcement measures, temporary and permanent revenue raising measures, and financial measures, as discussed below.

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

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

- *Phase I: Incentivized Voluntary Resignation and Voluntary Permanent Workday Reduction Programs:* The Incentivized Voluntary Resignation Program offered public employees a compensation incentive based on the time of service in the government. The Voluntary Permanent Workday Reduction Program was available to public employees with 20 or more years of service. The Workday Reduction Program consisted of a voluntary reduction of one regular workday every fifteen calendar days, which is equivalent to approximately a 10% reduction in annual workdays. Phase I commenced in March 2009 and public employees had until April 27, 2009 to submit the required information to participate in the voluntary programs available under Phase I and be eligible for the Public Employees Alternatives Program. Under Phase I, 2,553 employees resigned under the Incentivized Voluntary Resignation Program and 27 employees took advantage of the Voluntary Permanent Workday Reduction Program. Based on the number of employees who agreed to participate in these programs, the administration estimates that expenses for fiscal year 2010 were reduced by $90.9 million.

- *Phase II: Involuntary Layoff Plan:* As provided in Act 7, Phase II went into effect because the objective of reducing $2 billion in expenses was not achieved after implementation of Phase I and Phase III (see below). Under Phase II, subject to certain exceptions, employees with transitory or non-permanent positions were terminated. As a result, 1,990 positions were eliminated, representing an estimated savings of $44.7 million annually. In addition, Phase II provided for various rounds of involuntary layoffs and applied to most central government public employees unless excluded pursuant to Act 7, strictly according to seniority in public service, starting with employees with the least seniority. The plan excluded certain employees providing "essential" services, certain employees paid by federal funds, those on military leave, and political appointees and their trust employees (political appointees and their trust employees, who do not hold a permanent or career position in the government, are referred to herein as "non-career employees"). Employees in Phase II received a severance package that included health coverage payment for up to a maximum of six months or until the former public employee became eligible for health insurance coverage at another job. As of June 30, 2010, total government employees dismissed under Phase II (excluding the 2,237 transitory or non-permanent positions eliminated) was approximately 12,604, representing an estimated savings of $325.4 million annually. This amount excludes approximately 1,945 employees rehired by the Department of Education as a result of an agreement with the union providing for certain salary and workday reductions and the inclusion of additional service requirements, among other things. The negotiation of this agreement by the administration resulted in annual savings of $53 million, an increase of $27 million over the estimated savings achievable through the termination of such employees.

- *Phase III: Temporary Suspension of Certain Provisions of Laws, Collective Bargaining Agreements, and Other Agreements:* Phase III went into effect on March 9, 2009 and imposed a temporary freeze on salary increases and other economic benefits included in laws, collective bargaining agreements, and any other agreements. Phase III will remain in effect for a period of two years. The administration estimates that savings from the implementation of these measures was approximately $186.9 million for fiscal year 2010.

- *Public Employees Alternatives Program:* The employees that elected to participate in the Incentivized Voluntary Resignation Program under Phase I or that were subject to involuntary layoffs under Phase

II, were eligible to participate in the Public Employees Alternatives Program. This program assists public employees in their transition to other productive alternatives, and offers vouchers for college education, technical education, and professional training, as well as for establishing a business and for relocation.

Act 7 extended the term of collective bargaining agreements with public employees that had expired at the time of its enactment or that would expire while it is in effect, for a period of two years (until March 9, 2011) and provided that during this period such collective bargaining agreements could not be renegotiated or renewed.

The following table summarizes the amount of employees affected by the workforce and labor related expense reduction measures included in Act 7 and the expected annual savings in operational expenses from the implementation of Phases I through III of the Fiscal Plan.

Phase	**Affected Employees**	**Savings (in millions)**
Phase I: Voluntary Resignation	2,553	$90.9
Phase II: Involuntary Layoffs		
Termination of transitory and non-permanent employees	1,990	44.7
Layoffs (as of April 30, 2010)	12,604	325.4
Phase III: Suspension of Certain Benefits	-	186.9
Total	17,147	$647.9

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

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

In September 2009, the Governor also issued another executive order requiring all agencies and public corporations to report the following to the Fiscal Board within 30 days: (i) all lease contracts currently in effect; (ii) the uses of leased premises; (iii) the needs for such premises; (iv) the terms and conditions of each lease; and (v) budgeted amounts for rent and other related expenses. During fiscal year 2010, the administration achieved savings by, among other things, consolidating operations of one or more agencies or public corporations and renegotiating leases to obtain more favorable terms. The administration expected to achieve annual savings of at least 15% of rent and related expenses, or approximately $22 million, in future fiscal years.

As of June 30, 2010, the administration had already reduced operating expenses through expense reduction measures other than Phase I through III of the Fiscal Plan by $150 million and professional service contracts and lease agreements by $42 million through the implementation of the executive orders referred to above.

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

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

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

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

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

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

Unfunded Pension and Non-Pension Post-Employment Benefit Obligations and Funding Shortfalls of the Retirement Systems. In order to address the growing unfunded pension and non-pension benefit obligations and funding shortfalls of the three government retirement systems, in February 2010, the Governor of Puerto Rico established a special commission to make recommendations for improving the financial solvency of the retirement systems. The individual recommendations made by the members of the special commission are being analyzed with the intent of presenting a comprehensive and consensus legislation package during 2011.

The Secretary of Labor, who chaired the special commission, is evaluating, in particular, proposing additional employer contributions to improve the funding ratio.

Economic Plan

In fiscal year 2009, the Commonwealth began to implement a short-term economic reconstruction plan. The cornerstone of this plan was the implementation of federal and local economic stimulus programs. The Commonwealth was awarded approximately $6.8 billion in stimulus funds under the American Recovery and Reinvestment Act of 2009 ("ARRA"), which was enacted by the U.S. government to stimulate the U.S. economy in the wake of the global economic downturn. Approximately $3.3 billion of the ARRA funds is allocated for consumer and taxpayer relief and the remainder will be used to expand unemployment and other social welfare benefits, and spending in education, healthcare and infrastructure, among others. As of June 30, 2010, the Commonwealth had disbursed $4.3 billion in ARRA funds, or 63%, of awarded funds. The administration complemented the federal stimulus package with additional short and medium-term supplemental stimulus measures that seek to address local economic challenges and provide investment in strategic areas. These measures included a local $500 million economic stimulus plan to supplement the federal plan.

The current administration also developed the Strategic Model for a New Economy, which is a comprehensive long-term economic development plan aimed at improving Puerto Rico's overall competitiveness and business environment and increasing private sector participation in the Puerto Rico economy. As part of this plan, the administration enacted Act No. 161 of December 1, 2009, which overhauled the permitting and licensing process in Puerto Rico in order to provide for a leaner and more efficient process that fosters economic development. Moreover, the administration adopted a comprehensive tax reform that takes into account the Commonwealth's current financial situation. See the information provided under the heading "Tax Reform" below. In addition, to further stimulate economic development and cope with the fiscal crisis, on June 8, 2009, the Legislative Assembly approved Act No. 29 establishing a clear public policy and legal framework for the establishment of public-private partnerships to finance and develop infrastructure projects and operate and manage certain public assets. During fiscal year 2010, the administration engaged various financial advisors to assist it in the evaluation and procurement of various projects in the energy, transportation, water and public school infrastructure sectors.

Results of these Plans:

The results of these plans, so far, are as follows:

- Significant improvement in the investment grade credit rating in order to safeguard and strengthen fiscal operations, reduce financing costs, stimulate the economy and protect real estate valuation.
- Budgeted deficit as a percentage of revenues was reduced from 44% in fiscal year 2009 to 27% in fiscal year 2010.
- The Economic Activity Index (EAI) reflected five consecutive months of recovery from February 2010 to June 2010.
- Net revenues for fiscal year 2010 were $10 million above the previous fiscal year and $81 million above estimates.

Tax Reform

In February 2010, the Governor named a committee to review the Commonwealth's income tax system and propose a tax reform directed at reducing personal and corporate income tax rates. The committee presented its findings to the Governor and on October 25, 2010, the Governor announced that he was submitting to the Legislative Assembly various bills in order to implement the tax reform. The tax reform consists of two phases focused on providing tax relief to individual and corporations, promoting economic development and job creation, simplifying the tax system and reducing tax evasion. The tax reform is projected to provide taxpayers aggregate annual savings of $1.2 billion for each of the next six fiscal years, commencing on taxable year 2011.

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

The second phase, enacted as Act No. 1 of January 31, 2011 (Act No. 1) and which is expected to be in effect from 2011 to 2016, (i) promotes employment by doubling the earning income credit and increasing the maximum applicable income to qualify for such credit; (ii) provides a $400 tax credit to individuals over 65 years of age with an income below $15,000; (iii) significantly reduces individual income tax rates and only allow the following deductions: (a) mortgage interest up to 30% of adjusted gross income, (b) charitable contributions up to 50% of adjusted gross income, (c) medical expenses in excess of 6% of adjusted gross income, (d) interest on student loans, and (e) contributions to retirement plans and accounts, including individual retirement accounts, health savings accounts and education savings accounts; and (iv) significantly reduces corporate income tax rates.

The reduction in income tax revenues resulting from the implementation of the tax reform is expected to be offset by the additional revenues produced by (i) an expanded income tax source rule and a new excise tax imposed on foreign entities that purchase products manufactured in Puerto Rico by their affiliates under the provisions of Act 154, discussed below, (ii) enhanced enforcement efforts, including the statutorily required reporting of certain client information by financial institutions to the Treasury Department, and (iii) increased economic activity produced by the tax relief measures. The combined effect of the tax reform measures and the revenue and enforcement measures is expected to be revenue positive. Act No. 1 conditions the implementation of the tax reductions applicable to individuals and corporations after fiscal year 2014 on the Commonwealth's ability to continue its path towards fiscal stability. Specifically, the tax relief provisions for individuals and corporations for taxable years 2014 through 2016 will only be implemented if (i) OMB certifies that the expense control target has been met, (ii) the Treasury Department certifies that General Fund revenue target has been met and (iii) the Planning Board certifies a year-over-year target increase in gross domestic product.

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

The Act provides that, in certain circumstances, taxpayers will be deemed to be engaged in trade or business in Puerto Rico and taxable in Puerto Rico with respect to a portion of taxpayer's income where the taxpayers engage in significant transactions with other persons that are members of the same controlled group. Where a person engages in significant transactions with a member of the same controlled group that has gross receipts of seventy five million dollars or more in any of the last three years and that manufactures or produces goods in Puerto Rico, or provides services in connection with the manufacture or production of goods in Puerto Rico, the person will not be subject to income tax, will instead be subject to the excise tax in lieu of any income tax. The excise tax will apply for a period of six years. The excise tax is based on the value of the personal property or services acquired and will be 4% for calendar year 2011, declining to 3.75% in 2012, 2.75% in 2013, 2.5% in 2014, 2.25% in 2015 and 1% in 2016. On December 29, 2010, the Treasury Department adopted regulations that provide certain tax credits against the temporary excise tax that lessen its impact on affected taxpayers subject to the temporary excise tax. These regulations became effective on January 1, 2011. The first monthly excise tax payment was due on February 15, 2011. The regulations address implementation and interpretation issues and include provisions regarding certain applicable credits against the tax subject to maintaining a baseline employment and other conditions. The Government estimates that this excise tax will affect foreign corporations or partnerships that are principally engaged in the manufacturing of pharmaceuticals and electronics. The Government expects to raise approximately $1.4 billion from the excise tax during the first year of implementation of Act 154 and $5.6 billion for the six year period that the excise tax is in place.

The Treasury Department expects that the tax reform measures will represent a net gain in recurring revenues for fiscal year 2011, 2012 and 2013 of approximately $35 million, $203 million and $105 million, respectively.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets (Deficit)

Net assets (deficit) may serve over time as a useful indicator of a government's financial position. Total assets and total liabilities of the Commonwealth's primary government at June 30, 2010 amounted to $16.3 billion and $46.7 billion, respectively, for a net deficit of $30.4 billion, compared to a $26.6 billion net deficit at the beginning of the current year.

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

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

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

Total primary government assets decreased by $1.1 billion during fiscal year 2010 when compared to the prior fiscal year. This decrease is mainly to the decrease of $1.1 billion in unrestricted and restricted cash and cash equivalents.

Total primary government liabilities increased by $2.9 billion during the current fiscal year when compared to the prior fiscal year.

COMMONWEALTH'S NET ASSETS (DEFICIT) – PRIMARY GOVERNMENT

JUNE 30, 2010

(Expressed in thousands)

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

COMMONWEALTH'S NET ASSETS (DEFICIT) – PRIMARY GOVERNMENT

JUNE 30, 2009

(Expressed in thousands)

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

Changes in Net Assets (Deficit)

The Commonwealth's net deficit increased by $3.9 billion or 15% from last year's total net deficit, as restated. Approximately 44% of the Commonwealth's total revenue came from taxes, while 43% resulted from grants and contributions (primarily federal financial assistance). Charges for services provided represented 11% of the total revenue. The Commonwealth's expenses cover a range of services. The largest expenses were for general government, education, public housing and welfare, health, and public safety, which presented a combined increase of 1% when compared with prior fiscal year. In 2010, governmental activities' expenses exceeded program revenue by $11.9 billion, resulting in the use of $8.1 billion in general revenue (mostly taxes and transfers). On the other hand, program revenue from business type activities in 2010 exceeded expenses by approximately $202 million.

Governmental activities increased the Commonwealth's net deficit by $3.8 billion.

Business type activities increased the Commonwealth's net deficit by $43 million.

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

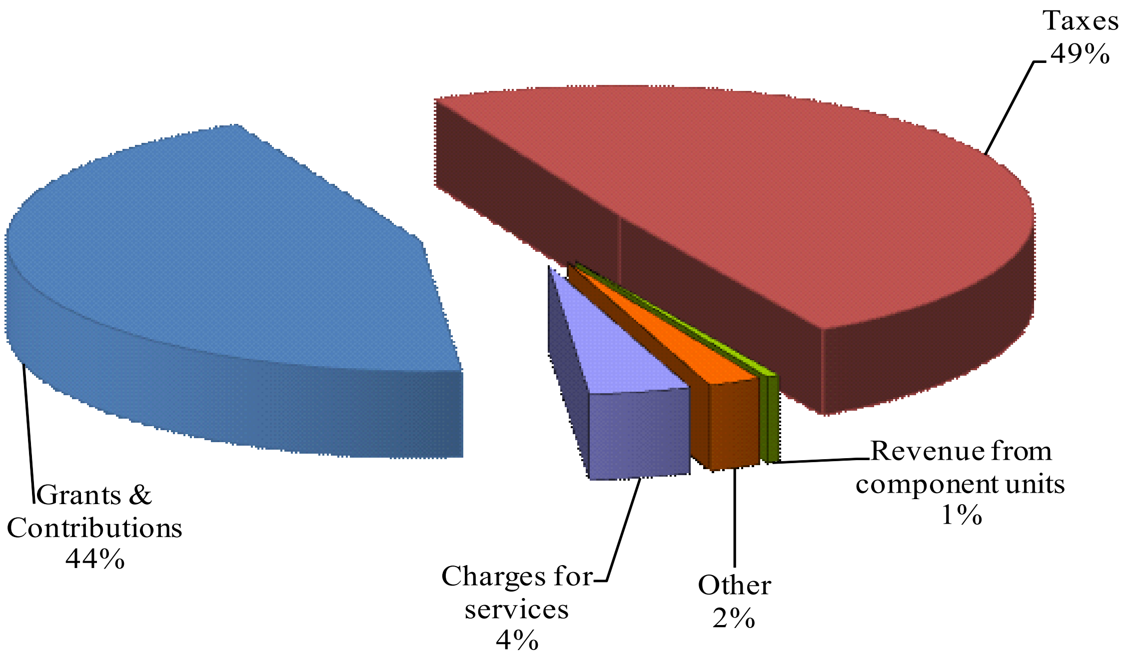
	Governmental activities	Busines-type activities	Total
Revenue:			
Program revenue:			
Charges for services	$ 600,473	$ 1,218,613	$ 1,819,086
Operating grants and contributions	6,536,125	544,393	7,080,518
Capital grants and contributions	129,947	-	129,947
	7,266,545	1,763,006	9,029,551
General revenue: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

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

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

Revenue – Governmental Activities

Year ended June 30, 2010



Governmental Activities

Governmental activities increased the Commonwealth's net deficit by $3.9 billion. A comparison of the cost of services by function for the Commonwealth's governmental activities is shown below, along with the revenue used to cover the net expenses of the governmental activities (expressed in thousands).

COMMONWEALTH'S GOVERNMENTAL ACTIVITIES -
EXPENSES NET OF PROGRAM REVENUE
Year ended June 30, 2010
(Expressed in thousands)

Net expense:	
General government	$ (1,955,910)
Public safety	(2,092,833)
Heatlh	(1,937,726)
Public housing and welfare	(557,243)
Education	(3,092,265)
Economic development	(141,203)
Payment of obligations of component units	(196,898)
Intergovernmental	(280,044)
Interest and other	(1,648,875)
Total governmental activities expenses, net of program revenue	(11,902,997)
General revenue:	
Taxes	7,415,969
Revenue from component units	76,758
Transfers from business-type activities	265,852
Other revenue	314,158
Total governmental activities general revenue	8,072,737
Increase in governmental activities net deficit	$ (3,830,260)

Business Type Activities

The business type activities increased the Commonwealth's net deficit by $43 million.

Financial Analysis of the Commonwealth's Individual Funds

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

GOVERNMENTAL FUNDS

The focus of the Commonwealth's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2010, the Commonwealth's governmental funds reported combined ending fund balance of $2.7 billion. The expenditures exceeded the revenues by $4.3 billion. However, this was offset by other financing sources amounting to $5.1 billion in the governmental funds. This year, the excess of expenditures over revenue increased by $829 million compared with the prior year. Other financing sources decreased by $1.3 billion compared to prior year. There is $3.6 billion of fund balance reserved to indicate that it is not available for new spending because it has already been committed: (1) to liquidate contracts and purchase orders of the prior fiscal year or (2) for a variety of other restricted purposes.

The general fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, unreserved fund deficit of the general fund was $1.8 billion, while the total general fund balance had a total deficit of $547 million. The fund's deficit of the Commonwealth's general fund decreased by $888 million as a result of the current fiscal year's change in financial position. This is a 62% decrease when compared to total general fund deficit reported in fiscal year 2009.

The debt service fund is the fund in which the Commonwealth accumulates the resources for the payment of the long-term debt. At end of the fiscal year, the fund balance of the debt service fund increased by $92 million when compared to prior fiscal year. Bonds and interest payable increased by $317 million compared with the prior year mainly due to the accumulation of resources for the payment of debt.

PROPRIETARY FUNDS

The Commonwealth's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As discussed in the business type activities above, the Commonwealth's net deficit increased by $43 million as a result of operations in the proprietary funds. This resulted from a decrease in net assets of $128 million by the unemployment insurance fund, which was partially offset by a $26 million decrease in net deficit by the lotteries fund and an increase of net assets of $59 million by the Commonwealth's other proprietary funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Commonwealth's investment in capital assets for its governmental and business type activities as of June 30, 2010 amounts to $10.7 billion, less accumulated depreciation and amortization of $3.3 billion, leaving a book value of $7.4 billion. This investment in capital assets includes land, construction in progress, buildings, building improvements and equipment as infrastructure.

The net book value of capital assets at June 30, 2010 is distributed by function/activity in the following proportions: general government, 42%; public safety, 7%; health, 2%; public housing and welfare, 30%; education, 6%; and economic development, 13%. Capital outlays were approximately $294 million for the year. Depreciation and amortization charges for the year totaled $260 million.

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

COMMONWEALTH'S CAPITAL ASSETS - PRIMARY GOVERNMENT
JUNE 30, 2010
(Expressed in thousands)

	Governmental activities	Business-type activities
Land	$ 873,580	$ -
Construction in progress	1,095,355	-
Buildings and building improvements, net	4,732,024	-
Equipment, furniture, fixtures, vehicles and software, net	205,348	1,586
Infrastructure, net	487,494	-
Total capital assets	$ 7,393,801	$ 1,586

Debt Administration

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

The Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth are not to be issued if the amount of the principal of, and interest on, such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenue raised under the provisions of Commonwealth legislation and conveyed into the treasury (internal revenues) in the two fiscal years preceding the current fiscal year. Section 2, Article VI of the Constitution of the Commonwealth does not limit the amount of debt that the Commonwealth may guarantee as long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. At June 30, 2010, the Commonwealth is in compliance with the debt limitation requirement.

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

From April 2010 to January 2011, the rating agencies of Moody's Investors Service, Standard & Poor's Ratings Services and Fitch recognized the successful implementation of the multiple governmental initiatives in order to safeguard and strengthen the investment grade credit rating, restructure fiscal operations and stimulate the economy, among other fiscal objectives. Accordingly, the above mentioned entities, recalibrated the Commonwealth credit ratings to A3, BBB- and BBB+, respectively.

GLOBAL ECONOMIC FACTORS AFFECTING THE COMMONWEALTH AND OTHER

The Commonwealth's economy is currently in a recession that began in the fourth quarter of fiscal year 2006, a fiscal year in which the real gross national product grew by only 0.5% and the government was shut-down during the first two weeks of May. For fiscal years 2008 and 2009, the real gross national product contracted by 2.9% and 4.0%, respectively. For fiscal year 2010, preliminary reports indicate that the real gross national product contracted by 3.8%. The Planning Board projects a decrease in real gross national product of 1.0% for fiscal year 2011 and a slight increase of 0.7% for fiscal year 2012.

The real gross national product for 2010 take into account the estimated effects on the Commonwealth economy of the Fiscal Stabilization Plan and the activity expected to be generated from the Commonwealth's local stimulus package, as explained before on this MD&A under the heading "General Fund Financial Analysis". It also considered the effect on the Commonwealth economy of general and global economic conditions, the U.S. economy, the volatility of oil prices, interest rates and the behavior of local exports, including expenditures by visitors. The forecast for fiscal year 2011 took into account the estimated effects on the Puerto Rico economy of the Government's fiscal stabilization plan, the impact of the initial phase of the tax reform, the ARRA funds, the continuation of the fiscal adjustment plan, the temporary tax measures, and the activity expected to be generated from the Government's local stimulus package. The revised forecast also considered the effect on the Puerto Rico economy of general and global economic conditions, the U.S. economy, the volatility of oil prices, interest rates and the behavior of local exports, including expenditures by visitors. The forecast for fiscal year 2012 took into account the estimated effect of the projected growth of the U.S. economy, tourism activity, personal consumption expenditures, federal transfers to individuals and the acceleration of investment in construction due to the Government's local stimulus package and the establishment of public-private partnerships. It also took into account the remainder of the ARRA funds, and the continuation of the implementation of the tax reform.

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

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

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

The dominant sectors of the Puerto Rico economy in terms of production and income are manufacturing and services. Manufacturing is the largest sector of the Puerto Rico economy in terms of gross domestic product and the second largest in terms of real gross national product. The Planning Board figures show that in fiscal year 2010 manufacturing generated \$44.6 billion, or 46.4%, of gross domestic product. Manufacturing, however, only generated \$15.8 billion, or 24.9%, of real gross national product in fiscal year 2010. During fiscal year 2010, payroll employment for the manufacturing sector was 88,275, a decrease of 8.7% compared with fiscal year 2009. Most of Puerto Rico's manufacturing output is shipped to the U.S. mainland, which is also the principal source of semi-finished manufactured articles on which further manufacturing operations are performed in Puerto Rico. Federal minimum wage laws are applicable in Puerto Rico. For fiscal year 2010, the average hourly manufacturing wage rate in Puerto Rico was approximately 53.2% of the average mainland U.S. rate.

Construction represents a relatively small segment of the economy compared to other sectors. However, it has made significant contributions to the growth of economic activity due to its multiplier effect on the whole economy. Since its peak in fiscal year 2000, real construction investment has declined at an average annual growth rate of 8.7%, where such rates started to increase significantly in fiscal year 2005, as a consequence of the current contraction of the local economic activity. During the last three fiscal years (from fiscal year 2008 to 2010) real construction investment decreased at an average annual rate of 20.5%. During the same time period, the total value of construction permits, in current dollars, decreased at an average annual rate of 28.6%. Public investment has been an important component of construction investment. During fiscal year 2010, approximately 49.3% of the total investment in construction was related to public projects, which represents an increase in its share from 37.9% of total construction investment in fiscal year 2000. The total value of construction permits decreased 29.2% in fiscal year 2010 as compared to fiscal year 2009, and total sales of cement decreased by 26.3% between 2009 and 2010, the largest decline registered since 1959. Average payroll employment in the construction sector during fiscal year 2010 was 35,900, a reduction of 26.8% from fiscal year 2009.

Most of the external factors that affect the Puerto Rico economy (other than oil prices) are determined by the policies and performance of the United States economy. These external factors include exports, direct investment, the amount of federal transfer payments, the level of interest rates, the rate of inflation, and tourist expenditures. During fiscal year 2009, approximately 71.6% of Puerto Rico's exports went to the United States mainland, which was also the source of approximately 46.9% of Puerto Rico's imports. In fiscal year 2009, Puerto Rico experienced a positive merchandise trade balance of \$20.2 billion. During fiscal year 2010, approximately 68.1% of Puerto Rico's exports went to the United States mainland, which was also the source of approximately 51.2% of Puerto Rico's imports. In fiscal year 2010, Puerto Rico experienced a positive merchandise trade balance of \$20.8 billion.

According to the Household Survey, the number of persons employed in Puerto Rico during fiscal year 2010 averaged 1,102,700, a decrease of 5.6% compared to previous fiscal year; and the unemployment rate averaged 16%.

OTHER MATTERS

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

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

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

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

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

Derivative Instruments- The Commonwealth also implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instrument* ("GASB 53"). This Statement enhances the usefulness and comparability of derivative instrument information reported by state and local governments by providing a comprehensive framework for the recognition, measurement, and disclosure of derivative instrument transactions. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaps, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. A key provision of GASB 53 is that certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value by governments in their government-wide financial statements.

The financial reporting impact resulting from the implementation of GASB 53 in the primary government is the recognition within the government-wide financial statements of a liability for hedging derivative instruments whose negative fair value at June 30, 2010 totaled $300.1 million with a corresponding amount being reported as deferred outflows of resources in the assets section of the government-wide financial statements. Also, investment derivative instruments whose negative fair value at June 30, 2010 totaled $289.7 million were recorded as a liability for investment derivative instruments-interest rate swaps in the statement of net assets (deficit). The cumulative impact of change in accounting for derivative instruments of $207 million was charged to net deficit at July 1, 2009.

Requests for Information

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

COMMONWEALTH OF PUERTO RICO

STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Totals Primary Government	Component Units
ASSETS:				
Cash and cash equivalents in commercial banks	$ 363,406	$ 53,893	$ 417,299	$ 743,772
Cash and cash equivalents in governmental banks	1,033,440	113,765	1,147,205	466,167
Cash and cash equivalents in U.S. Treasury	-	362,373	362,373	-
Investments	143,577	-	143,577	5,279,760
Collateral from securities lending transactions	-	-	-	198,564
Receivables — net of allowance for uncollectibles:				
Income taxes	1,213,392	-	1,213,392	-
Sales and use tax	95,910	-	95,910	-
Unemployment and other insurance premiums	-	73,783	73,783	68,205
Intergovernmental	457,913	1,194	459,107	44,261
Accounts	93,324	-	93,324	863,297
Loans	142,054	-	142,054	3,834,108
Accrued interest	5,047	752	5,799	56,119
Other governmental entities	-	-	-	282,445
Other	40,671	4,601	45,272	50,000
Due from:				
Primary government	-	-	-	323,528
Component units — net of allowance for doubtful accounts amounting to $108.9 million in Governmental Activities	122,586	-	122,586	731,918
Other governmental entities	9,330	-	9,330	-
Internal balances	(15,326)	15,326	-	-
Inventories	9,750	-	9,750	413,509
Prepaid expenses	27,089	-	27,089	29,385
Other assets	11,965	-	11,965	-
Restricted assets:				
Cash and cash equivalents in commercial banks	927,927	-	927,927	796,952
Cash and cash equivalents in governmental banks	161,742	94,486	256,228	272,413
Receivables	-	4,009	4,009	-
Loans receivable from component units	-	375,793	375,793	-
Investments	2,167,876	31,770	2,199,646	6,256,302
Other	19,200	1,369	20,569	209,480
Long-term investments	-	-	-	2,074,856
Long-term receivables from:				
Loans	-	-	-	142,762
Other governmental entities	-	-	-	27,196
Other	-	-	-	219,635
Long-term amounts due from:				
Primary government	-	-	-	65,041
Component units	-	-	-	2,825,976
Real estate held for sale or future development	44,218	-	44,218	396,922
Capital assets (net of accumulated depreciation):				
Land and other nondepreciable assets	1,968,935	-	1,968,935	7,797,327
Depreciable assets	5,424,866	1,586	5,426,452	22,399,912
Deferred outflows of resources	300,095	-	300,095	289,632
Deferred expenses and other assets	322,942	31,333	354,275	488,712
TOTAL ASSETS	$15,091,929	$1,166,033	$16,257,962	$57,648,156

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Totals Primary Government	Component Units
LIABILITIES:				
Accounts payable and accrued liabilities	$ 1,102,534	$ 9,214	$ 1,111,748	$ 2,704,767
Deposits and escrow liabilities	-	-	-	6,682,996
Tax refunds payable	403,622	-	403,622	-
Due to other funds	-	-	-	-
Due to:				
Primary government	-	-	-	206,391
Component units	296,958	-	296,958	728,940
Other governmental entities	19,117	-	19,117	306,909
Securities lending transactions and reverse repurchase agreements	-	-	-	1,320,849
Interest payable	440,329	-	440,329	400,939
Deferred revenue	386,517	28,510	415,027	106,715
Insurance benefits payable	-	103,269	103,269	-
Liability for automobile accident insurance and workmen compensation claims	-	-	-	362,109
Termination benefits payable	55,837	-	55,837	-
Due to primary government — long-term portion	-	-	-	400,937
Due to component units — long-term portion	28,723	-	28,723	2,828,954
Due to other governmental entities - long-term portion	-	-	-	63,575
Securities lending transactions and reverse repurchase agreements — long-term portion	-	-	-	114,300
Deferred revenue — long-term portion	-	-	-	13,989
Liability for automobile accident insurance and workmen compensation claims — long-term portion	-	-	-	582,061
Hedging derivative instruments — interest rate swaps	300,095	-	300,095	289,632
Investment derivative instruments — interest rate swaps	289,693	-	289,693	-
Liabilities payable within one year:				
Commonwealth appropriation bonds	-	-	-	8,615
Bonds	445,825	-	445,825	1,541,882
Notes	252,562	-	252,562	383,876
Capital leases	5,559	-	5,559	1,803
Compensated absences	740,546	2,262	742,808	187,400
Lottery prizes	-	56,561	56,561	-
Other long-term liabilities	164,112	-	164,112	207,776
Liabilities payable after one year:				
Commonwealth appropriation bonds	740,077	-	740,077	820,634
Bonds	28,151,891	-	28,151,891	20,985,079
Notes	1,371,420	-	1,371,420	4,456,593
Capital leases	229,425	-	229,425	97,236
Net pension obligation	7,963,950	-	7,963,950	-
Net postemployment benefit obligations	132,587	-	132,587	-
Compensated absences	765,647	1,967	767,614	215,173
Lottery prizes	-	167,340	167,340	-
Other long-term liabilities	2,028,442	-	2,028,442	894,316
Total liabilities	46,315,468	369,123	46,684,591	46,914,446
NET ASSETS (DEFICIT):				
Invested in capital assets, net of related debt	3,866,328	1,586	3,867,914	9,262,528
Restricted for:				
Trust - nonexpendable	-	-	-	310,149
Capital projects	188,108	-	188,108	295,655
Debt service	1,730,116	-	1,730,116	1,756,825
Lending activities	-	474,696	474,696	-
Payment of insurance benefits	-	31,210	31,210	-
Affordable housing and related loan insurance programs	3,082	-	3,082	499,958
Student loans and other educational purposes	-	-	-	85,611
Net assets in liquidation	34,024	-	34,024	-
Other	986,131	-	986,131	343,551
Unrestricted net assets (deficit)	(38,031,328)	289,418	(37,741,910)	(1,820,567)
TOTAL NET ASSETS (DEFICIT)	$ (31,223,539)	$ 796,910	$ (30,426,629)	$ 10,733,710

See accompanying notes to basic financial statements. (Concluded)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010
(In thousands)

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets (Deficit)			
						Primary Government			
Functions	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
PRIMARY GOVERNMENT:									
Governmental activities:									
General government	$ 3,156,646	$ 460,071	$ 740,665	$ -	$ -	$ (1,955,910)	$ -	$ (1,955,910)	$ -
Public safety	2,228,000	47,168	87,999	-	-	(2,092,833)	-	(2,092,833)	-
Health	2,843,744	54,437	851,581	-	-	(1,937,726)	-	(1,937,726)	-
Public housing and welfare	3,726,041	2,032	3,036,819	-	129,947	(557,243)	-	(557,243)	-
Education	4,543,362	16,202	1,434,895	-	-	(3,092,265)	-	(3,092,265)	-
Economic development	292,037	20,563	130,271	-	-	(141,203)	-	(141,203)	-
Payment of obligations of component units	196,898	-	-	-	-	(196,898)	-	(196,898)	-
Intergovernmental	533,939	-	253,895	-	-	(280,044)	-	(280,044)	-
Interest and other	1,648,875	-	-	-	-	(1,648,875)	-	(1,648,875)	-
Total governmental activities	19,169,542	600,473	6,536,125	-	129,947	(11,902,997)	-	(11,902,997)	-
Business-type activities:									
Unemployment insurance	820,261	228,695	495,662	-	-	-	(95,904)	(95,904)	-
Lotteries	720,992	967,165	-	-	-	-	246,173	246,173	-
Other	20,180	22,753	48,731	-	-	-	51,304	51,304	-
Total business-type activities	1,561,433	1,218,613	544,393	-	-	-	201,573	201,573	-
TOTAL PRIMARY GOVERNMENT	$20,730,975	$1,819,086	$7,080,518	$ -	$129,947	$ (11,902,997)	$ 201,573	$ (11,701,424)	$ -

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010
(In thousands)

		Program Revenues				Net (Expenses) Revenues and Changes in Net Assets (Deficit)			
						Primary Government			
Functions	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
COMPONENT UNITS:									
Government Development Bank for Puerto Rico	$ 731,414	$ 549,325	$225,268	$ -	$ -	$ -	$ -	$ -	$ 43,179
Puerto Rico Highways and Transportation Authority	1,011,074	260,324	-	-	124,777	-	-	-	(625,973)
Puerto Rico Electric Power Authority	4,391,055	4,171,493	-	-	65,567	-	-	-	(153,995)
Puerto Rico Aqueduct and Sewer Authority	903,912	712,788	-	-	22,696	-	-	-	(168,428)
University of Puerto Rico	1,497,224	170,468	153,260	-	1,288	-	-	-	(1,172,208)
Puerto Rico Health Insurance Administration	1,962,553	721,864	-	-	-	-	-	-	(1,240,689)
Other component units	2,805,418	1,626,520	108,516	26,664	65,780	-	-	-	(977,938)
TOTAL COMPONENT UNITS	$13,302,650	$8,212,782	$487,044	$26,664	$280,108	-	-	-	(4,296,052)
GENERAL REVENUES:									
Taxes:									
Income taxes						4,857,035	-	4,857,035	-
Sales and use tax						1,087,053	-	1,087,053	-
Excise taxes						1,145,538	-	1,145,538	322,669
Other taxes						326,343	-	326,343	-
Revenue from global tobacco settlement agreement						75,584	-	75,584	-
Revenue from State Insurance Fund Corporation						43,798	-	43,798	-
Revenue from Puerto Rico Tourism Company						23,382	-	23,382	-
Revenue from Governing Board of 9-1-1 Services						9,578	-	9,578	-
Grants and contributions not restricted to specific programs						114,739	-	114,739	304,348
Payments from primary government						-	-	-	2,716,427
Unrestricted investment earnings (losses)						(42,682)	21,260	(21,422)	290,970
Other						166,517	-	166,517	52,730
Transfers						265,852	(265,852)	-	-
Total general revenues and transfers						8,072,737	(244,592)	7,828,145	3,687,144
CHANGE IN NET ASSETS (DEFICIT)						(3,830,260)	(43,019)	(3,873,279)	(608,908)
NET ASSETS (DEFICIT) — Beginning of year (as restated) (Note 4)						(27,393,279)	839,929	(26,553,350)	11,342,618
NET ASSETS (DEFICIT) — End of year						$ (31,223,539)	$ 796,910	$ (30,426,629)	$10,733,710

See accompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2010
(In thousands)

ASSETS	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS	$ 277,773	$ -	$ 98	$ -	$ -	$ 85,535	$ 363,406
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	122,467	7,737	656,804	-	-	246,432	1,033,440
INVESTMENTS	-	-	-	-	-	143,577	143,577
RECEIVABLES:							
Taxes	1,213,392	-	-	-	-	-	1,213,392
Sales and use tax	-	95,910	-	-	-	-	95,910
Intergovernmental	431,385	-	26,528	-	-	-	457,913
Accounts	91,498	-	-	-	-	1,826	93,324
Loans	142,015	-	-	-	-	39	142,054
Accrued interest	4,327	-	275	1	-	444	5,047
Other	-	-	-	-	-	40,671	40,671
DUE FROM:							
Other funds	62,615	-	-	-	-	167,345	229,960
Component units	84,139	-	-	-	-	38,447	122,586
Other governmental entities	2,481	-	-	-	-	6,849	9,330
OTHER ASSETS	11,965	-	-	-	-	-	11,965
RESTRICTED ASSETS:							
Cash and cash equivalents in commercial banks	510,091	-	185,992	-	14,719	217,125	927,927
Cash and cash equivalents in governmental banks	64,242	-	-	18,112	13,984	65,404	161,742
Investments	-	-	-	882,079	1,285,797	-	2,167,876
Due from other funds	-	-	-	-	103,647	-	103,647
Other restricted assets	19,200	-	-	-	-	-	19,200
REAL ESTATE HELD FOR SALE OR FUTURE DEVELOPMENT	39,281	-	-	-	-	4,937	44,218
TOTAL ASSETS	$ 3,076,871	$ 103,647	$ 869,697	$ 900,192	$ 1,418,147	$ 1,018,631	$ 7,387,185

(Continued)

COMMONWEALTH OF PUERTO RICO

BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2010
(In thousands)

LIABILITIES AND FUND BALANCES (DEFICIT)	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
LIABILITIES:							
Accounts payable and accrued liabilities	$ 1,034,454	$ -	$ -	$ 20	$ 1,274	$ 66,374	$ 1,102,122
Tax refunds payable	403,622	-	-	-	-	-	403,622
Due to:							
Other funds	241,526	103,647	-	-	-	3,760	348,933
Other governmental entities	16,160	-	-	-	-	3,077	19,237
Component units	253,504	-	-	-	3,819	39,635	296,958
Notes payable	134,687	-	-	-	-	-	134,687
Bonds payable	-	-	323,450	-	-	84,850	408,300
Interest payable	2,202	-	195,542	-	-	85,100	282,844
Deferred revenue	1,482,175	-	-	-	7,737	167,888	1,657,800
Termination benefits payable	55,837	-	-	-	-	-	55,837
Total liabilities	3,624,167	103,647	518,992	20	12,830	450,684	4,710,340
FUND BALANCES (DEFICIT):							
Reserved for:							
Encumbrances	698,459	-	-	-	-	6,376	704,835
Debt service	393,799	-	-	-	1,301,670	34,647	1,730,116
Capital projects	123,539	-	-	-	-	64,569	188,108
Assets in liquidation	34,024	-	-	-	-	-	34,024
Low income housing assistance	3,082	-	-	-	-	-	3,082
Other specified purposes	-	-	85,940	900,191	-	-	986,131
Unreserved (deficit):							
General fund	(1,800,199)	-	-	-	-	-	(1,800,199)
Debt service fund	-	-	264,765	-	103,647	113,889	482,301
Special revenue funds	-	-	-	(19)	-	114,787	114,768
Capital project funds	-	-	-	-	-	233,679	233,679
Total fund balances (deficit)	(547,296)	-	350,705	900,172	1,405,317	567,947	2,676,845
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	$ 3,076,871	$ 103,647	$ 869,697	$ 900,192	$ 1,418,147	$ 1,018,631	$ 7,387,185

See accompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS (DEFICIT) — GOVERNMENTAL FUNDS
JUNE 30, 2010
(In thousands)

TOTAL FUND BALANCE OF GOVERNMENTAL FUNDS	$ 2,676,845
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS (DEFICIT) ARE DIFFERENT THAN THE AMOUNTS REPORTED IN THE GOVERNMENTAL FUNDS BECAUSE:	
Inventories and prepaid expenses that are not reported in governmental funds and are reported in the statement of net assets (deficit)	36,839
Deferred outflows of resources	300,095
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	7,393,801
Deferred revenue for governmental funds that are recorded as revenue in the statement of net assets (deficit)	1,271,283
Debt issued by the Commonwealth have associated costs that are paid from current available resources in the funds. However, these costs are deferred in the statement of net assets (deficit)	322,942
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accounts payable and accrued liabilities	(412)
Derivative instruments interest rate swaps	(589,788)
Appropriation bonds	(740,077)
Bonds payable	(28,189,416)
Notes payable	(1,489,295)
Due to component units	(28,603)
Capital leases payable	(234,984)
Compensated absences	(1,506,193)
Net pension obligation	(7,963,950)
Net postemployment benefit obligation	(132,587)
Interest payable	(157,485)
Other long-term liabilities	(2,192,554)
TOTAL NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$ (31,223,539)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT)
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010
(In thousands)

	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
REVENUES:							
Taxes:							
Income taxes	$ 5,109,313	$ -	$ -	$ -	$ -	$ -	$ 5,109,313
Sales and use tax	540,348	553,860	-	-	-	-	1,094,208
Excise taxes	1,145,538	-	-	-	-	-	1,145,538
Property taxes	227,812						227,812
Other taxes	98,530	-	-	-	-	-	98,530
Charges for services	600,473	-	-	-	-	-	600,473
Revenue from global tobacco settlement agreement	75,442	-	-	-	-	-	75,442
Revenues from component units	76,758	-	-	-	-	-	76,758
Intergovernmental	6,528,804	-	114,739	-	-	12,000	6,655,543
Interest and investment earnings	24,567	-	25,888	1,979	48	3,663	56,145
Other	126,002	-	-	-	-	672	126,674
Total revenues	14,553,587	553,860	140,627	1,979	48	16,335	15,266,436
EXPENDITURES:							
Current:							
General government	1,711,761	7,737	-	34	12	110,938	1,830,482
Public safety	2,207,228	-	-	-	-	-	2,207,228
Health	2,783,185	-	-	-	-	2,254	2,785,439
Public housing and welfare	3,553,699	-	-	-	-	-	3,553,699
Education	4,583,918	-	-	-	-	874	4,584,792
Economic development	249,188	-	-	-	-	711	249,899
Payment of obligations of component units	-	-	-	196,898	-	-	196,898
Intergovernmental	418,458	-	-	-	-	115,304	533,762
Capital outlay	129,735	-	-	-	-	163,563	293,298
Debt service:							
Principal	505,480	-	420,275	-	809,125	274,990	2,009,870
Interest	201,233	-	516,696	-	375,944	221,092	1,314,965
Other — debt issuance costs	-	-	5,915	-	42,471	6,094	54,480
Total expenditures	16,343,885	7,737	942,886	196,932	1,227,552	895,820	19,614,812
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,790,298)	546,123	(802,259)	(194,953)	(1,227,504)	(879,485)	(4,348,376)

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT)
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010
(In thousands)

	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
OTHER FINANCING SOURCES (USES):							
Transfers in	$ 3,204,710	$ 7,737	$ 447,312	$ 1,750,542	$ 553,860	$ 332,255	$ 6,296,416
Transfers out	(795,738)	(553,860)	(227,395)	(2,702,238)	(1,750,542)	(791)	(6,030,564)
Long term debt issued	122,521	-	-	-	-	-	122,521
Proceeds from long term debt issued	144,278	-	-	-	4,333,426	154,147	4,631,851
Issuance of refunding bonds	-	-	680,195	-	-	483,540	1,163,735
Sale of capital assets	2,431	-	-	-	-	-	2,431
Bond issue discount	-	-	(6,570)	-	(52,664)	(4,777)	(64,011)
Capital leases	427	-	-	-	-	-	427
Termination fee on swap agreements	-	-	(12,454)	-	-	(28,395)	(40,849)
Proceeds from termination of swap agreements	-	-	12,231	-	-	-	12,231
Payment for refunding of bonds	-	-	-	-	(750,297)	(297,000)	(1,047,297)
Bond proceeds — premium	-	-	1,171	-	16,874	-	18,045
Total other financing sources (uses)	2,678,629	(546,123)	894,490	(951,696)	2,350,657	638,979	5,064,936
NET CHANGE IN FUND BALANCES (DEFICIT)	888,331	-	92,231	(1,146,649)	1,123,153	(240,506)	716,560
FUND BALANCES (DEFICIT) — Beginning of of year	(1,435,627)	-	258,474	2,046,821	282,164	808,453	1,960,285
FUND BALANCES (DEFICIT) — End of year	$ (547,296)	$ -	$ 350,705	$ 900,172	$ 1,405,317	$ 567,947	$ 2,676,845

See accompanying notes to basic financial statements. (Concluded)

COMMONWEALTH OF PUERTO RICO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) TO THE STATEMENT OF ACTIVITIES-GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010
(In thousands)

NET CHANGE IN FUND BALANCES (DEFICIT) — Total governmental funds		$ 716,560
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. In the current period, these amounts are:		
Capital outlays	293,298	
Less: Depreciation and amortization expense	(259,647)	33,651
The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Proceeds from sales of bonds	(5,918,107)	
Principal payments of bonds	3,051,238	
Other	(133,004)	(2,999,873)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets (deficit).		51,042
Some revenues in the statement of activities do not provide current financial resources, and therefore, are deferred in governmental funds. Also, revenues related to prior periods that became available during the current period are reported in governmental funds but are eliminated in statement of activities. This amount is the net adjustment.		(111,597)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(1,250,603)
Changes in fair value of investment derivative instruments do not require the use of current financial resources and, therefore, are not reported as investment revenue in governmental funds.		(82,664)
The net effect of various transactions involving capital assets (i.e. sales, disposals, and donations) is to decrease net assets.		(173,952)
Generally, inventory and prepayments are recorded as expenditures in the governmental funds when purchased rather than capitalized as an asset. However, these assets are capitalized in the statement of net assets (deficit).		(12,824)
CHANGE IN NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES		$ (3,830,260)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL — BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2010
(In thousands)

	Original Budget	Amended Budget	Actual
REVENUES:			
Income taxes	$ 5,058,000	$ 5,111,000	$ 5,162,669
Property taxes	230,000	230,000	227,812
Excise taxes	850,000	852,000	872,766
Other taxes	99,000	99,000	99,385
Sales and use tax	606,000	545,000	540,348
Charges for services	234,967	219,967	213,165
Intergovernmental	359,000	356,000	352,301
Revenues from component units	24,000	24,000	23,273
Other	51,033	111,033	101,589
Total revenues	7,512,000	7,548,000	7,593,308
EXPENDITURES — Current:			
General government	947,431	891,531	1,367,333
Public safety	2,083,332	2,268,128	2,078,972
Health	1,540,997	2,068,055	1,636,814
Public housing and welfare	598,233	506,967	504,900
Education	3,427,189	3,221,699	3,092,788
Economic development	605,033	606,341	568,450
Intergovernmental	379,879	382,864	391,104
Total expenditures	9,582,094	9,945,585	9,640,361
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(2,070,094)	(2,397,585)	(2,047,053)
OTHER FINANCING SOURCES (USES):			
Notes payable issued	-	-	147,869
Transfers in from COFINA	2,500,000	2,913,303	2,688,173
Transfers in from the Debt Service Fund and the Lotteries Fund	158,000	122,832	350,227
Transfers out	(587,906)	(638,550)	(728,365)
Total other financing sources (uses)	2,070,094	2,397,585	2,457,904
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	$ -	$ -	$ 410,851

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF NET ASSETS (DEFICIT) — PROPRIETARY FUNDS
JUNE 30, 2010
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
ASSETS:				
Current assets:				
Cash and cash equivalents in commercial banks	$ -	$ 53,893	$ -	$ 53,893
Cash and cash equivalents in governmental banks	9,336	41,766	62,663	113,765
Cash and cash equivalents in governmental banks — restricted	-	-	94,486	94,486
Cash and cash equivalents in U.S. Treasury	362,373	-	-	362,373
Insurance premiums receivables — net	69,398	-	4,385	73,783
Intergovernmental receivable	1,194	-	-	1,194
Due from component units — restricted	-	-	16,388	16,388
Accrued interest receivable	565	-	187	752
Restricted receivables	-	-	4,009	4,009
Other receivables	-	4,557	44	4,601
Total current assets	442,866	100,216	182,162	725,244
Noncurrent assets:				
Loans receivable from component units — restricted	-	-	359,405	359,405
Due from other funds	-	53,175	21,006	74,181
Restricted investments	-	-	31,770	31,770
Capital assets — net	-	1,586	-	1,586
Other noncurrent assets	-	31,333	-	31,333
Other restricted assets	-	-	1,369	1,369
Total assets	442,866	186,310	595,712	1,224,888
LIABILITIES AND NET ASSETS (DEFICIT):				
Current liabilities:				
Accounts payable and accrued liabilities	-	6,631	2,583	9,214
Due to other funds	12,862	45,993	-	58,855
Deferred revenue	17,948	10,541	21	28,510
Compensated absences	-	2,043	219	2,262
Lottery prizes	-	56,561	-	56,561
Insurance benefits payable	102,396	-	873	103,269
Total current liabilities	133,206	121,769	3,696	258,671
Noncurrent liabilities:				
Lottery prizes, excluding current portion	-	167,340	-	167,340
Compensated absences, excluding current portion	-	1,342	625	1,967
Total liabilities	133,206	290,451	4,321	427,978
NET ASSETS (DEFICIT):				
Invested in capital assets — net of related debt	-	1,586	-	1,586
Restricted for payment of insurance benefits	-	-	31,210	31,210
Restricted for lending activities	-	-	474,696	474,696
Unrestricted	309,660	(105,727)	85,485	289,418
TOTAL NET ASSETS (DEFICIT)	$309,660	$ (104,141)	$591,391	$ 796,910

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
OPERATING REVENUES:				
Insurance premiums	$ 228,695	$ -	$ 15,696	$ 244,391
Lottery ticket sales	-	966,078	-	966,078
Interest	-	-	7,057	7,057
Other	-	1,087	-	1,087
Total operating revenues	228,695	967,165	22,753	1,218,613
OPERATING EXPENSES:				
Insurance benefits	820,261	-	4,624	824,885
Lottery prizes	-	575,814	-	575,814
General, administrative, and other operating expenses	-	145,178	15,556	160,734
Total operating expenses	820,261	720,992	20,180	1,561,433
OPERATING INCOME (LOSS)	(591,566)	246,173	2,573	(342,820)
NONOPERATING REVENUES:				
Contributions from U.S. government	495,662	-	48,731	544,393
Interest and investment earnings	17,565	226	3,469	21,260
Total nonoperating revenues	513,227	226	52,200	565,653
INCOME (LOSS) BEFORE TRANSFERS	(78,339)	246,399	54,773	222,833
TRANFERS FROM OTHER FUNDS	-	-	8,675	8,675
TRANSFERS TO OTHER FUNDS	(49,197)	(220,406)	(4,924)	(274,527)
NET CHANGE IN NET ASSETS (DEFICIT)	(127,536)	25,993	58,524	(43,019)
NET ASSETS (DEFICIT) — Beginning of year	437,196	(130,134)	532,867	839,929
NET ASSETS (DEFICIT) — End of year	$ 309,660	$ (104,141)	$591,391	$ 796,910

