Commonwealth of Puerto Rico

Comprehensive Annual Financial Report
Year Ended June 30, 2012

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2012

Commonwealth of Puerto Rico

Honorable Alejandro García Padilla
Governor

Prepared by:

Puerto Rico Department of the Treasury

Melba Acosta Febo, CPA, Esq.
Secretary of the Treasury

Karolee García Figueroa, CPA, Esq.
Under Secretary of the Treasury

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COMMONWEALTH OF PUERTO RICO

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Commonwealth of Puerto Rico
DEPARTMENT OF THE TREASURY
San Juan, Puerto Rico

Melba I. Acosta Febo, Esq.
Secretary of the Treasury

September 16, 2013

To the People of the Commonwealth of Puerto Rico,
Gov. Alejandro García Padilla and
Members of the Legislature:

The Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Puerto Rico (the "Commonwealth") for the fiscal year ended June 30, 2012 is submitted herewith in accordance with our responsibilities of reporting the Commonwealth's financial activities. To the best of my knowledge, the information presented provides a reasonable understanding of the state's financial activities. This report reflects my commitment to you, the citizens of the Commonwealth, to our Governor, to our elected officials and to the financial community to maintain and disclose our financial statements in a manner which fully conforms with accounting principles generally accepted in the United States of America (USGAAP) as established by the Governmental Accounting Standards Board (GASB).

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

PROFILE OF THE COMMONWEALTH

As the governmental entity responsible for the preparation of this report, the Puerto Rico Department of the Treasury relies on information provided by the Commonwealth's financial and accounting management, in charge of ensuring that assets are safeguarded and financial transactions are properly recorded and adequately documented. The responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Commonwealth's management. To the best of our knowledge and belief, the information presented is accurate in all material respects and is presented in conformity with US GAAP. The presentation is 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, the major funds, as well as the aggregate remaining funds of the Commonwealth as of June 30, 2012 with the respective changes in financial position and cash flows thereof, where applicable, and the respective budgetary comparison for the General Fund for the year then ended. 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 as defined below, 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 if the organization can potentially provide specific financial benefits to or impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. Certain component units, despite being legally separate from the primary government, are blended with the primary government. Blended component units provide services exclusively to the Commonwealth and, thus, are reported as if they were part of the primary government. The Commonwealth has four blended component units.

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

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

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

BLENDED COMPONENT UNITS:

1. Public Buildings Authority
2. Puerto Rico Maritime Shipping Authority
3. Puerto Rico Sales Tax Financing Corporation
4. The Children's Trust

DISCRETELY PRESENTED COMPONENT UNITS:

Major Component Units:

1. Government Development Bank for Puerto Rico
2. Puerto Rico Highways and Transportation Authority
3. Puerto Rico Electric Power Authority

4. Puerto Rico Aqueduct and Sewer Authority
5. University of Puerto Rico
6. Puerto Rico Health Insurance Administration

Non-major Component Units:

1. Agricultural Enterprises Development Administration
2. Automobile Accidents Compensations Administration
3. Cardiovascular Center Corporation of Puerto Rico and the Caribbean
4. Company for the Integral Development of the Península de Cantera
5. Corporation for the Caño Martín Peña ENLACE Project
6. Corporation for the Development of the Art, Science and Film Industry of Puerto Rico
7. Culebra Conservation and Development Authority
8. Economic Development Bank for Puerto Rico
9. Employment and Training Enterprises Corporation
10. Farm Insurance Corporation of Puerto Rico
11. Fine Arts Center Corporation
12. Governing Board of the 9-1-1 Service
13. Institute of Puerto Rican Culture
14. Institutional Trust of the National Guard of Puerto Rico
15. Land Authority of Puerto Rico
16. Local Redevelopment Authority Roosevelt Roads Puerto Rico
17. Musical Arts Corporation
18. National Parks Company of Puerto Rico
19. Port of the Americas Authority
20. Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
21. Puerto Rico Conservatory of Music Corporation
22. Puerto Rico Convention Center District Authority

23. Puerto Rico Council on Education

24. Puerto Rico Government Investment Trust Fund

25. Puerto Rico Industrial Development Company

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

27. Puerto Rico Infrastructure Financing Authority

28. Puerto Rico Land Administration

29. Puerto Rico and Municipal Islands Maritime Transport Authority

30. Puerto Rico Medical Services Administration

31. Puerto Rico Metropolitan Bus Authority

32. Puerto Rico Municipal Finance Agency

33. Puerto Rico Ports Authority

34. Puerto Rico Public Broadcasting Corporation

35. Puerto Rico Public Private Partnerships Authority

36. Puerto Rico School of Plastic Arts

37. Puerto Rico Telephone Authority

38. Puerto Rico Tourism Company

39. Puerto Rico Trade and Export Company

40. Special Communities Perpetual Trust

41. Solid Waste Authority

42. State Insurance Fund Corporation

43. University of Puerto Rico Comprehensive Cancer Center

FIDUCIARY COMPONENT UNITS:

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

2. Puerto Rico Judiciary Retirement System

3. 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 2012. 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, 2012 are fairly stated in all material respects in accordance with U.S. generally accepted accounting principles. The independent auditors' report on the basic financial statements is included in the financial section of this report.

INTERNAL CONTROLS

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

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

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

BUDGET AND FISCAL POLICY

The fiscal year is the accounting period for the Commonwealth which begins on July 1 and ends in June 30. In each regular legislative session the Governor is constitutionally required to submit to the Legislature the proposed expenditures for the ensuing fiscal year with the information necessary for the formulation of a program of legislation. It is specifically established in Section 7 of Article VI of the Constitution that "*[t]he 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 primary responsibility for the formulation of the budget rests in the Puerto Rico Office of Management and Budget (OMB), in collaboration with the Puerto Rico Planning Board, the Puerto Rico Department of the Treasury and other government offices and agencies. In addition to the internal controls previously discussed, the Commonwealth maintains extensive budgetary controls. These controls are meant to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislature. While the expenses of the General Fund are specified in the approved 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 is developed using elements of program budgeting, with the detailed costs of every activity or program that is to be carried out in the following fiscal year in view of 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. It also includes an estimate of revenue and other resources for the ensuing fiscal year under laws existing at the time the budget is submitted and considering legislative measures proposed by the Governor and submitted with the future budget.

In accordance with constitutional provisions, the Legislature may amend the budget submitted by the Governor, but may not increase items that would cause a deficit without imposing additional taxes. 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 send it back to the Legislature with his objections. The Legislature, by a two-thirds majority in each chamber, may override the Governor's veto. According to Section 6 of Article VI: "*[i]f at the end of any fiscal year the appropriations necessary for the ordinary operating expenses of the Government and for the payment of interest on and amortization of the public debt for the ensuing fiscal year shall not have been made, the several sums appropriated in the last appropriation acts for the objects and purposes therein specified, so far as the same may be applicable, shall continue in effect item by item, and the Governor shall authorize the payments necessary for such purposes until corresponding appropriations are made*". As a result, the Commonwealth can 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. Non-major governmental funds are combined in a single column in the governmental fund financial statements, and individually identified in the supplementary combining non-major 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 both the Unemployment Insurance Fund and the Lotteries Fund (which includes the Lottery of Puerto Rico and the Additional Lottery System). The Disability Insurance Fund, the Drivers' Insurance Fund, the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund are all non-major proprietary funds combined in a single column in the proprietary fund financial statements, and individually identified in the supplementary combining non-major proprietary funds' financial statements of this report.

FIDUCIARY OPERATIONS

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

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

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

CASH MANAGEMENT POLICIES AND PRACTICES

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

DEBT ADMINISTRATION

The Commonwealth's general obligation and appropriation debt is currently rated "Baa3" with a negative outlook by Moody's, "BBB-" with a negative outlook by Fitch, and "BBB-" with a negative outlook by S&P.

Section 2 of Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes which are backed by the full faith, credit and taxing power of the Commonwealth shall not be issued if the amount of the principal and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenues raised under the provisions of the Commonwealth Legislation and deposited into the Treasury of Puerto Rico in the two fiscal years preceding the fiscal year of such proposed issuance. Section 2 of Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. As of June 30, 2012, the Commonwealth is in compliance with the debt limitation requirement. Please refer to 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 basic financial statements.

Risk Financing

The Commonwealth purchases commercial insurance to cover casualty, theft, tort claims, and other losses. The current insurance policies have not been canceled or terminated. As it relates to 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.

2012 Elections

As a result of the November 2012 Puerto Rico general elections, Alejandro J. García Padilla, a member of the Popular Democratic Party, was sworn in as Governor in January of 2013. The Popular Democratic Party also won a majority of seats in both the Senate and the House of Representatives.

Economic Conditions and Outlook

The economy of Puerto Rico is closely linked to the United States economy, as most of the external factors that affect the local economy are determined by the policies and performance of the mainland 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.

From fiscal year 2008 to fiscal year 2012, the manufacturing and service sectors generated the largest portion of gross domestic product. Manufacturing is the largest sector of the Puerto Rico economy in terms of gross domestic product. In the last three decades, industrial development in Puerto Rico has been relatively capital intensive and dependent on skilled labor.

Puerto Rico has experienced mixed results in the service sector, which includes wholesale and retail trade, utilities, transportation and warehousing, information, finance and insurance, real estate and rental, and certain services such as professional, scientific, technical, management, administrative, support, educational, health care, social, recreational, accommodation, food and other services. This sector has expanded in terms of income over the past decade, following the general trend of other industrialized economies, but with differences on the magnitudes of those changes. The development of the service sector has been positively affected by demand generated by other sectors of the economy, such as manufacturing and construction.

Tourism makes a significant contribution to economic activity. An estimated $3.2 billion were spent by visitors in Puerto Rico during fiscal year 2012. San Juan is the largest homeport for cruise ships in the Caribbean and one of the largest homeports for cruise ships in the world. During the fiscal year 2012, the number of persons registered in tourist hotels increased 9.4% compared with fiscal year 2011.

The Puerto Rico Planning Board's preliminary reports on the performance of the Puerto Rico economy for fiscal year 2012 indicate that real gross national product increased 0.1% over fiscal year 2011. Nominal gross national product was $69.5 billion in fiscal year 2012, compared to $65.6 billion in fiscal year 2011. Aggregate personal income increased from $61.6 billion in fiscal year 2011 to $62.3 billion in fiscal year 2012, and personal income per capita increased from $16,611 in fiscal year 2011 to $16,934 in fiscal year 2012.

According to the Household Survey, the number of persons employed in Puerto Rico during fiscal year 2012 averaged 1,035,465, a decrease of 1.1% compared to the previous fiscal year; and the unemployment rate averaged 15.2%.

MAJOR INITIATIVES

Comprehensive Reform of Employees Retirement System

On April 4, 2013, the Governor signed into law Act 3 of 2013 (Act 3), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth of Puerto Rico (ERS), the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth's General Fund. The other two systems are the Puerto Rico System of Annuities and Pensions for Teachers (the "Teachers Retirement System") and the Commonwealth Judiciary Retirement System (the "Judiciary Retirement System").

The ERS situation was approached through Act 3, which became effective on July 1, 2013 ("Effective Date"). The Act establishes the following: (i) it freezes and grandfathers the benefits that have accrued through June 30, 2013 of those participants who are covered by the ERS's defined benefit formula (those who joined the ERS prior to January 1, 2000 whose retirement benefits accrued at a rate of 1.5% or 2% per year of creditable service) (the "Defined Benefit Employees"); (ii) it provides that, beginning on July 1, 2013, the retirement benefits accruing on and after the Effective Date for Defined Benefit Employees will be based on a defined contribution plan and will be paid out in the form of a lifetime annuity (upon retirement, the employee will receive the benefits accrued through June 30, 2013 based on the defined benefit formula plus the contributions made by the employee after June 30, 2013 in the form of a lifetime annuity); (iii) it provides that defined contribution benefits accrued pursuant to System 2000 will also be paid in the form of a lifetime annuity rather than a lump sum payment; (iv) it eliminates the so called "merit pension" that provided to participants who joined the Employees Retirement System prior to April 1, 1990, after attaining 30 years of service, a retirement benefit of 65% (if less than 55 years of age) or 75% (if age 55 or greater) of the average salary earned during the highest 36 months of employment; (v) it increases the retirement age for various groups of participants; (vi) it increases the employee contribution to the ERS from 8.275% to a minimum of 10%; (vii) it eliminates or reduces various retirement benefits previously granted by special laws and the System will benefit from the savings generated; (viii) it increases the minimum pension from $400 to $500 per month for current retirees; and (ix) it eliminates or modifies other benefits, such as disability and survivor benefits.

Absent the enactment of Act 3, it was anticipated that the assets of the ERS would be depleted by fiscal year 2019 and that the cash funding shortfall during the period between fiscal year 2019 and fiscal year 2043 would be, on average, $905 million per year, which the Commonwealth and the other employers would have been required to contribute. With the enactment of Act 3, and considering an additional annual contribution of $140 million for the next 20 years, (an appropriation which has been included in the proposed budget for fiscal year 2014 and signed into law by Act 32 of 2013), it is projected that the cash funding shortfall of the ERS will be eliminated.

The adoption of Act 3 was a critical step in addressing the financial condition of the ERS. Based on current census data, expectation of market conditions and other actuarial assumptions, the ERS's actuaries expect that the changes to the System instituted by Act 3, when taken together with an additional annual contribution of $140 million for the next 20 years, will be sufficient to cover the System's obligations now and in the long-term. Act 3 does not address the underfunding condition of the Teachers Retirement System or the Judiciary Retirement System, nor does it eliminate the need for the Commonwealth to make additional contributions to the ERS, as discussed above. The Commonwealth is evaluating alternatives for addressing the funding shortfall of the Teachers Retirement System.

Fiscal Stabilization

The current administration has sponsored various initiatives to seek fiscal balance, stimulate economic growth, and safeguard and strengthen the Commonwealth's investment grade credit rating. These include: 1) an initiative which resulted in $280 million in advance payments of non-resident withholding tax related to manufacturing patents, and 2) the transfer of $240 million in excess funds in the Redemption Fund to the General Fund. These and other measures have reduced the projected deficit for fiscal year 2013. In addition, the Government implemented a tax amnesty program, designed to increase revenues by encouraging taxpayers with older tax liabilities to pay them, and is considering additional measures such as the sale of tax accounts receivable to further reduce the deficit for the current fiscal year.

Comprehensive Tax Reform

Puerto Rico faces a fiscal crisis which requires an effective and thorough plan. The current situation shows a weak economic outlook, which is a reflection of a worldwide recession. At the same time, there is a progressive deterioration of fiscal matters of the Government. This deterioration affects the capacity of the General Fund to generate sufficient funds to comply with its obligations with the government retirees and the reduction of government expenditures, among others. It also affects the capacity of the Government of Puerto Rico to access the financial markets because of the high interest rates that the Government must pay based on its actual reality. This reality inhibits the Government's capacity to make public improvements, which constitutes a fundamental piece of the economic and social development of Puerto Rico. Therefore, there is a need to establish a structure that allows the addition of new revenues to the General Fund without overburdening the working class of the Commonwealth. The solutions that have been identified and the manner in which they will be applied will reflect the transparency with which this Administration will work from now on, in contrast with prior administrations. The plan which is detailed in Act No. 40 of June 30, 2013 includes the following amendments to several laws, regulations and Codes: 1) the Puerto Rico Insurance Code; 2) the Property Tax Law; 3) the Savings and Loans Cooperatives Law; 4) the Sales and Use Tax Financing Corporation (COFINA) Law, and 5) Several articles of the Internal Revenue Code of 2011. These amendments will be applied in a proportional, fair, integrated and responsible manner, to address: 1) the fiscal crisis of the Government of Puerto Rico; 2) the protection of the credit rating of the Government of Puerto Rico; 3) the constitutional responsibility of addressing the structural deficit of the Government of Puerto Rico, and 4) the addition of new revenues to the General Fund in order to serve as a catalyst for the economic growth.

Additional actions were decisively taken. Act No. 41 and the other Acts detailed below were approved on the same date. Act No. 41 establishes an increase to the cigarettes and other tobacco derivatives tax. This Act will impose an additional tax of eleven dollars and fifteen cents ($11.15) for every 100 cigarettes. Starting on July 1, 2013, the total tax will be sixteen dollars and fifteen cents ($16.15) for every 100 cigarettes. Starting on July 1, 2015 it will be seventeen dollars ($17.00).

On the other hand, Act No. 31, signed and approved on June 26, 2013, designates $20 million from the cigarettes and other tobacco derivatives tax to alleviate the deficit of the Puerto Rico Highways and Transportation Authority (Highways Authority) and $10 million to the Puerto Rico Metropolitan Bus Authority (Bus Authority). During the fiscal year which ended on June 30, 2012, the revenues related to such tax were $172 million in the General Fund. The estimated revenues related to the new tax should provide the General Fund $17 million of additional revenues when compared to fiscal year 2012, net of the $30 million transferred to the Highways Authority and the Bus Authority. In addition, and also to alleviate the deficit of the Highways Authority, pursuant to Act No. 30, approximately $62 million of vehicle license fees were transferred from the General Fund to the Highways Authority.

Act No. 31 also raised the tax on crude oil derivatives and partially elaborated oil products or refined oil derivatives products on $9.25 for each crude oil barrel. The tax was previously based on a price index scale. Additionally, this Act eliminates the ceiling of $120 million for this tax. The revenues obtained from this tax will be used to further alleviate the cash flow deficit of the Highways Authority, which as of June 30, 2012 was approximately $355 million. By approving this Act the new government does not have to impose an additional burden on the working class by imposing new taxes at the gas pump or vehicle licenses, and will also support the Highways Authority in repaying its debt with GDB, which represents roughly 24% of GDB's loans portfolio.

Furthermore, Act No. 48 increases the share of slot machines in casinos and restructures the manner in which its gains are distributed. It establishes as well a special tax of 1.5% for professional and consulting services rendered to a governmental entity, among others.

The rest of the Acts approved likewise address the fiscal crisis of the Commonwealth of Puerto Rico and include, among others, the creation of a budgetary support fund that will serve the needs of various agencies and will help pay legal claims and make public improvements and the creation of a fiscal reconstruction fund that will provide $245 million to help alleviate the current deficit.

The current Administration has come up against a reality of an unsuspected magnitude which has exposed a structural deficit of approximately $2,212 million composed of a financing deficit through COFINA of $332 million, the refinancing of debt of $775 million, actual expenditures over budget in several agencies amounting to $140 million and an insufficiency of net revenues of the General Fund of approximately $965 million as of January 31, 2013.

Economic Growth

In recent years, the Commonwealth has emphasized the following initiatives to enhance Puerto Rico's competitive position: (i) a program designed to stimulate the creation of jobs; (ii) overhauling the permitting process; (iii) reducing energy costs; (iv) reforming the tax system; (v) promoting the development of various projects through public-private partnerships; (vi) implementing strategic initiatives targeted at specific economic sectors, and (vii) promoting the development of certain strategic/regional projects.

Jobs Act

The Jobs Now Act was signed into law on February 10, 2013. It purports to create approximately 50,000 jobs within 18 months by eliminating certain hurdles that delay or impede the process of establishing or expanding businesses in Puerto Rico. It seeks to allow better access to capital, and also provides incentives under agreements between certain eligible businesses and the Government of Puerto Rico by means of the Puerto Rico Commerce and Exports Company. The benefits provided under the Act include, among others, partial reimbursement of salaries paid to certain persons previously unemployed, nominal rents on buildings owned by PRIDCO, two year property tax exemption for previously vacant buildings, preferential income tax rate for the first two years of operations, full municipal license tax and personal property tax exemption for first the two years of operation and extended carryover period for net operating losses incurred during the first two years of operations, as well as an energy credit per incremental job to be used against the electricity bill. The Act also provides for an expedited permitting process for establishing eligible businesses and orders the Economic Development Bank to both give priority to loan applications submitted by eligible businesses and to create programs to guarantee private financing to such eligible entities.

Energy Policy

In July of 2010, the Commonwealth enacted legislation focused on reducing Puerto Rico's dependence on fossil fuels, particularly oil, through the promotion of diverse renewable-energy technologies. This legislation seeks to lower energy costs, reduce energy-price volatility, and establish environmentally sustainable energy production through a reduction in ecologically harmful emissions. It creates a Renewable Portfolio Standard, recognizing many sources of renewable energy that utilize various technologies, and setting a hard target of 12% renewable energy production by 2015 and 15% by 2020, and a requirement for retail energy providers to establish a plan to reach 20% renewable energy production by 2035.

The legislation additionally provides incentives for the construction and use of renewable energy sources, and creates a Green Energy Fund through which the Commonwealth will co-invest $290 million in renewable energy projects over the next ten years. These initiatives are expected to address energy prices in Puerto Rico and provide a means for attracting investment in the energy sector.

Public-Private Partnerships

The current Administration believes that public private partnerships ("PPPs"), if well implemented, can represent an important tool for economic development provided that they always meet certain criteria to further the public interest in each project undertaken in this manner. PPPs are long-term contracts between government and non-governmental entities (such as private companies, credit unions, and municipal corporations) to develop, operate, manage or maximize infrastructure projects and/or government services. PPP contracts are centered on the concept of risk transfer, where the non-governmental partner takes on certain responsibilities and risks related to the development and/or operation of the project in exchange for certain benefits. PPPs can play an important role in restoring investment in infrastructure, improving the quality and the efficiency of important public services and bringing about economic growth. In the same manner, PPPs provide the opportunity for the government to lower project development costs, accelerate project development, reduce financial risk, create additional revenue sources, establish service quality metrics, re-direct government resources to focus on the implementation of public policy, improve the quality of infrastructure facilities and of services, as well as create jobs and attract new investment. Puerto Rico has opportunities for the establishment of PPPs in the areas of toll roads, public transit, airports and maritime ports, public schools, water provision, correctional facilities, and energy generation, among others. In that sense, Act No. 29 of 2009, through the Public-Private Partnerships Authority ("PPP Authority") it created, can represent an important vehicle to attain the aforementioned objectives. In the past few years, a limited number of projects were undertaken, which we briefly describe hereunder.

In an effort to modernize public school facilities throughout the island and to trigger improved academic performance, the PPP Authority launched a program in a selected number of public schools throughout Puerto Rico. The program was expected to impact nearly 50,000 students, 2,000 teachers and various communities and create 14,000 jobs throughout Puerto Rico. The Government funded this project with the proceeds of Qualified School Construction Bonds (QSCB) issued by the Public Buildings Authority in the aggregate principal amount of $756 million.

The PPP strategy was also applied to address certain challenges faced by the Puerto Rico Ports Authority. On August 8, 2011, the PPP Authority and the Puerto Rico Ports Authority ("Ports Authority") received statements of qualifications from twelve (12) world-class consortia in response to the Request for Qualifications (RFQ) to grant a concession for financing, operation, maintenance and improvement of the Luis Muñoz Marín International Airport ("Airport"), the busiest airport in the Caribbean. The primary objectives of the PPP Authority and the Ports Authority were: (i) maximizing the upfront value for the Airport; (ii) improving the Airport's safety standards, service levels and quality; (iii) maintaining and improving the quality of service to travelers as well as achieving a higher level of customer satisfaction, and (iv) creating a world-class gateway to Puerto Rico while increasing the Island's profile as a destination in the Caribbean, in order to positively impact the development of the tourism industry and overall economic prospects in Puerto Rico. On July 17, 2012 the PPP Authority and the Ports Authority selected Aerostar Airport Holdings, LLC, a partnership formed by between "Grupo Aeropuertuario de Sureste" S.A.B. de C.V. ("ASUR") and Highstar Capital IV, as the winning proponent based on an upfront payment of $615 million. On July 24, 2012, the parties executed the lease agreement for the Airport and, on February 27, 2013, the parties successfully completed the financial closing. As a result of this transaction, on February 27, 2013, the Ports Authority received a lump-sum payment of $615 million and will receive an estimated $552 million in revenue sharing over the life of the lease. It is estimated that Aerostar will invest $1.4 billion in the Airport during the life of the lease, including a commitment to invest approximately $267 million in immediate improvements and comply with world-class operating standards.

The PPP Authority is currently evaluating projects for the development and construction of new infrastructure facilities. These projects include a rail transportation system from Caguas to San Juan and the extension of the PR-22 Highway from Hatillo to Aguadilla, among others.

FINANCIAL CONDITION

The MD&A, which can be found immediately following the independent auditors' report, provides an overview of the 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.

OTHER INFORMATION

Acknowledgements

The preparation of this report required the collective efforts, cooperation and support of numerous accounting and finance officials throughout the Commonwealth. Their dedicated efforts are sincerely appreciated.

The report could not have been accomplished without the professionalism and dedication of Jayson O. Padilla Morales, as well as the rest of the personnel of the Central Government Accounting Area, and Jorge Clivillés and Denisse Rodríguez from GDB, among other officials. This report reflects their collective efforts and is issued in compliance with the highest standards of financial accountability.

Respectfully submitted,

Melba Acosta Febo, CPA, Esq.
Secretary of the Treasury

COMMONWEALTH OF PUERTO RICO

PRINCIPAL OFFICIALS

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Governor

Members of the Cabinet

Ingrid M. Vila Biaggi
Chief of Staff

David E. Bernier Rivera
Secretary of State

Luis Sánchez Betances
Secretary of Justice

Melba I. Acosta Febo
Secretary of the Treasury

Rafael Román Meléndez
Secretary of Education

Vance Thomas Rider
Secretary of Labor and Human Resources

Ana C. Rius Armendariz
Acting Secretary of Health

Myrna Comas Pagán
Secretary of Agriculture

Miguel Torres Díaz
Secretary of Transportation and Public Works

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Secretary of Family Affairs

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Nery E. Adames Soto
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José R. Negrón Fernández
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Jaime Perelló Borrás
Speaker, House of Representatives

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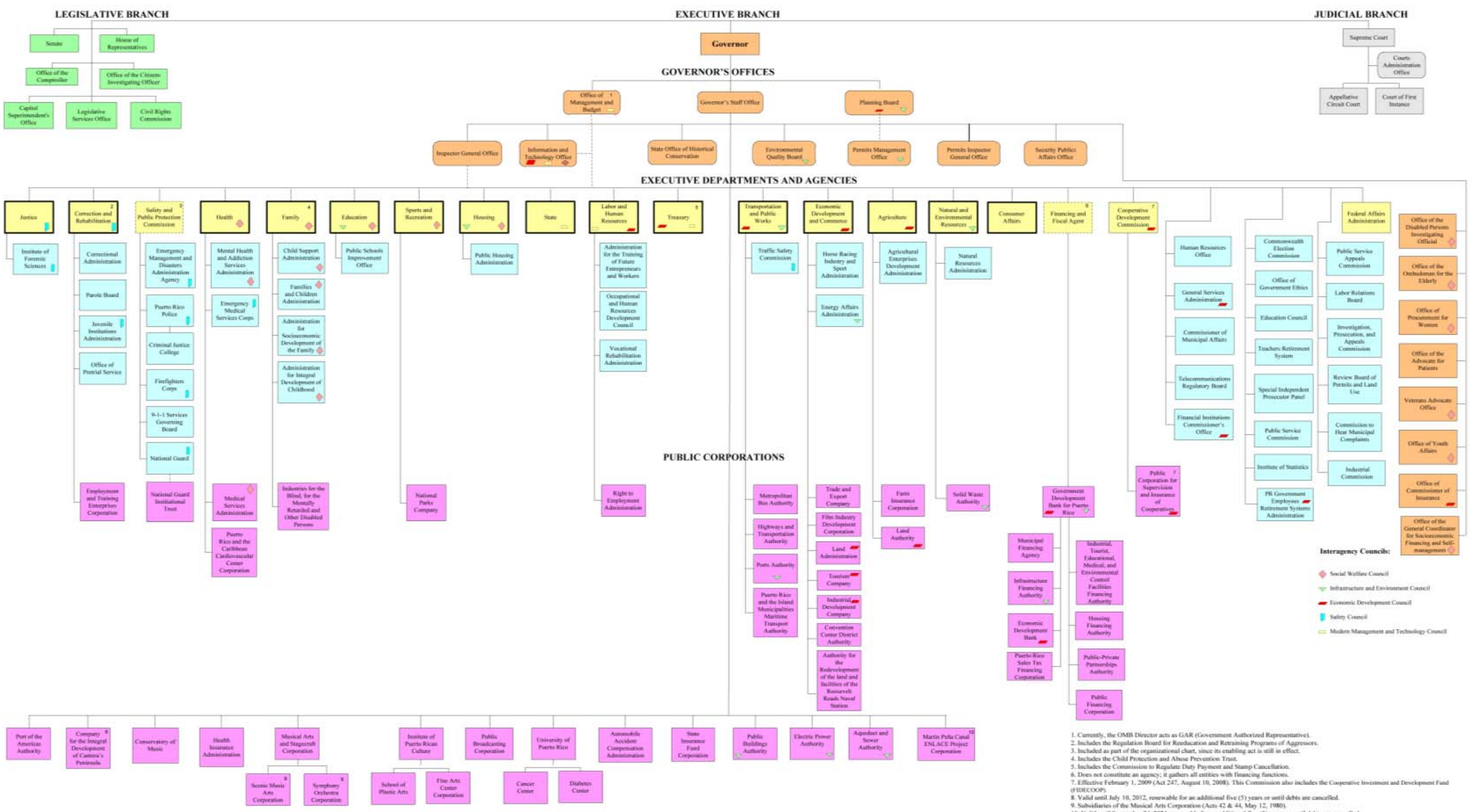
Carlos Rivas Quiñones
Director, Office of Management and Budget

José Pagán Beauchamp
Acting President, Government Development Bank for Puerto Rico

GOVERNMENT OF PUERTO RICO
FUNCTIONAL ORGANIZATIONAL STRUCTURE



1. Currently, the OMB Director acts as GAR (Government Authorized Representative).
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 June/2011

FINANCIAL SECTION

Deloitte.

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

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico (the "Commonwealth"), as of and for the year ended June 30, 2012, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following activities, funds, and component units:

- Puerto Rico Public Housing Administration, Labor Development Administration, 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 18% and 3%, respectively, of the assets and revenues of the governmental activities and 29% and 4%, respectively, of the assets and revenues of the general fund;

- The Unemployment Insurance Fund, which is both a major fund and 36% and 38%, respectively, of the assets and revenues of the business-type activities. The Additional Lottery System, which represents 68% and 50%, respectively, of the assets and revenues of the lotteries fund and 10% and 28%, respectively, of the assets and revenues of the business-type activities. The Disability Insurance Fund, the Drivers' Insurance Fund, the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, which represent 54% and 5%, respectively, of the assets and revenues of the business-type activities and 7% and 4%, respectively, of the assets and revenues of the aggregate remaining fund information;

- Public Buildings Authority special revenue, debt service, and capital project funds; The Children's Trust special revenue and debt service funds; and the Puerto Rico Maritime Shipping Authority debt service fund, which collectively represent 9% and .28%, respectively, of the assets and revenues of the governmental activities and 13% and 3%, respectively, of the assets and revenues of the aggregate remaining fund information;

- Entities identified in note 2 that are presented as discretely presented component units, which collectively represent 72% and 92%, 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 opinions, insofar as they relate to the amounts included for the activities, funds, and component units indicated above, are 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 opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 20 to the basic financial statements, the Pension Trust Funds' unfunded actuarial accrued liability and funded ratio as of June 30, 2012, were approximately $37,017 million and 8.4%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the net assets of 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 be exhausted by the fiscal years 2015, 2019, and 2021, respectively, if measures are not implemented to reduce the unfunded actuarial accrued liability and increase the funded ratio of the Pension Trust Funds. Management's plans concerning this matter are also described in Note 20.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 20 through 33 and the schedules of funding progress on pages 240 and 241 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Deloitte & Touche LLP

September 16, 2013

Stamp No. E85052
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The following is a narrative overview and analysis of the financial activities of the Commonwealth of Puerto Rico (the “Commonwealth” or the “Government”) for the fiscal year ended June 30, 2012. The management discussion and analysis (“MD&A”) is intended to serve as an introduction to the basic financial statements, which have the following components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the Commonwealth’s financial activities; (c) identify any material changes from the original budget; and (d) highlight individual fund matters. We encourage readers to review this information in conjunction with the Letter of Transmittal, which is located in the Introductory Section of this report, and the Commonwealth’s basic financial statements, including the notes to the financial statements, which are located after this analysis.

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 tax, sales and use tax, and excise tax. Revenues from non-Puerto Rico sources are derived from federal excise taxes and customs duties returned to the Commonwealth. The major source of revenue from the component units are charges for services.

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

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

[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 of inquiries of management about about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge they obtained during the audit of the basic financial statements. Therefore, the independent auditors did not audit such information and did not express an opinion nor provide any assurance on it.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-Wide Financial Statements

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

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

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

Both of the above financial statements have the following columns:

- ***Governmental Activities*** — These activities 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 activities normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business type activities of the Commonwealth include the operations of the following major funds: Unemployment Insurance Trust Fund (administered by the Commonwealth's Employment Security Bureau) and the Lotteries Fund.

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

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 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. The three categories of funds are the following:

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

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

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

  The remaining non-major 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.

- ***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 Fund; and (ii) the Lotteries Fund, which includes the Lottery of Puerto Rico and the Additional Lottery System. Other non-major 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 financial statements can be found immediately following the proprietary funds financial statements.

Component Units Financial Statements

Component units are legally separate entities, for which the Commonwealth has financial accountability, but they have certain independent qualities as well. 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 non-major component units in aggregate. The combining financial statements for major component units can be found immediately following the fiduciary funds financial statements.

Notes to Basic Financial Statements

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

Required Supplementary Information and Supplementary Information

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

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, 2012 amounted to $16.3 billion and $55.3 billion, respectively, for a net deficit of $39 billion, compared to a $33.7 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. The Commonwealth uses these capital assets to provide services to its residents.

An additional portion of the Commonwealth's net assets (deficit) represents resources that are subject to external restrictions on how they may be used. Internally imposed designations of resources are not presented as restricted net assets.

COMMONWEALTH'S NET ASSETS (DEFICIT) — PRIMARY GOVERNMENT
JUNE 30, 2012
(Expressed in thousands)

	Governmental Activities	Business-Type Activities	Total
Current assets	$ 2,825,114	$ 743,508	$ 3,568,622
Capital assets	8,145,800	1,726	8,147,526
Other assets	4,077,364	531,089	4,608,453
Total assets	15,048,278	1,276,323	16,324,601
Current liabilities	5,568,739	164,458	5,733,197
Noncurrent liabilities	49,480,175	148,615	49,628,790
Total liabilities	55,048,914	313,073	55,361,987
Invested in capital assets, net of related debt	3,473,838	1,726	3,475,564
Restricted	2,273,099	950,753	3,223,852
Unrestricted	(45,747,573)	10,771	(45,736,802)
Total net assets (deficit)	$ (40,000,636)	$ 963,250	$ (39,037,386)

COMMONWEALTH'S NET ASSETS (DEFICIT) — PRIMARY GOVERNMENT

JUNE 30, 2011

(Expressed in thousands)

	Governmental Activities	Business-Type Activities	Total
Current assets	$ 3,264,534	$ 584,140	$ 3,848,674
Capital assets	7,766,886	1,660	7,768,546
Other assets	2,935,147	594,001	3,529,148
Total assets	13,966,567	1,179,801	15,146,368
Current liabilities	4,611,611	183,693	4,795,304
Noncurrent liabilities	43,864,091	165,882	44,029,973
Total liabilities	48,475,702	349,575	48,825,277
Invested in capital assets, net of related debt	3,691,871	1,660	3,693,531
Restricted	1,495,558	840,241	2,335,799
Unrestricted	(39,696,564)	(11,675)	(39,708,239)
Total net assets (deficit)	$ (34,509,135)	$ 830,226	$ (33,678,909)

Changes in Net Assets (Deficit)

The Commonwealth's net deficit increased by $5.4 billion or 16% from last year's total net deficit, as restated. Approximately 47.2% of the Commonwealth's total revenue came from taxes, while 41.5% resulted from grants and contributions (primarily federal financial assistance). Charges for services provided represented 10.5% 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 6.2% when compared with prior fiscal year. In 2012, governmental activities' expenses exceeded program revenue by $13.9 billion, resulting in the use of $8.4 billion of general revenue (mostly taxes and transfers). On the other hand, program revenue from business-type activities in fiscal year 2012 exceeded expenses by approximately $340.8 million.

Governmental activities increased the Commonwealth's net deficit by $5.5 billion, while business-type activities decreased the Commonwealth's net deficit by $133 million.

COMMONWEALTH OF PUERTO RICO
CHANGES IN NET ASSETS (DEFICIT) — PRIMARY GOVERNMENT
YEAR ENDED JUNE 30, 2012
(Expressed in thousands)

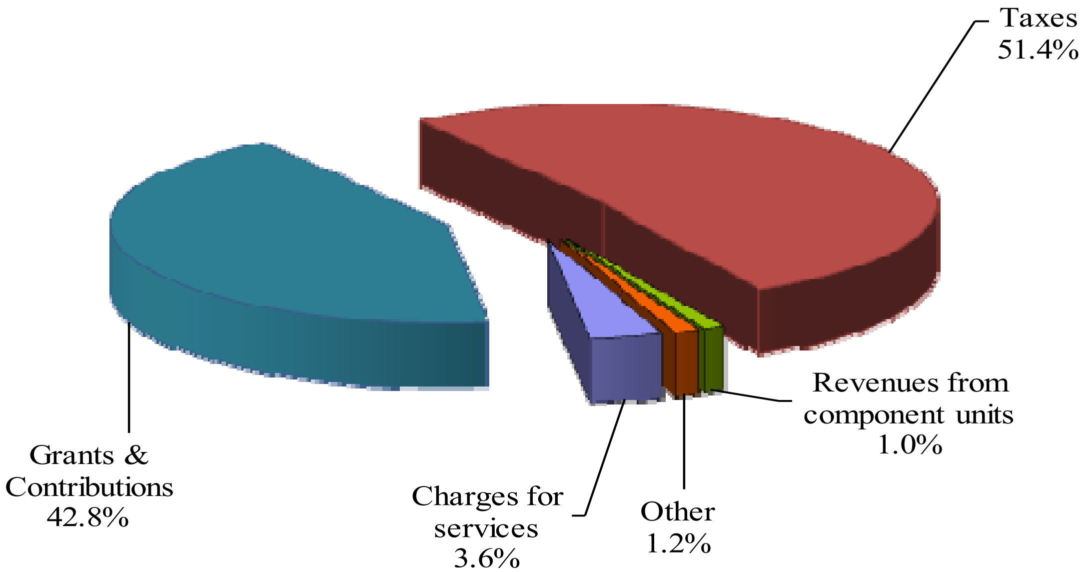
	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	$ 560,313	$ 1,219,769	$ 1,780,082
Operating grants and contributions	6,531,687	364,219	6,895,906
Capital grants and contributions	152,591	-	152,591
	7,244,591	1,583,988	8,828,579
General revenues:			
Income taxes	4,037,400	-	4,037,400
Sales and use tax	1,144,659	-	1,144,659
Excise taxes	2,695,543	-	2,695,543
Other taxes	151,102	-	151,102
Revenues from component units	158,064	-	158,064
Other, including loss on investments	(34,513)	12,029	(22,484)
	8,152,255	12,029	8,164,284
Total revenues	15,396,846	1,596,017	16,992,863
Expenses:			
General government	3,989,149	-	3,989,149
Public safety	2,227,507	-	2,227,507
Health	2,926,901	-	2,926,901
Public housing and welfare	3,658,873	-	3,658,873
Education	4,729,574	-	4,729,574
Economic develoment	785,918	-	785,918
Payment of obligations of component units	458,207	-	458,207
Intergovernmental	374,127	-	374,127
Interest and other	1,957,885	-	1,957,885
Lotteries	-	722,620	722,620
Unemployment	-	486,342	486,342
Non-major proprietary funds	-	34,237	34,237
Total expenses	21,108,141	1,243,199	22,351,340
Increase (decrease) in net assets before transfers	(5,711,295)	352,818	(5,358,477)
Transfers	219,794	(219,794)	-
Change in net assets (deficit)	(5,491,501)	133,024	(5,358,477)
Net assets (deficit), beginning of year (as restated)	(34,509,135)	830,226	(33,678,909)
Net assets (deficit), end of year	$ (40,000,636)	$ 963,250	$ (39,037,386)

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

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	$ 632,005	$ 1,192,724	$ 1,824,729
Operating grants and contributions	6,006,310	450,689	6,456,999
Capital grants and contributions	457,725	-	457,725
	7,096,040	1,643,413	8,739,453
General revenues:			
Income taxes	4,726,036	-	4,726,036
Sales and use tax	1,129,006	-	1,129,006
Excise taxes	2,106,784	-	2,106,784
Other taxes	317,292	-	317,292
Revenues from component units	84,610	-	84,610
Other	305,425	17,900	323,325
	8,669,153	17,900	8,687,053
Total revenues	15,765,193	1,661,313	17,426,506
Expenses:			
General government	2,881,548	-	2,881,548
Public safety	2,205,782	-	2,205,782
Health	3,022,000	-	3,022,000
Public housing and welfare	3,937,901	-	3,937,901
Education	4,469,337	-	4,469,337
Economic develoment	517,921	-	517,921
Payment of obligations of component units	6,411	-	6,411
Intergovernmental	430,941	-	430,941
Interest and other	1,807,230	40,044	1,847,274
Lotteries	-	697,746	697,746
Unemployment	-	635,145	635,145
Total expenses	19,279,071	1,372,935	20,652,006
Increase (decrease) in net assets before transfers	(3,513,878)	288,378	(3,225,500)
Transfers	230,551	(230,551)	-
Change in net assets (deficit)	(3,283,327)	57,827	(3,225,500)
Net assets (deficit), beginning of year	(31,225,808)	772,399	(30,453,409)
Net assets (deficit), end of year	$ (34,509,135)	$ 830,226	$ (33,678,909)

Revenues and Transfers— Governmental Activities

Year ended June 30, 2012



Governmental Activities

Governmental activities increased the Commonwealth's net deficit by $5.5 billion. A comparison of the cost of services by function for the Commonwealth's governmental activities is shown below, along with the revenue used to cover the net expenses of the governmental activities.