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF CASH FLOWS — PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	$ 236,696	$ 957,499	$ 15,581	$1,209,776
Other receipts	-	1,773	-	1,773
Payments to suppliers	-	(65,097)	(2,746)	(67,843)
Payments to employees	-	(77,548)	(8,548)	(86,096)
Payments of lottery prizes	-	(621,055)	-	(621,055)
Payments of insurance benefits	(815,649)	-	(4,692)	(820,341)
Other payments	-	-	(4,578)	(4,578)
Net cash provided by (used in) operating activities	(578,953)	195,572	(4,983)	(388,364)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Intergovernmental grants and contributions	500,860	-	48,731	549,591
Transfers from other funds	-	-	8,440	8,440
Transfers to other funds	(47,791)	(247,196)	(4,924)	(299,911)
Net cash provided by (used in) noncapital financing activities	453,069	(247,196)	52,247	258,120
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES —				
Capital expenditures	-	(1,154)	-	(1,154)
Net cash used in capital and related financing activities	-	(1,154)	-	(1,154)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest collected on deposits and investments	17,565	224	7,748	25,537
Loans originated	-	-	(69,452)	(69,452)
Principal collected on loans	-	-	19,988	19,988
Proceeds from sales and maturities of investments	-	-	7,479	7,479
Purchase of investments	-	-	(7,163)	(7,163)
Net cash provided by (used in) investing activities	17,565	224	(41,400)	(23,611)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(108,319)	(52,554)	5,864	(155,009)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	480,028	148,213	151,285	779,526
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 371,709	$ 95,659	$157,149	$ 624,517

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF CASH FLOWS — PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income (loss)	$(591,566)	$ 246,173	$ 2,573	$ (342,820)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Interests earned on deposits, loans and investments	-	-	(7,057)	(7,057)
Depreciation	-	382	-	382
Changes in operating assets and liabilities:				
Increase in accounts and loans receivable	(4,907)	(4,126)	(207)	(9,240)
Decrease in obligation for unpaid lottery awards	-	(45,241)	-	(45,241)
Increase (decrease) in deferred revenues	12,910	(4,453)	(7)	8,450
Decrease in compensated absences	-	(137)	(366)	(503)
Increase (decrease) in liability for insurance benefits payable	4,610	-	(68)	4,542
Increase in accounts payable and accrued liabilities	-	2,235	149	2,384
Decrease in other assets	-	739	-	739
Total adjustments	12,613	(50,601)	(7,556)	(45,544)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$(578,953)	$ 195,572	$ (4,983)	$ (388,364)

See accompanying notes to basic financial statements. (Concluded)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF FIDUCIARY NET ASSETS — FIDUCIARY FUNDS
JUNE 30, 2010
(In thousands)

	Pension Trust	Special Deposits-Agency
ASSETS:		
Cash and cash equivalents in commercial banks — unrestricted	$ 254,427	$ 697,402
Cash and cash equivalents in governmental banks:		
Unrestricted	54,764	800,511
Restricted	741,082	-
Collateral from securities lending transactions	162,078	-
Investments:		
Debt and equity securities — at fair value	3,824,429	-
Other — private equity	81,990	1,226
Receivables — net:		
Accounts	284,361	-
Loans and advances	1,636,804	-
Accrued interests and dividends	11,452	-
Other	91,705	-
Capital assets — net	31,934	-
Other assets	41,323	-
Total assets	7,216,349	1,499,139
LIABILITIES:		
Accounts payable and accrued liabilities	79,375	1,499,139
Securities lending transactions	162,078	-
Interest payable	13,876	-
Other liabilities	36,867	-
Bonds payable	2,981,775	-
Total liabilities	3,273,971	1,499,139
NET ASSETS — Held in trust for pension and other benefits	$ 3,942,378	$ -

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, 2010
(In thousands)

ADDITIONS:	
Contributions:	
Sponsor	$ 509,391
Participants	478,257
Special	240,708
Total contributions	1,228,356
Investment income and investment expense:	
Interest	242,172
Dividends	20,985
Net change in fair value of investments	426,661
Investment expenses	(12,548)
Net investment income	677,270
Other income	86,358
Total additions	1,991,984
DEDUCTIONS:	
Pension and other benefits	1,786,226
Refunds of contributions	52,993
General and administrative	72,634
Interest on bonds payable	188,055
Total deductions	2,099,908
NET CHANGE IN NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS	(107,924)
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS:	
Beginning of year	4,050,302
End of year	$ 3,942,378

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2010
(In thousands)

	Major Component Units								
ASSETS	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	Puerto Rico Health Insurance Administration	Major Component Units Totals	Nonmajor Component Units Totals	All Component Units Totals
CURRENT ASSETS:									
Cash and cash equivalents in commercial banks	$ 369,761	$ 28,794	$ 81,521	$ 12,713	$ 2,795	$ 13,219	$ 508,803	$ 234,969	$ 743,772
Cash and cash equivalents in governmental banks	-	37	125	-	-	105,028	105,190	360,977	466,167
Investments	4,585,471	-	-	-	-	-	4,585,471	694,289	5,279,760
Restricted assets:									
Cash and cash equivalents in commercial banks	21,470	-	-	-	-	2,327	23,797	189,595	213,392
Cash and cash equivalents in governmental banks	-	-	-	-	-	82,235	82,235	53,004	135,239
Investments	794,619	-	-	-	118,798	-	913,417	1,473,247	2,386,664
Other restricted assets	3,208	-	-	-	-	-	3,208	67,276	70,484
Collateral from securities lending transactions	-	-	-	-	-	-	-	198,564	198,564
Receivables — net:									
Insurance premium	-	-	-	-	-	-	-	68,205	68,205
Intergovernmental	-	-	-	3,417	15,701	-	19,118	25,143	44,261
Accounts	-	1,725	612,381	96,746	38,736	15,290	764,878	98,419	863,297
Loans	3,737,307	-	-	-	-	-	3,737,307	96,801	3,834,108
Accrued interest	37,569	-	-	-	-	-	37,569	18,550	56,119
Other governmental entities	-	4,145	134,708	47,648	38,097	27,791	252,389	30,056	282,445
Other	-	-	-	-	17,812	-	17,812	32,188	50,000
Due from:									
Primary government	63,981	-	84,247	33,714	12,570	-	194,512	129,016	323,528
Component units	537,800	-	145,560	14,595	2,978	-	700,933	30,985	731,918
Inventories	-	-	364,190	24,163	4,692	-	393,045	20,464	413,509
Prepaid expenses	-	2,082	3,364	5,870	705	-	12,021	17,364	29,385
Total current assets	10,151,186	36,783	1,426,096	238,866	252,884	245,890	12,351,705	3,839,112	16,190,817

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2010
(In thousands)

ASSETS (Cont'd)	Major Component Units: Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	Puerto Rico Health Insurance Administration	Major Component Units Totals	Nonmajor Component Units Totals	All Component Units Totals
NONCURRENT ASSETS:									
Restricted assets:									
Cash and cash equivalents in commercial banks	$ -	$ 3,986	$ 349,998	$ 144,825	$ 18,745	$ -	$ 517,554	$ 66,006	$ 583,560
Cash and cash equivalents in governmental banks	-	34,974	-	40,600	-	-	75,574	61,600	137,174
Investments	838,509	768,225	445,057	-	106,756	-	2,158,547	1,711,091	3,869,638
Other restricted assets	48,065	30,849	-	-	-	-	78,914	60,082	138,996
Investments	-	-	-	-	-	-	-	2,074,856	2,074,856
Receivables:									
Loans, interest, and other	-	-	-	-	3,116	-	3,116	139,646	142,762
Other governmental entities	1,694	138	-	-	3,983	-	5,815	21,381	27,196
Other	8,420	-	108,216	-	66,076	-	182,712	36,923	219,635
Due from:									
Primary government	-	-	-	-	62,441	-	62,441	2,600	65,041
Component units	2,743,584	-	-	-	-	-	2,743,584	82,392	2,825,976
Deferred outlows of resources	-	126,027	109,938	-	-	-	235,965	53,667	289,632
Real estate held for sale or future development	206,452	-	-	-	-	-	206,452	190,470	396,922
Capital assets, not being depreciated	2,845	2,555,819	1,285,268	1,678,034	253,146	-	5,775,112	2,022,215	7,797,327
Capital assets, depreciable — net	12,905	8,614,104	5,240,973	5,406,960	713,667	210	19,988,819	2,411,093	22,399,912
Deferred expenses and other assets	34,907	116,583	115,459	57,216	61,945	-	386,110	102,602	488,712
Total noncurrent assets	3,897,381	12,250,705	7,654,909	7,327,635	1,289,875	210	32,420,715	9,036,624	41,457,339
TOTAL	$ 14,048,567	$ 12,287,488	$ 9,081,005	$ 7,566,501	$ 1,542,759	$ 246,100	$ 44,772,420	$ 12,875,736	$ 57,648,156

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2010
(In thousands)

	Major Component Units								
LIABILITIES AND NET ASSETS (DEFICIT)	**Government Development Bank for Puerto Rico**	**Puerto Rico Highways and Transportation Authority**	**Puerto Rico Electric Power Authority**	**Puerto Rico Aqueduct and Sewer Authority**	**University of Puerto Rico**	**Puerto Rico Health Insurance Administration**	**Major Component Units Totals**	**Nonmajor Component Units Totals**	**All Component Units Totals**
LIABILITIES:									
Current liabilities:									
Accounts payable and accrued liabilities	$ 41,281	$ 184,771	$ 742,936	$ 232,178	$ 173,478	$485,365	$ 1,860,009	$ 844,758	$ 2,704,767
Deposits and escrow liabilities	5,697,728	-	40,354	5,766	-	-	5,743,848	487,678	6,231,526
Due to:									
Primary government	-	2,246	-	16,388	-	7,239	25,873	180,518	206,391
Component units	-	62,701	1,994	63,699	820	-	129,214	599,726	728,940
Other governmental entities	-	11,579	87,899	24,878	187	124	124,667	182,242	306,909
Securities lending transactions and reverse repurchase agreements	1,058,835	-	-	-	-	-	1,058,835	262,014	1,320,849
Interest payable	28,582	156,795	23,978	82,141	2,019	-	293,515	107,424	400,939
Deferred revenue	-	-	-	18,962	1	-	18,963	87,752	106,715
Notes payable, current portion	158,614	-	15,090	2,944	-	-	176,648	207,228	383,876
Commonwealth appropriation bonds, current portion	-	-	-	8,615	-	-	8,615	-	8,615
Bonds payable, current portion	67,605	120,095	172,278	2,992	29,337	-	392,307	1,149,575	1,541,882
Accrued compensated absences, current portion	2,877	15,043	93,972	16,101	-	523	128,516	58,884	187,400
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-	362,109	362,109
Capital leases	-	-	-	-	1,294	-	1,294	509	1,803
Current portion of other long-term liabilities	80,187	-	72,432	-	32,648	-	185,267	22,509	207,776
Total current liabilities	7,135,709	553,230	1,250,933	474,664	239,784	493,251	10,147,571	4,552,926	14,700,497

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2010
(In thousands)

	Major Component Units								
LIABILITIES AND NET ASSETS (DEFICIT) (Cont'd)	**Government Development Bank for Puerto Rico**	**Puerto Rico Highways and Transportation Authority**	**Puerto Rico Electric Power Authority**	**Puerto Rico Aqueduct and Sewer Authority**	**University of Puerto Rico**	**Puerto Rico Health Insurance Administration**	**Major Component Units Totals**	**Nonmajor Component Units Totals**	**All Component Units Totals**
LIABILITIES:									
Noncurrent liabilities:									
Due to:									
Primary government	$ -	$ -	$ -	$ 359,405	$ -	$ -	$ 359,405	$ 41,532	$ 400,937
Component units	-	929,313	26,271	751,283	22,049	-	1,728,916	1,100,038	2,828,954
Other governmental entities	-	-	-	-	41,744	-	41,744	21,831	63,575
Deposit and escrow liabilities	451,470	-	-	-	-	-	451,470	-	451,470
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	114,300	114,300
Deferred revenue	-	-	-	-	-	-	-	13,989	13,989
Notes payable	2,973,142	-	50,431	241,744	-	-	3,265,317	1,191,276	4,456,593
Commonwealth appropriation bonds	4,812	-	-	662,934	-	-	667,746	152,888	820,634
Bonds payable	906,844	6,397,644	7,323,044	1,906,438	647,128	-	17,181,098	3,803,981	20,985,079
Accrued compensated absences	2,525	14,012	128,810	49,329	-	349	195,025	20,148	215,173
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-		-	582,061	582,061
Capital leases	-	-	-	-	66,076	-	66,076	31,160	97,236
Hedging derivative instruments - interest rate swaps	-	126,027	109,938	-	-	-	235,965	53,667	289,632
Other long-term liabilites	30,104	96,898	295,194	74,074	215,042	-	711,312	183,004	894,316
Total noncurrent liabilities	4,368,897	7,563,894	7,933,688	4,045,207	992,039	349	24,904,074	7,309,875	32,213,949
Total liabilities	11,504,606	8,117,124	9,184,621	4,519,871	1,231,823	493,600	35,051,645	11,862,801	46,914,446
NET ASSETS (DEFICIT):									
Invested in capital assets — net of related debt	15,750	3,582,002	(45,160)	3,544,720	309,055	210	7,406,577	1,855,951	9,262,528
Restricted for:									
Trust — nonexpendable	-	-	-	-	-	-	-	310,149	310,149
Capital projects	-	68,690	136,053	-	12,442	-	217,185	78,470	295,655
Debt service	-	589,054	-	-	51,904	-	640,958	1,115,867	1,756,825
Affordable housing and related loan insurance programs	349,910	-	-	-	-	-	349,910	150,048	499,958
Student loans and other educational purposes	-	-	-	-	74,666	-	74,666	10,945	85,611
Other specified purposes	-	-	-	17,642	11,784	-	29,426	314,125	343,551
Unrestricted	2,178,301	(69,382)	(194,509)	(515,732)	(148,915)	(247,710)	1,002,053	(2,822,620)	(1,820,567)
Total net assets (deficit)	2,543,961	4,170,364	(103,616)	3,046,630	310,936	(247,500)	9,720,775	1,012,935	10,733,710
TOTAL	$ 14,048,567	$ 12,287,488	$ 9,081,005	$ 7,566,501	$1,542,759	$246,100	$ 44,772,420	$ 12,875,736	$ 57,648,156

See acompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF ACTIVITIES — MAJOR COMPONENT UNITS
YEAR ENDED JUNE 30, 2010
(In thousands)

		Program Revenues					General Revenues and Transfers								
	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Net Revenues (Expenses) and Changes in Net Assets (Deficit)	Payments From Primary Government	Payments From (To) Other Component Units	Grants and Contributions not Restricted to Specific Programs	Excise Taxes	Interest and Investment Earnings	Other	Change in Net Assets (Deficit)	Net Assets (Deficit), Beginning of Year (As Restated)	Net Assets (Deficit), End of Year
Major component units:															
Government Development Bank for Puerto Rico	$ 731,414	$ 549,325	$ 225,268	$ -	$ -	$ 43,179	$ 49,000	$ 1,100	$ -	$ -	$ -	$ -	$ 93,279	$ 2,450,682	$ 2,543,961
Puerto Rico Highways and Transportation Authority	1,011,074	260,324	-	-	124,777	(625,973)	42,909	-	-	281,807	25,068	-	(276,189)	4,446,553	4,170,364
Puerto Rico Electric Power Authority	4,391,055	4,171,493	-	-	65,567	(153,995)	-	-	-	-	11,160	-	(142,835)	39,219	(103,616)
Puerto Rico Aqueduct and Sewer Authority	903,912	712,788	-	-	22,696	(168,428)	58,746	933,400	-	-	-	7,084	830,802	2,215,828	3,046,630
University of Puerto Rico	1,497,224	170,468	153,260	-	1,288	(1,172,208)	769,173	70,145	284,165	-	2,344	28,305	(18,076)	329,012	310,936
Puerto Rico Health Insurance Administration	1,962,553	721,864	-	-	-	(1,240,689)	1,169,143	-	-	-	1,440	-	(70,106)	(177,394)	(247,500)
Nonmajor component units	2,805,418	1,626,520	108,516	26,664	65,780	(977,938)	627,456	(1,004,645)	20,183	40,862	250,958	17,341	(1,025,783)	2,038,718	1,012,935
	$ 13,302,650	$ 8,212,782	$ 487,044	$ 26,664	$ 280,108	$ (4,296,052)	$ 2,716,427	$ -	$ 304,348	$ 322,669	$ 290,970	$ 52,730	$ (608,908)	$11,342,618	$ 10,733,710

See accompanying notes to basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The accompanying basic financial statements present the financial position of the Commonwealth and its various funds, the results of operations of the Commonwealth and its various funds and fund types, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2010 and for the year then ended. The basic financial statements include the various departments, agencies, boards, commissions, public trusts and public corporations, and any other organizational units governed by the Puerto Rico Legislature and/or officers of the Commonwealth.

(a) Financial Reporting Entity

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

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

(b) Component Units

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

Blended Component Units

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

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

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

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

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

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

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

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

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

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

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

Discretely Presented Component Units

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

Major Component Units

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

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

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

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

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

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

Nonmajor Component Units

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

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

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

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

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

Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico (CDASFIPR) — CDASFIPR was created for the development of the arts and the film industry in

Puerto Rico and is governed by a seven member board comprising of the Secretary of Economic Development and Commerce, who is the president, the President of the Puerto Rico Public Broadcasting Corporation, the Secretary of Treasury, the Executive Director the Puerto Rico Institute of Culture, the Executive Director of the Puerto Rico Tourism Company and two additional members appointed by the Governor with the advice and consent of the Senate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Puerto Rico Telephone Authority P.O. Box 42001 San Juan, PR 00940-2001	Puerto Rico Tourism Company P.O. Box 9023960 Old San Juan Station San Juan, PR 00902-3960
Puerto Rico Trade and Export Company P.O. Box 195009 San Juan, PR 00919-5009	Right to Employment Administration P.O. Box 364452 San Juan, PR 00936-4452
Special Communities Perpetual Trust P.O. Box 42001 San Juan, PR 00940-2001	State Insurance Fund Corporation P.O. Box 365028 San Juan, PR 00936-5028

The financial statements of the discretely presented component units have a year end of June 30, 2010, except for the Puerto Rico Telephone Authority, which has a year end of December 31, 2009.

Fiduciary Component Units

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

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

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

Puerto Rico System of Annuities and Pensions for Teachers (TRS) — TRS is governed by a nine member board comprising the Secretary of Education, the Secretary of the Treasury of the Commonwealth, the President of GDB, two active teachers (one of them is a representative of the teachers' organization according to Act No. 45 of February 1998), two retired teachers, one representative of the teachers' organization, and one representative of the public interest appointed by the Governor with the advice and consent of the Senate for four years. The Commonwealth reports TRS as a single employer pension plan. TRS provides retirement benefits to all teachers of the Department of Education of the Commonwealth, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education of the Commonwealth, teachers who work in the Teachers' Association of Puerto Rico, and those who practice in private institutions accredited by the Department of Education of the Commonwealth. TRS provides retirement, death, and disability benefits.

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

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

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

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

(c) Government Wide Financial Statements

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

- *Invested in Capital Assets, Net of Related Debt* — These consist of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances 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 the net assets' use are either externally imposed by creditors, grantors, contributors, and the like or imposed by law through constitutional provisions or enabling legislation.

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

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

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

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

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

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

- Employees' vested annual vacation and sick leave are recorded as expenditures when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2010 has been reported only in the government wide financial statements.

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

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

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

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

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

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

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

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

(e) Fund Accounting

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

Governmental Funds

General Fund — The general fund is the primary operating fund of the Commonwealth. It is used to account for all financial transactions, except those required to be accounted for in another fund.

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

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

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

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

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

Proprietary Funds

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

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

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

Fiduciary Funds

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

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

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

Discretely Presented Component Units

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

(f) Statutory (Budgetary) Accounting

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

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

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

(g) Cash and Short Term Investments

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

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

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

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

(h) Securities Purchased under Agreements to Resell

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

(j) Investments

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

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

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

(k) Receivables

Tax receivables in the general fund include predominantly amounts owed by taxpayers for individual and corporate income taxes, net of estimated uncollectible amounts. Income tax receivables are recognized as revenue when they become measurable and available based on actual collections during the 120 days following the fiscal year end related to tax returns due before year end. Taxes receivables also include amounts owed by taxpayers on income earned in periods prior to June 30, 2010, estimated to be collectible but not currently available, and thus are reported as deferred revenue in the general fund. Unemployment, disability, and driver's insurance receivables in the enterprise funds are stated net of estimated allowances for uncollectible accounts.

The sales and use tax receivable is recognized as revenue when it becomes measurable and available based on actual collections during the 30 days following the fiscal year-end related to sales and use tax returns due before year-end. Act No. 7 of March 9, 2009, as amended ("Act No. 7"), imposed and additional real property tax on residential and commercial real properties with appraised values in excess of approximately $210,000. This tax will apply during fiscal years 2010, 2011, and 2012, or until $690 million is collected. The additional real property tax, to be collected by the Treasury Department, will be equal to 0.591% of such properties' appraised value as determined by the Municipal Revenue Collection Center (CRIM). Act No. 1 of January 31, 2011 eliminated this additional real property tax for fiscal year 2012.

Real property tax payments for the fiscal year ended June 30, 2010 were due September 1, 2009 and March 1, 2010. Property tax revenue represents payments received during the year and payments received (against the current fiscal year and prior years' levies) within the first three months of the following fiscal year reduced by tax refunds for the fund financial statements. Additionally, the government wide financial statements recognize real property tax revenues (net of refunds) which are not available to the governmental fund type in the fiscal year for which the taxes are levied.

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

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

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

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

(l) Inventories

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

(m) Restricted Assets

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

(n) Real Estate Held for Sale

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

(o) Capital Assets

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

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

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

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

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

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

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

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

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

(p) Tax Refunds Payable

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

(q) Deferred Revenue

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

(r) Long-term Debt

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

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

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

(s) Reservations of Fund Balance — Governmental Funds

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

(t) Accounting for Pension Costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, as amended by GASB Statement No. 50, *Pension Disclosures*, the Commonwealth's financial reporting entity is considered to be a sponsor of three defined benefit pension plans: JRS, TRS and ERS. This is because substantially all the participants in the three pension trust funds are part of the financial reporting entity of the Commonwealth. For the purpose of the basic financial statements, and as disclosed in note 20, the Commonwealth's annual pension cost, measured on the accrual basis of accounting, for the year ended June 30, 2010 amounted to approximately $1,921 million. However, the amount recognized as pension expenditure in the governmental funds was recorded under the modified accrual basis, and amounted to approximately $711.7 million. The excess of the annual required contribution over the statutorily required contributions increased the net pension obligation at June 30, 2010 to approximately $8 billion. This amount is presented in the statement of net assets (deficit) of the governmental activities as of June 30, 2010.

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

(u) Other Postemployment Benefits

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

The Christmas bonus and the summer bonus benefits are provided by the Commonwealth statutes. The Christmas bonus and the summer bonus paid by the Commonwealth to the retired employees during the year ended June 30, 2010 was $550 per retiree and the total amount was approximately $63 million. These benefits are recorded as expenditures when paid in the general fund.

Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share of not more than $100 per month for each retiree. During the year ended June 30, 2010, the cost of providing healthcare benefits amounted to approximately $114 million.

(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, 2010 amounting to approximately $1.5 billion are presented in the statement of net assets (deficit). Compensated absence accumulation policies for the blended component units and discretely presented component units vary from entity to entity based on negotiated agreements and other factors agreed upon between the management of these entities and their employees.

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

(w) Interfund and Intraentity Transactions

The Commonwealth has the following types of transactions among funds:

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

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

(x) Lottery Revenue and Prizes

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

(y) Risk Management

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

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

(z) Tobacco Settlement

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

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

(aa) Reclassifications

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

(ab) Use of Estimates

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

(ac) New Accounting Standards Adopted

The following new accounting standards were adopted by the Commonwealth effective July 1, 2009:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. GASB Statement No. 51 also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The objective of GASB Statement No. 51 is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies relating to recognition, initial measurement, and amortization, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The Statement requires that an intangible asset be recognized in the Statement of Net Assets only if it is considered identifiable. Additionally, the Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized, until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. GASB Statement No. 51 also provides guidance on recognizing internally generated computer software as an intangible asset. This guidance serves as an application of the specified-conditions approach described above to the development cycle of computer software. The Statement also establishes guidance specific to intangible assets related to amortization. Guidance is provided on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful lives are subsequently determined to no longer be indefinite due to a change in circumstances. The financial reporting impact in the primary government resulting from the implementation of GASB Statement No. 51 had no effect on net assets in the government wide financial statements since the recognition of intangible assets was wholly a clarification of the existing equipment fixed asset class description to convey its inclusion of software. None of the intangible assets included in the equipment fixed asset class were considered to have indefinite useful lives and therefore all of the intangible assets are subject to amortization.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, enhances the usefulness and comparability of derivative instrument information reported by state and local governments by providing a comprehensive framework for the recognition, measurement, and disclosure of derivative instrument transactions. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. A key provision of GASB Statement No. 53 is that certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value by governments in their government-wide financial statements. This provision should allow users of those financial statements to more fully understand a government's resources available to provide services. The application of interperiod equity means that changes in fair value are recognized in the reporting period to which they relate. The changes in fair value of hedging derivative instruments do not affect investment revenue but are reported as deferrals. Alternatively, the changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. The Statement describes several quantitative methods and a qualitative method for evaluating effectiveness. The disclosures required by Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, have been incorporated into GASB Statement No. 53. The disclosures provide a summary of the government's derivative instrument activity and the information necessary to assess the government's objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments. The financial reporting impact resulting from the implementation of GASB Statement No. 53 in the primary government is the recognition within the government-wide financial statements of a liability for hedging derivative instruments whose negative fair value at June 30, 2010 totaled $300.1 million with a corresponding amount being reported as deferred outflows of resources in the assets section of the government-wide financial statements. Also, investment derivative instruments whose negative fair value at June 30, 2010 totaled $289.7 million were recorded as a liability for investment derivative instruments – interest rate swaps in the statement of net assets (deficit). The cumulative impact of change in accounting for derivative instruments of $207 million was charged to net deficit at July 1, 2009.

(ad) Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2010:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Governments are required to classify and report amounts in the appropriate fund balance classification by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required. Governments are also required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications. GASB Statement No. 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The requirements of GASB Statement No. 54 are effective for periods beginning after June 15, 2010.

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

- GASB Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Statement No. 59 includes the following guidance:

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

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

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

  The requirements of this Statement are effective for periods beginning after June 15, 2010.

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

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

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

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

2. COMPONENT UNITS

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

Blended component units:

Public Buildings Authority

Discretely presented component units:

Agricultural Services and Development Administration
Automobile Accidents Compensations Administration
Cardiovascular Center Corporation of Puerto Rico and the Caribbean
Company for the Integral Development of the "*Península de Cantera*"
Corporation for the "*Caño Martín Peña*" ENLACE Project
Corporation for the Development of Arts, Science and Film Industry of Puerto Rico
Culebra Conservation and Development Authority
Economic Development Bank for Puerto Rico
Employment and Training Enterprises Corporation
Farm Insurance Corporation of Puerto Rico
Fine Arts Center Corporation
Governing Board of the 911 Service
Institute of Puerto Rican Culture
Institutional Trust of the National Guard of Puerto Rico
Land Authority of Puerto Rico
Musical Arts Corporation
National Parks Company of Puerto Rico
Port of the Americas Authority
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
Puerto Rico Aqueduct and Sewer Authority
Puerto Rico Conservatory of Music Corporation
Puerto Rico Council on Higher Education
Puerto Rico Electric Power Authority
Puerto Rico Health Insurance Administration

Puerto Rico Highways and Transportation Authority
Puerto Rico Industrial Development Company
Puerto Rico Land Administration
Puerto Rico Maritime Transportation Authority
Puerto Rico Medical Services Administration
Puerto Rico Metropolitan Bus Authority
Puerto Rico Ports Authority
Puerto Rico Public Broadcasting Corporation
Puerto Rico School of Plastic Arts
Puerto Rico Solid Waste Authority
Puerto Rico Trade and Export Company
Right to Employment Administration
State Insurance Fund Corporation
University of Puerto Rico

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(a) Budgetary Control

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

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

The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon passage by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by two thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Governor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. This permits the Commonwealth to continue making payments for its operating and other expenses until the new budget is approved. The appropriated annual budget for fiscal year 2010 amounted to approximately $9.6 billion. The Legislature also made several special budgetary appropriations to the general fund throughout the year, which amounted to approximately $363.5 million.

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

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

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

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

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

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

(b) Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenue and other financing sources over expenditures and other financing uses for the year ended June 30, 2010 is presented below for the general fund (expressed in thousands):

Excess of revenues and other financing sources over expenditures and other financing uses - budget basis	$ 410,851
Entity differences-excess (deficiency) of revenues and other financing sources over expenditures and other financing uses for:	
Nonbudgeted funds	953,466
Inclusion of agencies with independent treasuries	(71,975)
Timing differences:	
Adjustment for encumbrances	134,814
Current year expenditures against prior year encumbrances	(515,595)
Basis of accounting differences:	
Net derease in taxes receivable (net of tax refunds and deferred revenues)	(10,050)
Net decrease in other receivables	(13,180)
Excess of revenues and other financing sources over expenditures and other financing uses — GAAP basis	$ 888,331

(c) Deficit Net Assets

The following activities, funds, and discretely presented component units reflect deficit fund balance/net assets at June 30, 2010 (expressed in thousands):

Primary Government:	
Governmental activities	$ 31,223,539
General fund	547,296
Enterprise fund-lotteries	104,141
Component units:	
Puerto Rico Infrastructure Financing Authority	$ 1,072,599
Puerto Rico Health Insurance Administration	247,500
Special Communities Perpetual Trust	225,431
Puerto Rico Medical Services Administration	181,942
Puerto Rico Electric Power Authority	103,616
Agricultural Services and Development Administration	74,539
Automobile Accidents Compensation Administration	67,571
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	39,445
Puerto Rico Maritime Transportation Authority	26,499
Land Authority of Puerto Rico	21,969
Puerto Rico Metropolitan Bus Authority	12,755
Right to Employment Administration	5,556
Musical Arts Corporation	5,023
Employment and Training Enterprises Corporation	3,067
Puerto Rico Public Private Partnerships Authority	2,852
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	2,166

The Commonwealth's governmental activities show a deficit of approximately $31.3 million, mostly attributed to the Commonwealth outstanding bonds amounting to approximately $28.6 billion, which are recognized in the statement of net assets (deficit). The deficit is attributable to the accumulated effect of high operating expenses in the government along with a decrease in estimated revenues as well as the primary government issuing debt, the proceeds of which are to certain extent transferred to component units and to other governments, and which are not presented in these basic financial statements. On the other hand, the discretely presented component units report net assets of approximately $10.7 billion. This inverse relationship between the governmental activities and component units' net assets reveal the operational structure of the Commonwealth where the primary government issues debt, the proceeds of which are predominantly transferred to the component units and to other governments, that are not presented in these basic financial statements, to finance their capital projects and other operational needs. The Commonwealth includes within the annual budgetary appropriation process the necessary funds to cover the annual debt service requirements of the aforementioned debt, most of which are the result of Act No. 164 of December 17, 2001, described in note 15(d).

Governmental Activities also include COFINA's deficit amounting to $11.8 billion principally attributed to bonds payable amounting to $13.9 billion the proceeds of which were used to pay the 2006 Appropriation Debt and for other uses.

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

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

4. CUMULATIVE IMPACT OF THE ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS AND RESTATEMENTS

The Commonwealth and its components units adopted the following pronouncements effective on July 1, 2009:

Governmental Activities:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Effective July 1, 2009, the Commonwealth adopted GASB Statement No. 51. The financial reporting impact resulting from the implementation of GASB Statement No. 51 had no significant effect on net assets in the government wide financial statements since the recognition of intangible assets was wholly a clarification of the existing equipment fixed asset class description to convey its inclusion of software. None of the intangible assets included in the equipment fixed asset class were considered to have indefinite useful lives and therefore all of the intangible assets are subject to amortization.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* Effective July 1, 2009, the Commonwealth adopted GASB Statement No. 53. The financial reporting impact from the implementation of GASB Statement No. 53 is the recognition within the government wide financial statements of a liability for hedging derivate instruments whose negative fair value at June 30, 2010 totaled $300.1 million with a corresponding amount being reported as deferred outflows of resources in the assets section of the government wide financial statements. Also, investment derivate instruments whose negative fair value at June 30, 2010 totaled $289.7 million were recorded in the statement of net assets (deficit). The cumulative impact of change in accounting for derivative instruments of $207.0 million was charged to net deficit at July 1, 2009.

As a result of the adoption of these new accounting standards, the net asset (deficit) at the beginning of the year was adjusted as follows:

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals Primary Government
Net assets (deficit) — beginning of year — as previously reported	$ (27,186,249)	$ 839,929	$ (26,346,320)
Cumulative impact of the adoption of new accounting pronouncement — Derivate instruments	(207,030)	-	(207,030)
Net assets (deficit) — beginning of year, as adjusted	$ (27,393,279)	$ 839,929	$ (26,553,350)

Component Units:

The adoption of GASB Statement No. 53 did not have a significant impact on the component units' net assets at July 1, 2009.

The following table summarizes changes to net assets at the beginning of the year as previously reported in the statement of net assets by certain discretely presented component units. The changes resulted primarily from restatements to correct errors in the prior year's financial statements of certain component units and adoption of GASB Statement No. 51 (expressed in thousands):

NET ASSETS — Beginning of year — as previously reported	$ 11,325,145
Restatements of nonmajor component unit	72
Restatements of nonmajor component units audited by other auditors (note 2)	4,441
Restatements of major component units audited by other auditors (note 2)	12,960
NET ASSETS — Beginning of year — as restated	$ 11,342,618

5. PUERTO RICO GOVERNMENT INVESTMENT TRUST FUND (PRGITF)

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

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

The investment securities on hand at June 30, 2010, consisted of certificates of deposit and time deposits, money market funds, securities purchased under agreements to resell, corporate obligations, commercial paper, and U.S. government and sponsored agencies obligations, all of which may be considered highly liquid. However, the participants' investments are subject to the ability of PRGITF to receive payment from the securities' issuer when due. The liquidity of certain investments and changes in interest rates may affect PRGITF's yield and the fair value of its investments.

The dollar amount of the deposits on hand at June 30, 2010 at $1.00 per unit of participation, was reported in the individual financial statements of each of the participants, and combined in the basic financial statements as follows (expressed in thousands):

	Balance Outstanding	Percentage of Total
Primary government:		
Puerto Rico Sales Tax Financing Corporation	$ 887,878	58.71 %
Commonwealth	200,052	13.23
The Children's Trust	31,845	2.11
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	2	-
Total for primary government	1,119,777	74.05 %
Discretely presented component units:		
Government Development Bank for Puerto Rico	353,668	23.39
Puerto Rico Aqueduct and Sewer Authority	21,711	1.44
State Insurance Fund Corporation	8,468	0.56
Institutional Trust of the National Guard of Puerto Rico	3,893	0.26
Puerto Rico Electric Power Authority	2,091	0.14
Puerto Rico Land Administration	678	0.04
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives	630	0.04
Puerto Rico Solid Waste Authority	621	0.04
Puerto Rico Infrastructure Financing Authority	405	0.03
Puerto Rico Highways and Transportation Authority	170	0.01
Puerto Rico Public Buildings Authority	54	-
Total for discretely presented component units	392,389	25.95
Other governmental entities	50	-
Total for all participants	$ 1,512,216	100 %

The deposits at June 30, 2010 were invested in securities with a cost that approximates fair value, plus accrued interest, for approximately $1.5 billion. The external portion of PRGITF was not considered significant for separate reporting in the accompanying basic financial statements.

As June 30, 2010, the PRGITF's investments were rated AAA to A- by Standard and Poor's. U.S. Government securities carry the explicit guarantee of the U.S. Government.

Following is a table of the investments and other assets held at June 30, 2010, presented at amortized cost (expressed in thousands):

Commercial paper	$ 437,787
U.S. government and sponsored agencies obligations	428,510
Securities purchased under agreements to resell	274,884
Money market funds	217,823
Certificates of deposit and time deposits	114,300
Corporate obligations	14,200
Net other assets, mainly receivables from investments sold	24,712
Total	$ 1,512,216

6. DEPOSITS AND INVESTMENTS

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

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

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

The carrying amount of deposits of the primary government at June 30, 2010 consists of the following (expressed in thousands):

	Carrying Amount			Bank
	Unrestricted	Restricted	Total	Balance
Commercial banks	$ 417,299	$ 927,927	$ 1,345,226	$ 671,437
Governmental banks	1,147,205	256,228	1,403,433	1,792,708
U.S. Treasury	362,373	-	362,373	362,373
Total	$ 1,926,877	$ 1,184,155	$ 3,111,032	$ 2,826,518

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

At year-end, the Commonwealth's bank balance of deposits in commercial banks amounting to $671 million was covered by federal depository insurance or by collateral held by the Commonwealth's agent in the Commonwealth's name. Deposits of approximately $362.4 million with the U.S. Treasury represent unemployment insurance taxes collected from employers that are transferred to the federal Unemployment Insurance Trust Fund in the U.S. Treasury. These deposits are uninsured and uncollateralized. The bank balance of deposits in governmental banks, which as of June 30, 2010 amounted to approximately $1,793 million are also uninsured and uncollateralized. These deposits in governmental banks are maintained with GDB and EDB. Deposits maintained in GDB and EDB are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk, because in the event of GDB's or EDB's failure, the Commonwealth may not be able to recover these deposits.

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

The bank balance of GDB's and EDB's deposits at June 30, 2010 is broken down as follows (expressed in thousands):

Primary government	$ 3,006,638
Discretely presented components units	2,014,922
Total pertaining to the Commonwealth	5,021,560
Municipalities of Puerto Rico	596,396
Other nongovernmental entities	453,877
Escrow accounts	462,644
Total deposits per GDB and EDB	$ 6,534,477

Unrestricted deposits include approximately $1.5 billion that are invested in PRGITF (see note 5). Such amount has been included as cash and cash equivalents in the primary government's statement of net assets (deficit).

Investments

Custodial Credit Risk — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the primary government may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2010, securities investments were registered in the name of the Commonwealth and were held in the possession of the Commonwealth's custodian bank.

All of the Commonwealth's investments in U.S. Treasury securities and mortgage-backed securities guaranteed by Government National Mortgage Association (GNMA) carry the explicit guarantee of the U.S. government and are presented as AAA to A- in the credit risk tables.

Governmental Activities — The credit quality ratings (Standard and Poor's), fair value by investment type, and maturity of the unrestricted and restricted investments reported by the governmental activities at June 30, 2010 consist of the following (expressed in thousands):

	Fair Value			Investment Rating
	Unrestricted	Restricted	Total	AAA to A-
Investment pool	$ 27,992	$ 982,937	$ 1,010,929	$ 1,010,929
U.S. government and agency securities	67	266,311	266,378	266,378
Guaranteed investment contract	83,684	-	83,684	83,684
PRGITF	31,834	887,617	919,451	919,451
Other	-	31,011	31,011	31,011
Total	$ 143,577	$ 2,167,876	$ 2,311,453	$ 2,311,453

	Maturity (in Years)		
	Less than 1 Year	More than 10 Years	Fair Value
Investment pool	$ 982,937	$ 27,992	$1,010,929
U.S. government and agency securities	266,378	-	266,378
Guaranteed investment contract	-	83,684	83,684
PRGITF	919,451	-	919,451
Other	31,011	-	31,011
Total	$2,199,777	$ 111,676	$2,311,453

The Commonwealth classified approximately $200.3 million of investments presented in PRGITF as cash and cash equivalents.

Business Type Activities — The credit quality ratings, fair value by investment type, and maturity of the restricted investments reported by the business type activities at June 30, 2010 consist of the following (expressed in thousands):

	Investment Rating				
	No Risk	AAA to A-	BBB+ to B-	Not Rated	Fair Value
Mortgage-backed securities	$4,796	$ 2,924	$ -	$ 1,273	$ 8,993
U.S. government and agency securities	136	2,816	-	117	3,069
U.S. equity securities	-	-	-	12,078	12,078
U.S. corporate debt securities	-	5,264	1,744	-	7,008
Other	-	214	-	408	622
Total	$4,932	$11,218	$1,744	$13,876	$31,770

	Maturity (in Years)				
	1 to 5 Years	6 to 10 Years	More than 10 Years	Not Stated Maturity Date	Fair Value
Mortgage-backed securities	$1,768	$ 242	$6,465	$ 518	$ 8,993
U.S. government and agency securities	2,278	40	751	-	3,069
U.S. equity securities	-	-	-	12,078	12,078
U.S. corporate debt securities	2,085	3,702	1,221	-	7,008
Other	214	-	-	408	622
Total	$6,345	$3,984	$8,437	$13,004	$31,770

Component Units — Cash and cash equivalents of the component units at June 30, 2010 consist of (expressed in thousands):

	Carrying Amount			Bank
	Unrestricted	Restricted	Total	Balance
Commercial banks	$ 743,772	$ 796,952	$1,540,724	$1,513,305
Governmental banks	466,167	272,413	738,580	1,046,071
Total	$1,209,939	$1,069,365	$2,279,304	$2,559,376

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

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

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

The component units were exposed to the following custodial credit risk arising from the balance of deposits maintained in commercial and component unit banks at June 30, 2010 (expressed in thousands):

Uninsured and uncollateralized	$ 887,249
Uninsured and collateralized, with securities held by the pledging financial institutions	1,668,170
Uninsured and collateralized, with securities held by the pledging financial institutions but not in the component unit's name	3,957
Total	$2,559,376

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

- U.S. government and agencies obligations
- Certificates of deposit and time deposits
- Bankers' acceptances
- Obligations of the Commonwealth of Puerto Rico and municipalities
- Federal funds sold
- Securities purchased under agreements to resell
- World Bank securities
- Corporate debt, including investment contracts
- External investment pools
- Stock of corporations created under the laws of the United States of America or the Commonwealth
- Options, futures, and interest-rates swap agreements for hedging and risk control purposes, as well as for the creation of synthetic products that qualify under any of the foregoing investment categories.
- Open-end mutual funds with acceptable underlying assets and rated AAA by Standard & Poor's or Aaa by Moody's Investors Service.
- A few component units, principally SIFC, are also allowed to enter into foreign currency investments, under certain limitations.

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

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

All investments in U.S. Treasury securities and mortgage-backed securities guaranteed by GNMA carry the explicit guarantee of the U.S. government and are presented as "AAA to A-" in the table below. The credit quality ratings for investments held by the component units at June 30, 2010 are as follows (expressed in thousands):

	Fair Value			Investment Rating				
	Unrestricted	Restricted	Total	No Risk	AAA to A-	BBB+ to B-	Not Rated	Total
Mortgage-backed securities	$ 686,187	$ 1,216,945	$ 1,903,132	$ 43,559	$ 1,828,562	$ 1,621	$ 29,390	$ 1,903,132
U.S.government and agency securities	672,223	2,051,208	2,723,431	2,282,186	437,655	-	3,590	2,723,431
U.S. sponsored agencies notes	11,282	-	11,282	3,031	6,896	-	1,355	11,282
Negotiable certificates of deposits	166,028	165,881	331,909	-	165,881	101,422	64,606	331,909
U.S. corporate stocks	369,291	21,230	390,521	-	-	-	390,521	390,521
U.S. corporate bonds	439,965	79,038	519,003	-	401,552	103,664	13,787	519,003
Non U.S. corporate stocks	67,491	-	67,491	-	-	-	67,491	67,491
P.R. agencies and municipal bonds	208,943	1,115,528	1,324,471	-	196,916	1,115,528	12,027	1,324,471
Money market funds	-	52,990	52,990	-	-	-	52,990	52,990
Guaranteed investment contract	199,430	558,162	757,592	-	731,874	13,906	11,812	757,592
PRGITF	362,189	-	362,189	-	361,559	-	630	362,189
Investment pool	3,087,355	181,448	3,268,803	-	3,184,010	-	84,793	3,268,803
Resell agreements	167,655	-	167,655	-	-	-	167,655	167,655
Investments in other equity securities	112,558	500	113,058	-	-	-	113,058	113,058
Certificates of deposit	10,869	574,167	585,036	-	250,063	317,149	17,824	585,036
P.R. municipal bonds	6,425	-	6,425	-	6,425	-	-	6,425
Foreign and municipal bonds	43,842	-	43,842	-	39,632	4,210	-	43,842
Limited partnership/private equity	39,005	-	39,005	-	-	-	39,005	39,005
Other	703,878	239,205	943,083	-	423,246	399,905	119,932	943,083
Total investments	$ 7,354,616	$ 6,256,302	$ 13,610,918	$ 2,328,776	$ 8,034,271	$ 2,057,405	$ 1,190,466	$ 13,610,918

Certain component units classified approximately $30.2 million of investments presented in PRGITF as cash and cash equivalents. The following table summarizes the type and maturities of investments held by the component units at June 30, 2010 (expressed in thousands):

	Less than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years	Not Stated Maturity Date	Fair Value
Mortgage-backed securities	$ 1,190,817	$ 63,858	$ 23,664	$ 624,782	$ 11	$ 1,903,132
U.S. government and agency securities	1,427,256	566,752	178,189	551,197	37	2,723,431
U.S. sponsored agencies notes	6,675	4,265	342	-	-	11,282
Negotiable certificates of deposits	211,098	120,811	-	-	-	331,909
U.S. corporate stocks	-	-	-	-	390,521	390,521
U.S. corporate bonds	93,274	206,149	151,941	61,960	5,679	519,003
Non U.S. corporate stocks	-	-	-	-	67,491	67,491
P.R. agencies and municipal bonds	88,939	372,768	348,106	514,658	-	1,324,471
Money market funds	-	-	-	-	52,990	52,990
Guaranteed investment contract	32,100	-	17,629	696,051	11,812	757,592
PRGITF	362,189	-	-	-	-	362,189
Investment pool	3,135,252	745	29,348	-	103,458	3,268,803
Resell agreements	167,655	-	-	-	-	167,655
Investments in other equity securities	2,753	2,217	-	-	108,088	113,058
Certificates of deposit	546,686	-	-	38,350	-	585,036
P.R. municipal bonds	-	-	3,089	3,336	-	6,425
Foreign and municipal bonds	3,754	11,431	4,924	23,733	-	43,842
Limited partnership/private equity	-	-	-	-	39,005	39,005
Other	266,173	499,889	40,229	96,544	40,248	943,083
Total	$ 7,534,621	$ 1,848,885	$ 797,461	$ 2,610,611	$ 819,340	$ 13,610,918

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

The component units were exposed to the following custodial credit risk for investments held at June 30, 2010 (expressed in thousands):

Insured or registered	$ 3,900,710
Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the component units' name	4,262,361
Uninsured and unregistered, with securities held by the counterparty's trust department or agent, but not in the component units' name	5,447,847
Total	$ 13,610,918

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. SIFC limits its exposure to foreign currency risk by limiting the total amount invested to 5% of the portfolio. As of June 30, 2010, the SIFC had the following investments denominated in foreign currency (expressed in thousands):

Description	Currency	Fair Value
Money market funds:	Australian Dollar	$ 49
	British Pound	65
	Canadian Dollar	72
	Euro	214
	Hong Kong Dollar	62
	Swedish Krona	83
Total money market funds		545
Common stock:	Australian Dollar	3,679
	British Pound	6,732
	Canadian Dollar	4,530
	Euro	13,328
	Hong Kong Dollar	3,171
	Japanese Yen	13,603
	Norwegian Krone	899
	Singapore Dollar	1,336
	Swedish Krona	473
	Swiss Franc	5,643
Preferred Stock —	Euro	820
Total equity securities		54,214
Investment in derivative instruments:		
Equity index futures:	Australian Dollar	(39)
	Euro	(17)
	Hong Kong Dollar	(12)
	Japanese Yen	(17)
Total equity index futures		(85)
Bond index futures:	British Pound	87
	Euro	13
	Japanese Yen	52
Total bond index futures		152
Total		$ 54,826

Fiduciary Funds — Cash and cash equivalents of the fiduciary funds at June 30, 2010 consist of the following (expressed in thousands):

	Carrying Amount			Bank
	Unrestricted	Restricted	Total	Balance
Commercial banks and U.S. Treasury	$ 951,829	$ -	$ 951,829	$ 952,928
Governmental banks	855,275	741,082	1,596,357	1,460,465
Total	$1,807,104	$741,082	$2,548,186	$2,413,393

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

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

The Commonwealth was exposed to the following custodial credit risk arising from the balances of deposits maintained by the fiduciary funds in commercial and component units' banks at June 30, 2010 (expressed in thousands):

Uninsured and uncollateralized	$1,460,465
Uninsured and uncollateralized, with securities held by the pledging financial institutions	255,616
Uninsured and collateralized, with securities held by the pledging financial institutions but not in the fiduciary funds name	697,312
Total	$2,413,393

Foreign Currency Risk — Cash exposed to foreign currency risk as of June 30, 2010 is as follows (expressed in thousands):

Investment Type	Currency	Fair Value
Cash	Hong Kong Dollar	$ 32
Cash	Japanese Yen	115
Cash	British Pound	3,358
Total		$3,505

Investments — The pension trust funds held investments valued at approximately $2,216,192,000 (31% of total assets of the pension trust funds) as of June 30, 2010, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by underlying fund managers.

The investment policies of the pension trust funds limit the investment in corporate debt securities to the top rating issued by nationally recognized credit rating organizations. The portfolio is expected to maintain a minimum weighted average credit quality of either “A” or better using either Standard and Poor’s or Moody’s credit ratings. The pension trust funds’ U.S. government and sponsored agencies securities portfolio includes approximately $90,619,000 of U.S. Treasury notes and approximately $63,959,000 of mortgage-backed securities guaranteed by GNMA, which carry the explicit guarantee of the U.S. government, and are presented under the “No Risk” category in the table below. The following table summarizes the credit quality ratings for investments held by the pension trust funds and special deposits agency funds at June 30, 2010 (expressed in thousands):

Investment Type	No Risk	AAA to A-	BBB+ to B-	Not Rated	Fair Value
U.S. non-exchange traded mutual funds	$ -	$ -	$ -	$ 1,468,782	$ 1,468,782
U.S. equity securities	-	-	-	525,507	525,507
Non U.S. non-exchange traded mutual funds	-	-	-	665,420	665,420
U.S. government and sponsored agencies securities	154,578	305,151	-	2,032	461,761
Non U.S. equity securities	-	-	-	178,184	178,184
Limited partnership/private equity	-	-	-	81,990	81,990
U.S. corporate debt securities	-	289,185	180,217	7,352	476,754
Other	-	45,899	2,122	1,226	49,247
Total	$ 154,578	$ 640,235	$ 182,339	$ 2,930,493	$ 3,907,645

The following table summarizes the maturities of investments and fair value by investment type held by the pension trust funds and special deposits agency funds at June 30, 2010 (expressed in thousands):

Investment Type	Less than 1 Year	1–5 Years	6–10 Years	More than 10 Years	No Stated Maturity Date	Fair Value
US non-exchange traded mutual funds	$ -	$ -	$ -	$ -	$1,468,782	$1,468,782
U.S. equity securities	-	-	-	-	525,507	525,507
Non U.S. non-exchange traded mutual funds	-	-	-	-	665,420	665,420
U.S. government and sponsored agencies securities	21,242	98,512	69,728	272,279	-	461,761
Non U.S. equity securities	-	-	-	-	178,184	178,184
Limited partnership/private equity	-	-	-	-	81,990	81,990
U.S. corporate debt securities	7,314	158,743	148,271	162,426	-	476,754
Other	-	5,424	8,945	34,452	426	49,247
Total	$ 28,556	$262,679	$226,944	$469,157	$2,920,309	$3,907,645

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

At June 30, 2010, securities investments amounting approximately $3.9 billion were registered in the name of the pension trust funds and were held in the possession of the pension’s trust funds custodian banks.