COMMONWEALTH'S GOVERNMENTAL ACTIVITIES
EXPENSES NET OF PROGRAM REVENUE
YEAR ENDED JUNE 30, 2012
(Expressed in thousands)

Net expense:	
General government	$ (3,478,005)
Public safety	(2,105,144)
Health	(1,075,344)
Public housing and welfare	(504,965)
Education	(3,347,851)
Economic development	(705,101)
Payment of obligations of component units	(458,207)
Intergovernmental	(231,048)
Interest and other	(1,957,885)
Total governmental activities expenses, net of program revenue	(13,863,550)
General revenues:	
Taxes	8,028,704
Revenues from component units	158,064
Transfers from business-type activities	219,794
Other, including loss on investments	(34,513)
Total governmental activities general revenue	8,372,049
Increase in governmental activities net deficit	$ (5,491,501)

Business-Type Activities

The business-type activities decreased the Commonwealth's net deficit by $133 million.

GOVERNMENTAL FUNDS

The focus of the Commonwealth's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2012, the Commonwealth's governmental funds reported combined ending fund balance of $1.5 billion. In fiscal year 2012, the expenditures exceeded the revenues by $5.2 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 $1.4 billion compared with the prior year. Other financing sources increased by $2.3 billion compared to prior year.

During fiscal year 2012, there was an increase in General Fund total revenues, which is mainly due to an increase of $589 million in excise taxes prompted principally by the temporary excise tax imposed on certain foreign persons by Act No. 154 and $652 million in intergovernmental revenue. This increase was partially offset by a decrease of $681 million and $175 million in collections from income tax on individuals and property taxes, respectively. The decrease in individual income taxes is due to the tax relief provided to individual taxpayers as part of the tax reform and to current economic conditions. The Government expected that the decrease in General Fund net revenues as a result of the tax relief provided to individual taxpayers as part of the tax reform would be offset principally by the temporary excise tax imposed on certain foreign persons by Act No. 154. For fiscal year 2012, the excise tax payments amounted to $2.7 billion. Expenditures for fiscal year 2012 were approximately $9.9 billion, which represented an increase of approximately $831 million or 9.2% of original budgeted expenditures and exceeded total General Fund revenues (excluding other financing sources) by $1.3 billion, or 15.6%. The excess of total expenditures over total General Fund revenues (excluding other financing sources) is referred to herein as the "deficit" and was covered principally by proceeds from a COFINA bond issuance and proceeds from bonds issued to refinance debt service payments.

The general fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, the total general fund balance had a total deficit of $1,107 million. The fund's deficit of the Commonwealth's general fund increased by $856.2 million as a result of the current fiscal year's change in financial position. This is a 342% increase when compared to total general fund deficit reported in fiscal year 2011.

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 $314.8 million when compared to prior fiscal year. Bonds and interest payable increased by $93.2 million compared with prior year.

PROPRIETARY FUNDS

The Commonwealth's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The Commonwealth's net assets of the business-type activities increased by $133 million as a result of operations in the proprietary funds. This resulted from an increase in net assets of $54.8 million by the unemployment insurance fund, $22.3 million in the lotteries fund and $55.9 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, 2012 amounts to $11.9 billion, less accumulated depreciation and amortization of $3.8 billion, leaving a book value of $8.1 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, 2012 is distributed by function/activity in the following proportions: general government, 44%; public safety, 5%; health, 1%; public housing and welfare, 32%; education, 5%; and economic development, 13%. Capital outlays were approximately $558.4 million for the fiscal year. During the year ended June 30, 2012, PRIFA also transferred completed construction projects amounting to approximately $144.6 million to PBA. Depreciation and amortization charges for the fiscal year totaled $294 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, 2012
(Expressed in thousands)

	Governmental Activities	Business-Type Activities
Land	$ 878,881	$ -
Construction in progress	1,487,071	-
Buildings and building improvements, net	5,124,347	-
Equipment, furniture, fixtures, vehicles and software, net	193,535	1,726
Infrastructure, net	461,966	-
Total capital assets	$ 8,145,800	$ 1,726

Debt Administration

Total long-term obligations of the primary government as of June 30, 2012 were $51.7 billion, of which $2.0 billion are due within one year. Long-term obligations of the primary government increased by $5.9 billion, or 13%, when compared to the prior fiscal year.

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, 2012, the Commonwealth is in compliance with the debt limitation requirement.

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

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

The Commonwealth's general obligation and appropriation debt is currently rated "Baa3" with a negative outlook by Moody's, "BBB-" with a negative outlook by Fitch, and "BBB-" with a negative outlook by S&P.

Additional information on the Commonwealth's long term debt can be found in Note 15 to the basic financial statements that accompany this report.

General Fund Budgetary Highlights

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 US 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.

Total General Fund actual revenues on a budget basis (sources) for fiscal year 2012 was $8.6 billion, (excluding other financing source) representing an increase of approximately $51.5 million, or 6%, from original budgeted revenues and an increase of approximately $579 million from actual revenues of $7.9 billion for fiscal year 2011.

Total actual expenditures on a budget basis of $9.9 billion represented an increase of $836 million when compared with fiscal year 2011.

For fiscal year 2012, the actual budgetary deficit in the General Fund was $1.3 billion, consisting of the difference between total recurring revenues of $8.6 billion and total expenditures for such fiscal year of $9.9 billion. For fiscal year 2011, the deficit was $1.1 billion, consisting of the difference between total recurring revenues of $8 billion and total expenditures for such fiscal year of $9.1 billion. The deficits for fiscal years 2012 increased by 23% when compared to 2011 and decreased by 47% when compared to the deficit in 2010. The Government's ability to continue reducing the deficit will depend in part on its ability to continue increasing revenues and reducing expenditures, which in turn depends on a number of factors, including improvements in general economic conditions.

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.

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, 2012
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Totals Primary Government	Component Units
ASSETS:				
Cash and cash equivalents in commercial banks	$ 394,060	$ 48,424	$ 442,484	$ 1,682,465
Cash and cash equivalents in governmental banks	392,320	90,145	482,465	556,912
Investments	23,268	-	23,268	1,514,530
Collateral from securities lending transactions	-	-	-	112,060
Receivables — net of allowance for uncollectibles:				
Income and excise taxes	1,232,925	-	1,232,925	-
Sales and use tax	102,879	-	102,879	-
Unemployment and other insurance premiums	-	4,299	4,299	46,199
Intergovernmental	344,500	-	344,500	53,029
Accounts	88,814	-	88,814	1,065,885
Loans	77,128	-	77,128	4,542,078
Accrued interest	40,110	90	40,200	160,421
Other governmental entities	-	-	-	449,821
Other	41,746	9,487	51,233	34,804
Due from:				
Primary government	-	-	-	365,008
Component units — net of allowance for doubtful accounts amounting to $47.6 million in Governmental Activities	67,599	-	67,599	351,151
Other governmental entities	22,984	-	22,984	-
Internal balances	(37,077)	37,077	-	-
Inventories	10,743	-	10,743	468,265
Prepaid expenses	10,299	-	10,299	53,695
Other assets	12,816	-	12,816	-
Restricted assets:				
Cash and cash equivalents in commercial banks	1,047,252	2,392	1,049,644	1,609,710
Cash and cash equivalents in governmental banks	1,386,384	111,197	1,497,581	545,081
Cash and cash equivalents in U.S. Treasury	-	382,883	382,883	-
Unemployment and other insurance premiums	-	68,582	68,582	-
Intergovernmental	-	71	71	-
Accrued interest	-	2,164	2,164	-
Receivables	-	4,608	4,608	-
Loans receivable from component units	-	450,044	450,044	-
Investments	1,077,601	34,538	1,112,139	5,129,887
Other	19,940	1,130	21,070	232,407
Long-term investments	-	-	-	5,641,741
Long-term receivables from:				
Loans	-	-	-	147,599
Other governmental entities	-	-	-	98,496
Other	-	-	-	109,706
Long-term amounts due from:				
Primary government	-	-	-	269,294
Component units	-	-	-	3,777,981
Real estate held for sale or future development	47,689	-	47,689	266,295
Capital assets:				
Land and other nondepreciable assets	2,365,952	-	2,365,952	7,026,540
Other capital assets — net of depreciation or amortization	5,779,848	1,726	5,781,574	23,414,007
Deferred outflows of resources	152,767	-	152,767	136,771
Deferred expenses and other assets	345,731	27,466	373,197	442,259
TOTAL ASSETS	15,048,278	1,276,323	16,324,601	60,304,097

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total Primary Government	Component Units
LIABILITIES:				
Accounts payable and accrued liabilities	838,574	12,952	851,526	2,380,686
Deposits and escrow liabilities	-	-	-	6,943,361
Tax refunds payable	851,750	-	851,750	-
Due to:				
Primary government	-	-	-	114,884
Component units	603,309	-	603,309	560,200
Other governmental entities	7,448	47	7,495	324,385
Securities lending transactions and reverse repurchase agreements	-	-	-	1,101,469
Interest payable	716,597	-	716,597	610,206
Deferred revenue	319,604	25,284	344,888	140,943
Insurance benefits payable	-	72,994	72,994	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	559,294
Termination benefits payable	3,563	-	3,563	-
Bond anticipation notes payable	75,835	-	75,835	-
Due to primary government — long-term portion	-	-	-	450,392
Due to component units — long-term portion	-	-	-	3,568,932
Due to other governmental entities — long-term portion	-	-	-	113,528
Securities lending transactions and reverse repurchase agreements — long-term portion	-	-	-	19,000
Deferred revenue — long-term portion	-	-	-	1,095,940
Liability for automobile accident insurance, workmen compensation and medical claims — long-term portion	-	-	-	631,031
Hedging derivative instruments — interest rate swaps	152,767	-	152,767	336,084
Investment derivative instruments — interest rate swaps	72,206	-	72,206	-
Liabilities payable within one year:				
Bonds	468,485	-	468,485	1,075,028
Notes	132,619	-	132,619	1,209,468
Capital leases	9,500	-	9,500	755
Compensated absences	679,649	2,711	682,360	205,165
Lottery prizes	-	49,883	49,883	-
Voluntary termination benefits payable	63,918	587	64,505	24,323
Other long-term liabilities	572,915	-	572,915	85,830
Liabilities payable after one year:				
Commonwealth appropriation bonds	532,911	-	532,911	511,523
Bonds	32,723,509	-	32,723,509	21,751,281
Notes	1,500,183	-	1,500,183	6,351,334
Capital leases	214,935	-	214,935	30,128
Net pension obligation	11,158,801	-	11,158,801	-
Net postemployment benefit obligation	215,244	-	215,244	-
Compensated absences	696,321	2,257	698,578	371,152
Lottery prizes	-	141,703	141,703	-
Voluntary termination benefits payable	589,607	4,655	594,262	179,431
Other long-term liabilities	1,848,664	-	1,848,664	654,646
Total liabilities	55,048,914	313,073	55,361,987	51,400,399
NET ASSETS (DEFICIT):				
Invested in capital assets — net of related debt	3,473,838	1,726	3,475,564	8,239,104
Restricted for:				
Trust — nonexpendable	-	-	-	256,932
Capital projects	-	-	-	230,229
Debt service	2,053,235	-	2,053,235	1,004,582
Lending activities	-	564,875	564,875	-
Payment of insurance benefits	-	385,878	385,878	-
Affordable housing and related loan insurance programs	3,094	-	3,094	324,971
Student loans and other educational purposes	-	-	-	97,597
Net assets in liquidation	24,607	-	24,607	-
Other	192,163	-	192,163	153,753
Unrestricted net assets (deficit)	(45,747,573)	10,771	(45,736,802)	(1,403,470)
TOTAL NET ASSETS (DEFICIT)	$ (40,000,636)	$963,250	$ (39,037,386)	$ 8,903,698

See accompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(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	$ 3,989,149	$ 250,185	$ 260,959	$ -	$ -	$ (3,478,005)	$ -	$ (3,478,005)	$ -
Public safety	2,227,507	51,725	70,638	-	-	(2,105,144)	-	(2,105,144)	-
Health	2,926,901	142,808	1,708,749	-	-	(1,075,344)	-	(1,075,344)	-
Public housing and welfare	3,658,873	44,755	2,956,562	-	152,591	(504,965)	-	(504,965)	-
Education	4,729,574	1,542	1,380,181	-	-	(3,347,851)	-	(3,347,851)	-
Economic development	785,918	69,298	11,519	-	-	(705,101)	-	(705,101)	-
Payment of obligations of component units	458,207	-	-	-	-	(458,207)	-	(458,207)	-
Intergovernmental	374,127	-	143,079	-	-	(231,048)	-	(231,048)	-
Interest and other	1,957,885	-	-	-	-	(1,957,885)	-	(1,957,885)	-
Total governmental activities	21,108,141	560,313	6,531,687	-	152,591	(13,863,550)	-	(13,863,550)	-
Business-type activities:									
Unemployment insurance	486,342	281,763	306,604	-	-	-	102,025	102,025	-
Lotteries	722,620	909,893	-	-	-	-	187,273	187,273	-
Nonmajor proprietary funds	34,237	28,113	57,615	-	-	-	51,491	51,491	-
Total business-type activities	1,243,199	1,219,769	364,219	-	-	-	340,789	340,789	-
TOTAL PRIMARY GOVERNMENT	$22,351,340	$1,780,082	$6,895,906	$ -	$152,591	$ (13,863,550)	$340,789	$ (13,522,761)	$ -

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(In thousands)

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Earnings on Investments	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets (Deficit) — Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units
COMPONENT UNITS:									
Government Development Bank for Puerto Rico	$ 1,016,155	$ 776,157	$ 177,001	$ -	$ -	$ -	$ -	$ -	$ (62,997)
Puerto Rico Highways and Transportation Authority	1,268,088	232,137	-	-	306,518	-	-	-	(729,433)
Puerto Rico Electric Power Authority	5,454,523	5,046,494	-	-	37,494	-	-	-	(370,535)
Puerto Rico Aqueduct and Sewer Authority	1,131,699	742,891	-	-	48,327	-	-	-	(340,481)
University of Puerto Rico	1,398,103	236,224	187,989	465	-	-	-	-	(973,425)
Puerto Rico Health Insurance Administration	2,182,012	1,360,124	-	-	-	-	-	-	(821,888)
Nonmajor component units	2,794,012	1,688,354	51,941	91,710	18,826	-	-	-	(943,181)
TOTAL COMPONENT UNITS	$15,244,592	$ 10,082,381	$ 416,931	$92,175	$411,165	-	-	-	(4,241,940)
GENERAL REVENUES:									
Taxes:									
Income taxes						4,037,400	-	4,037,400	-
Sales and use tax						1,144,659	-	1,144,659	-
Excise taxes						2,695,543	-	2,695,543	318,310
Other taxes						151,102	-	151,102	-
Revenue from global tobacco settlement agreement						72,491	-	72,491	-
Revenue from State Insurance Fund Corporation						51,342	-	51,342	-
Revenue from Puerto Rico Tourism Company						23,631	-	23,631	-
Revenue from Governing Board of 9-1-1 Services						10,600	-	10,600	-
Grants and contributions not restricted to specific programs						-	-	-	179,408
Payments from primary government						-	-	-	2,738,213
Unrestricted investment earnings — net						(191,479)	12,029	(179,450)	241,597
Other						156,966	-	156,966	181,074
Transfers						219,794	(219,794)	-	-
Total general revenues and transfers						8,372,049	(207,765)	8,164,284	3,658,602
CHANGE IN NET ASSETS (DEFICIT)						(5,491,501)	133,024	(5,358,477)	(583,338)
NET ASSETS (DEFICIT) — Beginning of year (as restated) (Note 4)						(34,509,135)	830,226	(33,678,909)	9,487,036
NET ASSETS (DEFICIT) — End of year						$ (40,000,636)	$ 963,250	$ (39,037,386)	$ 8,903,698

See accompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2012
(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	$ 271,631	$ -	$ -	$ -	$ -	$ 122,429	$ 394,060
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	128,129	-	242,028	-	-	22,163	392,320
INVESTMENTS	-	-	-	-	-	23,268	23,268
RECEIVABLES:							
Income and excise taxes	1,232,925	-	-	-	-	-	1,232,925
Sales and use tax	-	102,879	-	-	-	-	102,879
Intergovernmental	312,258	-	32,242	-	-	-	344,500
Accounts	88,143	-	-	-	-	671	88,814
Loans	77,089	-	-	-	-	39	77,128
Accrued interest	39,108	-	559	-	-	443	40,110
Other	5	-	-	-	-	41,741	41,746
DUE FROM:							
Other funds	50,297	-	-	-	102,879	51,658	204,834
Component units	28,978	-	-	-	-	38,621	67,599
Other governmental entities	137	-	-	-	-	22,847	22,984
OTHER ASSETS	11,965	-	-	-	-	851	12,816
RESTRICTED ASSETS:							
Cash and cash equivalents in commercial banks	199,398	-	137	-	5	847,712	1,047,252
Cash and cash equivalents in governmental banks	168,439	-	902,553	5,394	20,070	289,928	1,386,384
Investments	325,374	-	-	51,674	590,098	110,455	1,077,601
Due from other funds	-	-	-	-	-	13,596	13,596
Other assets	19,200	-	-	-	740	-	19,940
REAL ESTATE HELD FOR SALE OR FUTURE DEVELOPMENT	42,752	-	-	-	-	4,937	47,689
TOTAL ASSETS	$ 2,995,828	$ 102,879	$ 1,177,519	$ 57,068	$ 713,792	$ 1,591,359	$ 6,638,445

(Continued)

COMMONWEALTH OF PUERTO RICO

BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2012
(In thousands)

	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
LIABILITIES AND FUND BALANCES (DEFICIT)							
LIABILITIES:							
Accounts payable and accrued liabilities	$ 777,686	$ -	$ -	$ 37	$ -	$ 57,431	$ 835,154
Tax refunds payable	851,750	-	-	-	-	-	851,750
Due to:							
Other funds	150,944	102,879	-	-	-	1,684	255,507
Other governmental entities	7,448	-	-	-	-	-	7,448
Component units	420,742	-	-	-	-	2,924	423,666
Notes payable	16,884	-	-	-	-	-	16,884
Bond anticipation notes payable	-	-	-	-	-	75,835	75,835
Bonds payable	-	-	346,460	-	-	78,580	425,040
Interest payable	165,614	-	220,616	-	-	96,853	483,083
Deferred revenue	1,270,709	-	-	-	-	75,655	1,346,364
Termination benefits payable	3,563	-	-	-	-	-	3,563
Other liabilities	437,044	-	-	-	-	-	437,044
Total liabilities	4,102,384	102,879	567,076	37	-	388,962	5,161,338
FUND BALANCES (DEFICIT):							
Nonspendable	94,559	-	-	-	-	-	94,559
Spendable:							
Restricted	181,133	-	335,614	57,031	713,792	999,125	2,286,695
Committed	633,659	-	274,829	-	-	35,922	944,410
Assigned	22,056	-	-	-	-	165,742	187,798
Unassigned	(2,037,963)	-	-	-	-	1,608	(2,036,355)
Total fund balances (deficit)	(1,106,556)	-	610,443	57,031	713,792	1,202,397	1,477,107
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	$ 2,995,828	$ 102,879	$ 1,177,519	$ 57,068	$ 713,792	$ 1,591,359	$ 6,638,445

See accompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

TOTAL FUND BALANCE OF GOVERNMENTAL FUNDS	$ 1,477,107
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)	21,042
Deferred outflows of resources	152,767
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	8,145,800
Deferred revenue reported in the governmental funds are recognized as revenue in the governmental activities	1,026,760
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)	345,731
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accounts payable and accrued liabilities	(3,420)
Interest payable	(233,514)
Derivative instruments interest rate swaps	(224,973)
Commonwealth appropriation bonds	(532,911)
Bonds payable	(32,766,954)
Notes payable	(1,615,918)
Due to component unit	(179,643)
Capital leases payable	(224,435)
Net pension obligation	(11,158,801)
Net postemployment benefit obligation	(215,244)
Compensated absences	(1,375,970)
Voluntary termination benefits payable	(653,525)
Other long-term liabilities	(1,984,535)
TOTAL NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$ (40,000,636)

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, 2012
(In thousands)

	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
REVENUES:							
Taxes:							
Income taxes	$ 4,068,802	$ -	$ -	$ -	$ -	$ -	$ 4,068,802
Sales and use tax	543,266	601,393	-	-	-	-	1,144,659
Excise taxes	2,695,543	-	-	-	-	-	2,695,543
Property taxes	66,375	-	-	-	-	-	66,375
Other taxes	90,514	-	-	-	-	-	90,514
Charges for services	624,069	-	-	-	-	-	624,069
Revenue from global tobacco settlement agreement	72,491	-	-	-	-	-	72,491
Revenues from component units	85,573	-	-	-	-	-	85,573
Intergovernmental	6,634,415	-	115,969	-	-	28,061	6,778,445
Interest and investment earnings	18,200	-	3,329	93	565	6,472	28,659
Other	145,409	-	-	-	-	11,547	156,956
Total revenues	15,044,657	601,393	119,298	93	565	46,080	15,812,086
EXPENDITURES:							
Current:							
General government	1,935,622	-	-	47	45	91,746	2,027,460
Public safety	2,315,808	-	-	-	-	3,832	2,319,640
Health	2,942,970	-	-	-	-	7,397	2,950,367
Public housing and welfare	3,399,071	-	-	-	-	6,950	3,406,021
Education	4,596,366	-	-	-	-	2,703	4,599,069
Economic development	578,374	-	-	-	-	205,116	783,490
Payment of obligations of component units	-	-	-	458,207	-	-	458,207
Intergovernmental	376,767	-	-	-	-	660	377,427
Capital outlays	131,488	-	-	-	-	426,889	558,377
Debt service:							
Principal	1,087,775	-	346,460	-	-	437,492	1,871,727
Interest	201,394	-	520,198	-	587,673	297,092	1,606,357
Other — debt issuance costs	4,876	-	34,350	-	14,499	23,720	77,445
Total expenditures	17,570,511	-	901,008	458,254	602,217	1,503,597	21,035,587
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,525,854)	601,393	(781,710)	(458,161)	(601,652)	(1,457,517)	(5,223,501)

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) — GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012
(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	$ 1,882,205	$ -	$ 770,399	$ 963,236	$ 601,393	$ 668,944	$ 4,886,177
Transfers out	(1,159,948)	(601,393)	(704,889)	(952,615)	(963,236)	(284,302)	(4,666,383)
Proceeds from long term debt issued	877,034	-	-	-	1,541,008	1,285,181	3,703,223
Issuance of refunding bonds	432,629	-	3,031,565	-	-	1,017,984	4,482,178
Payments to refunded bonds escrow agent	(369,395)	-	(1,835,425)	-	(110,749)	(506,719)	(2,822,288)
Sale of capital assets	1,434	-	-	-	-	-	1,434
Premium on bonds issued	5,729	-	729	-	35,351	1,079	42,888
Discount on bonds issued	-	-	(5,616)	-	(3,549)	(15,309)	(24,474)
Termination payments on swap agreements	-	-	(160,239)	-	(390,616)	-	(550,855)
Total other financing sources (uses)	1,669,688	(601,393)	1,096,524	10,621	709,602	2,166,858	5,051,900
NET CHANGE IN FUND BALANCES (DEFICIT)	(856,166)	-	314,814	(447,540)	107,950	709,341	(171,601)
FUND BALANCES (DEFICIT) — Beginning of of year, as restated	(250,390)	-	295,629	504,571	605,842	493,056	1,648,708
FUND BALANCES (DEFICIT) — End of year	$ (1,106,556)	$ -	$ 610,443	$ 57,031	$ 713,792	$ 1,202,397	$ 1,477,107

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) OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(In thousands)

NET CHANGE IN FUND BALANCES (DEFICIT) — Total governmental funds		$ (171,601)
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	558,377	
Less: depreciation and amortization expense	(294,060)	264,317
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets.		(29,973)
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:		
Principal payments of long-term debt	1,871,727	
Proceeds from issuance of long-term debt	(3,703,223)	
Issuance of refunding bonds	(4,482,178)	
Payments to refunded bonds escrow agents	2,822,288	
Termination payments on swap agreement	550,855	
Other	(362,520)	(3,303,051)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets (deficit).		77,445
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 the statement of activities. This amount is the net adjustment.		(195,102)
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.		(1,889,569)
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. This amount is the net decrease in such fair value.		(229,319)
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). This amount is the net decrease in total inventories and prepaid expenses.		(14,648)
CHANGE IN NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES		$ (5,491,501)

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, 2012
(In thousands)

	Original Budget	Amended Budget	Actual
REVENUES:			
Income taxes	$ 4,647,000	$ 4,624,000	$ 4,527,049
Sales and use taxes	680,000	560,000	540,026
Excise taxes	2,501,000	2,707,000	2,792,846
Property taxes	76,000	40,000	65,497
Other taxes	84,000	81,000	82,578
Charges for services	92,000	104,000	179,962
Revenues from component units	24,000	24,000	19,557
Intergovernmental	271,000	299,000	265,910
Other	147,000	113,000	100,072
Total revenues	8,522,000	8,552,000	8,573,497
EXPENDITURES — Current:			
General government	1,565,969	1,731,262	1,957,580
Public safety	1,932,009	1,942,189	2,011,965
Health	1,293,083	1,391,501	1,686,402
Public housing and welfare	436,211	478,073	474,074
Education	3,083,560	2,970,371	2,926,638
Economic development	380,189	409,499	458,102
Intergovernmental	389,620	406,299	396,447
Total expenditures	9,080,641	9,329,194	9,911,208
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(558,641)	(777,194)	(1,337,711)
OTHER FINANCING SOURCES (USES):			
Notes payable issued	-	865,186	877,034
Transfer in from COFINA	610,000	617,038	952,615
Transfer in from Debt Service Fund and Lotteries Fund	128,000	98,000	863,546
Transfer out and other payments for debt service	(179,359)	(803,030)	(2,055,095)
Total other financing sources	558,641	777,194	638,100
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES UNDER EXPENDITURES AND OTHER FINANCING USES	$ -	$ -	$ (699,611)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF NET ASSETS (DEFICIT) — PROPRIETARY FUNDS
JUNE 30, 2012
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
ASSETS:				
Current assets:				
Cash and cash equivalents in commercial banks	$ -	$ 48,341	$ 83	$ 48,424
Cash and cash equivalents in governmental banks	-	26,300	63,845	90,145
Insurance premiums receivables — net	-	-	4,299	4,299
Accrued interest receivable	-	-	90	90
Other receivables	-	9,231	256	9,487
Restricted assets:				
Cash and cash equivalents in commercial banks	864	-	1,528	2,392
Cash and cash equivalents in governmental banks	-	-	111,197	111,197
Cash and cash equivalents in U.S. Treasury	382,883	-	-	382,883
Insurance premiums receivables — net	68,582	-	-	68,582
Intergovernmental receivable	71	-	-	71
Loans receivable from component unit	-	-	19,166	19,166
Accrued interest receivable	2,164	-	-	2,164
Receivables	37	-	4,571	4,608
Total current assets	454,601	83,872	205,035	743,508
Noncurrent assets:				
Loans receivable from component unit — restricted	-	-	430,878	430,878
Due from other funds	-	67,559	18,131	85,690
Restricted investments	-	-	34,538	34,538
Capital assets — net	-	1,726	-	1,726
Other noncurrent assets	-	27,466	-	27,466
Other restricted assets	-	-	1,130	1,130
Total assets	454,601	180,623	689,712	1,324,936
LIABILITIES AND NET ASSETS (DEFICIT):				
Current liabilities:				
Accounts payable and accrued liabilities	-	9,952	3,000	12,952
Due to other funds	20,630	27,180	803	48,613
Due to other governmental entities	-	-	47	47
Deferred revenue	11,285	11,837	2,162	25,284
Compensated absences	-	1,830	881	2,711
Lottery prizes	-	49,883	-	49,883
Voluntary termination benefits payable	-	587	-	587
Insurance benefits payable	72,161	-	833	72,994
Total current liabilities	104,076	101,269	7,726	213,071
Noncurrent liabilities:				
Lottery prizes, excluding current portion	-	141,703	-	141,703
Compensated absences, excluding current portion	-	934	1,323	2,257
Voluntary termination benefits payable	-	4,655	-	4,655
Total liabilities	104,076	248,561	9,049	361,686
NET ASSETS (DEFICIT):				
Invested in capital assets — net of related debt	-	1,726	-	1,726
Restricted for lending activities	-	-	564,875	564,875
Restricted for payment of insurance benefits	350,525	-	35,353	385,878
Unrestricted	-	(69,664)	80,435	10,771
TOTAL NET ASSETS (DEFICIT)	$350,525	$ (67,938)	$680,663	$ 963,250

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, 2012
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
OPERATING REVENUES:				
Insurance premiums	$ 281,763	$ -	$ 19,521	$ 301,284
Lottery ticket sales	-	909,842	-	909,842
Interest	-	-	8,592	8,592
Other	-	51	-	51
Total operating revenues	281,763	909,893	28,113	1,219,769
OPERATING EXPENSES:				
Insurance benefits	486,342	-	4,037	490,379
Lottery prizes	-	576,372	-	576,372
General, administrative, and other operating expenses	-	146,248	16,619	162,867
Total operating expenses	486,342	722,620	20,656	1,229,618
OPERATING INCOME (LOSS)	(204,579)	187,273	7,457	(9,849)
NONOPERATING REVENUES (EXPENSES):				
Contributions from U.S. government	306,604	-	57,615	364,219
Contributions to component unit	-	-	(13,581)	(13,581)
Interest and investment earnings	10,357	229	1,443	12,029
Total nonoperating revenues	316,961	229	45,477	362,667
INCOME BEFORE TRANSFERS	112,382	187,502	52,934	352,818
TRANSFERS FROM OTHER FUNDS	-	-	4,907	4,907
TRANSFERS TO OTHER FUNDS	(57,584)	(165,142)	(1,975)	(224,701)
NET CHANGE IN NET ASSETS (DEFICIT)	54,798	22,360	55,866	133,024
NET ASSETS (DEFICIT) — Beginning of year	295,727	(90,298)	624,797	830,226
NET ASSETS (DEFICIT) — End of year	$ 350,525	$ (67,938)	$680,663	$ 963,250

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF CASH FLOWS — PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	$ 263,269	$ 883,217	$ 19,234	$1,165,720
Other receipts	-	51	-	51
Payments to suppliers	-	(38,967)	(7,604)	(46,571)
Payments to employees	-	(81,134)	(8,229)	(89,363)
Payments of lottery prizes	-	(600,224)	-	(600,224)
Payments of insurance benefits	(499,963)	-	(3,758)	(503,721)
Other payments	-	-	(624)	(624)
Net cash provided by (used in) operating activities	(236,694)	162,943	(981)	(74,732)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Intergovernmental grants and contributions	307,380	-	57,530	364,910
Net increase in due from other funds	-	(14,384)	-	(14,384)
Contributions to component unit	-	-	(13,581)	(13,581)
Transfers from other funds	-	-	4,907	4,907
Transfers to other funds	(53,683)	(158,657)	(1,975)	(214,315)
Net cash provided by (used in) noncapital financing activities	253,697	(173,041)	46,881	127,537
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Capital expenditures	-	(136)	-	(136)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest collected on deposits, investments and loans	10,356	229	9,720	20,305
Loans originated	-	-	(55,655)	(55,655)
Principal collected on loans	-	-	21,678	21,678
Proceeds from sales and maturities of investments	-	-	20,945	20,945
Purchases of investments	-	-	(20,198)	(20,198)
Net cash provided by (used in) investing activities	10,356	229	(23,510)	(12,925)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	27,359	(10,005)	22,390	39,744
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	356,388	84,646	154,263	595,297
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 383,747	$ 74,641	$176,653	$ 635,041

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF CASH FLOWS — PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012
(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)	$(204,579)	$ 187,273	$ 7,457	$ (9,849)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Interests earned on deposits, loans and investments	-	-	(8,592)	(8,592)
Depreciation	-	70	-	70
Changes in operating assets and liabilities:				
Increase in accounts and loans receivable	(19,265)	(3,645)	(381)	(23,291)
Decrease in other assets	-	3,038	393	3,431
Increase in accounts payable and accrued liabilities	-	811	349	1,160
Decrease in due to other governmental entities	-	-	(671)	(671)
Decrease in obligation for unpaid lottery awards	-	(26,900)	-	(26,900)
Increase (decrease) in deferred revenues	772	(369)	94	497
Increase in compensated absences	-	64	92	156
Increase in termination benefits payable	-	2,601	-	2,601
Increase (decrease) in liability for insurance benefits payable	(13,622)	-	278	(13,344)
Total adjustments	(32,115)	(24,330)	(8,438)	(64,883)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$(236,694)	$ 162,943	$ (981)	$ (74,732)

See accompanying notes to basic financial statements. (Concluded)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF FIDUCIARY NET ASSETS — FIDUCIARY FUNDS
JUNE 30, 2012
(In thousands)

	Pension Trust	Agency
ASSETS:		
Cash and cash equivalents in commercial banks — Unrestricted	$ 642,978	$ 698,972
Cash and cash equivalents in governmental banks:		
Unrestricted	189,528	546,931
Restricted	233,931	-
Collateral for securities lending transactions	76,486	-
Investments:		
Debt and equity securities — at fair value	3,870,788	-
Other	76,591	-
Receivables — net:		
Accounts	124,672	-
Loans and advances	1,359,340	-
Accrued interests and dividends	20,902	-
Other	174,167	5,252
Capital assets — net	32,553	-
Other assets	37,283	-
Total assets	6,839,219	1,251,155
LIABILITIES:		
Accounts payable and accrued liabilities	297,125	1,251,155
Securities lending transactions	76,486	-
Interest payable	13,877	-
Other liabilities	29,802	-
Bonds payable	3,026,593	-
Total liabilities	3,443,883	1,251,155
NET ASSETS — Held in trust for pension benefits	$ 3,395,336	$ -

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, 2012
(In thousands)

ADDITIONS:	
Contributions:	
Sponsor	$ 522,617
Participants	442,370
Special	246,481
Total contributions	1,211,468
Investment income and investment expense:	
Interest	234,559
Dividends	6,444
Net change in fair value of investments	79,395
Investment expenses	(9,145)
Net investment income	311,253
Other income	26,119
Total additions	1,548,840
DEDUCTIONS:	
Pension and other benefits	1,993,514
Refunds of contributions	57,448
General and administrative	85,454
Interest on bonds payable	190,737
Total deductions	2,327,153
NET CHANGE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	(778,313)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	4,173,649
End of year	$ 3,395,336

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2012
(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	$ 1,184,517	$ 19,519	$ 139,350	$ 62,060	$ 45,596	$ 26,730	$ 1,477,772	$ 204,693	$ 1,682,465
Cash and cash equivalents in governmental banks	73,100	5,267	60,411	-	57,910	194,689	391,377	165,535	556,912
Investments	551,155	-	-	-	80,135	-	631,290	883,240	1,514,530
Restricted assets:									
Cash and cash equivalents in commercial banks	94,931	-	-	-	12,056	-	106,987	141,590	248,577
Cash and cash equivalents in governmental banks	-	-	-	-	-	1,321	1,321	215,434	216,755
Investments	228,666	-	-	-	69,709	-	298,375	292,089	590,464
Other restricted assets	2,689	-	-	-	-	-	2,689	28,221	30,910
Collateral from securities lending transactions	-	-	-	-	-	-	-	112,060	112,060
Receivables — net:									
Insurance premiums	-	-	-	-	-	-	-	46,199	46,199
Intergovernmental	-	-	-	2,883	20,222	-	23,105	29,924	53,029
Accounts	-	4,998	809,712	93,983	47,719	19,227	975,639	90,246	1,065,885
Loans and advances	4,437,900	-	-	-	-	-	4,437,900	104,178	4,542,078
Accrued interest	132,508	-	-	-	-	-	132,508	27,913	160,421
Other governmental entities	-	4,299	276,982	49,722	15,912	12,831	359,746	90,075	449,821
Other	-	-	-	-	13,026	-	13,026	21,778	34,804
Due from:									
Primary government	-	-	50,242	67,586	45,122	115,180	278,130	86,878	365,008
Component units	125,947	14,142	122,846	14,109	27,494	-	304,538	46,613	351,151
Inventories	-	-	423,068	21,357	4,319	-	448,744	19,521	468,265
Prepaid expenses	-	14,860	55	7,289	706	1,878	24,788	28,907	53,695
Total current assets	6,831,413	63,085	1,882,666	318,989	439,926	371,856	9,907,935	2,635,094	12,543,029

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2012
(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
NONCURRENT ASSETS:									
Restricted assets:									
Cash and cash equivalents in commercial banks	-	387	615,263	695,070	3,928	-	1,314,648	46,485	1,361,133
Cash and cash equivalents in governmental banks	-	129,631	-	160,632	-	-	290,263	38,063	328,326
Investments	1,201,992	610,379	655,547	-	88,120	-	2,556,038	1,983,385	4,539,423
Other restricted assets	67,983	34,155	-	-	-	-	102,138	99,359	201,497
Investments	3,601,202	-	-	-	-	-	3,601,202	2,040,539	5,641,741
Receivables:									
Loans, interest, and other	-	-	-	-	3,939	-	3,939	143,660	147,599
Other governmental entities	15,231	-	-	-	63,514	-	78,745	19,751	98,496
Other	-	-	104,780	-	-	-	104,780	4,926	109,706
Due from:									
Primary government	62,045	-	-	-	11,720	-	73,765	195,529	269,294
Component units	3,745,326	-	-	-	-	-	3,745,326	32,655	3,777,981
Deferred outflows of resources	-	25,464	111,307	-	-	-	136,771	-	136,771
Deferred expenses and other assets	52,067	83,883	85,113	64,127	72,473	-	357,663	84,596	442,259
Real estate held for sale or future development	106,122	-	-	-	-	-	106,122	160,173	266,295
Capital assets, not being depreciated	85,016	2,442,365	981,111	1,717,536	110,108	-	5,336,136	1,690,404	7,026,540
Capital assets, depreciable — net	11,203	8,683,100	5,818,065	5,641,266	848,802	148	21,002,584	2,411,423	23,414,007
Total noncurrent assets	8,948,187	12,009,364	8,371,186	8,278,631	1,202,604	148	38,810,120	8,950,948	47,761,068
TOTAL	15,779,600	12,072,449	10,253,852	8,597,620	1,642,530	372,004	48,718,055	11,586,042	60,304,097

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	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
LIABILITIES:									
Current liabilities:									
Accounts payable and accrued liabilities	184,050	219,274	747,015	239,072	88,438	75,321	1,553,170	827,516	2,380,686
Deposits and escrow liabilities	5,691,792	-	49,780	6,408	68	-	5,748,048	619,236	6,367,284
Due to:									
Primary government	-	6,857	-	19,658	-	7,239	33,754	81,130	114,884
Component units	-	17,863	49,781	32,253	33,295	-	133,192	427,008	560,200
Other governmental entities	-	835	208,800	14,029	19,852	-	243,516	80,869	324,385
Securities lending transactions and reverse repurchase agreements	884,484	-	-	-	-	-	884,484	216,985	1,101,469
Interest payable	48,925	157,026	185,757	88,606	4,424	-	484,738	113,022	597,760
Deferred revenue	-	28,404	-	19,930	-	-	48,334	92,609	140,943
Notes payable, current portion	570,515	-	555,438	-	1,336	-	1,127,289	82,179	1,209,468
Bonds payable, current portion	33,880	104,125	379,975	15,923	31,790	-	565,693	509,335	1,075,028
Accrued compensated absences, current portion	4,421	11,155	82,849	12,704	35,861	544	147,534	57,631	205,165
Voluntary termination benefits payable	8,300	-	-	-	-	245	8,545	15,778	24,323
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-	213,173	213,173	346,121	559,294
Capital leases	-	-	-	-	-	-	-	755	755
Current portion of other long-term liabilities	14,537	-	51,546	8,674	2,107	-	76,864	8,966	85,830
Total current liabilities	7,440,904	545,539	2,310,941	457,257	217,171	296,522	11,268,334	3,479,140	14,747,474

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2012
(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
Noncurrent liabilities:									
Due to:									
Primary government	-	-	-	430,386	-	-	430,386	20,006	450,392
Component units	-	1,881,963	-	109,788	88,058	171,080	2,250,889	1,318,043	3,568,932
Other governmental entities	-	-	-	-	63,220	-	63,220	50,308	113,528
Deposits and escrow liabilities	375,142	-	126,367	74,568	-	-	576,077	-	576,077
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	19,000	19,000
Interest payable	-	-	-	-	-	12,446	12,446	-	12,446
Deferred revenue	-	1,086,453	-	-	-	-	1,086,453	9,487	1,095,940
Notes payable	4,779,849	-	18,593	-	2,268	-	4,800,710	1,550,624	6,351,334
Commonwealth appropriation bonds	3,427	-	-	398,049	-	-	401,476	110,047	511,523
Bonds payable	573,886	4,788,877	7,931,714	4,081,226	582,659	-	17,958,362	3,792,919	21,751,281
Accrued compensated absences	698	11,657	139,904	32,567	132,012	363	317,201	53,951	371,152
Voluntary termination benefits payable	-	81,902	-	-	-	2,491	84,393	95,038	179,431
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-	-	-	631,031	631,031
Capital leases	-	-	-	-	-	-	-	30,128	30,128
Hedging derivative instruments — interest rate swaps	-	224,777	111,307	-	-	-	336,084	-	336,084
Other long-term liabilities	84,549	70,873	130,712	14,864	98,522	43,082	442,602	212,044	654,646
Total noncurrent liabilities	5,817,551	8,146,502	8,458,597	5,141,448	966,739	229,462	28,760,299	7,892,626	36,652,925
Total liabilities	13,258,455	8,692,041	10,769,538	5,598,705	1,183,910	525,984	40,028,633	11,371,766	51,400,399
NET ASSETS (DEFICIT):									
Invested in capital assets — net of related debt	96,219	2,858,059	38,122	3,205,651	352,904	148	6,551,103	1,688,001	8,239,104
Restricted for:									
Trust — nonexpendable	-	-	-	-	-	-	-	256,932	256,932
Capital projects	-	64,890	18,299	-	1,432	-	84,621	145,608	230,229
Debt service	-	552,637	-	-	60,777	-	613,414	391,168	1,004,582
Affordable housing and related loan insurance programs	216,693	-	-	-	-	-	216,693	108,278	324,971
Student loans and other educational purposes	-	-	-	-	86,783	-	86,783	10,814	97,597
Other specified purposes	-	-	-	26,186	11,610	-	37,796	115,957	153,753
Unrestricted	2,208,233	(95,178)	(572,107)	(232,922)	(54,886)	(154,128)	1,099,012	(2,502,482)	(1,403,470)
TOTAL NET ASSETS (DEFICIT)	$ 2,521,145	$ 3,380,408	$ (515,686)	$2,998,915	$ 458,620	$(153,980)	$ 8,689,422	$ 214,276	$ 8,903,698

See accompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF ACTIVITIES — MAJOR COMPONENT UNITS
YEAR ENDED JUNE 30, 2012
(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	$ 1,016,155	$ 776,157	$177,001	$ -	$ -	$ (62,997)	$ -	$ -	$ -	$ -	$ -	$ -	$ (62,997)	$ 2,584,142	$ 2,521,145
Puerto Rico Highways and Transportation Authority	1,268,088	232,137	-	-	306,518	(729,433)	-	-	-	259,842	24,056	82,997	(362,538)	3,742,946	3,380,408
Puerto Rico Electric Power Authority	5,454,523	5,046,494	-	-	37,494	(370,535)	-	-	-	-	24,344	-	(346,191)	(169,495)	(515,686)
Puerto Rico Aqueduct and Sewer Authority	1,131,699	742,891	-	-	48,327	(340,481)	393,650	-	-	-	4,670	6,664	64,503	2,934,412	2,998,915
University of Puerto Rico	1,398,103	236,224	187,989	465	-	(973,425)	763,469	70,891	174,139	-	2,808	48,391	86,273	372,347	458,620
Puerto Rico Health Insurance Administration	2,182,012	1,360,124	-	-	-	(821,888)	945,033	-	-	-	1,203	-	124,348	(278,328)	(153,980)
Nonmajor component units	2,794,012	1,688,354	51,941	91,710	18,826	(943,181)	636,061	(70,891)	5,269	58,468	184,516	43,022	(86,736)	301,012	214,276
	$ 15,244,592	$ 10,082,381	$416,931	$ 92,175	$411,165	$ (4,241,940)	$ 2,738,213	$ -	$179,408	$318,310	$241,597	$181,074	$ (583,338)	$ 9,487,036	$ 8,903,698

See accompanying notes to basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying basic financial statements of the Commonwealth are presented in conformity with Accounting Principles Generally Accepted in the United States of America (US GAAP) for governments 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, 2012 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 basic financial statements of the Commonwealth 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 US 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. US 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 at June 30, 2006 (the "2006 Appropriation Debt"). The members of the board of directors of COFINA are the same as the ones of GDB.