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

Investments exposed to foreign currency risk as of June 30, 2010 are as follows (expressed in thousands):

Investment type	**Currency**	**Fair Value at U.S. Dollar Currency**
Shares in commingled fund — Morgan Stanley	Various (refer to countries below)	$405,046
Shares in commingled fund — Invesco International Equity Trust	Various (refer to countries below)	260,228
Equity securities	Australian Dollar	8,768
Equity securities	Danish Krone	10,172
Equity securities	Euro	33,421
Equity securities	Hong Kong Dollar	9,350
Equity securities	Japanese Yen	39,865
Equity securities	Norwegian Krone	1,774
Equity securities	British Pound	38,558
Equity securities	Singapore Dollar	3,153
Equity securities	South Korean Won	1,267
Equity securities	Swedish Krona	14,188
Equity securities	Swiss Francs	15,729
Mutual funds	Turkish Lira	1,939
Total		$843,458

As of June 30, 2010, the pension trust funds owned approximately $405 million in an international equity commingled fund under the custody of Morgan Stanley investment bank, which represented approximately 60.8% of the total commingled fund. In addition, as of June 30, 2010, the pension trust funds owned approximately $260.2 million in an international equity commingled fund under the custody of Invesco International Equity Trust, which represented approximately 39.12% of the total commingled fund.

As of June 30, 2010, these pooled trust had an asset mix and country allocation as shown in the following tables:

Morgan Stanley:

Assets Mix	Percent
Cash and equivalents	4.10
Future contracts	21.76
Equity securities	74.14
Total	100.00

Country Allocation		Currency	Currency Code	Portfolio Percent
Australia		Dollars	AUD	3.82
Hong Kong		Dollars	HKD	3.08
Singapore		Dollars	SGD	1.54
Japan		Yen	JPY	21.34
	Asia x Pacific			29.78
Austria		Euro	EUR	0.45
Belgium		Euro	EUR	0.32
EMU		Euro	EUR	5.18
European Union Growth		Euro	EUR	1.34
European Union Quality		Euro	EUR	1.06
Finland		Euro	EUR	0.74
France		Euro	EUR	6.05
Germany		Euro	EUR	9.84
Italy		Euro	EUR	0.80
Netherlands		Euro	EUR	1.93
Spain		Euro	EUR	0.02
	Euro Europe			27.73
Denmark		Kroner	DKK	0.55
Norway		Kroner	NOK	0.86
Sweeden		Krona	SEK	1.93
Switzerland		Francs	CHF	6.30
United Kingdom		Pounds	GBP	17.75
	Non-Euro Europe			27.39
United States		Dollars	USD	0.01
	North America			0.01
Egypt		Egyptian Pound	EGP	0.23
	Africa			0.23
China		Yuan Renmimbi	CNY	1.47
India		Indian Rupee	INR	1.43
Indonesia		Rupiahs	IDR	0.80
Malaysia		Ringgits	MYR	0.57
South Korea		Won	KRW	0.49
Taiwan		New Dollars	TWD	1.00
	Asia Emerging			5.76
Poland		Zlotych	PLN	1.12
Russia		Ruble	RUB	1.26
Turkey		Turkish Lira	TRY	0.76
	Emerging Europe			3.14
Brazil		Real	BRL	0.91
	Latin America			0.91
Agriculture				0.96
	Thematic			0.96
Cash				4.09
Total				100.00

Invesco:

Assets Mix	Percent
Short-term investments	3.50
Foreign stock	96.50
Total	100.00

Country Allocation	Currency	Currency Code	Portfolio Percent
Canada	Dollars	CAD	8.27
Finland	Euro	EUR	1.06
France	Euro	EUR	8.32
Germany	Euro	EUR	4.54
Greece	Euro	EUR	0.69
Netherlands	Euro	EUR	3.04
Italy	Euro	EUR	1.68
Spain	Euro	EUR	5.71
Euro Europe			25.04
Norway	Kroner	NOK	0.83
Switzerland	Francs	CHF	8.65
United Kingdom	Pounds	GBP	14.63
Non-Euro Europe			24.11
Australia	Dollars	AUD	6.69
Hong Kong	Dollars	HKD	3.69
Japan	Yen	JPY	21.80
Pacific			32.18
Other Countries — Invesco Emerging Markets Equity Trust			6.90
Total			96.50

7. SECURITIES LENDING TRANSACTIONS

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

Pension Trust Funds

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

Securities lent for which cash was received as collateral as of June 30, 2010 consist of the following (expressed in thousands):

Descrpition	Fair Value of Underlying Securities
U.S. government and sponsored agencies' securities	$ 76,710
U.S. equity securities	60,110
U.S. corporate debt securities	3,279
Non U.S. equity securities	4,906
Non-exchange traded mutual funds:	
U.S.	6,268
Non U.S.	6,964
	$ 158,237

The underlying collateral for these securities had a fair value of approximately $162 million as of June 30, 2010. The collateral received was invested in a short term investment fund sponsored by the custodian bank and is presented as collateral from securities lending transactions in the accompanying statement of fiduciary net assets.

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

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

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

Component Units

SIFC

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

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

Securities lent as of June 30, 2010 had a fair value of $200.8 million and were secured with collateral received with a fair value of $205.3 million. Securities lent for which cash was received as collateral as of June 30, 2010 consist of the following (expressed in thousands):

Description	Fair Value of Underlying Securities
Corporate bonds and notes	$ 71,029
Equity securities	39,162
U.S. sponsored agencies bonds and notes	28,061
U.S. Treasury notes and bonds	10,750
Foreign government bonds and notes	2,790
External investments pools	263
	$ 152,055

Cash collateral received as of June 30, 2010 amounted to $155.3 million and was invested as follows (expressed in thousands):

Description	Fair Value of Underlying Securities
Resell agreements	$ 61,730
Foreign certificates of deposit with other banks	52,069
Comercial paper	21,043
Certificates of deposit with other banks	18,000
Corporate bonds and notes	2,500
	$155,342

In addition, the SIFC had the following lending obligations as of June 30, 2010 for which securities were received as collateral (expressed in thousands):

	Fair Value	
Description	Securities Lent	Investment Collateral Received
U.S. Treasury notes and bonds	$ 46,344	$ 47,456
U.S. Sponsored agencies bonds and notes	2,438	2,506
Equity securities	6	6
	$ 48,788	$ 49,968

AACA

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

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

The following represents the balances relating to the securities lending transactions for which cash was received as collateral as of June 30, 2010 (expressed in thousands):

	Fair Value	
Description	**Securities Lent**	**Cash Collateral Received**
U.S. Treasury bills, bonds, and notes	$ 19,812	$ 20,237
Common and preferred stocks	16,456	16,973
Corporate bonds	5,014	5,144
U.S. agencies bonds and notes	852	868
Total	$ 42,134	$ 43,222

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

8. INVESTMENTS IN LIMITED PARTNERSHIPS

Pursuant to the Statement of Investment Guidelines for the Government of Puerto Rico, the pension trust funds and the component units invested approximately $27 million in limited partnerships during the year ended June 30, 2010. The investments were as follows:

- During fiscal year 2010, there were no contributions to Guayacán Funds of Funds, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc. as general partner, which has total commitments of $55.5 million (of which $45 million are from pension trust funds and the remaining balances from private corporate investors). This fund invests in the United States of America and international private equity partnerships that in turn invest in private companies.

- During fiscal year 2010, there were no contributions to Guayacán Fund of Funds, II, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc. as general partner, which has total commitments of $62 million (of which $50 million are from the pension trust funds and the remaining balances from private corporate investors). The fund invests in a broad range of U.S. and international private equity investment partnerships that, in turn, will make equity and equity related investments primarily in private businesses.

- During fiscal year 2010, approximately $3.1 million were invested in Guayacán Fund of Funds III, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc., as general partner, that has total commitments of $81.8 million (of which $40 million are from the State Insurance Fund Corporation and the remaining balances from private corporate investors.) This fund seek to provide investors with a superior investment return and extensive diversification by investing in seventeen (17) private equity investment partnerships in the United States and Europe.

- During fiscal year 2010, there were no contributions to Guayacán Private Equity Fund, L.P., a Delaware limited partnership, organized by Advent Morro Equity Partners, Inc. as general partner, that has total commitments of $59 million (of which $10 million are from the pension trust funds,

$20 million are from a component unit and the remaining balance from the private corporate investors in Puerto Rico). This fund invests in Puerto Rico private equity.

- During fiscal year 2010, approximately $13.5 million were invested in Guayacán Private Equity Fund II, L.P. a Delaware limited partnership, organized by Advent/Morro Partners as general partner, has total commitments of $94 million (of which $15 million are from pension trust funds and $30 million are from components units, and the remaining balance from the private corporate investors in Puerto Rico). This fund invests in Puerto Rico private equity.

- During fiscal year 2010, approximately $9.9 million were invested in GF Capital Private Equity Fund, L.P., a limited partnership, organized under the laws of the State of Delaware, in which the pension trust funds have a total commitment of $25 million. The purpose of the partnership is to make private equity investments in a variety of industries, including media and entertainment, branded consumer products, and software for media and telecommunications applications. The partnership initiatives are focused on companies capitalized at between $20 million to $400 million with a representation of buyouts, growth capital, and recapitalizations.

- During fiscal year 2010, approximately $218,000 were invested in Chase Capital Partners Private Equity Fund of Funds Corporate Investors II, LTD, a limited partnership, organized by Chase as general partner, in which the pension trust funds have a total commitment of $20 million. The fund's investment strategy is to capitalize on a globally diversified portfolio of private equity investment opportunities across various sectors including buyouts, growth equity, venture capital, and other special situations through partnership and direct investments.

- During fiscal year 2010, approximately $109,000 were invested in Chase Capital Partners Private Equity Fund of Funds II, LTD, a limited partnership, organized by J.P. Morgan Alternative Asset Management, Inc,, as general partner, in which the pension trust funds have a total commitment of $15 million. The fund's investment strategy is to capitalize on a globally diversified portfolio of private equity investments opportunities across various sectors, including buyouts, growth equity, venture capital and other special situations through partnership, investments, and direct investments.

- During fiscal year 2010, there were no contributions to Invesco Venture Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC as general partner, in which the pension trust funds have a total commitment of $5.5 million. The partnership was organized to invest in other collective investments funds investing in alternative assets, including primarily U.S. and international funds that focus on both early- and later-stage venture capital investments.

- During fiscal year 2010, there were no contributions to Invesco Non U.S. Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC as general partner, in which the pension trust funds have a total commitment of $4.5 million. The partnership was organized to invest in other collective investments funds investing in alternative assets, including primarily investments focusing on non U.S. buyouts, expansion capital, turnaround, mezzanine, and distressed investment partnerships.

- During fiscal year 2010, there were no contributions to Invesco U.S. Buyout & Expansion Capital Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC as general partner, in which the pension trust funds have a total commitment of $3.7 million. The partnership was organized to invest in other collective funds investing in alternative assets, including primarily investments focusing on small, mid-size, and large domestic buyout transactions.

- During fiscal year 2010, there were no additional contributions to Venture Capital Fund, Inc., a Puerto Rico Corporation, organized pursuant to Act No. 3 of October 6, 1987, as amended, known as the Puerto Rico Capital Investment Funds Act, that is managed by Advent-Morro Equity Partners (Advent-Morro Equity Partners, Inc.) in which the pension trust funds have a total commitment of $800 thousands. Advent-Morro is a Puerto Rico based private equity firm. The fund was created to make private equity investments in operating companies that are based, or are operating, or a combination of both, in Puerto Rico. Since inception, the fund has invested in 25 companies some of which it continues to provide capital for their expansion.

The fair value of the pension trust funds' investments in limited partnerships at June 30, 2010, amounted to approximately $82 million and is presented within other investments in the statement of fiduciary net assets – fiduciary funds. The fair values of these investments have been estimated by the corresponding general partner or fund manager of these partnerships and disclosed in its respective separate audited financial statements. The allocations of net gain and net loss to the limited partners are based on certain percentages, as established in the limited partnership agreements. The difference between the fair value of the investments and the total cumulative contributions is mostly due to distributions made.

As of June 30, 2010, the pension trust funds and discretely presented component units had capital commitments and contributions as follows (expressed in thousands):

Guayacán Fund of Funds, L.P.	**Public Sector Commitments**	**Fiscal Year Contributions**	**Cumulative Contributions**
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	$25,000	$ -	$23,820
Puerto Rico System of Annuities and Pensions for Teachers	20,000	-	19,056
Subtotal	45,000	-	42,876
Guayacán Fund of Funds II, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	25,000	-	23,681
Puerto Rico System of Annuities and Pensions for Teachers	25,000	-	23,681
Subtotal	50,000	-	47,362
Guayacán Fund of Funds III, L.P.			
Component Unit:			
State Insurance Fund Corporation	40,000	3,129	5,903
Balance carried forward	135,000	3,129	96,141

(Continued)

Balance brought forward	$135,000	$ 3,129	$ 96,141
Guayacán Private Equity Fund, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	5,000	-	4,645
Puerto Rico System of Annuities and Pensions for Teachers	5,000	-	4,645
Component unit:			
Economic Development Bank for Puerto Rico (1)	20,000	-	18,578
Subtotal	30,000	-	27,868
Guayacán Private Equity Fund II, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	15,000	6,143	14,744
Component unit:			
Economic Development Bank for Puerto Rico (1)	20,000	4,914	11,795
State Insurance Fund Corporation	10,000	2,457	5,217
Subtotal	45,000	13,514	31,756
Other Funds			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	45,800	10,121	34,704
Puerto Rico System of Annuities and Pensions for Teachers	28,714	109	26,428
Subtotal	74,514	10,230	61,132
Total	$284,514	$26,873	$216,897

(Concluded)

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

9. RECEIVABLES AND PAYABLES

Receivables in the governmental funds include approximately $1.3 billion of accrued income, excise and sales and use taxes. Intergovernmental receivables include $431.4 million from the federal government and $26.5 million from CRIM. In addition, the enterprise funds include $73.8 million of unemployment, disability, and drivers' insurance premium receivable. Payables in the governmental funds include approximately $1.1 billion of trade accounts due to suppliers for purchase of merchandise and services rendered and $403.6 million of tax refunds payable.

In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue,* as amended (the "TB"), a receivable of $40.7 million was recorded as other receivable in the government wide financial statements for estimated shipments from January 1 to June 30, 2010, which will be applied to debt service upon collection. Additionally, the TB indicated that the Trust designated as the TSA should recognize a liability for the bonds payable and an expense (and liability if unpaid) in the same period in its stand-alone financial statements. The expense (and liability if unpaid) recognizes the contractual obligation to remit the proceeds of the bond sold to the settling government (the "Commonwealth"). Since the Trust is reported as a blended component unit, the TB indicates these remittances should be reported as transfers into the fund receiving the proceeds and transfers out in the fund that accounts for the activities of the TSA. Since the Trust has no contractual obligation, under its enabling legislation or elsewhere, to remit all bond proceeds or assets related to the GSA to the settling government (the "Commonwealth"), the Trust has not recognized an expense and liability for unpaid proceeds from the bonds since it records the expense as amounts are disbursed as grants to its settling government (including its instrumentalities) or third parties.

10. PLEDGES OF RECEIVABLES AND FUTURE REVENUES

The Commonwealth has pledged the first two point seventy-five (2.75%) of the sales and use tax for the repayment of certain outstanding obligations of the Commonwealth. During 2010, COFINA, a blended component unit of the Commonwealth, responsible for the financing, payments and retirement of certain debt obligations of the Commonwealth, has issued bonds for approximately $3.6 billion payable through 2044. The Commonwealth has committed to appropriate each year, from the sales and use tax, amounts sufficient to cover the principal and interest requirements on the debt issued by COFINA. COFINA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured debt is $29.5 billion and $17.4 billion, respectively. The pledged sale and use tax base amount for the fiscal year ended June 30, 2010 amounted to $550.3 million. For fiscal year 2010, interest paid by COFINA amounted to $375.9 million and the sales and use tax revenue recognized by the Commonwealth was $553.9 million.

Also, the Commonwealth has pledged part of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes (up to $11 million monthly but no more than $120 million annually) and $15 per vehicle per year from motor vehicle license fees for the repayment of the PRHTA Revenue Bonds. The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by PRHTA. PRHTA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured debt is $6.2 billion and $5.6 billion, respectively. The pledged excise tax for the fiscal year ended June 30, 2010 amounted to $120 million. For fiscal year 2010, principal and interest paid by PRHTA amounted to $104 million and $349.2 million, respectively, and the excise tax revenue recognized by the Commonwealth was $282 million.

Rum manufactured in Puerto Rico is subject to federal excise taxes; however, these are returned by the U.S. Internal Revenue Service (IRS) to the Commonwealth. Act No. 44, as amended, requires that in each fiscal year after fiscal year 2006, through fiscal year 2009, and each fiscal year thereafter through fiscal year 2057, the first $90 million and $117 million, respectively, of certain federal excise taxes received by the Commonwealth be transferred to the Puerto Rico Infrastructure Financing Authority ("PRIFA"). Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. treasury and returned to the Commonwealth. The Commonwealth has pledged these taxes for the repayment of PRIFA's Special Tax Revenue Bonds. The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by PRIFA. PRIFA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. The federal excise taxes securing the Bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, Act No. 44 requires that PRIFA request additional funding. The Director of the Office of Management and Budget of the Commonwealth then includes in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Commonwealth's Legislature, however, is not obligated to make the necessary appropriation to cover such deficiency. Total principal and interest remaining on the secured debt is $2.6 billion and $1.6 billion, respectively. The pledged federal excise tax amount for the fiscal year ended June 30, 2010 amounted to $117 million. For fiscal year 2010, principal and interest paid by PRIFA amounted to $24.8 million and $83.4 million, respectively, and the excise tax revenue recognized by the Commonwealth was $117 million.

11. INTERFUND AND INTRAENTITY TRANSACTIONS

Interfund receivables and payables at June 30, 2010 are summarized as follows (expressed in thousands):

Receivable Fund	Payable Fund	Amount
Other governmental	General	$167,345
General	Lotteries	45,993
COFINA debt service	Pledge sales and use tax	103,647
Lotteries	General	53,175
Other proprietary	General	21,006
General	Unemployment insurance	12,862
General	Other governmental	3,760
		$407,788

Transfers from (to) other funds for the year ended June 30, 2010 are summarized as follows (expressed in thousands):

Transferee Fund	Transferor Fund	Amount
General	COFINA special revenue	$ 2,702,238
COFINA special revenue	COFINA debt service	1,750,542
Pledge sales and use tax	General	7,737
COFINA debt service	Pledged sales and use tax	553,860
Other governmental	General	332,014
Debt service	General	447,312
General	Debt service	227,395
General	Lotteries	220,406
General	Unemployment insurance	49,197
Other proprietary	General	8,675
General	Other proprietary	4,924
General	Other governmental	550
Other governmental	Other governmental	241
		$ 6,305,091

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

a. Transfer of ($2,702,238) from the COFINA special revenue fund to the General Fund for the Fiscal Stabilization Funds, the Local Stimulus Economic Plan, and for the payment of extra constitutional debt.

b. Transfer of ($1,750,542) from the COFINA debt service fund to the COFINA special revenue fund. All ($1,750,542) were transferred to the General Fund for the purposes stated above.

c. Transfer of ($7,737) from the General Fund to Pledged Sale and Use Tax fund.

d. Transfers of ($447,312) from the General Fund to the Debt Service Fund to make funds available for debt service payments.

e. Transfer of ($220,406) from the Lotteries to the General Fund to distribute the increase in net assets of the Lotteries for the use of the General Fund, as required by the Lotteries enabling legislation.

f. Recognize as transfers the rental payments made by the Commonwealth's agencies on properties leased by PBA, a blended component unit of the Commonwealth ($250,713); ($75,442) related to the revenues received from the Tobacco Settlement for the agreement managed by The Children's Trust, a blended component unit of the Commonwealth; and ($5,859) to the Puerto Rico Maritime Shipping Authority for the payment of appropriation debts.

g. Distribution of the sales tax for the use of COFINA debt service fund as required by enabling legislation for the payment of its bonds ($553,860).

h. Transfer unemployment insurance fund's distribution of surplus cash belonging to the general fund for the payment of administrative expenses ($49,197).

i. Provide local matching funds from the general fund related to the federal capital grants of the Puerto Rico Water Pollution Revolving Fund and Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, two nonmajor enterprise funds of the Commonwealth ($8,675).

j. Transfer from the Commonwealth capital project fund (a nonmajor governmental fund) to the general fund for the public improvements in municipalities and corporations ($550).

k. Transfer from the Drivers and Disability Insurance funds related to the distribution of surplus cash to the General Fund ($4,924).

l. Transfer from the Debt Service Fund to the General Fund for the payment of principal and interests of notes payable ($227,395).

m. Transfer from The Children's Trust – Debt Service fund to Children's Trust – Special Revenue fund ($241).

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

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

Receivable Entity/Fund	Amount	Payable Entity/Fund	Amount
Business-type activities	$ 375,793	Puerto Rico Aqueduct and Sewer Authority	$ 375,793
Governmental activities	231,535		
	$ 607,328	Puerto Rico Medical Services Administration	81,378
		Puerto Rico Ports Authority	41,532
Puerto Rico Electric Power Authority	$ 84,247	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	38,447
University of Puerto Rico	75,011	Puerto Rico Industrial Development Company	19,244
Government Development Bank for Puerto Rico	63,981	Puerto Rico Tourism Company	17,460
Puerto Rico Industrial Development Company	43,403	Puerto Rico Trade and Export Company	9,922
Puerto Rico Aqueduct and Sewer Authority	33,714	Puerto Rico Metropolitan Bus Authority	7,949
Puerto Rico Medical Services Administration	21,237	Puerto Rico Health Insurance Administration	7,239
		Governing Board of the 911 Service	4,189
Agricultural Services Development Administration	18,758	Puerto Rico Highways and Transportation Authority	2,246
Puerto Rico Infrastructure Financing Authority	15,139	National Parks Company of Puerto Rico	1,929
Company for the Integral Development of Peninsula Cantera	10,855		
Land Authority of Puerto Rico	7,848		$ 607,328
State Insurance Fund Corporation	6,433		
Puerto Rico Convention Center District Authority	2,742	Governmental activities	$ 388,569
Puerto Rico Ports Authority	2,600		
Puerto Rico Metropolitan Bus Authority	1,323		
Right to Employment Administration	1,278		
	$ 388,569		

The amount owed by PRASA of $376 million represents construction loans granted by the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, nonmajor enterprise funds, to finance the construction of capital assets for PRASA.

Governmental activities due from component units includes an allowance for doubtful accounts amounting to $108.9 million.

The amount receivable by PREPA from the primary government includes approximately $19.0 million representing an agreement with the Commonwealth by which the Commonwealth will pay outstanding fuel adjustment subsidy and certain other accumulated debt. The amount owed by the Commonwealth is presented within notes payable in the statement of net assets (deficit) of the governmental activities.

As of July 1, 1999 debts of approximately $102 million payable to UPR, a discretely presented component unit, in relation to outstanding noninterest bearing debt accumulated in prior years by the Health Facilities and Services Administration (HFSA) were transferred to the Commonwealth. On September 7, 2004, additional debts of approximately $71.2 million were also restructured and combined with the previous financing arrangement. As of June 30, 2010, $25.2 million remains outstanding of this arrangement. During the fiscal year 2009, the Office of Management and Budget and the UPR signed an intra-agency agreement amounting to $36 million to pay for appropriation for fiscal year 2007 and 2008. In April 2011 the OMB settled this intra-agency agreement for $18.6 million.

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

Receivable Entity/Fund	Amount	Payable Entity/Fund	Amount
Puerto Rico Electric Power Authority	$ 145,560	Puerto Rico Medical Services Administration	$ 19,883
Puerto Rico Ports Authority	50,190	Puerto Rico Ports Authority	53,936
Puerto Rico Aqueduct and Sewer Authority	14,595	Puerto Rico Maritime Transportation Authority	51,302
University of Puerto Rico	2,978	Puerto Rico Highways and Transportation Authority	22,166
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authoritiy	26,271	Puerto Rico Electric Power Authority	28,265
Land Authority of Puerto Rico	20,219	Puerto Rico Aqueduct and Sewer Authority	28,754
State Insurance Fund Corporation	5,221	Agricultural Services and Development Administration	14,288
Puerto Rico Land Administration	1,306	Puerto Rico Tourism Company	10,170
Puerto Rico Convention Center District Authority	10,170	Cardiovascular Center Corpopration of Puerto Rico and the Caribbean	11,649
		Farm Insurance Corporation of Puerto Rico	5,931
		Land Authority of Puerto Rico	3,840
		State Insurance Fund Corporation	1,454
		Puerto Rico Industrial Development Company	1,306
		Puerto Rico Metropolitan Bus Authority	5,622
		Puerto Rico Solid Waste Authority	5,737
		National Parks Company of Puerto Rico	5,560
		Puerto Rico Convention Center District Authority	2,603
		Puerto Rico Trade and Export Company	1,066
		University of Puerto Rico	2,978
Subtotal	276,510	Sub total	276,510
Government Development Bank for Puerto Rico	3,281,384	Puerto Rico Highways and Transportation Authority	969,848
		Puerto Rico Aqueduct and Sewer Authority	786,228
		Special Communities Perpetual Trust	376,095
		State Insurance Fund Corporation	220,000
		Puerto Rico Ports Authority	143,738
		Puerto Rico Convention Center District Authority	151,076
		Agricultural Services and Development Administration	103,518
		Puerto Rico Industrial Development Company	90,070
		Puerto Rico Solid Waste Authority	68,085
		Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority	61,107
		Land Authority of Puerto Rico	45,221
		National Parks Company of Puerto Rico	13,949
		Company for the Integral Development of the Península de Cantera	10,779
		Puerto Rico Infrastructure Financing Authority	3,135
		Puerto Rico Public Private Partnerships Authority	2,147
		Puerto Rico Conservatory of Music Corporation	1,028
		Economic Development Bank for Puerto Rico	10,756
		Port of Amercias Authority	204,713
		University of Puerto Rico	19,891
		Subtotal	3,281,384
	$3,557,894		$3,557,894

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

Primary government — governmental activities	$ 1,561,095
Other governmental entities and municipalities	1,646,150
Private sector	530,062
Total loans receivable reported by GDB	$ 3,737,307

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

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

Puerto Rico Health Insurance Administration	$1,169,143
University of Puerto Rico	769,173
Nonmajor component units	627,456
Puerto Rico Aqueduct and Sewer Authority	58,746
Government Development Bank for Puerto Rico	49,000
Puerto Rico Highways and Transportation Authority	42,909
Total contributions made by primary government to component units	$2,716,427

12. RESTRICTED ASSETS

Restricted assets of the primary government included in the basic financial statements at June 30, 2010 consist of cash, receivables, investments, and other assets to be used for the following purposes (expressed in thousands):

Governmental activities:	
Debt service and sinking fund	$ 2,012,948
Public Housing Administration - funds received from the U.S Housing and Urban Development	1,833
Affordable housing program	1,249
Construction of governmental facilities	206,252
Collateral for underlying securities	85,940
Payment of operational expenses and certain financing granted to the Commonwealth, among other purposes	900,191
Assets in liquidiation	34,024
Other	34,308
Total restricted assets of governmental activities	$ 3,276,745
Business-type activities:	
Disability insurance benefits	$ 31,770
Lending activities	475,657
Total restricted assets for business-type activities	$ 507,427

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

Governmental activities:	
Debt service	$ 282,832
Other	34,308
Accounts payable to contractors	18,144
Liabilities payable from restricted assets — governmental activities	$ 335,284
Business-type activities:	
Disability insurance benefit payable	$ 560
Accounts payable and accrued liabilites	961
Liabilities payable from restricted assets — business-type activities	$ 1,521

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

Governmental activities restricted net assets (expressed in thousands):	
Restricted for capital projects	$ 188,108
Collateral for underlying securites	85,940
Assets in liquidations	34,024
Payment of operational expenses and certain financing granted to the Commonwealth, among other purposes	900,191
Restricted for debt service	1,730,116
Affordable housing and related loan insurance programs	3,082
Total restricted net assets-governmental activities	$ 2,941,461

Business-type activities restricted net assets:	
Lending activities	$ 474,696
Payment of insurance benefits	31,210
Total restricted net assets-business-type activities	$ 505,906

Restricted assets of the component units included in the basic financial statements at June 30, 2010 are to be used for the following purposes (expressed in thousands):

Debt services and sinking fund requirements	$ 2,449,178
Affordable housing and related loan insurance programs	1,908,808
Collateral for underlying securities	1,317,234
Construction and betterments funds	938,188
Other uses	442,901
Trust - nonexpendable	310,149
Educational funds	130,850
Industrial incentives	21,260
Financial assistance	10,858
Maintenance reserve fund	5,578
Escrow	143
Total for components units	$ 7,535,147

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

On March 2, 1999, PRIFA received $1.2 billion in connection with the sale of certain assets of PRTA, which were deposited in the Corpus Account. Amounts deposited in the additional accounts are to be used first to pay the principal, premium, and interest of any bonds outstanding or to be issued by PRIFA and then for the expansion, development, and modernization of infrastructure related to the aqueduct and sewer systems of Puerto Rico.

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

Amounts in excess of $1 billion shall be invested in any of the instruments mentioned above or in any other instruments, including publicly traded common and preferred stock, not prohibited by investment guidelines adopted by GDB.

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

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

At June 30, 2010, approximately $1,042 million have been invested in short-term U.S. Treasury securities, which are restricted for the early extinguishment of the Series 2000 A and B Bonds and included as part of cash and cash equivalents in the accompanying statement of net assets (deficit). Also, $310 million have been invested in a time deposit agreement with GDB as a permanent investment within the Corpus Account as established by Act. No. 3.

13. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010 is as follows (expressed in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 881,877	$ 21,746	$ 30,043	$ 873,580
Construction in progress	1,322,447	198,825	425,917	1,095,355
Total capital assets, not being depreciated	2,204,324	220,571	455,960	1,968,935
Buildings and building improvements	7,451,992	249,233	121,723	7,579,502
Equipment, furniture, fixtures, vehicles, and software	507,701	40,306	17,964	530,043
Infrastructure	444,248	172,446	10,848	605,846
Total capital assets, being depreciated and amortized	8,403,941	461,985	150,535	8,715,391
Less accumulated depreciation and amortization for:				
Buildings and building improvements	2,671,550	203,995	28,067	2,847,478
Equipment, furniture, fixtures, vehicles, and software	292,012	43,691	11,008	324,695
Infrastructure	110,601	11,961	4,210	118,352
Total accumulated depreciation and amortization	3,074,163	259,647	43,285	3,290,525
Total capital assets, being depreciated and amortized, net	5,329,778	202,338	107,250	5,424,866
Governmental activities capital assets, net	$7,534,102	$422,909	$563,210	$7,393,801
Business-type activities:				
Total capital assets, being depreciated — equipment	$ 4,818	$ 926	$ -	$ 5,744
Less accumulated depreciation of equipment	4,136	22	-	4,158
Total business-type activities capital assets, being depreciated, net	$ 682	$ 904	$ -	$ 1,586

Depreciation and amortization expense was charged to functions/programs of the primary government for the year ended June 30, 2010 as follows (expressed in thousands):

Governmental activities:	
General government	$ 85,833
Public safety	23,339
Health	7,194
Public housing and welfare	89,637
Education	37,626
Economic development	16,018
Total depreciation and amortization expense — governmental activities	$259,647

The Commonwealth follows the provision of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, an amendment to GASB Statement No. 34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. Every year the Commonwealth performs an impairment analysis of its capital assets, in order to comply with the requirements of GASB Statement No. 42. The financial reporting impact resulting from this analysis had no effect on the statement of activities for the year ended June 30, 2010.

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

On August 17, 2001, the Legislature of the Commonwealth approved Act No. 120, which requires the conditional transfer of the ownership of certain real properties under the name of the Department of Recreation and Sports (DRS) of the Commonwealth to the municipalities of the Commonwealth. The land and the facilities were transferred at no cost to the municipalities. During the fiscal year ended June 30, 2010, land, building, and building improvements amounting to $14 million were transferred to several municipalities.

Discretely Presented Component Units

	Beginning Balance (as Restated)	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 3,036,496	$ 50,647	$ 19,533	$ 3,067,610
Art works	9,477	25	-	9,502
Construction in progress	6,159,895	2,349,557	3,789,237	4,720,215
Total capital assets, not being depreciated	9,205,868	2,400,229	3,808,770	7,797,327
Capital assets, being depreciated:				
Buildings and building improvements	4,810,304	114,742	39,444	4,885,602
Equipment, furniture, fixtures, vehicles, and software	8,739,093	997,444	39,337	9,697,200
Infrastructure	24,928,423	1,755,987	89,793	26,594,617
Intangibles, other than software	2,293	-	-	2,293
Total capital assets, being depreciated and amortized	38,480,113	2,868,173	168,574	41,179,712
Less accumulated depreciation and amortization for:				
Buildings and building improvements	1,953,687	186,736	53,564	2,086,859
Equipment, furniture, fixtures, vehicles and software	1,903,187	177,173	81,635	1,998,725
Infrastructure	13,897,608	808,681	12,884	14,693,405
Intangibles, other than software	811	-	-	811
Total accumulated depreciation and amortization	17,755,293	1,172,590	148,083	18,779,800
Total capital assets, being depreciated and amortized, net	20,724,820	1,695,583	20,491	22,399,912
Capital assets, net	$ 29,930,688	$ 4,095,812	$ 3,829,261	$ 30,197,239

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

On June 28, 2010, PRIFA and PRASA entered in an amended assistance agreement (the "Agreement") to acknowledge PRIFA's compliance with the conditions precedent to transfer on all PRASA Projects, excluding land owned by PRIFA, and PRASA's assumption of all operation, maintenance, and safety responsibilities of all PRASA Projects. In connection with the amendment, approximately $915 million of PRIFA's capital assets were transferred to PRASA. The transfer to PRASA of land owned by PRIFA in connection with such projects of approximately $9,282,000 at June 30, 2010, has not been executed since various conditions precedent to the transfer are in the process of being completed.

14. TAX REVENUE ANTICIPATION NOTES PAYABLE

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

TRANS issued during fiscal year 2010 amounted to $2,275 million at interest rates ranging from 2.80% to 3.50%. TRANS proceeds were used to cover temporary cash deficiencies resulting from the timing differences between tax collections and the payments of current expenditures. TRANS were refinanced at various points during the year in order to take advantage of interest rates. The maximum amount of TRANS outstanding at any time during the year was approximately $900 million. As of June 30, 2010, the balance of TRANS outstanding was paid in full.

15. SHORT AND LONG-TERM OBLIGATIONS

(a) Primary Government

Summary of Short and Long-term Obligations — Short and long-term obligations at June 30, 2010 and changes for the year then ended are as follows (expressed in thousands):

Short Term Obligations	Balance At June 30, 2009	Debt Issued	Debt Paid	Original Issue (Discounts) Premiums	Other Net Increases (Decreases)	Balance At June 30, 2010	Due Within One Year
Notes payable to GDB	$ 175,464	$ 100,000	$ (18,256)	$ -	$ (122,521)	$ 134,687	$ 134,687
Long Term Obligations							
Governmental activities:							
General obligation and revenue bonds	$ 25,021,742	$ 4,839,021	$ (1,410,735)	$ (45,966)	$ 193,654	$ 28,597,716	$ 445,825
Commonwealth appropriation bonds	737,345	-	-	-	2,732	740,077	-
Notes payable to component units:							
GDB	1,730,138	956,565	(1,382,817)	-	122,521	1,426,407	110,305
Other	87,875	-	(7,571)	-	(17,416)	62,888	7,570
Capital leases	240,084	427	(5,527)	-	-	234,984	5,559
Total bonds, notes payable and capital leases payable	27,817,184	5,796,013	(2,806,650)	(45,966)	301,491	31,062,072	569,259
Compensated absences	1,616,925	-	(794,989)	-	684,257	1,506,193	740,546
Net pension obligation	6,754,230	-	-	-	1,209,720	7,963,950	-
Net postemployment benefit obligation	76,606	-	-	-	55,981	132,587	-
Other long-term liabilities	2,202,395	-	(177,854)	-	168,013	2,192,554	164,112
Total governmental activities	38,467,340	5,796,013	(3,779,493)	(45,966)	2,419,462	42,857,356	1,473,917
Business-type activities:							
Compensated absences	4,732	-	-	-	(503)	4,229	2,262
Obligation for unpaid lottery prizes	263,591	-	-	-	(39,690)	223,901	56,561
Claims liability for insurance benefits	98,726	-	-	-	4,543	103,269	103,269
Total business-type activities	367,049	-	-	-	(35,650)	331,399	162,092
Total primary government	$ 38,834,389	$ 5,796,013	$ (3,779,493)	$ (45,966)	$ 2,383,812	$ 43,188,755	$ 1,636,009

The balances of general obligation and revenue bonds paid included within other financing uses and principal as reported in the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds do not agree with amounts reported as debt paid in the above table primarily because the above table includes debt paid on general obligation and revenue bonds, which was accrued during the fiscal year 2009 as a fund liability. The prior year fund liability mentioned above amounted to approximately $158 million and was reported as a balance sheet transaction in the fund financial statements in 2009. Also, during fiscal year 2010 the amount of approximately $408 million was accrued as fund liability. The net effect of $250 million is the difference between the debt paid on bonds and notes in the previous table and the payments in the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds.

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

Compensated absences, net pension obligation, net postemployment benefit obligation, other long-term liabilities, obligation for unpaid lottery prizes, and claims liability for insurance benefits reflect other net increases (decreases) resulting from adjustments and changes to agree these obligations to their new estimated balances at June 30, 2010.

(b) Debt Limitation

The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth are not to be issued if the amounts of the principal of, and interest on, such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceeds 15% of the average annual revenue raised under the provisions of Commonwealth legislation and conveyed into the Treasury (hereinafter internal revenue) in the two fiscal years preceding the current fiscal year. Section 2, Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded. Internal revenue consists principally of income taxes, sales and use tax, property taxes and excise taxes. Certain revenue, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products, and customs duties, which are collected by the U.S. government and returned to the Commonwealth, motor vehicle fuel taxes and license fees, which are allocated to the PRHTA, a discrete component unit, are not included as revenue for the purpose of calculating the debt limit. At June 30, 2010, the Commonwealth is in compliance with the debt limitation requirement. In addition, the portion of sales and use tax allocated to COFINA is not included as internal revenue in consistency with the legislation creating COFINA, which legislation transfers ownership of such portion of the sales and use tax to COFINA and provides that such portion is not "available resources" under the constitutional provisions relating to the payment of debt service.

(c) Bonds Payable

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

Act No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. The levy is made by CRIM, a municipal corporation, not a component unit of the Commonwealth. CRIM is required to remit the 1.03% of property tax collected to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations and revenue bonds of the Commonwealth. During the year ended June 30, 2010, the total revenue and receivable reported by the Commonwealth amounted to approximately \$115 million and \$27 million, respectively, which are included in the debt service fund.

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

COFINA

Short-Term Debt — During the year ended June 30, 2010, COFINA issued demand notes and bond anticipation notes to GDB and another financial institution amounting to approximately \$708 million. These notes were repaid with the issuance of sales tax revenue bonds issued in fiscal year 2010, as explained below.

Bonds Payable — On February 9, 2010, COFINA issued Sales Tax Revenue Bonds, First Subordinate Series 2010A amounting to approximately \$1,824 million. The proceeds from the issuance of the Series 2010A bonds were mainly used to (1) repay bond anticipation notes issued to a financial institution, (2) cover operational expenses of the Commonwealth for fiscal years 2010 and 2011, and (3) fund the Puerto Rico Economic Stimulus Fund.

On June 30, 2010, COFINA issued Sales Tax Revenue Bonds, First Subordinate Series 2010C, Series 2010D (Issuer Subsidy Build America Bonds) and Series 2010E (Issuer Subsidy Recovery Zone Economic Development Bonds) amounting to approximately \$1,619 million, \$89.4 million, and \$92.8 million, respectively. Upon compliance with certain requirements of the United States Internal Revenue Code, COFINA will receive a subsidy payment from the U.S. federal government equal to 35% and 45% of the amount of each interest payment on the Series 2010D bonds and the Series E bonds, respectively.

The proceeds from the issuance of the Series 2010C, Series 2010D and Series 2010E were mainly used to (1) repay demand notes issued to GDB, (2) cover operational expenses of the Commonwealth for fiscal year 2011, (3) fund the Puerto Rico Stabilization Fund and (4) provide \$732,797,165, along with \$17,500,000 of other funds, to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust with an escrow agent for the purpose of generating resources for all future debt services payments of the \$700,000,000 Series 2009A mandatory tender notes outstanding at June 30, 2010 (the "Refunded Bonds"), which are subject to mandatory tender for purchase on August 1, 2011. Accordingly, the Refunded Bonds are considered to be defeased and the liability has been removed from the statement of net assets (deficit). In the event the Refunded Bonds were not remarketed on August 1, 2011, the interest rate would have increased from five percent (5%) to ten percent (10%). The reacquisition price exceeded the net carrying amount of the old debt by approximately $40,850,000, of which $39,899,000 are being netted against the new debt and amortized over the remaining life of the Refunded Bonds, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce the total debt service payments over the next 30 years by $628 million (assuming the Refunded Bonds interest rate would have increased to 10% effective August 1, 2011), and resulted in an economic gain of $370 million.

Bonds payable outstanding at June 30, 2010 are as follows (expressed in thousands):

	General Obligation Bonds	Revenue Bonds	Total
Term bonds payable through 2045; interest payable semiannually at rates varying from 3.00% to 6.50%.	$ 3,931,400	$ 7,022,156	$ 10,953,556
Serial bonds payable through 2037; interest payable semiannually at rates varying from 3.25% to 6.50%.	5,160,660	1,081,260	6,241,920
Fixed rate bonds payable through 2058; interest payable at rates varying from 3.38% to 6.50%.	-	5,003,422	5,003,422
Capital appreciation bonds payable through 2057; no interest rate, yield ranging from 4.50% to 7.70%. Net of accreted discount of $168 million. (1)	164,266	3,775,531	3,939,797
The Children's Trust Fund tobacco settlement asset-backed bonds payable through 2057; interest payable annually at rates varying from 4.00% to 8.38%.	-	1,405,967	1,405,967
Capital Fund Program Bonds, maturing in various dates payable through 2024; interest payable at rates varying from 2.00% to 5.00%.	-	548,450	548,450
Bond payment obligation payable through 2011; interest payable at rates of 7.00%	48,220	-	48,220
Balance carried forward	9,304,546	18,836,786	28,141,332

(1) Revenue bonds include $743 million capital appreciation bonds convertible to fixed rate interest bonds on August 1, 2016, 2019, and 2020.

(Continued)

	General Obligation Bonds	Revenue Bonds	Total
Balance brought forward	$ 9,304,546	$ 18,836,786	$ 28,141,332
Yield curve bonds payable from 2009 through 2028; no interest rate, yield varying from 6.00% to 6.50%.	225,225	-	225,225
LIBOR-Based Adjustable Rate Bonds due on August 1, 2057; interest payable at a rate of 1.16%.	-	136,000	136,000
Inverse rate bonds payable from 2011 through 2012; interest payable at a rate varying from 6.00% to 6.50%.	10,300	-	10,300
Insured bonds payable from 2015 through 2019; interest payable a rate varying from 5.00% to 5.25%.	50,085	-	50,085
Total	9,590,156	18,972,786	28,562,942
Unamortized premium, net	230,823	(14,578)	216,245
Deferred refunding loss, net	(65,768)	(115,703)	(181,471)
Total bonds payable	$ 9,755,211	$ 18,842,505	$ 28,597,716

(Concluded)

As of June 30, 2010, debt service requirements for general obligation and revenue bonds outstanding, including accreted interest of capital appreciation bonds are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Interest Subsidy (1)	Total
2011	$ 445,825	$ 1,193,732	$ (3,512)	$ 1,636,045
2012	459,592	1,208,581	(4,200)	1,663,973
2013	484,360	1,178,947	(4,200)	1,659,107
2014	511,315	1,152,822	(4,200)	1,659,937
2015	518,600	1,148,586	(4,200)	1,662,986
2016–2020	3,008,220	5,531,939	(21,000)	8,519,159
2021–2025	3,470,751	4,977,944	(21,000)	8,427,695
2026–2030	4,658,491	4,170,636	(21,000)	8,808,127
2031–2035	5,806,397	3,105,716	(21,000)	8,891,113
2036–2040	6,629,816	1,994,338	(21,000)	8,603,154
2041–2045	6,075,500	643,346	(9,447)	6,709,399
2046–2050	3,955,758	287,802	-	4,243,560
2051–2055	4,882,088	287,802	-	5,169,890
2056–2059	12,028,145	137,684	-	12,165,829
Total	52,934,858	$ 27,019,875	$ (134,759)	$ 79,819,974
Less unaccreted interest	(24,371,916)			
Plus unamortized premium, net	216,245			
Less deferred refunding loss, net	(181,471)			
Total	$ 28,597,716			

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

At June 30, 2010, COFINA has $136,000,000 of LIBOR based adjustable rate bonds maturing on August 1, 2057. As explained below, COFINA has entered into a $136,000,000 interest rate swap, whereby it receives the same rate paid on the adjustable rate bonds and pays a fixed rate of 4.92% through August 1, 2057. Accordingly, COFINA has synthetically fixed the interest rate on the adjustable rate bonds.

The table that follows represents governmental activities debt service payments on certain general obligation and revenue variable-rate bonds and the net payments on associated hedging derivative instruments (see note 23) as of June 30, 2010. Although interest rates on variable rate debt and the current reference rates of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rates of hedging derivative instruments on June 30, 2010 will remain the same for their term.

Year Ending	Variable-Rate Bonds		Hedging Derivative	
June 30	Principal	Interest	Instruments, Net	Total
2011	$ 2,450	$ 10,617	$ 50,519	$ 63,586
2012	2,550	10,610	50,438	63,598
2013	2,625	10,606	50,373	63,604
2014	3,915	10,581	50,293	64,789
2015	4,069	10,548	50,212	64,829
2016–2020	222,962	51,408	240,043	514,413
2021–2025	392,862	41,197	152,415	586,474
2026–2030	421,913	27,233	87,634	536,780
2031–2035	313,614	11,304	43,224	368,142
2036–2040	-	7,893	25,563	33,456
2041–2045	-	7,893	25,563	33,456
2046–2050	-	7,893	25,563	33,456
2051–2055	-	7,893	25,563	33,456
2056–2058	136,000	3,552	13,176	152,728
Total	$ 1,502,960	$219,228	$ 890,579	$ 2,612,767

COFINA's outstanding bonds are payable from amounts deposited in the Dedicated Sales Tax Fund in each fiscal year. The minimum amount to be deposited is the Pledged Sales Tax Base Amount, which for the fiscal year ended June 30, 2010, was $550,264,000. The Pledged Sales Tax Base Amount increases each fiscal year thereafter at a statutory rate of 4% up to $1,850,000,000. At June 30, 2010, the Pledged Sales Tax Base Amount, by year, is as follows (expressed in thousands):

Year Ending June 30		**Amount**
2011	$	572,275
2012		595,166
2013		618,972
2014		643,731
2015		669,480
2016–2020		3,771,166
2021–2025		4,588,200
2026–2030		5,582,247
2031–2035		6,791,657
2036–2040		8,263,089
2041–2045		9,250,000
2046–2050		9,250,000
2051–2055		9,250,000
2056–2058		5,550,000
Total	$	65,395,983

On September 17, 2009, the Commonwealth remarketed $93.8 million of variable rate Series 2007 A-4 bonds and converted them to fixed rate bonds, maturing July 1, 2031. These bonds are subject to redemption at the option of the Commonwealth on or after January 1, 2020 at the redemption price of 101% through December 31, 2020 and 100% after June 1, 2021. Concurrently with the issuance of the bonds, the Commonwealth issued $3.4 million of its Public Improvement Refunding Bonds, Series 2009 A to refund the remainder of the Series 2007 A-4 bonds.

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

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

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

Pursuant to the Partnership Agreement, the Limited Partners are required to provide capital contributions totaling approximately $235 million to the Partnership ("Initial Projected Equity"), subject to potential adjustment based on the amount of low-income housing credits ultimately allocated to the Projects in addition to other potential occurrences as more fully explained in the Partnership Agreement. As of June 30, 2010, the Limited Partners have provided capital contributions totaling $21 million.

Pursuant to the Partnership Agreement, the General Partner is required to provide capital contributions totaling $10 to the Partnership. Should the Partnership have not sufficient funds available to pay the outstanding balance of the developer fee thereof, as defined, the General Partner shall be required to provide additional capital contributions to the Partnership in an amount sufficient for the Partnership to pay such balance in full. The General Partner shall have no right or obligation to make any other capital contributions. As of June 30, 2010, the General Partner had provided no capital contributions. In addition, the DOH as general partner shall establish the Assurance Reserve Fund at initial closing in the amount of the initial capital contribution less $4 million (plus any initial capital contribution with respect to the apartment complexes). Amounts in the Assurance Reserve Fund shall be used, (i) upon the request of the General Partner, subject to the consent of the Special Limited Partner, or (ii) upon the direction to the Special Limited Partner, to meet financial obligations of the General Partner, other than for excess development costs, as provided in the Partnership Agreement. As of June 30, 2010, such reserve was maintained in the Partnership. The amount owed to DOH for the assurance reserve fund as of June 30, 2010, amounted to $17 million.

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

On August 7, 2008, the DOH and PHA entered into an interagency agreement through which PHA transferred title to the public housing rental developments to the DOH for the subsequent sale to the LLC. In addition, the DOH will make a grant to the Authority from funds in the Program Modernization Fund in excess of the first receipts equal to $20 million to allow the Authority to make a permanent loan to the LLC. The Authority will provide to the LLC a (i) $100 million interim construction loan to be used in connection with the financing of the rehabilitation and/or construction work on the development from the proceeds of tax-exempt bonds issued by the Authority, (ii) $386.8 million capital fund loan in proceeds from certain tax-exempt bonds issued by the Authority, and (iii) a $100 million permanent loan.

On August 7, 2008, the LLC and the DOH entered into a Purchase and Sales Agreement through which the LLC acquired the surface rights of a property (the "Property") and the improvement erected on such property consisting of buildings and construction in progress with a net book value and cost of $45.9 million and $110 million, respectively, from the DOH under those certain deeds of Constitution of Surface Rights and Transfer of Improvements dated August 7, 2008, which will require the LLC to rehabilitate or construct on the Property four thousand one hundred thirty-two (4,132) residential rental units (the "Units" or collectively the "Development") all of which will receive the benefit of operating subsidy and benefit of low income housing tax credit under Section 42 of the Internal Revenue Code of 1986, as amended. Eighty-four (84) of the units, all of which will be located at the Brisas de Cayey II site, are to be newly constructed. The remaining units will be modernized.

Also, on August 7, 2008, the DOH entered into a loan agreement with the LLC in the amount of $102.8 million for the acquisition of the 33 residential rental properties (the "deferred purchase price note"). The LLC shall make payments equal to the amount of net available capital contributions, as defined, for the preceding calendar quarter.