During 2009, the Commonwealth's Legislative Assembly expanded the purposes of COFINA and increased COFINA's dedicated revenues from 1% to 2.75% (out of total sales tax of 5.5%) the portion of the Commonwealth sales tax transferred to COFINA. COFINA is authorized to pay or finance, in whole or in part, or fund, in addition to the 2006 Appropriation Debt: (i) the debt of the Secretary of the Treasury of the Commonwealth with GDB in the amount of approximately $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 Children's 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 Children's 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 Children's 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 (10%) or more of total assets, liabilities, net assets, revenue or expenses of all discretely presented component units. The determination of a major component unit also depends on each component unit's significance relative to the other component units and the nature and significance of its relationship to the primary government. 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 Puerto Rico Electric Power Authority, the President of the Puerto Rico Planning Board, the Executive Director of Mayors' Federation, and the Executive Director of Mayors' Association. PRASA owns and operates the Commonwealth's system of public water supply and sanitary sewer facilities. PRASA is authorized, among other things, to borrow money and issue revenue bonds for any of its corporate purposes. The Commonwealth guarantees the principal and interest payments of certain outstanding bonds and of all future bonds issued to refinance those outstanding bonds at the date of refinancing. Act No. 45 of July 28, 1994 was later amended to include other loans under the State Revolving Fund Program (SRFP). The Commonwealth provides financial support to PRASA through legislative appropriations.

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

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

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

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

Nonmajor Component Units:

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

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

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

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

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

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

Culebra Conservation and Development Authority (CCDA) — CCDA was created to formulate and administer the program and plan for the conservation, use, and development of natural resources of the municipality of Culebra. CCDA is administered through a board of directors composed of seven members, including the Mayor of 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 nine members 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.

Local Redevelopment Authority for Roosevelt Roads Puerto Rico (LRA) — LRA is governed by a nine member board comprising the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, two members appointed by the Mayor of the Municipality of Ceiba, one member appointed by the Mayor of the Municipality of Naguabo, one member appointed by the President of the Senate, one member appointed by the Speaker of the House of Representatives and three additional members appointed by the Governor, all to possess known interest and expertise in the areas of planning; commercial, tourism, residential and institutional development; real estate; tourism and recreational facilities administration; and infrastructure projects' management. LRA is responsible for the implementation of the reuse and redevelopment plan for the former Navy Station of Roosevelt Roads located in Ceiba, Puerto Rico. Some of the activities involved in these redevelopment plans include the direction, supervision, regulation and maintenance of the economic development on the land and facilities formerly occupied by the US Navy.

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

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

Port of the Americas Authority (PAA) — PAA is governed by an eleven member board comprising of the Secretary of DTPW, the Secretary of Economic Development and Commerce, the Executive Director of Puerto Rico Industrial Development Company, the Majors of the Municipalities of Ponce, Peñuelas and Guayanilla and five private citizens appointed by the Governor with the consent of the Senate. The main purpose of PAA is the planning, development and construction of a large scale container terminal in the city of Ponce, Puerto Rico.

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

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

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

Puerto Rico Council on Education (PRCE) — PRCE is governed by a board comprising nine members appointed by the Governor with the consent of the Senate. 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 PRCE 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 Puerto Rico Infrastructure Financing Authority, the Executive Director of the Puerto Rico Tourism Company (the "PRTC"), the President of the Environmental Quality Board, and two private citizens appointed by the Governor. AFICA is authorized to issue revenue bonds to finance industrial, tourist, environmental control, medical, and educational facilities in Puerto Rico and the United States of America for use by private companies, nonprofit entities, or governmental agencies. The bonds are payable solely from collections from such private companies, nonprofit entities, or governmental agencies, and do not constitute debt of the Commonwealth or any of its other component units.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Puerto Rico 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 Street Flamboyán
San Juan, PR 00916-1117

Agricultural Enterprises Development Administration
P.O. Box 9200
Santurce, PR 00908-0200

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Local Redevelopment Authority for Roosevelt Roads Puerto Rico
400 Calaf Street
PMB 456
San Juan, PR 00918-1314

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

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

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

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

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

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

Puerto Rico Council on 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
P.O. Box 41207 Minillas Station
San Juan, PR 00940

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

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

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

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

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

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

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

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

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

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

Puerto Rico Tourism Company
Tanca Street #500, Ochoa Building 3rd Floor,
Old San Juan, PR 00902-3960

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

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

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

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

University of Puerto Rico Comprehensive Cancer Center
PMB 711
89 De Diego Ave., Suite 105
San Juan, PR 00927-6346

The financial statements of the discretely presented component units have a year end of June 30, 2012, except for the Puerto Rico Telephone Authority, which has a year end of December 31, 2011.

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

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) — ERS is governed by a board of trustees, which is composed of the Secretary of the Treasury of the Commonwealth, who is the President, the President of GDB, the Commissioner for Municipal Affairs, the Director of the Puerto Rico Central Office of Personnel Administration, two participating employees, and one retiree, who are appointed by the Governor. The Commonwealth reports ERS as a cost sharing multiple employer pension plan. ERS is a multiple employer defined benefit pension plan, which covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their own retirement systems.

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 that covers all active judges or retired judges of the judiciary branch of the Commonwealth.

Puerto Rico System of Annuities and Pensions for Teachers (TRS) — TRS is governed by a nine member board comprising three ex-officio members, which are the Secretary of the Department of Education, the Secretary of the Treasury of the Commonwealth, the President of GDB, and one member who is a representative of a teachers' organization designated by the Governor; three teachers appointed by the Governor, one of which represents currently certified teachers in active service, and two who represent retired teachers; one member who is a representative of the entity that represents the proper unit under Act No. 45 of February 25, 1998, as amended; and one additional member, as representative of the public interest, with knowledge of and experience in the administration and operation of financial systems, appointed by the Governor. The Commonwealth reports TRS as a single employer pension plan. TRS provides retirement benefits to all teachers of the Department of Education of the Commonwealth, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education of the Commonwealth, and those who practice in private institutions accredited by the Department of Education of the Commonwealth who elect to become members. 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
San Juan, PR 00940-2203

Puerto Rico Judiciary
Retirement System
P.O. Box 42003 — Minillas Station
San Juan, PR 00940-2203

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

(c) Government-Wide Financial Statements

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

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

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

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

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

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

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

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

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

- Employees' vested annual vacation and sick leave are recorded as expenditures when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2012 has been reported only in the government wide financial statements.

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

- Debt service expenditures, federal funds' cost disallowances, other long-term obligations, and amounts subject to judgments under litigation are recorded in the governmental funds only when payment is due; and in the case of judgments under litigation, when a settlement has been made and awaiting payment. Until this criteria is met, these liabilities have been recorded only in the government wide financial statements.

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

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

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

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

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

(e) Fund Accounting

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

Governmental Funds:

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

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

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

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

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

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

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. These capital expenditures may be for the primary government directly or for discrete component units and outside organizations and governments such as the municipalities of the Commonwealth and other applicable entities. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

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.

The Commonwealth reports the following major proprietary funds:

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.

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

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

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

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

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

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

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

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

(g) Statutory (Budgetary) Accounting

The Commonwealth's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with US 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 US GAAP. See Note 3(b) for a reconciliation of the statement of revenue and expenditures — budget and actual — budget basis — general fund with the statement of revenues, expenditures, and changes in fund balances (deficit) for the general fund. The special revenue funds do not have a legally mandated budget.

(h) Cash and Short Term Investments

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

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

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

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

(i) Securities Purchased under Agreements to Resell

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

(j) Securities Lending Transactions

Certain component units of the Commonwealth enter into securities lending transactions in which governmental entities (lenders) transfer their securities to broker dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Cash received as collateral on securities lending transactions and investments made with that cash are reflected as investments. Securities received as collateral are reported as investments if the component unit has the ability to pledge or sell them without a borrower default. Liabilities resulting from these securities lending transactions also are reported in the statement of net assets. Securities lending transactions collateralized by letters of credit or by securities that the component unit does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the statement of net assets.

(k) Investments and Investment Contracts

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

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

(l) Receivables

Tax receivables in the general fund include predominantly amounts owed by taxpayers for individual and corporate income taxes, net of estimated uncollectible amounts. Income tax receivables are recognized as revenue when they become measurable and available based on actual collections during the 120 days following the fiscal year end related to tax returns due before year end. Taxes receivables also include amounts owed by taxpayers on income earned in periods prior to June 30, 2012, estimated to be collectible but not currently available, and thus are reported as deferred revenue in the general fund. Unemployment, disability, and driver's insurance receivables in the enterprise funds are stated net of estimated allowances for uncollectible accounts.

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

Excise tax receivable is recognized as revenue when it becomes measurable and available based on actual collections during the 30 days following the fiscal year-end related to transactions that occurred before year-end. Act No. 154 of October 25, 2010 imposes a new temporary excise tax on the acquisition of certain personal property manufactured or produced in whole or in part in Puerto Rico and on the acquisition of certain manufacturing services carried out in Puerto Rico by nonresident alien individuals, foreign corporations and foreign partnerships. Act No. 154 applies to income realized and acquisitions occurring after December 31, 2010. Act No. 154 provides that, in certain circumstances, taxpayers will be deemed to be engaged in trade or business in Puerto Rico and taxable in Puerto Rico with respect to a portion of taxpayer's income where the taxpayers engage in significant transactions with other persons that are members of the same controlled group. Where a person engages in significant transactions with a member of the same controlled group that has gross receipts of seventy-five million dollars or more in any of the last three years and that manufactures or produces goods in Puerto Rico, or provides services in connection with the manufacture or production of goods in Puerto Rico, the person will not be subject to income tax, but 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 February 28, 2013, Act No. 2 was enacted raising the then prevailing excise tax rate of 2.75% to 4%, effective immediately, and maintaining such rate fixed at 4% until the year 2017.

Real property tax payments, under Act No. 7 described below, for the fiscal year ended June 30, 2012 were due September 1, 2011 and March 1, 2012. Property tax revenue represents payments received during the year and payments received (against the current fiscal year and prior years' levies) within the first three months of the following fiscal year reduced by tax refunds for the fund financial statements. Additionally, the government wide financial statements recognize real property tax revenues (net of refunds) which are not available to the governmental fund type in the fiscal year for which the taxes are levied. Act No. 7 of March 9, 2009, as amended, imposed a real property tax, in addition to the one already established for the municipalities of the Commonwealth through the Municipal Revenue Collection Center (CRIM), on residential and commercial real properties with appraised values in excess of approximately $210,000. This tax was applicable during fiscal years 2010 through 2012 and amounted to 0.591% of such properties' appraised value as determined by the CRIM. Act No. 1 of January 31, 2011 eliminated this additional real property tax commencing with the quarter ended June 30, 2011.

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

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

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

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

(m) Inventories

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

(n) Restricted Assets

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

(o) Real Estate Held for Sale

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

(p) Capital Assets

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

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

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

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

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

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

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

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

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

(q) Tax Refunds Payable

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

(r) Deferred Revenue

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

(s) Long-term Debt

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

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

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

(t) Derivative Instruments

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

(u) Accounting for Pension Costs

The Commonwealth accounts for pension costs under the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*. Under GASB Statement No. 27, pension expense is equal to the statutory required contribution to the employees' retirement system. A pension liability or asset is reported equal to the cumulative difference between annual required contributions and actual contributions.

For the purpose of applying the requirements of GASB Statement No. 27, 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, 2012 amounted to approximately $2.6 billion. However, the statutory contributions made by the sponsors of the three defined benefit plans amounted to approximately $775.8 million. The excess of the annual required contribution over the statutorily required contributions of approximately $1.8 billion increased the net pension obligation at June 30, 2012 to approximately $11.2 billion. This amount is presented in the statement of net assets (deficit) of the governmental activities as of June 30, 2012.

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

(v) Other Postemployment Benefits

In addition to the pension benefits described in Note 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, 2012 was $600 per retiree and the total amount was approximately $97.3 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, 2012, the cost of providing healthcare benefits amounted to approximately $131.8 million.

(w) Compensated Absences

The vacation policy of the Commonwealth generally provides for the accumulation of 2.5 days per month, except for the teachers who accrue 4 days per month. Vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of 60 days. Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid vacation leave at the current rate regardless of years of service; and for all accumulated unpaid sick if the employee has at least 10 years of service with the Commonwealth. Accrued compensated absences of the primary government at June 30, 2012 amounting to approximately $1.4 billion are presented in the statement of net assets (deficit). Compensated absence accumulation policies for the blended component units and discretely presented component units vary from entity to entity based on negotiated agreements and other factors agreed upon between the management of these entities and their employees.

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

(x) Termination Benefits

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

(y) Encumbrances

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

(z) Interfund and Intraentity Transactions

The Commonwealth has the following types of transactions among funds:

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

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

(aa) Lottery Revenue and Prizes

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

(ab) Risk Management

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

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

(ac) Tobacco Settlement

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

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

(ad) Reclassifications

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

(ae) Use of Estimates

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

(af) New Accounting Standards Adopted

The following new accounting standards were adopted by the Commonwealth effective July 1, 2011:

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

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

(ag) Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2012:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which: (i) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration; and (ii) the operator collects and is compensated by fees from third parties. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Within the Commonwealth's reporting entity, SCAs are normally entered at the component unit level rather than at the primary government. The SCA expected to have the most significant impact for the Commonwealth during fiscal year 2013, in terms of quantity and public exposure, is the one closed by PRPA on February 28, 2013 regarding the concession of the Luis Muñoz Marin International Airport. Refer to note 25(j) for further information on this SCA.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. This Statement improves financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The most significant effects of the amendments are to: 1) increase the emphasis on financial relationships by raising the bar for inclusion; 2) refocus and clarify the requirements to blend certain component units, and 3) improve the recognition of ownership interests (joint ventures, component units, investments). This Statement is effective for financial statements for periods beginning after June 15, 2012.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (i) FASB Statements and Interpretations; (ii) Accounting Principles Board Opinions; and (iii) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Also, and most importantly, this Statement eliminates the former election option provided in paragraph 7 of Statement No. 20 for enterprise funds and business-types activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. In other words, the enterprise funds and business type activities within the Commonwealth's reporting entity can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including Statement No. 62. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

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

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

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

- GASB Statement No. 67, *Financial Reporting for Pension Plans — an amendment of GASB Statement No. 25.* The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25*, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013.

- GASB Statement No. 68*, Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Once adopted, the Commonwealth will be required to report a liability equivalent to the amount by which the total pension liability exceeds the pension plan's net assets (now referred to as plan net position) available for paying benefits in its accrual-based financial statements (the government wide statement of net position). See Note 20(g).

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

  The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

  A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local government that extend and receive nonexchange financial guarantees. This Statement requires a governmental entity guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. Certain qualitative factors should be considered when evaluating the likelihood of a guaranty payment, such as: initiation of a bankruptcy process, breach of a debt contract in relation to the guaranteed obligation and indications of significant financial difficulty such as failure to pay agents or trustees. This Statement is effective for financial statements for periods beginning after June 15, 2013. Although the Commonwealth's primary government currently has several outstanding nonexchange guarantees as disclosed in note 16, the specific impact on the Commonwealth's basic financial statements upon future adoption on July 1, 2013 has not yet been determined.

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

2. COMPONENT UNITS

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

Blended component units:

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

Discretely presented component units:

Agricultural 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
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
Local Redevelopment Authority for Roosevelt Roads 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 Education
Puerto Rico Electric Power Authority
Puerto Rico Health Insurance Administration
Puerto Rico Highways and Transportation Authority
Puerto Rico Industrial Development Company
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental, Control Facilities Financing Authority
Puerto Rico Infrastructure Financing Authority
Puerto Rico Land Administration
Puerto Rico and Municipal Islands Maritime Transport Authority
Puerto Rico Medical Services Administration
Puerto Rico Metropolitan Bus Authority
Puerto Rico Municipal Finance Agency
Puerto Rico Ports Authority
Puerto Rico Public Broadcasting Corporation

Puerto Rico Public Private Partnership Authority
Puerto Rico School of Plastic Arts
Puerto Rico Telephone Authority
Puerto Rico Trade and Export Company
Solid Waste Authority
Special Communities Perpetual Trust
State Insurance Fund Corporation
University of Puerto Rico
University of Puerto Rico Comprehensive Cancer Center

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 is submitted; and (ii) legislative measures proposed by the Governor and submitted with the proposed budget, as well as the Governor's recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four year 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 approved. The appropriated annual budget for fiscal year 2012 amounted to approximately $9.3 billion. The Legislature also made several special budget appropriations to the general fund throughout the year, which amounted to approximately $872 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 and contracts) are considered expenditures when a commitment is made. For US GAAP reporting purposes, encumbrances outstanding at year end are reported within the restricted, committed, assigned, and unassigned fund balance classifications and do not constitute expenditures or liabilities on a US GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the general fund at the end of the fiscal year lapses immediately. Appropriations, other than in the general fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, for budgetary purposes, revenues are recorded when cash is received.

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

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

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

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

(b) Budget/US 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, 2012 is presented below for the general fund (expressed in thousands):

Deficiency of revenues and other financing sources under expenditures and other financing uses — budget basis	$ (699,611)
Entity differences-excess (deficiency) of revenues and other financing sources under expenditures and other financing uses for:	
Nonbudgeted funds	196,175
Inclusion of agencies with independent treasuries	(3,339)
Timing differences:	
Adjustment for encumbrances	254,080
Current year expenditures against prior year encumbrances	(194,772)
Basis of accounting differences:	
Net decrease in taxes receivable (net of tax refunds and deferred revenues)	(345,189)
Net decrease in other receivables	(63,510)
Deficiency of revenues and other financing sources under expenditures and other financing uses — US GAAP basis	$ (856,166)

(c) Deficit Net Assets

The following activities, funds, and discretely presented component units reflect deficit fund balance/net assets at June 30, 2012 (expressed in thousands):

Primary Government:	
Governmental activities	$ 40,000,636
General fund	1,106,556
Enterprise fund-Lotteries	67,938
Component units:	
Puerto Rico Infrastructure Financing Authority	1,526,404
Puerto Rico Electric Power Authority	515,686
Special Communities Perpetual Trust	255,651
Puerto Rico Medical Services Administration	227,736
Puerto Rico Health Insurance Administration	153,980
Agricultural Enterprises Development Administration	97,991
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	42,899
Automobile Accidents Compensations Administration	34,662
Puerto Rico Metropolitan Bus Authority	25,336
Puerto Rico Tourism Company	14,285
Puerto Rico and Municipal Islands Maritime Transport Authority	10,655
Puerto Rico Public Private Partnerships Authority	6,616
Musical Arts Corporation	4,586
Employment and Training Enterprises Corporation	2,119

The Commonwealth's governmental activities show a deficit of approximately $40 billion, mostly attributed to the Commonwealth outstanding bonds amounting to approximately $33.2 billion and net pension obligation amounting to approximately $11.2 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, including the funding of the Retirement System's cash flows deficiencies 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. On the other hand, the discretely presented component units report net assets of approximately $8.9 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 $15.5 billion principally attributed to bonds payable amounting to $16.1 billion; the proceeds of which were used to pay obligations of the Commonwealth of Puerto Rico and 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. One of the new and immediate economic development initiatives from the current administration was the Jobs Now Act, signed into law on February 10, 2013. It purports to create jobs within 18 months by eliminating certain hurdles that delay and impede the process of establishing new businesses or expanding existing businesses in Puerto Rico, allow better access to capital, and provide incentives under agreements between certain eligible businesses and the Commonwealth through the Puerto Rico Commerce and Exports Company. Under the Jobs Now Act, the Economic Development Bank was ordered to give priority to loan applications submitted by eligible businesses and to create programs to guarantee private financing to such eligible entities.

The Department of the Treasury has also elaborated a strategic plan designed to improve tax collections, foster tax compliance, implement effective enforcement measures, and attack tax evasion. To promote taxpayers' compliance, the Treasury Department has liberalized the procedures to enter into payment plans, offers-in-compromise agreements, and encouraged voluntary disclosure agreements. In addition, the Department of the Treasury has developed initiatives focused on effective enforcement methods, such as improving the efficiency of its audit selection process, the creation of technological solutions to improve collections, and the establishment of cooperation agreements with federal and local governmental agencies. The Department of the Treasury has also integrated its databases and established a tax intelligence project to identify tax evasion and improve its audit selection process.

Previous initiatives established related to the implementation of a new point of sale system for the collection of the sales and use taxes continue to be enhanced by adding various enforcement and compliance programs. In addition to the above, the current administration is pursuing the automatic collection of the sales and use tax directly at the point of sale. Such initiative is already in the design and planning phase and is expected to be operational sometime during fiscal year 2014. The Department of the Treasury has also been actively seizing the assets of businesses that are delinquent on their sales and use tax payments, and has entered into agreements with various municipalities to conduct simultaneous field visits and joint audits in order to increase the effectiveness of the sales and use enforcement efforts as the ones described above.

The Department of the Treasury has also implemented a temporary measure to collect on payroll and employer withholding debts. This measure allows employers to enter into payment plans with the Treasury Department, subject to the employer making a down payment of 25%, in the case of payroll debts, and 40%, in the case of employer withholding debts, of the total outstanding debt. Additional revenue enhancing measures such as the sale of tax accounts receivable are being actively planned to further reduce the deficit for the fiscal year 2014.

On April 4, 2013, the Governor of Puerto Rico signed into law Act 3 of 2013 (“Act 3”), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth, the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth’s General Fund. Based on current census data, expectations of market conditions and other actuarial information provided by consulting actuaries, the changes instituted by Act No. 3, along with the additional annual contribution of $140 million to be received from the Commonwealth during the next 20 years, will be sufficient to cover the Employees Retirement System’s current and future obligations. (See Note 25 for further description about this comprehensive reform.)

4. RESTATEMENTS AND CHANGES IN REPORTING ENTITY

Subsequent to the issuance of the Commonwealth's basic financial statements for the year ended June 30, 2011, management of various component units determined that their respective 2011 financial statements were misstated. Also, during the year ended June 30, 2012, other government agencies and discretely presented component units experienced changes in reporting entity caused by various mergers.

Changes in Reporting Entities — Primary Government — The following table summarizes the changes to net assets (deficit) at the beginning of the year as previously reported in the statement of activities by the primary government as a result of the merger between the Puerto Rico Council on General Education, an agency of the primary government, and the Puerto Rico Council on Higher Education, a former discretely presented component unit, into the Puerto Rico Council on Education, a newly formed discretely presented component unit; and the merger of the Right to Employment Administration, a former discretely presented component unit, into the Department of Labor and Human Resources of the Commonwealth, and agency of the primary government, presented in the governmental activities (expressed in thousands):

	Primary Government	
	Governmental Activities	Totals Primary Government
Net assets (deficit) — beginning of year, as previously reported	$ (34,508,201)	$ (33,677,975)
Changes in reporting entities:		
Puerto Rico Council on Education	323	323
Department of Labor and Human Resources	(1,257)	(1,257)
Net assets (deficit) — beginning of year, as restated	$ (34,509,135)	$ (33,678,909)

The following table summarizes the changes to fund balances (deficit) at the beginning of the year as previously reported in the statement of revenues, expenditures, and changes in fund balances (deficit) by the governmental funds as a result of the merger between the Puerto Rico Council on General Education, an agency within the general fund, and the Puerto Rico Council on Higher Education, a former discretely presented component unit, into the Puerto Rico Council on Education, a newly formed discretely presented component unit; and the merger of the Right to Employment Administration, a former discretely presented component unit, into the Department of Labor of the Commonwealth, an agency within the general fund (expressed in thousands):

	General Fund	Total Governmental
Fund balances (deficit) — beginning of year — as previously reported	$ (251,060)	$ 1,648,038
Changes in reporting entities:		
Puerto Rico Council on Education	(122)	(122)
Department of Labor and Human Resources	792	792
Fund balances (deficit) — beginning of year, as restated	$ (250,390)	$ 1,648,708

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

Net assets — beginning of year — as previously reported	$9,541,972
Changes in reporting entities:	
Puerto Rico Council on Education	(323)
Department of Labor and Human Resources	1,257
Restatements of nonmajor component units	(55,870)
Net assets — beginning of year — as restated	$9,487,036

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, 2012, 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, 2012 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	$ 52,286	14.08 %
Commonwealth	131,033	35.29
The Children's Trust	23,201	6.25
Public Buildings Authority	797	0.21
Total for primary government	207,317	55.83
Discretely presented component units:		
Government Development Bank for Puerto Rico	119,191	32.10
Puerto Rico Aqueduct and Sewer Authority	32,988	8.89
Puerto Rico Infrastructure Financing Authority	9,493	2.56
State Insurance Fund Corporation	1,039	0.28
Solid Waste Authority	622	0.17
Puerto Rico Electric Power Authority	310	0.08
Puerto Rico Highways and Transportation Authority	171	0.05
Total for discretely presented component units	163,814	44.13
Other governmental entities	139	0.04
Total for all participants	$ 371,270	100.00 %

The deposits at June 30, 2012 were invested in securities with a cost that approximates fair value, plus accrued interest, for approximately $371.3 million. The external portion of PRGITF was not considered significant for separate reporting in the accompanying basic financial statements.

As June 30, 2012, the PRGITF's investments were rated A1 or AA+ 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, 2012, presented at amortized cost (expressed in thousands):

Securities purchased under agreements to resell	$ 113,389
Commercial paper	102,937
U.S. government and sponsored agencies obligations	66,656
Treasury notes	42,524
Money market funds	18,942
Certificates of deposit and time deposits	14,800
Corporate obligations	10,723
Other assets in excess of liabilities	1,299
Total	$ 371,270

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, 2012 consists of the following (expressed in thousands):

	Carrying Amount			Bank
	Unrestricted	Restricted	Total	Balance
Commercial banks	$ 442,484	$ 1,049,644	$ 1,492,128	$ 1,468,925
Governmental banks	482,465	1,497,581	1,980,046	2,258,594
U.S. Treasury	-	382,883	382,883	382,883
Total	$ 924,949	$ 2,930,108	$ 3,855,057	$ 4,110,402

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

At year-end, the Commonwealth's bank balance of deposits in commercial banks amounting to approximately $1.5 billion was covered by federal depository insurance or by collateral held by the Commonwealth's agent in the Commonwealth's name. Deposits of approximately $382.9 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, 2012 amounted to approximately $2.3 billion are also uninsured and uncollateralized. These deposits in governmental banks are maintained with GDB and EDB. Deposits maintained in GDB and EDB are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk, because in the event of GDB's or EDB's failure, the Commonwealth may not be able to recover these deposits.

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

The bank balance of GDB's and EDB's deposits at June 30, 2012 is broken down as follows (expressed in thousands):

Primary government	$2,126,764
Discretely presented components units	1,134,134
Total pertaining to the Commonwealth	3,260,898
Municipalities of Puerto Rico	693,463
Other nongovernmental entities	62,087
Escrow accounts	733,534
Certificates of deposit	1,860,566
Total deposits per GDB and EDB	$6,610,548

Investments:

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

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

Governmental Activities — The following table summarizes the type and maturities of investments held by the governmental activities at June 30, 2012 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (In Years)				
Investment Type	**Within One Year**	**After One to Five Years**	**After Five to Ten Years**	**After Ten Years**	**Total**
U.S. government securities	$416,927	$ 20,157	$ -	$ -	$ 437,084
U.S. government agencies notes — FNMA	-	325,374	-	-	325,374
U.S. corporate bonds and notes	22,906	-	-	-	22,906
PRGITF	75,486	-	-	-	75,486
External investment pools — fixed–income securities:					
Dreyfus Government Cash Management	129,497	-	-	-	129,497
Others	-	-	-	26,838	26,838
Nonparticipating investment contracts — Bayerische Hypo-und Vereinsbank AG	-	-	-	83,684	83,684
Total debt securities and fixed–income investment contracts	$644,816	$345,531	$ -	$110,522	$1,100,869
Reconciliation to the government-wide statement of net assets (deficit):					
Unrestricted investments and investment contracts					$ 23,268
Restricted investments and investment contracts					1,077,601
Total					$1,100,869

The credit quality ratings (Standard and Poor's) and fair value by investment type for the investments reported by the governmental activities at June 30, 2012 consist of the following (expressed in thousands):

	Credit Risk					
	Rating					
Investment Type	No Risk	AAA To A-	BBB+ to B-	CCC	Not Rated	Total
U.S. government securities	$437,084	$ -	$ -	$ -	$ -	$ 437,084
U.S. government agencies notes — FNMA	-	325,374	-	-	-	325,374
U.S. corporate bonds and notes	-	22,906	-	-	-	22,906
PRGITF	-	75,486	-	-	-	75,486
External investment pools — fixed–income securities:						
Dreyfus Government Cash Management	-	129,497	-	-	-	129,497
Others	-	26,838	-	-	-	26,838
Nonparticipating investment contracts — Bayerische Hypo-und Vereinsbank AG	-	83,684	-	-	-	83,684
Total debt securities and fixed–income investment contracts	$437,084	$663,785	$ -	$ -	$ -	$1,100,869

The Commonwealth classified approximately $131.8 million of investments presented in PRGITF (see Note 5) as cash and cash equivalents.

Business Type Activities — The following table summarizes the type and maturities of investments held by the business-type activities at June 30, 2012 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (In Years)				
Investment Type	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
U.S. government and agency securities	$183	$ -	$1,994	$ 946	$ 3,123
Mortgage and asset-backed securities:					
GNMA	-	-	-	1,892	1,892
FNMA	-	-	10	3,220	3,230
Federal Home Loan Mortgage Corporation (FHLMC)	-	-	318	3,688	4,006
Commercial mortgages	28	-	-	1,781	1,809
Asset–backed securities	-	1,124	106	-	1,230
U.S. corporate bonds and notes	-	2,286	5,443	1,943	9,672
Foreign corporate and government bonds and notes	-	242	687	-	929
U.S. municipal notes	-	-	56	721	777
Total debt securities and fixed–income investment contracts	$211	$3,652	$8,614	$14,191	26,668
External investment pools — equity securities:					
SPDR S&P 500 ETF Trust					6,108
MFC ISHARES TR Russell 2000 index Fund					972
MFC ISHARES TR MSCI EAFE Index Fund					68
MFC Vanguard Tax-Managed Intl Fund					722
Total					$34,538
Reconciliation to the government-wide statement of net assets (deficit):					
Unrestricted investments and investment contracts					$ -
Restricted investments and investment contracts					34,538
Total					$34,538

The credit quality ratings (Standard and Poor's) and fair value by investment type for the investments reported by the business-type activities at June 30, 2012 consist of the following (expressed in thousands):

Investment Type	Credit Risk Rating: No Risk	AAA To A-	BBB+ to B-	Not Rated	Total
U.S. government securities	$3,123	$ -	$ -	$ -	$ 3,123
Mortgage and asset-backed securities:					
GNMA	1,892	-	-	-	1,892
FNMA	-	3,230	-	-	3,230
FHLMC	-	4,006	-	-	4,006
Commercial mortgages	-	1,546	-	263	1,809
Asset–backed securities	-	451	-	779	1,230
U.S. corporate bonds and notes	-	6,602	3,070	-	9,672
Foreign corporate and government bonds and notes	-	744	185	-	929
U.S. municipal notes	-	777	-	-	777
Total debt securities	$5,015	$17,356	$3,255	$1,042	$26,668

Component Units — Cash and cash equivalents of the component units at June 30, 2012 consist of (expressed in thousands):

	Carrying Amount: Unrestricted	Restricted	Total	Bank Balance
Commercial banks	$ 1,682,465	$ 1,609,710	$ 3,292,175	$ 3,253,580
Governmental banks	556,912	545,081	1,101,993	1,178,781
Total	$ 2,239,377	$ 2,154,791	$ 4,394,168	$ 4,432,361

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

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

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

As of June 30, 2012, the component units had approximately $1.2 billion of cash and cash equivalents that were exposed to custodial credit risk as uninsured and uncollateralized.

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

- U.S. government and agencies obligations
- Certificates of deposit and time deposits

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

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

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

The following table summarizes the type and maturities of investments held by the component units at June 30, 2012 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (In Years)				
Investment Type	**Within One Year**	**After One to Five Years**	**After Five to Ten Years**	**After Ten Years**	**Total**
U.S. government securities	$ 167,049	$ 894,337	$ 128,837	$ 118,743	$ 1,308,966
U.S. government sponsored agencies notes:					
Federal Home Loan Bank (FHLB)	10,632	420,981	250,041	24,957	706,611
FNMA	120,340	303,146	497,043	98,470	1,018,999
FHLMC	14,091	215,171	126,928	298	356,488
Federal Farm Credit Bank (FFCB)	-	127,683	1,612	35,329	164,624
Other	962	260	3,419	757	5,398
Mortgage and asset–backed securities:					
GNMA	359	1,733	8,638	319,308	330,038
FNMA	27,749	66,708	26,459	1,442,639	1,563,555
FHLMC	4,632	61,207	11,107	265,360	342,306
Commercial mortgages	-	9,533	5,873	32,845	48,251
Asset–backed securities	-	14,991	4,772	14,317	34,080
Other	98,692	1,502	10,630	123,944	234,768
U.S. corporate bonds and notes	545,008	578,694	151,621	27,715	1,303,038
Foreign government bonds and notes	279	28,945	44,213	383	73,820
U.S. municipal notes	13,262	111,792	275,337	502,715	903,106
Commonwealth agency bonds and notes	145,310	551,373	300,537	591,621	1,588,841
Money market funds	338,952	-	-	-	338,952
Negotiable certificates of deposit	416,864	-	-	-	416,864
Repurchase agreements	262,250	-	-	-	262,250
PRGITF	119,191	-	-	-	119,191
External investment pools — fixed–income securities	131,762	385	-	4,913	137,060
Nonparticipating investment contracts	13,444	-	15,863	324,251	353,558
Others	9,041	5,903	-	11,345	26,289
Total debt securities and fixed–income investment contracts	$2,439,869	$3,394,344	$1,862,930	$3,939,910	11,637,053
Equity securities:					
U.S. corporate stocks					385,518
Non U.S. corporate stocks					8,086
External investment pools — equity securities					89,954
Limited partnership/private equity					165,547
Total					$12,286,158
Reconciliation to the government-wide statement of net assets (deficit):					
Unrestricted investments and investment contracts					$ 7,156,271
Restricted investments and investment contracts					5,129,887
Total					$12,286,158

All investments in U.S. Treasury securities and mortgage-backed securities guaranteed by GNMA carry the explicit guarantee of the U.S. government and are presented as "No Risk" category in the table below. The credit quality ratings for investments held by the component units at June 30, 2012 are as follows (expressed in thousands):

	Credit Risk					
	Rating					
Investment Type	**No Risk**	**AAA To A-**	**BBB+ to B-**	**CCC**	**Not Rated**	**Total**
U.S. government securities	$1,234,932	$ 74,034	$ -	$ -	$ -	$ 1,308,966
U.S. government sponsored agencies notes:						
FHLB	-	706,611	-	-	-	706,611
FNMA	-	1,018,768	-	-	231	1,018,999
FHLMC	-	353,649	2,839	-	-	356,488
FFCB	-	164,624	-	-	-	164,624
Other	-	5,398	-	-	-	5,398
Mortgage and asset–backed securities:						
GNMA	289,072	39,716	-	-	1,250	330,038
FNMA	-	1,479,359	-	-	84,196	1,563,555
FHLMC	-	316,220	410	-	25,676	342,306
Commercial mortgages	-	44,382	229	144	3,496	48,251
Asset–backed securities	-	28,023	-	-	6,057	34,080
Other	-	130,156	101,818	-	2,794	234,768
U.S. corporate bonds and notes	-	683,562	618,848	-	628	1,303,038
Foreign government bonds and notes	-	70,015	1,227	-	2,578	73,820
U.S. municipal notes	-	855,302	43,601	-	4,203	903,106
Commonwealth agency bonds and notes	-	29,163	1,299,216	-	260,462	1,588,841
Money market funds	-	245,508	-	-	93,444	338,952
Negotiable certificates of deposit	17,606	270,047	-	-	129,211	416,864
Repurchase agreements	-	200,000	-	-	62,250	262,250
PRGITF	-	119,191	-	-	-	119,191
External investment pools — fixed–income securities	-	74,764	1,039	-	61,257	137,060
Nonparticipating investment contracts	-	332,713	20,845	-	-	353,558
Others	-	4,272	2,716	-	19,301	26,289
Total debt securities and fixed–income investment contracts	$1,541,610	$7,245,477	$2,092,788	$ 144	$ 757,034	$11,637,053

Certain component units classified approximately $44.6 million of investments presented in PRGITF as cash and cash equivalents.

The component units had approximately $198 million in various types of U.S. Government and agency securities, mortgage-backed securities and other investments that were exposed to custodial credit risk as uninsured, unregistered, and held by the counterparties or by their trust departments or agents, but not in the component units' name.

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. SIFC limits its exposure to foreign currency risk by limiting the total amount invested to 5% of the portfolio. As of June 30, 2012, the SIFC had the following investments denominated in foreign currency (expressed in thousands):

Description	Currency	Fair Value
Common stock:	Australian Dollar	$ 5,351
	British Pound	6,219
	Canadian Dollar	2,014
	DKK	626
	Euro	11,913
	Hong Kong dollar	2,136
	Japanese Yen	17,298
	Norwegian Krone	2,421
	Singapore Dollar	1,461
	Swedish Krona	206
	Swiss Franc	4,304
Preferred stock —	Euro	1,113
Government bonds:	British Pound	4,330
	Euro	2,746
Total		$ 62,138

Fiduciary Funds — Cash and cash equivalents of the fiduciary funds at June 30, 2012 consist of the following (expressed in thousands):

	Carrying Amount			Bank
	Unrestricted	Restricted	Total	Balance
Commercial banks	$ 1,341,950	$ -	$ 1,341,950	$ 1,355,672
Governmental banks	736,459	233,931	970,390	1,038,881
Total	$ 2,078,409	$ 233,931	$ 2,312,340	$ 2,394,553

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

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

As of June 30, 2012, the fiduciary funds had approximately $1,690 million of cash and cash equivalents that were exposed to custodial credit risk as uninsured and uncollateralized.

Investments — The carrying value of investments held by the Pension Trust Fund as of June 30, 2012, is as follows (in thousands):

Bonds and notes:	
U.S. government and sponsored agencies' securities	$ 334,710
Non U.S. government securities	13,044
Municipal bonds	52,499
COFINA bonds	245,339
U.S. corporate bonds	1,404,522
Non U.S. corporate bonds	34,634
Total bonds and notes	2,084,748
Stocks and non-exchange traded funds:	
U.S. corporate stocks	264,042
Non-U.S. corporate stocks	196,783
Non-exchange traded mutual funds:	
U.S. Equity and other funds	963,169
Fixed income funds:	
U.S.	236,381
Non-U.S.	125,665
Total stocks and non-exchange traded mutual funds	1,786,040
Private equity investments	76,591
Total investments	$ 3,947,379

The Pension Trust Fund's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2012:

Custodial Credit Risk Related to Investments — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Pension Trust Fund may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2012, securities investments were registered in the name of the Pension Trust Fund and were held in the possession of the Pension Trust Fund's custodian banks, State Street Bank and Trust and Bank of New York Mellon, except for securities lent.

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

The Pension Trust Fund's U.S. government and sponsored agencies' securities portfolio includes approximately $64.2 million of U.S. Treasury notes and approximately $167.5 million of mortgage-backed securities guaranteed by GNMA, which carry the explicit guarantee of the U.S. government.

The Moody's ratings of bonds as of June 30, 2012, excluding U.S. Treasury notes and bonds and mortgage-backed securities guaranteed by GNMA are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa	U.S. government and sponsored agencies securities	$ 227,338
Aaa	U.S. corporate bonds	52,523
Aaa	Municipal bonds	8,659
Aaa	U.S. sponsored agencies MBS	60,546
Aaa	Asset-backed securities	3,611
Aaa	Commercial Mortgage	3,379
Aaa	Non U.S. corporate bonds	11,221
Aa1	U.S. corporate bonds	10,865
Aa1	Municipal bonds	945
Aa1	Non U.S. government bond	234
Aa1	Non U.S. corporate bonds	402
Aa2	U.S. corporate bonds	29,044
Aa2	Municipal bonds	9,439
Aa2	U.S. government sponsored agencies securities	151
Aa2	Non U.S. government bond	1,337
Aa2	Non U.S. corporate bonds	606
Aa3	U.S. corporate bonds	65,962
Aa3	Non U.S. government bonds	598
Aa3	Municipal bonds	2,470
A1	Municipal bonds (COFINA Bonds)	245,339
A1	Municipal bonds	5,360
A1	U.S. corporate bonds	120,632
A1	Non U.S. government bonds	1,054
A1	Non U.S. corporate bonds	829
A2	U.S. government and sponsored agencies securities	1,547
A2	U.S. corporate bonds	208,082
A2	Non U.S. government bonds	2,679
A2	Municipal bonds	12,341
A2	Non U.S. corporate bonds	6,718
A3	U.S. government and sponsored agencies securities	1,486
A3	Non U.S. government bonds	2,565
A3	U.S. corporate bonds	207,578
A3	Non U.S. corporate bonds	2,614
A3	Municipal bonds	57
Baa1	U.S. corporate bonds	199,266
Baa1	Municipal bonds	13,946
Baa1	Non U.S. government bonds	1,472
Baa1	Non U.S. corporate bonds	5,422
Baa2	U.S. corporate bonds	307,188
Baa2	Non U.S. government bonds	399
Baa2	Non U.S. corporate bonds	2,452
Baa3	U.S. government and sponsored agencies securities	1,549
Baa3	U.S. corporate bonds	148,287
Baa3	Non U.S. government bonds	82
Baa3	Non U.S. corporate bonds	2,055
Ba1	U.S. corporate bonds	19,392
Ba2	U.S. corporate bonds	6,597
Ba3	U.S. corporate bonds	7,079
B1	U.S. corporate bonds	1,669
B1	Commercial Mortgage	29
B2	U.S. corporate bonds	2,547
B3	U.S. corporate bonds	463
B3	Commercial Mortgage	70
B3	Asset-backed securities	39
Caa1	Commercial Mortgage	101
Caa2	Commercial Mortgage	214
Caa3	Commercial Mortgage	28
NR	Commercial Mortgage	2,635
NR	U.S. corporate bonds	1,388
NR	Non U.S. government bonds	3,064
NR	Non U.S. corporate bonds	1,276
NR	Various	8,054
WR	U.S. corporate bonds	4,506
WR	Non U.S. corporate bonds	600
	Subtotal	2,050,080
	U.S. Treasury notes and bonds	18,921
	Government National Mortgage Association (GNMA)	15,747
	Total bonds and notes	$2,084,748

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

Moody's credit ratings for the underlying investments comprising the SSgA Intermediate Fund as of June 30, 2012, are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa/Aa1	Government sponsored	$ 43,554
Aa2/Aa3	Government sponsored	9,811
A1/A2	Government sponsored	9,015
A3/Baa1	Government sponsored	12,744
Aa3/A1	Corporate bonds	1,122
A2/A3	Corporate bonds	171,574
A3/Baa1	Corporate bonds	81,786
Baa1/Baa2	Corporate bonds	32,440
Total		$ 362,046

Concentration of Credit Risk — No ERS and JRS investment in marketable securities in any organization represents 5% or more of ERS and JRS net assets held in trust for pension benefits. There are no TRS investments in any one issuer that represent 5% or more of total investments as of June 30, 2012. TRS investment guidelines specify that no more than 5% of a manager's assets at market shall be invested in the securities of any single issuer.

As of June 30, 2012, the Pension Trust Fund owned shares in the SSgA's S&P 500 Flagship Fund (the "S&P 500 Fund"), the SSgA Russell 3000 Index Non Lending Fund (the "Russell 3000 Fund"), and the SSgA Intermediate Fund, as follows (in thousands):

Fund Name	Shares	Fair Value
S&P 500 Fund	192	$ 55,981
Russell 3000 Fund	68,799	907,188
SSgA Intermediate Fund	13,562	362,046
Total		$ 1,325,215

The investment objectives of the S&P 500 Fund and the Russell 3000 Fund are to match the return of the Standard & Poor's 500 Index and the Russell 3000 Index, respectively. Shares of these funds can be redeemed on a daily basis at NAV and have no redemption restrictions. The Pension Trust Fund's investment in these funds is included as part of non-exchange traded mutual funds.

As of June 30, 2012, the investments underlying the S&P 500 Fund, the Russell 3000 Fund, and the SSgA Intermediate Fund had the following sector allocations:

Sector	S&P 500 Fund	Russell 3000 Fund	SSgA Intermediate Fund
Information technology	20 %	19 %	4 %
Health care	12	12	-
Financials	14	16	30
Energy	11	9	5
Consumer staples	11	10	11
Industrials	11	11	6
Consumer discretionary	11	12	5
Utilities	4	4	7
Telecommunication services	3	3	7
Materials	3	4	4
Government sponsored	-	-	21
Totals	100 %	100 %	100 %

Interest Rate Risk — In accordance with their investment policy, ERS and JRS manage their exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. The Pension Trust Fund is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable investment-grade core fixed-income securities. TRS investment guidelines specify that the duration of the portfolio is expected to vary no more than between 75% and 125% of the duration of the respective benchmark.

The contractual maturities of investments in debt securities as of June 30, 2012, are as follow (in thousands):

		Maturity (in Years)				
	Maturity Between	Less than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years	Fair Value
U.S. government and sponsored agencies securities	(2013–2051)	$ 16,413	$ 82,280	$ 71,387	$ 164,630	$ 334,710
U.S. corporate bonds	(2013–2067)	63,453	500,454	676,707	163,908	1,404,522
Non-U.S. government bonds	(2014–2042)	-	5,529	4,718	2,797	13,044
Non-U.S. corporate bonds	(2013–2067)	506	20,496	11,970	1,662	34,634
Municipal bonds	(2013–2033)	-	19,593	27,914	4,992	52,499
COFINA bonds	(2043–2048)	-	-	-	245,339	245,339
Total		$ 80,372	$628,352	$792,696	$583,328	$ 2,084,748

As of June 30, 2012, investment maturities as a percentage of total debt securities are as follows:

Maturity	Maximum Maturity
Less than one year	3 %
One to five years	31
More than five to ten years	38
More than ten years	28
Total	100 %

Foreign Currency Risk — As of June 30, 2012, ERS investments in the SSgA Intermediate Fund amounting to approximately $241 million represented 31% of the total commingled fund. TRS international portfolio is expected to achieve long-term and aggressive capital appreciation by investing in Core EAFE (Europe Australasia and the Far East) securities. The portfolio is expected to be broadly diversified with respect to exposures to countries, economic sectors, industries, and individual stock. No single issue is expected to exceed 5% (at market) of the portfolio.

The Pension Trust Fund's investments and deposits exposed to foreign currency risk as of June 30, 2012, are as follows:

Investment Type	Local Currency	Fair Value (in thousands)
Foreign currency	Australian Dollar	$ 3
Foreign currency	Euro Currency	326
Foreign currency	Japanese Yen	53
Foreign currency	Singapore Dollar	15
Total cash exposed to foreign currency risk		397
Common stock	Australian Dollar	17,536
Common stock	Canadian Dollar	4,629
Common stock	British Sterling Pound	36,039
Common stock	Danish Krone	7,159
Common stock	Euro Currency	36,469
Common stock	Hong Kong Dollar	7,023
Common stock	Japanese Yen	48,401
Common stock	Norwegian Krone	5,706
Common stock	South Africa Rand	1,174
Common stock	Singapore Dollar	1,766
Common stock	South Korean Won	1,189
Common stock	Swedish Krona	7,142
Common stock	Swiss Franc	19,135
Common stock	Turkish Lira	815
Total common stock		194,183
Preferred stock	Euro Currency	2,600
Total cash and securities exposed to foreign currency risk		$ 197,180

As of June 30, 2012, the composition of the underlying investments in the SSgA Intermediate Fund by country was as follows:

	Currency	Percentage
Europe:		
Germany	Euro	4 %
Switzerland	Swiss Franc	1
United Kingdom	Sterling Pound	4
Total Europe		9
Pacific Basin:		
Australia	Australian Dollar	1
Japan	Japanese Yen	1
Total Pacific Basin		2
Americas:		
Canada	Canada Dollar	5
Mexico	Mexican Peso	2
Brazil	Brazilian Real	2
U.S.	U.S. Dollar	65
Total Americas		74
Supranational	Various	8
Other	Various	7
Total investments		100 %

7. SECURITIES LENDING AND REPURCHASE AGREEMENT TRANSACTIONS

During the year, the pension trust funds, included within the fiduciary funds; the Government Development Bank for Puerto Rico (GDB), the Economic Development Bank (EDB), and the State Insurance Fund Corporation (SIFC), discretely presented component units, entered into securities lending and securities sold with agreements to repurchase transactions. These transactions are explained below:

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

At year end, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes the borrowers (the "collateral") exceeded the amounts the borrowers owe the Retirement System. At June 30, 2012, the collateral received represented 102% of the fair value of the domestic securities lent.

The securities on loan for which collateral was received as of June 30, 2012, consisted of the following (expressed in thousands):

Description	Fair Value of Underlying Securities
U.S. government and sponsored agencies' securities	$ 26,591
U.S. corporate stocks	3,116
U.S. corporate bonds	1,395
Non-U.S. corporate stocks	3,091
Non-exchange traded mutual funds:	
U.S.	34,156
Non U.S.	6,484
Total	$ 74,833

The underlying collateral for these securities had a fair value of approximately $76 million as of June 30, 2012. The collateral received was invested in a short term investment fund sponsored by the custodian bank and is presented as collateral for securities lending transactions in the accompanying statement of fiduciary net assets.

As of June 30, 2012, the distribution of the short-term investment fund by investment type is as follows:

Investment Type	Percentage
Securities bought under agreements to resell	100.00 %

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

Component Units:

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

Carrying amount at June 30, 2012	$ 884,484
Maximum amount outstanding at any month-end	1,962,901
Average amount outstanding during the year	1,268,238
Weighted average interest rate for the year	0.47 %
Weighted average interest rate at year-end	0.81 %

The following summarizes the activity of securities sold under agreements to repurchase for the year ended June 30, 2012 (expressed in thousands):

	Beginning Balance	Issuances	Maturities	Ending Balance
GDB Operating Fund	$ 970,819	$ 15,561,953	$ 15,648,288	$ 884,484

All sales of investments under agreements to repurchase are for fixed terms. In investing the proceeds of securities sold under agreements to repurchase, GDB's policy is for the term to maturity of investments to be on or before the maturity of the related repurchase agreements. At June 30, 2012, the total amount of securities sold under agreements to repurchase mature within one year.

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

Carrying amount at June 30, 2012	$ 123,925
Average amount outstanding during the year	151,811
Maximum amount outstanding at any month-end	171,210
Weighted average interest rate for the year	1.88 %
Weighted average interest rate at year-end	1.66 %

As of June 30, 2012, securities sold under agreements to repurchase were collateralized with mortgage-backed securities, other government agencies securities, and other investments with a market value of $132.1 million.

The activity for securities sold under agreements to repurchase during 2012 was as follows (expressed in thousands):

	Beginning Balance	Issuances	Maturities	Ending Balance	Amounts Due Within One Year
Securities sold under agreements to repurchase	$ 137,400	$ 957,091	$ 970,566	$ 123,925	$ 104,925

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 collateral, securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the SIFC unless the borrower defaults. The collateral requirement is equal to 102% for securities issued in the United States of America and 105% for securities issued outside of the United States of America, of the fair value of the securities lent. Additional collateral has to be provided by the next business day if it's fair value falls to less than 100% of the fair value of the securities lent. All security loans can be terminated on demand by either the SIFC or the borrower. In lending securities, the term to maturity of the securities loans is matched with the term to maturity of the investment of the cash collateral. Such matching existed at year-end. At year end, the SIFC has no credit risk exposure to borrowers because the amounts the SIFC owes the borrowers exceed the amounts the borrowers owe SIFC. Contracts with the lending agents require them to indemnify the SIFC if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the SIFC for income distributions by the securities' issuers while the securities are on loan.

Securities lent as of June 30, 2012 had a fair value of $174.5 million and were secured with collateral received with a fair value of $178.4 million. Securities lent for which cash was received as collateral as of June 30, 2012 consist of the following (expressed in thousands):

Description	Fair Value of Underlying Securities
Corporate bonds and notes	$ 33,158
Equity securities	33,256
U.S. sponsored agencies bonds and notes	8,469
U.S. Treasury notes and bonds	34,741
	$ 109,624

Cash collateral received as of June 30, 2012 amounted to $112.1 million and was invested as follows (expressed in thousands):

Description	Fair Value of Underlying Securities
Resell agreements	$ 78,399
Commercial paper	20,659
Certificates of deposit with other banks	13,002
	$ 112,060

In addition, the SIFC had the following lending obligations as of June 30, 2012 for which securities were received as collateral (expressed in thousands):

	Fair Value	
Description	Securities Lent	Investment Collateral Received
U.S. Treasury notes and bonds	$ 58,579	$ 59,925
Equities	75	77
U.S. sponsored agencies bonds and notes	6,243	6,372
	$ 64,897	$ 66,374

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 $45.4 million in limited partnerships during the year ended June 30, 2012. The investments were as follows:

- During fiscal year 2012, there were no contributions to Guayacán Fund of Funds, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc. as general partner, which has total commitments of $55.5 million (of which $45 million are from pension trust funds and the remaining balances from private corporate investors). This fund invests in the United States of America and international private equity partnerships that in turn invest in private companies.

- During fiscal year 2012, 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 2012, approximately $8.3 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 2012, there were no contributions to Guayacán Private Equity Fund, L.P., a Delaware limited partnership, organized by Advent Morro Equity Partners, Inc. as general partner, that has total commitments of $41.9 million (of which $10 million are from the pension trust funds, $20 million are from a component unit and the remaining balance from the private corporate investors in Puerto Rico). This fund invests in Puerto Rico private equities.

- During fiscal year 2012, approximately $4 million were invested in Guayacán Private Equity Fund II, L.P. a Delaware limited partnership, organized by Advent/Morro Partners as general partner, that has total commitments of $69 million (of which $15 million are from pension trust funds, $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 equities.

- During fiscal year 2012, approximately $4 million were invested in GF Capital Private Equity Fund, L.P., a limited partnership, organized under the laws of the State of Delaware, in which the pension trust funds have a total commitment of $25 million. The purpose of the partnership is to make private equity investments in a variety of industries, including media and entertainment, branded consumer products, and software for media and telecommunications applications. The partnership initiatives are focused on companies capitalized at between $20 million to $400 million with a representation of buyouts, growth capital, and recapitalizations.

- During fiscal year 2012, there were no contributions to Chase Capital Partners Private Equity Fund of Funds Corporate Investors II, LTD, a limited partnership, organized by Chase as general partner, in which the pension trust funds have a total commitment of $20 million. The fund's investment strategy is to capitalize on a globally diversified portfolio of private equity investment opportunities across various sectors including buyouts, growth equity, venture capital, and other special situations through partnership and direct investments.

- During fiscal year 2012, there were no contributions to Chase Capital Partners Private Equity Fund of Funds II, LTD, a limited partnership, organized by J.P. Morgan Alternative Asset Management, Inc. as investment manager, in which the pension trust funds have a total commitment of $15 million. The fund's investment strategy is to capitalize on a globally diversified portfolio of private equity investments opportunities across various sectors, including buyouts, growth equity, venture capital and other special situations through partnership, investments, and direct investments.

- During fiscal year 2012, 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 2012, 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 2012, approximately $25 thousand were invested to Invesco U.S. Buyout & Expansion Capital Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC as general partner, in which the pension trust funds have a total commitment of $3.7 million. The partnership was organized to invest in other collective investment funds investing in alternative assets, including primarily investments focusing on small, mid-size, and large domestic buyout transactions.

- During fiscal year 2012, there were no additional contributions to Venture Capital Fund, Inc., a Puerto Rico Corporation, organized pursuant to Act No. 3 of October 6, 1987, as amended, known as the Puerto Rico Capital Investment Funds Act, that is managed by Advent-Morro Equity Partners (Advent-Morro Equity Partners, Inc.) in which the pension trust funds have a total commitment of $800 thousands. Advent-Morro is a Puerto Rico based private equity firm. The fund was created to make private equity investments in operating companies that are based, or are operating, or a combination of both, in Puerto Rico. Since inception, the fund has invested in 25 companies some of which it continues to provide capital for their expansion.

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

- During fiscal year 2012, a component unit invested approximately $22.2 million in U.S. Government Properties Income & Growth Fund, L.P., a limited partnership organized in August 2011 under the laws of the State of Delaware, in which the component unit has a total commitment of $25 million. This partnership is a real estate investment fund that targets investments in assets leased to U.S. General Services Administration and other federal leases located in the United States to provide current income and potential asset appreciation.

- During fiscal year 2012, a component unit invested approximately $5.2 million in McCoy Investments, L.P., a limited partnership organized in August 2011, under the laws of the State of Delaware, in which the component unit has a total commitment of $15 million. This partnership was organized to invest in other pooled investments portfolio funds investing primarily in private equity, including investments in U.S. and non-U.S. venture capital, leveraged buyouts, distressed, turnaround, expansion capital, mezzanine and special situation funds.

The fair value of the pension trust funds' investments in limited partnerships at June 30, 2012, amounted to approximately $76.6 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, 2012, the pension trust funds and discretely presented component units had capital commitments and contributions as follows (expressed in thousands):

	Public Sector Commitments	Fiscal Year Contributions	Cumulative Contributions
Guayacán Fund of Funds, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	$ 25,000	$ -	$ 23,820
Puerto Rico System of Annuities and Pensions for Teachers	20,000	-	19,056
Subtotal	45,000	-	42,876
Guayacán Fund of Funds II, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	25,000	-	23,681
Puerto Rico System of Annuities and Pensions for Teachers	25,000	-	23,681
Subtotal	50,000	-	47,362
Guayacán Fund of Funds III, L.P.			
Component unit — State Insurance Fund Corporation	40,000	8,312	20,039
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	1,786	19,030
Component unit:			
Economic Development Bank for Puerto Rico (1)	20,000	1,429	15,224
State Insurance Fund Corporation	10,000	714	7,612
Subtotal	45,000	3,929	41,866
Other Funds			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	47,596	5,750	45,804
Puerto Rico System of Annuities and Pensions for Teachers	28,714	25	26,453
Component unit — State Insurance Fund Corporation	40,000	27,400	27,400
Subtotal	116,310	33,175	99,657
Total	$326,310	$45,416	$279,668

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

9. RECEIVABLES AND PAYABLES

Governmental and Business — Type Activities — Receivables in the governmental funds include approximately $1.3 billion of accrued income, excise and sales and use taxes. Intergovernmental receivables include approximately $312 million from the federal government and $32.2 million from CRIM. In addition, the enterprise funds include $72.9 million of unemployment, disability, and drivers' insurance premium receivable. Payables in the governmental funds include approximately $835.2 million of trade accounts due to suppliers for purchase of merchandise and services rendered and $851.8 million of tax refunds payable.

In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue,* as amended (the "TB"), a receivable of $40.6 million was recorded as other receivable in the government-wide financial statements for estimated shipments from January 1 to June 30, 2012, which will be applied to debt service upon collection. Additionally, the TB indicated that the trust designated as the TSA (the Children's Trust in the case of the Commonwealth) 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 Children's 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 Children's Trust has no contractual obligation, under its enabling legislation or elsewhere, to remit all bond proceeds or assets related to the TSA to the settling government (the "Commonwealth"), the Children's Trust has not recognized an expense and liability for unpaid proceeds from the bonds since it records the expense as amounts are disbursed as grants to its settling government (including its instrumentalities) or third parties.

Component Units — GDB — Loans to the Commonwealth, its agencies, and instrumentalities amounted to approximately $5.7 billion or 36% of GDB's government wide total assets as of June 30, 2012. These loans are expected to be collected from appropriations from, proceeds from bond issuances of, or revenues generated by, the Commonwealth, and/or its agencies and instrumentalities. The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past thirteen years and its credit ratings have been lowered. In addition, many of the Commonwealth's agencies and instrumentalities have had losses from operations during the past years. The collectability of these loans may be affected by budgetary constraints, the fiscal situation, and the credit rating of the Commonwealth of Puerto Rico, its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges and/or bond issuances. Continuance of and/or significant negative changes in these factors may affect the ability of the Commonwealth and its agencies and instrumentalities to repay their outstanding loan balances with GDB and accordingly, may have an adverse impact on GDB's financial condition, liquidity, funding sources, and results of operations.

GDB's management believes that no losses will be incurred by GDB with respect to principal and interest on most of its loans to the public sector (including municipalities) and, as a result, no allowance for loan losses is generally established for them. For public sector loans, excluding municipalities, GDB's management bases its position in that in the past, the Director of the Commonwealth's Office of Management and Budget (OMB) has included in the budget of the Commonwealth appropriations to assist the Commonwealth and certain of its agencies and instrumentalities requiring financial support in repaying their loans with GDB. The Legislature of the Commonwealth (the "Legislature") has approved these appropriations, and such practice is anticipated to continue in the future. In addition, management's position is based on the fact that GDB has been able to collect most of the loans to such public sector entities with proceeds of bonds or notes issued by the Commonwealth or its agencies and instrumentalities, including bonds issued by COFINA. These public corporations and the

Commonwealth have never defaulted on their respective bonds. GDB has, in the past, collected the outstanding principal and interest at the contractual rate on loans repaid from Commonwealth's appropriations, or bond or note proceeds. Accordingly, no allowance has been established in the case of public sector loans for any shortfall between the present value of the expected future cash flows and the recorded investments in the loans.

Although management of GDB believes that no losses of principal and interest will be incurred by GDB with respect to most loans outstanding to the public sector at June 30, 2012, there can be no assurance that the Director of the OMB will include amounts for loan repayments in the Commonwealths' budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to GDB by the Commonwealth or public sector entities requiring the Commonwealth's support, or that the proceeds from any future bond issuances by COFINA or certain public entities which have financed their capital improvement programs with GDB, will be sufficient to cover the outstanding amount due to GDB at June 30, 2012. In addition, the participation of certain public entities in the bond market has been delayed waiting for the credit rating of such entities to improve or for more favorable market conditions. Because of the relationship among GDB, the public sector entities, the Director of the OMB, and the Legislature, the timing and amount of any financial assistance and bond proceeds to be used to repay certain public sector loans cannot be reasonably estimated by GDB.

At June 30, 2012, loans to public corporations and agencies of the Commonwealth amounting to $5.7 billion are repayable from the following sources (in thousands):

Repayment Source	**Amount**
Proceeds from future bond issuances of public corporations	$ 1,538,175
Operating revenues of public entities other than the Commonwealth	1,043,636
Legislative appropriations — previously from issuance of Commonwealth's general obligation bonds	1,123,959
Legislative appropriations — previously from COFINA	758,397
Legislative appropriations — other	1,157,463
Other — including funds from federal grants	78,174
Total	$ 5,699,804

Since one of GDB's principal functions is to provide financing to the Commonwealth and its instrumentalities, GDB's loan portfolio includes loans to various departments and agencies of the Commonwealth, to various public corporations, and to municipalities, which represent a significant portion of the GDB's government-wide assets. Loans to the Commonwealth and its departments and agencies typically include working capital lines of credit payable from short-term tax and revenue anticipation notes issued by the Commonwealth, interim financing of capital improvements payable from Commonwealth's general obligation bonds or revenue bonds issued by the corresponding agency and, in recent years, loans to finance the Commonwealth's budget deficit payable from COFINA, uncollected taxes and annual appropriations made by the Legislature of Puerto Rico. Loans to the public sector, excluding municipalities, amounted to approximately $5.7 billion or 36% of GDB's government-wide total assets at June 30, 2012.

At June 30, 2012, approximately $3 billion of the public sector loans are payable from legislative appropriations from, or future tax revenues of, the Commonwealth. Accordingly, the payment of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth. Significant negative changes in these factors may have an adverse impact on GDB's financial condition. Since 2000, the Commonwealth's recurring expenditures have exceeded its recurring revenues. These shortfalls were partially covered with loans from GDB and other nonrecurring revenues. From fiscal year 2003 to 2008, GDB granted loans to the Commonwealth aggregating to $1,964 million to cover part of the Commonwealth's deficit. As of June 30, 2012, the outstanding principal amount of these loans was $223 million.

During fiscal year 2012, GDB received $65.1 million and $91.5 million of appropriations to repay principal of and interest on public sector loans whose repayment source was originally from COFINA and from future issuances of Commonwealth's general obligations bonds, respectively. The Commonwealth's general fund budget for fiscal year 2013 includes $65.1 million and $97.9 million of appropriations to repay principal of and interest on public sector loans whose repayment sources was originally from COFINA and from future issuances of Commonwealth's general obligations bonds, respectively. These appropriations are based on payment schedules proposed by GDB, which are based on a period of amortization of 30 years each, at contractual interest rates. GDB will annually submit to the OMB, to be included in the Commonwealth's budget for legislative approval in each subsequent fiscal year, an amount established in the payment schedules with the terms stated above. GDB expects that future appropriations will be approved by the Legislature of the Commonwealth to comply with such schedules. However, there can be no assurance that the Director of OMB will include an amount for loan repayments in the Commonwealth's budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to GDB on these loans.

In addition, at June 30, 2012, approximately $2.7 billion of public sector loans are payable from proceeds from future bond issuances and operating income of public corporations of the Commonwealth. GDB lends funds to such public corporations for capital improvements and operating needs. The loans for capital improvements generally are construction loans and are repaid from the proceeds of future bond issuances of the respective public corporations. Such loans may, however, also be repaid from the revenues of such public corporations, from loans provided by sources other than GDB, from federal grants, and from the sale of assets of such public corporations. The amount of outstanding loans from GDB to the public corporations fluctuates annually, depending upon the capital program needs of the public corporations, the timing and level of their capital expenditures, and their ability to gain access to the long-term capital markets. The participation of certain of these public entities in the bond market has been delayed waiting for the credit rating of such entities to improve or for more favorable market conditions.

As of June 30, 2012, GDB has extended various credit facilities to Puerto Rico Highways and Transportation Authority (PRHTA) for, among other, capital improvement programs, working capital, debt service and collateral posting requirements. The outstanding balance of such facilities amounts to $1.9 billion, including accrued interest of $30.5 million, which represent 12% and 76%, of GDB's total government-wide assets and net assets, respectively, at June 30, 2012. GDB, in its ordinary course of business, provides interim lines of credit to public corporations like PRHTA. These lines of credit have historically been repaid from bond issuances of each public corporation, once they regain or have access to the capital markets. No public corporation has ever defaulted on its obligations with GDB.

PRHTA has reported net operating losses during each of the three fiscal years in the period ended June 30, 2011, and, as a result, GDB has been partially financing its operations through credit facilities. In fiscal year 2010, PRHTA entered into a fiscal oversight agreement with GDB, whereby GDB, among other things, imposes conditions on the extensions of credit to PRHTA and continually monitors its finances. PRHTA expects to repay the credit facilities due to GDB with proceeds from the issuance of bonds within the next two fiscal years. On December 13, 2012, Moody's Investors Service ("Moody's") downgraded PRHTA's transportation revenue bonds from Baa1 to Baa3, PRHTA's highway revenue bonds from A3 to Baa2, and PRHTA's subordinate transportation revenue bonds from Baa2 to Ba1. Managements of PRHTA and GDB are working with various alternatives for PRHTA to gain access to the bond capital market, including, among other, a new trust indenture, revenue increasing measures, and expense reduction measures. If such alternatives are not materialized, PRHTA could default on its credit facilities with GDB, which may have a material adverse effect on the financial condition, operating results and liquidity of GDB. GDB' management, however, believes that in case such alternatives are not materialized, the Commonwealth would provide financial support to PRHTA in order to repay its outstanding borrowings with GDB. On June 25, 2013 the Commonwealth enacted Act No. 31, which amended several articles of the internal revenue code designed to raise PRHTA's revenue base through the increase of applicable excise tax rates to be applied on imports of crude oil, unfinished oil and derivative products. This measure is expected to provide funds to PRHTA to repay the GDB credit facilities. For more details see Note 25 (d).

Pension Trust Funds — Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. For the year ended June 30, 2012, the maximum amount of loans to plan members for mortgage loans was $100,000, and $5,000 for personal and cultural trip loans.

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

As of June 30, 2012, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:	
Personal	$ 961,654
Mortgage	288,368
Cultural trips	73,985
Total loans to plan members	1,324,007
Accrued interest receivable	40,183
Total loans and interest receivable from plan members	1,364,190
Less allowance for adjustments and losses in realization	(4,850)
Total loans and interest receivable from plan members — net	$ 1,359,340

As of June 30, 2012, accounts receivable from employers, included within accounts receivables in the accompanying statement of fiduciary net assets, consisted of the following (in thousands):

Early retirement programs	$ 7,932
Special laws	45,746
Employer and employee contributions	47,795
Interest on late payments	11,413
Total accounts receivable from employers	112,886
Less allowance for doubtful accounts receivable	(911)
Accounts receivable from employers — net	$ 111,975

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

The accounts receivable from employers related to special laws amounts to $45.8 million as of June 30, 2012. The Pension Trust Fund has entered into installment payment agreements with approximately 84% of these employers, while the remaining 16% of employers have not entered into installment payments with the Pension Trust Fund.

As of June 30, 2012, accounts receivable from employers include amounts due from Puerto Rico Medical Service Administration ("ASEM" by its Spanish acronym) of approximately $16.7 million, as follow (in thousands):

Employer and employee contributions	$ 11,150
Interest	5,507
Total accounts receivable from ASEM	$ 16,657

During fiscal year 2011, the Commonwealth's Legislature approved Act No. 2961 assigning funds to ASEM to settle its account receivable with ERS as of June 30, 2010. ASEM and ERS have established a 3 year payment plan for the remaining outstanding balance of employer and employee contributions owed. On January 5, 2011, ERS received an initial payment of $54 million. In addition, in August 2011, ERS received an interest payment of $14 million.

10. PLEDGES OF RECEIVABLES AND FUTURE REVENUES

The Commonwealth has pledged the first two point seventy-five (2.75%) percent of the sales and use tax for the repayment of certain outstanding obligations of the Commonwealth. During 2012, 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 $1,878 million payable through 2058. 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 $35.1 billion and $18.1 billion, respectively. The pledged sale and use tax base amount for the fiscal year ended June 30, 2012 amounted to $595 million. For fiscal year 2012, interest paid by COFINA amounted approximately to $588 million and issuance costs of approximately $15 million. Sales and use tax revenue recognized by the Commonwealth was $601.4 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) derived from excise taxes over crude oil and its derivatives 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 $4.7 billion and $4.6 billion, respectively. The pledged excise tax for the fiscal year ended June 30, 2012 amounted to $120 million. For fiscal year 2012, principal and interest paid by PRHTA amounted to $1,003 million and $453 million, respectively, and the excise tax revenue recognized by the Commonwealth was $260 million.

Rum manufactured in Puerto Rico is subject to federal excise taxes; however, these are returned by the U.S. Internal Revenue Service (IRS) to the Commonwealth. Act No. 44, as amended, requires that in each fiscal year through fiscal year 2057, the first $117 million, of certain federal excise taxes received by the Commonwealth be transferred to the Puerto Rico Infrastructure Financing Authority ("PRIFA"). Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. Treasury and returned to the Commonwealth. The Commonwealth has pledged these taxes for the repayment of PRIFA's Special Tax Revenue Bonds (the "Bonds"). The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by PRIFA. PRIFA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. The federal excise taxes securing the Bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. The level of federal excise taxes to be received by the Commonwealth is currently expected to decrease, although the exact amount cannot be determined. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, Act No. 44 requires that PRIFA request and the Director of the Office of Management and Budget of the Commonwealth include in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Commonwealth's Legislature, however, is not obligated to make the necessary appropriation to cover such deficiency. Total principal and interest remaining on the secured debt is $2.5 billion and $1.4 billion, respectively. For the year ended June 30, 2012, of the total of $117 million received by PRIFA from the Commonwealth, a total of $113 million was pledged for the debt service of the Special Tax Revenue Bonds. For fiscal year 2012, principal and interest paid by PRIFA amounted to $112.2 million.

11. INTERFUND AND INTRAENTITY TRANSACTIONS

Interfund receivables and payables at June 30, 2012 are summarized as follows (expressed in thousands):

Receivable Fund	Payable Fund	
COFINA Debt Service	Pledged Sales and Use Tax	$ 102,879
Lotteries	General	67,559
Other governmental	General	65,254
General	Lotteries	27,180
General	Unemployment	20,630
Other proprietary	General	18,131
General	Other governmental	1,684
General	Other proprietary	803
		$ 304,120

Transfers from (to) other funds for the year ended June 30, 2012 are summarized as follows (expressed in thousands):

Transferee Fund	Transferor Fund	
COFINA Special Revenue	COFINA Debt Service	$ 963,236
General	COFINA Special Revenue	952,615
Debt service	General	745,201
General	Debt service	704,889
COFINA Debt Service	Pledged Sales and Use Tax	601,393
Other governmental	General	409,840
Other governmental	Other governmental	259,104
General	Lotteries	165,142
General	Unemployment	57,584
Debt service	Other governmental	25,198
Other proprietary	General	4,907
General	Other proprietary	1,975
		$ 4,891,084

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

a. Transfer of ($963,236) from the COFINA Debt Service Fund to the COFINA Special Revenue Fund to be transferred to the General Fund for the purpose stated below.

b. Transfer of ($952,615) from the COFINA Special Revenue Fund to the General Fund to fund the Fiscal Stabilization Fund and the Local Stimulus Economic Plan and for the payment of extra constitutional debt.

c. Transfer of ($745,201) from the General Fund to the Debt Service Fund to make funds available for debt service payments.

d. Transfer of ($704,889) from the Debt Service Fund to the General Fund for the payment of principal and interests on notes payable.

e. Distribution of the sales and use tax for the use of COFINA Debt Service fund as required by enabling legislation for the payment of its bonds ($601,393).

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 ($331,491); ($72,491) 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 ($5,858) to the Puerto Rico Maritime Shipping Authority for the payment of appropriation debts.

g. Transfers from the PBA debt service fund to the PBA special revenue fund ($118,050) and PBA capital project fund ($141,054).

h. Transfer of ($165,142) from the Lotteries to the General Fund to distribute the increase in net assets of the Lotteries for the use of the General Fund, as required by the Lotteries enabling legislation.

i. Transfer from the Unemployment Insurance Fund related to the distribution of surplus cash corresponding to the General Fund for the payment of administrative expenses ($57,584).

j. Transfer of ($25,198) from the Commonwealth's Capital Projects Fund to the Debt Service Fund for the payment of interest of its bonds.

k. Transfer to provide local matching funds from the General Fund to the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund and the Puerto Rico Water Pollution Control Revolving Fund, nonmajor enterprise funds of the Commonwealth ($4,907).

l. Transfer from the Drivers' and Disability Insurance Funds related to the distribution of surplus cash to the General Fund ($1,975).