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

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

The note shall be a full recourse liability of the LLC; however, none of the LLC's members has personal liability. As of June 30, 2010, the principal balance outstanding on the deferred purchase price note was $102.8 million and accrued interest was $13.3 million. At the same time, based on the Purchase and Sale Agreement, the PHA received $92.4 million from the LLC, which was used to pay eligible project expenses incurred by the PHA on an interim basis to minimize the expenditure of 2003 tax exempt bonds that were ineligible for inclusion in the credit transaction. In addition, PHA received $18.1 million from the LLC for Capital Fund Bonds funds previously expensed by the PHA from June and July 2009.

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

Additionally, on August 7, 2008, the LLC entered into a Master Developer Agreement with the DOH to perform services in connection with the development, rehabilitation, and modernization of certain housing projects ("Developer Agreement"). Pursuant to the Master Developer Agreement, the DOH will earn a developer's fee in the amount of $75 million for services performed and to be performed. Payment of the developer's fee shall be subject to the terms and conditions of Section 6(a) (i-iv) of the Master Developer Agreement. As of June 30, 2010, the DOH earned and was paid developer fees in the amount of $9 million.

Under the Partnership Agreement, projects which do not meet the final completion schedule or satisfy other completion, occupancy, rent attainment or tax-credit related requirements or other Investor Limited Partner conditions to capital contributions with respect to such projects as set forth in the Partnership Agreement may under certain conditions be required to be purchased by DOH or its designee. In such case, DOH or its designee would assume the portion of the Loan allocated to such project(s), including both moneys remaining to be disbursed and repayment obligations, and would become a new additional borrower under the loan agreement. The LLC would be released with respect to the amount of the Loan assumed. DOH or its designee could also seek to obtain a limited partner (who might or might not be the original Investor Limited Partner) and tax credit equity contributions. Such transfer does not affect the obligation of DOH to grant moneys to the Authority to fund the permanent loan. As a requirement of such purchase, DOH or its designee is required to repay equity already contributed by the Investor Limited Partner, plus interest and a purchase premium.

(d) Commonwealth Appropriation Bonds

Over the years, GDB, as fiscal agent and bank for the Commonwealth, had extended lines of credit, advances, and loans to several agencies and component units in order to finance their capital improvement projects and to cover their operational deficits at the time. At different points in time, these loans were refunded through the issuance of Commonwealth appropriation bonds issued by the

Puerto Rico Public Finance Corporation (PFC), a blended component unit of GDB. PFC is the financing arm of GDB, which serves only as a conduit for the issuance of the bonds.

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

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

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

On July 31, 2007, December 20, 2007, and June 26, 2008, COFINA, issued $2,667 million Sales Tax Revenue Bonds Series 2007A and $1,333 million Series 2007B, $499.9 million Series 2007C and $737 million Series 2008A, respectively, to refinance certain series of the Act 164 PFC Bonds outstanding and the corresponding notes issued by PFC by certain series of the Commonwealth's agencies and component units. The Series 2007A, B, C, and 2008A proceeds were deposited in escrow with the Bank of New York/Mellon as master escrow agent to pay interest for appropriation bonds through February 2011.

On October 21, 2008, PFC requested the trustee to restructure certain escrow funds. The funds had been established on July 31, 2007, for the refunding of interest on certain of PFC's taxable bonds (taxable Refunded Interest Only Escrow Requirements). After the escrow fund had been originally established, a portion of the outstanding principal of the bonds, which were the basis for the calculation of the Taxable Refunded Interest Only Escrow Requirements, was extinguished with the proceeds of bonds issued by COFINA. In addition, all the maturities of the PFC Series 2000B Bonds held in escrow were also paid on December 1, 2008. The reduction of principal as described, decreased the Taxable Interest Only Escrow Requirements, and as such, PFC instructed the trustee to restructure the escrows. The restructuring analysis provided approximately $158 million of which approximately $78 million were received by COFINA and approximately $80 million were received by the Commonwealth. In addition, COFINA received approximately $17 million in contributions from PFC. Amounts received were recorded as a special item in the statement of activities during the year ended June 30, 2009.

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

Act No. 164 restructuring	$ 497,856
Health Facilities and Services Administration	39,004
Office for the Improvement of Public Schools of Puerto Rico	79,744
Puerto Rico Maritime Shipping Authority (PRMSA)	100,510
Property tax settlement	22,963
Total Commonwealth appropriation bonds	$ 740,077

Act No. 164 Restructuring

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

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

Year Ending June 30	Principal	Interest	Total
2011	$ -	$ 27,313	$ 27,313
2012	-	27,725	27,725
2013	-	22,488	22,488
2014	26,196	25,411	51,607
2015	26,284	24,683	50,967
2016–2020	110,613	104,284	214,897
2021–2025	40,921	69,539	110,460
2026–2030	217,037	46,384	263,421
2031–2032	97,444	1,805	99,249
Total	518,495	$349,632	$868,127
Plus unamortized premium	9,645		
Less deferred refunding loss	(30,284)		
Total	$497,856		

Health Facilities and Services Administration

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

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

Year Ending June 30	Principal	Interest	Total
2011	$ -	$ 2,040	$ 2,040
2012	-	2,040	2,040
2013	-	2,040	2,040
2014	10,665	1,720	12,385
2015	11,315	1,061	12,376
2016–2017	17,024	9,677	26,701
Total	$39,004	$18,578	$57,582

Office for the Improvement of Public Schools of Puerto Rico

Previous public schools infrastructure improvement loans provided additional funds for major repairs and improvements to the public schools in Puerto Rico. This activity is administered by the Office for the Improvement of the Public Schools of Puerto Rico (OIPS), included as part of the general fund of the primary government. These loans were refunded originally through the issuance of Commonwealth appropriation bonds pursuant to Act No. 85 of June 13, 1998 (Act 85). The new combined bonds bear interest at rates ranging from 4.10% to 5.75%. As of June 30, 2010, approximately $79.7 million was outstanding.

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

Year Ending June 30	Principal	Interest	Total
2011	$ -	$ 5,096	$ 5,096
2012	-	5,262	5,262
2013	6,100	3,651	9,751
2014	-	3,532	3,532
2015	-	3,532	3,532
2016–2020	7,940	17,476	25,416
2021–2025	20,190	14,846	35,036
2026	54,395	1,062	55,457
Total	88,625	$54,457	$143,082
Plus unamortized premium	2,364		
Less deferred refunding loss	(11,245)		
Total	$ 79,744		

Puerto Rico Maritime Shipping Authority

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

Year Ending June 30	Principal	Interest	Total
2011	$ -	$ 5,810	$ 5,810
2012	-	5,810	5,810
2013	-	5,810	5,810
2014	12,945	5,264	18,209
2015	12,415	4,640	17,055
2016–2020	59,240	13,244	72,484
2021–2025	15,905	5,657	21,562
2026–2030	13,765	1,814	15,579
Total	$ 114,270	$ 48,049	$ 162,319
Less unamortized discount	(134)		
Less deferred refunding loss	(13,626)		
Total	$ 100,510		

Property Tax Settlement

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

Year Ending June 30	Principal	Interest	Total
2014	$11,469	$ 6,922	$18,391
2015	10,779	7,631	18,410
Total	22,248	$14,553	$36,801
Plus accreted discount	8,163		
Less deferred charges arising from debt refunding	(7,448)		
Total	$22,963		

(e) Advance Refunding, Defeased Bonds, and Refunding of Commonwealth Appropriation Bonds

In prior years, the Commonwealth defeased certain general obligation and other bonds by placing the proceeds of the bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2010, approximately $1.3 billion of bonds outstanding from prior years advance refunding are considered defeased.

In addition, PBA has defeased certain revenue bonds in prior years by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debts. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the statement of net assets (deficit). As of June 30, 2010, approximately $940 million of PBA bonds are considered defeased.

(f) Notes Payable to Component Units and Private Banks

The Commonwealth has entered into various short-term line of credit agreements with GDB consisting of the following at June 30, 2010 (expressed in thousands):

Agency	Purpose	Interest Rate	Line of Credit	Outstanding Balance
Department of the Treasury	To fund information technology project	125 bp over GDB's commercial paper rate	$ 44,868	$ 14,784
Department of the Treasury	Purchase of mobile X-ray machines	125 bp over 3 months LIBOR	12,000	2,669
Department of the Treasury	Repay a draw of letter of credit securing the Puerto Rico Public Improvement bonds	150 bp over Federal Reserve Prime Rate	115,000	100,000
Department of Health	To cover diagnose and treatment costs	125 bp over 3 months LIBOR	8,000	5,718
Department of Housing	To reimburse to the Puerto Rico Housing Finance Authority, a blended component unit of GDB, for certain advances to the Santurce Revitalization Project	125 bp over 3 months LIBOR	19,282	11,516
			$199,150	$134,687

The Commonwealth financed certain other long-term liabilities through GDB and other component units. The outstanding balance at June 30, 2010 on the financing provided by GDB comprises the following, all within governmental activities (expressed in thousands):

GDB

Department of the Treasury	$ 671,694
Public Buildings Authority	161,980
Office of Management and Budget	129,263
Department of Education	115,010
Department of Transportation and Public Works	80,180
Department of Agriculture	65,338
Department of Justice	51,384
Department of Health	38,427
Police Department	34,450
Department of Housing	26,442
Puerto Rico Court Administration Office	25,360
Office of the Superintendent of the Capitol	16,727
Department of Recreation and Sports	9,315
Correction Administration	837
Notes payable to GDB	$1,426,407

Other Components Units:

Health facilities agreement payable to the Medical Science Campus of UPR	$ 43,888
Note payable to PREPA	19,000
Notes payable to other component units	$ 62,888

As of June 30, 2010, the Department of the Treasury of the Commonwealth has entered into various line of credit agreements with GDB amounting to a maximum of $1.8 billion for different purposes as presented in the following table. The purpose, interest rate, maturity date, and amount outstanding under each individual agreement at June 30, 2010 consist of the following (expressed in thousands):

Purpose	Interest Rate	Maturity	Line of Credit	Outstanding Balance
To finance payroll and operational expenditures of the Commonwealth for fiscal year 2006	5.50%	June 30, 2036	$ 741,000	$ 230,000
Resources to meet appropriations in annual budget of the Commonwealth (fiscal year 2004) and federal programs expenditures	125 bp over 3 month libor	June 30, 2018	640,000	150,000
Capital improvements projects of agencies and municipalities	150 bp over GDB's commercial paper rate	June 30, 2019	130,000	90,878
To pay agencies debt	125 bp over 3 month libor	September 30, 2012	100,000	75,000
To finance capital improvements projects for several government agencies	7%	June 30, 2018	105,000	74,753
Resources to cover the operational needs of the catastrophic disasters fund, (fiscal year 2004) of the Puerto Rico Health Insurance Administration and the Department of the Family	125 bp over 3 month libor	September 30, 2015	79,930	43,297
Acquisition of Salinas Correctional Facilities	125 bp over 3 month libor	June 30, 2018	15,000	7,766
Total			$ 1,810,930	$ 671,694

On April 27, 2009, GDB provided to the Public Buildings Authority (PBA) a non-revolving credit facility in the maximum principal amount of $98.5 million bearing interest on the unpaid principal amount of each advance at a fluctuating annual rate equal to 1.50% over and above the Prime Rate or at such other rate determined by GDB. The proceeds will be used exclusively for the payment of certain amounts due by PBA to its suppliers and service providers. The loan and the accrued interest are due on June 30, 2011 and will be payable from all funds generated by PBA and any other properties owned and pledged to GDB. As of June 30, 2010, $4 million were outstanding. PBA also maintains a $75 million line-of-credit agreement with GDB for payment of operational expenses.

Borrowings under this line of credit agreement bear interest at a fixed rate of 7%, and are payable upon maturity on June 30, 2018. As of June 30, 2010, $70 million were outstanding. In addition, on May 2, 2008, the Authority executed two Loan Agreements with GDB for the interim financing of its Capital Improvement Program in an amount not to exceed $226 million, bearing interest a variable rate of 1.5% over Prime Rate with a minimum rate of 5%. The loans and the accrued interest are due on October 31, 2010 and will be repaid from the proceeds of the next bond issuance of the Authority divided into $209 million on a tax-exempt basis and $16.9 million on a taxable basis. As of June 30, 2010, $88 million were outstanding. An additional line-of-credit was entered into between GDB and PBA on February 27, 2009 for a maximum amount of $64.5 million, bearing interest daily from the drawings date until its repayment at a rate of interest per annum equal to the Prime Rate plus 150 basis points not to exceed 12%. This loan was issued with the purpose of paying the interest component of certain outstanding revenue and revenue refunding bonds of the PBA. The loan and interest are payable upon maturity of the line of credit on June 30, 2010 and were paid with the proceeds from the Government Facilities Revenue Refunding Bonds, Series Q.

On June 5, 2006, the Office of Management and Budget entered into a $150 million line of credit agreement with GDB to provide economic assistance for disasters and emergencies. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR, and are payable upon the maturity of the line of credit on September 30, 2011. As of June 30, 2010, $129.3 million were outstanding.

On February 6, 2003, the Department of Education of the Commonwealth entered into a $25 million line of credit agreement with GDB for the purchase of equipment and for school improvements. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR, and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2010, $5 million was outstanding. On August 4, 2002, the Department of Education of the Commonwealth entered into an additional $140 million line of credit agreement with GDB in order to reimburse the Department of the Treasury of the Commonwealth for payments made on their behalf for state funds used to fund federal program expenditures. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and were payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2010, $110 million still remains outstanding related to the borrowing. The line of credit is expected to be repaid upon collection of the federal grants.

The DTPW entered into four line-of-credit agreements with GDB amounting to $118 million for improvement and maintenance of roads around the island. Borrowings under these lines of credit bear interest at a 7% rate and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2010, $80.2 million was outstanding.

On August 9, 1999, the Department of Agriculture of the Commonwealth entered into a $125 million non-revolving line-of-credit agreement with GDB to provide economic assistance to the agricultural sector, which sustained severe damages caused by Hurricane Georges in 1998. As of February 24, 2004 the line-of-credit increased by $50 million resulting in a total amount of $175 million. Borrowings under this line-of-credit agreement bear interest at variable rates based on 125 basis points over three-month LIBOR; starting on October 1, 2009 the outstanding balance will bear interest at a fixed rate of 7% and is payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2010, $65.3 million were outstanding.

On October 2, 2002, the Department of Justice of the Commonwealth entered into a $90 million line of credit agreement with GDB for the financing of 12 public improvement projects for the Municipality of Ponce pursuant to a court order. Borrowings under this line of credit agreement bear interest at variable rates and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2010, $19 million related to this line of credit agreement were outstanding. On August 8, 2005, the Department of Justice of the Commonwealth entered into an additional agreement (amendment) to increase line-of-credit of $90 million to $110 million to cover various projects in Ponce. Borrowings under this line of credit agreement bear interest at 7% rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2010, this line of credit agreement amounted to $32 million.

In August 2003, the Department of Health of the Commonwealth entered into a $30 million line of credit agreement with GDB in order to repay certain outstanding debts that the PRMeSA had with other agencies and suppliers. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2010, $23 million related to this line of credit agreement were outstanding. On November 8, 2004, the Department of Health entered into an additional $58.5 million line of credit agreement with GDB for the financing of a project of the Department of Health and PRMeSA. Borrowings under this line of credit agreement bear interest at variable rates based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on October 31, 2014. As of June 30, 2010, the outstanding balance of this line of credit agreement amounted to $15 million.

On July 29, 2004, the Police Department entered into a $48 million line of credit agreement with GDB for the acquisition of vehicles and high technology equipment. Borrowings under this line of credit agreement bear interest based on the All Inclusive Total Interest Cost of the Medium Term Notes, Series B, plus a mark-up of 1.25% and are payable upon the maturity of the line of credit on September 30, 2014. The outstanding balance of this line of credit agreement amounted to $34.5 million at June 30, 2010.

On December 3, 2007, the Department of Housing entered into a $30 million line-of-credit agreement with GDB for the purchase of Juan C. Cordero Dávila building. Borrowings under this line of credit agreement bear interest based on .75 basis points over three month LIBOR and are payable upon maturity of the line of credit on February 28, 2038. As of June 30, 2010, $26.4 million related to this line of credit agreement were outstanding.

On May 7, 2001, the Puerto Rico Court Administration Office (the "Office") entered into a $49.4 million no revolving line of credit agreement with GDB for operating purposes. Borrowings under this line of credit agreement bear interest at a variable rate of three month LIBOR plus 1%, not to exceed 8%. The Office must deposit $6 million a year, from the total fees collected on the filing of civil cases, in a special fund created by the Department of the Treasury of the Commonwealth, which is pledged for repayment until July 31, 2015. As of June 30, 2010, approximately $25.4 million remains outstanding.

On February 15, 2002, the Office of the Superintendent of the Capitol (Superintendent) entered into a $35 million line of credit agreement with GDB for the Office of the Superintendent of the Capitol parking's construction. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2010, $16.7 million remained outstanding from the line of credit agreement.

On January 18, 2005, the Department of Recreation and Sports (DRS) entered into a $17.2 million line of credit agreement with GDB for the development of a series of recreational projects at different municipalities. Borrowings under this line of credit agreement bear interest based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on June 30, 2018. The proceeds of the line of credit are used for development and improvement of recreational facilities As of June 30, 2010, $0.4 million were outstanding. An additional line-of-credit was entered into between GDB and the DRS in the maximum principal amount of $17.6 million bearing interest on the unpaid principal amount of each advance at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. The line-of-credit proceeds are used for development and improvement of recreational facilities. As of June 30, 2010, $9 million were outstanding.

On May 12, 2004, the Correction Administration of the Commonwealth entered into a $60 million line-of-credit agreement with GDB for improvements to certain correctional facilities. Borrowings under this line-of-credit agreement bear interest at fixed 7% rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2010, $0.8 million were outstanding.

As of July 1, 1999 debts of approximately $102 million payable to UPR, a discretely presented component unit, in relation to outstanding noninterest bearing debt accumulated in prior years by HFSA were transferred to the Commonwealth. On September 7, 2004, additional debts of approximately $71.2 million were also restructured and combined with the previous financing arrangement. As of June 30, 2010, $25 million remains outstanding of this arrangement. During the fiscal year 2009, the OMB and the UPR signed an intra-agency agreement amounting to $36 million to pay for appropriation for fiscal year 2007 and 2008. In April 2011 the OMB settled this intra-agency agreement for $18.6 million. Future amounts required to pay principal balances at June 30, 2010 are expected to be as follows (expressed in thousands):

Year Ending June 30	
2011	$ 7,570
2012	26,599
2013	8,000
2014	1,719
Total	$ 43,888

The noninterest bearing note payable to PREPA, a discretely presented component unit, consists of $19 million of fuel adjustment subsidy due by the Commonwealth and the refinancing during 2004 of $24.1 million of other accumulated debt by the Commonwealth's agencies with PREPA. The $19 million balance at June 30, 2010 is expected to be paid during the year ending June 30, 2011.

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

(g) Compensated Absences

Long-term debt includes approximately $1.5 billion of accrued vacation and sick leave benefits at June 30, 2010. The total liability of compensated absences recorded as governmental and business type activities amounted to $1.5 billion and $4.2 million, respectively.

(h) Net Pension Obligation

The amount reported as net pension obligation of approximately $8 billion represents the cumulative amount owed by the Commonwealth for the unfunded prior years' actuarially required pension contributions to the ERS, JRS, and the TRS (collectively known as the pension plans) (see note 20). The net pension obligation has been recorded as a liability in governmental activities in the accompanying statement of net assets (deficit).

(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, 2010. The minimum annual payments related to unpaid awards of both lotteries are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2011	$ 56,561	$ 8,434	$ 64,995
2012	26,540	9,145	35,685
2013	23,337	9,641	32,978
2014	20,447	9,911	30,358
2015	17,279	9,649	26,928
2016–2020	56,204	43,399	99,603
2021–2025	20,530	23,945	44,475
2026–2030	3,003	3,898	6,901
Total	$ 223,901	$ 118,022	$ 341,923

The minimum annual payments related to unpaid awards of Lotto excluded unclaimed prizes liability of approximately $5 million at June 30, 2010, which is reported as prizes payable — current portion.

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

(j) Claims Liability for Insurance Benefits

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

The Commonwealth establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. Insurance benefit claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The liability for insurance benefits claims is reported as a current liability in the accompanying statement of net assets (deficit) business type activities — and statement of net assets (deficit) proprietary funds. The liability as of June 30, 2010, amounts to $103 million.

(k) Obligations under Capital Lease Arrangements

The Commonwealth is obligated under capital leases with third parties that expire through 2038 for land, buildings, and equipment. At June 30, 2010, the capitalized cost of the land, buildings, and equipment amounted to approximately $271.1 million and is included in the accompanying government wide statement of net assets (deficit) within capital assets.

The present value of future minimum capital lease payments at June 30, 2010 reported in the accompanying government wide statement of net assets (deficit) is as follows (expressed in thousands):

Year Ending June 30	
2011	$ 23,416
2012	23,005
2013	26,257
2014	22,362
2015	22,107
2016–2020	105,651
2021–2025	100,986
2026–2030	100,011
2031–2035	58,595
2036–2038	14,775
Total future minimum lease payments	497,165
Less amount representing interest costs	(262,181)
Present value of minimum lease payments	$ 234,984

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2010, include the following (expressed in thousands):

Land	$ 7,960
Buildings	254,886
Equipment	8,269
Subtotal	271,115
Less accumulated amortization	(48,500)
Total	$ 222,615

Amortization charge applicable to capital leases and included within depreciation expense of capital assets amounted to $7.4 million in 2010.

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, 2010 under such operating leases were approximately $115 million.

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

Year Ending June 30	
2011	$ 105,411
2012	79,119
2013	64,704
2014	37,433
2015	22,565
2016–2020	47,418
2021–2025	23,949
2026–2030	11,702
2031–2035	4,048
Total future minimum lease payments	$ 396,349

(l) Other Long-term Liabilities

The remaining long-term liabilities of governmental activities at June 30, 2010 include (expressed in thousands):

Liability for legal claims and judgments (note 19)	$ 1,301,299
Liability for salary increases granted through legislation	318,375
Liability to U.S. Army Corps of Engineers (note 13)	205,000
Employees' Christmas bonus	153,348
Liability for federal cost disallowances (note 19)	102,790
Liability to the Puerto Rico System of Annuities and Pensions for Teachers	53,820
Other	57,922
Total	$ 2,192,554

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

The Commonwealth, through laws dating back to 1954, has granted eligible police agents, various salary-related benefits such as annual salary increases, awards for years of service, and monetary benefits awarded for special assignments, among others. As of June 30, 2010, the Commonwealth's liability related to these salary-related benefits amounted to approximately $318.4 million.

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

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

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

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

(m) Fiduciary Funds

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

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

	Balance at June 30, 2009	Additions/ Accretion	Balance at June 30, 2010
5.85% to 6.45% Term Bonds Series A due July 1, 2058	$ 1,592,875	$ 3,093	$ 1,595,968
6.25% to 6.55% Term Bonds Series B due July 1, 2058	1,075,774	16,950	1,092,724
6.15% to 6.50% Term Bonds Series C due July 1, 2043	300,349	158	300,507
Bond discounts	(7,639)	215	(7,424)
Total	$ 2,961,359	$ 20,416	$ 2,981,775

As of June 30, 2010, the outstanding balance of the Bonds is as follows (in thousands):

Description	
Series A Bonds:	
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	$ 52,198
Term Bonds, maturing in 2023, bearing interest at 5.85%	200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%	679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%	332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%	332,000
Total Series A Bonds outstanding	1,595,968
Series B Bonds:	
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%	160,833
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%	115,791
Term Bonds, maturing in 2031, bearing interest at 6.25%	117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%	270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%	429,000
Total Series B Bonds outstanding	1,092,724
Series C Bonds:	
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%	2,507
Term Bonds, maturing in 2028, bearing interest at 6.15%	110,000
Term Bonds, maturing in 2038, bearing interest at 6.25%	45,000
Term Bonds, maturing in 2043, bearing interest at 6.30%	143,000
Total Series C Bonds outstanding	300,507
Total bonds outstanding	2,989,199
Less bonds discount	(7,424)
Bonds payable — net	$ 2,981,775

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

Series B Bonds — The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the "Series B Term Bonds") and

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

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

Debt service requirements in future years on pension funding bonds as of June 30, 2010 are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2011	$ -	$ 166,519	$ 166,519
2012	-	166,519	166,519
2013	-	166,519	166,519
2014	-	166,519	166,519
2015	-	166,519	166,519
2016–2020	-	832,595	832,595
2021–2025	200,000	809,195	1,009,195
2026–2030	186,112	844,369	1,030,481
2031–2035	342,267	708,935	1,051,202
2036–2040	1,240,170	526,825	1,766,995
2041–2045	218,100	254,552	472,652
2046–2050	-	247,568	247,568
2051–2055	183,200	247,568	430,768
2056–2059	577,800	72,707	650,507
	2,947,649	$ 5,376,909	$ 8,324,558
Plus accreted interest	41,550		
Less unamortized discount	(7,424)		
Total	$ 2,981,775		

Pledge of Employer Contributions Pursuant to Security Agreement

The ERS entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the ERS pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the "Resolution").

The Resolution and the Security Agreement constitute a contract between the ERS and the Fiscal Agent, on behalf of owners of the bonds. The pledge, covenants and agreements of the ERS set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. The pledge by the ERS of the pledged funds, which consist of all employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

(n) Discretely Presented Component Units

Notes and appropriation bonds payable are those liabilities that are paid out of the component units' own resources. These notes and appropriation bonds do not constitute a liability or debt of the primary government.

The outstanding balance of notes payable at June 30, 2010 is as follows (expressed in thousands):

Component Unit	Interest rates	Maturity Through	Balance at June 30, 2009 as Restated	Additions	Reductions	Balance at June 30, 2010	Amounts Due Within One Year
Government Development Bank for Puerto Rico	2.5%–6.97%	2040	$2,098,725	$1,371,076	$ 338,045	$3,131,756	$158,614
Puerto Rico Electric Power Authority	3.36%–4.30%	2023	1,054,791	150,000	1,139,270	65,521	15,090
State Insurance Fund Corporation	6.31%– 6.84%	2019	48,283	-	4,480	43,803	2,160
Economic Development Bank for Puerto Rico	4.51%–6.30%	2023	293,000	181,321	18,000	456,321	-
Puerto Rico Industrial Development Company	5.10%–8.45%	2024	84,003	4,441	4,779	83,665	5,137
Puerto Rico Land Authority	2.55%	2031	2,821	-	2,121	700	-
Puerto Rico Ports Authority	Variable	2028	605,449	9,196	43,832	570,813	173,334
Agricultural Services and Development Administration	Variable	2011	11,354	5,604	11,354	5,604	5,604
Puerto Rico Trade and Export Company	4.75%–6.14%	2030	200,570	76,618	80,000	197,188	16,273
Puerto Rico Aqueduct and Sewer Authority	3.15%	2012	247,436	-	2,748	244,688	2,944
Puerto Rico Metropolitan Bus Authority	6.68%	2012	42,130	-	1,720	40,410	4,720
Total notes payable component units			$4,688,562	$1,798,256	$1,646,349	$4,840,469	$383,876

Debt service requirements on component units' notes payable with fixed maturities at June 30, 2010 were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2011	$ 383,876	$ 242,189	$ 626,065
2012	942,016	206,673	1,148,689
2013	715,732	166,558	882,290
2014	459,385	137,381	596,766
2015	651,178	109,350	760,528
2016–2020	1,100,594	385,731	1,486,325
2021–2025	456,024	138,700	594,724
2026–2030	115,062	41,376	156,438
2031–2035	4,114	-	4,114
2036–2040	5,596	-	5,596
Premium, net	6,892	-	6,892
Total	$4,840,469	$1,427,958	$6,268,427

The table that follows represents debt service payments on a component unit's variable-rate note payable and the net payments on associated hedging derivative instrument as of June 30, 2010. Although interest rates on variable rate debt and the current reference rate of hedging derivative instrument change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rate of the hedging derivative instrument on June 30, 2010 will remain in the same of their term.

Year Ending June 30	Variable-Rate Note Payable Principal	Variable-Rate Note Payable Interest	Hedging Derivative Instruments, Net	Total
2011	$ 22,747	$ 12,776	$ 15,621	$ 51,144
2012	22,747	12,025	15,621	50,393
2013	22,747	11,273	15,621	49,641
2014	22,747	10,521	15,621	48,889
2015	22,747	9,770	15,621	48,138
2016–2020	113,737	37,575	31,243	182,555
2021–2025	113,737	18,788	-	132,525
2026–2030	45,496	2,254	-	47,750
Total	$ 386,705	$ 114,982	$ 109,348	$ 611,035

Commonwealth appropriation bonds payable outstanding at June 30, 2010 are as follows (expressed in thousands):

Component Unit	Interest rates	Maturity Through	Balance at June 30, 2009	Additions	Reductions	Balance at June 30, 2010	Amounts Due Within One Year
Puerto Rico Aqueduct and Sewer Authority	1.25% - 6.15%	2031	$676,794	$ -	$5,245	$671,549	$8,615
Puerto Rico Tourism Company	4.00%–6.15%	2031	60,664	-	136	60,528	-
Land Authority of Puerto Rico	2.55%	2031	76,715	-	-	76,715	-
Government Development Bank for Puerto Rico	4.10%–5.25%	2031	4,812	-	-	4,812	-
Puerto Rico Infrastructure Financing Authority	0.539%	2031	4,956	-	-	4,956	-
Puerto Rico Solid Waste Authority	1.25%–5.75%	2031	10,689	-	-	10,689	-
Total Commonwealth appropriation bonds — component units			$834,630	$ -	$5,381	$829,249	$8,615

Debt service requirements on component units' appropriation bonds payable with fixed maturities at June 30, 2010 were as follows (expressed in thousands):

Year Ending June 30	**Principal**	**Interest**	**Total**
2011	$ 8,615	$ 45,307	$ 53,922
2012	8,985	45,904	54,889
2013	-	34,372	34,372
2014	16,943	34,898	51,841
2015	17,338	34,304	51,642
2016–2020	110,777	154,175	264,952
2021–2025	127,350	123,960	251,310
2026–2030	383,904	78,881	462,785
2031–2035	170,346	4,318	174,664
Premium, net	37,723	-	37,723
Deferred loss, net	(52,732)	-	(52,732)
Total	$ 829,249	$ 556,119	$ 1,385,368

Bonds payable outstanding at June 30, 2010 are as follows (expressed in thousands):

Component Unit	**Interest Rates**	**Maturity Through**	**Balance at June 30, 2009**	**Additions**	**Reductions**	**Balance at June 30, 2010**	**Amount Due Within One Year**
Government Development Bank for Puerto Rico	2.6%-6.5%	2039	$ 959,133	$ 259,650	$ 244,334	$ 974,449	$ 67,605
Puerto Rico Infrastructure Financing Authority	Variable	2046	3,034,250	-	36,189	2,998,061	1,038,860
University of Puerto Rico	3%-5.75%	2036	698,039	2,341	23,915	676,465	29,337
Puerto Rico Municipal Finance Authority	3.70%–6.00%	2030	1,295,050	-	97,146	1,197,904	90,200
Puerto Rico Ports Authority	5.00%–7.30%	2028	54,655	46,556	58,545	42,666	-
Puerto Rico Aqueduct and Sewer Authority	4.25%-6.15%	2050	1,890,234	23,645	4,449	1,909,430	2,992
Puerto Rico Highways and Transportation Authority	2.25%–6.50%	2046	7,033,431	5,462	521,154	6,517,739	120,095
Puerto Rico Industrial Development Company	5.10%–6.75%	2028	265,638	377	17,050	248,965	11,875
Puerto Rico Convention Center District Authority	4.00%–5.00%	2036	472,909	-	6,949	465,960	8,640
Puerto Rico Electric Power Authority	3.00%–7.00%	2035	6,008,385	2,573,961	1,087,024	7,495,322	172,278
Total bonds payable-component units			$21,711,724	$2,911,992	$2,096,755	$22,526,961	$1,541,882

Debt service requirements on component units' bonds payable with fixed maturities at June 30, 2010 were as follows (expressed in thousands):

Year Ending June 30,	**Principal**	**Interest**	**Total**
2011	$ 1,541,882	$ 1,061,326	$ 2,603,208
2012	558,868	1,009,657	1,568,525
2013	615,735	987,829	1,603,564
2014	626,290	958,966	1,585,256
2015	942,138	996,563	1,938,701
2016–2020	2,637,742	3,120,298	5,758,040
2021–2025	3,706,347	3,470,716	7,177,063
2026–2030	3,923,226	2,465,655	6,388,881
2031–2035	2,881,197	1,745,938	4,627,135
2036–2040	3,258,737	1,068,979	4,327,716
2041–2045	1,772,935	405,925	2,178,860
2046–2050	855,083	80,522	935,605
Premium, net	249,448	-	249,448
Unacreted discount	(691,783)	-	(691,783)
Deferred loss	(350,884)	-	(350,884)
Total	$22,526,961	$17,372,374	$39,899,335

The table that follows represents debt service payments on certain component units' variable-rate bonds and the net payments on associated hedging derivative instruments as of June 30, 2010. Although interest rates on variable rate debt and the current reference rates of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rates of hedging derivative instruments on June 30, 2010 will remain the same for their term.

Year Ending June 30,	**Variable-Rate Bonds**		**Hedging Derivative Instruments, Net**	**Total**
	Principal	**Interest**		
2011	$ -	$ 9,401	$ 34,603	$ 44,004
2012	-	9,401	34,598	43,999
2013	-	9,401	34,608	44,009
2014	-	9,401	34,603	44,004
2015	-	9,401	34,603	44,004
2016-2020	87,670	44,632	170,236	302,538
2021-2025	107,235	38,598	151,649	297,482
2026-2030	402,085	30,111	119,024	551,220
2031-2035	72,800	14,752	68,250	155,802
2036-2040	-	14,101	65,777	79,878
2041-2045	155,620	9,871	28,667	194,158
2046-2050	233,440	426	374	234,240
Total	$ 1,058,850	$ 199,496	$ 776,992	$ 2,035,338

Several component units have defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old debts. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the statement of net assets (deficit). As of June 30, 2010, the following bonds are considered defeased (in million):

	Amount Outstanding
Puerto Rico Electric Power Authority	$ 4,079
Puerto Rico Highways and Transportation Authority	2,527
Puerto Rico Municipal Finance Agency	243
Total	$ 6,849

16. GUARANTEED AND APPROPRIATION DEBT

(a) Guaranteed Debt

The Commonwealth may provide guarantees for the repayment of certain borrowings of component units to carry out designated projects. At June 30, 2010, the following component unit debts are guaranteed by the Commonwealth (expressed in thousands):

	Maximum Guarantee	Outstanding Balance
Blended component unit —		
Public Buildings Authority (1)	$ 3,325,000	$ 3,180,587
Discretely presented component units:		
Government Development Bank for Puerto Rico	267,000	267,000
Puerto Rico Aqueduct and Sewer Authority	972,627	972,627
Port of the Americas Authority	250,000	204,713
Total	$ 4,814,627	$ 4,624,927

(1) Act No. 95 of July 26, 2010 amended Article 6(a) of Act No. 56 of June 19, 1958 to increase the Commonwealth's maximum guarantee over the Public Buildings Authority's borrowings from $3,325 million to $4,325 million.

The Commonwealth has guaranteed the payments of rentals of its departments, agencies, and component units to PBA, a blended component unit, under various lease agreements executed pursuant to the law that created PBA. Such rental payments include the amounts required by PBA for the payment of principal and interest on the guaranteed debt as authorized by law. The rental commitment to cover principal and interest on the guaranteed debt (excluding premiums and deferred refunding losses) as of June 30, 2010 and for the next five years and thereafter follows (expressed in thousands):

Year Ending June 30	**Principal**	**Interest**	**Total**
2011	$ 84,850	$ 167,323	$ 252,173
2012	81,002	163,671	244,673
2013	78,580	159,823	238,403
2014	74,135	155,261	229,396
2015	77,920	151,199	229,119
2016–2020	392,130	683,674	1,075,804
2021–2025	408,835	565,790	974,625
2026–2030	610,395	424,207	1,034,602
2031–2035	787,352	240,604	1,027,956
2036–2039	559,190	50,975	610,165
	3,154,389	$ 2,762,527	$ 5,916,916
Add (deduct) accreted discount	26,198		
	$ 3,180,587		

Rental income of PBA funds amounted to approximately $332 million during the year ended June 30, 2010, of which $153 million was used to cover debt service obligations.

Act No. 45 of July 28, 1994 states that the Commonwealth guarantees the payment of principal and interest of all outstanding bonds at the date the law was enacted and of all future bond issues to refinance those outstanding bonds of PRASA. Act No. 140 of August 3, 2000 amended Act No. 45 to extend the Commonwealth guarantee to include the principal and interest payments of the Rural Development Serial Bonds and the loans under the State Revolving Fund Program (SRFP) outstanding at the effective date of Act No. 140, and of all future bonds and SRFP loans that may be issued through June 30, 2005. Act No. 386 of September 21, 2004 extended the Commonwealth guarantee to June 30, 2010. Act. No. 75 of July 12, 2010 amended section 1 of Act No. 45 of July 28, 1994 to extend the Commonwealth guarantee over the Rural Development and SRFP's borrowings to June 30, 2015.

On March 18, 2008, PRASA issued approximately $284.8 million of Revenue Refunding Bonds, Series A and B (the "2008 Revenue Refunding Bonds"), (guaranteed by the Commonwealth) to refund PRASA's outstanding Revenue Refunding Bonds, Series 1995 (guaranteed by the Commonwealth) in the amount of approximately $262.8 million. The 2008 Revenue Refunding Bonds bear interest at rates from 5.80% to 6.10% per annum with maturity dates ranging from July 1, 2021 to July 1, 2034. The outstanding balance of the Rural Development Serial Bonds, SRFP and 2008 Revenue Refunding Bonds loans at June 30, 2010 amounted to $312.1 million, $375.8 million and $284.8 million, respectively.

Adjustable Refunding Bonds — The Commonwealth guarantees the Adjustable Refunding Bonds, Series 1985, issued by GDB, a discretely presented component unit. The outstanding balance of these bonds amounted to $267 million at June 30, 2010. On August 1, 2008, GDB repurchased the $267 million outstanding of its adjustable refunding bond as a result of significant increases in the interest rate of these auction rate bonds. On December 30, 2009, GDB remarketed and reissued these bonds at a fixed rate of 4.75%, maturing on December 1, 2015. These notes are subject to redemption at the option of GDB on or after June 1, 2013 at a redemption price of 101% through May 31, 2014 and 100% after June 1, 2014.

The Puerto Rico Housing Bank, a former component unit of the Commonwealth, which merged with GDB during 2002, insured mortgages granted to low and moderate income families through its mortgage loan insurance program. The Commonwealth guarantees up to $75 million of such mortgage loans. As of June 30, 2010, the mortgage loan insurance program was insuring loans aggregating $621.0 million. Currently, the Commonwealth has not been called to make any direct payments pursuant to these guarantees.

At various times during fiscal years ended 2005 and 2006, the Port of the Americas Authority entered into bond purchase agreements with GDB, whereby GDB agreed to disburse to the Port of the Americas Authority from time to time certain bond principal advances up to a maximum aggregate principal amount of $70 million (Port of the Americas Authority 2005 Series A Bond), $40 million (Port of the Americas Authority 2005 Series B Bond), and $140 million (Port of the Americas Authority 2005 Series C Bond). The proceeds of the bonds are to be used to finance the cost of development and construction of the Port of the Americas. The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable in full on January 1, 2015 and January 15, 2015. The principal amount may be paid with any of the following: (i) a long-term bond issuance once the projects are completed; (ii) other revenue of the Port of the Americas Authority; (iii) or legislative appropriations as established in Act No. 409 of September 22, 2004 (Act No. 409). Principal and interests payments are guaranteed by the Commonwealth by Act No. 409. As of June 30, 2010, the principal outstanding under those bond purchase agreements amounted to $204.7 million.

(b) Appropriation Debt

At June 30, 2010, the outstanding balances of debt payable by Commonwealth appropriations, as described in note 15(d), which are included in the individual financial statements of the following discretely presented component units, are as follows (expressed in thousands):

Puerto Rico Public Finance Corporation (a blended component unit of GDB)	$ 1,626,899
Puerto Rico Aqueduct and Sewer Authority	685,950
Special Communities Perpetual Trust	376,095
Puerto Rico Convention Center District Authority	151,076
Agricultural Services and Development Administration	103,518
Puerto Rico Solid Waste Authority	68,085
Puerto Rico Industrial Development Company	43,403
Puerto Rico Housing Finance Authority (a blended component unit of GDB)	13,921
Company for the Integral Development of the “Península de Cantera”	10,779
National Parks Company of Puerto Rico	6,107
Government Development Bank for Puerto Rico (GDB)	4,811
Puerto Rico Infrastructure Financing Authority	4,956
Institute of Puerto Rican Culture	144
Total	$ 3,095,744

These balances are reported in the statement of net assets (deficit) as Commonwealth appropriation bonds payable and notes payable.

17. CONDUIT DEBT OBLIGATIONS AND NO COMMITMENT DEBT

From time to time, certain of the Commonwealth's component units issue revenue bonds to provide financial assistance to private sector entities for the acquisition and construction of transportation, environmental, industrial, tourism, educational, and commercial facilities, deemed to be in the public interest and that are expected to provide benefits to Puerto Rico. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private sector entity served by the bond issuance. Neither the Commonwealth nor any political subdivision or component unit thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the basic financial statements of the issuing entities. As of June 30, 2010, conduit debt obligations consisted of the following bonds issued by component units (expressed in thousands):

Issuing Entity	Issued Since Inception to Date	Amount Outstanding
Discretely presented component units:		
Puerto Rico Ports Authority	$ 155,410	$ 46,326
Puerto Rico Highways and Transportation Authority	270,000	158,000
Government Development Bank for Puerto Rico	1,147,475	816,270
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	5,997,000	1,328,000
Total	$ 7,569,885	$ 2,348,596

(a) Puerto Rico Ports Authority (PRPA)

PRPA issued $39,810,000 in Special Facilities Revenue Bonds under the provisions of a trust agreement dated June 1, 1993, and $115,600,000 in Special Facility Revenue Bonds, under the provisions of a trust agreement dated May 1, 1996, between PRPA and a private bank. The proceeds from the sale of the bonds were used to finance the construction, acquisition of equipment, and improvement of certain facilities at Luis Munoz Marin International Airport, for the benefit of a major private airline. The property is owned by PRPA and leased to the private company. These bonds are limited obligations of PRPA, and are payable solely from and secured by a pledge of certain payments made under the Special Facilities Agreement with the private company and certain other moneys. Neither the credit of the Commonwealth nor that any of its political subdivisions is pledged for the repayment of these bonds. In addition, the bonds are unconditionally guaranteed by the private company's parent company. Pursuant to the agreements between PRPA and the private company, the private company has agreed to pay amounts sufficient to pay the principal of and premium, if any, and interest on the bonds. The bonds are not collateralized by any property, but are payable solely from certain pledged payments by the private company under the agreement or by the private company's parent company under its unconditional guarantee.

(b) Puerto Rico Highways and Transportation Authority (PRHTA)

In March 1992, PRHTA issued Special Facility Revenue Bonds, 1992 Series A, B and C for approximately $117 million for the construction of a toll bridge. The proceeds from the sale of these bonds were transferred by PRHTA to a private entity, Autopistas de Puerto Rico ("Autopistas"), pursuant to a signed concession agreement for the design, construction, operation and maintenance of the bridge. On October 30, 2003, PRHTA issued Special Facility Revenue Refunding Bonds, 2004 Series A, amounting to approximately $153 million for the purpose of refunding PRHTA's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by PRHTA to Autopistas pursuant to a new loan agreement by and between Autopistas and PRHTA. The bonds shall be paid from the proceeds received by Autopistas from the operation of the bridge.

Under certain circumstances, the concession agreement may be terminated and PRHTA is then obligated to assume the Autopista's entire obligation to pay principal of, and interest on, the bonds outstanding, which pursuant to the signed agreement, will be paid from the net revenues of the use and operation of the bridge. PRHTA does not currently expect the concession agreement to terminate. The outstanding bonds (including accrued interest) at June 30, 2010 amounted to approximately $158 million.

(c) GDB

In December 2003, GDB, through its Housing Finance Authority, issued $663 million in Capital Fund Program Bonds Series 2003 to lend the proceeds to the Public Housing Administration in its financing of improvements to various public low and moderate income housing projects. These bonds are limited obligations of the Housing Finance Authority, which will be paid solely from an annual allocation of public housing capital funds when received from the U.S. Department of Housing and Urban Development and other funds available under the bond indenture; Accordingly, these bonds are considered no commitment debt and are excluded, along with the related assets held in trust, from the accompanying basic financial statements. The outstanding balance of these bonds amounted to $360 million at June 30, 2010.

On August 1, 2008, the Housing Finance Authority issued the Capital Fund Modernization Program Subordinate Bonds amounting to $384,475,000 and the Housing Revenue Bonds amounting to $100,000,000. The proceeds from the issuance were mainly used to finance a loan to a limited liability company and pay the costs of issuance. The $384,475,000 bonds are limited obligations of the Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by the U.S. Department of Housing and Urban Development, with an outstanding balance of $356,270,000 at June 30, 2010. The $100,000,000 bonds are also limited obligations of the Housing Finance Authority, payable from amounts deposited in escrow accounts with a trustee and the proceeds of a loan to be made by the Housing Finance Authority to the limited liability company using moneys received as a grant from the Department of Housing of Puerto Rico. Payment of principal of the Housing Revenue Bonds is also secured by an irrevocable standby letter of credit issued by GDB. These bonds are considered no-commitment debt and, accordingly, are excluded along with the related assets held in trust, from the Housing Finance Authority's financial statements.

(d) AFICA

AFICA's revenue bonds are special and limited obligations of AFICA and, except to the extent payable from bond proceeds and investments thereof, will be payable solely from and secured by a pledge and assignment of the amounts payable under the loan agreements between AFICA and the borrowers. Furthermore, payment of principal and interest on the revenue bonds is unconditionally guaranteed by the borrowers, their parent companies, or letters of credit generally issued by major U.S. banks or U.S. branches of international banks.

The revenue bonds are considered conduit debt and do not constitute a debt or a pledge of the good faith and credit of AFICA or the Commonwealth or any political subdivision thereof.

In connection with the issuance of revenue bonds, AFICA enters into trust agreements, whereby AFICA assigns and pledges to the trustees, for the benefit of the holders of the revenue bonds, (1) all amounts receivable by AFICA in repayment of the amounts due under the loan agreements; (2) any rights, title, and interest of AFICA in the proceeds derived from the issuance of the revenue bonds and of any securities in which moneys in any fund or account created by the trust agreements or loan agreements are invested and the proceeds derived therefrom; and (3) AFICA's rights, title, and interest in and to the loan agreements, subject to AFICA's retention of certain rights, including the right to collect moneys payable to AFICA, which are not received with respect to repayment of the loans.

Since inception and up to June 30, 2010, AFICA has issued revenue bonds aggregating to $5,997 million, $1,328 of which was outstanding as of June 30, 2010. Of the revenue bonds outstanding at June 30, 2010, $755 million represent industrial and commercial revenue bonds; $106 million, tourism related revenue bonds; $141 million, hospital revenue bonds; and $326 million, educational revenue bonds. Pursuant to the loan agreements covering the issuance of these bonds, corporations and partnerships operating in Puerto Rico borrowed the proceeds from the bond issuances by AFICA.

18. RISK MANAGEMENT

The following describes the risk management programs separately administered by certain discretely presented component units:

(a) GBD

During fiscal year 2010, as part of its risk management activities and as a condition to provide financing support to certain public corporations, GDB has entered into fiscal oversight agreements with such public corporations. The agreements require the public corporations, among other, to implement a comprehensive expense reduction program, including certain fiscal oversight controls, subject to laws and existing agreements of the public corporations, design to minimize future tariff increases to households and the private sector, and to protect and improve the credit rating of the public corporations, so that the public corporations may obtain adequate financing to fund its capital expenditure requirements and to operate its infrastructure in an efficient and reliable manner and in compliance with applicable laws and regulations. GDB's agreement to provide current financing and any future financing is expressly conditioned upon the public corporations' compliance with the covenants established in the fiscal oversight agreement and GDB's right to monitor and enforce such compliance. These agreements will be in effect until the public corporations have regained a level of financial stability and are able to secure long-term financing that will result in the continued stability of the public corporations' operations and financial condition.

Also, as part of its role of providing financing to the Commonwealth and its instrumentalities to further the economic development of Puerto Rico, and as part of its risk management activities, GDB is renegotiating and/or restructuring payment terms of the loans to certain governmental entities. Some of the renegotiations/restructurings extend the period for principal repayment but provide for repayment of the contractual interest in accordance with the original terms.

Other Risks Related to Mortgage and Loan Servicing and Insurance Activities — Certain loan portfolios of the Housing Finance Authority are administered by private servicers who are required to maintain an error and omissions insurance policy. The Housing Finance Authority has a program to manage the risk of loss on its mortgage loan lending and insurance activities.

(b) UPR

UPR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Through January 1993, UPR was insured under claims-made insurance policies with respect to medical malpractice risks for $250,000 per occurrence up to an annual aggregate of $500,000. Subsequent to such date, UPR was unable to obtain insurance at a cost it considered to be economically justifiable; consequently, UPR is now self-insured for such risks. Under Act No. 98 of August 24, 1994, the responsibility of UPR is limited to a maximum amount of $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Self-insured risk liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the claims liability amount in fiscal years 2010 and 2009 were as follows (expressed in thousands):

	2010	2009
Claims payable — July 1	$ 27,354	$ 19,124
Incurred claims and changes in estimates	(2,370)	9,970
Payments for claims and adjustments expenses	(1,559)	(1,739)
Claims payable — June 30	$ 23,425	$ 27,355

UPR continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(c) PREPA

PREPA is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. PREPA obtains insurance policies covering all-risk property (excluding transmission and distribution lines), boiler and machinery, and public liability. The all-risk property and boiler and machinery policies have a combined coverage of $750 million per occurrence. The policies' self-retention in case of earthquake and windstorm losses is $25 million and $2 million for all other covered risks. The public general liability policy covers property damage and bodily injury to third parties with a $75 million aggregate limit in excess of the self-retention limit of $1 million per occurrence.

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

Changes in the balances of the health insurance program and other self insurance risks during fiscal years 2010 and 2009 were as follows (expressed in thousands):

	2010	2009
Claims payable — July 1	$ 5,552	$ 7,154
Incurred claims	114,179	136,348
Claim payments	(114,134)	(137,950)
Claims payable — June 30	$ 5,597	$ 5,552

Claims payable are a component of accounts payable and accrued liabilities in the accompanying statement of net assets (deficit).

(d) SIFC

SIFC provides workers' compensation insurance to public and private employees. This insurance covers workers against injuries, disability, or death because of work or employment related accidents, or because illness is suffered as a consequence of their employment. SIFC establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. The liability includes estimates for cases reported that have not been adjudged and cases incurred but not reported. The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid benefits and benefit adjustment expenses for the two most recent fiscal years (expressed in thousands):

	2010	2009
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$ 738,475	$ 702,355
Total incurred benefits	556,650	533,820
Total benefit payments	(516,882)	(497,700)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$ 778,243	$ 738,475

The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as liabilities for automobile accident insurance and workmen compensation claims in the accompanying statement of net assets (deficit).

The liability for incurred but unpaid benefits and benefit adjustment expenses is based on historical claims experience data, assumptions and projections as to future events, including claims frequency, severity, persistency, and inflationary trends determined by an independent actuarial study. This liability has been discounted at 3.80% in 2010 and 3.25% in 2009. SIFC's management believes that discounting such liability results in a better matching of costs and revenues since compensation benefits have a long payment cycle. The assumptions used in estimating and establishing the liability are reviewed annually based on current circumstances and trends.

SIFC's management believes that the liability for incurred but unpaid benefits and benefit adjustment expenses, actuarially determined at June 30, 2010, is a reasonable estimate of the ultimate net cost of settling benefits and benefit expenses incurred. Because actual benefit costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other social and economic factors, the process used in computing the ultimate cost of settling benefits and expenses for administering benefits is necessarily based on estimates. The amount ultimately paid may be above or below such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur.

(e) AACA

AACA operates a system of compulsory insurance for vehicles licensed to be used on public roads and highways in Puerto Rico. This insurance covers death and bodily injuries caused by automobile accidents. The annual premium is $35 per motor vehicle.

The following table provides a reconciliation of the beginning and ending liability for the future benefits for the two most recent fiscal years (expressed in thousands):

	2010	2009
Liability for incurred but unpaid benefits and benefit adjustment expenses at beginning of year	$ 166,352	$ 115,085
Total incurred benefits	74,090	127,552
Total benefit payments	(74,515)	(76,285)
Liability for incurred but unpaid benefits and benefit adjustment expenses at end of year	$ 165,927	$ 166,352

The liability for future benefits is reported as liability for automobile accident insurance and workmen compensation claims in the accompanying statement of net assets (deficit). The liability covers the estimated cost of all future benefits related to claims incurred but not reported during the year. Future benefits include death and funeral, disability and accident and health benefits. AACA has recorded this liability, including administrative expenses for claim processing, based on the results of an actuarial report prepared by an independent actuary.

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

(f) PRIFA

PRIFA is responsible for assuring that its property is properly insured. Annually, PRIFA compiles the information of all property owned and its respective market value and purchases its property and casualty insurance policies. Insurance coverage for fiscal year 2010 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

(g) PRASA

PRASA has acquired commercial insurance to mitigate its exposure to certain losses involving real and personal property (including windstorm, flood and earthquake damages) and comprehensive general and automobile claims. Each commercial insurance policy maintained by PRASA contains specific policy limits and deductibles. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

19. COMMITMENTS AND CONTINGENCIES

Primary Government — The Commonwealth is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Commonwealth only for causes of actions set forth in said Act to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Commonwealth may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgments.

With respect to pending and threatened litigation, excluding the litigation mentioned in the following paragraphs, the Commonwealth reported approximately $421 million as an amount to cover for awarded and anticipated unfavorable judgments at June 30, 2010. This amount was included as other long-term liabilities in the accompanying statement of net assets (deficit), and represents the amount estimated as probable liability or a liability with a fixed or expected due date that will require future available financial resources for this payment. The amounts claimed exceed $7 billion; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claims are excessive and exaggerated. Management believes that the ultimate liability in excess of amounts provided, if any, would not be significant.

The Commonwealth is a defendant in two parallel lawsuits, one filed in the state court and the other at the federal court. The plaintiffs are various primary healthcare centers seeking to recover from the Commonwealth $800 million of Medicaid funds retained by the Department of Health of the Commonwealth since 1997. In February 2005, United States Court of Appeals for the First Circuit determined that the Commonwealth must return any funds withheld because of noncompliance with a federal law. As of June 30, 2010, the Commonwealth accrued $280 million for this legal contingency.

The Commonwealth is a defendant in a class action presented by parents of special education students in the areas of education and healthcare. In October 2006, the State Court of Appeals decided in favor of the parents' request to include damage claims pursuant to the same class action case although not as a remedy in the class action per se. The court now may award damages to the members of the class action and to do so it may look at the claims by dividing them into groups or consider each case individually. This will require that the parents prove the damages suffered. The Commonwealth plans to defend vigorously each individual case. As of June 30, 2010, the Commonwealth accrued $600 million for this legal contingency.

The Commonwealth receives financial assistance from the federal government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Substantially, all grants are subject to audit under Circular A-133 of the Office of Management and Budget of the United States of America (OMB Circular A-133), all of which are performed at the individual department or agency level. Disallowance as a result of these audits may become liabilities of the Commonwealth. At June 30, 2010, based on an evaluation of pending federal disallowances, the Commonwealth has recorded approximately $103 million as other long-term liabilities in the accompanying statement of net assets (deficit). Expenditures that are still subject to audit could be disallowed but management believes any such future disallowances would not be material to the basic financial statements.

Construction commitments at June 30, 2010, entered by PBA, amounted to approximately $72.7 million. In addition, the Commonwealth's construction commitments for public housing facilities amounted to approximately $322 million at June 30, 2010.

On November 23, 1998, a global settlement agreement (the "Global Agreement") was entered into by and between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies are to continue making contributions in perpetuity. Pursuant to Act No. 173 of July 30, 1999, which created the Children's Trust (a blended component unit), the Commonwealth assigned and transferred to the Trust all payments that the Commonwealth is entitled to receive under the Global Agreement. Payments received under the agreement and recognized as revenue during the year ended June 30, 2010 amounted to approximately $76 million.

Discretely Presented Component Units — in the normal course of their operations, various component units are subject to guarantees, actions brought by third parties seeking damages or entering into commitments. Such actions are disclosed in the separately issued reports of the component units, some of which are summarized below:

(a) GDB

On August 18, 2002, the Legislature approved Law No. 198, which creates the Cooperative Development Investment Fund. The purpose of this fund is to promote the development of cooperative entities. This fund will be capitalized through contributions to be provided by GDB up to $25 million to be matched by cooperative entities. As of June 30, 2010, GDB has contributed $16.2 million to the Cooperative Development Investment Fund, $624,000 of which were contributed during the year ended June 30, 2010.

The Development Fund has entered into an agreement with the Economic Development Bank for Puerto Rico (EDB) whereby the Development Fund would guarantee a portion of loans granted by EDB under a government program named “The Key for Your Business” (the “Program”). Under the agreement, the Development Fund would assign $10 million of its capital for the Program. The Development Fund guarantees one-third of the outstanding principal balance of each loan plus accrued interest and certain other charges. On August 28, 2008, the Development Fund and EDB amended the agreement to increase from $10 million to $15 million the Development Fund’s capital designated for the Program. The Development Fund charges one percent of the loan amount as guarantee fee and no loan can exceed $50,000. At June 30, 2010, outstanding guarantees amounted to approximately $8 million, and the allowance for losses on guarantees amounted to approximately $2.5 million.

The Housing Finance Authority acts as a servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2010, the principal balance of the mortgage loans serviced for others is approximately as follows (expressed in thousands):

R-G Mortgage, Inc.	$ 1,496
Popular Mortgage, Inc.	85
Office for the Administration of the Assets of the Urban Renovation and Housing Corporation or its successor without guaranteed mortgage loan payments	44
Total	$ 1,625

GDB and certain of its component units are defendants in several lawsuits arising out of the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material adverse effect on the financial position and results of operations of GDB or its component units.

(b) PRHTA

On December 24, 2003, Siemens Transportation Partnership Puerto Rico S.E. (“STT”) and others filed legal claims against PRHTA in the amounts of approximately $50 million for damages, amounts withheld, acceleration of work and other causes of action in connection with the construction of the Urban Train Project. On November 24, 2004, PRHTA filed a counter claim against STT for liquidating damages as stipulated in the contract in the amount of $100 million. PRHTA amended its counter claim on November 17, 2008 to include other credits against STT.

Therefore, the total claimed damages were increased to $233 million. Under the contractual obligation between STT and PRHTA, STT was responsible to defend, indemnify, and hold harmless PRHTA from claims asserted by third parties against the PRHTA for the acts and omissions by STT, or any of its subcontractors, in the project. Presently, some Alignment Sections Contractor (ASC's) has asserted claims against PRHTA for damages suffered in part by STT actions or omissions amounting to $150 million, approximately. On September 22, 2005, PRHTA filed a third party complaint for breach of contract, liquidated damages and others against various ASC's in the amount of $25 million. On April 20, 2007, the Administrative Judge designated this case as a complex litigation and remitted it to the Chief Justice of the Supreme Court who has to assign a presiding judge for the case. On August 28, 2008, STT amended its complaint to adjust the amount claimed to $114 million. On April 21, 2009, in accordance to the calendar approved by the Court through its order dated May 6, 2009, the PRHTA filed and amended third party complaint in which, aside from amending its allegation to the already appearing parties, the guarantors and sureties, and assurance companies were brought to the case. In June 2009, a committee was assigned to evaluate the STT claims, which entailed a period of negotiations between STT and PRHTA. As a result of said negotiations, on May 28, 2010, PRHTA settled all claims with Siemens. During July 2010, PRHTA settled these legal cases with STT and Necso and issued a new line of credit of $63 million to pay the total amount for these settlements and other legal claims for approximately $62 million.

On December 22, 2009, Chartis Insurance Company (Chartis) filed a complaint against STT and PRHTA, requesting a Declaratory Judgment in its favor to support its position to deny cover to Siemens request for coverage for all costs associated to its defend and subsequent settlement reached in case KAC2003-8807 (804). The PRHTA's was included in case merely as party with interest, but no monetary claim was asserted against it.

The only pending claims are those between the PRHTA, ICA (Bayamón Alignment Section) and KKZ (Rio Piedras Alignment Section). Notwithstanding, the Court stayed said proceedings in light of ongoing negotiations between PRHTA, ICA and KKZ. According to current negotiation status, the PRHTA expects to have executed agreements with ICA and KKZ by the end of April 2011, which foresee an offset between retained funds to said contractors and the execution of pending corrective works at their respective Alignment Sections. Due to current negotiations with ICA and KKZ and the staying on the judicial proceedings, the PRHTA exposure in terms of potential loss or gain for these claims is none.

Redondo Construction (RC) filed legal claims against the PRHTA in the amount of approximately $38.1 million for damages, additional compensation, unpaid claims, prejudgment interests and other causes of action related to various construction contracts. On August 31, 2009, the Bankruptcy Court entered judgment in favor of RC for approximately $22.2 million plus prejudgment interest at 6% to 6.5%. The PRHTA filed several post judgment motions to amend judgment and to oppose prejudgment interest. During December 2009, the PRHTA was served with another claim from RC for economic damages of approximately $40 million.

PRHTA is a defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. These are generally either fully or partially covered by insurance. The contactors are required, under the terms of the construction agreements to carry adequate public liability insurance and to hold harmless the PRHTA from lawsuits brought on account of damages relating to the construction of the projects.

As of June 30, 2010, PRHTA, based on legal advice, has recorded a provision of approximately $121.9 million, of which $25 million has been classified as current, to cover probable losses on those claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of the insurance coverage and/or the recorded provisions that may arise for such claims will not be significant to the PRHTA's financial position or results of operations.

(c) PRASA

PRASA is a defendant on various lawsuits presented by customers alleging that PRASA has over billed them due to the methodology used to estimate consumption. The plaintiffs requested a certification of the suit as a class action and seek recovery damages in the amount of approximately $793 million and an injunction enjoining PRASA from continuing to bill using the current methodology. PRASA's potential exposure from these lawsuits cannot be presently determined and, as such, no liability is being reported on the accompanying basic financial statements.

PRASA is the defendant or codefendant in various other lawsuits. The ultimate outcome of the lawsuits cannot presently be determined. However, management, based on the advice of legal counsels, is of the opinion that these lawsuits will not have a material impact on the basic financial statements.

(d) PREPA

PREPA is a defendant or codefendant in several lawsuits incidental to its business, some involving substantial amounts. In those instances that management and legal counsel believe that the outcome of the litigation will be unfavorable to PREPA, a provision has been made to cover the estimated liability. PREPA's management, based on discussions with legal counsel believes that the additional liability, if any, resulting from the ultimate resolution of these matters will not have a material effect on PREPA's financial position or results of operations.

On May 18, 2000, Abengoa, Puerto Rico, S.E. (Abengoa), PREPA's contractor for the repowering of San Juan steam plant units 5 and 6, unilaterally declared a termination of the contract with PREPA and filed a complaint for breach of contract. PREPA has moved for time to answer the complaint and has filed a counterclaim for the cost of the project and for all damages caused to PREPA by the alleged illegal contract termination. PREPA believes that the actions by the contractor will not materially affect the ability of PREPA to provide service nor there will be a material difference in the quality of service provided by PREPA. In June 2004, the Office of the Comptroller of the Commonwealth of Puerto Rico (the "Comptroller") issued a report stating that PREPA overcharged its clients by approximately $49.8 million, and should reimburse this amount to such clients. After this report was made public, two lawsuits were filed by clients of PREPA against PREPA demanding the reimbursement of such alleged overcharges. PREPA's position is that the Comptroller incorrectly based his conclusion on data that is not relevant to the calculation of PREPA's rates, and that PREPA's rates were properly established in the year 2000 in accordance with applicable laws and regulations. In particular, PREPA notes that its rates properly take into consideration the cost of the fuel used by PREPA's generating facilities and the cost of the electricity purchased from the two co-generating facilities that sell power to PREPA.

In 2008, Power Technologies Corp. filed a suit against PREPA, alleging that PREPA had withdrawn from a contracting process for a new energy facility, in which Power Technologies was involved, without explanation or justification. Power Technologies seeks damages of $51.4 million. The case is currently in discovery stage.

(e) PRMeSA

PRMeSA has accounts receivable aggregating $24 million at June 30, 2010, from the Hospital of the Municipality of San Juan, related to medical services rendered. PRMeSA alleges that these amounts are related to services rendered during the period from June 30, 2005 to June 30, 2008.

PRMeSA filed at the Department of Justice of the Commonwealth and with the Commission for the Resolution of Controversies over Payments and Debts between Governmental Agencies, a claim demanding the resolution of this matter. On June 29, 2009, the Commission designated the OMB to serve as a mediator in this claim. As of June 30, 2010, no resolution or recommendation has been made by the OMB in connection with this controversy.

PRMeSA is a party in certain legal actions and claims related to medical malpractice arising in the ordinary conduct of its business. Although PRMeSA appears as a defendant in the claims, many of them involve medical personnel of the member institutions, and in effect, these claims are against said institutions. As a result of the deficiency as of June 30, 2010, of funds available in the Self-Insured Fund, any unfavorable outcome may have a significant effect on the financial condition of PRMeSA.

Based on a review of current facts and circumstances, management has provided for what is believed to be a reasonable estimate of the exposure to loss associated to litigation. PRMeSA has established an accrual reserve for claim losses in the amount of $7 million at June 30, 2010.

(f) PRIFA

At June 30, 2010, PRIFA is a defendant in various legal proceeding arising from its normal operations. Management, based on the advice of its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on the PRIFA's financial statements. However, management is of the opinion that they will reach settlements in certain cases. A liability to cover claims and other contingencies amounting to $7.9 million has been reflected as part of accounts payable and accrued expenses in the accompanying statement of net assets (deficit).

(g) PRHIA

PRHIA is codefendant in a case involving a claim for $14 million by a provider of information technology services. PRHIA's legal counsel believes that at this stage an estimate can be made as to the financial effect of $1,500,000 to the litigation and cannot offer any evaluation of the likelihood of a favorable or unfavorable outcome.

(h) SPECIAL COMMUNITIES PERPETUAL TRUST

The Special Communities Perpetual Trust (the "Trust") has financial assistance agreements with several municipalities of the Commonwealth to provide funding for the construction, improvement and rehabilitation of certain projects of the Special Communities. At June 30, 2010, the Trust's commitments with the municipalities amounted to approximately $116.7 million, from which a total of approximately $88.8 million had been disbursed.

The Trust is a defendant in numerous legal proceedings pertaining to matters incidental to the performance its normal operations. The Trust recorded approximately $10,060,000 to cover for awarded and anticipated unfavorable judgments at June 30, 2010. This amount represents the amount estimated as probable liability that will require future available financial resources for its payment. The amounts claimed approximate $70 million; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claims are excessive and exaggerated. Management, based on the advice of its legal counsel, believes that the ultimate liability in excess of amounts provided would likely not exceed $12.7 million.

Environmental Commitments and Contingencies

Primary Government

During 2009, the Commonwealth adopted GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*". This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning.

Once any of five specified obligating events occurs, a government is required to estimate the component of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention–related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The government commences or legally obligates itself to commence pollution remediation.

As of June 30, 2010, the pollution remediation obligation recorded in the accompanying statement of net assets (deficit) amounted to approximately $7.5 million

Component Units

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

- *PREPA* — Facilities and operations of PREPA are subject to regulations under numerous federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, Oil Pollution Act (OPA) Resource Conservation Recovery Act (RCRA), Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and Underground Storage Tanks, among others. In February 1992, the Environmental Protection Agency (EPA) conducted a multimedia inspection of PREPA's facilities and identified several alleged instances of noncompliance related to PREPA's air, water, and oil spill prevention control and countermeasures compliance programs.

PREPA and the EPA undertook negotiations to resolve the issues regarding the deficiencies observed during the inspection and to ensure future compliance with all applicable laws and regulations. As a result of the negotiations, PREPA and the EPA reached and agreement that resulted in a consent decree (the "Consent Decree") approved by the United States federal court in March 1999. Under the terms and conditions of the Consent Decree, PREPA paid a civil penalty of $1.5 million and implemented additional compliance projects amounting $4.5 million. In addition, the Consent Decree requires that PREPA improves and implements compliance programs and operations in order to assure compliance with environmental laws and regulations.

In 2004, the United States federal court approved a modification to the Consent Decree agreed by PREPA and the EPA under which PREPA reduced, in two steps, the sulfur content in the No. 6 fuel oil used in certain generating units of its Costa Sur and Aguirre power plants (to 0.75% or less by March 1, 2005 and to 0.5% or less by March 1, 2007), and used No. 6 fuel oil with sulfur content of not more than 0.5% through July 18, 2009 at its Palo Seco and San Juan power plants. Additionally, PREPA has completed a nitrogen oxide emissions reduction program and modified the optimal operating ranges for all its units under the Consent Decree. PREPA also paid a $300,000 civil fine and reserved $200,000 to fund certain supplemental environmental projects and programs under the Consent Decree.

Since September 2004, there has been no legal action in the United States federal court or any administrative proceeding against PREPA regarding the Consent Decree or its modification. The Consent Decree includes stipulated penalties for certain events of non compliance. Non compliance events must be disclosed to EPA in the corresponding report. Ordinarily, when a covered noncompliance event occurs, PREPA pays the stipulated penalty in advance in order to benefit from a 50% discount of the applicable stipulated penalty.

In 1997, as a result of an inspection carried out by EPA and the Puerto Rico Environmental Quality Board (EQB) at PREPA's Palo Seco Power Plant, the EPA issued an Administrative Order for the investigation and possible remediation of seven areas identified by the EPA at the Palo Seco Power Plant and the Palo Seco General warehouse. The Administrative Order required PREPA to carry out a Remedial Investigation/Feasibility study (RI/FS). The RI/FS required under the Order is designed to: (i) determine the nature and extent of contamination and any threat to the public health, welfare or environmental caused by any release or threatened released of hazardous substances, pollutants or contaminants at or from the site; and (ii) determine and evaluate alternatives for the remediation and control of the release or threatened release of hazardous substances, pollutants, or contaminants at or from the site. The RI/FS is still in progress. The RI was completed and a final report was submitted to EPA for evaluation. PREPA is waiting for EPA's evaluation.

The information gather under the RI reflected the presence of free product (Separate Phase Hydrocarbons) in several monitoring wells. The analysis of this product also reflected a low concentration of polychlorinated biphenyls (PCBs). PREPA and EPA entered in to an Administrative Order on Consent (CERCLA-02-2008-2022) requiring PREPA to complete a removal plan that consists of determining if the underground water has been impacted by the PCBs, the extension of the contamination and the implementation of a work plan for free product removal. Analytical data collected during this activity reflected that underground water has not been impacted by PCBs. Nevertheless, water/oil mix has been found in several monitoring wells (MWs). PCBs concentrations between 1.36 – 2.36 parts per million were detected in the oil found in 3 of the 7 MWs. Multiphase extraction (MPE) activities in the MWs where water/oil phases were found, has been performed on a weekly basis. MWs gauging readings are performed during these activities. MPE will end by December 2010. Collected data will be evaluated in order to determine further actions. It is EPA's interest that RI/FS be completed by September 2011.

The remaining costs to achieve compliance have been estimated at $500,000. The Order also establishes a Reimbursement of Costs condition in which PREPA agrees to reimburse EPA for all costs incurred by EPA in connection to the site. No bill has been received by PREPA, as of this date.

In 2002, PREPA received a "Special Notice Concerning Remedial Investigation/Feasibility Study for Soil" at the Vega Baja Solid Waste Disposal Superfund Site. The EPA has identified PREPA and other six entities as "potentially responsible parties", as defined by the CERCLA. In 2003, PREPA agreed to join the other potentially responsible parties in an Administrative Order on Consent (AOC) for an RI/FS, with the understanding that such agreement did not constitute an acceptance or responsibility. Under the AOC, PREPA committed up to $250,000 as its contribution to partially fund the RI/FS. At this time, RI/FS has been completed. The work proceeded in accordance with the schedule established by PREPA and the other designated potentially responsible parties. On July 2010, a proposed plan was issued identifying the Preferred Alternative to address soil contamination at the Vega Baja Solid Waste Disposal Site. EPA held a public hearing on August 3 2010 to discuss the alternatives to address soil contamination. A Record of Decision (ROD) by EPA is scheduled for the end of September 2010 in which a determination of the selected alternative will be made.

On January 10, 2008, PREPA and Skanska Energy Services, LLC (Skanska) entered into an Engineer Procure Construct Finance Contract for the construction of the Gasoducto del Sur Project (the "Project") for an original Contract Price of $74,324,259. On December 2, 2008, the Superior Court of Ponce issued and injunction stopping all construction. On July 23, 2009, PREPA's Governing Board authorized the termination and settlement of the Contract. PREPA obtained title to all equipment and material procured and 100% of engineering documents and all pending disputes were settled for a lump-sum payment of $59,000,000 due to the Contractor. The Termination and Settlement Agreement was executed on August 7, 2009. Pursuant to an Asset Purchase Agreement dated August 17, 2009, PREPA sold the assets of the Gasoducto del Sur Project to The Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA by its Spanish acronym) for approximately $36 million. In addition, PREPA entered into a Subordinated Loan Agreement with the Government Development Bank (GDB) for $35,000,000 evidenced by a 24-month subordinated note until such time that Puerto Rico Aqueduct and Sewer Authority (PRASA) shall purchase from AFICA the Project.

- *PRASA* — On July 1, 2003, PRASA entered into an agreement (Civil Action No. 01-1709) to attain compliance with the Clean Water Act in relation to PRASA's wastewater pump stations (WWPSs). PRASA completed all improvements projects required by EPA for these WWPSs. The agreement also required PRASA to invest $1 million in the implementation of a Supplemental Environmental Project (SEP). This project consists of the hook up of three NON-PRASA communities to the PRASA's drinking water system. The agreement also required the implementation of the Preventive Maintenance Program (PMP) for all of PRASA's WWPSs. This is scheduled to be completed by December of 2010. PRASA has paid stipulated penalties ranging from $30 to $150 thousands on a quarterly basis for by-passes that occurred at the pump stations. The amount paid during the fiscal year 2010 was $400,000.

  On June 22, 2006, PRASA entered into a consent decree (Civil Action No. 06-1624) with EPA that requires PRASA to implement system-wide remedial measures at all of the wastewater treatment plants operated by PRASA. The decree establishes deadlines for the compliance with the conditions set forth in the agreement and stipulates penalties for violation of any of those deadlines. PRASA was assessed a penalty of $1 million which was paid during fiscal year 2008. In accordance with this consent decree, PRASA deposited in an escrow account with GDB the amount of $3 million. These funds will be used for providing sewer service to a community that has not been connected to PRASA's sewer system. PRASA has paid stipulated penalties ranging from $300,000 to $500,000 on a yearly basis for non compliance of the agreement. During fiscal year 2010, PRASA deposited the amount of $500,000 in an escrow account.

On May 25, 2006, PRASA entered into a plea agreement with the U.S. Department of Justice related to violations of the Clean Water Act, as amended, Title 33, USC, Section 11311(a) and 1319(c)(2)(A). As part of the agreement (Criminal Case No. 06-CR-00202-001), PRASA paid a $9 million fine. In addition, the agreement required PRASA to comply with several special conditions, such as: (i) upgrade the collection and wastewater treatment system of the Ponce de Leon Avenue Area of San Juan for a cost of not less than $10 million to prevent direct discharges to the Martín Peña Canal; (ii) upgrade nine wastewater treatment plants for a cost of not less than $109 million; and (iii) comply with a consent decree signed by PREPA with the U.S. government on June 22, 2006. The plea agreement also established stipulated penalties for violation of any on the deadlines of performance standards set forth in the agreement. Currently, PRASA is in compliance with the deadlines and requirements of this consent order.

On December 15, 2006, an agreement was signed between PRASA and the Department of Health of the Commonwealth relating to violations of the Safe Drinking Water Act, as amended. The agreement was preliminary approved by the supervising court on March 15, 2007 and it was amended and finally approved by the court on June 20, 2008. PRASA agreed to implement a work plan to remediate the violations, establish preventive and mitigation measures, and execute a preventive maintenance program for the purpose of meeting the requirements of the Safe Drinking Water Act. As part of the agreement, PRASA paid a penalty of $1 million during fiscal year ended June 30, 2007. During fiscal year ended June 30, 2008 and based on the amendment and final approval of the agreement, PRASA accrued approximately $2.7 million for penalties for noncompliance as stipulated by the final agreement, which were paid during fiscal year 2009. Also, as part of the penalties for noncompliance with the remedial measures of the agreement with the Department of Health during fiscal year 2009, $1.3 million were deposited in a GDB escrow account to be used for a SEP. During fiscal year ended June 30, 2010, PRASA paid the amount of $100,000, part paid in penalties and part deposited in an escrow account.

On November 2007, PRASA entered into negotiation of a consent decree (Civil Action No. 10-1365) with EPA that requires PRASA to implement system wide remedial measures at all of the sludge treatment systems at the water treatment plants owned and operated by PRASA. The consent decree was lodged on May 3, 2010 and its entry date was August 24, 2010. This consent order closed previous consent orders known as PRASA II Civil Action No. 92-1511 and PRASA III Civil Action No. 00-2554. This consent order establishes deadlines for the compliance with the conditions set forth in the proposed agreement and stipulates penalties for violation of any of those deadlines.

PRASA was assessed a penalty of $3.2 million which will be paid during fiscal year 2011. In accordance with this consent decree, from the amount of $3.2 million, PRASA will have to pay a civil penalty of approximately $1 million to the United States Treasury and will have to deposit in an escrow account with GDB, $2.5 million for the design and construction of a SEP. One of the projects that are under evaluation is the installation of aeration systems to improve water quality in Lake Cidra and Lake Toa Vaca.

PRASA is a defendant in other environmental minor lawsuits, pending trial or final judgment. PRASA intends to vigorously defend itself against all of the allegations. Management, based on the advice of legal counsel, is of opinion that any liability that may result from such lawsuits would not have a material adverse effect on PRASA's financial positions as of June 30, 2010.

- *PRSWA* — PRSWA initiated in years prior to the year ended June 30, 2010, the implementation and development of the Strategic Plan for Recycling and Disposal of Solid Waste in Puerto Rico at an estimated cost of approximately $112 million. The first stage consists of the construction of thirty-nine (39) projects to be financed through and interim financing agreement with the Government Development Bank for Puerto Rico. The lines-of-credit under the agreement were paid by the Treasury Department through joint resolutions approved by the Legislature of Puerto Rico. PRSWA has continued with the planning and construction of the projects.

  During May 2008, PRSWA approved the "Dynamic Itinerary for the Infrastructure Projects of Solid Waste in Puerto Rico". This itinerary defines the strategies for safe and efficient handling of solid waste in Puerto Rico for the next twenty-five (25) years in compliance with all applicable regulations. PRSWA proposes this itinerary for the purpose of adopting this plan as the official instrument to guide public policy for the development of infrastructure projects for handling and final disposition of solid waste in Puerto Rico. The projects proposed in the itinerary includes programs to develop facilities for the recovery of recyclable materials (MRF's), facilities for the deposit of acceptable sludge, facilities to convert solid waste to energy, transshipment facilities and lateral expansion to sanitary stuffing systems (SRS). The development of these projects takes into consideration the closing of various SRS. The construction investment is estimated in approximately $1.9 billion dollars. PRSWA projects that financing for these projects will come from both the public and private sectors.

Construction Commitments — As of June 30, 2010, the following component units maintained various unspent construction agreements as follows (expressed in thousands):

Puerto Rico Aqueduct and Sewer Authority	$ 668,400
Puerto Rico Highways and Transportation Authority	641,028
Port of the Americas Authority	166,403
Puerto Rico Infrastructure Financing Authority	76,565
Company for the Integral Development of the "Península de Cantera"	53,456
Puerto Rico Medical Services Administration	33,539
Puerto Rico Ports Authority	25,000
Puerto Rico Electric Power Authority	23,562
Puerto Rico Maritime Transportation Authority	16,236
Puerto Rico Conservatory of Music Corporation	10,000
Institute of Puerto Rican Culture	5,916
Puerto Rico Land Administration	1,439
Institutional Trust of the National Guard of Puerto Rico	1,161
Puerto Rico Convention Center District Authority	1,000
Puerto Rico Industrial Development Company	559
Puerto Rico Trade and Export Company	46
Total	$ 1,724,310

20. RETIREMENT SYSTEMS

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

- Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS)
- The Commonwealth of Puerto Rico Judiciary Retirement System (JRS)
- Puerto Rico System of Annuities and Pensions for Teachers (TRS)

Each system is independent; thus, their assets or liabilities may not be transferred from one system to another or used for any purpose other than to benefit the participants of each system.

The Retirement Systems issue financial reports, which are publicly available and include the basic financial statements, the required trend information, and any other required supplementary information. These reports may be obtained by written request to the corresponding retirement system administrator at the addresses detailed in note 1(b).

(a) ERS

Plan Description — The ERS is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the ERS is vested on the board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Executive Director of the Commonwealth's Human Resources Office, and the Municipal Affairs Commissioner.

As of June 30, 2010, the ERS has an unfunded actuarial accrued liability of approximately $17,837 million, representing an 8.5% funding ratio using net assets. In the opinion of management and based on information prepared by external consulting actuaries, if measures are not taken now to deal with this situation, the ERS will not be able to fully fund pensions beginning in fiscal year 2019; however, net assets held in trust for pension benefits will be exhausted during fiscal year 2014. This situation could have a direct negative effect on the Commonwealth's general fund, since most of the employers under the ERS are government agencies obligated to make actuarial contributions to fund the ERS.

To attend to these issues, the Governor of the Commonwealth (the "Governor"), by Executive Order OE-2010-10 dated March 12, 2010, created the Special Commission on the Retirement Systems Reform (the "Commission"), to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long-term solutions to improve the financial condition of the ERS.

On October 21, 2010, the Commission presented a report to the Governor that included specific recommendations addressing the current fiscal crisis and cash flow problems of ERS. Among these recommendations, the Commission proposed increasing the contribution percentages, restructuring benefits and establishing certain limitations on loans, among other.

After reviewing the Commission's report, ERS and the Commonwealth, with the assistance of the ERS external consulting actuaries, concluded that annual increases in the employers' contribution rate would be required to fully fund pensions, without having to liquidate ERS investment portfolio. It is the intention of the Commonwealth to include such increase in contributions as part of its fiscal year 2012 budget and in the annual budgets thereafter. The Commonwealth is committed to finding a long-term solution to the funding situation of ERS.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The ERS consists of different benefit structures pursuant to Act No. 447 of 1951, as amended, including a cost-sharing multi-employer contributory defined benefit program and a cash balance program, similar to a cash balance plan. The ERS is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (Commonwealth Agencies, Municipalities, and Public Corporations, including the ERS) are covered by the ERS. All regular, appointed, and temporary employees of the Commonwealth at the date of employment become plan members of the ERS. The ERS is optional for Commonwealth officers appointed by the Governor and Head of Agencies.

Plan members, other than those joining the ERS after March 31, 1990, are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for a retirement annuity upon reaching the following age:

Policemen and Firefighters	**Other Employees**
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the ERS. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

Merit Annuity — Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation.

Deferred Retirement Annuity — A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the ERS are left within the ERS until attainment of 58 years of age.

Coordinated Plan — On the coordinated plan, the participating employee contributes a 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service
- $110 per month if retired with less than 55 years of age and 30 years of credited service
- All other between $82 and $100 per month
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month

Noncoordinated Plan — On the noncoordinated plan, the participating employee contributes an 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

Reversionary Annuity — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than $240 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the average compensation of the first 20 years of credited services increased by 2% for every additional year of credited service in excess of 20 years.

Death Benefits

Occupational:

Surviving Spouse — annuity equal to 50% of the participating employee's salary at the date of the death.

Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee's salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

Beneficiary — the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of death.

Postretirement — Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under Title II of the Social Security Act) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $750.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the ERS, plus any interest earned thereon.

Amendments to Benefits Structure for Plan Members who Joined the ERS on or After April 1, 1990 — Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the ERS effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the merit annuity for participating employees (except policemen and firemen) who have completed 30 years of creditable service.

Cost of Living Adjustment for Pension Benefits — Act No. 10 of May 21, 1992, provided for increases of 3% every three years, of the pensions paid by the ERS to those plan members with three or more years of retirement. The Act requires further legislation to grant this increase every three years, subject to the presentation of actuarial studies regarding its costs and the source of financing. Since fiscal year 1992 to 2007 there have been other acts addressing the cost of living allowance (C.O.L.A.) as Act No. 207 of August 13, 1995; Act No. 221 of August 9, 1998; Act No. 40 of June 13, 2001; Act No. 157 of June 27, 2003; and Act No. 35 of April 24, 2007.

On April 24, 2007, the Governor signed the Act No. 35 to provide for an increase of 3% of the pension paid by the ERS to those plan members whose monthly pension is less than $1,250, effective on July 1, 2008.

To protect the financial health of the ERS, the increases granted pursuant to the above laws are being financed through annual appropriations from the Commonwealth and contributions from municipalities and public corporations.

Other Benefits Granted — For fiscal years 2003 to 2007, the Commonwealth granted additional benefits to the ERS's retirees. As of June 30, 2010, these increases are being funded through special appropriations from the Commonwealth for the amount corresponding to the Commonwealth agencies and by contributions from the public corporations and municipalities.

Early Retirement Programs — During fiscal year 2001, the Commonwealth granted three additional retirement programs through Act No. 370 of December 31, 1999, Act No. 119 of July 13, 2000, and Act No. 174 of August 12, 2000. These acts applied to employees of the Municipality of San Juan, employees of the State Insurance Fund Corporation and the employees within the three branches of the Commonwealth, respectively. These early retirement programs ended in fiscal year 2006, at which time, these employees became fully beneficiaries of the ERS. In order to avoid any economic impact on the ERS, the employers were responsible for contributing to the ERS the amounts to cover the benefit payments and the employer and employee contributions with respect to the plan members covered until the attainment of the normal retirement age.

During fiscal year 2006, the Puerto Rico Industrial and Development Company (PRIDCO) implemented an early retirement program for its employees under Act No. 143, dated November 22, 2005. PRIDCO will reimburse the annuities and other benefits paid by the ERS during a five-year period, plus the employer and employee contributions with respect to the plan members covered until the attainment of the normal retirement age.

During fiscal year 2008, the Commonwealth issued Act No. 70, dated July 13, 2007, to implement an early retirement program for the employees of the Puerto Rico National Parks Company. The Municipality of San Juan issued the Resolution No. 41, dated May 5, 2008, which provided an early retirement program for the municipalities' employees. Also, GDB implemented an early retirement program for its employees under the Act No. 188 of December 12, 2007. The Puerto Rico National Parks Company has already made two payments and would reimburse the remaining balance on annuities and other benefits paid by the ERS in three installments on each July 31 starting on 2009 through 2011. The Municipality of San Juan will reimburse the annuities and other benefits paid by the ERS during a five-year period, plus the employer and employee contributions with respect to the plan members covered until they reach the normal retirement age.

The Land Authority of Puerto Rico (the "Land Authority") implemented an early retirement program for its employees under Law No. 59 of January 31, 2008. The Land Authority has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

The Right to Employment Administration (the "Administration") implemented an early retirement program for its employees under Law No. 275 of December 31, 2008. The Administration already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Environmental Quality Board (the "EQB") implemented an early retirement program for its employees under the Law 224 Act No. 7 dated August 9, 2008. The EQB already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Department of Labor and Human Resources (the "Department of Labor") implemented an early retirement program for its employees under the Law 136 dated July 29, 2008. The Department of Labor already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

Amendment to Act No. 447 Effective January 1, 2000, to Create System 2000 — On September 24, 1999, Law 305, an amendment to Act No. 447 of May 15, 1951, which created the ERS, was enacted to provide for a new benefit structure, similar to a cash balance plan, known as System 2000, to cover employees joining the ERS on or after January 1, 2000.

Employees participating in the ERS as of December 31, 1999, were allowed to elect either to stay in the defined benefit structure or transfer to System 2000. People joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. Under System 2000, contributions received from participants are pooled and invested by the ERS, together with the assets corresponding to the defined benefit structure. There are no separate accounts for System 2000 participants. Future benefit payments under the original defined benefit structure and System 2000 will be paid from the same pool of assets. As a different benefit structure, System 2000 is not a separate plan, and as such, is not presented separately from the original defined benefit structure, pursuant to the provisions of GASB Statement No. 25. The Commonwealth does not guarantee benefits at retirement age.

The annuity benefits to participants is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes or, (2) earns a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Plan members receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000 rather should be provided to those plan members that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.275% of the employee's salary) with respect to employees under System 2000 will continue but will be used to fund the defined benefit plan. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

At June 30, 2010, System 2000's membership consisted of 55,279 current participating employees.

Funding Policy — The contribution requirement to the ERS is established by law and is not actuarially determined. Required employers' contributions consist of 9.275% of applicable payroll in the cases of municipalities, central government, and public corporations. Required employee contribution consists of 5.775% of the first $550 of the monthly salary with the excess at 8.275% for the coordinated benefit structure and 8.275% of the total monthly salary for participating employee's contributions for the non-coordinated benefit structure. If necessary, additional non payroll related contributions from the Commonwealth should ultimately cover any deficiency between the participating employers' and employee's contributions and the ERS's pension benefit obligations and general and administrative deductions.

ERS, besides the contributions received from plan members and employers, also receives legislative appropriations from special laws to cover additional benefits and the increase in benefits to retired employees. In the past years, there have been laws that granted additional benefits, such as, summer and Christmas bonuses, and various increases in cost of living allowances (3%), among others.

(b) JRS

Plan Description — The Commonwealth of Puerto Rico Judiciary Retirement System (the "JRS") is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the "Administration") and was created by Act No. 12 on October 19, 1954 ("Act No. 12 of 1954"). The JRS is a pension trust fund of the Commonwealth and is not an employer. The JRS provides retirement benefits to the employees of the judiciary branch of the Commonwealth, through the office of the Administration of Court Facilities (the "Employer"). The JRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the JRS is vested on a board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Commissioner of Municipalities Affairs, and the Executive Director of the Human Resources Office of the Commonwealth of Puerto Rico.

As of June 30, 2010, the JRS has an unfunded actuarial accrued liability of approximately $283 million, representing a 16.4% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, the JRS will not be able to fully fund pensions during fiscal year 2018. This situation could have a direct negative effect on the Commonwealth's general fund, since the Commonwealth is the plan sponsor and is obligated to make actuarial contributions to fund the JRS.

To attend to these issues, the Governor of the Commonwealth (the "Governor"), by Executive Order OE-2010-10 dated March 12, 2010, created the Special Commission on the Retirement Systems Reform (the "Commission"), to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long-term solutions to improve the financial condition of the JRS.

On October 21, 2010, the Commission presented a report to the Governor that included specific recommendations addressing the current fiscal crisis and cash flow problems of the System. Among these recommendations, the Commission proposed increasing the contribution percentages, restructuring benefits and establishing certain limitations on loans, among other.

After reviewing the Commission's report, JRS and the Employer, with the assistance of the System's external consulting actuaries, concluded that annual increases in the Employer's contributions would be required to fully fund pensions, without having to liquidate JRS's investment portfolio. It is the intention of the Employer to make such additional contributions during its fiscal year 2012 and thereafter. The Commonwealth is committed to finding a long-term solution to the funding situation of JRS.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The JRS consists of a single – employer defined benefit plan sponsored by the Commonwealth. Under the terms of Act No. 12 of 1954, as amended, all judges of the judiciary branch of the Commonwealth are plan member of the JRS.

Members of the JRS are eligible for the following benefits:

Retirement Annuity — Plan members with 10 years of credited service are eligible for retirement upon reaching 60 years of age.

Plan members are eligible for monthly benefit payments determined by the application of a stipulated benefit to the plan member's average compensation. Average compensation is computed based on the last month of compensation. The annuity for which a plan member is eligible, is limited to a minimum of 25% and a maximum of 75% of the average compensation, except for the judges of the Supreme Court for whom the annuity is limited to a minimum of 50% and a maximum of 100% of the average compensation received by the members of the Supreme Court.

Reversionary Annuity — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependants. The payments would start after the death of the retiree, for an amount not less than $120 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation, received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for annuity of 30% of the average compensation of the first 10 years of credited services, increased by 1% for every additional year of credited service in excess of 10 years, up to a maximum of 50% of the average compensation.

Death Benefits

Occupational:

- Surviving spouse — annuity equal to 50% of the participating employee's salary at the date of the death.

- Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 75% of the participating employee's salary at the date of the death. If no spouse survives or dies while receiving the annuity payments, each child, 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

The contributions and interest accumulated as of the date of the death, plus an amount equal to the annual compensation at the time of the death.

Postretirement:

- Surviving spouse and child, 21 or under — up to 60% of the retiree's pension.

- Other designated by the retiree — the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $500.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the JRS, plus any interest earned thereon.

Cost of Living Adjustment for Pension Benefits — Act No. 177 of 1997 provides, effective January 1, 1999, for increases of 3%, every three years, of the pensions paid by the JRS to those plan members with three or more years of retirement. The act requires further legislation to grant this increase every three years.

Funding Policy — The contributions to the JRS are established by law and are not actuarially determined. During 2009, the JRS and the Employer entered into an agreement to increase the Employer's contributions from 20% to 30.34%, effective on July 1, 2008. Employees' contributions consist of 8% of the employees' monthly salary. Contributions from the Commonwealth should ultimately cover any deficiency between the employer's and employees' contributions and the JRS's pension benefit obligations and administrative costs.

(c) TRS

Plan Description — The Puerto Rico System of Annuities and Pensions for Teachers (the "TRS") is a defined benefit plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The TRS is considered an integral part of the Commonwealth's financial reporting entity and is included in the Commonwealth's basic financial statements as a pension trust fund. The TRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974.

The responsibility for the proper operation and administration of the TRS is vested in a Board of Trustees (the "Board").

The TRS is a defined benefit plan sponsored by the Commonwealth. Substantially, all active teachers of the Commonwealth's Department of Education are covered by the TRS under the terms of Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The new law gives the Puerto Rico Teachers Retirement System's active employees as of March 29, 2004, the option to participate in the plan. Employees recruited by the Puerto Rico Teachers Retirement System after the approval of the new law become members of the plan. All active teachers of the Department of Education become plan members of the TRS at their date of employment. Licensed teachers working in private schools or other educational organizations can be members of the TRS at their own choice as long as the required employer and employee contributions are satisfied.

As of June 30, 2010, TRS has an unfunded actuarial accrued liability of approximately $7 billion, resulting in a funding ratio of 24%. In the opinion of management, based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, TRS will not be able to fully fund pensions in fiscal years beginning after June 30, 2020. This situation could have a direct negative effect on the Commonwealth's general fund, since the Commonwealth is the ultimate plan sponsor and will be obligated to make actuarial contributions to fund TRS.

To attend to these issues, the Governor of the Commonwealth (the "Governor"), by Executive Order OE-2010-10 dated March 12, 2010, created the Special Commission on the Retirement Systems Reform (the "Commission") to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long-term solutions to improve the financial condition of TRS.

On October 21, 2010, the Commission presented a report to the Governor that included specific recommendations addressing the current fiscal crisis and cash flow problems of TRS. Among these recommendations, the Commission proposed increasing the contribution percentages, restructuring benefits and establishing certain limitations on loans, among other.

After reviewing the Commission's report, TRS and the Commonwealth, with the assistance of the TRS's external consulting actuaries, concluded that annual increases in the employers' contribution rate will be required to fully fund pensions, without having to liquidate the TRS's investment portfolio. It is the intention of the Commonwealth to include such increase in contributions as part of its fiscal year 2012 budget and in the annual budgets thereafter. The Commonwealth is committed to finding a long-term solution to the funding situation of TRS.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The plan members of the TRS are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the TRS. The annuity for which a plan member is eligible is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

The plan members are eligible for retirement annuity benefits upon complying with the following:

Age	Years of Creditable Services	Retirement Annuity Compensation
Fifty	30 or more	75% of average compensation
Under fifty	30 or more	65% of average compensation
Sixty	At least 10, but less than 25	1.8% of average compensation times years of service
Fifty	At least 25, but less than 30	1.8% of average compensation times years of service
Forty-seven but less than Fifty	At least 25, but less than 30	95% of the annual pension that would have received with 50 years of age

Deferred Retirement Annuity — A participating employee who terminates service before age 60, after having accumulated a minimum of ten years of creditable services, qualifies for a deferred retirement annuity payable beginning at age 60. A participating employee who has completed 25 or more years of creditable services and is under the age of 47 at termination, qualifies for a deferred retirement annuity payable beginning at age 47. The vested rights described above are provided if his/her contributions to the TRS are left within the TRS until the attainment of the respective retirement age.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation becomes disabled, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months or the number of months of creditable services, if less than five years, recognized by the TRS, times years of creditable services; but not less than $400 per month.

Nonoccupational Disability Annuity — A participating employee disabled for causes not related to his/her occupation, and with at least five years of credited service, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months recognized by the TRS, times years of service; but not less than $400 per month.

Death Benefits:

Pre-retirement — The beneficiaries receive the contributions made to the plan and 2% interest accumulated as of the date of death (after discounting debts with the TRS), plus an amount equal to the annual compensation of the member at the time of death.

Post-retirement — The surviving spouse receives 50% of the retiree's pension and if there are children under 22 years of age or disabled (until disability ceases), they receive the other 50% of the pension. If there is no surviving spouse or children who qualify, the beneficiaries receive the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $1,000.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without the right to a retirement annuity has the right to a refund of the employee contributions paid to the TRS, plus any interest earned thereon.

Early Retirement Program — On January 27, 2000, Act No. 44 was approved, which provided that effective March 9, 2000, plan members are eligible for early retirement upon attaining the age of 50 and 28 years of services in the first year of implementation and age 50 and 25 years of service in subsequent years. Those who select early retirement under these conditions will receive monthly benefits equal to 75% of their average compensation, which is computed based on the highest 36 months of compensation recognized by the TRS. Effective July 31, 2001, the option for early retirement was closed.

Special Benefits — Special benefits include the following:

- Christmas Bonus — An annual bonus of $600 for each retiree and disabled member paid each December. The TRS pays $150 per retiree and disabled member and the remaining bonus is paid by the Commonwealth.

- Summer Bonus — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July. This benefit is prorated if there are multiple beneficiaries and is funded by the Commonwealth.

- Medication Bonus — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs. Evidence of coverage is not required. This benefit is funded by the Commonwealth.

- Cost-of-Living Adjustments — Act No. 62 of September 4, 1992 provided, subject to the approval of the Legislature of the Commonwealth (the "Legislature"), for increases of 3% every three years in pensions to those plan members with three or more years of retirement. In years 1995, 1998, 2001, 2004, and 2007, the Legislature has replicated the benefit granted per Act No. 62 of September 4, 1992. This benefit is funded by the Commonwealth. The Legislature did not approve this benefit increase.

Funding Policy — The law requires the employer to contribute 8.5% of the applicable payroll. Participating employees are required to contribute 9% of their compensation. Commonwealth contributions should ultimately cover any deficiency between the participating employees' contributions and the TRS's pension benefit obligations and administrative costs. The employer and participants' contributions will be evaluated at least every five years.

The special contributions of approximately $46,572,000 in 2010 represent contributions from the general fund of the Commonwealth for special benefits granted by special laws.

Other relevant information on the Commonwealth's Retirement Systems is presented below (as of June 30, 2010, for ERS, JRS, and TRS):

(d) Membership

	ERS	JRS	TRS	Total
Retirees and beneficiaries currently receiving benefits	106,538	394	34,373	141,305
Current participating employees	140,642	362	44,679	185,683
Total	247,180	756	79,052	326,988

(e) Annual Pension Cost and Net Pension Obligation

The Commonwealth's annual pension cost and net pension obligation of the three pension plans for the year ended June 30, 2010 were as follows (expressed in thousands):

	ERS	JRS	TRS	Total
Annual required contributions	$ 1,459,774	$ 28,127	$ 477,213	$ 1,965,114
Interest on net pension obligation	411,812	1,442	99,535	512,789
Adjustment to annual required sponsors' contributions	(474,435)	(1,673)	(80,410)	(556,518)
Annual pension cost	1,397,151	27,896	496,338	1,921,385
Statutory sponsors' contributions made	(534,275)	(11,006)	(166,384)	(711,665)
Increase in net pension obligation	862,876	16,890	329,954	1,209,720
Net pension obligation at beginning of year	5,490,824	19,220	1,244,186	6,754,230
Net pension obligation at end of year	$ 6,353,700	$ 36,110	$ 1,574,140	$ 7,963,950

The net pension obligation for ERS, JRS and TRS of $8 billion, are recorded in the accompanying statement of net assets (deficit).

	ERS	JRS	TRS
Date of latest actuarial valuation	June 30, 2010	June 30, 2010	June 30, 2010
Actuarial-cost method	Projected unit credit cost method with straight proration based on service to decrement	Projected unit credit cost method with straight proration based on service to decrement	Entry age normal
Amortization method	30 years closed, level percentage of the projected payroll	30 years closed, level percentage of the projected payroll	30 years closed, level percentage of the projected payroll
Remaining amortization period	27 years	16 years	27 years
Amortization approach	Closed	Closed	Closed

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

	ERS	JRS	TRS
Asset-valuation method	Market value of assets	Market value of assets	Market value of assets
Actuarial assumptions:			
Inflation	2.5 %	2.5 %	2.5 %
Investment rate of return	7.5 %	7.5 %	8.0 %
Projected salary increases per annum	3.0% (no increase in 2009–10 and 2010–11)	3.0 %	3.5 % (general wage inflation, plus service — based merit increase)
Cost-of-living adjustments	0.99% annually to approximate 3.0% triennial increases	0.99% annually to approximate 3.0% triennial increases	None

(f) Three Year Trend Information

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

	ERS	JRS	TRS
Annual pension cost (APC):			
Year ended June 30, 2010	$ 1,397,151	$ 27,896	$ 496,338
Year ended June 30, 2009	1,207,487	22,122	459,645
Year ended June 30, 2008	1,149,597	19,829	355,742
Percentage of APC contributed:			
Year ended June 30, 2010	38.2 %	39.5 %	33.5 %
Year ended June 30, 2009	49.2	50.2	42.0
Year ended June 30, 2008	50.6	36.6	52.0
Net pension obligation (asset):			
Year ended June 30, 2010	6,353,700	36,110	1,574,140
Year ended June 30, 2009	5,490,824	19,220	1,244,186
Year ended June 30, 2008	4,877,846	8,203	957,382

(g) Funded Status

Funded status of the pension plans as of June 30, 2010, the most recent actuarial valuation date, is as follows (expressed in thousands):

	ERS	JRS	TRS	Total
Actuarial accrued liability	$ 19,501,761	$ 338,195	$ 9,280,000	$ 29,119,956
Actuarial value of assets	1,664,991	55,410	2,222,000	3,942,401
Unfunded actuarial accrued liability	$ 17,836,770	$ 282,785	$ 7,058,000	$ 25,177,555
Funded ratio	8.54 %	16.38 %	23.94 %	13.54 %

The schedule of funding progress included as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

21. OTHER POSTEMPLOYMENT BENEFITS

The Commonwealth provides postemployment healthcare benefits through defined benefit plans that are administered by the Retirement Systems:

- Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC)
- The Puerto Rico Judiciary Retirement System Medical Insurance Plan Contribution (JRS MIPC)
- Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution (TRS MIPC)

(a) Plans Descriptions

ERS MIPC is a cost sharing multiple employer defined benefit other postemployment benefit (OPEB) plan sponsored by the Commonwealth. JRS MIPC and TRS MIPC are single employer defined benefit OPEB plans sponsored by the Commonwealth. These OPEB plans were created under Act No. 95 approved on June 29, 1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full time employees of: (1) the Commonwealth's primary government and (2) certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan. JRS MIPC covers all judges of Judiciary Branch of the Commonwealth. TRS MIPC covers all active teachers of the Department of Education of the Commonwealth.