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	$450,044	Puerto Rico Aqueduct and Sewer Authority	$450,044
Governmental activities	115,232	Cardiovascular Center Corporation of	
		Puerto Rico and the Caribbean	28,769
	$565,276	Puerto Rico Ports Authority	20,006
		Puerto Rico Metropolitan Bus Authority	15,695
Puerto Rico Infrastructure Financing Authority	$188,256	Puerto Rico Tourism Company	12,546
Puerto Rico Health Insurance Administration	115,180	Puerto Rico Industrial Development Company	7,634
Puerto Rico Aqueduct and Sewer Authority	67,586	Puerto Rico Health Insurance Administration	7,239
Government Development Bank for Puerto Rico	62,045	Puerto Rico Highways and Transportation Authority	6,857
University of Puerto Rico	56,842	Puerto Rico Infrastructure Financing Authority	6,682
Puerto Rico Electric Power Authority	50,242	Governing Board of the 911 Service	4,508
Company for the Integral Development of the		Puerto Rico Medical Services Administration	3,366
"Península de Cantera"	23,192	National Parks Company of Puerto Rico	1,930
Agricultural Enterprises Development Administration	16,356		
Land Authority of Puerto Rico	12,303		$565,276
Puerto Rico Ports Authority	11,800		
Puerto Rico Medical Services Administration	9,273		
Puerto Rico Council on Education	5,221		
Puerto Rico Tourism Company	3,853		
Solid Waste Authority	3,675		
University of Puerto Rico Comprehensive Cancer Center	3,649		
Puerto Rico Metropolitan Bus Authority	1,909		
Puerto Rico Public Private Partnerships Authority	1,529		
Cardiovascular Center Corporation of		Governmental activities:	
Puerto Rico and the Caribbean	1,391	Due to component units	603,309
		Notes payable	30,993
	$634,302		$634,302

The amount owed by PRASA of $450 million represents construction loans granted by the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, nonmajor enterprise funds, to finance the construction of capital assets for PRASA.

The amounts presented as due from primary government by the University of Puerto Rico and PREPA exclude approximately $24.7 million and $6.3 million, respectively, that were recorded and presented by the Commonwealth as notes payable in the accompanying statement of net assets (deficit) of the governmental activities.

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

Receivable Entity/Fund	Amount
Puerto Rico Electric Power Authority	$ 122,846
Puerto Rico Ports Authority	32,655
University of Puerto Rico	27,494
Land Authority of Puerto Rico	20,051
Puerto Rico Highways and Transportation Authority	14,142
Puerto Rico Aqueduct and Sewer Authority	14,109
Puerto Rico Convention Center District Authority	11,718
Puerto Rico Medical Services Administration	7,320
State Insurance Fund Corporation	6,218
Puerto Rico Land Administration	1,306
Subtotal	257,859
Government Development Bank for Puerto Rico	3,871,273
	$4,129,132

Payable Entity/Fund	Amount
Puerto Rico and Municipal Islands Maritime Transport Authority	$ 49,885
Puerto Rico Aqueduct and Sewer Authority	32,253
University of Puerto Rico	30,773
Puerto Rico Tourism Company	23,943
Puerto Rico Medical Services Administration	19,764
Puerto Rico Highways and Transportation Authority	17,863
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	15,762
Agricultural Enterprises Development Administration	15,059
Puerto Rico Ports Authority	12,472
National Parks Company of Puerto Rico	8,463
Solid Waste Authority	5,285
Puerto Rico Metropolitan Bus Authority	5,134
Farm Insurance Corporation of Puerto Rico	4,992
Puerto Rico Infrastructure Financing Authority	4,595
Puerto Rico Convention Center District Authority	4,057
Land Authority of Puerto Rico	3,745
Puerto Rico Trade and Export Company	1,429
Puerto Rico Industrial Development Company	1,306
Automobile Accidents Compensation Administration	1,079
Subtotal	257,859
Puerto Rico Highways and Transportation Authority	1,881,963
Special Communities Perpetual Trust	363,639
Puerto Rico Medical Services Administration	264,390
Port of the Americas Authority	219,349
Puerto Rico Health Insurance Administration	171,080
Puerto Rico Ports Authority	165,543
Puerto Rico Convention Center District Authority	145,889
Puerto Rico Aqueduct and Sewer Authority	109,788
Agricultural Enterprises Development Administration	96,212
University of Puerto Rico	90,580
Puerto Rico Industrial Development Company	87,842
Solid Waste Authority	74,416
Puerto Rico Electric Power Authority	49,781
Land Authority of Puerto Rico	38,884
Puerto Rico Infrastructure Financing Authority	36,885
Company for the Integral Development of the "Península de Cantera"	23,103
University of Puerto Rico Comprehensive Cancer Center	19,886
National Parks Company of Puerto Rico	12,174
Economic Development Bank for Puerto Rico	9,893
Puerto Rico Public Private Partnerships Authority	6,050
Institute of Puerto Rican Culture	2,515
Puerto Rico Conservatory of Music Corporation	1,411
	3,871,273
	$4,129,132

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

Primary government — governmental activities	$1,584,925
Other governmental entities and municipalities	2,369,551
Private sector	533,257
Total loans receivable reported by GDB	$4,487,733

The loans receivables reported by GDB include $49.8 million presented within Other Restricted Assets in the accompanying Combining Statement of Net Assets (Deficit) — Major Component Units.

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	$ 945,033
University of Puerto Rico	763,469
Puerto Rico Aqueduct and Sewer Authority	393,650
Nonmajor components units	636,061
Total contributions made by primary government to component units	$2,738,213

12. RESTRICTED ASSETS

Restricted assets of the primary government included in the basic financial statements at June 30, 2012 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	$2,795,818
Public Housing Administration — funds received from the U.S Housing and Urban Development	1,836
Affordable housing program	1,258
Construction of governmental facilities	407,975
Payment of operational expenses and certain financing granted to the Commonwealth, among other purposes	57,068
Other	242,615
Assets in liquidation	24,607
Total restricted assets of governmental activities	$3,531,177
Business-type activities:	
Payment of insurance benefits	$ 490,667
Lending activities	566,942
Total restricted assets for business-type activities	$1,057,609

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

Governmental activities:	
Debt service	$ 742,583
Other	107,520
Accounts payable to contractors	407,975
Liabilities payable from restricted assets — governmental activities	$1,258,078
Business-type activities:	
Insurance benefits payable	$ 104,789
Accounts payable and accrued liabilities	2,067
Liabilities payable from restricted assets — business-type activities	$ 106,856

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

Governmental activities restricted net assets:	
Net assets in liquidation	$ 24,607
Payment of operational expenses and certain financing granted to the Commonwealth, among other purposes	192,163
Restricted for debt service	2,053,235
Affordable housing and related loan insurance programs	3,094
Total restricted net assets — governmental activities	$2,273,099
Business-type activities restricted net assets:	
Lending activities	$ 564,875
Payment of insurance benefits	385,878
Total restricted net assets — business-type activities	$ 950,753

Restricted assets of the component units included in the basic financial statements at June 30, 2012 are to be used for the following purposes (expressed in thousands):

Debt services and sinking fund requirements	$4,372,782
Construction and betterments funds	1,395,482
Collateral for underlying securities	948,113
Educational funds	104,999
Financial assistance	105,090
Industrial incentives	6,264
Malpractice insurance fund	5,268
Other uses	579,087
Total for components units	$7,517,085

13. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012 is as follows (expressed in thousands):

Primary Government

	Beginning Balance (As restated)	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 867,215	$ 12,465	$ 799	$ 878,881
Construction in progress	1,117,079	628,579	258,587	1,487,071
Total capital assets, not being depreciated	1,984,294	641,044	259,386	2,365,952
Buildings and building improvements	8,167,328	272,431	86,243	8,353,516
Equipment, furniture, fixtures, vehicles, and software	545,393	48,058	6,478	586,973
Infrastructure	605,846	-	-	605,846
Total capital assets, being depreciated and amortized	9,318,567	320,489	92,721	9,546,335
Less accumulated depreciation and amortization for:				
Buildings and building improvements	3,048,803	239,813	59,447	3,229,169
Equipment, furniture, fixtures, vehicles, and software	355,831	41,708	4,101	393,438
Infrastructure	131,341	12,539	-	143,880
Total accumulated depreciation and amortization	3,535,975	294,060	63,548	3,766,487
Total capital assets, being depreciated and amortized, net	5,782,592	26,429	29,173	$ 5,779,848
Governmental activities capital assets, net	$ 7,766,886	$ 667,473	$ 288,559	$ 8,145,800
Business-type activities:				
Total capital assets, being depreciated — equipment	$ 6,870	$ 137	$ -	$ 7,007
Less accumulated depreciation of equipment	5,210	71	-	5,281
Total business-type activities capital assets, being depreciated, net	$ 1,660	$ 66	$ -	$ 1,726

Depreciation and amortization expense was charged to functions/programs of the primary government for the year ended June 30, 2012 as follows (expressed in thousands):

Governmental activities:	
General government	$ 92,329
Public safety	27,151
Health	7,447
Public housing and welfare	115,684
Education	34,425
Economic development	17,024
Total depreciation and amortization expense — governmental activities	$ 294,060

The Commonwealth follows the provision of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and 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, 2012.

General infrastructure assets include $427 million representing actual and estimated costs of assets transferred to the Department of Natural and Environmental Resources (DNER) of the Commonwealth in 1997 upon completion of the Cerrillos Dam and Reservoir and the Portugues-River and Bucana-River Projects (“the Cerrillos Dam and Reservoir Project”) by the United States (U.S.) Army Corps of Engineers. These infrastructure assets are reported within governmental activities and include dams, intake facilities, and similar items built for flood control, water supply, and recreational purposes. The depreciation is computed using the straight-line method over an estimated useful life of 50 years from the transfer date of the property. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, excluding those costs for items built for recreational purposes, amounting to $214 million. Unpaid allocated share of these construction costs associated with the Cerrillos Dam and Reservoir Project amounted to $212 million, plus accrued interest of $163 million, at June 30, 2012 (see Note 15). The Commonwealth also recorded a payable due to the U.S. Army Corps of Engineers, amounting to $14 million, for its estimated allocated share of the construction costs associated with the recreational part of the Cerrillos Dam and Reservoir Project, including accrued interest of $4 million. The final debt agreement between DNER and the U.S. Army Corps of Engineers for the recreational part of the Cerrillos Dam and Reservoir Project has not been finalized, and therefore, terms and conditions could differ from those estimated (see Note 15). The depreciation is computed using the straight-line method over an estimated useful life of 50 years from the transfer date of the property.

On August 17, 2001, the Legislature of the Commonwealth approved Act No. 120, which requires the conditional transfer of the ownership of certain real properties under the name of the Department of Recreation and Sports (DRS) of the Commonwealth to the municipalities of the Commonwealth. Land and facilities have been transferred occasionally since the date of this Act at no cost to the municipalities. During the fiscal year ended June 30, 2012, no transfers were made to the municipalities under the provisions of this Act.

Discretely Presented Component Units

	Beginning Balance (as Restated)	Increases	Decreases	Ending Balance
Capital assets, not being depreciated/amortized:				
Land	$ 3,252,708	$ 82,643	$ 26,341	$ 3,309,010
Art works	9,981	8,073	6,468	11,586
Construction in progress	4,073,664	1,460,403	1,828,123	3,705,944
Total capital assets, not being depreciated/amortized	7,336,353	1,551,119	1,860,932	7,026,540
Capital assets, being depreciated/amortized:				
Buildings and building improvements	5,156,467	311,377	49,608	5,418,236
Equipment, furniture, fixtures, vehicles, and software	10,435,927	697,157	63,957	11,069,127
Infrastructure	27,356,764	795,847	55,307	28,097,304
Intangibles, other than software	2,293	-	-	2,293
Total capital assets, being depreciated/amortized	42,951,451	1,804,381	168,872	44,586,960
Less accumulated depreciation/amortization for:				
Buildings and building improvements	2,278,591	143,863	14,658	2,407,796
Equipment, furniture, fixtures, vehicles and software	2,144,854	433,471	49,873	2,528,452
Infrastructure	15,582,023	671,691	17,932	16,235,782
Intangibles, other than software	866	57	-	923
Total accumulated depreciation/amortization	20,006,334	1,249,082	82,463	21,172,953
Total capital assets, being depreciated/amortized, net	22,945,117	555,299	86,409	23,414,007
Capital assets, net	$ 30,281,470	$ 2,106,418	$ 1,947,341	$ 30,440,547

On February 24, 2012, PRIFA entered into an Assistance Agreement with the Puerto Rico Department of Justice (PRDOJ) and GDB to acquire, refurbish and operate a property to be used for the relocation of the PRDOJ's main offices. In connection with the Assistance Agreement, GDB provided a $35 million credit facility to PRIFA to undertake the acquisition and administration of this property and manage the initial phase of the rehabilitation and refurbishment of the property. On March 8, 2012, PRIFA acquired the property for approximately $27 million. The credit facility is payable solely from, and secured by the assignment of the PRDOJ lease agreement and any other existing and future lease agreement and by a mortgage lien on the property acquired.

PRIFA has also issued certain bonds and notes to finance the construction of certain capital projects for the benefit of PRASA, municipalities and other agencies and instrumentalities of the Commonwealth. The capital projects include the construction of infrastructure and buildings to be used in the operations of, and managed by, PRASA, the municipalities and other agencies in their respective operations. The capital projects, including the land acquired, are included as part of PRIFA's capital assets until construction is completed and the conditions for transfers to the ultimate beneficiaries are met. During the year ended June 30, 2012, PRIFA incurred approximately $30 million in construction costs for the benefit of other instrumentalities of the Commonwealth.

In October 2010, PRIFA entered into a memorandum of understanding with Puerto Rico Public-Private Partnerships Authority, Puerto Rico Public Buildings Authority, Puerto Rico Department of Education, Puerto Rico Department of Transportation and Public Works ("DTOP", for its Spanish acronym), and the GDB for the administration of the Schools for the 21st Century Program (the "21st Century Program").

Data for September 2012 reveals additional significant progress by the Schools for the 21st Century Program with fifty-two (52) Public Private Partnership contracts awarded for ninety-nine (99) schools. By this date, seventy (70) schools were under construction and twenty-nine (29) schools were completed and turned over to the DE. The fifty-two (52) Public Private Partnership contracts awarded by September 2012 represented a total investment amount of approximately $650 million.

14. TAX REVENUE AND BOND 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 2012 amounted to $1,100 million at interest rates ranging from 1.20% to 2.25%. 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 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, 2012, the balance of TRANS outstanding was paid in full.

Also, during fiscal year 2012, the Commonwealth was authorized to issue bond anticipation notes in an aggregate principal amount, not to exceed $290 million, in order to complete certain public improvement projects, acquire certain properties and equipment on behalf of some component units, and cover the cost and interest of the bonds expected to be issued, as described below. These notes have been issued in anticipation of the issuance of public improvement bonds expected to be issued during fiscal year 2014. Although legal steps have been taken to refinance the anticipation notes with the bonds, since such bonds have not been issued as of the date of these basic financial statements, the related notes have been recognized as a short-term fund liability in the capital project fund. As of June 30, 2012, $75.8 million of bond anticipation notes were outstanding.

15. SHORT AND LONG-TERM OBLIGATIONS

(a) Primary Government

Summary of Short and Long-term Obligations — Short and long-term obligations at June 30, 2012 and changes for the year then ended are as follows (expressed in thousands):

Short-Term Obligations	Balance At June 30, 2011 (As restated)	Debt Issued	Debt Paid	Debt Refunded	Original Issue Premium, net	Other Net Increases (Decreases)	Balance At June 30, 2012	Due Within One Year
Notes payable to GDB	$ 32,179	$ 153,831	$ (155,329)	$ -	$ -	$ (13,797)	$ 16,884	$ 16,884
Bond anticipation notes payable	-	79,144	(3,309)	-	-	-	75,835	75,835
	$ 32,179	$ 232,975	$ (158,638)	$ -	$ -	$ (13,797)	$ 92,719	$ 92,719
Long-Term Obligations								
Governmental activities:								
General obligation and revenue bonds	$ 29,126,136	$ 6,640,840	$ (382,282)	$(2,303,973)	$12,684	$ 98,589	$33,191,994	$ 468,485
Commonwealth appropriation bonds	743,184	564,323	(310,179)	(483,666)	5,729	13,520	532,911	-
Notes payable to component units:								
GDB	1,648,777	966,537	(1,044,186)	-	-	13,797	1,584,925	96,462
Other	68,918	-	(37,925)	-	-	-	30,993	19,273
Capital leases	229,574	680	(5,819)	-	-	-	224,435	9,500
Total bonds, notes, and capital leases payable	31,816,589	8,172,380	(1,780,391)	(2,787,639)	18,413	125,906	35,565,258	593,720
Compensated absences	1,431,424	-	-	-	-	(55,454)	1,375,970	679,649
Net pension obligation	9,325,352	-	-	-	-	1,833,449	11,158,801	-
Net postemployment benefit obligation	174,918	-	-	-	-	40,326	215,244	-
Voluntary termination benefits payable	332,905	-	-	-	-	320,620	653,525	63,918
Other long-term liabilities	2,325,463	-	-	-	-	96,116	2,421,579	572,915
Total governmental activities	45,406,651	8,172,380	(1,780,391)	(2,787,639)	18,413	2,360,963	51,390,377	1,910,202
Business-type activities:								
Compensated absences	4,812	-	-	-	-	156	4,968	2,711
Obligation for unpaid lottery prizes	218,486	-	-	-	-	(26,900)	191,586	49,883
Voluntary termination benefits payable	2,641	-		-	-	2,601	5,242	587
Claims liability for insurance benefits	86,338	-	-	-	-	(13,344)	72,994	72,994
Total business-type activities	312,277	-	-	-	-	(37,487)	274,790	126,175
Total primary government	$ 45,718,928	$ 8,172,380	$ (1,780,391)	$(2,787,639)	$18,413	$2,323,476	$51,665,167	$2,036,377

The principal balance of general obligation and revenue bonds paid reported as expenditures in the statement of revenues, expenditures, and changes in fund balances (deficit) — governmental funds does not agree with amounts reported as debt paid in the table above because it includes principal paid on July 1, 2011 on general obligation and revenue bonds amounting to approximately $334 million, which was accrued at June 30, 2011 as a fund liability. Also, during fiscal year 2012 the amount of approximately $425 million of debt principal paid on July 1, 2012 was accrued as a fund liability at June 30, 2012, but not included as payments in the table above. The net effect of $91 million is the difference between the principal paid on bonds, notes and capital leases payable included in the previous table and the principal shown as expenditures in the statement of revenues, expenditures, and changes in fund balances (deficit) — governmental funds.

On November 23, 2011, COFINA issued its Series 2011A-2 capital appreciation bonds amounting to approximately $337 million in satisfaction of the redemption price on certain outstanding subordinated capital appreciation bonds. Since there was no cash involved in this transaction, the issuance and the repayment of such bonds were excluded from the table above.

Other net increases (decreases) include an increase of $13.8 million in notes payable to GDB, which were classified as short term at June 30, 2011, but which terms were formally extended to a longer term during fiscal year 2012 and, consequently, reclassified as long term and presented as a new long term debt issued in the statement of revenues, expenditures, and changes in fund balances (deficit) — governmental funds. The remaining balance of the other net increases (decreases) in bonds, notes and capital leases payable consists of capitalization of interest on capital appreciation bonds; deferred gains/losses on refunding's, net of amortization; amortization of premiums and accretion of discounts on bonds and notes payable. These adjustments did not require any source or use of cash.

Compensated absences, net pension obligation, net postemployment benefit obligation, termination benefits, other long-term liabilities, obligation for unpaid lottery prizes, and claims liability for insurance benefits reflect other net increases (decreases) resulting from adjustments and changes to agree these obligations to their new estimated balances at June 30, 2012.

(b) Debt Limitation

The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, Section 2, Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth shall not be issued if the amounts of the principal of and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenues raised under the provisions of Commonwealth legislation and deposited into the Treasury (hereinafter "internal revenues") in the two fiscal years preceding the fiscal year of such proposed issuance. Section 2, Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. Internal revenues consist principally of income taxes, sales and use tax, property taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Commonwealth, and motor vehicle fuel taxes, crude oil and derivative products excise taxes and license fees, which are allocated to PRHTA, a discrete component unit, are not included as revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service. In addition, the portion of sales and use tax allocated to COFINA is not included as internal revenues consistent with the legislation creating COFINA, which transfers ownership of such portion of the sales and use tax to COFINA and provides that such portion is not "available resources" under the constitutional provisions relating to the payment of debt service. At June 30, 2012, the Commonwealth is in compliance with the debt limitation requirement.

(c) Bonds Payable

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

Act No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. The levy is made by Municipal Revenue Collection Center (CRIM by its Spanish acronym), 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, 2012, the total revenue and receivable reported by the Commonwealth amounted to approximately $115 million and $32 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, plus unamortized premiums and interest accreted on capital appreciation bonds, less unaccreted discount and deferred refunding losses.

Bonds payable outstanding at June 30, 2012, including accreted interest on capital appreciation bonds, are as follows (expressed in thousands):

	General Obligation Bonds	Revenue Bonds	Total
Term bonds payable through 2046; interest payable monthly or semiannually at rates varying from 0.16% to 6.50%.	$ 5,327,603	$ 8,202,195	$ 13,529,798
Serial bonds payable through 2041; interest payable monthly or semiannually at rates varying from 0.16% to 6.75%.	5,535,505	1,925,392	7,460,897
Fixed rate bonds payable through 2057; interest payable at rates varying from 3.38% to 6.50%.	-	5,538,090	5,538,090
Capital appreciation bonds payable through 2056; no interest rate, yield ranging from 3.75% to 7.48%. (1)	166,284	4,679,805	4,846,089
The Children's Trust Fund tobacco settlement asset-backed bonds payable through 2057; interest payable or accreted semiannually at rates varying from 4.10% to 8.375%.	-	1,424,169	1,424,169
Capital Fund Program Bonds, maturing in various dates payable through 2025; interest payable semiannually at rates varying from 2.00% to 5.00%.	-	496,445	496,445
LIBOR-Based Adjustable Rate Bonds due on August 1, 2057; interest payable quarterly (1.24% at June 30, 2012).	-	136,000	136,000
Total	11,029,392	22,402,096	33,431,488
Unamortized premium (discount), net	129,683	(17,217)	112,466
Deferred refunding loss, net	(241,595)	(110,365)	(351,960)
Total bonds payable	$ 10,917,480	$ 22,274,514	$ 33,191,994

(1) Revenue bonds include $848 million capital appreciation bonds convertible to fixed rate interest bonds on August 1, 2016; August 1, 2019; and August 1, 2020.

As of June 30, 2012, 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
2013	$ 468,485	$ 1,435,070	$ (4,200)	$ 1,899,355
2014	503,430	1,446,413	(4,200)	1,945,643
2015	504,855	1,421,841	(4,200)	1,922,496
2016	554,555	1,397,236	(4,200)	1,947,591
2017	606,810	1,397,755	(4,200)	2,000,365
2018–2022	3,158,960	6,870,140	(21,000)	10,008,100
2023–2027	3,959,127	6,211,326	(21,000)	10,149,453
2028–2032	5,804,684	5,489,253	(21,000)	11,272,937
2033–2037	6,897,386	3,799,013	(21,000)	10,675,399
2038–2042	10,207,670	2,048,696	(21,000)	12,235,366
2043–2047	7,291,880	409,204	(1,047)	7,700,037
2048–2052	6,132,937	288,355	-	6,421,292
2053–2057	14,041,159	288,091	-	14,329,250
2058	1,037,993	22,857	-	1,060,850
Total	61,169,931	$ 32,525,250	$ (127,047)	$ 93,568,134
Less unaccreted interest	(27,738,443)			
Plus unamortized premium, net	112,466			
Less deferred refunding loss, net	(351,960)			
Total	$ 33,191,994			

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

The table that follows represents governmental activities debt service payments on certain general obligation and revenue variable-rate bonds and the net payments on associated hedging derivative instruments (see Note 23) as of June 30, 2012. 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 at June 30, 2012 will remain the same for their term.

Year Ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Hedging Derivative Instruments, Net	Total
2013	$ -	$ 7,812	$ 14,134	$ 21,946
2014	-	7,812	14,134	21,946
2015	-	7,812	14,134	21,946
2016	-	7,812	14,134	21,946
2017	-	7,812	14,134	21,946
2018–2022	360,340	27,203	56,905	444,448
2023–2027	12,810	8,630	28,921	50,361
2028–2032	17,030	8,490	25,928	51,448
2033–2037	-	8,446	25,010	33,456
2038–2042	-	8,446	25,010	33,456
2043–2047	-	8,446	25,010	33,456
2048–2052	-	8,446	25,010	33,456
2053–2057	-	8,446	25,010	33,456
2058	136,000	424	2,923	139,347
Total	$ 526,180	$ 126,037	$ 310,397	$ 962,614

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, 2012, was $595,165,542. 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, 2012, the Pledged Sales Tax Base Amount, by year, is as follows (expressed in thousands):

Year Ending June 30	Amount
2013	$ 618,972
2014	643,731
2015	669,480
2016	696,260
2017	724,110
2018–2022	4,078,893
2023–2027	4,962,597
2028–2032	6,037,758
2033–2037	7,345,856
2038–2042	8,850,885
2043–2047	9,250,000
2048–2052	9,250,000
2053–2057	9,250,000
2058	1,850,000
Total	$ 64,228,542

On November 23, 2011, COFINA issued Sales Tax Revenue Bonds, First Subordinate Series 2011A amounting to approximately $734.8 million and Sales Tax Revenue Bonds, First Subordinate Series 2011B amounting to approximately $45.6 million. The Series 2011A includes current interest bonds codified on Series 2011A-1, amounting to $355 million, bearing interest rates ranging from 5% to 5.25% and maturing on August 1, 2043. The Series 2011A also includes Series 2011A-1 and 2011A-2 capital appreciation bonds amounting to $42.7 million and $337.1 million, respectively. The Series 2011A-1 capital appreciation bonds capitalize interest at an annual rate ranging from 5.25% to 6.50% each February 1 and August 1, until their maturity dates between August 1, 2023 and August 1, 2041. The Series 2011A-2 capital appreciation bonds capitalize interest at an annual rate of 7% each February 1 and August 1, until its maturity dates between August 1, 2043 and August 1, 2050. The proceeds of these bonds were used to refund certain outstanding bonds of COFINA, to repay the Junior Subordinated Bonds issued to PRIFA and ERS, and to provide funds to the Commonwealth to cover operating expenses. The $45.6 million Series 2011B bears interest rates ranging from 5% to 5.15% and matures between August 1, 2031 and August 1, 2036. The proceeds of these bonds were used to refund certain outstanding bonds of COFINA.

On December 13, 2011, COFINA issued Sales Tax Revenue Bonds, Senior Series 2011C amounting to approximately $1.0 billion and Sales Tax Revenue Bonds, Senior Series 2011D amounting to approximately $91.2 million. The Series 2011C includes current interest and term bonds amounting to $904.7 million, bearing interest rates ranging from 4% to 5.25% and mature between August 1, 2020 and August 1, 2046. The Series 2011C also includes capital appreciation bonds amounting to $101.8 million, which capitalize interest at an annual rate ranging from 6.15% to 6.25% each February 1 and August 1, until their maturity dates between August 1, 2034 and August 1, 2041. The Series 2011D bonds amounting to $91.2 million bear interest at annual rates ranging from 3.80% to 4.85% and mature between August 1, 2023 and August 1, 2036. The proceeds of these bonds were used to redeem a portion of certain outstanding Commonwealth appropriation bonds (see note 15(d)) and to cover payments associated with swap agreements of COFINA.

On July 12, 2011, the Commonwealth issued $304 million in Public Improvement Bonds Series 2011, $52.2 million in Public Improvement Refunding Bonds Series 2011 D and $245.9 million in Public Improvement Refunding Bonds Series 2011 E. The proceeds from the issuance of the public improvement bonds were used to carry out certain capital improvements programs authorized by the Legislative Assembly in Act No. 79 and the refunding of bond anticipation notes issued under Act No. 79 to finance, on an interim basis, portions of certain capital improvement programs. The proceeds of the refunding bonds were used to refund in full certain other general obligation bonds and notes of the Commonwealth, fund the termination payments under certain interest rate swap agreements and a debt service deposit agreement entered into in connection with the issuance of the refunded bonds, pay capitalized interest on the refunding bonds, and pay the expenses related to the issuance and sale of the refunding bonds. These bonds bear interest rates ranging from 3% to 6%, payable semiannually, and mature between July 1, 2013 and July 1, 2041.

On March 29, 2012, the Commonwealth issued $415.3 million in Public Improvement Refunding Bonds Series 2012 B. The proceeds were used to repay advances under a GDB line of credit, the proceeds of which refinanced deposits to the Commonwealth’s Redemption Fund for the payment of principal and interest from February 1, 2012 to July 1, 2012 on certain general obligation bonds and notes of the Commonwealth; refund certain of the Commonwealth’s outstanding general obligation bonds; pay capitalized interest on a portion of the Series 2012 B bonds; and pay expenses related to the issuance and sale of the Series 2012 B bonds. These bonds bear interest rates ranging from 2.25% to 5.30%, payable monthly, and mature between July 1, 2013 and July 1, 2033.

On April 3, 2012, the Commonwealth issued $2.3 billion in Public Improvement Refunding Bonds Series 2012 A. The proceeds were used to repay advances under lines of credit due to GDB, the proceeds of which refinanced deposits to the Commonwealth’s Redemption Fund for the payment of principal and interest due on January 1, 2012 and July 1, 2012 on certain general obligation bonds and notes of the Commonwealth; refund certain of the Commonwealth’s outstanding general obligation bonds; fund associated termination payments due under an investment agreement and interest rate exchange agreements; pay capitalized interest on a portion of the Series 2012 A bonds; and pay expenses related to the issuance and sale of the Series 2012 A bonds. These bonds bear interest rates ranging from 4% to 5.75%, payable semiannually, and mature between July 1, 2020 and July 1, 2041.

On August 24, 2011, PBA issued $756.4 million aggregate principal amount of Facilities Revenue Bonds Series R (Qualified School Construction Bonds-Issuer Subsidy), guaranteed by the Commonwealth. The proceeds from the issuance of the Series R bonds were used to pay part of the cost of constructing, renovating, remodeling and/or improving approximately 100 public schools under a Commonwealth’s program. As a result of this bond issuance, PBA received a subsidy of $28.1 million from the federal government used for the payment of interest. The Series R bonds bear interest rates at 5.65% to 5.70%, payable quarterly, and mature on July 1, 2028. Concurrently with the issuance of the Series R bonds, PBA issued $303.9 million aggregate principal amount of Facilities Revenue Bonds Series S, guaranteed by the Commonwealth. The proceeds from this issuance of the Series S bonds were used to repay certain advances made to PBA by GDB under line of credit facilities previously issued to repay interest on certain PBA outstanding bonds, pay a portion of the construction costs of certain facilities for lease, and pay the costs of issuance of these bonds. The Series S bonds bear interest rates ranging from 5% to 6%, payable semiannually, and mature between July 1, 2022 and July 1, 2041.

On December 22, 2011, PBA issued $121.5 million aggregate principal amount of Facilities Revenue Bonds Series T (Zone Academy Bonds — Direct Payment), guaranteed by the Commonwealth, the proceeds of which were used to pay part of the cost of renovating and rehabilitating certain public schools. The Series T bonds bear an interest rate of 5.60%, payable quarterly, and mature on July 1, 2030. Then, on June 21, 2012, PBA issued $582.3 million aggregate principal amount of Facilities Revenue Refunding Bonds Series U, guaranteed by the Commonwealth. The proceeds from this issuance were used to refund in whole PBA's Facilities Revenue Bonds Series J and a portion of PBA's Facilities Revenue Bonds Series D and G; repay certain advances made to PBA by GDB under a line of credit facility previously issued; pay a portion of the interest on the Series U bonds; and pay the costs of issuance of the Series U bonds. The Series U bonds bear interest rates ranging from 3.885% to 5.25%, payable semiannually, and mature between July 1, 2014 and July 1, 2042.

On August 1, 2008, Puerto Rico Housing Finance Authority (the "Authority"), a blended component unit of GDB, issued Capital Fund Modernization Program Subordinate Bonds amounting to $384 million and Housing Revenue Bonds amounting to $100 million. The proceeds from the issuance on these bonds 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 costs 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 and pursuant to a related Partnership Agreement. 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 formed to acquire, develop, rehabilitate, own, maintain and operate thirty three residential rental housing developments intended for rental to persons of low and moderate income. As part of these developments, LLC is intended to acquire a 99 year term Surface Right with respect to the related land and to acquire, 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.

Profits, losses and tax credits are allocated in accordance with the Partnership Agreement. Profits and losses from operations and low-income housing tax credits in any year shall be allocated 99.98% to the Investment Partnership, 0.01% to the Special Limited Partner and 0.01% to the General Partner. As defined in the Partnership Agreement, certain transactions and occurrences warrant special allocations of profits and losses. All other losses shall be allocated to the extent allowable under Section 704(b) of the U.S. 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 developments in addition to other potential occurrences as more fully explained in the Partnership Agreement. As of June 30, 2012, the Limited Partners have provided capital contributions totaling $126.6 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, 2012, the General Partner had provided no capital contributions. In addition, DOH as general partner shall establish the Assurance Reserve Fund at initial closing in the amount of the initial capital contribution less $4 million (plus any initial capital contribution with respect to the apartment complexes). Amounts in the Assurance Reserve Fund shall be used, (i) upon the request of the General Partner, subject to the consent of the Special Limited Partner, or (ii) upon the direction to the Special Limited Partner, to meet financial obligations of the General Partner, other than for excess development costs, as provided in the Partnership Agreement. As of June 30, 2012, such reserve was maintained in the Partnership. The amount owed to DOH for the assurance reserve fund as of June 30, 2012, amounted to $16.6 million.

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

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

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

Also, on August 7, 2008, DOH entered into a loan agreement with the LLC in the amount of $102.9 million for the acquisition of the 33 residential rental properties (the "deferred purchase price note"). The LLC shall make payments equal to the amount of net available capital contributions, as defined, for the preceding calendar quarter.

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

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

The note shall be a full recourse liability of the LLC; however, none of the LLC's members has personal liability. As of June 30, 2012, the principal balance outstanding on the deferred purchase price note was $8.9 million and accrued interest was $245 thousand. At the same time, based on the Purchase and Sale Agreement, PHA received $92.4 million from the LLC, which was used to pay eligible project expenses incurred by PHA on an interim basis to minimize the expenditure of 2003 tax exempt bonds that were ineligible for inclusion in the credit transaction. In addition, PHA received $18.1 million from the LLC for Capital Fund Bonds funds previously expensed by the PHA from June to July 2009.

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

Additionally, on August 7, 2008, the LLC entered into a Master Developer Agreement with DOH to perform services in connection with the development, rehabilitation, and modernization of certain housing projects (the "Master Developer Agreement"). Pursuant to the Master Developer Agreement, DOH will earn a developer's fee in the amount of $75 million for services performed and to be performed. Payment of the developer's fee shall be subject to the terms and conditions of Section 6(a) (i-iv) of the Master Developer Agreement. As of June 30, 2012, the LLC owed DOH the amount of $51.8 million.

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

The Commonwealth's bonds payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America, that require rebate to the federal government of excess investments earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2012.

(d) Commonwealth Appropriation Bonds

Over the years, GDB, as fiscal agent and the bank for the Commonwealth, had extended lines of credit, advances, and loans to several agencies and component units of the Commonwealth 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, which serves only as a conduit for the issuance of the bonds. Also, during more recent years, COFINA, through the issuance of bonds, has been used to repay certain other loans and existing appropriation bonds. COFINA is a blended component unit of the Commonwealth created in 2007 with the capacity to issue bonds to repay or refund advances from GDB, the appropriation bonds referred to above, and other debt obligations, collectively referred as the extra constitutional debt. COFINA's debt in turn is currently being serviced with the revenues generated from the collection of the first 2.75% of the sales and use tax, which came in effect on November 15, 2006.

On August 18, 2011, PFC issued its $242.4 million 2011 Series A bonds, the proceeds of which were used to repurchase a portion of its 2004 Series A bonds issued under Act No. 164, pay interest on the 2011 Series A bonds through February 1, 2012, and pay the cost of issuance of the such bonds. The Commonwealth recognized a mirror effect of this current refunding by PFC in its own debt in proportion to the portion of the Commonwealth's notes included in the PFC refunding. This current refunding resulted in a deferred loss of approximately $2.3 million for the entire reporting entity of the Commonwealth.

On December 13, 2011, COFINA issued Sales Tax Revenue Bonds, Senior Series 2011 C and 2011 D in the amount of $1.0 billion and $91.2 million, respectively, the proceeds of which were used to redeem a portion of PFC 2004 Series A Bonds (Act No. 164 — $326.9 million, PRASA's Superaqueduct — $195.1 million, OMEP — $88.6 million, Health Facilities and Services Administration — $39 million, Treasury Department — $22.5 million), cover certain payments associated with swap agreements of COFINA, and pay a portion of interest and the costs of issuance of these new COFINA bonds. These redemptions resulted in a loss of $42.9 million for the entire reporting entity of the Commonwealth.

On December 15, 2011, PFC issued its $437.6 million 2011 Series B bonds, the proceeds of which were used to currently refund the outstanding balance of the PFC 2004 Series A Bonds (Act No. 164 — $220.7 million, PRASA's Superaqueduct — $131.7 million), and pay a portion of the interest and the costs of issuance of these new PFC bonds. The Commonwealth recognized a mirror effect of this current refunding by PFC in its own debt in proportion to the portion of the Commonwealth's notes included in the PFC refunding. This current refunding resulted in a deferred gain of approximately $4.1 million for the entire reporting entity of the Commonwealth.

On June 28, 2012, PFC issued its $410.7 million 2012 Series A bonds, the proceeds of which were used to currently refund the then outstanding balance of the PFC 2001 Series C, 2002 Series A bonds, and 2003 Series A bonds, and pay a portion of the interest and the costs of issuance of these new PFC bonds. The Commonwealth recognized a mirror effect of this current refunding by PFC in its own debt in proportion to the portion of the Commonwealth's notes included in the PFC refunding. These current refundings resulted in a deferred loss of approximately $4.5 million for the entire reporting entity of the Commonwealth.

At June 30, 2012, the outstanding balance of the Commonwealth appropriation bonds pertaining to the primary government (i.e. excluding the balance pertaining to discretely presented component units), consists of the following obligations (expressed in thousands):

Act. No. 164 restructuring	$ 415,716
Puerto Rico Maritime Shipping Authority (PRMSA)	117,195
Total Commonwealth appropriation bonds	$ 532,911

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 originally executed with Commonwealth appropriation bonds through several series issued by PFC during the period between December 2001 and June 2002. Subsequently, additional refundings (current and advance) and/or redemptions of the Act No. 164 restructuring have been executed through PFC and COFINA bond issuances.

Approximately $415.7 million of the Commonwealth Appropriation bonds outstanding at June 30, 2012, belong to the primary government under Act No. 164, predominantly the Department of Health of the Commonwealth (health reform financing and other costs) and the Department of the Treasury of the Commonwealth (originally the fiscal year 2001 deficit financing and the obligation assumed for defective tax liens). The outstanding balance of Commonwealth Appropriation bonds related to Act No. 164, bears interest at rates ranging from 3.10% to 6.50%. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	**Principal**	**Interest**	**Total**
2013	$ -	$ 22,541	$ 22,541
2014	-	22,241	22,241
2015	-	22,241	22,241
2016	25,578	21,581	47,159
2017	20,749	20,852	41,601
2018-2022	116,183	90,757	206,940
2023-2027	63,699	68,895	132,594
2028-2031	206,419	18,589	225,008
Total	432,628	$ 287,697	$ 720,325
Plus unamortized premium	4,935		
Less deferred refunding loss	(21,847)		
Total	$ 415,716		

Puerto Rico Maritime Shipping Authority (PRMSA) — 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, 2003 Series B and 2004 Series B were issued to refund this liability, which were currently refunded in June 2012 with the issuance of PFC 2012 Series A bonds described above.

The new bond balance bears interest at a variable rate ranging from 3.10% to 5.35%. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2013	$ -	$ 6,325	$ 6,325
2014	-	6,837	6,837
2015	-	6,837	6,837
2016	-	6,837	6,837
2017	-	6,837	6,837
2018–2022	-	34,186	34,186
2023–2027	83,384	23,777	107,161
2028–2031	48,310	10,769	59,079
Total	131,694	$ 102,405	$ 234,099
Less deferred refunding loss	(14,499)		
Total	$ 117,195		

(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, 2012, approximately $1.3 billion of bonds outstanding from prior years' advance refunding are considered defeased.

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, 2012, approximately $426 million of PBA's bonds are considered defeased.

During fiscal year 2012, COFINA issued certain refunding bonds, the proceeds of which were placed in an irrevocable trust to provide for all future debt service payments on the refunded COFINA Series 2009A and 2009B bonds. The outstanding balance of the advance refunded bonds was $91.3 million at June 30, 2012.