Commonwealth employees become plan members upon their date of employment. Plan members are eligible for benefits upon reaching the following age:

ERS MIPC
Police and Firemen

50 with 25 years of credited service
58 with 10 years of credited service

Other Employees

55 with 25 years of credited service
58 with 10 years of credited service

JRS MIPC

60 with 10 years of credited service

TRS MIPC

47 with 25 years of credited service
60 with 10 years of credited service

Funding Policy — The contribution requirement of ERS MIPC, JRS MIPC and TRS MIPC are established by Act No. 95 approved on June 29, 1963. The benefits are paid directly by the Commonwealth to the insurance providers at a rate of a maximum of $100 per month per retiree. All these OPEB plans are financed on a pay-as-you-go basis. There is no contribution requirement for plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. The amount contributed during the year ended June 30, 2010 was as follows (expressed in thousands):

ERS MIPC	$ 85,460
JRS MIPC	295
TRS MIPC	28,427

(b) Funded Status

Funded status of the postemployment healthcare benefit plans as of June 30, 2010, the most recent actuarial valuation date, is as follows (in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Actuarial accrued liability (AAL)	$ 1,646,148	$ 5,808	$ 694,230	$ 2,346,186
Actuarial value of assets	-	-	-	-
Unfunded actuarial accrued liability	$ 1,646,148	$ 5,808	$ 694,230	$ 2,346,186

The schedule of funding progress included as required supplementary information present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(c) Membership

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Retirees and beneficiaries currently receiving benefits	106,538	394	34,373	141,305
Current participating employees	140,642	362	44,679	185,683
Total	247,180	756	79,052	326,988

(d) Annual OPEB costs and Net OPEB obligation

The annual OPEB cost and the annual required contribution (ARC) were computed as part of an actuarial valuation in accordance with parameters of GASB Statement No. 45 based on current years demographic data.

The annual ARC for the postemployment healthcare benefit plans were as follows (in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
ARC				
Normal costs	$ 32,187	$ 123	$ 13,342	$ 45,652
Amortization of unfunded AAL	96,107	365	29,145	125,617
ARC	$ 128,294	$ 488	$ 42,487	$ 171,269

The annual OPEB cost and the net OPEB obligation for the postemployment healthcare benefits plans were as follows (in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Annual OPEB cost:				
ARC	$ 128,294	$ 488	$ 42,487	$ 171,269
Interest on net OPEB cost	2,209	14	842	3,065
Adjustment to annual required contribution	(3,314)	(23)	(834)	(4,171)
Annual OPEB cost	127,189	479	42,495	170,163
Statutory sponsor's contributions made	(85,460)	(295)	(28,427)	(114,182)
Increase in net OPEB obligation	41,729	184	14,068	55,981
Net OPEB obligation at beginning of year	55,217	342	21,047	76,606
Net OPEB obligation at year end	$ 96,946	$ 526	$ 35,115	$ 132,587

The net OPEB obligation for ERS MIPC, JRS MIPC, and TRS MIPC totaling $133 million is recorded in the accompanying statement of net assets (deficit).

(e) Actuarial Assumptions

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

	ERS MIPC	JRS MIPC	TRS MIPC
Date of latest actuarial valuation	June 30, 2010	June 30, 2010	June 30, 2010
Actuarial-cost method	Projected unit credit cost method	Projected unit credit cost method	Entry age normal
Amortization method	Level percentage of the projected payroll	Level percentage of the projected payroll	Level percentage of the projected payroll
Discount rate	4%	4%	4%
Remaining amortization period	27 years	16 years	27 years
Amortization approach	Closed	Closed	Closed

22. DEBT SERVICE DEPOSIT AGREEMENTS

On May 26, 2005 (but effective on July 1, 2005), the Commonwealth, PFC, and GDB (together the Commonwealth) and Lehman Brothers Special Financing Inc. (Lehman) entered into Debt Service Deposit Agreements (DSD Agreements), the objective of which was for the Commonwealth to secure an upfront payment in exchange for granting Lehman the rights to earnings generated from eight of its debt service funds. On September 25, 2009, as a result of Lehman commencing a case in the United States Bankruptcy Court for the Southern District of New York under chapter 11 of the United States Code, Lehman selected Hexagon Securities LLC to act as the Qualified Dealer under the DSD Agreements and delivered Qualified Securities as permitted under the DSD Agreement. Seven of the funds are associated with the Commonwealth's PFC bonds, presented in the accompanying basic financial statements as Commonwealth appropriation bonds, and one fund is associated with the Commonwealth's general obligation bonds. The upfront payment, which amounted to $82.7 million, was received on May 26, 2005 and equaled the present value of the projected earnings income adjusted for credit timing risks as well as an appropriate amount of compensation for Lehman.

With the upfront payment made as explained above, the Commonwealth delivered to Lehman the required and scheduled debt service deposits and Lehman delivered qualified government debentures, which will mature before the next debt service payment date at an amount approximating such next debt service payment. Lehman will attempt to earn sufficient funds on the debt service deposit amounts, less its cost for the qualified government debentures, to make back the $82.7 million over time. At the same time, the Commonwealth will be managing its borrowings and investments by increasing the predictability of its cash flows from earnings on its investments and not for purpose of speculation. The Commonwealth acknowledges that, in exchange for the upfront payment received, it is foregoing its right to receive investment earnings on the deposit amounts referred to above in the future and that, by accepting the upfront payment, the Commonwealth has minimized the risks resulting from fluctuations in interest rates during the term of the DSD Agreements but also has foregone the possibility of receiving greater returns on such amounts from such fluctuations.

Under the DSD Agreements, the Commonwealth will be exposed to the payment to Lehman of a Termination Amount, as defined in the agreement, principally upon the occurrence of redemption or a defeasance of the related bonds on or prior to the last scheduled deposit date. The amount of the Termination Amount will vary depending on various market conditions, as defined in the DSD Agreements. Under certain market conditions, the Termination Amount owed to Lehman by the Commonwealth may exceed the amount of the original upfront payment received.

The $82.7 million upfront payment received by the Commonwealth was recognized as other revenue for budgetary purposes in 2005; however, under U.S. Generally Accepted Accounting Principles, such upfront payment was deferred and is being recognized proportionally over the future periods the Commonwealth would have otherwise earned such interest earnings. As the effective date of DSD Agreements was July 1, 2005, all of the $82.7 million upfront payment received in 2005 had been recorded as deferred revenue. During fiscal year 2010, approximately $6 million was amortized into other revenue in the accompanying statement of activities.

23. DERIVATIVE INSTRUMENTS

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010, classified by type, and the changes in fair value of such derivative instruments for the fiscal year then ended as reported in the 2010 financial statements are as follows (amounts in thousands):

			Changes in Fair Value (1)		Fair Value at June 30, 2010 (2)		
Item			Classification	Amount	Classification	Amount	Notional
Governmental activities							
Cash flow hedges:							
1	Pay-fixed interest rate swap	*	Deferred Outflow	$ 12,485	Debt	$ (48,443)	$ 280,000
2	Pay-fixed interest rate swap	*	Deferred Outflow	8,601	Debt	(31,191)	174,982
3	Pay-fixed interest rate swap		Deferred Outflow	2,516	Debt	(9,436)	56,000
4	Pay-fixed interest rate swap		Deferred Outflow	2,616	Debt	(10,287)	56,000
5	Pay-fixed interest rate swap		Deferred Outflow	2,701	Debt	(10,895)	55,975
6	Pay-fixed interest rate swap		Deferred Outflow	1,208	Debt	(5,091)	46,950
7	Pay-fixed interest rate swap		Deferred Outflow	3,166	Debt	(12,578)	62,000
8	Pay-fixed interest rate swap		Deferred Outflow	3,058	Debt	(12,301)	61,975
9	Pay-fixed interest rate swap		Deferred Outflow	2,434	Debt	(9,750)	50,000
10	Pay-fixed interest rate swap	*	Deferred Outflow	5,027	Debt	(17,663)	97,403
11	Pay-fixed interest rate swap		Deferred Outflow	661	Debt	(3,370)	32,815
12	Pay-fixed interest rate swap		Deferred Outflow	590	Debt	(3,364)	32,625
13	Pay-fixed interest rate swap		Deferred Outflow	406	Debt	(3,119)	31,280
14	Pay-fixed interest rate swap		Deferred Outflow	268	Debt	(2,869)	30,005
15	Pay-fixed interest rate swap	*	Deferred Outflow	770	Debt	(2,520)	14,925
16	Pay-fixed interest rate swap	*	Deferred Outflow	770	Debt	(2,518)	14,915
17	Pay-fixed interest rate swap		Deferred Outflow	421	Debt	(1,454)	7,502
18	Pay-fixed interest rate swap		Deferred Outflow	417	Debt	(1,445)	7,500
19	Pay-fixed interest rate swap		Deferred Outflow	426	Debt	(1,470)	7,500
20	Pay-fixed interest rate swap		Deferred Outflow	413	Debt	(1,432)	7,496
21	Pay-fixed interest rate swap		Deferred Outflow	925	Debt	(3,334)	17,365
22	Pay-fixed interest rate swap		Deferred Outflow	756	Debt	(2,641)	14,925
23	Pay-fixed interest rate swap		Deferred Outflow	755	Debt	(2,639)	14,915
24	Pay-fixed interest rate swap		Deferred Outflow	3,904	Debt	(13,019)	67,639
25	Pay-fixed interest rate swap		Deferred Outflow	12,294	Debt	(40,211)	224,268
26	Pay-fixed interest rate swap	**	Deferred Outflow	12,182	Debt	(47,055)	136,000
Investment derivative instruments:							
27	Basis Swap		Investment Revenue	(7,970)	Liability	(62,345)	1,273,778
28	Basis Swap		Investment Revenue	(1,325)	Liability	(21,274)	424,592
29	Forward swap	*	Investment Revenue	1,944	Liability	(4,534)	29,165
30	Forward swap	*	Investment Revenue	2,577	Liability	(5,626)	40,000
31	Forward swap	**	Investment Revenue	35,056	Liability	(97,759)	453,500
32	Forward swap	**	Investment Revenue	36,552	Liability	(98,154)	453,500

(1) Positive (negative) values represent increase (decrease) in fair value.
(2) Negative values represent the Commonwealth's payable positions.
* Insured swap.
** Derivative instrument corresponds to Puerto Rico Sales Tax Financing Corporation ("COFINA").
Other derivative instruments correspond to the Commonwealth of Puerto Rico.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps.

The following table shows the derivative instrument position by counterparty at June 30, 2010 (in thousands):

	Total	
Counterparty/Swap	**Notional Amount**	**Fair Value**
Deutsche Bank AG	$ 214,925	$ (35,709)
Goldman Sachs Capital Markets	1,583,753	(144,029)
Morgan Stanley Capital Services Inc.	1,064,656	(142,987)
Royal Bank of Canada	47,205	(8,615)
UBS AG	291,906	(53,230)
Bank of New York	349,165	(58,604)
DEPFA BANK plc	628,482	(128,950)
Merrill Lynch Capital Services, Inc.	97,403	(17,663)
Total	$ 4,277,495	$ (589,787)

Hedging Derivative Instruments

The following table displays the objective and terms of the Commonwealth's hedging derivative instruments outstanding at June 30, 2010, along with the credit rating of the associated counterparty (amounts in thousands). Regarding derivative instruments where the counterparty is unrated, the rating provided is of the counterparty's guarantor.

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms: Pays	Terms: Receives	Counterparty Credit Rating Moody's/ S&P
1	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C4 & C5 bonds	$ 280,000	07/01/2008	07/01/2021	3.7658 %	67% 1M LIBOR	Aaa/AA
2	Pay-fixed interest rate swap	Hedge of changes in cash flows on Bank of America Index Put Bond	174,982	07/01/2008	07/01/2025	3.6815	67% 1M LIBOR	A3/BBB
3	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series B-2 bonds	56,000	11/10/2008	07/01/2024	3.5820	59.8% 1M LIBOR + 0.25%	Aa3/A+
4	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series B-3 bonds	56,000	11/10/2008	07/01/2027	3.5590	58.3% 1M LIBOR + 0.24%	Aa3/A+
5	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series B-4 bonds	55,975	11/10/2008	07/01/2028	3.5750	58.3% 1M LIBOR + 0.24%	Aa3/A+
6	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series B-1 bonds	46,950	11/10/2008	07/01/2021	3.3080	59.8% 1M LIBOR + 0.25%	Aa3/A+
7	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2008 Series B-8 bonds	62,000	05/18/2004	07/01/2032	3.5090	57.3% 1M LIBOR + 0.24%	A1/A
8	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2008 Series B-7 bonds	61,975	05/18/2004	06/30/2031	3.5740	58.3% 1M LIBOR + 0.24%	A1/A
9	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2008 Series B-5 bonds	50,000	05/18/2004	06/29/2029	3.5730	58.3% 1M LIBOR + 0.24%	A1/A
10	Pay-fixed interest rate swap	Hedge of changes in cash flows on Bank of America Index Put Bond	97,403	07/01/2008	07/01/2025	3.6815	67.0% 1M LIBOR	A2/A
11	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	32,815	08/10/2006	07/01/2021	4.2000	CPI+.90%	A2/A
12	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	32,625	08/10/2006	07/01/2020	4.3200	CPI+1.02%	A2/A
13	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	31,280	08/10/2006	07/01/2019	4.2900	CPI+1.00%	A2/A
14	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	30,005	08/10/2006	07/01/2018	4.2600	CPI+.98%	A2/A
15	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A3 bonds	14,925	10/16/2007	07/01/2029	3.5180	66.0% 1M LIBOR	A2/A
16	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A2 bonds	14,915	10/16/2007	07/01/2029	3.5180	66.0% 1M LIBOR	A2/A
17	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A8 bonds	7,502	10/16/2007	07/01/2034	3.5180	66.0% 1M LIBOR	A2/A
18	Pay-fixed interest rate swap	Hedge of changes in cash flows on the GDB loan	7,500	10/16/2007	07/01/2033	3.5180	66.0% 1M LIBOR	A2/A
19	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A9 bonds	7,500	10/16/2007	07/01/2034	3.5180	66.0% 1M LIBOR	A2/A
20	Pay-fixed interest rate swap	Hedge of changes in cash flows on the GDB loan	7,496	10/16/2007	07/01/2033	3.5180	66.0% 1M LIBOR	A2/A
21	Pay-fixed interest rate swap	Hedge of changes in cash flows on the GDB loan	17,365	10/16/2007	07/01/2031	3.5180	66.0% 1M LIBOR	Aaa/AA-
22	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A3 bonds	14,925	10/16/2007	07/01/2029	3.5180	66.0% 1M LIBOR	Aaa/AA-
23	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A bonds	14,915	10/16/2007	07/01/2029	3.5180	66.0% 1M LIBOR	Aaa/AA-
24	Pay-fixed interest rate swap	Hedge of changes in cash flows on the GDB loan	67,639	10/16/2007	07/01/2033	3.5180	66.0% 1M LIBOR	Aa3/A+
25	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A (2,3,8,9) bonds	224,268	10/16/2007	07/01/2034	3.5180	66.0% 1M LIBOR	Aa3/A+
26	Pay-fixed interest rate swap	Hedge of changes in cash flows on the COFINA 2007 Series A bonds	136,000	07/31/2007	08/01/2057	4.9200	67.0% 3 M LIBOR + 0.93%	A2/A

LIBOR: London Interbank Offered Rate Index
SIFMA: Securities Industry and Financial Markets Association Index
CPI: Consumer Price Index

Risks

Credit Risk — The Commonwealth is exposed to credit risk on hedging derivative instruments that are in asset positions. When the fair value of a derivative contract is positive, the counterparty owes the Commonwealth, which creates a credit risk for the Commonwealth. When the fair value of the derivative contract is negative, the Commonwealth owes to the counterparty and, therefore, does not pose credit risk to the Commonwealth.

The Commonwealth has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents. In addition, to minimize its exposure to loss related to credit risk, it is the Commonwealth's policy to require counterparty collateral posting provisions in its hedging derivative instruments. These terms require collateralization of the fair value of hedging derivative instruments in asset position (net of the effect of applicable netting arrangements) in excess of certain agreed threshold should the counterparty's credit rating fall below the following:

The counterparty with respect to derivative instruments No. 3, 4, 5, and 6 (or its respective guarantor) is required to post collateral in excess of certain agreed threshold ($30.0 million) if its credit rating goes below A2 (Moody's) or A (Standard & Poor's). Each of the counterparties with respect to other derivative instruments is required to post collateral in excess of certain agreed thresholds (which range from $30.0 million to $50.0 million) if its credit rating goes below Aa3 (Moody's Investor Service) or AA- (Standard & Poor's). Collateral posted is to be in the form of cash or U.S. Treasury securities. The Commonwealth has never failed to access collateral when required.

It is the Commonwealth's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, closeout netting provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the nondefaulting party.

At June 30, 2010, none of the hedging derivative instruments by counterparty was in an asset position. Thus, the Commonwealth had no aggregate counterparty credit exposure as of that date.

Interest Rate Risk — The Commonwealth is exposed to interest rate risk on its swaps. On its pay-fixed, receive-variable interest rate swap, as LIBOR or the Consumer Price Index decreases, the Commonwealth's net payment on the swaps increases.

Basis Risk — The Commonwealth is exposed to basis risk on most of its pay-fixed interest rate swaps because the variable-rate payments received by the Commonwealth on these hedging derivative instruments are based on a rate or index other than interest rates the Commonwealth pays on its hedged variable-rate debt, which is remarketed daily, weekly or monthly. Under the terms of its synthetic fixed rate swap transactions, the Commonwealth pays a variable rate on its bonds based on SIFMA or Prime Rate but receives a variable rate on the swaps based on a percentage of LIBOR.

Termination Risk — The Commonwealth or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The Commonwealth is at risk that counterparty will terminate a swap at a time when the Commonwealth owes it a termination payment. The Commonwealth has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by the Commonwealth; other Commonwealth defaults which remain uncured for 30 days after notice; Commonwealth bankruptcy; insolvency of the Commonwealth (or similar events); or a downgrade of the Commonwealth's credit ratings below Ba1 as issued by Moody's Investor Service or BB+ by Standard & Poor's for the majority of the derivative instruments. The derivative instruments that are insured by Assured Guaranty Municipal Corp., Assured Guaranty Corp. or MBIA Insurance Corporation (derivative instruments No. 1, 2, 10, 15 and 16) may not be terminated by the counterparty unless an Insurer Event has occurred (i.e., Insurer's credit ratings fall below A3 by Moody's Investor Service or A- by Standard & Poor's). If at the time of termination, a hedging derivative instrument is in a liability position, the Commonwealth would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Counterparty Risk — The Commonwealth is at risk that a counterparty (or its guarantor) will not meet its obligations under the swap. If a counterparty were to default under its agreement when the counterparty would owe a termination payment to the Commonwealth, the Commonwealth may have to pay another entity to assume the position of the defaulting counterparty. The Commonwealth has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents.

Rollover Risk — The Commonwealth is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the Commonwealth will be reexposed to the risks being hedged by the hedging derivative instrument. Derivative instrument No.21 exposes the Commonwealth to rollover risk because the interest rate swap terminates prior to both the redemption date and the maturity date of the associated bonds.

Investment Derivative Instruments

The following table displays the terms of the Commonwealth's investment derivative instruments outstanding at June 30, 2010, along with the credit rating of the associated counterparty (amounts in thousands). Regarding derivative instruments where the counterparty is unrated, the rating provided is of the counterparty's guarantor.

Item	Type	Notional Amount	Effective Date	Maturity Date	Terms		Counterparty Credit Rating Moody's/ S&P
					Pays	Receives	
27	Basis swap	$ 1,273,778	07/10/2007	07/01/2035	SIFMA	67% 3M LIBOR + 0.4409%	A1/A
28	Basis swap	424,592	07/05/2007	07/01/2035	SIFMA	67% 3M LIBOR + .4409%	A2/A
29	Forward swap	29,165	07/01/2012	07/01/2031	3.8510 %	67% 1M LIBOR	Aaa/AA
30	Forward swap	40,000	07/01/2012	07/01/2031	3.7684	67% 1M LIBOR	Aaa/AA
31	Forward swap	453,500	02/01/2012	08/01/2040	3.9500	67% 3M LIBOR	A3/BBB
32	Forward swap	453,500	02/01/2012	08/01/2040	3.9500	67% 3M LIBOR	A2/A

The Commonwealth entered into the basis swaps to hedge the portion of the fair value of the underlying liabilities attributable to the relative value/basis risk between tax-exempt and taxable rates. Because of the tax-exemption, tax-exempt bonds trade at yields lower than taxable yields. At June 30, 2010 and 2009, management of the Commonwealth concluded that these basis swaps were not considered as effective hedge instruments under GASB Statement No. 53. In addition, the Commonwealth entered into the forward swaps in connection with the expected issuance of certain variable rate bonds. The recent U.S. financial market crisis has resulted in a significant reduction in the availability of credit/liquidity facilities to support variable rate bonds, and a related increase in the price of these facilities when they can be obtained. As a result, the occurrence of this expected transaction is not deemed probable and, accordingly, these forward swap agreements have been classified as investment derivative instruments.

Risks

Credit Risk — The Commonwealth is exposed to credit risk on investment derivative instruments that are in asset positions. When the fair value of a derivative contract is positive, the counterparty owes the Commonwealth, which creates a credit risk for the Commonwealth. When the fair value of the derivative contract is negative, the Commonwealth owes to the counterparty and, therefore, does not pose credit risk to the Commonwealth.

The Commonwealth has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents. In addition, to minimize its exposure to loss related to credit risk, it is the Commonwealth's policy to require counterparty collateral posting provisions in its derivative instruments. These terms require collateralization of the fair value of investment derivative instruments in asset position (net of the effect of applicable netting arrangements) in excess of certain agreed thresholds (which range from \$30.0 million to \$50.0 million) if the credit rating of the counterparty goes below Aa3 (Moody's Investor Service) or AA- (Standard & Poor's). Collateral posted is to be in the form cash or U.S. Treasury securities. The Commonwealth has never failed to access collateral when required.

It is the Commonwealth's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, closeout netting provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

At June 30, 2010, none of the investment derivative instruments by counterparty was in an asset position. Thus, the Commonwealth had no aggregate counterparty credit exposure as of that date.

Interest Rate Risk — The Commonwealth is exposed to interest rate risk on its swaps. On its pay-fixed, receive-variable interest rate swap, as LIBOR decreases, the Commonwealth's net payment on the swap increases. On its basis swaps, whereby if LIBOR increases and SIFMA trades a higher percentage of LIBOR, the Commonwealth's net payment on the basis swap increases.

Counterparty Risk — The Commonwealth is at risk that a counterparty (or its guarantor) will not meet its obligations under the swap. If counterparty were to default under its agreement when the counterparty would owe a termination payment to the Commonwealth, the Commonwealth may have to pay another entity to assume the position of the defaulting counterparty. The Commonwealth has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents.

Termination risk: The Commonwealth or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The Commonwealth is at risk that counterparty will terminate a swap at a time when the Commonwealth owes it a termination payment. The Commonwealth has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by the Commonwealth; other Commonwealth defaults which remain uncured for 30 days after notice; Commonwealth bankruptcy; insolvency of the Commonwealth (or similar events); or a downgrade of the Commonwealth's credit ratings below Ba1 as issued by Moody's Investor Service or BB+ by Standard & Poor's for the majority of the derivative instruments. The derivative instruments that are insured by Assured Guaranty

Municipal Corp., Assured Guaranty Corp. or MBIA Insurance Corporation (derivative instruments No. 28, and 29) may not be terminated by the counterparty unless an Insurer Event has occurred (i.e., Insurer's credit ratings fall below A3 by Moody's Investor Service or A- by Standard & Poor's). If at the time of termination, a hedging derivative instrument is in a liability position, the Commonwealth would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Collateral Posting Requirements and Contingencies

All of the Commonwealth's derivative instruments, except for the Commonwealth's insured derivative swaps, and the COFINA's derivative instrument No. 32 include provisions that require the Commonwealth and COFINA to post collateral in excess of certain agreed thresholds (that range from $30.0 million to $50.0 million) in the event their credit rating falls below Baa1 (Moody's Investor Service) or BBB+ (Standard & Poor's). If the Commonwealth or the COFINA's credit rating falls below Baa3 (Moody's) or BBB- (Standard & Poor's), they are required to post collateral of 100% of its payable position. The collateral posted is to be in the form of cash, U.S. Treasury securities, or specified Agency securities in the amount equal to in the form of cash or greater to in the form of securities of the fair value of derivative instruments in liability positions net of the effect of applicable netting arrangements and applicable thresholds. If the Commonwealth or COFINA does not post collateral, the derivative instrument may be terminated by the counterparty.

At June 30, 2010, the aggregate fair value of all the Commonwealth's uninsured derivative instruments with these collateral posting provisions was $(234.3) million. The Commonwealth's credit rating as of June 30, 2010 was A3 (Moody's) and BBB- (Standard & Poor's). Since the Commonwealth triggered the collateral posting requirements at June 30, 2010, it was required to post $85.7 million in collateral to its counterparties based on posting cash. At June 30, 2010, the Commonwealth posted $75.0 million in cash collateral to its counterparties. The shortage of $10.7 million in the required posting collateral was covered the next business day.

At June 30, 2010, the aggregate fair value of the COFINA's derivative instrument with this collateral posting provision (derivative instrument No. 32) was $(98.2) million. If the collateral posting requirement was triggered at June 30, 2010, COFINA would be required to post $48.2 million in collateral to its counterparty based on posting cash. The COFINA's credit rating as of June 30, 2010 was A1 (Moody's) and A+ (Standard & Poor's); therefore, no collateral has been posted as of that date.

24. SUBSEQUENT EVENTS

Primary Government — On December 1, 2009, the Governor signed into law Act No. 161, which overhauls the existing permitting and licensing process in Puerto Rico in order to provide for a leaner and more efficient process that fosters economic development. In the short term, this restructuring is focused on eliminating the significant backlog of unprocessed permits that are currently in the pipeline of various government agencies. Longer term, this law seeks to significantly reduce the number of inter-agency processes and transactions currently required by creating a centralized, client-focused system that simplifies and shortens the permitting process for applicants. On December 1, 2010, a new permitting agency created under Act No. 161, which centralized permitting processes previously carried out by various agencies, commenced operations.

On July 19, 2010, the Governor signed Acts No. 82 and 83, providing for, among other things, the adoption of a new energy policy, which is critical for Puerto Rico's competitiveness. Act No. 82 focuses on reducing Puerto Rico's dependence on fossil fuels, particularly oil, through the promotion of diverse, renewable-energy technologies. Act No. 83 created a green energy incentives program to promote the development of renewable energy projects as well as a Renewable Portfolio Standards Program. These initiatives are expected to address energy prices in Puerto Rico and provide a means of attracting investment in the energy sector.

On July 7, 2010, the Board of Directors of PBA, a blended component unit, authorized the Executive Director to obtain a loan from the Government Development Bank for Puerto Rico to refinance the interest component of certain outstanding revenue and revenue refunding bonds. PBA is authorized to accept the terms and conditions of a loan in a principal amount not to exceed $36,944,781 to pay the interest component coming due during the twelve months after the date of the first drawing under the Loan Agreement. The loan shall mature on such date as GDB may determine but in no event later than June 30, 2011.

On August 16, 2010, the Board of Directors authorized the Executive Director to request and obtain a line of credit for approximately $93,000,000 for construction projects development.

On September 1, 2010, the Board of Directors authorized the Executive Director to accept an increase of $12,314,927 to the loan of $36,944,781, such that the aggregate amount of the loan will not exceed $49,259,708. The proceeds of the loan shall be used to finance the interest of certain outstanding revenue bonds until such time as PBA issues revenue refunding bonds to refund such interest. The term of the loan, including the maturity date, rates of interest thereon and source and method of payment shall remain the same as set forth in the Loan Agreement, previously approved by the Board of Directors.

On September 1, 2010, the Board of Directors authorized the Executive Director to accept a loan from the Government Development Bank for Puerto Rico in the amount of $160,000,000. PBA in conjunction with the Puerto Rico Public Partnerships Authority, the Puerto Rico Department of Education, the Department of Transportation and Public Works and the Puerto Rico Infrastructure Financing Authority, is undertaking a significant expansive modernization project for the Puerto Rico's Public Schools, known as the Schools for the 21st Century. The proceeds of the loan shall be used to finance project costs under the Inter-Departmental Agreement, until such time as PBA issues the Qualified School Construction Bonds (the "QSCBs").

On September 24, 2010, the Treasury Department transferred $60.3 million to PBA for the payment of debts from agencies of the Commonwealth related to rent due as of June 30, 2009.

On July 2, 2010, the Government enacted Act No. 70 (Act No. 70), which is designed to reduce government expenditures by providing an early retirement window for eligible employees (who opted to retire by January 14, 2011 or during such other period that may be established by a designated committee) under a formula that results in a positive actuarial impact for the government's Retirement Systems. Act. No. 70 establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employee's annual monthly salary. Economic incentives are available to all eligible employees and will consist of a lump-sum payment ranging from one-month to six-month salary. Additionally, all employees that choose to participate in this program are eligible to receive health plan coverage up to 12 months in a health plan selected by the Administrator of the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the "Administrator"). Eligible employees may elect to participate in this program within 30 days after a date to be determined by the Administrator, no later than December 31, 2012. Approximately 4,000 employees opted for early retirement under Act 70.

On September 2, 2010, the Governor signed Act No. 132. Act No. 132, which was designed primarily to stimulate the Puerto Rico real estate market, which in recent years has been suffering from lower sales, rising inventories, falling median prices and increased foreclosure rates. Pursuant to the provisions of Act No. 132, the Government has provided tax and transaction fee incentives to both purchasers and sellers of new and existing residential properties, as well as commercial properties with sale prices that do not exceed $3 million. The incentives provided under Act No. 132 will be available from September 1, 2010 to June 30, 2011. Certain permanent incentives are also available for rental housing.

In an effort to maintain the local rum industry and preserve or increase the amount of federal excise taxes on rum shipments returned to Puerto Rico under the cover-over program, the Governor of Puerto Rico signed Act No. 178 of December 1, 2010 (Act 178), which increases from 10% to 25% the portion of the monies from the federal excise tax that the Government of Puerto Rico may invest to provide incentives to and promote the Puerto Rican rum industry. The law also authorizes the Governor of Puerto Rico to increase this percentage up to 46% after December 31, 2011, through an Executive Order. In order to promote the Puerto Rican rum industry in general, the amount received from such refund will be transferred to a special account of the General Fund, which may be used for marketing, production and infrastructure investment incentives. Effective January 1, 2011, Act No. 1 replaced Act 178 and contains identical provisions.

The Government of Puerto Rico is in discussions with certain rum producers to provide them a series of subsidies and incentives, as permitted under Act No. 1, in order to promote the production of rum in Puerto Rico. If such discussions culminate in definitive agreements, this would allow such companies to benefit from the cover-over program rebate and would promote and encourage the export of rum produced in Puerto Rico.

The tax reform consists of two phases focused on providing tax relief to individuals and corporations, promoting economic development and job creation, simplifying the tax system and reducing tax evasion through enhanced tax compliance measures. The first phase, enacted as Act No. 171 of November 15, 2010, is expected to provide individual and corporate taxpayers with significant savings for taxable year 2010. The second phase, enacted as Act No. 1 of January 31, 2011 (Act No. 1), is projected to provide individual and corporate taxpayers significant savings for the next six taxable years, commencing in taxable year 2011. Consistent with the objective of maintaining the path towards fiscal stability, the tax relief provisions applicable to individuals and corporations for taxable years 2014 through 2016 become effective only if (i) OMB certifies that the administration's expense control target has been met, (ii) the Treasury Department certifies that General Fund revenue target has been met and (iii) the Planning Board certifies a year-over-year target increase in gross domestic product.

On September 28, 2010, the Treasury Department signed an agreement with Evertec, Inc. and Softek for the implementation of a new point of sale system to strengthen its sales tax enforcement efforts (the "IVU Loto"). The system is designed to: (i) transmit daily to the Treasury Department information on all sales tax transactions; (ii) reconcile transmitted transactional information with information reported by merchants; (iii) provide wireless transmission devices for use by street vendors; and (iv) capture a greater percentage of cash sales through the implementation of a special lottery using sales receipts as lottery tickets. The Treasury Department will implement this new point of sale system in two phases. The first phase entails a pilot program in which 200 businesses are expected to participate. Once the pilot program has concluded, a business certification program will take place followed by full scale implementation expected to begin in January 2011. The implementation of this new system is expected to increase sales tax collections by $100 million during the first year; $200 million during the second year and $400 million during the third year.

The IVU Loto pilot program started on December 1, 2010. Two hundred merchants in the municipality of Ponce were selected to participate in the program. On January 11, 2011, merchants filed their monthly sales and use tax returns for the month of December and the Treasury Department is in the process of comparing sales and use tax withholdings reported by the IVU Loto system with the information filed by merchants that participated in the pilot program. The Treasury Department adopted regulations on

December 14, 2010 requiring that all qualifying merchants acquire and use an IVU Loto device on or prior to April 30, 2011.

On July 2, 2010, the Commonwealth approved Act No. 71 of July 2, 2010 (Act 71). Act No. 71 established a 120 day amnesty program available from August 16, 2010 until December 13, 2010, in which taxpayers may pay outstanding property tax debts with a discount of 100% of any penalties, interest and surcharges (the "Program"). Pursuant to Act 71 and CRIM's Administrative Order No. 2010-05, the Program is available with respect to taxable year 2008-2009 and previous years in the case of real property taxes, and for taxable year 2008 and previous years with respect to personal property taxes. To benefit from the Program the taxpayer must: (i) have paid property taxes for fiscal year 2009-2010 and the first semester of 2010-2011 in the case of real property taxes, and tax year 2009 in the case of personal property taxes; and (ii) certify to the CRIM that it will pay real and personal property taxes related to fiscal year 2010-2011.

On November 15, 2010, the Commonwealth approved Act No. 172, which establishes that taxpayers which apply for a voluntary disclosure program on or before April 15, 2011 will be eligible for a 20% flat income tax rate on the gross amounts reported and will not be subject to interest, surcharges and penalty fees. This legislation extends the benefits of the program to municipal license tax declarations for which taxpayers will pay principal on the municipal tax determined, but will not be subject to interest, surcharges and penalty fees. Declarations by taxpayers must relate to tax years commenced after July 1, 2003 and ending on or before December 31, 2009, and payment of tax determined under the program must be paid no later than June 30, 2011.

On April 19, 2010, Moody's Investors Service ("Moody's") announced the results of the recalibration of certain U.S. municipal bond issues and issuers in order to enhance the comparability of credit ratings across its portfolio of rated securities. As a result of this recalibration, the Commonwealth's general obligation debt is now rated "A3" by Moody's which is three categories above the previous "Baa3" rating. On August 10, 2010, Moody's assigned a negative outlook to the Commonwealth's general obligation debt and related credits primarily as a result of the low funding levels of the Commonwealth's Retirement Systems.

On November 29, 2010, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), confirmed its "BBB–" rating on the Commonwealth's general obligation and appropriation debt and changed the outlook on general obligation debt to positive from stable. The outlook on the Commonwealth's appropriation rating remains stable. In taking this rating action, S&P stated that while the ratings continue to reflect their opinion on the Commonwealth's history of chronic budget deficits, the revision in the outlook of the Commonwealth's general obligation debt was based on their view as to the recent implementation of expenditure controls and revenue enhancement measures that they believe could help restore budget balance within the next two years.

On March 7, 2011, S&P raised its general obligation rating on the Commonwealth of Puerto Rico to "BBB" from "BBB-" with a stable outlook. S&P have also affirmed the "BBB-" rating with a stable outlook on the Commonwealth's appropriation debt. In addition, S&P assigned its "BBB" rating and stable outlook to the Commonwealth Series 2011C general obligation public improvement refunding bonds. The upgrade is based on their view of the Commonwealth's recent revenue performance and continued efforts to achieve fiscal and budgetary balance.

On January 19, 2011, Fitch, Inc. ("Fitch") assigned a "BBB+" rating to the Commonwealth's general obligation and appropriation debt with a stable outlook. In assigning the rating, Fitch stated that, while it recognized the Commonwealth's historic budget deficits, overestimation of revenues, reliance on borrowings to meet budgetary gaps, and the low level of pension funding, the successful implementation of the dramatic steps taken by the government to restructure fiscal operations and stimulate the economy was a positive credit factor.

On February 10, 2011, the Commonwealth issued Public Improvement Refunding Bonds, Series 2011 A amounting to $356,520,000 and terminated approximately $231 million of synthetic fixed rate swaps associated to the general obligation bonds refunded by the Series 2011A Bonds. The proceeds were used to provide funds to (i) refund a portion of the principal (but not the interest) payable on July 1, 2011 on certain general obligation bonds and notes of the Commonwealth, (ii) refund, in whole or in part, certain other general obligation bonds and notes of the Commonwealth, (iii) repay certain GDB lines of credit used to deposit moneys in the Redemption Fund to cover a portion of the principal (but not the interest) payable on July 1, 2011 on certain general obligation bonds and notes of the Commonwealth, (iv) fund termination payments under certain interest rate swap agreements in connection with the refunding of the Refunded Bonds, and (v) pay the cost of issuance of the Bonds.

On March 2, 2011, the Commonwealth issued Public Improvement Refunding Bonds, Series 2011 B amounting to $274,550,000. The Series 2011B Bonds were directly purchased by an institutional investor and the proceeds were used to refund on a current basis, the Commonwealth's Public Improvement Refunding Bonds, Series 2007 A-8, Series 2007 A-9 and Series 2008 B.

On March 10, 2011, the Commonwealth issued Public Improvement Refunding Bonds, Series 2011 C amounting to $442,015,000. The net proceeds were issued to provide funds to repay advances made to the Commonwealth under a Government Development Bank for Puerto Rico line of credit used to make deposits to the Commonwealth's Redemption Fund for the repayment of interest due during fiscal year 2011 on certain general obligation bonds and notes, pay capitalized interest on the Bonds, and pay the cost of issuance of the Bonds.

Component Units

(a) GDB

GDB Senior Notes 2010 — On July 29, 2010, GDB issued $1.6 billion of Senior Notes, 2010 Series A and B. The Senior Notes, 2010 Series A consist of terms notes with a total principal balance of $1,448,741,000 maturing on various dates from August 1, 2011 to August 1, 2020 and bearing fixed interest rates ranging from 2.00% to 5.50%. The Senior Notes, 2010 Series A are subject to Redemption prior to maturity at the option of GDB, either in whole or in part, at a price equal to the principal amount of be redeemed plus accrued interest to the date of redemption, without premium on August 1, 2011 and on any day thereafter, subject to at least 20 days prior notice. Interest on the Senior Notes, 2010 Series A will be payable monthly on the first day of each month, commencing on September 1, 2010. GDB will use the proceeds for general corporate purposes, including, but not limited to redeeming other notes issued by GDB, increasing its investment portfolio, making loans to, and purchasing obligations of, the Commonwealth and its public corporations, instrumentalities and municipalities, and repaying certain outstanding debt. In particular, GDB expects to use a portion of the proceeds of the Senior Notes, 2010 Series A to redeem some of the Senior Notes, 2008 Series A and B and Senior Notes, 2009 Series A.

The Senior Notes, 2010 Series B consist of a term note with a principal balance of $151,259,000 maturing on August 1, 2025 and bearing a fixed interest rate of 5.75%. The Senior Notes, 2010 Series B are subject to redemption prior to maturity at the option of GDB, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium on August 1, 2011 and on any day thereafter, subject to at least 20 days prior notice. Interest on the Senior Notes, 2010 Series B, will be payable on November 1, 2010 and quarterly thereafter. GDB will use the proceeds for making loans to the Commonwealth and its public corporations, instrumentalities and municipalities to be used to finance the capital expenditures. The Senior Notes 2010, Series B were issued as "Build America Bonds". Upon compliance with certain requirements of the United States Internal Revenue Code, GDB will receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on the Senior Notes, 2010 Series B.

On August 24, 2010, GDB issued approximately $1.2 billion of Senior Notes, 2010 Series C and D. The Senior Notes, 2010 Series C consist of term notes with a principal balance of $1,086,478,000 maturing on various dates from August 1, 2012 to August 1, 2019 and bearing fixed interest rates ranging from 3.00% and 5.40%. The Senior Notes, 2010 Series C are subject to redemption prior to maturity at the option of GDB, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium on September 1, 2011 and on any date thereafter, subject to at least 20 days prior notice. Interest will be payable monthly on the first day of each month, commencing on October 1, 2010. GDB will use the proceeds for general corporate purposes, including, but not limited to, redeeming other notes issued by GDB, increasing its investment portfolio, making loans to, and purchasing obligations of the Commonwealth and its public corporations, instrumentalities and municipalities, and repaying certain outside debt.

The Senior Notes, 2010 Series D consist of a term note with a principal balance of $96,411,000 maturing on August 1, 2025 and bearing a fixed interest rate of 5.75%. The Senior Notes, 2010 Series D are subject to redemption prior to maturity date at the option of GDB, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium on September 1, 2011 and on any day thereafter, subject to at least 20 days prior notice. Interest on the Senior Notes, 2010 Series D will be payable on November 1, 2010 and quarterly thereafter. GDB will use the proceeds for making loans to the Commonwealth and its public corporations, instrumentalities and municipalities to be used to finance capital expenditures. The Senior Notes, 2010 Series D were issued as "Build America Bonds". Upon compliance with certain requirements of the United States Internal Revenue Code, GDB will receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on the senior Notes, 2010 Series D.

Popular, Inc. Note — On July 23, 2010, Popular Inc. repurchased the floating rate notes it has issued to GDB at a price of 109% of the outstanding principal amount plus accrued interest. The total amount received was $110,228,710 including principal of $100 million, premium of $9 million and accrued interest of approximately $1.2 million.

HOME Program — Effective July 1, 2010, the Housing Finance Authority was certified by the HUD to administer the HOME Investment Partnership (HOME) Program. The objectives of the HOME program include: (1) expanding the supply of decent and affordable housing, particularly housing for low and very low income Americans; (2) strengthening the abilities of state and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; (3) providing financial and technical assistance to participating jurisdictions, including the development of model programs for affordable low income housing; and (4) extending and strengthening partnerships among all levels of government and the private sector, including for-profit and nonprofit organizations, in the production and operating of affordable housing.

(b) PRHIA

Effective October 1, 2010, in compliance with the Commonwealth strategies, PRHIA developed a new integrated health model named "MI SALUD" with the following changes from prior health administration program:

a. Set up a standard premium per region as established by the Administration.

b. Eliminate referrals when the beneficiary needs the service of a specialist.

c. Better access to prescribed medicines without the authorization of the primary healthcare provider.

d. Extended hours for healthcare providers of basic services.

e. Tele-emergency services available 24 hours.

f. Integration of the physical health and mental health in one place.

g. The risk of the primary healthcare provider in relation to medicines, emergency and preventive health test was decreased and transferred to the health insurance companies.

h. Increased coverage to include the middle class working force.

i. Set up a ceiling in relation to administrative expenses and gains of the health insurance companies.

Effective November 23, 2010, the Legislature amended Act No. 72 authorizing PRHIA to incur in obligations up to $187 million in order to pay outstanding debts incurred prior to July 1, 2010.

Reorganization Plan No. 3, created under Act. No. 182 of December 17, 2009, amended Act No. 95 of June 29, 1963 to transfer to PRHIA the faculty to negotiate, contract, and procure health benefits for the governmental employees.

(c) PRHTA

On July 1, 2010, PRHTA issued $253,670,000 of Highway Revenue Refunding Bonds (Series AA) and $44,275,000 of Transportation Revenue Refunding Bonds (Series H) for the purpose of converting the interest rate mode from a term rate to a fixed rate. The Series AA which consists of $188,395,000 aggregate principal amount of Series AA-1 Bonds and $65,275,000 aggregate principal amount of Series AA-2 Bonds bear interest at a fixed rate of 4.95% and 5.30% respectively, and are due on July 1, 2026 and 2035, respectively. The Series H bears interest at a fixed rate of 5.45% and is due on July 1, 2035.

On July 13, 2010, PRHTA entered into a new nonrevolving line of credit with GDB for the amount of $63 million for the settlement of various legal cases. This line of credit matures on August 30, 2012 and bears interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not exceed twelve (12) percent and shall not be less than six (6) percent.

On August 27, 2010, PRHTA entered into a nonrevolving line of credit with GDB for the amount of $45 million for the exclusive purpose of paying collateral posting requirements on the fixed payer swaps associated to PRHTA Floating Rate Notes and to cover costs related to this financing. This line of credit matures on August 27, 2011 and bears interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not exceed twelve (12) percent and shall not be less than six (6) percent.

On August 27, 2010, PRHTA entered into a nonrevolving line of credit for the amount of $118.3 million, for the purpose of paying certain costs incurred or to be incurred in the acquisition, construction, equipping, installation and development of certain capital improvements, and paying certain costs associated with the automatization of the PRHTA's toll collection system. This line of credit matures on August 27, 2013 and bear interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not exceed twelve (12) percent and shall not be less than six (6) percent.

On November 8, 2010, PRHTA entered into a new agreement with GDB for the amount of $83.8 million to increase the $45 million nonrevolving line of credit agreed on August 27, 2010, with the same loan terms.

On January 26, 2011, PRHTA received an extension of its lines of credit amounting to $122.1 million, $25 million, $15 million, and $78.3 million, which were due on June 30, 2011. The maturity date of these lines of credit was extended to August 31, 2012.

(d) PREPA

Via Verde Pipeline

PREPA plans to convert existing oil-fired facilities to allow them to use either oil or natural gas and to build a pipeline system to be known as "Vía Verde", to transport natural gas to several of the Authority's generating plants. In order to achieve this, during December 2010 PREPA issued bonds pursuant to Section 208 of the Trust Agreement to finance a portion of its capital improvement program and a portion of the construction of the Vía Verde natural gas pipeline.

On July 29, 2010, PREPA established with Citibank, N.A. a $200 million line of credit, with a maturity date of June 2011, for the purchase of fuel oil and energy.

On September 2010, pursuant to the Trust Agreement, PREPA issued Power Revenue Refunding, Series DDD, with a par amount of $218,225,000 to provide funds to refund certain series with redemption dates that range between November 15, 2010 and January 1, 2011.

On November 5, 2010, PREPA entered into a $50 million loan agreement with First Bank to finance initial disbursements related to Via Verde Project. This loan will be paid off with the proceeds of the bonds issuance expected on December 2010.

On December 2010, PREPA issued Series EEE amounting $355.7 million to funding portion of its capital improvement program, to repay the First Bank loan and to finance portion of the construction costs of the Via Verde natural gas pipeline.

Energy Diversification

On July 10, 2010, the Commonwealth enacted Act No. 82, known as the Act for a Public Policy for Energy Diversification through Sustainable and Alternative Renewable Energy. Act No. 82 requires PREPA to meet prescribed targets of energy generation from renewable sources by specified dates, as follows: 12% of energy sales from renewable energy production by 2015 and 15% of energy sales from renewable energy production by 2020, with a requirement to establish a plan to reach 20% of energy sales from renewable energy production by 2035. Act No. 82 also establishes Renewable Energy Certificates as a legally recognized asset that can be purchased, sold, traded and transferred separately from electric power and used to meet the renewable energy targets and creates a Renewable Energy Commission with the power to implement and supervise compliance with Act No. 82. Failure to comply with the renewable energy targets could result in the imposition of fines. Concurrently with the enactment of Act No. 82, the Commonwealth enacted Act No. 83 of July 19, 2010, known as the Green Energy Incentives Act, which provides incentives to promote the development of renewable energy projects. PREPA is taking measures to comply with Act No. 82, such as entering into power purchase agreements with developers of renewable energy projects, but it is too early to determine whether PREPA will be able to comply with the requirements of Act No. 82 and what impact Act No. 82 and Act No. 83 will have on PREPA.

Wheeling

Act No. 73 provides that PREPA shall identify and implement a system that permits the operation of a wheeling service mechanism by January 2, 2010. Act No. 73 also provides for the creation of a Committee of Wheeling, which Committee is responsible for the implementation of the wheeling system. The Committee of Wheeling engaged Christensen Associates Energy Consulting, LLC, based in Wisconsin, to prepare the Puerto Rico Wheeling System Implementation Plan Study that was delivered to PREPA in December 2009. This study, which included various regulatory proposals regarding the establishment of the system and the applicable tariffs, was reviewed by PREPA and substantial changes were made.

Public Hearings were held on June 1 and 2, 2010 to consider the following documents: Wheeling System Tariffs, Wheeling Transmission Regulation and Wheeling Interconnection Procedure. The public hearing examiner submitted a final report to PREPA’s Governing Board on June 30, 2010. In the report, the examiner recommends approval of the Wheeling Transmission Regulation and Wheeling Interconnection Procedure, but rejected approval of the Wheeling System Tariffs based on lack of information to the public. The Tariffs have to be submitted to the public hearings procedure again with enough time for public evaluation.

(e) EDB

On July 20, 2010, EDB accepted an offer from the issuer of $75 million floating rate notes (the “Notes”) due on September 12, 2010 to redeem the Notes at 109%. As a result, EDB recorded a gain of approximately $7.7 million on this investment existing at June 30, 2010.

(f) ASDA

Effective July 29, 2010, under Reorganization Plan No. 7 of 2010, ASDA ceased to exist and its funds, materials, and employees were transferred to the “Administración para el Desarrollo de Empresas Agrícolas (ADEA)”. Also, most of the funds, materials, and employees of the “Corporación de Desarrollo Rural” were also transferred to ADEA. ADEA will continue to operate under the Puerto Rico Department of Agricultures’ umbrella.

(g) PRTEC

On July 1, 2010 and July 27, 2010, collateralized promissory notes for $72 million and $136 million, respectively, were issued. On July 9, 2010, collateralized promissory notes for $137 million were called.

(h) PRPA

On July 21, 2010, the PRPA amended and restated a credit agreement with Banco Bilbao Vizcaya Argentaria Puerto Rico (BBVAPR) for an aggregate amount of $83,721,083. Under the Amended and Restated Credit Agreement dated July 21, 2010, the PRPA will commence monthly payments of principal of $768,083, plus interest. A final installment of $74,504,084 plus accrued and unpaid interest will be due on June 30, 2011, the Termination Date. Concurrently, on July 21, 2010, the PRPA and GDB amended the Letter of Credit Disbursement and Reimbursement Agreement in which the GDB agreed to issue a Letter of Credit in the amount of $92,087,399 in favor of BBVAPR as security for the PRPA's repayment obligation under a certain amended and restated credit agreement, dated July 21, 2010, between the PRPA and BBVAPR.