(f) Notes Payable to Component Units and Others

The Commonwealth has entered into various short-term line of credit agreements with GDB consisting of the following at June 30, 2012 (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	$14,301
Department of the Treasury	Purchase of mobile X-ray machines	125 bp over 3 months LIBOR	12,000	2,583
			$56,868	$16,884

The Commonwealth financed certain other long-term liabilities through GDB and other component units. The outstanding balance at June 30, 2012 on the financing provided by GDB comprises the following, all within governmental activities (expressed in thousands):

GDB:

Department of the Treasury	$ 805,076
Office of Management and Budget	142,463
Public Buildings Authority	137,354
Department of Education	111,720
Department of Transportation and Public Works	82,301
Department of Agriculture	67,358
Department of Justice	52,402
Department of Health	45,792
Police Department	33,309
Department of Housing	31,515
Correction Administration	25,970
Office of the Superintendent of the Capitol	22,474
Puerto Rico Court Administration Office	17,506
Department of Recreation and Sports	9,647
Office of Veterans' Affairs	38
Notes payable to GDB	$ 1,584,925

Other Components Units:

Health facilities agreement payable to the UPR's Medical Sciences Campus	$ 24,720
Note payable to PREPA	6,273
Notes payable to other component units	$ 30,993

As of June 30, 2012, the Department of the Treasury of the Commonwealth has entered into various line of credit agreements with GDB amounting to approximately $2 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, 2012 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	$223,468
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	145,740
To pay lawsuits against the Commonwealth and to assign $15.3 million to Labor Development Administration for operational expenses.	6%	June 30, 2018	160,000	144,559
To finance capital improvements projects of agencies and municipalities.	150 bp over GDB's commercial paper rate	June 30, 2019	130,000	87,847
To pay agencies debt	125 bp over 3 month LIBOR	September 30, 2012	100,000	72,870
To finance capital improvements projects for several governmental agencies	7%	June 30, 2018	105,000	72,376
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	43,187
To pay invoices presented to the Treasury Department related to Act No. 171 "Ley de Manejo de Neumáticos".	6%	June 30, 2019	22,100	7,520
Acquisition of Salinas Correctional Facilities	125 bp over 3 month LIBOR	June 30, 2018	15,000	7,509
Total			$ 1,993,030	$805,076

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 bore interest at variable rates based on 125 basis points over three month LIBOR and were payable upon the original maturity of the line of credit on September 30, 2011. On July 22, 2011, the Office of Management and Budget and GDB amended the $150 million line of credit agreement to extend its maturity date to July 30, 2022. In addition, the agreement was converted to a revolving line of credit bearing interest at 150 basis points over Primer Rate, but in no event shall such rate be less than 6% per annum. As of June 30, 2012, $142.5 million were outstanding.

On May 23, 2012, the Office of Management and Budget entered into a $100 million line of credit agreement with GDB to cover costs related to Act No. 70 of 2010. Borrowings under this line of credit bear interest at prime rate plus 1.50% with a floor of 6%. The line of credit matures on July 31, 2027.

On August 18, 2010, GDB provided to PBA a non-revolving credit facility in the maximum principal amount of $93.6 million bearing interest at a fluctuating annual rate equal to Prime plus 1.50%, provided that such interest shall not be less than 6%, or at such other rate determined by GDB. The proceeds of the facility were used for construction projects development. The loan is due on June 30, 2014 and will be payable from the proceeds of future revenue refunding bond issuance of PBA. As of June 30, 2012, $29.9 million were outstanding. On April 27, 2009, GDB provided to 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 were used exclusively for the payment of certain amounts due by PBA to its suppliers and service providers. The loan and the accrued interest have no established repayment date and will be payable from all funds generated by PBA and any other properties owned and pledged to GDB. As of June 30, 2012, $4.1 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, 2012, $68 million were outstanding. In addition, on May 2, 2008, PBA executed two Loan Agreements with GDB for the interim financing of its Capital Improvement Program in an amount not to exceed $226 million, bearing interest at 6%. The loans and the accrued interest are due on June 30, 2014 and will be repaid from the proceeds of the future revenue refunding bond issuance of PBA. The loans are divided into $209 million on a tax-exempt basis and $16.9 million on a taxable basis. As of June 30, 2012, $35.4 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, 2012, $4.8 million was outstanding. On August 4, 2002, the Department of Education of the Commonwealth entered into an additional $140 million line of credit agreement with GDB in order to reimburse the Department of the Treasury of the Commonwealth for payments made on their behalf for state funds used to fund federal program expenditures. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2012, $106.9 million still remains outstanding related to this line of credit agreement. The line of credit is expected to be repaid upon collection of the federal grants.

The Department of Transportation and Public Works of the Commonwealth entered into four line-of-credit agreements with GDB amounting to $118 million for improvement and maintenance of roads around the island. Borrowings under these lines of credit bear interest at a 7% rate and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2012, $82.3 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 a fixed rate of 7% and is payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2012, $67.4 million were outstanding.

On October 2, 2002, the Department of Justice of the Commonwealth entered into a $90 million line of credit agreement with GDB for the financing of 12 public improvement projects for the Municipality of Ponce pursuant to a court order. Borrowings under this line of credit agreement bear interest at variable rates and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2012, $18.6 million related to this line of credit agreement were outstanding. On August 8, 2005, the Department of Justice of the Commonwealth entered into an amended agreement to increase the aforementioned line of credit from $90 million to $110 million to cover various additional projects in Ponce, pursuant to the same court order. Borrowings under the new amended 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, 2012, the balance outstanding under this amended line of credit agreement amounted to $33.8 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, 2012, $22.4 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, 2012, the outstanding balance of this line of credit agreement amounted to $18.9 million. On February 14, 2008, the Department of Health also entered into an additional $8 million line of credit agreement with GDB to cover costs of treatment, diagnosis and supplementary expenses during fiscal year 2008 in conformity with Act 150. This line of credit was classified as short term at June 30, 2011, but was extended to a long-term basis during fiscal year 2012 and reclassified as long-term accordingly. 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 maturity of the line of credit on June 30, 2040. As of June 30, 2012, the outstanding balance of this line of credit agreement amounted to $4.5 million.

On July 29, 2004, the Police Department of the Commonwealth entered into a $48 million line of credit agreement with GDB for the acquisition of vehicles and high technology equipment. Borrowings under this line of credit agreement bear interest based on the All Inclusive Total Interest Cost of the Medium Term Notes, Series B, plus a mark-up of 1.25% and are payable upon the maturity of the line of credit on September 30, 2014. The outstanding balance of this line of credit agreement amounted to $33.3 million at June 30, 2012.

On March 8, 2007, the Department of Housing entered into a $19 million line of credit agreement with GDB, to reimburse the Puerto Rico Housing Financing Authority, a blended component unit of GDB for certain advances made for the Santurce Revitalization Project. This line of credit was classified as short term at June 30, 2011, but was extended to a long-term basis during fiscal year 2012 and reclassified as long-term accordingly. Borrowings under this line of credit agreement bear interest at a variable rate of three-month LIBOR plus 1.25%, not to exceed 4% and are payable upon maturity of the line of credit on June 30, 2040. As of June 30, 2012, the line of credit has an outstanding balance of $9.3 million. On December 3, 2007, the Department of Housing entered into an additional $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, 2012, $22.2 million related to this line of credit agreement 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, 2012, $7.1 million were outstanding. In addition, on November 24, 2010, Correction Administration of the Commonwealth entered into an $80 million line of credit agreement with GDB for the construction of a new correctional medical center. Borrowings under this line of credit agreement bear interest at a rate per annum equal to Prime Rate as such rate shall change from time to time, plus 150 basis points, effective as of each change in the Prime Rate, but in no event shall such rate be less than 6% per annum nor greater than 12% per annum and are payable upon the maturity of the line of credit on January 31, 2013. As of June 30, 2012, $18.9 million were outstanding.

On February 15, 2002, the Office of the Superintendent of the Capitol 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, 2012, $16.3 million remained outstanding from the line of credit agreement. On February 9, 2012, the Office of the Superintendent of the Capitol entered into an additional $15 million line of credit agreement with GDB for permanent improvements of existing buildings. Borrowings under this line of credit agreement bear interest at 150 basis points over Prime Rate and shall not be less than 6% nor greater than 12% per annum and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2012, $6.2 million were outstanding.

On May 7, 2001, the Puerto Rico Court Administration Office (the "Office") entered into a $49.4 million non-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, 2012, approximately $17.5 million remains outstanding.

On January 18, 2005, the Department of Recreation and Sports of the Commonwealth (DRS) entered into a $17.2 million line of credit agreement with GDB for the development of a series of recreational projects at different municipalities. Borrowings under this line of credit agreement bear interest based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2012, $0.5 million were outstanding. Also, on February 9, 2004, the DRS entered into a $16 million line of credit agreement with GDB for the development and improvement of recreational facilities. Borrowings under this line of credit agreement bear interest on the unpaid principal amount of each advance at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2012, $0.5 million were outstanding. An additional line of credit agreement 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 were used for development and improvement of recreational facilities. As of June 30, 2012, $8.6 million were outstanding.

On February 14, 2012, the Office of Veterans' Affairs entered into a $7.5 million line of credit agreement with GDB for betterments to the Veterans' House in Juana Diaz and for phase I of the

Veterans' Graveyard Construction. Borrowings under this line of credit agreement bear interest at a rate that will not be less than 6% nor greater than 12% per annum and are payable upon maturity of the line of credit on March 31, 2015. As of June 30, 2012, $38 thousand 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, 2012, $9.7 million remains outstanding of this arrangement. The Commonwealth has also agreed to pay the UPR $20 million related to Commonwealth legislative scholarships for fiscal years 2008 and 2009, which are payable in annual installments of $5 million. As of June 30, 2012, $15 million remains outstanding. Future amounts required to pay principal balances at June 30, 2012 are expected to be as follows (expressed in thousands):

Year Ending June 30	
2013	$ 13,000
2014	6,720
2015	5,000
Total	$ 24,720

The noninterest bearing note payable to PREPA, a discretely presented component unit, consists of a fuel adjustment subsidy due by the Commonwealth and the refinancing during 2004 of other accumulated debt by the Commonwealth's agencies with PREPA. The outstanding balance of $6.3 million at June 30, 2012 is expected to be paid with a last installment in 2013.

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

(g) Compensated Absences

Long-term debt includes approximately $1.4 billion of accrued vacation and sick leave benefits at June 30, 2012. The total liability of compensated absences recorded as governmental and business type activities amounted to $1.4 billion and $5 million, respectively.

(h) Net Pension Obligation

The amount reported as net pension obligation of approximately $11.2 billion represents the cumulative amount owed by the Commonwealth for the unfunded prior years' actuarially required pension contributions to the ERS, JRS, and the TRS (collectively known as the pension plans) (see Note 20). The net pension obligation has been recorded as a liability in governmental activities in the accompanying statement of net assets (deficit).

(i) Net Postemployment Benefit Obligation

The amount reported as net postemployment benefit obligation other than pension of approximately $215.2 million represents the cumulative amount owed by the Commonwealth for the unfunded prior years' actuarially required other postemployment benefit contributions to the ERS MIPC, JRS MIPC, and the TRS MIPC (see Note 21). The net other postemployment benefit obligation has been recorded as a liability in governmental activities in the accompanying statement of net assets (deficit).

(j) Unpaid Lottery Prizes

The amount reported as unpaid lottery prizes represents the lottery prizes payable of the Lottery of Puerto Rico (commonly known as "Traditional Lottery") and the Additional Lottery System (commonly known as "Lotto") jointly known as the Lottery Systems at June 30, 2012. The minimum annual payments related to unpaid awards of both lotteries are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2013	$ 49,883	$ 9,778	$ 59,661
2014	22,322	10,119	32,441
2015	19,084	9,924	29,008
2016	16,911	9,995	26,906
2017	14,884	9,877	24,761
2018–2022	46,380	39,148	85,528
2023–2027	18,386	19,489	37,875
2028–2031	3,736	3,609	7,345
Total	$ 191,586	$ 111,939	$ 303,525

The minimum annual payments related to unpaid awards of Lotto include unclaimed prizes liability of approximately $11.4 million at June 30, 2012, which is reported as prizes payable — current portion.

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

(k) Claims Liability for Insurance Benefits

The Commonwealth provides unemployment compensation, no occupational disability, and drivers' insurance coverage to public and private employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth. These insurance programs cover workers against unemployment, temporary disability, or death because of work or employment related accidents or because of illness suffered as consequence of their employment.

The Commonwealth establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. Insurance benefit claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The liability for insurance benefits claims is reported as a current liability in the accompanying statement of net assets (deficit) business type activities — and statement of net assets (deficit) proprietary funds. The liability as of June 30, 2012, amounts to approximately $73 million.

(l) Obligations under Capital Lease Arrangements

The Commonwealth is obligated under capital leases with third parties that expire through 2038 for land, buildings, and equipment.

The present value of future minimum capital lease payments at June 30, 2012 reported in the accompanying government wide statement of net assets (deficit) is as follows (expressed in thousands):

Year Ending June 30	
2013	$ 26,424
2014	22,528
2015	22,258
2016	22,164
2017	22,150
2018–2022	101,904
2023–2027	101,016
2028–2032	90,098
2033–2037	39,832
2038	2,994
Total future minimum lease payments	451,368
Less amount representing interest costs	(226,933)
Present value of minimum lease payments	$ 224,435

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2012, include the following (expressed in thousands):

Land	$ 7,960
Buildings	254,886
Equipment	6,096
Subtotal	268,942
Less accumulated amortization	(59,472)
Total	$ 209,470

Amortization charge applicable to capital leases and included within depreciation expense of capital assets amounted to $6.7 million in 2012.

The Commonwealth is also committed under numerous non-cancellable long-term operating lease agreements which expire through 2038, covering land, office facilities, and equipment. Rental expenditure within the governmental funds for the year ended June 30, 2012 under such operating leases was approximately $130 million.

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

Year Ending June 30	
2013	$ 100,691
2014	70,940
2015	51,978
2016	31,614
2017	21,727
2018–2022	34,571
2023–2027	16,646
2028–2032	8,436
2033–2037	1,272
Total future minimum lease payments	$ 337,875

(m) Termination Benefits Payable

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

Act No. 70 established that early retirement benefits ("early retirement program") will be provided to eligible employees that have completed between 15 to 29 years of credited services in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. Pursuant to Act No. 70, the Commonwealth, as employer, will continue making the applicable employer contributions to the Retirement System, as well as covering the annuity payments to the employees opting for the early retirement, until both the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

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

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

In addition, Act No. 70 allows certain component units of the Commonwealth that operate with their own resources to implement a similar program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. The benefits and the requirements are the same provided by Act No. 70, except as follows: in the early retirement benefit program, the component unit will make the employee and the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System; and in the incentivized retirement program, the component unit will make the employee and the employer contributions to the Retirement System for a five year period.

The following table summarized the financial impact resulting for the benefits granted to participants of Act No. 70 and similar programs in the government wide financial statements as of and for the year ended June 30, 2012 (expressed in thousands):

	Primary Government			
Accrued Voluntary Termination	**Governmental Activities**	**Business-Type Activities**	**Totals Primary Government**	**Component Units**
Benefits as of June 30, 2012:				
Current liabilities	$ 63,918	$ 587	$ 64,505	$ 24,323
Noncurrent liabilities	589,607	4,655	594,262	179,431
Total	$ 653,525	$ 5,242	$ 658,767	$ 203,754
Expenses for the year ended June 30, 2012	$ 316,548	$ 2,686	$ 319,234	$ 49,787

At June 30, 2012, unpaid long-term benefits granted on Act No. 70 were discounted at interest rates that range from 0.85% to 1.82% at the primary government level and from 0.30% to 3.46% at the component units level.

By Act No. 70, the General Fund of the Commonwealth must appropriate on an annual basis funds necessary to cover the annual payments of Act No. 70 on certain components units. Discounted termination benefits payable of these component units amounted to approximately $70.2 million as of June 30, 2012.

Involuntary Termination Benefits — The Commonwealth has a current liability of approximately $3.6 million as of June 30, 2012 for unpaid involuntary termination benefits occurred in prior years.

(n) Other Long-term Liabilities

The remaining long-term liabilities of governmental activities at June 30, 2012 include (expressed in thousands):

Liability for legal claims and judgments (Note 19)	$ 1,510,645
Liability for salary increases granted through legislation	342,100
Liability to U.S. Army Corps of Engineers (Note 13)	225,562
Employees' Christmas bonus	133,579
Liability for federal cost disallowances (Note 19)	107,039
Liability to the Puerto Rico System of Annuities and Pensions for Teachers	32,292
Other	70,362
Total	$ 2,421,579

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, 2012, the Commonwealth's liability related to these salary-related benefits amounted to approximately $342 million.

As described in Note 13, the Commonwealth has a debt obligation with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, amounting to $214 million, excluding those costs for items built for recreational purposes. Unpaid allocated share of these construction costs amounted to $212 million, plus accrued interest of $163 million, at June 30, 2012 and it is payable on annual installment payments. The expected maturity date of this debt obligation is June 5, 2046. Due payments of principal and interest on this debt obligation, including late fees, amounted to $27 million and $163 million, respectively, at June 30, 2012 and were recorded in the accompanying Governmental Funds- General Fund's financial statements as of June 30, 2012. This debt obligation bears interest at 6.063%. Debt service requirements on this debt obligation with fixed maturities at June 30, 2012 were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2013	$ 28,486	$ 174,640	$ 203,126
2014	1,858	11,104	12,962
2015	1,971	10,991	12,962
2016	2,090	10,872	12,962
2017	2,217	10,745	12,962
2018–2022	13,271	51,537	64,808
2023–2027	17,813	46,996	64,809
2028–2032	23,908	40,900	64,808
2033–2037	32,090	32,719	64,809
2038–2042	43,072	21,737	64,809
2043–2046	44,849	6,998	51,847
Total	$ 211,625	$ 419,239	$ 630,864

In addition, the Commonwealth has a debt obligation of $14 million with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the recreational part of the Cerrillos Dam and Reservoir Project, including accrued interest of $4 million, at June 30, 2012. The final debt agreement with the U.S. Army Corps of Engineers for the recreational part of the Cerrillos Dam and Reservoir Project has not been finalized, and therefore, terms and conditions could differ from those estimated. The related debt is expected to be payable on annual installment payments over a 35 year period. However, the debt has been presented as a long-term payable after one year in the accompanying statement of net assets (deficit) since the commencement date of repayment has not yet been determined.

On October 10, 2012, following a 30-days payment notice issued on August 15, 2012 by the U.S. Army Corps of Engineers to the Secretary of the Treasury of the Commonwealth demanding payment of the amounts due and payable for $190,164,357 associated with the Cerrillos Dam and Reservoir Project, the U.S. Army Corps of Engineers placed such debt into the U.S. Treasury Department Offset Program (the Offset Program). Upon placing this debt under the Offset Program, the U.S. Treasury Department withheld federal funding, otherwise directed to certain Commonwealth's agencies and instrumentalities recipients, in order to repay the aforementioned amount due on behalf of the U.S. Army Corps of Engineers. As interest penalties have continued to accrue, the balance that was subject to the Offset Program amounted to $190,644,452 at

September 15, 2012. Through May 13, 2013, the amounts already withheld under the Offset Program and applied to the debt amounted to $157.8 million. On May 15, 2013, the Secretary of the Treasury of the Commonwealth requested the U.S. Army Corps of Engineers an immediate stay of the Offset Program and the forgiveness of the cumulative penalty interests accrued since 1998. In addition, a new payment plan consisting of 32 annual payments of $7,076,760, including interests at 1.5% through the year 2045 and a final payment of $6,972,177, including interest, to be made in the year 2046, was proposed by the Secretary of the Treasury. During the seven months period ended in May, 2013, the Offset Program impacted the following federal programs (in thousands):

Rum Taxes Program	$ 117,331
Department of Education	36,917
Regional Analytical Service Program	2,067
Office of the Veteran's Obudsman	1,042
Others	459
Total	$ 157,816

(o) Fiduciary Funds

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

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

	Balance at June 30, 2011	Additions/ Accretion	Balance at June 30, 2012
5.85% to 6.45% Term and Capital Appreciation Bonds Series A maturing from 2023 through 2058	$ 1,599,255	$ 3,494	$ 1,602,749
6.25% to 6.55% Term and Capital Appreciation Bonds Series B maturing from 2028 through 2058	1,110,763	19,226	1,129,989
6.15% to 6.50% Term and Capital Appreciation Bonds Series C maturing from 2028 through 2043	300,672	176	300,848
Bond discounts	(7,208)	215	(6,993)
Total	$ 3,003,482	$ 23,111	$ 3,026,593

As of June 30, 2012, the outstanding balance of the Bonds is as follows (in thousands):

Description	
Series A Bonds:	
Capital Appreciation Bonds, maturing in 2029, bearing interest at 6.20%	$ 58,979
Term Bonds, maturing in 2024, bearing interest at 5.85%	200,000
Term Bonds, maturing from 2032 through 2039, bearing interest at 6.15%	679,000
Term Bonds, maturing from 2040 through 2043, bearing interest at 6.20%	332,770
Term Bonds, maturing from 2056 through 2059, bearing interest at 6.45%	332,000
Total Series A Bonds outstanding	1,602,749
Series B Bonds:	
Capital Appreciation Bonds, maturing from 2029 through 2031, bearing interest at 6.40%	182,539
Capital Appreciation Bonds, maturing from 2032 through 2035, bearing interest at 6.45%	131,350
Term Bonds, maturing in 2032, bearing interest at 6.25%	117,100
Term Bonds, maturing from 2037 through 2040, bearing interest at 6.30%	270,000
Term Bonds, maturing from 2056 through 2059, bearing interest at 6.55%	429,000
Total Series B Bonds outstanding	1,129,989
Series C Bonds:	
Capital Appreciation Bonds, maturing in 2031, bearing interest at 6.50%	2,848
Term Bonds, maturing in 2029, bearing interest at 6.15%	110,000
Term Bonds, maturing in 2039, bearing interest at 6.25%	45,000
Term Bonds, maturing in 2044, bearing interest at 6.30%	143,000
Total Series C Bonds outstanding	300,848
Total bonds outstanding	3,033,586
Less bonds discount	(6,993)
Bonds payable — net	$3,026,593

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, 2012 are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2013	$ -	$ 166,519	$ 166,519
2014	-	166,519	166,519
2015	-	166,519	166,519
2016	-	166,519	166,519
2017	-	166,519	166,519
2018–2022	-	832,595	832,595
2023–2027	200,000	785,795	985,795
2028–2032	443,416	739,533	1,182,949
2033–2037	152,463	696,134	848,597
2038–2042	1,210,220	407,702	1,617,922
2043–2047	180,550	256,577	437,127
2048–2052	-	247,568	247,568
2053–2057	362,800	212,062	574,862
2058–2062	398,200	14,401	412,601
	2,947,649	$ 5,024,962	$ 7,972,611
Plus accreted interest	85,937		
Less unamortized discount	(6,993)		
Total	$ 3,026,593		

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.

(p) Discretely Presented Component Units

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

The outstanding balance of notes payable at June 30, 2012 is as follows (expressed in thousands):

Component Unit	Interest rates	Maturity Through	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Amounts Due Within One Year
Government Development Bank for Puerto Rico	1.59%–6.97%	2040	$5,271,072	$5,100,100	$5,020,808	$5,350,364	$ 570,515
Economic Development Bank for Puerto Rico	2.25%–7.23%	2031	607,817	170,716	52,392	726,141	41,800
Puerto Rico Ports Authority	Variable	2027	554,983	11,778	473,461	93,300	12,712
Puerto Rico Electric Power Authority	3.25%–4.375%	2023	200,501	599,995	226,465	574,031	555,438
Puerto Rico Trade and Export Company	4.51%–6.48%	2034	360,385	40,605	10,459	390,531	493
Puerto Rico Aqueduct and Sewer Authority	3.25%	2012	241,744	-	241,744	-	-
University of Puerto Rico	3.25%–5.50%	2014	2,008	2,426	830	3,604	1,336
Puerto Rico Industrial Development Company	5.10%–8.45%	2024	99,296	-	6,564	92,732	6,574
Puerto Rico Tourism Company	Variable	2013	3,042	8,528	-	11,570	11,570
State Insurance Fund Corporation	Variable	2028	283,643	-	3,992	279,651	4,489
Puerto Rico Metropolitan Bus Authority	2.62 %	2015	38,833	37,543	39,328	37,048	2,711
Agricultural Enterprises and Development Administration	4.54 %	2013	5,480	-	3,650	1,830	1,830
Total notes payable component units			$7,668,804	$5,971,691	$6,079,693	$7,560,802	$1,209,468

Debt service requirements on component units' notes payable with fixed maturities at June 30, 2012 were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2013	$ 1,209,468	$ 295,443	$ 1,504,911
2014	444,062	284,866	728,928
2015	628,696	263,235	891,931
2016	712,522	235,946	948,468
2017	428,716	206,061	634,777
2018–2022	2,420,744	652,454	3,073,198
2023–2027	1,374,427	210,962	1,585,389
2028–2032	255,894	64,294	320,188
2033–2037	98,728	10,587	109,315
2038–2042	13,398	1,848	15,246
Discount	(25,853)	-	(25,853)
Total	$ 7,560,802	$ 2,225,696	$ 9,786,498

Commonwealth appropriation bonds payable outstanding at June 30, 2012 are as follows (expressed in thousands):

Component Unit	Interest rates	Maturity Through	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Amounts Due Within One Year
Puerto Rico Aqueduct and Sewer Authority	1.25%–6.15%	2031	$663,596	$397,799	$663,346	$398,049	$ -
Puerto Rico Tourism Company	3.10%–6.15%	2031	60,427	43,484	60,427	43,484	-
Land Authority of Puerto Rico	3.10%–6.50%	2031	76,715	47,739	69,276	55,178	-
Government Development Bank for Puerto Rico	3.10%–6.50%	2031	4,812	3,427	4,812	3,427	-
Puerto Rico Infrastructure Financing Authority	3.10%–6.50%	2031	4,956	3,607	4,956	3,607	-
Solid Waste Authority	3.10%–6.50%	2031	10,689	7,778	10,689	7,778	-
Total Commonwealth appropriation bonds — component units			$829,249	$503,834	$813,506	$511,523	$ -

Debt service requirements on component units' appropriation bonds payable with fixed maturities at June 30, 2012 were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2013	$ -	$ 22,131	$ 22,131
2014	-	29,474	29,474
2015	-	29,324	29,324
2016	10,707	29,175	39,882
2017	8,686	28,865	37,551
2018–2022	47,509	124,896	172,405
2023–2027	59,987	127,907	187,894
2028–2032	398,196	59,507	457,703
2033–2037	-	5,698	5,698
Premium	7,247	-	7,247
Unaccreted	911	-	911
Deferred loss	(21,720)	-	(21,720)
Total	$ 511,523	$ 456,977	$ 968,500

Bonds payable outstanding at June 30, 2012 are as follows (expressed in thousands):

Component Unit	Interest Rates	Maturity Through	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Amount Due Within One Year
Government Development Bank for Puerto Rico	2.95%–6.56%	2039	$ 913,953	$ -	$ 306,187	$ 607,766	$ 33,880
Puerto Rico Infrastructure Financing Authority	Variable	2048	1,971,496	42	21,340	1,950,198	37,460
University of Puerto Rico	3%–5.75%	2036	643,734	-	29,285	614,449	31,790
Puerto Rico Municipal Finance Agency	3.80%–6.00%	2030	1,100,994	2,331	99,793	1,003,532	93,835
Puerto Rico Ports Authority	2.75%–6.5%	2028	44,987	678,681	46,877	676,791	340,000
Puerto Rico Aqueduct and Sewer Authority	3.35%–6.15%	2050	1,916,144	2,187,178	6,173	4,097,149	15,923
Puerto Rico Highways and Transportation Authority	2.25%–6.50%	2046	6,386,961	5,021	1,498,980	4,893,002	104,125
Puerto Rico Industrial Development Company	5.10%–6.75%	2029	237,504	435	12,668	225,271	28,570
Puerto Rico Convention Center District Authority	4.00%–5.00%	2036	456,395	-	9,933	446,462	9,470
Puerto Rico Electric Power Authority	2.00%–6.25%	2042	7,861,252	650,000	199,563	8,311,689	379,975
Total bonds payable-component units			$21,533,420	$3,523,688	$2,230,799	$22,826,309	$1,075,028

Debt service requirements on component units' bonds payable with fixed maturities at June 30, 2012 were as follows (expressed in thousands):

June 30,	Principal	Interest	Total
2013	$ 1,075,028	$ 1,086,661	$ 2,161,689
2014	546,186	1,076,410	1,622,596
2015	605,975	1,063,791	1,669,766
2016	858,425	1,043,906	1,902,331
2017	626,222	1,010,397	1,636,619
2018–2022	3,476,360	4,721,810	8,198,170
2023–2027	4,213,421	3,552,958	7,766,379
2028–2032	3,982,895	2,455,674	6,438,569
2033–2037	3,398,995	1,603,187	5,002,182
2038–2042	3,094,512	636,442	3,730,954
2043–2047	1,279,524	166,455	1,445,979
2048–2052	145,594	5,011	150,605
Discount, net	598,847	-	598,847
Unaccreted discount	(659,154)	-	(659,154)
Deferred loss	(416,521)	-	(416,521)
Total	$22,826,309	$18,422,702	$41,249,011

The table that follows represents debt service payments on two component units' variable-rate bonds and the net payments on associated hedging derivative instrument as of June 30, 2012. 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, 2012 will remain the same for their term.

Year Ending June 30,	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Hedging Derivative Instruments, Net	Total
2013	$ -	$ 10,126	$ 33,931	$ 44,057
2014	-	10,126	33,925	44,051
2015	-	10,126	33,925	44,051
2016	-	10,126	33,930	44,056
2017	-	10,126	33,930	44,056
2018–2022	104,525	48,242	155,854	308,621
2023–2027	111,630	42,010	137,378	291,018
2028–2032	453,635	27,004	102,244	582,883
2033–2037	-	14,279	65,599	79,878
2038–2042	-	14,279	63,034	77,313
2043–2047	700	14	17,638	18,352
Total	$ 670,490	$ 196,458	$ 711,388	$ 1,578,336

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, 2012, the following bonds are considered defeased (expressed in million):

	Amount Outstanding
Puerto Rico Electric Power Authority	$ 4,031
Puerto Rico Highways and Transportation Authority	2,702
Puerto Rico Municipal Finance Agency	328
Total	$ 7,061

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, 2012, the following component unit debts are guaranteed by the Commonwealth (expressed in thousands):

	Maximum Guarantee	Outstanding Balance
Blended component unit —		
Public Buildings Authority	$4,721,000	$4,285,324
Discretely presented component units:		
Government Development Bank for Puerto Rico	267,000	267,000
Puerto Rico Aqueduct and Sewer Authority	1,103,310	1,103,310
Port of the Americas Authority	250,000	219,349
Total	$6,341,310	$5,874,983

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, 2012 and for the next five years and thereafter follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2013	$ 78,580	$ 198,571	$ 277,151
2014	72,595	198,478	271,073
2015	76,760	194,490	271,250
2016	82,000	190,244	272,244
2017	86,125	185,685	271,810
2018–2022	401,725	988,789	1,390,514
2023–2027	511,800	899,791	1,411,591
2028–2032	1,422,034	1,031,588	2,453,622
2033–2037	725,715	344,365	1,070,080
2038–2042	914,740	149,683	1,064,423
	4,372,074	$4,381,684	$8,753,758
Plus accreted value on bonds outstanding	19,938		
Plus unamortized premium, net	27,236		
Less deferred loss on bonds defeased	(133,924)		
Total	$4,285,324		

Rental income of PBA funds amounted to approximately $235 million during the year ended June 30, 2012, of which $108 million was used to cover debt service obligations.

Act 131 of July 2, 2012 increased the Commonwealth's guarantee on PBA's bonds from $4,325 million to $4,721 million.

Government Development Bank for Puerto Rico Remarketed Refunding Bonds — The Commonwealth guarantees the Remarketed 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, 2012. On August 1, 2008, GDB repurchased the $267 million outstanding of its adjustable refunding bonds 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.

Puerto Rico Aqueduct and Sewer Authority (PRASA) — Act No. 45 of July 28, 1994 states that the Commonwealth guarantees the payment of principal and interest of all outstanding bonds at the date the law was enacted and of all future bond issues to refinance those outstanding bonds of PRASA. Act No. 140 of August 3, 2000 amended Act No. 45 to extend the Commonwealth guarantee to include the principal and interest payments of the Rural Development Serial Bonds and the loans under the State Revolving Fund Program (SRFP) outstanding at the effective date of Act No. 140, and of all future bonds and SRFP loans that may be issued through June 30, 2005. Act No. 386 of September 21, 2004 extended the Commonwealth guarantee to June 30, 2010. Act. No. 75 of July 12, 2010 amended section 1 of Act No. 45 of July 28, 1994 to extend the Commonwealth guarantee over the Rural Development and SRFP's borrowings to June 30, 2015.

United States Department of Agriculture (USDA) Rural Development Program assist PRASA in the financing and construction of aqueduct and sewer facilities in rural areas by purchasing revenue bonds from PRASA, the proceeds of which are used by PRASA to finance such projects. GDB provides interim financing for these projects through short-term lines of credit. On September 14, 2011, PRASA issued approximately $70.2 million of Series HH of USDA Rural Development Program Bonds, at a maximum interest of 4.25%, payable semiannually and maturing in semiannual installments through July 1, 2051. The funds raised by this issuance were used to partially repay the outstanding balance of USDA Rural Development Program lines of credit for construction projects from GDB. As of June 30, 2012, the USDA Rural Development Program Bonds consisted of twenty-five (25) separate series, issued from 1983 through 2011, bearing interest from 4.25% to 5% due in semiannual installments through 2051. The outstanding balance of the USDA Rural Development Program Serial Bonds as of June 30, 2012 was approximately $368.5 million. The USDA Rural Development Program Serial Bonds are guaranteed by the Commonwealth pursuant to Act No. 140 of August 3, 2000, as amended, and PRASA's net revenue is pledged toward the payment of debt service on the USDA Rural Development Program Bonds.

The Puerto Rico Water Pollution Control Revolving Fund and Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (the Revolving Funds) were created by Act No. 44 of June 21, 1988 and Act No. 32 of July 7, 1997, respectively, of the Commonwealth. The Puerto Rico Water Pollution Control Revolving Fund is administered, pursuant to Act No. 44 and Act No. 9 of June 21, 1988 and June 18, 1970, respectively, as amended, by Puerto Rico Environmental Quality Board (EQB). The Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund is administered, pursuant to Act No. 5 of July 21, 1977, as amended, by Puerto Rico Department of Health (DOH).

Pursuant to these laws, EQB and DOH, on behalf of the Commonwealth, are authorized to enter into operating agreements and capitalization grant agreements with the U.S. Environmental Protection agency (EPA). Puerto Rico Infrastructure Financing Authority (PRIFA), a component unit of the

Commonwealth, PRASA, and GDB entered into a memorandum of understanding under which each party has agreed to assume specific responsibilities in connection with the operations of the Revolving Funds.

PRASA has entered into revolving loan agreements to finance certain capital improvements. As of June 30, 2012, PRASA had outstanding approximately $450 million under these loan agreements.

The loan agreements are evidenced by promissory notes, which bear interest at a 2% annual rate payable semiannually. Construction loans are required to be paid in full within 20 years of the project completion date. PRASA has pledged its net revenues on a basis subordinate in all respect to the PRASA's bonds outstanding. If PRASA's pledged revenues are not sufficient for the payment of principal and interest, the payments are guaranteed by the Commonwealth under the Act No. 45 of July 28, 1994, as amended, which obligates the Commonwealth to pay principal and interest on the notes.

On March 18, 2008, PRASA issued approximately $284.8 million of Revenue Refunding Bonds, Series A and B (the "2008 Revenue Refunding Bonds"), (guaranteed by the Commonwealth) to refund PRASA's outstanding Revenue Refunding Bonds, Series 1995 (guaranteed by the Commonwealth) in the amount of approximately $262.8 million. The 2008 Revenue Refunding Bonds bear interest at rates from 5.80% to 6.10% per annum with maturity dates ranging from July 1, 2021 to July 1, 2034. The outstanding balance of the 2008 Revenue Refunding Bonds at June 30, 2012 amounted $284.8 million.

At various times during fiscal years ended 2005 and 2006, the Port of the Americas Authority, a component unit of the Commonwealth, entered into bond purchase agreements with GDB, whereby GDB agreed to disburse to the Port of the Americas Authority from time to time certain bond principal advances up to a maximum aggregate principal amount of $70 million (Port of the Americas Authority 2005 Series A Bond), $40 million (Port of the Americas Authority 2005 Series B Bond), and $140 million (Port of the Americas Authority 2005 Series C Bond). The proceeds of the bonds were used to finance the cost of development and construction of the Port of the Americas. The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable in full on January 1, 2015 and January 15, 2015. The principal amount may be paid with any of the following: (i) a long-term bond issuance once the projects are completed; (ii) other revenue of the Port of the Americas Authority; (iii) or legislative appropriations as established in Act No. 409 of September 22, 2004 (Act No. 409). Principal and interests payments are guaranteed by the Commonwealth by Act No. 409. As of June 30, 2012, the principal outstanding under those bond purchase agreements amounted to $219.3 million.

(b) Debt Supported by Appropriations and Sales and Use Taxes

At June 30, 2012, the outstanding principal balances of debt payable by Commonwealth appropriations and sales and use taxes (PFC bonds and notes payable, as described in Note 15(d), and notes payable to GDB, as described in Note 11) which are included in the individual financial statements of the following discretely presented component units, are as follows (expressed in thousands):

	PFC Bonds and Notes	Notes Payable to GDB and Others	Total
Puerto Rico Acqueduct and Sewer Authority	$411,229	$ -	$ 411,229
Special Communities Perpetual Trust	-	363,639	363,639
Puerto Rico Medical Service Administration	-	264,390	264,390
Puerto Rico Health Insurance Administration	-	171,080	171,080
Puerto Rico Convention Center District Authority	-	145,889	145,889
Solid Waste Authority	7,778	74,416	82,194
University of Puerto Rico	-	64,999	64,999
Land Authority of Puerto Rico	55,819	-	55,819
Puerto Rico Tourism Company	44,484	-	44,484
Puerto Rico Industrial Development Company	-	42,170	42,170
Puerto Rico Infrastructure Financing Authority	3,607	32,202	35,809
Company for the Integral Development of the "Península de Cantera"	-	23,103	23,103
University of Puerto Rico Comprehensive Cancer Center	-	19,866	19,866
National Parks Company of Puerto Rico	-	5,894	5,894
Puerto Rico Electric Power Authority	-	5,651	5,651
Government Development Bank	3,501	-	3,501
Institute of Puerto Rican Culture	-	2,515	2,515
Total	$526,418	$ 1,215,814	$ 1,742,232

Notes payable to GDB are reported in the statement of net assets (deficit) as "Due from (to) component units".

(c) Other Guarantees

Mortgage Loan Insurance — The Puerto Rico Housing Finance Authority (the "Authority"), a component unit of GDB, provides mortgage credit insurance to low and moderate income families through its mortgage loan insurance program. The Commonwealth guarantees up to $75 million of the principal insured by the mortgage loan insurance program. As of June 30, 2012, the mortgage loan insurance program covered loans aggregating to approximately $482 million. Currently, the Commonwealth has not been called to make any direct payments pursuant to these guarantees.

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, 2012, conduit debt obligations consisted of the following bonds issued by component units (expressed in thousands):

Issuing Entity	Issued Since Inception to Date	Amount Outstanding
Discretely presented component units:		
Puerto Rico Ports Authority	$ 155,410	$ 155,410
Puerto Rico Highways and Transportation Authority	270,000	159,000
Puerto Rico Infrastructure Financing Authority	669,215	669,215
Government Development Bank for Puerto Rico	1,147,475	828,345
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	6,271,000	1,349,357
Total	$ 8,513,100	$ 3,161,327

(a) Puerto Rico Ports Authority (PRPA)

PRPA has issued $39,810,000 in Special Facility 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 the Luis Munoz Marin International Airport for the benefit of a major private airline. The property is owned by PRPA and leased to the private company. These bonds are limited obligations of PRPA, and are payable solely from and secured by a pledge of certain payments made under the Special Facilities Agreement with the private company and certain other moneys. Neither the credit of the Commonwealth nor that of any of its political subdivisions is pledged for the repayment of these bonds. In addition, the bonds are unconditionally guaranteed by the private company's parent company. Pursuant to the agreements between PRPA and the private company, the private company has agreed to pay amounts sufficient to cover the principal of and premium, if any, and interest on the bonds. The bonds are not collateralized by any property, but are payable solely from certain pledged payments by the private company under the agreement or by the private company's parent company under its unconditional guarantee. The outstanding balance of these bonds amounted to $155.4 million at June 30, 2012.

(b) Puerto Rico Highways and Transportation Authority (PRHTA)

In March 1992, PRHTA issued Special Facility Revenue Bonds, 1992 Series A, B and C for approximately $117 million for the construction of a toll bridge. The proceeds from the sale of these bonds were transferred by PRHTA to a private entity, Autopistas de Puerto Rico & Compañía, S.E. ("Autopistas"), pursuant to a signed concession agreement for the design, construction, operation and maintenance of the bridge. On October 30, 2003, PRHTA issued Special Facility Revenue Refunding Bonds, 2004 Series A, amounting to approximately $153 million for the purpose of refunding PRHTA's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by PRHTA to Autopistas pursuant to a new loan agreement by and between Autopistas and PRHTA. The bonds shall be paid from the proceeds received by Autopistas from the operation of the bridge.

Under certain circumstances, the concession agreement may be terminated and PRHTA is then obligated to assume the Autopista's entire obligation to pay principal of, and interest on, the bonds outstanding, which pursuant to the signed agreement, will be paid from the net revenues of the use and operation of the bridge. PRHTA does not currently expect the concession agreement to terminate. The outstanding bonds (including accrued interest) at June 30, 2012 amounted to approximately $159 million.

(c) Government Development Bank for Puerto Rico (GDB)

In December 2003, GDB, through its Housing Finance Authority, issued $663 million in Capital Fund Program Bonds Series 2003 to lend the proceeds thereof to the Public Housing Administration in its financing of improvements to various public low and moderate income housing projects. The Capital Fund Program Bonds Series 2003 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 $496.5 million at June 30, 2012.

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 Housing Finance 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 $331.9 million at June 30, 2012. The $100,000,000 bonds were 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 was also secured by an irrevocable standby letter of credit issued by GDB. The Housing Revenue Bonds were paid-off on September 30, 2011.

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

AFICA's revenue bonds are special and limited obligations of AFICA and, except to the extent payable from bond proceeds and investments thereof, will be payable solely from and secured by a pledge and assignment of the amounts payable under the loan agreements between AFICA and the borrowers. Furthermore, payment of principal and interest on the revenue bonds is unconditionally guaranteed by the borrowers, their parent companies, or letters of credit generally issued by major U.S. banks or U.S. branches of international banks.

The revenue bonds are considered conduit debt and do not constitute a debt or a pledge of the good faith and credit of AFICA or the Commonwealth or any political subdivision thereof.

In connection with the issuance of revenue bonds, AFICA enters into trust agreements, whereby AFICA assigns and pledges to the trustees, for the benefit of the holders of the revenue bonds, (1) all amounts receivable by AFICA in repayment of the amounts due under the loan agreements; (2) any rights, title, and interest of AFICA in the proceeds derived from the issuance of the revenue bonds and of any securities in which moneys in any fund or account created by the trust agreements or loan agreements are invested and the proceeds derived therefrom; and (3) AFICA's rights, title, and interest in and to the loan agreements, subject to AFICA's retention of certain rights, including the right to collect moneys payable to AFICA, which are not received with respect to repayment of the loans.

Since inception and up to June 30, 2012, AFICA has issued revenue bonds aggregating to $6,271 million, $1,349 million of which was outstanding as of June 30, 2012. Of the revenue bonds outstanding at June 30, 2012, $713 million represent industrial and commercial revenue bonds; $104 million, tourism related revenue bonds; $183 million, hospital revenue bonds; and $349 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.

(e) Puerto Rico Infrastructure Financing Authority (PRIFA)

In December 2011, PRIFA issued $669,215,000 Special Revenue Bonds, pursuant to a Loan and a Trust Agreement dated December 1, 2011, between PRIFA and the Puerto Rico Ports Authority ("PRPA"), another component unit of the Commonwealth. The proceeds from the bonds were lent to PRPA to refinance certain obligations, acquire real estate for airport and seaport facilities, provide working capital, finance certain operating and capital costs, and finance the cost of issuing the bonds. These bonds are limited obligations of PRIFA and are payable solely from and secured by the revenues to be received under the Loan and Trust Agreement. The PRPA shall make loan payments sufficient to cover the payment of principal and interest due on the bonds. The bonds are also secured by two irrevocable, transferable direct pay letters of credit issued by GDB. Upon repayment of the bonds, ownership of the acquired facilities is retained by the PRPA. PRIFA is not 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 entity. The total amount of $669,215,000 was outstanding as of June 30, 2012.

18. RISK MANAGEMENT

The risk management policies of the primary government of the Commonwealth are addressed on Note 1(ab).

The following describes the risk management programs separately administered by certain discretely presented component units:

(a) GDB

Since one of GDB's principal functions is to provide financing to the Commonwealth and its instrumentalities, GDB's loan portfolio includes loans to various departments and agencies of the Commonwealth, to various public corporations (component units), and to municipalities, which represent a significant portion of GDB's government-wide assets.

Loans to the Commonwealth and its instrumentalities are expected to be collected from legislative appropriations from, proceeds from future bond issuances of, or revenues generated by the Commonwealth and/or its component units and, to a lesser extent, from loans provided by sources other than GDB, federal grants, and the sale of assets of such component units, if necessary. Accordingly, the collectability of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth and its component units, and their ability to generate sufficient funds from taxes, charges, and/or bond issuances. Continuance of and/or significant negative changes in these factors may have an adverse impact on GDB's financial condition, liquidity, funding sources, and results of operations. Loans to municipalities are expected to be repaid principally from a portion of property tax assessments or municipal sales tax of each municipality.

Notwithstanding the aforementioned uncertainties and risks, the Commonwealth and GDB have adopted and continue to adopt measures to mitigate these risks and uncertainties. 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. Certain loans whose repayment source was originally from COFINA and from future issuances of Commonwealth's general obligation bonds are currently being repaid with annual legislative appropriations based on payment schedules proposed by GDB, which are based on a period of amortization of 30 years, at contractual interest rates. GDB will annually submit to OMB, to be included in the Commonwealth's budget for legislative approval in each subsequent fiscal year, an amount established in the payment schedules with the terms stated above. GDB expects that future appropriations will be approved by the Legislature to comply with such schedules. However, there can be no assurance that the director of the OMB will include an amount for loan repayments in the Commonwealth' budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to GDB on these loans.

GDB lends funds to public corporations for capital improvements and operating needs. The loans for capital improvements generally are construction loans and are generally repaid from the proceeds of future bond issuances of the respective public corporations. The amount of outstanding loans from GDB to the public corporations fluctuates annually, depending upon the capital program needs of the public corporations, the timing and level of their capital expenditures, and their ability to gain access to the long-term capital markets. The participation of certain of these public entities in the bond market has been delayed waiting for the credit rating of such entities to improve or for more favorable market conditions.

A particular attention is being placed on loans granted by GDB to the Puerto Rico Highways and Transportation Authority (PRHTA). As of June 30, 2012, GDB has extended various credit facilities to PRHTA for, among other, capital improvement programs, working capital, debt service and collateral posting requirements. The outstanding balance of such facilities amounts to $1.9 billion, including accrued interest of $30.5 million, which represent 12% and 76% of GDB's total government-wide assets and net assets, respectively, at June 30, 2012.

GDB, in its ordinary course of business, provides interim lines of credit to public corporations like PRHTA. These lines of credit have historically been repaid from bond issuances of each public corporation, once they regain or have access to the capital markets. No public corporation has ever defaulted on its obligations with GDB.

PRHTA has reported net operating losses during each of the three fiscal years in the period ended June 30, 2012, and, as a result, GDB has been partially financing its operations through credit facilities. In fiscal year 2010, PRHTA entered into a fiscal oversight agreement with GDB, whereby GDB, among other things, imposes conditions on the extensions of credit to PRHTA and continually monitors its finances. PRHTA expects to repay the credit facilities due to GDB with proceeds from the issuance of bonds within the next two fiscal years. On December 13, 2012, Moody's Investor Service downgraded PRHTA's transportation revenue bonds from Baa1 to Baa3, PRHTA's highway revenue bonds from A3 to Baa2, and PRHTA's subordinate transportation revenue bonds from Baa2 to Ba1.

Managements of PRHTA and GDB are working with various alternatives for PRHTA to gain access to the bond capital market, including, among other, a new trust indenture, revenue increasing measures, and expense reduction measures. If such alternatives are not materialized, PRHTA could default on its credit facilities with GDB, which may have a material adverse effect on the financial condition, operating results and liquidity of GDB. GDB's management, however, believes that in such case alternatives are not materialized, the Commonwealth would provide financial support to PRHTA in order to repay its outstanding borrowings with GDB.

On June 25, 2013, the Legislature of the Commonwealth enacted Act No. 30 and Act No. 31 to raise additional annual revenues for PRHTA to repay its outstanding loans with GDB. The additional annual revenues consist of (1) transfer to PRHTA of vehicle license fee revenues currently received by the Commonwealth's Treasury Department, which amount to approximately $62.5 million; (2) increase in the petroleum products tax from $3.00 per barrel to $9.25 per barrel (to be adjusted for inflation, every four years beginning in 2017, based on the accumulated compounded yearly increase in the USA CPI Index plus a margin of 1.5%), which are estimated to generate approximately $189 million; (3) transfer to PRHTA of the first $20 million in annual cigarette tax revenues currently collected by the Commonwealth's Treasury Department.

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 certain 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, designed to minimize future tariff increases to households and the private sector, and to protect and improve the credit rating of the public corporations, so that the public corporations may obtain adequate financing to fund its capital expenditure requirements and to operate its infrastructure in an efficient and reliable manner and in compliance with applicable laws and regulations. GDB's agreement to provide current financing and any future financing is expressly conditioned upon the public corporations' compliance with the covenants established in the fiscal oversight agreement and GDB's right to monitor and enforce such compliance. These agreements will be in effect until the public corporations have regained a level of financial stability and are able to secure long-term financing that will result in the continued stability of the public corporations' operations and financial condition. As of June 30, 2012, GDB's management determined that all public corporations and agencies have complied with the material terms and conditions of their respective agreements.

On March 9, 2009, the Legislature of the Commonwealth enacted Act No. 7, which among other, created an integrated plan for the Commonwealth's fiscal stabilization that includes: (i) operating expense-reduction measures, including various workforce reduction initiatives and a temporary halt of salary increases and other economic benefits included in certain laws and collective bargaining agreements; (ii) tax revenue enforcement measures; (iii) a combination of permanent and temporary tax increases, and (iv) other financial measures. Although the Commonwealth is using its best efforts to maximize revenues and reduce expenditures, there can be no assurance that its future revenues will be greater than its expenditures.

Based on previous experience and recent developments, GDB's management believes that the carrying amount of most of the loans to the public sector will be collected (including interest at the contractual interest rate).

Other risk management policies of GDB involve its mortgage and loans servicing and insurance activities. Certain loan portfolios of the Housing Finance Authority, a blended component unit of GDB, are administered by private servicers who are required to maintain an error and omissions insurance policy. The Housing Finance Authority has a program to manage the risk of loss on its mortgage loan lending and insurance activities.

(b) UPR

UPR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Through January 1993, UPR was insured under claims-made insurance policies with respect to medical malpractice risks for $250,000 per occurrence up to an annual aggregate of $500,000. Subsequent to such date, UPR was unable to obtain insurance at a cost it considered to be economically justifiable; consequently, UPR is now self-insured for such risks. Under Act No. 98 of August 24, 1994, the responsibility of UPR is limited to a maximum amount of $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Self-insured risk liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The process used in computing claims liabilities does not necessarily is an exact amount because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the claims liability amount for medical malpractice in fiscal years 2012 and 2011 were as follows (expressed in thousands):

	2012	2011
Claims payable — July 1	$ 12,254	$ 11,961
Incurred claims and changes in estimates	894	1,910
Payments for claims and adjustments expenses	(1,192)	(1,617)
Claims payable — June 30	$ 11,956	$ 12,254

In addition, the UPR is a defendant in several lawsuits other than medical malpractice arising out of the normal course of business. Management has recorded an accrual of $10.4 million and $11.6 million as of June 30, 2012 and 2011, respectively, to cover claims and lawsuits that may be assessed against the UPR. The UPR continues to carry commercial insurance for these risks of loss.

These claims payable are presented as a component of accounts payable and accrued liabilities in the accompanying statement of net assets (deficit).

UPR continues to carry commercial insurance for all other risks of loss.

(c) PREPA

PREPA purchases commercial insurance covering casualty, theft, tort claims, natural disaster and other claims covering all risk property (excluding transmission and distribution lines), boiler and machinery, and public liability. In addition, PREPA has a self-insured fund to pay cost of repairing, replacing on reconstructing any property damaged or destroyed from, or extraordinary expenses incurred as a result of a cause, which is not covered by insurance required under the 1974 agreement.

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 2012 and 2011 were as follows (expressed in thousands):

	2012	2011
Claims payable — July 1	$ 7,167	$ 5,597
Incurred claims	87,434	95,921
Claim payments	(87,413)	(94,351)
Claims payable — June 30	$ 7,188	$ 7,167

These claims payable are presented as a component of accounts payable and accrued liabilities in the accompanying statement of net assets (deficit).

(d) 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. PRASA also has an Owner Controlled Insurance Program (OCIP) under which commercial general liability, excess general liability, builder's risk, and contractors pollution liability coverage are procured or provided on a project "wrap up" basis for contractors and subcontractors of any tier, who have been properly enrolled, while performing operations at the applicable project site. 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.

(e) PRHTA

PRHTA carries commercial insurance to cover casualty, theft, claims and other losses. PRHTA has not settled any claims in excess of its insurance coverage for any of the past three years.

(f) PRHIA

PRHIA is responsible for implementing, administering and negotiating a health insurance system, through contracts with insurance underwriters, to provide quality medical and hospital care to the Commonwealth residents regardless of their financial condition and capacity to pay. PRHIA pays a monthly premium to such insurance underwriters based on a contracted premium and the number of members subscribed in the health plan. Funds to pay for such premiums are requested from the Commonwealth, net of funds available for such purposes from all other sources.

Under the provisions of Act No. 105 of July 19, 2002, that amends Act No. 72 of 1993, PRHIA was authorized to negotiate directly with health providers under a pilot program. PRHIA has, since then, entered into different direct contract to cover the insured population of different regions and municipalities. Since November 1, 2006 through September 1, 2010, PRHIA directly contracted providers that served approximately 190,000 lives from the metro-north region. At June 30, 2011, PRHIA has direct contracting projects with the municipalities of Vieques and Guaynabo, and effective October 1, 2011, the projects were expanded to cover the west, the metro north, the north, the San Juan, the northeast and the virtual regions under a new arrangement with a new insurance underwriter as third party administrator. In addition, PRHIA implemented certain cost containment strategies to control costs, such as establishing a co-payment that applies for the unjustified use of emergency rooms, detection and control of prescription drug overuse, implementation of disease management program for respiratory conditions, modification of provider fees and better coordination of benefits for the population having other medical insurance.

PRHIA establishes a liability to cover for the estimated amount to be paid to providers based on experience and accumulated statistical data under one of the direct contracting pilot projects. The estimates of medical claims incurred but not reported and other medical expense payments is developed using actuarial methods and assumptions based upon payment patterns, inflation of medical costs, historical developments and other relevant factors. PRHIA agrees with health care organizations certain medical care services provided to the beneficiaries. The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid medical and benefit adjustment expenses for the two most recent fiscal years (expressed in thousands):

	2012	2011
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$ 35,454	$ 59,453
Total incurred benefits	775,761	96,783
Total benefit payments	(598,042)	(120,782)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$ 213,173	$ 35,454

The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as liability for automobile accident insurance, workmen compensation and medical claims in the accompanying statement of net assets (deficit).

(g) SIFC

SIFC provides workers' compensation insurance to public and private employees. This insurance covers workers against injuries, disability, or death caused by work or employment related accidents, or by illness suffered as a consequence of their employment. SIFC establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. The 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):

	2012	2011
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$ 784,018	$ 778,243
Total incurred benefits	526,610	525,568
Total benefit payments	(490,616)	(519,793)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$ 820,012	$ 784,018

The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as liability for automobile accident insurance, workmen compensation and medical 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 3.66% in 2012. 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, 2012, 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.

(h) 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 bodily injuries and compensation for beneficiaries (and their dependents) caused by automobile accidents. The annual premium is $35 per motor vehicle.

The following table provides a reconciliation of the beginning and ending liability for the future benefits for the two most recent fiscal years, presented based on undiscounted method (expressed in thousands):

	2012	**2011**
Liability for incurred but unpaid benefits and benefit adjustment expenses at beginning of year	$ 166,596	$ 165,927
Total incurred benefits	56,526	63,180
Total benefit payments	(65,982)	(62,511)
Liability for incurred but unpaid benefits and benefit adjustment expenses at end of year	$ 157,140	$ 166,596

The liability for future benefits is reported as liability for automobile accident insurance, workmen compensation and medical 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.

(i) PRIFA

PRIFA is responsible for assuring that its property is properly insured. Annually, PRIFA compiles the information of all property owned and its respective replacement value and purchases its property and casualty insurance policies. Insurance coverage for fiscal year 2012 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

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 two paragraphs, the Commonwealth reported approximately $421 million as an amount to cover for awarded and anticipated unfavorable judgments at June 30, 2012. 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 $12 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 approximately $500 million of Medicaid funds retained by the Department of Health of the Commonwealth since 1997. In February 2005, United States Court of Appeals for the First Circuit determined that the Commonwealth must return the funds withheld because of noncompliance with a federal law. As of June 30, 2012, the Commonwealth accrued $440 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 on an individual basis. The Commonwealth plans to defend vigorously each individual case. As of June 30, 2012, the Commonwealth accrued $650 million for this legal contingency.

On December 21, 2012, the Federal Government, through the US Department of Justice, filed a lawsuit in order to demand from the Commonwealth of Puerto Rico and its Police Department, compliance with the action and remediation plan submitted on September 8, 2011 by the Civil Rights Division of the US Department of Justice pursuant an investigation which revealed a pattern of civil rights violations by the Police Department. According to this investigation and resulting report, the pattern or practice of illegal activity is the product of an ongoing failure by the Commonwealth and its Police Department to provide officers with the necessary guidance, training, and tools to engage in constitutional and effective law enforcement. The Federal Government is seeking declaratory and equitable relief to eliminate this unlawful pattern by asking the Commonwealth and its Police Department to adopt and implement policies and procedures in the areas of recruitment, hiring, promotions, policies, training, supervision, investigation, discipline, and prevent the police officers of depriving persons of rights, privileges, or immunities secured and protected by the Constitution or laws of the United States. Although the claim does not include damages, the action and remediation plan proposed would require an investment of approximately $600 million, which are expected be incurred over a period of 10 years, starting with fiscal year 2014. During the first year, the Commonwealth is expected to allocate approximately $20 million while the Federal government would contribute $9 million. The Secretary of Justice of the Commonwealth is still negotiating the final determinations of the measures to be implemented by the Police Department in terms of final costs and timeframe. On July 17, 2013, a final definitive agreement was reached between the US Department of Justice and the Commonwealth, which was filed with the Court. Management expects the Court to dismiss the claim, but retain jurisdiction to assure compliance through a Technical Compliance Advisor to be appointed. No provision for any liability is required at this time under this remediation plan. Expenditures and related liabilities will be recognized as costs during the execution of the remediation plan are incurred beginning in fiscal year 2014.

As has been the case with each comprehensive pension reform measure enacted in the United States, certain public employees have brought lawsuit challenging the constitutionality of pension reform in Puerto Rico. The main case filed against Act No 3 of April 4, 2013 was initiated on May 14, 2013 by sixty-eight (68) employees of the Office of the Comptroller of the Commonwealth, who filed a Complaint on May 8, 2013, in the Commonwealth's Court of First Instance in San Juan alleging that Act No. 3 is unconstitutional as applied to them. Subsequent to this filing, employees of other agencies have filed similar lawsuits. These complaints allege that plaintiffs have certain acquired rights under Act No. 447 of May 15, 1951, as amended, and that Act No. 3 violates the Contract Clause of Act No. 447 because, although the solvency of the ERS is a compelling state interest, the Commonwealth has not shown that the enactment of the law was necessary to promote that interest, nor that there were not less onerous means to advance or achieve that interest. On June 24, 2013, the Puerto Rico Supreme Court ratified the constitutionality of Act No. 3.

In connection with the termination of an interest rate exchange agreement (swap) with a notional amount of $218 million by COFINA relating to its Sales Tax Revenue Bonds, Series 2007A, COFINA made a termination payment to the counterparty in November 2008. At June 30, 2012, the counterparty has asserted that it was entitled to a termination payment in excess of that paid by COFINA in November 2008, plus interest at a default rate, amounting to approximately $64 million. The counterparty alleges that the date of the termination notice used by COFINA for purposes of calculating the termination payment was not in accordance with the agreement. In addition, the counterparty alleges that the termination payment should have been based on the value of replacement swaps entered into by COFINA, which actually have different credit terms than those contained in the terminated swap. COFINA has accrued $3.4 million in connection with this matter at June 30, 2012. This amount is presented as other long term liabilities in the accompanying statement of net assets (deficit). The amount claimed in excess of that accrued at June 30, 2012 is approximately $60.6 million. While the counterparty may assert continued default interest since the claim date, an amount of possible loss in excess of the $3.4 million accrued, if any, cannot be reasonably estimated. COFINA intends to contest this matter vigorously. Among other things, it is the opinion of COFINA that, even assuming that the counterparty's allegations regarding improper termination are correct, the amounts claimed by the counterparty are not correct. Accordingly, management does not expect that the ultimate costs to resolve this matter will have a material adverse effect on COFINA's financial position or results of operations.

During 2012, PBA identified asbestos in its central offices at Minillas. Although asbestos removal costs of approximately $2 million have been accrued by PBA, a series of lawsuits have been filed by certain government employees who had worked in the past at such location, claiming damages. Preliminary hearings and discovery proceedings are at a relative early stage, therefore no provision for any liability that may result upon adjudication of these lawsuits has been recognized by the Commonwealth.

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, 2012, based on an evaluation of pending federal disallowances, the Commonwealth has recorded approximately $107 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, 2012, entered by PBA, amounted to approximately $72.7 million. In addition, the Commonwealth's construction commitments for public housing facilities amounted to approximately $212 million at June 30, 2012.

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 Global Agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. Estimated payments to be received under the Global Agreement through the year ending June 30, 2025 amount to approximately $1.2 billion. After 2025, the tobacco companies shall 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 Children's Trust the contributions that the Commonwealth is entitled to receive under the Global Agreement. Payments received under the Global Agreement and recognized as revenue during the year ended June 30, 2012, amounted to approximately $72 million. All of the revenue to be received under the Global Agreement and investment earnings on certain accounts under bond indentures are pledged as collateral for the Tobacco Settlement Asset-Backed Bonds, Series 2002, 2005, and 2008. At June 30, 2012, the approximate amount of the pledge is $1.4 billion, representing the approximate remaining principal and interest of the aforementioned bond issuances, which are committed through May 15, 2057. Accordingly, until May 15, 2057, such revenues are not available for other purposes.

At June 30, 2012, the Children's Trust had approved commitments to provide assistance to several entities through forty-five contracts with balances amounting to approximately $27.8 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

At June 30, 2012, GDB has financial guarantees for the public sector for approximately $52 million and for the private sector of approximately $474 million. In addition, at June 30, 2012, standby letters of credit to the public sector were approximately $776 million. Commitments to extend credit to the public sector were approximately $2.1 billion.

On September 22, 2011, Autopistas Metropolitanas de Puerto Rico, LLC (Metropistas) and PRHTA entered into a concession agreement (the "Concession Agreement") for the administration of the toll roads PR-22 and PR-5, for which PRHTA received in exchange a lump-sum payment of $1.1 billion and a commitment to make immediate improvements to the toll roads amounting to $56 million and to comply with world-class operating standards which may require investing more than $600 million over the life of the concession. In connection with the closing of the Concession Agreement, GDB executed a payment guarantee in favor of Metropistas pursuant to which GDB acts as guarantor of any Termination Damages, as defined in the Concession Agreement, due and payable in cash by the PRHTA under the Concession Agreement. The amount of Termination Damages consists, among other components, of the fair market value of Metropistas' interest in the toll roads. At the same time, in connection with the payment guarantee, GDB and PRHTA also entered into a Reimbursement Agreement whereby the PRHTA agreed to reimburse GDB for any amounts paid under the guarantee.

On August 18, 2002, the Legislature approved Act 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, 2012, GDB has contributed $17.9 million to the Cooperative Development Investment Fund, $969,000 of which were contributed during the year ended June 30, 2012.

GDB's 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 $15 million of its capital for the Program. The Development Fund guarantees one-third of the outstanding principal balance of each loan plus accrued interest and certain other charges. The Development Fund charges one percent of the loan amount as guarantee fee and no loan can exceed $50,000. At June 30, 2012, the outstanding balance of loans guaranteed by the Development fund amounted to approximately $9.5 million, and the allowance for losses on guarantees amounted to approximately $1 million.

The Housing Finance Authority, a blended component unit of GDB, acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2012, the principal balance of the mortgage loans serviced for others is approximately as follows (expressed in thousands):

Puerto Rico Community Development Fund I	$ 42,750
R-G Mortgage, Inc. or its successor	1,380
Office for the Administration of the Assets of the Urban Renovation and Housing Corporation or its successor without guaranteed mortgage loan payments	32
Total	$ 44,162

GDB and certain of its component units are defendants in several lawsuits arising out of the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material adverse effect on the financial position and results of operations of GDB or its component units.

(b) PRHTA

PRHTA is a defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. These are generally either fully or partially covered by insurance. The contactors are required, under the terms of the construction agreements to carry adequate public liability insurance and to hold harmless the PRHTA from lawsuits brought on account of damages relating to the construction of the projects.

On June 13, 2011 and February 17, 2012, PRHTA deposited approximately $21.8 million and $16.9 million, respectively, at the Federal Court of Puerto Rico as part of the appeal process at the U.S. Court of Appeals for the First Circuit of Boston for two legal cases related to construction projects. As of June 30, 2012, PRHTA, based on legal advice, has recorded a liability of approximately $70.8 million for probable losses on those claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of the recorded liability that may arise for such claims will not be significant to the PRHTA’s financial position or results of operations.

PRHTA entered into a System and Test Track Turnkey Contract (STTT Contract) with Siemens Transportation Partnership Puerto Rico, S.E. (Siemens) and other contractors for the purpose of operating and maintaining the Urban Train. During 2005, the STTT Contract became effective upon execution of the contract for an initial term of five years with an option by PRHTA to extend the term for an additional five years. The compensation is based on a schedule included in the master agreement which approximates $4.0 million on a monthly basis. The total annual operation and maintenance cost, including cost of issuance and electricity, for fiscal year 2012 was approximately $55 million.

PRHTA faces a number of business challenges that have been exacerbated by the Commonwealth’s economic recession and the fact that PRHTA has not increased tolls to its customers at sufficient levels to offset the effects of its rising costs. PRHTA’s principal challenges, some of which are interrelated, are: (i) reduction of operating costs; (2) increase in the use of federal grants; and (iii) improving its liquidity. PRHTA is committed to take all necessary measures to ensure it achieves a healthy financial condition. Refer to note 18 (a) for additional measures and actions being taken by GDB as well on addressing PRHTA’s challenges.

(c) PRASA

PRASA is a defendant on various lawsuits presented by customers alleging that PRASA has over billed them due to the methodology used to estimate consumption. There are two cases in which plaintiffs requested a certification of the suit as a class action and seek recovery damages in the amount of approximately $386 million, plus legal costs of around $100 million (25%) and interests and an injunction enjoining PRASA from continuing to bill using the current methodology. PRASA’s potential exposure from these lawsuits is unlikely or cannot be presently determined and, as such, no liability is being reported on the accompanying basic financial statements.

PRASA is the defendant or codefendant in various other lawsuits. The ultimate outcome of the lawsuits cannot presently be determined. However, PRASA’s management, based on the advice of legal counsels, is of the opinion that these lawsuits will not have a material impact on the basic financial statements.

(d) PREPA

PREPA is a defendant or codefendant in several lawsuits incidental to its business, some involving substantial amounts. In those instances that management and legal counsel believe that the outcome of the litigation will be unfavorable to PREPA, a provision has been made to cover the estimated liability. PREPA's management, based on discussions with legal counsel, believes that the additional liability, if any, resulting from the ultimate resolution of these matters will not have a material effect on PREPA's financial position or results of operations.

On May 18, 2000, Abengoa, Puerto Rico, S.E. (Abengoa), PREPA's contractor for the repowering of San Juan steam plant units 5 and 6, unilaterally declared a termination of the contract with PREPA and filed a complaint for breach of contract. PREPA has moved for time to answer the complaint and has filed a counterclaim for the cost of the project and for all damages caused to PREPA by the alleged illegal contract termination. PREPA believes that the actions by the contractor will not materially affect the ability of PREPA to provide service nor there will be a material difference in the quality of service provided by PREPA.

In June 2004, the Office of the Comptroller of the Commonwealth of Puerto Rico (the "Comptroller") issued a report stating that PREPA overcharged its clients by approximately $49.8 million, and should reimburse this amount to such clients. After this report was made public, two lawsuits were filed by clients of PREPA against PREPA demanding the reimbursement of such alleged overcharges. PREPA's position is that the Comptroller incorrectly based his conclusion on data that is not relevant to the calculation of PREPA's rates, and that PREPA's rates were properly established in the year 2000 in accordance with applicable laws and regulations. In particular, PREPA notes that its rates properly take into consideration the cost of the fuel used by PREPA's generating facilities and the cost of the electricity purchased from the two co-generating facilities that sell power to PREPA.

In 2008, Power Technologies Corp. filed a suit against PREPA, alleging that PREPA had withdrawn from a contracting process for a new energy facility, in which Power Technologies was involved, without explanation or justification. Power Technologies seeks damages of $51.4 million. The case is currently in discovery stage.

In addition to these cases, PREPA is involved in typical litigation for an electric power utility, but management estimates the amounts of such claims are not material and will not affect adversely PREPA's operations.

(e) UPR

UPR participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes the impact will not be material to the UPR's financial statements.

Effective April 23, 2012, the National Science Foundation (NSF), an independent U.S. government agency, suspended the federal awards for research and development in the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the UPR because the UPR has not corrected the time and effort reporting deficiencies as established in the Corrective Action Plan. NSF is responsible for promoting science and engineering through research programs and education projects. NSF will not reimburse expenditures incurred on and after April 23, 2012 by the UPR in the involved units. Most of the research and training activities under grants affected by the suspension status continue with funding from the UPR. Significant interactions between NSF and the UPR has led to a robust body of Effort Reporting System (ERS) policies and procedures, the creation of a system — wide Office for Research Compliance and Integrity and an overarching committee for continuous assessment and creation of sponsored programs, policies and procedures. The UPR is actually working with NSF to achieve a full compliance and lift the administration suspension.

(f) PRHIA

PRHIA has been requested to repay the Commonwealth's Department of the Treasury approximately $103 million representing excess transfers of money from the central government during the fiscal years 2001–2003. After consultation with external legal counsel, PRHIA is of the opinion that the money does not have to be repaid and believes that the likelihood of an unfavorable outcome is remote. Therefore, no reserve for such request has been recognized in PRHIA's financial statements.

(g) PRMeSA

On October 14, 2010, the Legislature of the Commonwealth approved a new article 9A to Act No. 66 of June 22, 1978, (the "Article"), authorizing PRMeSA to incur in obligations up to $285 million, under such terms and conditions approved by the Board of Member Institutions (the Board) of PRMeSA and GDB, as fiscal agent of the Commonwealth and its instrumentalities.

These additional funds shall be deposited in a special account at GDB and may only be used for the following purposes:

a. payment of debts to suppliers, agencies, institutions, reserve fund for the self-insurance (professional responsibility and inter-fund debt) of PRMeSA; and

b. to provide operational liquidity to ease PRMeSA's fiscal situation, as determined by the agreement with GDB.

From savings generated as a result of the debt renegotiations with the agencies and institutions, PRMeSA will create a fund to cover operating expenses related to maintenance, overhaul and reconditioning of the physical plant. GDB, in its role as fiscal agent, shall possess the administrative mechanisms as it deems necessary to ensure that these funds will be used solely and exclusively for the purposes set forth in the Article. The special bank account and the funds deposited therein shall not be seized, syndicated, frozen, encumbered or otherwise affected by decisions, judgments, orders or rulings issued by courts of Justice of the Commonwealth or its agencies or public corporations during any adjudicative proceeding of administrative or judicial nature, regardless of whether they were initiated by private individuals or public institutions.

PRMeSA was required to develop and implement within one hundred eighty (180) days from the approval of the Article, an aggressive collection plan for the recovery of its accounts receivable. The Directors shall report periodically to GDB on the implementation of that plan, and report annually to the Board and GDB the collection proceeds arising from the execution of the plan. GDB was authorized as fiscal agent to undertake any necessary measures in order to, within a reasonable period of time, help PRMeSA to become and operate as an independent fiscal instrumentality.

However, once the collection plan is working as expected and providing PRMeSA the funds resources required, and becomes a financially independent institution as determined by GDB, PRMeSA will be required to assume the remaining established obligations.

The Commonwealth will honor the payment of the obligations authorized, with legislative appropriations made by the Legislature on the annual budgets, beginning with the fiscal year 2012–2013 and ending in the fiscal year 2023–2024.

Also, for the fiscal years 2012–2013 and 2013–2014, the Director of the Office of Management and Budget, will consign on the annual budgets, the amount corresponding to interests on the obligations incurred and, beginning on fiscal year 2014–2015, and for the next nine (9) years, the amount of $31.5 million plus interests on the obligations incurred. If in any moment the legislative appropriations or other income of PRMeSA were not sufficient to cover the payment of the obligations authorized and the accrued interest, the Secretary of the Treasury will withdraw from any amounts available in the General Fund of the Commonwealth the necessary amounts to repay the principal and interests of the line of credit.

PRMeSA has accounts receivable aggregating to $22 million at June 30, 2012, 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, 2012. 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, 2012, 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, 2012, of funds available in the Self-Insurance Fund, any unfavorable outcome may have a significant effect on the financial condition of PRMeSA.

Based on a review of current facts and circumstances, PRMeSA's management has provided for what is believed to be a reasonable estimate of the exposure to loss associated to litigation. PRMeSA has established an accrual reserve for claim losses in the amount of $7 million at June 30, 2012.

(h) PRIFA

At June 30, 2012, PRIFA is a defendant in various legal proceeding arising from its normal operations. Management, based on the advice of its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on PRIFA's financial statements. However, management is of the opinion that they will reach settlements in certain cases. A liability to cover claims and other contingencies amounting to $7.5 million has been reflected as part of accounts payable and accrued expenses in the accompanying statement of net assets (deficit).

(i) 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, 2012, the Trust's commitments with the municipalities for housing assistance projects amounted to approximately $107.8 million, from which a total of approximately $94.7 million had been disbursed.

The Trust is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of its normal operations. The Trust recorded approximately $290,000 to cover for awarded and anticipated unfavorable judgments at June 30, 2012. This amount represents the amount estimated as probable liability that will require future available financial resources for its payment. The amounts claimed approximate $13 million; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claims are excessive and exaggerated.

(j) PCSDIPRC

PCSDIPRC provides insurance coverage over the stocks and deposits of all cooperatives in Puerto Rico. The deposit base of the cooperatives approximate $6.9 billion at June 30, 2012.

Environmental Commitments and Contingencies

Primary Government — The Commonwealth accounts for the pollution remediation obligations in accordance with GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*". This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care.

Once any of five specified obligating events occurs, a government is required to estimate the components 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, 2012, the Department of Transportation and Public Works recognized approximately $6.5 million of pollution remediation obligation in the accompanying statement of net assets (deficit) within other long-term liabilities. This obligation is related to pollution remediation activities necessary at various schools and related administrative structures in Puerto Rico.

During 2012, PBA identified asbestos in its central offices at Minillas government center. Asbestos removal costs were estimated based on environmental engineers' consultant surveys. PBA has accrued approximately $2 million to cover for the related pollution remediation efforts, and is presented within other long-term liabilities.

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

- *PREPA* — Facilities and operations of PREPA are subject to regulation under numerous federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, Oil Pollution Act (OPA), Resource Conservation Recovery Act (RCRA), Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and Underground Storage Tanks, among others. In February 1992, the Environmental Protection Agency (EPA) conducted a multimedia inspection of PREPA's facilities and identified several alleged instances of noncompliance related to PREPA's air, water, and oil spill prevention control and countermeasures compliance programs.

  PREPA and the EPA undertook negotiations to resolve the issues regarding the deficiencies observed during the inspection and to ensure future compliance with all applicable laws and regulations. As a result of the negotiations, PREPA and the EPA reached an agreement that resulted in a consent decree (the "Consent Decree") approved by the United States federal court in March 1999. Under the terms and conditions of the Consent Decree, PREPA paid a civil penalty of $1.5 million, and implemented additional compliance projects amounting to $4.5 million. In addition, the Consent Decree requires that PREPA improves and implements compliance programs and operations in order to assure compliance with environmental laws and regulations.

  In 2004, the United States federal court approved a modification to the Consent Decree agreed by PREPA and the EPA under which PREPA reduced, in two steps, the sulfur content in the No. 6 fuel oil used in certain generating units of its Costa Sur and Aguirre power plants (to 0.75% or less by March 1, 2005 and to 0.5% or less by March 1, 2007), and used No. 6 fuel oil with sulfur content of not more than 0.5% through July 18, 2009 at its Palo Seco and San Juan power plants. Additionally, PREPA has completed a nitrogen oxide emissions reduction program and modified the optimal operating ranges for all its units under the Consent Decree. PREPA also paid a $300,000 civil fine and reserved $200,000 to fund certain supplemental environmental projects and programs under the Consent Decree.

  PREPA has audited the Consent Decree programs and a considerable number of them can be closed since their requirements have been completed. The programs can be closed under a Stipulation of Partial Termination filed jointly, in federal court, with the EPA.

  Since September 2004, there has been no legal action in the United States federal court or any administrative proceeding against PREPA regarding the Consent Decree or its modification. The Consent Decree includes stipulated penalties for certain events of noncompliance. Noncompliance events must be disclosed to EPA in the corresponding report. Ordinarily, when a covered noncompliance event occurs, PREPA pays the stipulated penalty in advance in order to benefit from a 50% discount of the applicable stipulated penalty.

  In 1997, as a result of an inspection carried out by EPA and the Puerto Rico Environmental Quality Board (EQB) at PREPA's Palo Seco Power Plant, the EPA issued an Administrative Order for the investigation and possible remediation of seven areas identified by the EPA at the Palo Seco Power Plant and the Palo Seco General warehouse. The Administrative Order required PREPA to carry out a Remedial Investigation/Feasibility Study (RI/FS). The RI/FS required under the Order was 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 release of hazardous substances, pollutants or contaminants at or from the site; and

(ii) determine and evaluate alternatives for the remediation or control of the release or threatened release of hazardous substances, pollutants, or contaminants at or from the site. The RI was completed and a final report was submitted to EPA for evaluation.

The information gathered 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 (AOC) (CERCLA-02-2008-2022) requiring PREPA to complete a removal plan that consisted of determining if the underground water had been impacted by 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 had not been impacted by PCBs. Nevertheless, water/oil mix was found in seven monitoring wells (MWs). PCBs concentrations between 1.36–2.36 parts per million were detected in the oil found in 3 of the 7 MWs. Multiphase extraction (MPE) activities in the MWs where water/oil phases were found, has been performed on a weekly basis. After several MPE, this activity was discontinued at EPA's recommendations.

On April 19, 2012, PREPA submitted for EPA's review and approval the final report letter for the AOC. On August 13, 2012, EPA notified by certified mail, that the final report was reviewed and determined that the work required pursuant the AOC has been fully carried out in accordance with its terms. Also, the letter indicated that the notification shall not affect any continuing obligation of respondents, including but not limited to the reimbursement of EPA response costs, as specified in the AOC.

Based on the findings of the RI, the Human Health Risk Assessment, the Screening Level Ecological Risk Assessment and the AOC, NO ACTION recommendation under CERCLA for the PREPA Palo Seco site is believed to be protective of human health and environment. The risk assessment indicate that the level of residual contaminants present at the site falls within EPA acceptable risk range. This non-action remedy complies with the federal and Commonwealth requirements.

Both Orders also established a Reimbursement of Costs condition in which PREPA agreed 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 six other entities as "potentially responsible parties", as defined in the CERCLA. In 2003, PREPA agreed to join the other potentially responsible parties in an Administrative Order on Consent (AOC) for an RI/FS, with the understanding that such agreement did not constitute an acceptance or responsibility. Under the AOC, PREPA committed up to $250,000 as its contribution to partially fund the RI/FS. At this time, RI/FS has been completed. The work proceeded in accordance with the schedule established by PREPA and the other designated potentially responsible parties. In July 2010, a proposed plan was issued identifying the Preferred Alternative to address soil contamination at the Vega Baja Solid Waste Disposal Site. EPA held a public hearing on August 3, 2010 to discuss the alternatives to address soil contamination.