The Fiscal Oversight Agreement, dated July 1, 2009, between the GDB and PRPA was amended on August 23, 2010 to in order to provide for streamlined monthly financial and operational reporting.

On December 3, 2010, PRPA obtained a refunding related to the borrowings under a line of credit agreement with Wells Fargo for $71,898,000. Under the term loan agreement dated December 3, 2010, PRPA will commence payment of annual principal installments, with each principal installment to be in an amount of $4,493,625 per installment plus interest, payable on each July 1 of each year commencing on July 1, 2011, with a final installment in the amount of all principal payable on April 30, 2012. Also, on December 1, 2010, PRPA and Wells Fargo Bank entered in a Collateral Security Agreement granting a security interest in favor of Wells Fargo Bank in the accounts receivable constituting PFC revenues and the proceeds thereof deposited in specified bank accounts and to pledge and assign to Wells Fargo Bank each of PRPA's rights in and to the aforesaid accounts receivable and deposit accounts, as collateral security for all obligations of PRPA under the term loan agreement dated December 3, 2010. Additionally, on December 3, 2010, PRPA and GDB entered into a Letter of Credit and Reimbursement Agreement in which GDB agreed to issue a letter of credit in the amount of $73,168,198 in favor of Wells Fargo Bank as security for the PRPA's repayment obligation under a certain term loan agreement dated December 3, 2010, between PRPA and Wells Fargo Bank.

(i) PRCHE

On July 26, 2010, the Governor of Puerto Rico signed the Reorganization Plan number one (No.1) for the PRCHE, under Act No. 182 of December 17, 2009 known as "Act of Reorganization and Modernization of the Executive Branch of the Government of Puerto Rico of 2009". The Plan has the purpose of merging the Council of General Education of Puerto Rico with PRCHE. A new organization will be created, and all the assets and liabilities of the PRCHE will be transferred and assumed during the merger.

(j) PRIFA

On September 18, 2010, PRIFA transferred completed construction projects for the celebration of the XXI Central American & Caribbean Games amounting to approximately $200 million to the Puerto Rico Recreation and Sports Department.

In October 2010, PRIFA entered into a memorandum of understanding with Puerto Rico Public-Private Partnerships Authority, Puerto Rico Public Buildings Authority, Puerto Rico Department of Education, Puerto Rico Department of Transportation and Public Works ("DTOP", in its Spanish acronym), and GDB for the administration of the Schools for the 21st Century Program (the "21st Century Program"). The 21st Century Program comprise of the modernization of approximately ninety-five (95) public schools and the construction five (5) new public schools in Puerto Rico. The 21st Century Program will positively affect schools covering all academic levels and will impact approximately 50,000 students. Total investment under the Program will approximate $756 million.

(k) UPR

To address budgetary deficit issues, on June 30, 2010, the Board of Trustees of the UPR established a "Stabilization Fee" to be charged to all students in addition to tuition charges and other fees already in place in the UPR. The Stabilization Fee amounts to $400 per student per semester with the expectation of increasing revenues upwards of $40 million per year. This stabilization fee has no set termination date.

In November 2010 by virtue of Law No. 176, as amended by Law No. 46 of April 2011, the Government of Puerto Rico has committed to transfer 10% of the Additional Lottery's net annual income with a guaranteed minimum amount of $30 million per academic year, for the creation of a Special Scholarship Fund for the UPR. The purpose of the fund is to provide financial aid to graduate and undergraduate students. The fund will be administered by the UPR.

In October 2010, the UPR obtained a $100 million line of credit facility with the GDB for working capital purposes during the 2010-2011 academic year. The line of credit is collateralized by the UPR's accounts receivable from the Commonwealth of Puerto Rico and its agencies as well as by the Commonwealth income guaranteed appropriations under Act No. 2 of January 20, 1966, as amended.

In April 2011, the UPR settled with the Commonwealth the amounts Due from Commonwealth for $18,598,441. The UPR will receive the amount during fiscal year 2012.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2010	$1,664,991	$19,501,761	$17,836,770	8.5 %	$3,818,332	467.1 %
June 30, 2009	1,842,143	18,943,586	17,101,443	9.7	4,292,552	398.4
June 30, 2007	2,891,501	16,769,512	13,878,011	17.2	4,246,409	326.8

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

Actuarial Valuation Date	Actuarial Value of Assets	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2010	$55,410	$338,195	$282,785	16.4 %	$32,061	882.0 %
June 30, 2009	50,566	323,928	273,362	15.6	30,587	893.7
June, 30 2007	81,473	258,577	177,104	31.5	31,256	566.6

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

Actuarial Valuation Date	Actuarial Value of Assets	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Junio 30, 2010	$2,222,000	$9,280,000	$7,058,000	24 %	$1,370,000	515.2 %
June 30, 2009	2,158,000	8,722,000	6,564,000	25	1,418,000	462.9
June 30, 2007	3,163,000	7,756,000	4,593,000	41	1,370,000	335.3

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS — POSTEMPLOYMENT HEALTHCARE BENEFITS
JUNE 30, 2010

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2010	$ -	$1,646,148	$1,646,148	- %	$3,818,332	43.1 %
June 30, 2009	-	1,633,159	1,633,159	-	4,292,552	38.0

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

Actuarial Valuation Date	Actuarial Value of Assets	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2010	$ -	$5,808	$5,808	- %	$32,061	18.1 %
June 30, 2009	-	5,643	5,643	-	30,587	18.5

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

Actuarial Valuation Date	Actuarial Value of Assets	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2010	$ -	$694,230	$694,230	- %	$1,370,344	50.7 %
June 30, 2009	-	750,382	750,382	-	1,418,304	52.9

See accompanying independent auditors' report.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

GENERAL FUND

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

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2010
(In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES:			
Current:			
General government:			
Senate of Puerto Rico	$ 42,887	$ 42,887	$ 38,536
House of Representatives of Puerto Rico	47,025	47,025	45,876
Comptroller's Office	43,000	43,000	42,602
Governor's Office	17,870	24,056	22,820
Office of Management and Budget	18,230	20,788	58,854
Planning Board	16,445	12,472	12,819
Constructions and Land Subdivisions Appeals Board	1,946	1,019	992
Department of State	11,682	10,218	7,883
Department of the Treasury	242,459	216,763	676,630
Central Office of Personnel Administration	7,832	5,739	5,641
Commonwealth Elections Commission	36,136	36,136	34,730
Federal Affairs Administration	4,507	4,514	4,441
General Services Administration	8,521	664	12,321
Municipal Complaints Hearing Commission	5,929	4,472	4,199
Civil Rights Commission	1,193	1,193	1,193
Office of the Citizen's Ombudsman	5,376	5,376	5,272
Apellative Board of the Personnel System Administration	1,607	1,475	1,348
Rules and Permits Administration	18,137	9,038	5,595
Commonwealth's Commission to Settle Municipal Complaints	320	187	102
Commissions for the Public Work Relations	1,852	2,323	2,345
Government Ethics Board	10,290	10,290	10,290
Legislative Affairs Office	12,172	12,172	11,768
Office of the Superintendent of the Capitol	10,980	14,980	14,984
Comptroller's Special Reports Joint Commission	691	691	691
Legislative Donation Commission	20,767	20,767	907
Coordination Office for Special Communities of Puerto Rico	23,005	6,714	6,357
Puerto Rico Statistics Institute	977	977	977
Corporation "Enlace" Caño Martín Peña	1,386	1,386	1,386
Information and Technology Communication Office	19,423	19,423	19,921
Government Ethics Board	710	710	-
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	236,893	236,893	238,670
Puerto Rico System of Annuities and Pensions for Teachers	76,733	76,733	76,733
Contributions to Political Parties	450	450	450
Total general government	947,431	891,531	1,367,333
Public Safety:			
Puerto Rico General Court of Justice	384,676	385,052	368,789
Civil Defense	9,583	8,294	6,495
Commission of Investigation, Processing and Appeals Board	1,198	886	507
Department of Justice	156,803	154,632	160,639
Puerto Rico Police Department	702,278	857,264	777,792
Puerto Rico Firefighters Corps	70,736	77,717	65,421
Puerto Rico National Guard	9,794	54,496	19,686
Public Service Commission	19,577	9,366	8,701
Consumer Affairs Department	19,026	15,678	12,344
Juvenile Institutions Administration	75,435	83,079	67,892
Correction Administration	432,715	422,500	395,656
Natural Resources Administration	36,071	46,913	46,168
Department of Correction and Rehabilitation	6,275	5,464	5,576

(Continued)

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2010
(In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES (Continued):			
Public Safety (continued):			
Parole Board	$ 4,480	$ 2,897	$ 2,797
Forensic Sciences Institute	22,190	17,950	18,213
Special Prosecutor Panel	1,836	5,837	1,836
Pre-Trial Services Office	6,391	6,458	6,411
Correctional Health	89,805	80,004	79,693
Medical Emergencies Service	30,528	29,706	30,422
Criminal Justice College	3,935	3,935	3,934
Total public safety	2,083,332	2,268,128	2,078,972
Health:			
Environmental Quality Board	12,179	12,412	12,141
Department of Health	295,557	309,706	308,037
Puerto Rico Medical Services Administration	15,161	15,814	15,814
Mental Health and Drug Addiction Services Administration	134,914	122,114	120,837
Puerto Rico Solid Waste Authority	16,114	9,227	8,719
Puerto Rico Health Insurance Administration	1,067,072	1,598,782	1,169,266
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	-	-	2,000
Total health	1,540,997	2,068,055	1,636,814
Public housing and welfare:			
Office of Youth Affairs	14,114	6,705	6,069
New Business Training Administration	14,862	13,177	12,932
Department of Labor and Human Resources	-	7,729	7,841
Labor Relations Board	1,080	815	811
Department of Housing	29,234	31,312	25,765
Department of Recreation and Sports	46,622	44,390	44,395
Administration for the Horse Racing Sport and Industry	4,835	3,428	3,503
Women's Affairs Commission	8,274	4,300	4,038
Public Housing Administration	1,500	1,500	1,216
Office of the Veteran's Ombudsman	4,421	4,285	3,029
Department of Family	75,505	45,079	56,476
Family and Children Administration	146,106	162,413	176,793
Minors Support Administration	32,162	12,510	12,336
Vocational Rehabilitation Administration	45,235	17,837	18,010
Social Economic Development Administration	120,826	109,303	98,011
Office of the Disabled Persons Ombudsman	5,217	2,701	2,714
Office for Elderly Affairs	3,532	3,646	3,558
Right to Employment Administration	20,156	18,039	13,225
Company for the Integral Development of the Peninsula de Cantera	540	540	583
Industries for the Blind, Mentally Retarded, and Other Disabled Persons of Puerto Rico	500	500	500
Patient Ombudsman	5,904	3,785	3,261
Administration for the Care and Development of the Childhood	17,608	12,973	9,834
Total public housing and welfare	598,233	506,967	504,900

(Continued)

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2010
(In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES (Continued):			
Education:			
Department of Education	$2,528,036	$2,346,653	$2,215,114
Institute of Puerto Rican Culture	38,549	22,787	25,633
Puerto Rico School of Plastics Arts	4,439	2,585	2,665
State Office for Historic Preservation	2,564	1,770	1,250
General Education Council	1,774	1,509	1,501
University of Puerto Rico	788,276	788,276	788,276
Puerto Rico Council on Higher Education	31,369	28,455	28,564
Musical Arts Corporation	5,827	5,827	5,825
Fine Arts Center Corporation	5,426	2,909	3,040
Puerto Rico Public Broadcasting Corporation	15,788	15,787	15,781
Athenaeum of Puerto Rico	500	500	500
Puerto Rico Conservatory of Music Corporation	4,641	4,641	4,639
Total education	3,427,189	3,221,699	3,092,788
Economic development:			
Department of Transportation and Public Works	193,994	114,710	89,151
Department of Natural and Environmental Resources	37,308	7,370	2,026
Department of Agriculture	30,303	25,675	22,774
Cooperative Enterprises Development Administration	5,143	2,901	3,030
Rural Development Corporation	6,660	5,298	5,377
Department of Economic Development and Commerce	5,440	5,307	5,078
Energy Affairs Administration	770	2,305	1,467
Puerto Rico Ports Authority	900	900	900
Puerto Rico Electric Power Authority	-	10	21
Government Development Bank for Puerto Rico	-	54,000	54,000
Puerto Rico Metropolitan Bus Authority	34,994	34,994	39,888
Puerto Rico Maritime Transportation Authority	21,348	21,448	20,566
Agricultural Services and Development Administration	133,954	103,225	102,506
Culebra Conservation and Development Authority	2,381	526	526
National Parks Company of Puerto Rico	11,103	19,928	13,425
Corporation for the Development of the Film Industry in Puerto Rico	561	561	534
Puerto Rico Trade and Export Company	3,174	3,174	3,173
Puerto Rico Infrastructure Financing Authority	117,000	204,009	204,008
Total economic development	605,033	606,341	568,450
Intergovernmental — Municipal Service Administration	379,879	382,864	391,104
Total intergovernmental	379,879	382,864	391,104
TOTAL EXPENDITURES	$9,582,094	$9,945,585	$9,640,361
OPERATING TRANSFER-OUT TO OTHER FUNDS:			
Office of Management and Budget	67,306	117,950	117,939
Transfer of Treasury — Transfer to Debt Service	520,600	520,600	610,426
	$ 587,906	$ 638,550	$ 728,365

See notes to independent auditors' report. (Concluded)

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

Public Buildings Authority Special Revenue Fund — The operating fund of a blended component unit used to account for the operation, maintenance, equipment replacement, and other extraordinary operation and maintenance costs of the buildings and facilities that, when constructed, are leased to the Commonwealth's primary government agencies.

The Children's Trust Special Revenue Fund — The Children's Trust special revenue fund is used to account for the money received by the Commonwealth from a global settlement agreement dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United State of America, including the Commonwealth. The financial resources received by this fund are used to carry out projects aimed at promoting the well-being of children and youth of Puerto Rico.

Debt Service Funds

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

The Children's Trust Debt Service Fund — The debt service fund of The Children's Trust (a blended component unit) accounts for the accumulation of resources for payment of interest and principal on long-term obligations financed with moneys to be received by the Commonwealth from the global settlement agreement signed by certain tobacco companies.

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

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

Capital Projects Funds

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

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

Commonwealth Public Improvements Funds and Other Funds — These funds present the activities of the capital improvements program of the Commonwealth, financed with the proceeds of the general obligation bonds.

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET — NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010
(In thousands)

	Special Revenue		Debt Service			Capital Projects		Total
ASSETS	Public Buildings Authority	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Ahoritity	Nonmajor Governmental Funds
CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS	$ 35,785	$ -	$ -	$ -	$ -	$ 49,750	$ -	$ 85,535
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	-	24,523	-	-	1,864	220,045	-	246,432
INVESTMENTS	-	31,901	111,676	-	-	-	-	143,577
RECEIVABLES — Net of allowance for uncollectibles:								
Accounts	1,155	-	-	-	-	671	-	1,826
Loans	-	-	-	-	-	39	-	39
Accrued interest	-	2	442	-	-	-	-	444
Other	-	-	40,671	-	-	-	-	40,671
DUE FROM:								
Other funds	162,584	-	-	-	-	4,761	-	167,345
Component units	38,447	-	-	-	-	-	-	38,447
Other governmental entities	6,849	-	-	-	-	-	-	6,849
RESTRICTED ASSETS:								
Cash and cash equivalents in commercial banks	-	-	-	139,193	-	-	77,932	217,125
Cash and cash equivalents in governmental banks	-	-	-	65,404	-	-	-	65,404
REAL ESTATE HELD FOR SALE OR FUTURE DEVELOPMENT	3,084	-	-	-	-	1,853	-	4,937
TOTAL ASSETS	$247,904	$56,426	$152,789	$204,597	$1,864	$277,119	$77,932	$1,018,631

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET — NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010
(In thousands)

	Special Revenue		Debt Service			Capital Projects		Total
LIABILITIES AND FUND BALANCES	Public Buildings Authority	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authoritiy	Nonmajor Governmental Funds
LIABILITIES:								
Accounts payable and accrued liabilities	$ 15,167	$ 687	$ -	$ -	$ 93	$ 37,064	$13,363	$ 66,374
Due to:								
Other funds	3,760	-	-	-	-	-	-	3,760
Other governmental entities	3,077	-	-	-	-	-	-	3,077
Component units	39,635	-	-	-	-	-	-	39,635
Bonds payable	-	-	-	84,850	-	-	-	84,850
Interest payable	-	-	-	85,100	-	-	-	85,100
Deferred revenue	127,217	-	40,671	-	-	-	-	167,888
Total liabilities	188,856	687	40,671	169,950	93	37,064	13,363	450,684
FUND BALANCES:								
Reserved for:								
Encumbrances	-	-	-	-	-	6,376	-	6,376
Debt service	-	-	-	34,647	-	-	-	34,647
Capital projects	-	-	-	-	-	-	64,569	64,569
Unreserved:								
Debt service	-	-	112,118	-	1,771	-	-	113,889
Special revenue funds	59,048	55,739	-	-	-	-	-	114,787
Capital projects funds	-	-	-	-	-	233,679	-	233,679
Total fund balances	59,048	55,739	112,118	34,647	1,771	240,055	64,569	567,947
TOTAL LIABILITIES AND FUND BALANCES	$247,904	$56,426	$152,789	$204,597	$1,864	$277,119	$77,932	$1,018,631

See accompanying independent auditors' report.

(Concluded)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010
(In thousands)

	Special Revenue		Debt Service			Capital Projects		Total
	Public Buildings Authority	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Total Nonmajor Governmental Funds
REVENUES:								
Interest and investment earnings	$ 185	$ 67	$ 3,409	$ -	$ 2	$ -	$ -	$ 3,663
Intergovernmental	-	-	-	-	-	12,000	-	12,000
Other	-	-	-	-	672	-	-	672
Total revenues	185	67	3,409	-	674	12,000	-	16,335
EXPENDITURES:								
Current:								
General government	110,675	252	11	-	-	-	-	110,938
Health	-	2,254	-	-	-	-	-	2,254
Education	-	874	-	-	-	-	-	874
Economic development	-	681	-	-	30	-	-	711
Intergovernmental	-	1,682	-	-	-	113,622	-	115,304
Capital outlay	-	-	-	-	-	68,257	95,306	163,563
Debt service:								
Principal	106,092	-	23,525	145,373	-	-	-	274,990
Interest	9,796	-	56,495	148,942	5,859	-	-	221,092
Other — debt issuance costs	-	-	-	6,094	-	-	-	6,094
Total expenditures	226,563	5,743	80,031	300,409	5,889	181,879	95,306	895,820
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(226,378)	(5,676)	(76,622)	(300,409)	(5,215)	(169,879)	(95,306)	(879,485)
OTHER FINANCING SOURCES (USES):								
Transfers in	10,416	241	75,442	118,925	5,859	-	121,372	332,255
Transfers out	-	-	(241)	-	-	(550)	-	(791)
Long term debt issued	86,300	-	-	49,935	-	17,912	-	154,147
Bond issue discount	-	-	-	(4,777)	-	-	-	(4,777)
Issuance of refunding bonds	-	-	-	483,540	-	-	-	483,540
Payment for refunding of bonds	-	-	-	(297,000)	-	-	-	(297,000)
Termination fee on swap agreements	-	-	-	(28,395)	-	-	-	(28,395)
Total other financing sources	96,716	241	75,201	322,228	5,859	17,362	121,372	638,979
NET CHANGE IN FUND BALANCES	(129,662)	(5,435)	(1,421)	21,819	644	(152,517)	26,066	(240,506)
FUND BALANCES — Beginning of year	188,710	61,174	113,539	12,828	1,127	392,572	38,503	808,453
FUND BALANCES — End of year	$ 59,048	$55,739	$112,118	$ 34,647	$ 1,771	$ 240,055	$ 64,569	$ 567,947

See accompanying independent auditors' report.

NONMAJOR PROPRIETARY FUNDS

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

Disability Insurance — It was created by Act No. 139 on June 26, 1968. It is used to account for disability benefits to remedy temporarily the loss of income as a result of disability caused by sickness or accident unrelated to the employment.

Drivers' Insurance — It was created by Act No. 428 on May 15, 1950. It is used to account for contributions made by the drivers and their employers to provide a social security plan for the benefit of the drivers in Puerto Rico. The plan also includes payment of benefits for health and life insurance.

Puerto Rico Water Pollution Control Revolving Fund — It was created by Act No. 44 on June 21, 1988, as amended. It is administered, pursuant to Act No. 9 of June 18, 1970, as amended, by the Puerto Rico Environmental Quality Board (EQB). Pursuant to such Act, EQB is authorized to enter into operating agreements and capitalization grant agreements with the U.S. Environmental Protection Agency (EPA) for lending activities.

Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund — It was created by Act No. 32 on July 7, 1997. It is administered, pursuant to Act No. 9 of June 18, 1970, as amended, by the Puerto Rico Department of Health (DOH). Pursuant to such act, DOH, on behalf of the Commonwealth, is authorized to enter into operating and capitalization grant agreements with the EPA for lending activities.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS — NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2010
(In thousands)

	Business-Type Activities — Nonmajor Enterprise Funds				
ASSETS	**Disability Insurance**	**Drivers' Insurance**	**Puerto Rico Water Pollution Control Revolving Fund**	**Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund**	**Total**
CURRENT ASSETS:					
Cash and cash equivalents in governmental banks	$ 51,612	$ 11,051	$ -	$ -	$ 62,663
Cash and cash equivalents in governmental banks - restricted	-	-	77,214	17,272	94,486
Insurance premiums receivables, net	3,368	1,017	-	-	4,385
Due from component units - restricted	-	-	12,021	4,367	16,388
Accrued interest receivable	187	-	-	-	187
Restricted receivables	-	-	2,582	1,427	4,009
Other receivables	8	36	-	-	44
Total current assets	55,175	12,104	91,817	23,066	182,162
NONCURRENT ASSETS:					
Loans receivable from component units - restricted	-	-	237,666	121,739	359,405
Due from other funds	-	21,006	-	-	21,006
Restricted investments	31,770	-	-	-	31,770
Other restricted assets	-	-	1,369	-	1,369
TOTAL ASSETS	86,945	33,110	330,852	144,805	595,712
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable and accrued liabilities	1,432	190	865	96	2,583
Deferred revenue	-	21	-	-	21
Compensated absences	219	-	-	-	219
Insurance benefits payable	560	313	-	-	873
Total current liabilities	2,211	524	865	96	3,696
NONCURRENT LIABILITIES — Compensated absences	289	336	-	-	625
TOTAL LIABILITIES	2,500	860	865	96	4,321
NET ASSETS:					
Restricted for payment of insurance benefits	31,210	-	-	-	31,210
Restricted for lending activities	-	-	329,987	144,709	474,696
Unrestricted	53,235	32,250	-	-	85,485
TOTAL NET ASSETS	$ 84,445	$ 32,250	$329,987	$144,709	$591,391

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010
(In thousands)

	Business-Type Activities — Nonmajor Enterprise Funds				
	Disability Insurance	Drivers' Insurance	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total
OPERATING REVENUES:					
Insurance premiums	$ 11,739	$ 3,957	$ -	$ -	$ 15,696
Interest	-	-	4,672	2,385	7,057
Total operating revenues	11,739	3,957	4,672	2,385	22,753
OPERATING EXPENSES:					
Insurance benefits	2,684	1,940	-	-	4,624
General, administrative, and other operating expenses	8,118	3,056	3,086	1,296	15,556
Total operating expenses	10,802	4,996	3,086	1,296	20,180
OPERATING INCOME (LOSS)	937	(1,039)	1,586	1,089	2,573
NONOPERATING REVENUES:					
Contributions from U.S. government	-	-	34,112	14,619	48,731
Interest and investment earnings	3,419	50	-	-	3,469
Total nonoperating revenues	3,419	50	34,112	14,619	52,200
INCOME (LOSS) BEFORE TRANSFERS	4,356	(989)	35,698	15,708	54,773
TRANSFERS FROM OTHER FUNDS	-	-	6,020	2,655	8,675
TRANSFERS TO OTHER FUNDS	(4,335)	(589)	-	-	(4,924)
NET CHANGE IN NET ASSETS	21	(1,578)	41,718	18,363	58,524
NET ASSETS — Beginning of year	84,424	33,828	288,269	126,346	532,867
NET ASSETS — End of year	$ 84,445	$ 32,250	$329,987	$144,709	$591,391

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS — NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010
(In thousands)

	Business-Type Activities — Nonmajor Enterprise Funds				
	Disability Insurance	Drivers' Insurance	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	$11,735	$ 3,846	$ -	$ -	$ 15,581
Payments to suppliers	(2,721)	(25)	-	-	(2,746)
Payments to employees	(5,341)	(3,207)	-	-	(8,548)
Payments of insurance benefits	(2,745)	(1,947)	-	-	(4,692)
Other payments	-	-	(3,314)	(1,264)	(4,578)
Net cash provided by (used in) operating activities	928	(1,333)	(3,314)	(1,264)	(4,983)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Intergovernmental grants and contributions	-	-	34,112	14,619	48,731
Transfers from other funds	-	-	6,020	2,420	8,440
Transfers to other funds	(4,335)	(589)	-	-	(4,924)
Net cash provided by (used in) noncapital financing activities	(4,335)	(589)	40,132	17,039	52,247
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest collected on deposits, investments and loans	1,167	50	4,321	2,210	7,748
Loans originated	-	-	(53,443)	(16,009)	(69,452)
Principal collected on loans	-	5,000	10,885	4,103	19,988
Proceeds from sales and maturities of investments	7,479	-	-	-	7,479
Purchases of investments	(7,163)	-	-	-	(7,163)
Net cash provided by (used in) investing activities	1,483	5,050	(38,237)	(9,696)	(41,400)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,924)	3,128	(1,419)	6,079	5,864
CASH AND CASH EQUIVALENTS — Beginning of year	53,536	7,923	78,633	11,193	151,285
CASH AND CASH EQUIVALENTS — End of year	$51,612	$11,051	$ 77,214	$ 17,272	$157,149
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	$ 937	$ (1,039)	$ 1,586	$ 1,089	$ 2,573
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Interests earned on deposits, loans and investments	-	-	(4,672)	(2,385)	(7,057)
Changes in operating assets and liabilities:					
Increase in accounts receivable	(4)	(104)	(99)	-	(207)
Increase (decrease) in accounts payable and accrued liabilities	356	(110)	(129)	32	149
Decrease in deferred revenues	-	(7)	-	-	(7)
Decrease in compensated absences	(300)	(66)	-	-	(366)
Decrease in liability for insurance benefits payable	(61)	(7)	-	-	(68)
Total adjustments	(9)	(294)	(4,900)	(2,353)	(7,556)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 928	$ (1,333)	$ (3,314)	$ (1,264)	$ (4,983)

See accompanying independent auditors' report.

FIDUCIARY FUNDS

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

Pension Trust Funds

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

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) — ERS is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. ERS is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities are covered by ERS.

Puerto Rico System of Annuities and Pensions for Teachers (TRS) — TRS is a defined benefit pension plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. TRS is sponsored by the Commonwealth. Substantially, all active teachers of the Commonwealth's Department of Education are covered by TRS. Licensed teachers working in private schools or other educational organizations can be members of TRS at their own choice as long as the required employer and employee contributions are satisfied.

Commonwealth of Puerto Rico Judiciary Retirement System (JRS) — JRS is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 12 on October 19, 1954. JRS provides retirement benefits to the employees of the judiciary branch of the Commonwealth, through the office of the Administration of Court Facilities.

Agency Fund

Agency fund is used to account for assets held by the Commonwealth as an agent for individuals, private organizations, and other governments. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

Special Deposits — This fund acts in a fiduciary capacity in order to account for moneys received with specified purposes for which the law does not specify its recording in any other fund. It mainly includes deposits under the custody of the courts of justice for alimony payments, escrows, revenue collections and agency accounts for which the commonwealth act in an agent's capacity.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF FIDUCIARY NET ASSETS — PENSION TRUST FUNDS
JUNE 30, 2010
(In thousands)

	Pension Trust Funds			
	Employees' Retirement System (ERS)	Teachers' Retirement System (TRS)	Judiciary Retirement System (JRS)	Total
ASSETS:				
Cash and cash equivalents in commercial banks — unrestricted	$ 226,401	$ 24,019	$ 4,007	$ 254,427
Cash and cash equivalents in governmental banks				
Unrestricted	51,446	3,288	30	54,764
Restricted	741,082	-	-	741,082
Collateral from securities lending transactions	110,931	48,673	2,474	162,078
Investments:				
Debt and equity securities, at fair value	2,055,840	1,692,341	76,248	3,824,429
Other	55,307	26,683	-	81,990
Receivables — net:				
Accounts	284,361	-	-	284,361
Loans and advances	1,226,155	409,881	768	1,636,804
Accrued interest and dividends	6,597	4,584	271	11,452
Other	35,220	56,417	68	91,705
Capital assets — net	8,964	22,970	-	31,934
Other assets	40,491	832	-	41,323
Total assets	4,842,795	2,289,688	83,866	7,216,349
LIABILITIES:				
Accounts payable and accrued liabilities	35,183	18,344	25,848	79,375
Securities lending transactions	110,931	48,673	2,474	162,078
Interest payable	13,876	-	-	13,876
Other liabilities	36,039	694	134	36,867
Bonds payable	2,981,775	-	-	2,981,775
Total liabilities	3,177,804	67,711	28,456	3,273,971
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS	$ 1,664,991	$ 2,221,977	$ 55,410	$ 3,942,378

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS — PENSION TRUST FUNDS
YEAR ENDED JUNE 30, 2010
(In thousands)

	Pension Trust Funds			
	Employees' Retirement System (ERS)	Teachers' Retirement System (TRS)	Judiciary Retirement System (JRS)	Total
ADDITIONS:				
Contributions:				
Sponsor	$ 381,243	$ 118,127	$ 10,021	$ 509,391
Participants	345,265	129,888	3,104	478,257
Special	192,242	47,837	629	240,708
Total contributions	918,750	295,852	13,754	1,228,356
Investment income and investment expense:				
Interest	179,585	61,303	1,284	242,172
Dividends	10,663	10,111	211	20,985
Net change in fair value of investments	216,011	203,265	7,385	426,661
Investment expenses	(7,649)	(4,735)	(164)	(12,548)
Net investment income	398,610	269,944	8,716	677,270
Other income	31,783	53,771	804	86,358
Total additions	1,349,143	619,567	23,274	1,991,984
DEDUCTIONS:				
Pension and other benefits	1,249,776	518,553	17,897	1,786,226
Refunds of contributions	45,146	7,847	-	52,993
General and administrative	43,318	28,783	533	72,634
Interest on bonds payable	188,055	-	-	188,055
Total deductions	1,526,295	555,183	18,430	2,099,908
NET CHANGE IN NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS	(177,152)	64,384	4,844	(107,924)
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS:				
Beginning of year	1,842,143	2,157,593	50,566	4,050,302
End of year	$ 1,664,991	$ 2,221,977	$ 55,410	$ 3,942,378

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
YEAR ENDED JUNE 30, 2010
(In thousands)

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010
ASSETS				
CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS AND U.S. TREASURY	$ 662,714	$ 34,688	$ -	$ 697,402
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	1,135,401	4,138,097	4,472,987	800,511
OTHER INVESTMENTS	5,936	-	4,710	1,226
TOTAL ASSETS	$ 1,804,051	$ 4,172,785	$ 4,477,697	$ 1,499,139
LIABILITIES				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 1,804,051	$ 4,172,785	$ 4,477,697	$ 1,499,139
TOTAL LIABILITIES	$ 1,804,051	$ 4,172,785	$ 4,477,697	$ 1,499,139

See accompanying independent auditors’ report.

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS

These entities are presented because the nature and significance of their relationship with the primary government are such that their exclusion would cause the basic financial statements to be misleading. These are discretely presented in a separate column in the basic financial statements due to the nature of the services they provide. The accounting principles followed by each of the component units included herein may vary depending on the type of industries they are involved in (that is, banking, construction, public utilities, and so forth). The detailed information for each of these entities may be obtained directly from the administrative offices of the corresponding entities, as described in note 1 to the basic financial statements included in the financial section of this report.

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

	Agricultural Services and Development Administration	Automobile Accidents Compensation Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Company for the Integreal Development of the Península Cantera	Corporation for the "Caño Martín Peña" ENLACE Project	Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	Culebra Conservation and Development Authority
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents in commercial banks	$ 15,923	$ 5,615	$ 7,592	$ 3,449	$2,013	$ 1,254	$ 226
Cash and cash equivalents in governmental banks	7,687	-	-	-	-	11,153	-
Investments	-	131,259	-	-	-	-	-
Restricted assets:							
Cash and cash equivalents in commercial banks	-	-	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Other restricted assets	-	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	43,222	-	-	-	-	-
Receivables — net:							
Insurance premium	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Accounts	5,996	-	10,562	-	-	-	-
Loans and advances	-	-	-	9	-	1,902	-
Accrued interest	-	753	-	-	-	-	-
Other governmental entities	3,600	1,744	4,010	625	224	270	-
Other	3,214	1,424	276	15	-	-	-
Due from:		-					
Primary government	18,758	-	-	10,855	-	-	-
Component units	-	-	-	-	-	-	-
Inventories	3,357	-	2,379	-	-	-	-
Prepaid expenses	1,738	-	400	42	-	-	-
Total current assets	60,273	184,017	25,219	14,995	2,237	14,579	226
NONCURRENT ASSETS:							
Restricted assets:							
Cash and cash equivalents in commercial banks	11,666	379	-	-	35	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Other restricted assets	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Receivables:							
Loans, interest, and other	-	-	-	6,995	-	-	-
Other governmental agencies	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Due from:							
Primary government	-	-	-	-	-	-	-
Component units	-	-	-	-	-	-	-
Deferred outflows of resources	-	-	-	-	-	-	-
Deferred expenses and other assets	-	31	-	-	-	-	27
Property held for sale or future development	-	-	-	497	-	-	-
Capital assets, not being depreciated	3,656	901	103	452	905	-	640
Capital assets, depreciable — net	34,120	7,994	18,303	112	568	-	341
Total noncurrent assets	49,442	9,305	18,406	8,056	1,508	-	1,008
TOTAL ASSETS	$109,715	$193,322	$43,625	$23,051	$3,745	$14,579	$1,234

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

ASSETS	Economic Development Bank for Puerto Rico	Employment and Training Enterprises Corporation	Farm Insurance Corporation of Puerto Rico	Fine Arts Center Corporation	Governing Board of the 9-1-1- Service	Institue of Puerto Rican Culture	Institutional Trust of the National Guard of Puerto Rico
CURRENT ASSETS:							
Cash and cash equivalents in commercial banks	$ 476	$ 1	$ 12,205	$ 8,736	$ -	$ 20,774	$ -
Cash and cash equivalents in governmental banks	252	-	-	-	20,725	2,719	11,222
Investments	63,450	-	-	-	-	-	51,030
Restricted assets:							
Cash and cash equivalents in commercial banks	-	-	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Other restricted assets	-	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-
Receivables — net:							
Insurance premium	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	37
Accounts	-	-	3,383	127	2,097	173	856
Loans and advances	80,833	-	-	-	-	-	-
Accrued interest	5,082	-	-	-	-	-	4
Other governmental entities	-	205	-	114	-	76	22
Other	-	-	-	-	10	-	-
Due from:							
Primary government	-	-	-	-	-	-	-
Component units	-	-	-	-	-	-	-
Inventories	-	27	-	-	24	1,611	-
Prepaid expenses	-	-	137	84	50	-	9
Total current assets	150,093	233	15,725	9,061	22,906	25,353	63,180
NONCURRENT ASSETS:							
Restricted assets:							
Cash and cash equivalents in commercial banks	2,854	-	-	546	-	-	-
Cash and cash equivalents in governmental banks	-	39	-	-	29,697	-	-
Investments	-	-	-	-	-	-	-
Other restricted assets	6,081	-	-	-	-	-	-
Investments	890,397	-	-	-	-	-	-
Receivables:							
Loans, interest, and other	129,123	-	-	-	-	-	-
Other governmental agencies	157	-	-	-	-	-	-
Other	-	-	7,048	-	-	-	-
Due from:							
Primary government	-	-	-	-	-	-	-
Component units	-	-	-	-	-	-	-
Deferred outflows of resources	-	-	-	-	-	-	-
Deferred expenses and other assets	6,969	-	-	-	-	-	-
Property held for sale or future development	-	-	-	-	-	-	2,452
Capital assets, not being depreciated	2,735	-	-	3,155	-	8,365	18,258
Capital assets, depreciable — net	6,782	107	223	12,825	2,038	70,619	5,616
Total noncurrent assets	1,045,098	146	7,271	16,526	31,735	78,984	26,326
TOTAL ASSETS	$ 1,195,191	$ 379	$ 22,996	$ 25,587	$ 54,641	$ 104,337	$ 89,506

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

ASSETS	Land Authority of Puerto Rico	Musical Arts Corporation	National Parks Company of Puerto Rico	Port of the Americas Authority	Public Corporation for the Supervision and Deposit Insurance of PR Cooperatives	Puerto Rico Conservatory of Music Corporation	Puerto Rico Convention Center District Authority
CURRENT ASSETS:							
Cash and cash equivalents in commercial banks	$ 2,215	$ 1,868	$ 522	$ -	$ -	$ 157	$ 19,589
Cash and cash equivalents in governmental banks	27,411	345	685	2,813	737	-	1,126
Investments	-	-	-	-	45,847	-	-
Restricted assets:							
Cash and cash equivalents in commercial banks	-	-	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Other restricted assets	-	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-
Receivables — net:					-		
Insurance premium	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Accounts	7,783	49	436	2	-	-	7,169
Loans and advances	-	-	-	-	-	-	-
Accrued interest	58	-	17	-	1,218	-	-
Other governmental entities	3,932	53	308	-	-	1,474	-
Other	-	-	-	-	5	382	-
Due from:							
Primary government	7,848	-	-	-	-	-	2,742
Component units	14,288	-	-	-	-	-	10,170
Inventories	-	-	-	-	-	-	-
Prepaid expenses	58	-	13	2	-	33	974
Total current assets	63,593	2,315	1,981	2,817	47,807	2,046	41,770
NONCURRENT ASSETS:							
Restricted assets:							
Cash and cash equivalents in commercial banks	-	749	15,176	-	-	14,581	-
Cash and cash equivalents in governmental banks	425	-	10,832	-	-	-	-
Investments	6,967	-	-	-	-	-	64,662
Other restricted assets	-	-	-	-	-	-	-
Investments	-	-	-	-	138,912	-	-
Receivables:							
Loans, interest, and other	-	-	-	-	3,300	-	-
Other governmental agencies	79	-	-	-	-	-	-
Other	9,618	-	-	-	-	-	4,678
Due from:							
Primary government	-	-	-	-	-	-	-
Component units	5,931	-	-	-	-	-	-
Deferred outflows of resources	-	-	-	-	-	-	-
Deferred expenses and other assets	553	-	-	-	-	-	15,076
Property held for sale or future development	-	-	-	-	-	-	-
Capital assets, not being depreciated	83,800	153	20,273	261,082	-	23,474	245,933
Capital assets, depreciable — net	9,015	223	180,782	12	2,848	45,808	417,605
Total noncurrent assets	116,388	1,125	227,063	261,094	145,060	83,863	747,954
TOTAL ASSETS	$ 179,981	$ 3,440	$ 229,044	$263,911	$ 192,867	$ 85,909	$789,724

(Continued)

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

ASSETS	Puerto Rico Council on Higher Education	Puerto Rico Industrial Development Company	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental, Control Facilities Financing Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Land Administration	Puerto Rico Maritime Transportation Authority	Puerto Rico Medical Services Administration	Puerto Rico Metropolitan Bus Authority
CURRENT ASSETS:								
Cash and cash equivalents in commercial banks	$ 5	$ 9,263	$ -	$ -	$ 392	$ 861	$ 7	$ 533
Cash and cash equivalents in governmental banks	1,883	-	9,022	132	72,986	-	-	80
Investments	-	-	-	-	16,611	-	-	-
Restricted assets:								
Cash and cash equivalents in commercial banks	-	-	-	160,447	-	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	48,814	-	-	-	-
Investments	-	10,028	-	1,049,177	-	-	-	-
Other restricted assets	-	-	-	36,818	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	-
Receivables — net:								
Insurance premium	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	4,188	-	20,918
Accounts	-	30,081	-	144	2,125	248	3,662	146
Loans and advances	-	224	1	-	-	-	-	-
Accrued interest	-	24	-	-	444	-	-	-
Other governmental entities	194	-	267	-	-	-	3,772	1,576
Other	118	-	-	-	749	-	699	-
Due from:			-					
Primary government	-	43,403	-	15,139	-	-	21,237	1,323
Component units	-	-	-	-	1,306	-	-	-
Inventories	-	-	-	-	-	63	2,284	3,868
Prepaid expenses	-	1,860	-	660	107	1,544	1,028	2,761
Total current assets	2,200	94,883	9,290	1,311,331	94,720	6,904	32,689	31,205
NONCURRENT ASSETS:								
Restricted assets:								
Cash and cash equivalents in commercial banks	-	-	-	-	-	-	2,450	-
Cash and cash equivalents in governmental banks	523	-	-	-	400	-	-	13
Investments	-	38,350	-	313,915	-	-	-	-
Other restricted assets	-	-	-	38,976	-	-	-	-
Investments	7,237	11,986	-	-	-	-	-	-
Receivables:								
Loans, interest, and other	-	228	-	-	-	-	-	-
Other governmental agencies	-	-	-	-	-	-	-	-
Other	-	568	-	-	-	-	-	-
Due from:								
Primary government	-	-	-	-	-	-	-	-
Component units	-	-	26,271	-	-	-	-	-
Deferred outflows of resources	-	-	-	-	-	-	-	-
Deferred expenses and other assets		2,355	23,471	47,098				542
Property held for sale or future development	-	18,534	-	-	168,987	-	-	-
Capital assets, not being depreciated	-	232,454	-	417,045	27,467	6,348	28,872	2,569
Capital assets, depreciable — net	296	472,501	-	216	9,121	37,930	32,075	61,987
Total noncurrent assets	8,056	776,976	49,742	817,250	205,975	44,278	63,397	65,111
TOTAL ASSETS	$ 10,256	$ 871,859	$ 59,032	$ 2,128,581	$ 300,695	$ 51,182	$ 96,086	$ 96,316

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

ASSETS	Puerto Rico Municipal Finance Agency	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation	Puerto Rico Public Private Partnerships Authority	Puerto Rico School of Plastic Arts	Puerto Rico Solid Waste Authority	Puerto Rico Telephone Authority	Puerto Rico Tourism Company
CURRENT ASSETS:								
Cash and cash equivalents in commercial banks	$ -	$ 271	$ 1,667	$ -	$ -	$ -	$ -	$ 51,420
Cash and cash equivalents in governmental banks	9,131	11	-	307	-	4,108	7,358	-
Investments	-	-	-	-	-	18,013	-	10,202
Restricted assets:								
Cash and cash equivalents in commercial banks	3,798	25,350	-	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	4,190	-	-	-	-	-	-
Investments	253,937	-	-	-	-	-	-	-
Other restricted assets	30,458	-	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreement	-	-	-	-	-	-	-	-
Receivables — net:								
Insurance premium	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Accounts	-	14,846	1,022	-	983	-	-	6,529
Loans and advances	-	-	-	-	-	-	-	13,832
Accrued interest	-	-	-	-	-	-	1	-
Other governmental entities	-	-	137	-	378	3,699	-	-
Other	-	-	276	-	-	764	-	508
Due from:								
Primary government	-	-	-	-	-	-	-	-
Component units	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-
Prepaid expenses	43	5,068	-	-	-	349	-	7
Total current assets	297,367	49,736	3,102	307	1,361	26,933	7,359	82,498
NONCURRENT ASSETS:								
Restricted assets:								
Cash and cash equivalents in commercial banks	-	-	1,544	-	40	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	1,319	11,108	4,706	-
Investments	1,063,297	-	-	-	905	500	-	-
Other restricted assets	15,025	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	58,087
Receivables:								
Loans, interest, and other	-	-	-	-	-	-	-	-
Other governmental agencies	-	21,145	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	15,011
Due from:								
Primary government	-	2,600	-	-	-	-	-	-
Component units	-	50,190	-	-	-	-	-	-
Deferred outflows of resources	-	53,667	-	-	-	-	-	-
Deferred expenses and other assets	-	3,957	683	-	-	18	-	1,822
Property held for sale or future development	-	-	-	-	-	-	-	-
Capital assets, not being depreciated	-	489,517	83	-	-	47,522	-	14,152
Capital assets, depreciable — net	-	676,019	18,288	2	8,208	122,453	-	23,008
Total noncurrent assets	1,078,322	1,297,095	20,598	2	10,472	181,601	4,706	112,080
TOTAL ASSETS	$ 1,375,689	$ 1,346,831	$ 23,700	$ 309	$ 11,833	$ 208,534	$ 12,065	$ 194,578

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

	Puerto Rico Trade and Export Company	Right to Employment Administration	Special Communities Perpetual Trust	State Insurance Fund Corporation	Nonmajor Component Units Totals
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents in commercial banks	$ 14,029	$ -	$ -	$ 53,906	$ 234,969
Cash and cash equivalents in governmental banks	1,388	-	-	167,696	360,977
Investments	-	-	-	357,877	694,289
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	-	-	189,595
Cash and cash equivalents in governmental banks	-	-	-	-	53,004
Investments	-	-	160,105	-	1,473,247
Other restricted assets	-	-	-	-	67,276
Securities lending transactions and reverse repurchase agreements	-	-	-	155,342	198,564
Receivables — net:					
Insurance premium	-	-	-	68,205	68,205
Intergovernmental	-	-	-	-	25,143
Accounts	-	-	-	-	98,419
Loans and advances	-	-	-	-	96,801
Accrued interest	1,674	-	-	9,275	18,550
Other governmental entities	1,034	139	798	1,405	30,056
Other	174	27	-	23,547	32,188
Due from:					
Primary government	-	1,278	-	6,433	129,016
Component units	-	-	-	5,221	30,985
Inventories	-	-	-	6,851	20,464
Prepaid expenses	60	-	-	337	17,364
Total current assets	18,359	1,444	160,903	856,095	3,839,112
NONCURRENT ASSETS:					
Restricted assets:					
Cash and cash equivalents in commercial banks	15,986	-	-	-	66,006
Cash and cash equivalents in governmental banks	1,286	-	1,252	-	61,600
Investments	180,915	-	41,580	-	1,711,091
Other restricted assets	-	-	-	-	60,082
Investments	-	-	-	968,237	2,074,856
Receivables:					
Loans, interest, and other	-	-	-	-	139,646
Other governmental entities	-	-	-	-	21,381
Other	-	-	-	-	36,923
Due from:					
Primary government	-	-	-	-	2,600
Component units	-	-	-	-	82,392
Deferred outflows of resources	-	-	-	-	53,667
Deferred expenses and other assets	-	-	-	-	102,602
Real estate held for sale or future development	-	-	-	-	190,470
Capital assets, not being depreciated	69,291	-	-	13,010	2,022,215
Capital assets, depreciable — net	52,989	240	-	79,819	2,411,093
Total noncurrent assets	320,467	240	42,832	1,061,066	9,036,624
TOTAL ASSETS	$ 338,826	$ 1,684	$ 203,735	$ 1,917,161	$ 12,875,736

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Agricultural Services and Development Administration	Automobile Accidents Compensation Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Company for the Integral Development of the Península de Cantera	Corporation for the "Caño Martín Peña" ENLACE Project	Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico
LIABILITIES:						
Current liabilities:						
Accounts payable and accrued liabilities	$ 44,537	$ 10,330	$ 26,505	$ 4,518	$ 86	$ 157
Deposits and escrow liabilities	-	-	-	-	-	-
Due to:						
Primary government	-	-	38,447	-	-	-
Component units	14,288	-	11,649	10,779	-	-
Other governmental entities	8,025	976	1,221	-	923	165
Securities lending transactions and reverse repurchase agreements	-	43,222	-	-	-	-
Interest payable	-	-	-	-	-	-
Deferred revenue	236	37,770	-	-	-	-
Notes payable, current portion	5,604	-	-	-	-	-
Bonds payable, current portion	-	-	-	-	-	-
Accrued compensated absences, current portion	8,046	2,668	3,103	58	38	27
Liability for automobile accident insurance and workmen compensation claims	-	165,927	-	-	-	-
Capital leases	-	-	-	-	-	-
Current portion of other long-term liabilities	-	-	178	-	-	-
Total current liabilities	80,736	260,893	81,103	15,355	1,047	349
Noncurrent liabilities:						
Due to:						
Primary government	-	-	-	-	-	-
Component units	103,518	-	-	-	-	-
Other governmental entities	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Notes payable	-	-	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-	-
Bonds payable	-	-	-	-	-	-
Accrued compensated absences	-	-	-	82	-	109
Liabilitiy for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-
Derivative instruments — interest rate swaps	-	-	-	-	-	-
Other long-term liabilities	-	-	1,967	-	-	-
Total noncurrent liabilities	103,518	-	1,967	82	-	109
Total liabilities	184,254	260,893	83,070	15,437	1,047	458
NET ASSETS (DEFICIT):						
Invested in capital assets, net of related debt	-	8,895	18,140	192	1,472	-
Restricted for:						
Trust — nonexpendable	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-
Student loans and other educational purpose	-	-	-	497	-	-
Other specified purposes	-	-	-	6,925	35	13,513
Unrestricted	(74,539)	(76,466)	(57,585)	-	1,191	608
Total net assets (deficit)	(74,539)	(67,571)	(39,445)	7,614	2,698	14,121
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 109,715	$ 193,322	$ 43,625	$ 23,051	$ 3,745	$ 14,579

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Culebra Conservation and Development Authority	Economic Development Bank for Puerto Rico	Employment and Training Enterprises Corporation	Farm Insurance Corporation of Puerto Rico	Fine Arts Center Corporation	Governing Board of the 9-1-1- Service
LIABILITIES:						
Current liabilities:						
Accounts payable and accrued liabilities	$ 35	$ -	$ 2,233	$ 304	$ 271	$ 1,531
Deposits and escrow liabilities	-	385,279	136	-	236	-
Due to:						
Primary government	-	-	-	-	-	4,189
Component units	-	419	-	-	-	-
Other governmental entities	-	4	-	77	-	3,069
Securities lending transactions and reverse repurchase agreements	-	63,450	-	-	-	-
Interest payable	-	2,462	-	-	-	-
Deferred revenue	-	-	788	4,655	546	-
Notes payable, current portion	-	-	-	-	-	-
Bonds payable, current portion	-	-	-	-	-	-
Accrued compensated absences, current portion	9	-	289	636	400	387
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-
Current portion of other long-term liabilities	-	4,297	-	-	-	-
Total current liabilities	44	455,911	3,446	5,672	1,453	9,176
Noncurrent liabilities:						
Due to:						
Primary government	-	-	-	-	-	-
Component units	-	10,337	-	5,931	-	-
Other governmental entities	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	114,300	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Notes payable	-	456,321	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-	-
Bonds payable	-	-	-	-	-	-
Accrued compensated absences	48	2,223	-	-	267	903
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-
Derivative instruments — interest rate swaps	-	-	-	-	-	-
Other long-term liabilities	-	11,120	-	-	-	-
Total noncurrent liabilities	48	594,301	-	5,931	267	903
Total liabilities	92	1,050,212	3,446	11,603	1,720	10,079
NET ASSETS (DEFICIT):						
Invested in capital assets, net of related debt	980	(1,239)	-	223	15,465	2,038
Restricted for:						
Trust — nonexpendable	-	-	-	-	-	-
Capital projects	-	-	-	-	546	10,051
Debt service	-	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	-	-
Other specified purposes	-	8,889	-	-	-	12,190
Unrestricted	162	137,329	(3,067)	11,170	7,856	20,283
Total net assets (deficit)	1,142	144,979	(3,067)	11,393	23,867	44,562
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 1,234	$ 1,195,191	$ 379	$ 22,996	$ 25,587	$ 54,641

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Institute of Puerto Rican Culture	Institutional Trust of the National Guard of Puerto Rico	Land Authority of Puerto Rico	Musical Arts Corporation	National Parks Company of Puerto Rico	Port of the Americas Authority	Public Corporation for the Supervision and Deposit Insurance of PR Cooperatives
LIABILITIES:							
Current liabilities:							
Accounts payable and accrued liabilities	$ 2,066	$ 1,090	$ 33,652	$ 2,736	$ 2,086	$ 13,438	$ 33,094
Deposits and escrow liabilities	-	-	10,304	-	-	-	-
Due to:							
Primary government	-	-	-	-	1,929	-	-
Component units	-	-	49,061	-	19,509	-	-
Other governmental entities	144	12	15,751	208	3,941	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-
Interest payable	-	-	2,773	-	391	-	-
Deferred revenue	-	-	8	744	-	-	-
Notes payable, current portion	-	-	-	-	-	-	-
Bonds payable, current portion	-	-	-	-	-	-	-
Accrued compensated absences, current portion	246	94	439	116	281	-	1,673
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-
Current portion of other long-term liabilities	-	-	11,573	-	5,986	-	-
Total current liabilities	2,456	1,196	123,561	3,804	34,123	13,438	34,767
Noncurrent liabilities:							
Due to:							
Primary government	-	-	-	-	-	-	-
Component units	-	-	-	-	-	204,713	-
Other governmental entities	-	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-
Notes payable	-	-	700	-	-	-	-
Commonwealth appropriation bonds	-	-	76,715	-	-	-	-
Bonds payable	-	-	-	-	-	-	-
Accrued compensated absences	2,025	-	974	108	4,886	-	-
Liability for automobile accident insurance and workmen compesantion claims	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-
Derivative instruments — interest rate swaps	-	-	-	-	-	-	-
Other long-term liabilities	-	-	-	4,551	2,378	-	-
Total noncurrent liabilities	2,025	-	78,389	4,659	7,264	204,713	-
Total liabilities	4,481	1,196	201,950	8,463	41,387	218,151	34,767
NET ASSETS (DEFICIT):							
Invested in capital assets, net of related debt	78,840	23,874	92,815	376	194,949	43,149	2,848
Restricted for:							
Trust — nonexpendable	-	-	-	-	-	-	-
Capital projects	10,872	-	-	-	26,007	-	-
Debt service	-	-	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-	-
Student loans and other educational purpose	-	500	-	-	-	-	-
Other specified purposes	7,740	4,522	425	405	-	-	69,658
Unrestricted	2,404	59,414	(115,209)	(5,804)	(33,299)	2,611	85,594
Total net assets (deficit)	99,856	88,310	(21,969)	(5,023)	187,657	45,760	158,100
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 104,337	$ 89,506	$ 179,981	$ 3,440	$ 229,044	$ 263,911	$ 192,867

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Conservatory of Music Corporation	Puerto Rico Convention Center District Authority	Puerto Rico Council on Higher Education	Puerto Rico Industrial Development Company	Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental, Control Facilities Financing Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Land Administration	Puerto Rico Maritime Transportation Authority
LIABILITIES:								
Current liabilities:								
Accounts payable and accrued liabilities	$ 4,335	$ 6,704	$ 295	$ 32,357	$ 85	$ 134,692	$ 3,591	$ 14,715
Deposits and escrow liabilities	-	1,888	-	-	-	-	-	-
Due to:					-			
Primary government	-	-	-	19,244	-	-	-	-
Component units	416	153,679	-	91,376	2,007	3,135	-	1,150
Other governmental entities	-	-	-	-	-	-	-	2,884
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	-
Interest payable	-	15,060	-	4,161	-	55,477	-	-
Deferred revenue	1,536	4,915	-	-	-	-	2,330	7,223
Notes payable, current portion	-	-	-	5,137	-	-	-	-
Bonds payable, current portion	-	8,640	-	11,875	-	1,038,860	-	-
Accrued compensated absences, current portion	213	130	-	5,485	6	-	785	1,557
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Current portion of other long-term liabilities	-	-	-	175	-	-	-	-
Total current liabilities	6,500	191,016	295	169,810	2,098	1,232,164	6,706	27,529
Noncurrent liabilities:								
Due to:								
Primary government	-	-	-	-	-	-	-	-
Component units	612	-	-	-	59,100	-	-	50,152
Other governmental entities	-	-	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	-
Deferred revenue	-	5,179	-	-	-	-	6,750	-
Notes payable	-	-	-	78,528	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-	4,956	-	-
Bonds payable	-	457,320	-	237,090	-	1,959,201	-	-
Accrued compensated absences	794	-	545	-	-	-	-	-
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Derivative instruments — interest rate swaps	-	-	-	-	-	-	-	-
Other long-term liabilities	2,008	-	-	11,149	-	4,859	34,955	-
Total noncurrent liabilities	3,414	462,499	545	326,767	59,100	1,969,016	41,705	50,152
Total liabilities	9,914	653,515	840	496,577	61,198	3,201,180	48,411	77,681
NET ASSETS (DEFICIT):								
Invested in capital assets, net of related debt	49,973	55,005	296	405,277	-	216	9,121	39,699
Restricted for:								
Trust — nonexpendable	-	-	-	-	-	310,149	-	-
Capital projects	25,415	-	-	-	-	-	-	-
Debt service	-	-	-	32,342	-	1,079,745	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-	-	-
Student loans and other educational purpose	1,221	-	7,822	-	-	-	-	-
Other specified purposes	-	45,173	-	-	-	507	-	-
Unrestricted	(614)	36,031	1,298	(62,337)	(2,166)	(2,463,216)	243,163	(66,198)
Total net assets (deficit)	75,995	136,209	9,416	375,282	(2,166)	(1,072,599)	252,284	(26,499)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 85,909	$ 789,724	$ 10,256	$ 871,859	$ 59,032	$ 2,128,581	$ 300,695	$ 51,182

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Medical Services Administration	Puerto Rico Metropolitan Bus Authority	Puerto Rico Municipal Finance Agency	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation	Puerto Rico Public Private Partnerships Authority	Puerto Rico School of Plastic Arts	Puerto Rico Solid Waste Authority
LIABILITIES:								
Current liabilities:								
Accounts payable and accrued liabilities	$ 27,496	$ 38,510	$ 556	$ 77,428	$ 2,445	$ 978	$ 682	$ 5,234
Deposits and escrow liabilities	-	-	88,463	1,372	-	-	-	-
Due to:								
Primary government	81,378	7,949	-	-	-	-	-	-
Component units	19,883	5,622	-	130,241	-	-	-	73,822
Other governmental entities	127,305	9,794	1,596	1,392	607	4	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	-
Interest payable	-	-	25,381	134	-	-	-	-
Deferred revenue	-	2,239	-	86	709	-	-	39
Notes payable, current portion	-	4,720	-	173,334	-	-	-	-
Bonds payable, current portion	-	-	90,200	-	-	-	-	-
Accrued compensated absences, current portion	14,301	4,547	-	6,887	1,091	32	83	389
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Current portion of other long-term liabilities	184	-	-	-	74	-	-	-
Total current liabilities	270,547	73,381	206,196	390,874	4,926	1,014	765	79,484
Noncurrent liabilities:								
Due to:								
Primary government	-	-	-	41,532	-	-	-	-
Component units	-	-	-	67,433	-	2,147	-	-
Other governmental entities	-	-	4,789	11,594	-	-	-	3,500
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	2,060	-	-	-	-
Notes payable	-	35,690	-	397,479	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-	-	-	10,689
Bonds payable	-	-	1,107,704	42,666	-	-	-	-
Accrued compensated absences	-	-	-	-	1,573	-	672	495
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Derivative instruments — interest rate swaps	-	-	-	53,667	-	-	-	-
Other long-term liabilities	7,481	-	-	2,933	44	-	-	-
Total noncurrent liabilities	7,481	35,690	1,112,493	619,364	1,617	2,147	672	14,684
Total liabilities	278,028	109,071	1,318,689	1,010,238	6,543	3,161	1,437	94,168
NET ASSETS (DEFICIT):								
Invested in capital assets, net of related debt	60,687	47,417	-	408,318	18,252	-	8,208	109,791
Restricted for:								
Trust — nonexpendable	-	-	-	-	-	-	-	-
Capital projects	-	-	-	5,579	-	-	-	-
Debt service	-	-	-	3,780	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	-	-	905	-
Other specified purposes	2	-	136,845	-	1,334	-	-	160
Unrestricted	(242,631)	(60,172)	(79,845)	(81,084)	(2,429)	(2,852)	1,283	4,415
Total net assets (deficit)	(181,942)	(12,755)	57,000	336,593	17,157	(2,852)	10,396	114,366
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 96,086	$ 96,316	$ 1,375,689	$ 1,346,831	$ 23,700	$ 309	$ 11,833	$ 208,534

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Telephone Authority	Puerto Rico Tourism Company	Puerto Rico Trade and Export Company	Right to Employment Administration	Special Communities Perpetual Trust	State Insurance Fund Corporation	Nonmajor Component Units Totals
LIABILITIES:							
Current liabilities:							
Accounts payable and accrued liabilities	$ 18	$ 47,414	$ 4,770	$ 1,745	$ 53,071	$ 208,968	$ 844,758
Deposits and escrow liabilities	-	-	-	-	-	-	487,678
Due to:							
Primary government	-	17,460	9,922	-	-	-	180,518
Component units	-	10,170	1,066	-	-	1,454	599,726
Other governmental entities	-	1,388	-	1,729	-	1,027	182,242
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	155,342	262,014
Interest payable	-	-	1,585	-	-	-	107,424
Deferred revenue	-	-	-	-	-	23,928	87,752
Notes payable, current portion	-	-	16,273	-	-	2,160	207,228
Bonds payable, current portion	-	-	-	-	-	-	1,149,575
Accrued compensated absences, current portion	-	2,064	2,804	-	-	-	58,884
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	196,182	362,109
Capital leases	-	-	-	-	-	509	509
Current portion of other long-term liabilities	-	-	42	-	-	-	22,509
Total current liabilities	18	78,496	36,462	3,474	53,071	589,570	4,552,926
Noncurrent liabilities:							
Due to:							
Primary government	-	-	-	-	-	-	41,532
Component units	-	-	-	-	376,095	220,000	1,100,038
Other governmental entities	-	-	-	1,948	-	-	21,831
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	114,300
Deferred revenue	-	-	-	-	-	-	13,989
Notes payable	-	-	180,915	-	-	41,643	1,191,276
Commonwealth appropriation bonds	-	60,528	-	-	-	-	152,888
Bonds payable	-	-	-	-	-	-	3,803,981
Accrued compensated absences	-	2,626	-	1,818	-	-	20,148
Liabilitiy for automobile accident insurance and workmen compensation claims	-	-	-	-	-	582,061	582,061
Capital leases	-	-	-	-	-	31,160	31,160
Derivative instruments — interest rate swaps	-	-	-	-	-	-	53,667
Other long-term liabilities	7,026	584	6,125	-	-	85,824	183,004
Total noncurrent liabilities	7,026	63,738	187,040	3,766	376,095	960,688	7,309,875
Total liabilities	7,044	142,234	223,502	7,240	429,166	1,550,258	11,862,801
NET ASSETS (DEFICIT):							
Invested in capital assets, net of related debt	-	37,070	106,007	240	-	17,357	1,855,951
Restricted for:							
Trust — nonexpendable	-	-	-	-	-	-	310,149
Capital projects	-	-	-	-	-	-	78,470
Debt service	-	-	-	-	-	-	1,115,867
Affordable housing and related loan insurance programs	-	-	-	-	150,048	-	150,048
Student loans and other educational purpose	-	-	-	-	-	-	10,945
Other specified purposes	4,706	-	1,096	-	-	-	314,125
Unrestricted	315	15,274	8,221	(5,796)	(375,479)	349,546	(2,822,620)
Total net assets (deficit)	5,021	52,344	115,324	(5,556)	(225,431)	366,903	1,012,935
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 12,065	$ 194,578	$ 338,826	$ 1,684	$ 203,735	$ 1,917,161	$ 12,875,736

See accompanying independent auditors' report.

(Concluded)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010
(In thousands)

		Program Revenues					General Revenues and Transfers								
	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Net Revenues (Expenses) and Changes in Net Assets (Deficit)	Payments from (to) Primary Government	Payments from (to) Other Component Units	Grants and Contributions Not Restricted to Specific Programs	Taxes	Interest and Investment Earnings	Other	Change in Net Assets (Deficit)	Net Assets (Deficit), Beginning of Year (as Restated)	Net Assets (Deficit), End of Year
Agricultural Services and Development Administration	$ 172,685	$ 115,868	$ -	$ -	$ -	$ (56,817)	$ 89,712	$ -	$ -	$ 8,697	$ -	$ -	$ 41,592	$ (116,131)	$ (74,539)
Automobile Accidents Compensation Administration	95,474	85,004	-	-	-	(10,470)	-	-	-	-	10,837	-	367	(67,938)	(67,571)
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	96,977	84,822	-	-	-	(12,155)	15,415	-	-	-	76	-	3,336	(42,781)	(39,445)
Company for the Integral Development of the “Península de Cantera”	14,130	-	-	-	1,293	(12,837)	12,023	-	19	-	83	-	(712)	8,326	7,614
Corporation for the “Caño Martín Peña” ENLACE Project	1,591	-	-	-	134	(1,457)	1,374	-	-	-	31	23	(29)	2,727	2,698
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	3,202	342	-	-	-	(2,860)	3,801	-	-	-	-	17	958	13,163	14,121
Culebra Conservation and Development Authority	922	312	-	-	-	(610)	526	-	-	-	-	-	(84)	1,226	1,142
Economic Development Bank for Puerto Rico	52,056	49,296	-	-	-	(2,760)	30,000	-	-	-	3,564	1,115	31,919	113,060	144,979
Employment and Training Enterprises Corporation	4,465	2,075	-	-	-	(2,390)	-	-	-	-	3	327	(2,060)	(1,007)	(3,067)
Farm Insurance Corporation of Puerto Rico	3,145	2,752	1,253	-	-	860	-	-	-	-	182	47	1,089	10,304	11,393
Fine Arts Center Corporation	7,156	2,033	-	-	-	(5,123)	4,225	1,700	-	-	155	-	957	22,910	23,867
Governing Board of the 911 Service	22,027	21,925	-	-	-	(102)	-	-	-	-	267	-	165	44,397	44,562
Institute of Puerto Rican Culture	23,061	-	-		-	(23,061)	17,076	-	-	18,839	1,113	-	13,967	85,889	99,856
Institutional Trust of the National Guard of Puerto Rico	8,877	5,210	-	-	-	(3,667)	2,452	-	456	-	1,289	-	530	87,780	88,310
Land Authority of Puerto Rico	28,327	11,321	-	-	-	(17,006)	15,427	-	-	-	67	-	(1,512)	(20,457)	(21,969)
Musical Arts Corporation	8,394	485	-	-	-	(7,909)	9,460	(1,700)	-	-	254	236	341	(5,364)	(5,023)
National Parks Company of Puerto Rico	45,001	10,294	-	-	15,743	(18,964)	-	-	-	-	-	293	(18,671)	206,328	187,657
Port of the Americas Authority	1,031	7	-	-	-	(1,024)	10,187	-	-	-	5	4,552	13,720	32,040	45,760
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives	11,926	19,326	1,610	-	-	9,010	-	-	-	-	7,657	-	16,667	141,433	158,100
Puerto Rico Conservatory of Music Corporation	10,524	2,306	1,583	-	15,126	8,491	4,814	-	1,155	-	8	-	14,468	61,527	75,995
Puerto Rico Convention Center District Authority	47,158	25,012	-	-	-	(22,146)	4,876	35,142	-	-	(29,897)	1,743	(10,282)	146,491	136,209
Puerto Rico Council on Higher Education	30,036	427	1,746	-	-	(27,863)	28,646	-	-	-	31	55	869	8,547	9,416
Puerto Rico Industrial Development Company	85,440	62,185	-	-	2,264	(20,991)	4,735	-	-	-	1,993	3,938	(10,325)	385,607	375,282
Puerto Rico Industrial, Tourist, Educational, Medical, and	-						-								
Environmental Control Facilities Financing Authority	12,749	218	-	-	-	(12,531)	-	-	-	-	1,397	-	(11,134)	8,968	(2,166)
Puerto Rico Infrastructure Financing Authority	363,001	-	77,593	26,664	-	(258,744)	239,481	(934,500)	-	-	3	-	(953,760)	(118,839)	(1,072,599)
Puerto Rico Land Administration	9,221	8,966	-	-	-	(255)	-	-	-	-	879	16	640	251,644	252,284
Puerto Rico Maritime Transportation Authority	33,394	4,612	1,680	-	8,386	(18,716)	21,779	-	-	-	2	-	3,065	(29,564)	(26,499)
Puerto Rico Medical Services Administration	232,165	124,675	-	-	-	(107,490)	15,689	-	-	-	1,011	-	(90,790)	(91,152)	(181,942)
Puerto Rico Metropolitan Bus Authority	89,286	6,313	14,306	-	22,834	(45,833)	52,646	-	-	-	-	-	6,813	(19,568)	(12,755)
Puerto Rico Municipal Finance Agency	59,058	-	-	-	-	(59,058)	-	-	-	-	108,826	41	49,809	7,191	57,000
Puerto Rico Ports Authority	216,225	157,932	-	-	-	(58,293)	242	-	15,553	-	125	3,855	(38,518)	375,111	336,593
Puerto Rico Public Broadcasting Corporation	26,547	3,200	-	-	-	(23,347)	16,545	-	3,000	-	17	251	(3,534)	20,691	17,157
Puerto Rico Public Private Partnerships Authority	2,941	89				(2,852)							(2,852)		(2,852)
Puerto Rico School of Plastic Arts	6,015	884	3,588	-	-	(1,543)	2,650	-	-	-	66	-	1,173	9,223	10,396
Puerto Rico Solid Waste Authority	21,782	5,001	-	-	-	(16,781)	22,145	-	-	-	-	-	5,364	109,002	114,366
Puerto Rico Telephone Authority	151	-	-	-	-	(151)	-	-	-	-	14	-	(137)	5,158	5,021
Puerto Rico Tourism Company	111,146	168,872	5,157	-	-	62,883	1,894	(105,287)	-	13,326	5,215		(21,969)	74,313	52,344
Puerto Rico Trade and Export Company	36,914	16,314	-	-	-	(20,600)	5,160	-	-	-	9,427	1,123	(4,890)	120,214	115,324
Right to Employment Administration	15,659	-	-	-	-	(15,659)	13,062	-	-	-	1	1	(2,595)	(2,961)	(5,556)
Special Communities Perpetual Trust	91,516	-	-	-	-	(91,516)	25,213	-	-	-	1,868	-	(64,435)	(160,996)	(225,431)
State Insurance Fund Corporation	704,043	628,442	-	-	-	(75,601)	(43,799)	-	-	-	124,389	(292)	4,697	362,206	366,903
Total nonmajor component units	$2,805,418	$1,626,520	$108,516	$ 26,664	$ 65,780	$ (977,938)	$ 627,456	$ (1,004,645)	$20,183	$ 40,862	$ 250,958	$ 17,341	$ (1,025,783)	$ 2,038,718	$ 1,012,935

See accompanying independent auditor’s report.

STATISTICAL SECTION

STATISTICAL SECTION (UNAUDITED)

This part of the Commonwealth of Puerto Rico's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health.

Contents Pages

These schedules contain trend information to help the reader understand how the Commonwealth's financial performance and well being have changed over time.

This schedule contains information to help the reader assess the Commonwealth's most significant local revenue sources.

These schedules present information to help the reader assess the affordability of the Commonwealth's current levels of outstanding debt and the Commonwealth's ability to issue additional debt in the future.

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Commonwealth's financial activities take place.

This schedule contains service data to help the reader understand how the information in the Commonwealth's financial report relates to the services the government provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

COMMONWEALTH OF PUERTO RICO

CHANGES IN NET ASSETS (DEFICIT) (UNAUDITED)
LAST EIGHT FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003
EXPENSES:								
Governmental activities:								
General government	$ 3,156,646	$ 2,460,391	$ 2,592,834	$ 2,847,596	$ 2,844,494	$ 1,827,816	$ 1,963,879	$ 2,324,715
Public safety	2,228,000	2,247,480	2,161,265	1,983,782	2,217,294	2,580,951	1,950,635	1,606,272
Health	2,843,744	2,858,750	2,471,960	1,943,582	1,422,813	2,364,110	2,386,735	1,903,811
Public housing and welfare	3,726,041	3,560,871	3,194,945	3,157,877	3,287,559	3,443,886	2,919,315	3,239,366
Education	4,543,362	5,280,249	4,571,722	4,748,008	4,110,669	5,000,686	3,684,331	3,375,815
Economic development	292,037	779,449	471,640	554,271	564,447	1,006,945	896,925	451,945
Payment of obligations of component units	196,898	136,415	-	-	-	-	-	-
Intergovernmental	533,939	613,033	474,023	593,264	440,390	-	591,237	466,762
Interest and other	1,648,875	1,128,918	1,086,906	863,723	882,163	845,556	778,700	671,228
Total governmental activities	19,169,542	19,065,556	17,025,295	16,692,103	15,769,829	17,069,950	15,171,757	14,039,914
Business-type activities:								
Lotteries	820,261	467,788	699,005	679,274	670,425	699,407	731,344	695,888
Unemployment	720,992	723,287	269,924	192,484	207,483	197,967	142,652	343,243
Other	20,180	31,947	28,738	26,860	25,043	32,437	26,763	22,385
Total business-type activities	1,561,433	1,223,022	997,667	898,618	902,951	929,811	900,759	1,061,516
Total primary government expenses	20,730,975	20,288,578	18,022,962	17,590,721	16,672,780	17,999,761	16,072,516	15,101,430
PROGRAM REVENUE:								
Governmental activities:								
Charges for services	600,473	758,427	664,505	757,724	828,993	702,691	769,207	757,116
Operating grants and contributions	6,536,125	5,541,715	4,311,592	4,773,174	4,365,711	4,096,204	1,038,776	3,830,639
Capital grants and contributions	129,947	110,847	137,916	257,514	100,990	121,083	2,592,055	173,644
Total governmental activities	7,266,545	6,410,989	5,114,013	5,788,412	5,295,694	4,919,978	4,400,038	4,761,399
Business activities:								
Charges for services	1,218,613	1,206,080	1,161,084	1,140,539	1,149,426	1,187,009	1,136,705	1,132,285
Operating grants and contributions	544,393	245,770	77,803	43,480	59,613	22,315	59,728	97,033
Total business-type activities	1,763,006	1,451,850	1,238,887	1,184,019	1,209,039	1,209,324	1,196,433	1,229,318
NET (EXPENSE) REVENUE:								
Governmental activities	(11,902,997)	(12,654,567)	(11,911,282)	(10,903,691)	(10,474,135)	(12,149,972)	(10,771,719)	(9,278,515)
Business-type activities	201,573	228,828	241,220	285,401	306,088	279,513	295,674	167,802
TOTAL PRIMARY GOVERNMENT NET EXPENSE	$ (11,701,424)	$ (12,425,739)	$ (11,670,062)	$ (10,618,290)	$ (10,168,047)	$ (11,870,459)	$ (10,476,045)	$ (9,110,713)

(Continued)

COMMONWEALTH OF PUERTO RICO

CHANGES IN NET ASSETS (DEFICIT) (UNAUDITED)
LAST EIGHT FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003
GENERAL REVENUE:								
Governmental activities:								
Taxes:								
Income	$ 4,857,035	$ 5,424,476	$ 5,493,881	$ 6,488,211	$ 6,255,391	$ 5,526,006	$ 5,191,080	$ 4,941,128
Excise	1,145,538	1,118,283	1,318,866	1,475,311	2,013,998	2,101,216	1,924,610	1,894,729
Sales and use tax	1,087,053	1,089,073	910,609	583,639	-	-	-	-
Other	326,343	103,348	11,356	4,663	15,145	7,128	19,211	3,055
Revenue from global tobacco settlement agreement	75,584	90,073	82,608	69,604	66,796	106,521	70,420	101,849
Unrestricted investment earnings (losses)	(42,682)	114,699	160,926	176,674	117,080	116,686	60,585	85,565
Revenue from component units	76,758	386,182	74,389	311,732	68,745	474,069	175,729	111,752
Grants and contributions not restricted to specific programs	114,739	115,176	120,006	135,916	196,721	102,691	5,706	103,423
Payment from agency fund	-	-	-	-	-	-	-	-
Special items	-	175,102	3,749,348	-	(2,485)	-	(35,646)	(203,514)
Gain on sale of assets	-	-	-	-	19,588	-	-	-
Transfers	265,852	251,170	309,815	342,743	242,642	492,796	203,258	279,060
Other	166,517	96,696	299,631	71,187	203,525	322,185	384,719	214,381
Total governmental activities	8,072,737	8,964,278	12,531,435	9,659,680	9,197,146	9,249,298	7,999,672	7,531,428
Business-type activities:								
Unrestricted investments earnings	21,260	20,036	35,423	37,177	33,165	32,284	23,831	77,362
Revenue from component units	-	-	-	-	-	-	-	1,038
Grants and contributions not restricted to specific programs	-	-	-	-	-	-	-	-
Transfers	(265,852)	(251,170)	(309,815)	(342,743)	(242,642)	(492,796)	(203,258)	(279,060)
Total business-type activities	(244,592)	(231,134)	(274,392)	(305,566)	(209,477)	(460,512)	(179,427)	(200,660)
Total primary government	7,828,145	8,733,144	12,257,043	9,354,114	8,987,669	8,788,786	7,820,245	7,330,768
CHANGE IN NET ASSETS:								
Governmental activities	(3,830,260)	(3,690,289)	620,153	(1,244,011)	(1,276,989)	(2,900,674)	(2,772,047)	(1,747,087)
Business-type activities	(43,019)	(2,306)	(33,172)	(20,165)	96,611	(180,999)	116,247	(32,858)
TOTAL PRIMARY GOVERNMENT	$(3,873,279)	$(3,692,595)	$ 586,981	$(1,264,176)	$(1,180,378)	$(3,081,673)	$(2,655,800)	$(1,779,945)

Information for these schedules was not available for fiscal periods prior to 2002 because was not required prior to adoption of GASB Statement No. 34.

(Concluded)

COMMONWEALTH OF PUERTO RICO

NET ASSETS (DEFICIT) BY COMPONENT (UNAUDITED)
LAST EIGHT FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003
GOVERNMENTAL ACTIVITIES:								
Invested in capital assets — net of related debt	$ 3,866,328	$ 3,888,495	$ 3,979,308	$ 3,635,271	$ 3,485,882	$ 3,774,098	$ 3,133,230	$ 1,969,864
Restricted	2,941,461	979,094	713,814	331,051	280,078	296,692		19,749
Unrestricted deficit	(38,031,328)	(32,053,838)	(22,385,747)	(22,405,216)	(20,975,523)	(19,987,579)	(16,789,576)	(13,942,397)
TOTAL GOVERNMENTAL ACTIVITIES NET ASSETS (DEFICIT)	$ (31,223,539)	$ (27,186,249)	$ (17,692,625)	$ (18,438,894)	$ (17,209,563)	$ (15,916,789)	$ (13,656,346)	$ (11,952,784)
BUSINESS-TYPE ACTIVITIES:								
Invested in capital assets — net of related debt	$ 1,586	$ 682	$ 674	$ 674	$ 1,008	$ 847	$ 1,672	$ 1,895
Restricted	505,906	29,209	33,803	910,479	947,507	872,215	853,194	736,947
Unrestricted net assets (deficit)	289,418	810,038	689,686	(153,818)	(171,015)	(202,212)	(3,037)	(3,260)
TOTAL BUSINESS-TYPE ACTIVITIES NET ASSETS	$ 796,910	$ 839,929	$ 724,163	$ 757,335	$ 777,500	$ 670,850	$ 851,829	$ 735,582
PRIMARY GOVERNMENT:								
Invested in capital assets — net of related debt	$ 3,867,914	$ 3,889,177	$ 3,979,982	$ 3,635,945	$ 3,486,890	$ 3,774,945	$ 3,134,902	$ 1,971,759
Restricted	3,447,367	1,008,303	747,617	1,241,530	1,227,585	1,168,907	853,194	756,696
Unrestricted deficit	(37,741,910)	(31,243,800)	(21,696,061)	(22,559,034)	(21,146,538)	(20,189,791)	(16,792,613)	(13,945,657)
TOTAL PRIMARY GOVERNMENT NET ASSETS (DEFICIT)	$ (30,426,629)	$ (26,346,320)	$ (16,968,462)	$ (17,681,559)	$ (16,432,063)	$ (15,245,939)	$ (12,804,517)	$ (11,217,202)

COMMONWEALTH OF PUERTO RICO

CHANGES IN FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS (UNAUDITED)
ALL GOVERNMENTAL FUND TYPES
LAST TEN FISCAL YEARS
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
REVENUES:										
Taxes:										
Income	$ 5,109,313	$ 5,191,042	$ 5,493,881	$ 6,389,973	$ 6,181,995	$ 5,564,673	$ 5,061,761	$ 4,874,795	$ 4,843,852	$ 4,536,840
Excise	1,145,538	1,118,283	1,306,416	1,475,311	2,013,998	2,101,216	1,924,610	1,894,729	1,713,098	1,788,992
Sales and use tax	1,094,208	1,081,918	910,609	583,639	-	-	-	-	-	-
Other	326,342	103,348	11,356	4,663	15,145	7,128	19,211	3,055	1,963	92,024
Charges for services	600,473	758,427	664,505	757,724	828,993	702,691	750,978	780,905	535,423	645,806
Intergovernmental	6,655,543	5,767,738	4,569,457	5,166,604	4,663,422	4,319,977	3,654,766	4,107,706	3,634,358	3,807,049
Interest and investment earnings	56,145	114,699	160,926	176,674	117,080	116,686	58,914	85,565	90,940	67,020
Other	278,874	540,854	455,439	434,024	334,591	869,338	629,426	436,668	839,240	270,711
Total revenues all governmental fund types	15,266,436	14,676,309	13,572,589	14,988,612	14,155,224	13,681,709	12,099,666	12,183,423	11,658,874	11,208,442
EXPENDITURES:										
General government	1,830,482	1,512,909	1,769,498	2,537,999	2,489,093	1,675,428	1,777,365	1,774,156	1,279,750	739,009
Public safety	2,207,228	2,071,001	2,134,919	1,864,256	2,108,152	2,409,668	1,765,199	1,424,846	1,659,280	1,623,362
Health	2,785,439	2,762,476	2,345,650	1,948,201	1,429,888	2,344,522	2,176,741	1,908,717	1,983,727	954,563
Public housing and welfare	3,553,699	3,428,546	3,098,684	3,048,585	3,130,373	3,320,849	2,738,016	2,953,189	2,726,129	2,315,899
Education	4,584,792	5,053,505	4,432,880	4,400,321	4,101,980	4,177,664	3,474,013	3,297,248	3,343,002	2,308,479
Economic development	249,899	688,460	415,976	533,253	516,444	706,066	868,926	428,621	637,794	170,937
Intergovernmental	533,762	613,033	470,395	593,247	409,727	-	528,829	465,699	466,169	222,721
Capital outlays	293,298	352,582	429,238	512,824	502,348	665,630	581,788	1,184,976	507,634	1,020,344
Payments of obligations of component units	196,898	136,415	-	-	-	-	-	-	-	-
Debt service:										
Principal	2,009,870	482,742	2,163,704	904,604	446,281	391,554	526,572	330,346	2,062,059	466,467
Interest and other	1,369,445	1,094,142	1,037,136	814,723	822,234	733,931	737,502	1,158,749	614,347	545,001
Total expenditures all governmental fund types	19,614,812	18,195,811	18,298,080	17,158,013	15,956,520	16,425,312	15,174,951	14,926,547	15,279,891	10,366,782
OTHER FINANCING SOURCES (USES):										
Transfers in	6,296,416	9,974,368	1,305,040	1,165,075	1,423,240	1,745,992	1,034,090	1,664,278	966,935	756,229
Transfers out	(6,030,564)	(9,723,198)	(995,225)	(822,332)	(1,180,598)	(1,253,216)	(830,832)	(1,385,218)	(779,752)	(2,864,056)
Long-term debt issued	4,754,372	5,965,925	1,921,363	1,140,356	1,518,355	1,619,562	3,001,116	2,241,190	3,107,821	834,396
Discount on bonds issued	(64,011)	(63,715)	(4,060)	-	(323)	(6,078)	(23,061)	(36,204)	(16,075)	-
Capital leases	427	292	43,850	2,975	4,580	847	2,300	58,897	-	-
Refunding bonds issued	1,163,735	237,875	2,086,240	379,498	-	-	2,372,689	1,754,686	1,636,838	329,370
Sale of capital assets	2,431	158,940	-	-	-	-	-	-	-	-
Upfront fee on swap agreements		35,980	-	-	-	-	-	-	-	-
Proceeds from termination of swap aggrements	12,231	-	-	-	-	-	-	-	-	-
Termination fee on swap agreements	(40,849)	(74,671)	-	-	-	-	-	-	-	-
Payment for refunding of bonds	(1,047,297)	(183,000)	-	-	-	-	-	-	-	-
Bond proceeds— premium	18,045	34,842	-	-	-	-	-	-	-	-
Special item: payment of debt by COFINA	-	-	3,749,348	-	-	-	-	-	-	-
Special item: escrow restructuring	-	175,102	-	-	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	(4,507,828)	-	-	-	(2,316,910)	(1,754,686)	(1,665,811)	(227,369)
Other	-	-	106,107	-	54,135	-	-	-	327,785	-
Total other financing sources (uses) all governmental fund types	5,064,936	6,538,740	3,704,835	1,865,572	1,819,389	2,107,107	3,239,392	2,542,943	3,577,741	(1,171,430)
NET CHANGE IN FUND BALANCES (DEFICIT)	$ 716,560	$ 3,019,238	$ (1,020,656)	$ (303,829)	$ 18,093	$ (636,496)	$ 164,107	$ (200,181)	$ (43,276)	$ (329,770)

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

COMMONWEALTH OF PUERTO RICO

FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS (UNAUDITED)
LAST EIGHT FISCAL YEARS
MODIFIED-ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003
GENERAL FUND:								
Reserved	$ 1,252,903	$ 1,247,211	$ 723,634	$ 993,320	$ 770,628	$ 810,314	$ 1,102,232	$ 262,758
Unreserved deficit	(1,800,199)	(2,682,838)	(2,494,519)	(1,504,478)	(1,154,383)	(1,321,585)	(1,468,182)	(342,941)
TOTAL GENERAL FUND	$ (547,296)	$(1,435,627)	$(1,770,885)	$ (511,158)	$ (383,755)	$ (511,271)	$ (365,950)	$ (80,183)
ALL OTHER GOVERNMENTAL FUNDS:								
Reserved	$ 2,393,393	$ 2,053,409	$ 11,667	$ 125,756	$ 73,346	$ 45,546	$ 72,455	$ 33,047
Unreserved reported in:								
Debt service funds	482,301	668,132	127,577	131,782	143,732	156,564	119,830	168,928
Special revenue funds	114,768	249,891	200,929	137,286	358,452	256,949	449,455	506,252
Capital project funds	233,679	424,480	520,576	223,443	219,163	437,923	744,577	228,215
TOTAL ALL OTHER GOVERNMENTAL FUNDS	$ 3,224,141	$ 3,395,912	$ 860,749	$ 618,267	$ 794,693	$ 896,982	$ 1,386,317	$ 936,442

COMMONWEALTH OF PUERTO RICO

GENERAL FUND NET REVENUES FOR THE LAST TEN FISCAL YEARS (UNAUDITED)
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Administrative measures	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 244,097	$ -
Excises on off-shore shipments rum	352,301	404,265	356,827	377,872	346,272	341,166	328,921	309,958	314,253	286,890
Custom duties	-	3,269	4,846	14,504	9,553	26,731	34,266	25,918	30,595	43,154
From noninternal revenues	352,301	407,534	361,673	392,376	355,825	367,897	363,187	335,876	588,945	330,044
Miscellaneous	314,754	284,436	466,742	330,064	331,803	430,534	379,501	314,857	238,116	210,665
Transfer from nonbudgeted funds	-	-	-	-	-	-	-	123,600	80,000	89,093
Electronic lottery	80,006	75,213	105,298	71,815	55,212	68,011	86,115	89,443	57,897	70,211
Traditional lottery	42,826	51,480	46,636	73,014	62,729	64,638	65,387	67,621	61,358	57,482
Nontax revenues	437,586	411,129	618,676	474,893	449,744	563,183	531,003	595,521	437,371	427,451
Alcoholic beverages and others	15,339	14,307	16,014	15,179	14,804	14,528	14,200	13,518	14,805	15,182
Entertainment machines	18,712	19,263	19,682	16,930	16,981	15,019	14,393	13,932	12,874	11,322
Motor vehicles	61,717	62,853	51,994	65,501	59,525	55,669	55,638	58,426	54,896	49,834
Licenses	95,768	96,423	87,690	97,610	91,310	85,216	84,231	85,876	82,575	76,338
Others	1,864	5,159	7,224	20,235	25,681	29,927	24,334	20,539	64,626	16,686
Hotel rooms	-	-	-	-	-	-	-	9,056	-	-
5% general excise tax	-	-	-	193,949	551,723	557,323	535,381	505,709	486,302	508,972
Crude oil and derived products	-	-	-	-	-	-	-	12,925	38,619	1,901
Slot machines	23,273	23,764	23,492	23,128	23,167	85,513	76,966	90,018	36,953	-
Cement	1,195	1,555	2,054	2,627	2,919	3,228	3,432	3,279	3,426	2,707
Insurance premiums	24,089	26,816	42,060	39,052	43,055	28,324	27,217	26,771	24,290	22,845
Horse races	22,862	25,245	26,783	29,321	30,786	31,463	28,865	28,872	22,033	18,893
Motor vehicle	350,764	310,920	366,341	396,667	533,957	606,662	551,181	499,252	418,024	406,252
Petroleum products	4,695	4,335	8,401	6,028	5,146	5,143	4,934	5,860	5,095	7,046
Cigarettes	182,501	129,429	119,124	132,399	135,267	146,527	144,733	149,487	116,055	119,135
General taxes — total	611,243	527,223	595,479	843,406	1,351,701	1,494,110	1,397,043	1,351,768	1,215,423	1,104,437

(Continued)

COMMONWEALTH OF PUERTO RICO

GENERAL FUND NET REVENUES FOR THE LAST TEN FISCAL YEARS (UNAUDITED)
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Other beverages	$ 19,081	$ 19,248	$ 19,026	$ 18,932	$ 18,745	$ 19,692	$ 17,428	$ 17,884	$ 18,234	$ 13,101
Beer	211,785	203,386	198,879	207,813	219,379	221,902	217,568	223,309	179,737	177,448
Distilled spirits	53,930	54,767	50,189	52,283	54,056	56,641	61,306	58,389	51,734	46,963
Alcoholic beverages — total	284,796	277,401	268,094	279,028	292,180	298,235	296,302	299,582	249,705	237,512
Excise taxes — total	896,039	804,624	863,573	1,122,434	1,643,881	1,792,345	1,693,345	1,651,350	1,465,128	1,341,949
Sales and use tax	540,348	797,194	911,000	582,560						
Inheritance and gift taxes	3,617	5,064	6,600	4,663	9,466	7,129	15,691	2,825	1,962	7,475
Taxes on dividends to 10%	29,774	48,663	59,770	138,859	66,721	80,398	70,192	49,790	62,548	58,580
Interest subject to 17%	9,902	11,738	13,657	12,112	11,536	10,489	10,108	11,278	14,310	14,782
Tollgate tax	15,034	19,372	21,610	25,083	27,396	22,973	31,579	45,321	59,515	49,511
Withholding to nonresidents	830,352	1,081,739	1,087,782	933,728	921,260	612,005	631,100	517,141	583,256	696,835
Partnerships	1,688	1,839	1,942	2,960	2,787	3,245	3,005	2,101	2,670	3,026
Corporations	1,682,321	1,375,596	1,565,534	2,002,718	1,872,458	1,870,937	1,831,027	1,776,985	1,706,137	1,696,766
Individuals	2,593,598	2,648,261	2,759,305	3,071,655	3,087,748	2,885,903	2,720,920	2,767,678	2,449,982	2,259,090
Income taxes — total	5,706,634	5,989,466	6,427,200	6,774,338	5,999,372	5,493,079	5,313,622	5,173,119	4,880,380	4,786,065
Property taxes	227,812	1,011	219	800	1,106	3,949	-	-	-	287
Tax revenues	6,926,253	6,891,524	7,378,682	7,995,182	7,735,669	7,374,589	7,091,198	6,910,345	6,428,083	6,204,639
From internal revenues	7,363,839	7,302,653	7,997,358	8,470,075	8,185,413	7,937,772	7,622,201	7,505,866	6,865,454	6,632,090
Total	$7,716,140	$7,710,187	$8,359,031	$8,862,451	$8,541,238	$8,305,669	$7,985,388	$7,841,742	$7,454,399	$6,962,134

Note: The net revenue presented above include the actual revenue and the operating transfers-in from other funds presented in the statement of revenues and expenditures — budget and actual — budget basis.
Source: Puerto Rico Treasury Department.

(Concluded)

COMMONWEALTH OF PUERTO RICO

LEGAL DEBT MARGIN INFORMATION (UNAUDITED)
LAST TEN FISCAL YEARS
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Internal revenue average for two years	$7,333,246	$7,650,006	$8,233,717	$ 8,327,744	$8,061,593	$7,779,987	$7,564,034	$7,185,660	$6,748,772	$6,639,861
Legal debt limit — 15% of internal revenue average for two years	1,099,987	1,147,501	1,235,058	1,249,162	1,209,239	1,166,998	1,134,605	1,077,849	1,012,316	995,979
Maximum debt service requirement	826,812	785,298	785,298	719,927	680,742	630,685	598,547	599,611	521,035	588,359
Additional legal debt service requirement margin	273,175	362,203	449,760	529,235	528,497	536,313	536,058	478,238	491,281	407,620
Total maximum debt service requirement as a percentage of internal revenue average for two years	11.27 %	10.27 %	9.54 %	8.64 %	8.44 %	8.11 %	7.91 %	8.34 %	7.72 %	8.86 %

Legal debt margin calculation for fiscal year 2010:	
Internal revenue for the year ended June 30, 2009	$ 7,302,653
Internal revenue for the year ended June 30, 2010	7,363,839
Total internal revenue for the years ended June 30, 2009 and 2010	14,666,492
Internal revenue average for the two years	7,333,246
Legal debt limit — 15% of internal revenue average for the two years	1,099,987
Maximum debt service requirement	826,812
Additional legal debt service requirement as a percentage of internal revenue average for two years	$ 273,175

Sources: Government Development Bank for Puerto Rico, General obligation debt service may not exceed 15% of the average of the internal revenues for the last two fiscal years.

COMMONWEALTH OF PUERTO RICO

RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES (UNAUDITED)
LAST TEN FISCAL YEARS
(In thousands)

	Total Debt Service	Total Governmental Expenditures	Ratio
Fiscal year:			
2010	$ 936,971	$ 19,614,812	4.8%
2009	413,967	18,195,811	2.3
2008	671,917	18,298,080	3.7
2007	606,800	17,158,013	3.5
2006	565,137	15,849,707	3.6
2005	491,394	16,425,312	3.0
2004	459,336	15,174,951	3.0
2003	362,136	14,926,547	2.4
2002	608,674	15,279,891	4.0
2001	538,436	10,366,782	5.2

COMMONWEALTH OF PUERTO RICO

DEMOGRAPHIC AND ECONOMIC STATISTICS (UNAUDITED)
LAST TEN FISCAL YEARS

	Population *		Per Capita Income		Median Age		Life Expectancy (Years) (1)		School Enrollment	Labor Force (in thousands)	Unemployment Rate (%)	Gross Product (Current Prices $)**		Real Gross Product (2000 Prices $)**	
Fiscal year:															
2010	3,973		15,203	(p)	36.3		77.7		671,154	1,313	16.0	63,292	(p)	39,907	(p)
2009	3,961	(r)	14,786	(r)	36.3	(r)	77.7	(r)	649,692	1,349	13.4	62,678	(r)	41,464	(r)
2008	3,948	(r)	14,217	(r)	37.5	(r)	77.7	(r)	685,348	1,368	11.0	61,665	(r)	43,205	(r)
2007	3,935	(r)	13,244		37.0	(r)	77.7	(r)	710,861	1,409	10.4	59,521	(r)	44,475	
2006	3,920	(r)	12,970		36.5	(r)	77.7	(r)	731,644	1,422	11.7	56,732		45,009	
2005	3,903	(r)	12,507		36.0	(r)	77.7	(r)	714,306	1,385	10.6	53,752		44,785	
2004	3,887	(r)	11,724		35.6	(r)	77.2		764,861	1,360	11.4	50,709		43,950	
2003	3,869	(r)	11,429		35.1	(r)	77.5		746,500	1,352	12.1	47,479		42,795	
2002	3,849	(r)	10,921		34.7	(r)	77.1		808,408	1,309	12.1	45,071		41,915	
2001	3,828	(r)	10,732		34.2	(r)	76.9		746,124	1,278	10.5	44,047		42,040	

Source: Puerto Rico Planning Board, Department of Education, Department of Labor and Human Resources, and General Council of Education of the Commonwealth of Puerto Rico. The enrollment in private schools is an estimate.

* Population as of July 1 (in thousands).
** Amounts expressed in millions.
(1) Based on most recent study of 2006.
(p) Preliminary figures.
(r) Revised figures.

COMMONWEALTH OF PUERTO RICO

AVERAGE EMPLOYMENT BY SECTOR (UNAUDITED)
LAST TEN FISCAL YEARS
(In thousands)

Sector	2010 (p)	2009	2008	2007	2006	2005	2004	2003	2002	2001
Agriculture	17	19	15	16	22	26	25	24	23	21
Manufacturing	102	112	129	135	136	138	136	134	137	157
Mining	a/	1	1	1	a/	1	a/	a/	a/	a/
Construction	54	68	82	94	88	87	88	82	84	84
Trade	240	244	257	260	271	261	253	252	236	239
Finance, insurance, and real estate	41	43	43	45	46	43	41	42	42	39
Transportation, communications, and public utilities	57	57	54	53	58	59	55	(r) 57	62	56
Services	330	353	359	364	355	349	340	328	311	298
Government (1)	261	271	279	296	280	274	268	269	257	248
Total	1,102	1,168	1,219	1,264	1,256	1,238	1,206	1,188	1,152	1,142

(p) Preliminary figures.
a/ Less than 1,000.
(r) Figures revised in accordance with the Census of Population and Housing of 2000.
(1) Includes the Commonwealth, its municipalities, and federal government, and excludes public corporations.
Sources: Puerto Rico Department of Labor and Human Resources, Household Survey, and Puerto Rico Planning Board.

COMMONWEALTH OF PUERTO RICO

TOURISM INDICATORS (UNAUDITED)
LAST TEN FISCAL YEARS

	2010 (p)	2009 (r)	2008	2007	2006	2005	2004	2003	2002	2001
All hotels and hostelry registration	2,029,208	1,936,662 (r)	1,196,890	2,044,097	2,160,455	2,097,606	2,008,730	1,964,963	1,821,274	1,836,377
Occupancy rates	62.2 %	63.4 %	67.6 %	68.7 %	67.9 %	67.7 %	68.9 %	64.9 %	67.8 %	66.7 %
Number of rooms	14,076	13,430 (r)	13,269 (r)	13,402 (r)	13,424 (r)	13,321 (r)	12,751 (r)	12,850	11,759	11,438
Visitors' expenditures*	$ 3,598	$ 3,473	$ 3,535	$ 3,414	$ 3,369	$ 3,239	$ 3,024	$ 2,677	$ 2,486	$ 2,728

* Amounts expressed in millions of dollars.
(p) Preliminary figures.
(r) Revised figures.

Sources: Puerto Rico Tourism Company and Puerto Rico Planning Board.

COMMONWEALTH OF PUERTO RICO

OPERATING INDICATORS BY FUNCTION (UNAUDITED)
LAST TEN FISCAL YEARS

Function	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Fire protection:										
Number of stations	95	95	95	94	94	94	98	93	93	92
Fire personnel and officers	1,889	2,225	2,232	2,232	2,233	2,233	1,851	1,894	1,867	1,852
Calls answered	14,021	9,698	10,146	10,441	10,435	11,514	10,716	12,340	13,256	14,271
Building inspections conducted	76,246	83,626	71,006	73,478	73,360	71,610	56,093	53,750	41,415	31,693
Police protection:										
Number of stations	210	193	233	238	238	234	231	228	235	239
Police personnel and officers	18,274	18,834	19,422	19,069	20,552	20,806	21,185	21,079	20,468	20,800
Calls answered	7,271	7,451	7,258	7,101	7,146	7,178	6,907	5,538	4,673	4,957
Water system:										
Customers	1,279,757	1,265,798	1,257,336	1,290,497	1,285,732	1,251,699	1,256,981	1,238,461	1,209,834	1,195,038
Personnel	5,001	5,617	5,839	5,830	5,544	5,459	5,442	5,580	5,633	5,525
Water consumption (millions of cubic meters)	325	331	327	350	365	356	359	350	349	348
Electric distribution system:										
Customers	1,469,493	1,458,636	1,449,221	1,452,529	1,450,227	1,438,699	1,419,602	1,401,301	1,383,888	1,365,668
Personnel	8,804	9,332	9,429	9,444	9,541	9,712	9,635	9,646	9,652	9,582
Electricity consumption (millions of kilowatt)	19,235	18,516	19,602	20,672	20,620	20,507	20,260	19,887	19,130	18,723
Electricity production (millions of kilowatt)	23,580	22,651	23,935	25,082	24,870	24,500	24,100	23,717	22,514	22,132
Education:										
Enrollment in public schools (1):										
Kindergarten to sixth grade	264,049	262,234	276,291	293,781	306,073	323,270	321,653	326,606	334,929	341,467
Seventh to ninth grade	124,343	122,506	128,641	133,171	135,166	137,717	142,305	146,896	146,837	145,858
Tenth to twelfth grade	104,731	103,255	108,028	117,205	122,251	118,491	116,829	118,519	117,072	119,162
Teachers actively teaching (in public school)	46,472	45,268	45,064	45,124	46,064	46,858	47,286	46,772	46,591	45,968
Enrollment in private schools:										
Kindergarten to sixth grade	11,614	97,004	105,724	103,442	107,358	83,548	117,622	98,719	135,655	90,577
Seventh to ninth grade	32,144	33,510	35,437	33,294	32,850	27,612	37,226	31,245	41,273	27,366
Tenth to twelfth grade	29,773	31,183	31,227	29,968	27,946	23,668	29,226	24,515	32,642	21,694
Enrollment in universities and colleges:										
Public	71,569	69,475	68,132	66,990	68,813	71,044	74,056	74,801	73,974	73,846
Private	177,803	166,143	157,306	158,412	140,734	136,650	132,735	125,041	117,578	100,704

Source: Various agencies and component units of the Commonwealth of Puerto Rico. The enrollment in private schools is an estimate.
(1) The enrollment in public schools for 2007–2008 don’t include the special education by grade.