The Record of Decision (ROD) was published as scheduled by EPA on September 30, 2011. Alternative No. 2, Removal with On-Site Consolidation and Cover in the Non-Residential Area, was selected. From this point on, EPA resumed negotiations with the PRP's, both private and public, towards signing a Consent Decree through which the PRP's would contribute enough funds to cover the costs of the remedial action and the maintenance of the site. PREPA has already approved a contribution of $1,000,000 through Resolution 3804, April 1, 2011. Notwithstanding, through further negotiations an additional contribution of $300,000 was required by EPA. This additional contribution was approved by PREPA's Governing Board.

PREPA continues to develop and implement a comprehensive program to improve environmental compliance in all applicable environmental media. This program has been and continues to be updated to conform to new regulatory requirements.

- *PRASA* — On July 1, 2003, PRASA entered into an agreement (Civil Action No. 01-1709) with EPA to attain compliance with the Clean Water Act in relation to PRASA's wastewater pump stations (WWPSs) in response to a significant number of sanitary sewer bypasses from these locations. The Clean Water Act prohibits discharges of sewage from any point in the collection and treatment system other than the authorized point at the treatment facility. PRASA completed all improvement projects required by EPA for these WWPSs on or before the established completion dates in the agreement. This agreement also required PRASA to invest $1 million in the development and implementation of a Supplemental Environmental Project (SEP). This project consisted of the connection of three NON-PRASA communities to the PRASA's drinking water system. The connection has been completed and is awaiting completion of adjacent systems to fully integrate these systems to PRASA's service. The agreement also required the implementation of the Preventive Maintenance Program (PMP) for all of PRASA's WWPSs. This was fully completed in December of 2010, and is still in place. As part of the agreement, PRASA pays stipulated penalties for pump station bypass events on a quarterly basis. The penalty calculations are based on the pumping capacity of the pump station and the time taken to correct the deficiency causing the bypass event. The amount paid during fiscal year 2012 was approximately $500,000.

  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 stipulated civil penalty of $1 million which was paid during fiscal year 2008. This penalty was assessed by the Court as payment for the discharge permit violations of several treatment facilities to the Clear Water Act. The agreement also required PRASA to deposit in an escrow account with GDB an additional civil penalty of $3 million. These funds are to be used for providing sewer service to a community that has not been connected to PRASA's sanitary sewer system. PRASA is currently engaged in discussion with EPA as to the specific community that will benefit from this project. As part of the agreement, PRASA pays stipulated penalties on a yearly basis for exceedances to each of PRASA's facilities to their individual discharge permits. The penalty calculations are based on frequency of the exceedances as well as the percentage of the exceedances with its respective limit. The amount paid during fiscal year 2012 was approximately $600,000; plus approximately $300,000 due to revision on 2008 penalties. These penalty payments are deposited into an escrow account from which a fraction of the deposited amount can be reimbursed to PRASA based on completion of specific projects and initiatives.

  On May 25, 2006, PRASA entered into a plea agreement with the U.S. Department of Justice related to violations of the Clean Water Act, as amended, Title 33, USC, Sections 1131(a) and 1319(c)(2)(A). As part of the agreement (Criminal Case No. 06-CR-00202-001), PRASA paid a $9 million fine. This penalty was assessed by the Court as payment for the discharge permit violations of several treatment facilities to the Clean Water Act. PRASA was placed on probation for a period of five years. As part of the probation PRASA has to comply with several special conditions, such as: (i) upgrade the collection and wastewater treatment system in the Ponce de León Avenue area of San Juan for a cost of not less than $10 million to prevent direct discharges to the Martín Peña Channel; (ii) upgrade nine wastewater treatment plants for a cost of not less than $109 million; and (iii) comply with the consent decree signed by PREPA with the U.S. government on June 22, 2006. The plea agreement also established stipulated penalties for violation of any on the deadlines of performance standards set forth in the agreement. Currently, PRASA is in compliance with the deadlines and requirements of this consent order and no penalties have been paid. Probation period expired on April 19, 2012.

On December 15, 2006, an agreement (Civil Case No. KPE 2006-0858 was signed between PRASA and the Department of Health of the Commonwealth related to violations of the Safe Drinking Water Act (SDWA), as amended. The agreement was preliminary approved by the supervising court on March 15, 2007 and it was amended and finally approved by that court on June 20, 2008. PRASA agreed to implement a work plan to remediate the violations, establish preventive and mitigation measures, and execute a preventive maintenance program for the purpose of meeting the requirements of the SDWA. This Act requires the compliance with parameters of water quality and treatment techniques in PRASA’s water systems. As part of the agreement, PRASA paid a civil penalty of $1 million during fiscal year ended June 30, 2007. The civil penalty was stipulated by the court for alleged non-compliance issues to the SDWA attended in this decree. In this Consent Decree, PRASA shall pay stipulated penalties for failing to comply with remedial measures deadlines, fail to submit deliverables or exceedances to maximum contaminant levels. During fiscal year ended June 30, 2008 and based on the amendment and final approval of the agreement, PRASA accrued approximately $2.7 million for penalties for noncompliance as stipulated by the final agreement, which were paid during fiscal year 2009. Also, as part of the penalties for noncompliance with the remedial measures of the agreement with the Department of Health during fiscal year 2009, $1.3 million were deposited in a GDB escrow account to be used for a SEP. This SEP included three projects: (1) a chemical monitoring of 67 non-PRASA systems, (2) the installation of a disinfection system in six non-PRASA systems, and (3) the connection of schools that have their own deficient water systems to PRASA’s water system. During fiscal year ended June 30, 2012, the penalties amounted to approximately $400,000. PRASA deposited $50,000 in an escrow account for parameters exceedances, and will be used for compliance projects with the approval of the Department of Health.

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 supersedes 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 civil penalty of approximately $3.2 million of which $1 million was paid to the Treasurer of the United States of America as a civil penalty, and $2.2 million was deposited in an escrow account with GDB for the design and construction of a SEP. This SEP consisted on the installation of an aeration system in the Toa Vaca Lake. The aeration system is expected to be in operation by October 2012. The total amount of penalties paid under this agreement during the fiscal year 2012 was approximately $100,000. Stipulated penalties must be paid by PRASA for failing to comply with remedial measures deadlines, permitting limit exceedances or fail to submit deliverables or DMR's monthly reports or Discharge Monitoring Reports.

PRASA is in the process of renegotiation of all the consent decrees and commitments mentioned above. The objective of this renegotiation is to establish a prioritization system that will smooth out the economic impact of the capital improvement projects on a yearly basis.

- *SWA* — SWA initiated in years prior to the year ended June 30, 2012, 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 an interim financing agreement with the Government Development Bank for Puerto Rico. The lines-of-credit under the agreement were paid by the Treasury Department of the Commonwealth through joint resolutions approved by the Legislature of Puerto Rico. SWA has continued with the planning and construction of the projects.

  During May 2008, SWA approved the "Dynamic Itinerary for Infrastructure Projects of Solid Waste in Puerto Rico". This itinerary defines the strategies for safe and efficient handling of solid waste in Puerto Rico for the next twenty-five (25) years in compliance with all applicable regulations. SWA proposes this itinerary for the purpose of adopting this plan as the official instrument to guide public policy for the development of infrastructure projects for handling and final disposition of solid waste in Puerto Rico. The projects proposed in the itinerary include programs to develop facilities for the recovery of recyclable materials facilities (RMF's) for the deposit of acceptable sludge, facilities to convert solid waste to energy, transshipment facilities and lateral expansion to sanitary stuffing systems (SSS). The development of these projects takes into consideration the closing of various SSS. The construction investment is estimated in approximately $1.9 billion. SWA projects that financing for these projects will come from both the public and private sectors.

Construction Commitments — As of June 30, 2012, the following component units maintained various unspent construction agreements as follows (expressed in thousands):

Puerto Rico Highways and Transportation Authority	$ 734,593
Puerto Rico Aqueduct and Sewer Authority	191,300
Puerto Rico Electric Power Authority	45,600
Puerto Rico Infrastructure Financing Authority	43,233
University of Puerto Rico	46,600
Puerto Rico Ports Authority	24,147
Company for the Integral Development of the "Peninsula de Cantera"	20,922
Port of the Americas Authority	10,420
Puerto Rico and Municipal Islands Maritime Transport Authority	11,700
Governing Board of the 9-1-1 Service	2,020
Institute of Puerto Rican Culture	1,959
Puerto Rico Conservatory of Music Corporation	756
Puerto Rico Land Administration	652
Institutional Trust of the National Guard of Puerto Rico	302
Total	$1,134,204

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, 2012, the ERS has an unfunded actuarial accrued liability of approximately $26.4 billion, representing a 4.5% funding ratio, using net assets. In the opinion of management and based on information prepared by external consulting actuaries, if measures are not implemented to deal with this situation, the ERS's net assets will be exhausted by the fiscal year 2015. This situation could have a direct negative effect on the Commonwealth's general fund, since most of the employers under the ERS are government agencies obligated to make actuarial contributions to fund the ERS.

To address these issues, ERS and the Commonwealth, with the assistance of the ERS external consulting actuaries, concluded that, in addition to other measures, annual increases in the employers' contribution rate would be required to fully fund pensions, without having to liquidate ERS investment portfolio. Accordingly, on July 16, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Other measures taken to improve the funding ratio of ERS, include 1) improving the collection of late contributions by receiving such contributions directly from the Municipal Revenue Collection Center (CRIM) when a municipality fails to send their contributions within 30 days from the due date or from the Department of Treasury of the Commonwealth (Hacienda) in the case of agencies; 2) implementation of Act No. 70 establishing early retirement incentives; 3) revision of the Employee Personal Loan Policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 4) the receipt of a special contribution from the Commonwealth that was invested in junior subordinated capital appreciation bonds issued by the Puerto Rico Sales Tax Financing Corporation (the "COFINA Bonds") amounting to $162.5 million in 2011.

Act No. 70 established a program that provides benefits for early retirement or economic incentives for voluntary employment terminations to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth (the "General Fund") and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Law 447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment. ERS will be responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make a contribution equal to 9.275% (17.55% for public corporations) of the final salary of the plan member to the ERS.

Furthermore, on April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.

2. Increases the minimum pension for current retirees from $400 to $500 per month.

3. The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.

4. The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.

5. Eliminates the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.

6. The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.

7. The employee contribution rate will increase from 8.275% to 10%.

8. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.

9. Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from $600 to $200 and is eliminated for future retirees. The summer bonus will be eliminated.

10. Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.

11. Survivor benefits will be modified.

In addition, the Commonwealth has proposed incremental annual contributions from the General Fund of $140 million per year, for the next 20 years, to increase the liquidity and solvency of the ERS. An appropriation for such annual contribution has been included in the Commonwealth's proposed budget for the fiscal year 2014.

Based on current census data, expectations of market conditions and other actuarial information provided by consulting actuaries, the changes instituted by Act No. 3, along with the additional annual contributions of $140 million to be received from the Commonwealth during the next 20 years, will be sufficient to cover the System's current and future obligations.

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 who joined 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. As a result of the enactment of Act No. 3 of April 4, 2013, merit annuities will no longer be available to participants who joined ERS after April 1, 1990.

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.) such 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 then Governor signed 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, 2012, these increases are being funded through special appropriations from the Commonwealth for the amount corresponding to the Commonwealth agencies and by contributions from the public corporations and municipalities.

Early Retirement Programs — During fiscal year 2008, the Commonwealth issued Act No. 70, dated July 13, 2007, to implement an early retirement program for the employees of the National Parks Company of Puerto Rico. The Municipality of San Juan issued Resolution No. 41, dated

May 5, 2008, which provided an early retirement program for the municipalities' employees. The National Parks Company of Puerto Rico has already made two payments and would reimburse the remaining balance on annuities and other benefits paid by the ERS in three installments on each July 31 starting on 2009 through 2012. The Municipality of San Juan will reimburse the annuities and other benefits paid by the ERS during a five-year period, plus the employer and employee contributions with respect to the plan members covered until they reach the normal retirement age.

The Land Authority of Puerto Rico (the "Land Authority") implemented an early retirement program for its employees under Law No. 59 of January 31, 2008. The Land Authority has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting in 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 in 2009 through 2012.

The Puerto Rico Environmental Quality Board (the "EQB") implemented an early retirement program for its employees under the Act No. 7 dated August 9, 2008. The EQB 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 in 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 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 in 2009 through 2012.

Amendment to Act No. 447 Effective January 1, 2000, to Create System 2000 — On September 24, 1999, Law 305, an amendment to Act No. 447 of May 15, 1951, which created the ERS, was enacted to provide for a new benefit structure, similar to a cash balance plan, known as System 2000, to cover employees joining the ERS on or after January 1, 2000.

Employees participating in the ERS as of December 31, 1999, were allowed to elect either to stay in the defined benefit structure or transfer to System 2000. People joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. Under System 2000, contributions received from participants are pooled and invested by the ERS, together with the assets corresponding to the defined benefit structure. Future benefit payments under the original defined benefit structure and System 2000 will be paid from the same pool of assets. As a different benefit structure, System 2000 is not a separate plan, and as such, is not presented separately from the original defined benefit structure, pursuant to the provisions of GASB Statement No. 25. The Commonwealth does not guarantee benefits at retirement age.

The annuity benefits to participants is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes or, (2) earns a rate equal to 90% of the return of the ERS's investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Plan members receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000 rather should be provided to those plan members that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (10.275% of the employee's salary for 2012) 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, 2012, System 2000's membership consisted of 62,043 current participating employees.

As discussed above, Act No. 3 of 2013 substantially amends the provisions of the previous Acts governing the ERS benefit structures and programs, as described above.

Funding Policy — The contribution requirement to the ERS is established by law and is not actuarially determined. Required employers' contributions consist of 10.275% of applicable payroll in the cases of municipalities, central government, and public corporations. Required employee contribution consists of 5.775% of the first $550 of the monthly salary with the excess at 8.275% for the coordinated benefit structure and 8.275% of the total monthly salary for participating employee's contributions for the noncoordinated benefit structure. If necessary, additional non payroll related contributions from the Commonwealth should ultimately cover any deficiency between the participating employers' and employee's contributions and the ERS's pension benefit obligations and general and administrative deductions.

ERS, besides the contributions received from plan members and employers, also receives legislative appropriations from special laws to cover additional benefits and the increase in benefits to retired employees. In the past years, there have been laws that granted additional benefits, such as, summer and Christmas bonuses, and various increases in cost of living allowances (3%), among others.

Most of the funds used to cover these benefits are budgeted by the Commonwealth through legislative appropriations.

During the year ended June 30, 2012, ERS decreased the assumed rate of return from 6.4% in 2011 to 6% in 2012, which resulted in an increase of approximately $2.09 billion in the actuarial accrued liability.

As discussed above, Act No. 3 of 2013 substantially amends the provisions of the previous Acts governing the ERS funding policies, as described above.

(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, 2012, the JRS has an unfunded actuarial accrued liability of approximately $358 million, representing a 14.1% 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 assets will be exhausted by the fiscal year 2019. This situation could have a direct negative effect on the Commonwealth's general fund, since the Commonwealth is the plan sponsor and is obligated to make actuarial contributions to fund the JRS.

To address these issues, JRS and the Office of the Administration of Court Facilities ("the Employer") entered into an agreement to increase the employer contributions from 20% to 30.34%, effective on July 1, 2008. Employees' contributions consist of 8% of the employees' monthly salary. Contributions from the Commonwealth should ultimately cover any deficiencies between the employer's and employee contributions and JRS pension benefit obligation and administrative costs.

The success of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The Administration allocated 1.6746% of its general and administrative expenses to the JRS during the year ended June 30, 2012. The methodology used to determine the allocation of the Administration's expenses is based on total Employer and participating employees' contributions to the JRS, divided by the aggregate total of employers and participants' contributions to the JRS and ERS, combined.

During the year ended June 30, 2012, the JRS liquidated investments of approximately $9.9 million to cover the Department of Treasury overdraft.

The JRS consists of a single-employer defined benefit plan sponsored by the Commonwealth. Under the terms of Act No. 12 of 1954, as amended, all judges of the judiciary branch of the Commonwealth are plan member of the JRS.

Members of the JRS are eligible for the following benefits:

Retirement Annuity — Plan members with 10 years of credited service are eligible for retirement upon reaching 60 years of age.

Plan members are eligible for monthly benefit payments determined by the application of a stipulated benefit to the plan member's average compensation. Average compensation is computed based on the last month of compensation. The annuity for which a plan member is eligible, is limited to a minimum of 25% and a maximum of 75% of the average compensation, except for the judges of the Supreme Court for whom the annuity is limited to a minimum of 50% and a maximum of 100% of the average compensation received by the members of the Supreme Court.

Reversionary Annuity — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The payments would start after the death of the retiree, for an amount not less than $120 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for annuity of 30% of the average compensation of the first 10 years of credited services, increased by 1% for every additional year of credited service in excess of 10 years, up to a maximum of 50% of the average compensation.

Death Benefits:

Occupational:

Surviving spouse — annuity equal to 50% of the participating employee’s salary at the date of the death.

Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 75% of the participating employee’s salary at the date of the death. If no spouse survives or dies while receiving the annuity payments, each child, 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

The contributions and interest accumulated as of the date of the death, plus an amount equal to the annual compensation at the time of the death.

Postretirement:

Surviving spouse and child, 21 or under — up to 60% of the retiree’s pension.

Other designated by the retiree — the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $500.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the JRS, plus any interest earned thereon.

Cost of Living Adjustment for Pension Benefits — Act No. 177 of 1997 provides, effective January 1, 1999, for increases of 3%, every three years, of the pensions paid by the JRS to those plan members with three or more years of retirement.

Funding Policy — The contributions to the JRS are established by law and are not actuarially determined. Required contributions consist of 30.34% of applicable payroll for the Employer and 8% for the participating employees. Contributions from the Commonwealth should ultimately cover any deficiency between the Employer’s and employees’ contributions and the JRS’s pension benefit obligations and administrative costs.

During the year June 30, 2012, JRS decreased the assumed rate of return from 6.6% in 2011 to 6.1% in 2012, which resulted in an increase of approximately $30 million in the actuarial accrued liability.

(c) TRS

Plan Description — The Puerto Rico System of Annuities and Pensions for Teachers (the "TRS") is a defined benefit plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The TRS is considered an integral part of the Commonwealth's financial reporting entity and is included in the Commonwealth's basic financial statements as a pension trust fund. The TRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974.

The responsibility for the proper operation and administration of the TRS is vested in a Board of Trustees (the "Board"), composed of nine members, as follows: three ex-official members, which are the Secretary of the Treasury, the Secretary of the Department of Education, and the President of GDB; one member who is a representative of a teacher's organization designated by the Governor; three teachers of TRS appointed by the Governor, one of which is a currently certified teacher in active service, and two who represented retired teachers; one member who is a representative of the entity in accordance with Act No. 45 of February 25, 1998, as amended; and one additional member, as representative of the public interest, with knowledge of and experience in the administration and operation of financial systems, appointed by the Governor.

As of June 30, 2012, TRS has an unfunded actuarial accrued liability of approximately $10 billion, resulting in a funding ratio of 17%. In the opinion of management, based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, TRS assets will be exhausted by the fiscal year 2021. 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 these issues, TRS and the Commonwealth, with the assistance of the TRS's external consulting actuaries, concluded that annual increases in the employers' contribution rate were required to fully fund pensions, without having to liquidate the TRS's investment portfolio. As a result of such determination, the Commonwealth approved Act No. 114 on July 5, 2011, establishing annual employer contribution increases of 1% for the fiscal years 2012 to 2016. In addition, it establishes annual employer contribution increases of 1.25% for the fiscal years 2017 to 2021.

The success of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The TRS is a defined benefit plan sponsored by the Commonwealth. Substantially, all active teachers of the Commonwealth's Department of Education are covered by the TRS under the terms of Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The new law gives the Puerto Rico Teachers Retirement System's active employees as of March 29, 2004, the option to participate in the plan. Employees recruited by the Puerto Rico Teachers Retirement System after the approval of the new law become members of the plan. All active teachers of the Department of Education become plan members of the TRS at their date of employment. Licensed teachers working in private schools or other educational organizations can be members of the TRS at their own choice as long as the required employer and employee contributions are satisfied.

The plan members of the TRS are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the TRS. The annuity for which a plan member is eligible is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

The plan members are eligible for retirement annuity benefits upon complying with the following:

Age	Years of Creditable Services	Retirement Annuity Compensation
Fifty	30 or more	75% of average compensation
Under fifty	30 or more	65% of average compensation
Sixty	At least 10, but less than 25	1.8% of average compensation times years of service
Fifty	At least 25, but less than 30	1.8% of average compensation times years of service
Forty-seven but less than Fifty	At least 25, but less than 30	95% of the annual pension that would have received with 50 years of age

Deferred Retirement Annuity — A participating employee who terminates service before age 60, after having accumulated a minimum of ten years of creditable services, qualifies for a deferred retirement annuity payable beginning at age 60. A participating employee who has completed 25 or more years of creditable services and is under the age of 47 at termination, qualifies for a deferred retirement annuity payable beginning at age 47. The vested rights described above are provided if his/her contributions to the TRS are left within the TRS until the attainment of the respective retirement age.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation becomes disabled, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months or the number of months of creditable services, if less than five years, recognized by the TRS, times years of creditable services; but not less than $400 per month.

Nonoccupational Disability Annuity — A participating employee disabled for causes not related to his/her occupation, and with at least five years of credited service, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months recognized by the TRS, times years of service; but not less than $400 per month.

Death Benefits:

Pre-retirement — The beneficiaries receive the contributions made to the plan and 2% interest accumulated as of the date of death (after discounting debts with the TRS), plus an amount equal to the annual compensation of the member at the time of death.

Post-retirement — The surviving spouse receives 50% of the retiree's pension and if there are children under 22 years of age or disabled (until disability ceases), they receive the other 50% of the pension. If there is no surviving spouse or children who qualify, the beneficiaries receive the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $1,000.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without the right to a retirement annuity has the right to a refund of the employee contributions paid to the TRS, plus any interest earned thereon.

Early Retirement Program — On January 27, 2000, Act No. 44 was approved, which provided that effective March 9, 2000, plan members are eligible for early retirement upon attaining the age of 50 and 28 years of services in the first year of implementation and age 50 and 25 years of service in subsequent years. Those who select early retirement under these conditions will receive monthly benefits equal to 75% of their average compensation, which is computed based on the highest 36 months of compensation recognized by the TRS. Effective July 31, 2001, the option for early retirement was closed.

Special Benefits — Special benefits include the following:

- Christmas Bonus — An annual bonus of $600 for each retiree and disabled member paid each December. The TRS pays $150 per retiree and disabled member and the remaining bonus is paid by the Commonwealth.

- Summer Bonus — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July. This benefit is prorated if there are multiple beneficiaries and is funded by the Commonwealth.

- Medication Bonus — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs. Evidence of coverage is not required. This benefit is funded by the Commonwealth.

- Cost-of-Living Adjustments — Act No. 62 of September 4, 1992 provided, subject to the approval of the Legislature of the Commonwealth (the “Legislature”), for increases of 3% every three years in pensions to those plan members with three or more years of retirement. In years 1995, 1998, 2001, 2004, and 2007, the Legislature has replicated the benefit granted per Act No. 62 of September 4, 1992. This benefit is funded by the Commonwealth.

- Other Pension Increase Acts — Act No. 128 of June 10, 1967 and Act No. 124 of June 8, 1973 provided a pension increase (form 2% to 10%) based on the monthly pension, and Act No. 47 of June 1, 1984, provided a pension increase based on credited service worked. This increase is funded by the Commonwealth.

- Cultural Loans — Act No. 22 of June 14, 1965 provides a 50% repayment of the interest that would be paid by the active teachers and retirees. This benefit is funded by the Commonwealth.

- Death Benefit — Act No. 272 of March 29, 2004 increases the death benefit of $500 to $1,000. This $500 increase is funded by the Commonwealth.

Funding Policy — Participating employees are required to contribute 9% of their compensation to the TRS, while the employer was required to contribute 9.5% of the applicable payroll for the year ended June 30, 2012. However, Act No. 114 provides for annual employer contribution increases of 1% for the fiscal years 2013 to 2016, and 1.25% annually for the fiscal years 2017 to 2021. Commonwealth contributions should ultimately cover any deficiency between the participating employees’ contributions and the TRS’s pension benefit obligations and administrative costs.

The special contributions of approximately $53,405,000 in 2012 represent contributions from the general fund of the Commonwealth for special benefits granted by special laws.

During the year ended June 30, 2012, TRS decreased the assumed rate of return from 6.4% in 2011 to 5.95% in 2012, which resulted in an increase of approximately $0.08 billion in the actuarial accrued liability.

Other relevant information on the Commonwealth's Retirement Systems is presented below (as of June 30, 2012, for ERS, JRS, and TRS):

(d) Membership as of June 30, 2012

	ERS	JRS	TRS	Total
Retirees and beneficiaries currently receiving benefits	117,861	404	37,243	155,508
Current participating employees	134,566	374	42,707	177,647
Total	252,427	778	79,950	333,155

(e) Annual Pension Cost and Net Pension Obligation

The Commonwealth's annual pension cost and net pension obligation of the three pension plans as of and for the year ended June 30, 2012 were as follows (expressed in thousands):

	ERS	JRS	TRS	Total
Annual required contributions	$ 2,019,467	$ 33,544	$ 659,334	$ 2,712,345
Interest on net pension obligation	467,723	3,582	125,626	596,931
Adjustment to annual required sponsors' contributions	(584,144)	(4,852)	(111,069)	(700,065)
Annual pension cost	1,903,046	32,274	673,891	2,609,211
Statutory sponsors' contributions made	(589,743)	(11,448)	(174,571)	(775,762)
Increase in net pension obligation	1,313,303	20,826	499,320	1,833,449
Net pension obligation at beginning of year	7,308,172	54,268	1,962,912	9,325,352
Net pension obligation at end of year	$ 8,621,475	$ 75,094	$ 2,462,232	$ 11,158,801

The net pension obligation for ERS, JRS and TRS of approximately $11.2 billion, is recorded in the accompanying statement of net assets (deficit).

The following tables show the most significant actuarial methods and assumptions used to estimate the net pension obligation:

	ERS	JRS	TRS
Date of latest actuarial valuation	June 30, 2012	June 30, 2012	June 30, 2012
Actuarial-cost method	Projected unit credit cost method with straight proration based on service to decrement	Projected unit credit cost method with straight proration based on service to decrement	Entry age normal
Amortization method	30 years closed, level dollar	30 years closed, level percentage of payroll	30 years closed, level percentage of payroll
Remaining amortization period	26 years	15 years	26 years
Amortization approach	Closed	Closed	Closed

The annual required contribution for the year ended June 30, 2012, was determined by actuarial valuations for each of the pension plans as described below:

	ERS	JRS	TRS
Asset-valuation method	Market value of assets	Market value of assets	Market value of assets
Actuarial assumptions:			
Inflation	2.5 %	2.5 %	2.5 %
Investment rate of return	6.4	6.6	6.40
Projected payroll growth	2.5	-	-
Projected salary increases per annum	3.0	3.0	3.5 % (general wage inflation, plus service — based merit increase)
Cost-of-living adjustments	0.99% annually to approximate 3.0% triennial increases	0.99% annually to approximate 3.0% triennial increases	None
Mortality	Pre-retirement Mortality: For general employees and Mayors, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act 127. For other members, 25% of deaths while in active service are assumed to be occupational and 75% are assumed to be non-occupational. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for females. The rates are projected on a generational basis starting in 1994 using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of of plan's experience from 2007 to 2012 equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality table for females. No provision was made for future mortality improvement for disabled retirees.	Pre-retirement Mortality: RP-2000 Employee Mortality Rates with white collar adjustments for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Among deaths while in active service, 50% are assumed to be occupational, 50% are assumed to be nonoccupational. Post-retirement Healthy Mortality: RP-2000 Healthy Annuitant Mortality Rates with white collar adjustments for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: RP-2000 Disabled Annuitant Mortality Rates, without projection. No provision was made for future mortality improvement for disabled retirees.	Pre-retirement Mortality: RP-2000 Employee Mortality Rates for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 87% of the rates from the UP-1994 Mortality Table for females. The rates are projected on a generational basis starting in 1994 using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 equal to the rates in the UP-1994 Mortality Table for males and females. No provision was made for future mortality improvement for disabled retirees.

The ERS, JRS, and TRS statutory contribution as a percentage of the required contribution for the current year and each of the two preceding years is as follows:

	ERS	JRS	TRS
Year ended June 30, 2012	29.20 %	34.13 %	26.48 %
Year ended June 30, 2011	40.44	36.90	30.60
Year ended June 30, 2010	36.60	39.13	34.87

(f) Three Year Trend Information

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

	ERS	JRS	TRS
Annual pension cost (APC):			
Year ended June 30, 2012	$ 1,903,046	$ 32,274	$ 673,891
Year ended June 30, 2011	1,656,181	29,113	550,400
Year ended June 30, 2010	1,397,151	27,896	496,338
Percentage of APC contributed:			
Year ended June 30, 2012	31.0 %	35.5 %	25.9 %
Year ended June 30, 2011	42.4	37.6	29.4
Year ended June 30, 2010	38.2	39.5	33.5
Net pension obligation (asset):			
At June 30, 2012	$ 8,621,475	$ 75,094	$ 2,462,232
At June 30, 2011	7,308,172	54,268	1,962,912
At June 30, 2010	6,353,700	36,110	1,574,140

(g) Funded Status

Funded status of the pension plans as of June 30, 2012, the most recent actuarial valuation date, is as follows (dollars expressed in thousands):

	ERS	JRS	TRS	Total
Actuarial accrued liability	$ 27,645,786	$ 416,340	$ 12,350,836	$ 40,412,962
Actuarial value of assets	1,237,532	58,588	2,099,261	3,395,381
Unfunded actuarial accrued liability	$ 26,408,254	$ 357,752	$ 10,251,575	$ 37,017,581
Funded ratio	4.5 %	14.1 %	17.0 %	8.4 %
Covered payroll	$ 3,570,339	$ 33,066	$ 1,292,975	$ 4,896,380
Unfunded actuarial accrued liability as a percentage of covered payroll	739.7 %	1,081.9 %	792.9 %	756.0 %

The schedule of funding progress presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations.

21. OTHER POSTEMPLOYMENT BENEFITS

The Commonwealth provides postemployment healthcare benefits through defined benefit plans that are administered by the Retirement Systems:

- Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC)
- The Puerto Rico Judiciary Retirement System Medical Insurance Plan Contribution (JRS MIPC)
- Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution (TRS MIPC)

(a) Plans Descriptions

ERS MIPC is a cost sharing multiple employer defined benefit other postemployment benefit (OPEB) plan sponsored by the Commonwealth. JRS MIPC and TRS MIPC are single employer defined benefit OPEB plans sponsored by the Commonwealth. These OPEB plans were created under Act No. 95 approved on June 29, 1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full time employees of: (1) the Commonwealth's primary government and (2) certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan. JRS MIPC covers all judges of Judiciary Branch of the Commonwealth. TRS MIPC covers all active teachers of the Department of Education of the Commonwealth.

Commonwealth employees become plan members upon their date of employment. Plan members are eligible for benefits upon reaching the following age:

ERS MIPC
Police and Firemen

50 with 25 years of credited service
58 with 10 years of credited service

Other Employees

55 with 25 years of credited service
58 with 10 years of credited service

JRS MIPC

60 with 10 years of credited service

TRS MIPC

47 with 25 years of credited service
60 with 10 years of credited service

Funding Policy — The contribution requirement of ERS MIPC, JRS MIPC and TRS MIPC are established by Act No. 95 approved on June 29, 1963. The benefits are paid directly by the Commonwealth to the insurance providers at a rate of a maximum of $100 per month per retiree. All these OPEB plans are financed on a pay-as-you-go basis. There is no contribution requirement for plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

(b) Membership as of June 30, 2012

	ERS	JRS	TRS	Total
Retirees and beneficiaries currently receiving benefits	117,861	404	37,243	155,508
Current participating employees	134,566	374	42,707	177,647
Total	252,427	778	79,950	333,155

(c) Annual OPEB costs and Net OPEB obligation

The annual OPEB cost and the annual required contribution (ARC) were computed as part of an actuarial valuation in accordance with parameters of GASB Statement No. 45 based on current years demographic data.

The Commonwealth's annual OPEB cost and the net OPEB obligation for the postemployment healthcare benefits plans as of and for the year ended June 30, 2012 were as follows (expressed in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Annual OPEB cost:				
ARC	$ 133,654	$ 554	$ 41,069	$ 175,277
Interest on net OPEB obligation	5,230	29	1,738	6,997
Adjustment to annual required contribution	(8,180)	(53)	(1,845)	(10,078)
Annual OPEB cost	130,704	530	40,962	172,196
Statutory sponsor's contributions made	(94,688)	(312)	(36,870)	(131,870)
Increase in net OPEB obligation	36,016	218	4,092	40,326
Net OPEB obligation at beginning of year	130,741	729	43,448	174,918
Net OPEB obligation at year end	$ 166,757	$ 947	$ 47,540	$ 215,244

The net OPEB obligation for ERS MIPC, JRS MIPC, and TRS MIPC totaling $215 million is recorded in the accompanying statement of net assets (deficit).

(d) Actuarial Assumptions

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

	ERS MIPC	JRS MIPC	TRS MIPC
Date of latest actuarial valuation	June 30, 2012	June 30, 2012	June 30, 2012
Actuarial-cost method	Projected unit credit cost method with straight proration based on service to decrement	Projected unit credit cost method with straight proration based on service to decrement	Entry age normal
Amortization method	30 years closed, level dollar	30 years closed, level percentage of payroll	30 years closed, level percentage of payroll
Discount rate	3.2 %	3.2 %	3.2 %
Projected payroll growth	- %	3 %	- %
Projected salary increases	- %	- %	3.5% general wage inflation plus a service based merit increase
Inflation	- %	- %	2.5 %
Remaining amortization period	26 years	15 years	26 years
Amortization approach	Closed	Closed	Closed

The ERS MIPC, JRS MIPC, and TRS MIPC statutory contributions as a percentage of the required contribution for the current year and each of the two preceding years are as follows:

	ERS MIPC	JRS MIPC	TRS MIPC
Year ended June 30, 2012	70.85 %	56.32 %	89.78 %
Year ended June 30, 2011	72.29	58.64	79.04
Year ended June 30, 2010	66.61	60.41	66.91

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long–term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short–term volatility in actuarial accrued liabilities and actuarial value of assets.

(e) Three Year Trend Information

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

	ERS MIPC	JRS MIPC	TRS MIPC
Annual OPEB cost:			
Year ended June 30, 2012	$ 130,704	$ 530	$ 40,962
Year ended June 30, 2011	127,336	513	39,891
Year ended June 30, 2010	127,189	479	42,495
Percentage of annual OPEB cost contributed:			
Year ended June 30, 2012	72.4 %	58.9 %	90.0 %
Year ended June 30, 2011	73.4	60.4	79.1
Year ended June 30, 2010	67.0	61.5	66.9
Net OPEB obligation:			
Year ended June 30, 2012	$ 166,757	$ 947	$ 47,540
Year ended June 30, 2011	130,741	729	43,448
Year ended June 30, 2010	96,946	526	35,115

(f) Funded Status

Funded status of the postemployment healthcare benefit plans as of June 30, 2012, the most recent actuarial valuation date, is as follows (expressed in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Actuarial accrued liability (AAL)	$ 2,120,970	$ 6,592	$ 797,332	$ 2,924,894
Actuarial value of assets	-	-	-	-
Unfunded actuarial accrued liability	$ 2,120,970	$ 6,592	$ 797,332	$ 2,924,894
Funded ratio	- %	- %	- %	- %
Covered payroll	$ 3,570,339	$ 33,066	$ 1,292,975	$ 4,896,380
Unfunded actuarial accrued liability as a percentage of covered payroll	59.4 %	19.9 %	61.7 %	59.7 %

The schedule of funding progress presented as required supplementary information following the notes to the basic financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

22. DEBT SERVICE DEPOSIT AGREEMENTS

On May 26, 2005 (but effective on July 1, 2005), the Commonwealth, PFC, and GDB (together the Commonwealth) and Lehman Brothers Special Financing Inc. (Lehman) entered into Debt Service Deposit Agreements (DSD Agreements), the objective of which was for the Commonwealth to secure an upfront payment in exchange for granting Lehman the rights to earnings generated from eight of its debt service funds. On September 25, 2008, as a result of Lehman commencing a case in the United States Bankruptcy Court for the Southern District of New York under chapter 11 of the United States Code, Lehman selected Hexagon Securities LLC to act as the Qualified Dealer under the DSD Agreements and delivered Qualified Securities as permitted under the DSD Agreement. Seven of the funds are associated with the Commonwealth's PFC bonds, presented in the accompanying basic financial statements as Commonwealth appropriation bonds, and one fund is associated with the Commonwealth's general obligation bonds. The upfront payment, which amounted to $82.7 million, was received on May 26, 2005 and equaled the present value of the projected earnings income adjusted for credit timing risks as well as an appropriate amount of compensation for Lehman.

With the upfront payment made as explained above, the Commonwealth delivered to Lehman the required and scheduled debt service deposits and Lehman delivered qualified government debentures, which will mature before the next debt service payment date at an amount approximating such next debt service payment. Lehman will attempt to earn sufficient funds on the debt service deposit amounts, less its cost for the qualified government debentures, to make back the $82.7 million over time. At the same time, the Commonwealth will be managing its borrowings and investments by increasing the predictability of its cash flows from earnings on its investments and not for purpose of speculation. The Commonwealth acknowledges that, in exchange for the upfront payment received, it is foregoing its right to receive investment earnings on the deposit amounts referred to above in the future and that, by accepting the upfront payment, the Commonwealth has minimized the risks resulting from fluctuations in interest rates during the term of the DSD Agreements but also has foregone the possibility of receiving greater returns on such amounts from such fluctuations.

Under the DSD Agreements, the Commonwealth will be exposed to the payment to Lehman of a Termination Amount, as defined in the agreement, principally upon the occurrence of redemption or a defeasance of the related bonds on or prior to the last scheduled deposit date. The amount of the Termination Amount will vary depending on various market conditions, as defined in the DSD Agreements. Under certain market conditions, the Termination Amount owed to Lehman by the Commonwealth may exceed the amount of the original upfront payment received.

The $82.7 million upfront payment received by the Commonwealth was recognized as other revenue for budgetary purposes in 2005; however, under US GAAP, such upfront payment was deferred and is being recognized proportionally over the future periods the Commonwealth would have otherwise earned such interest earnings. Unamortized balance amounted to approximately $40.1 million at June 30, 2012. During fiscal year 2012, approximately $5.5 million was amortized into other revenue in the accompanying statement of activities.

23. DERIVATIVE INSTRUMENTS

The fair values and notional amounts of derivative instruments outstanding at June 30, 2012, classified by type, and the changes in fair value of such derivative instruments for the fiscal year then ended as reported in the 2012 basic financial statements are as follows (in thousands):

Item		Changes in Fair Value (1) Classification	Changes in Fair Value (1) Amount	Fair Value at June 30, 2012 (2) Classification	Fair Value at June 30, 2012 (2) Amount		Notional
Governmental activities							
Cash flow hedges:							
1 Pay-fixed interest rate swap	(4)	Deferred Outflow	$(10,993)	Liability	$(49,228)	(5)	$ 233,615
2 Pay-fixed interest rate swap		Deferred Outflow	(1,393)	Liability	(2,497)		32,815
3 Pay-fixed interest rate swap		Deferred Outflow	(1,218)	Liability	(2,342)		32,625
4 Pay-fixed interest rate swap		Deferred Outflow	(1,089)	Liability	(2,102)		31,280
5 Pay-fixed interest rate swap		Deferred Outflow	(938)	Liability	(1,879)		30,005
6 Pay-fixed interest rate swap	(4)	Deferred Outflow	(2,095)	Liability	(4,101)	(5)	14,925
7 Pay-fixed interest rate swap	(4)	Deferred Outflow	(2,094)	Liability	(4,098)	(5)	14,915
8 Pay-fixed interest rate swap	(3)	Deferred Outflow	(49,298)	Liability	(86,520)		136,000
Investment derivative instruments:							
9 Pay-fixed interest rate swap	(4)	Investment Revenue	(11,904)	Liability	(27,037)	(5)	114,071
10 Pay-fixed interest rate swap	(4)	Investment Revenue	(9,030)	Liability	(20,391)	(5)	83,314
11 Basis Swap		Investment Revenue	15,595	Liability	(18,325)	(5)	1,273,778
12 Basis Swap		Investment Revenue	5,366	Liability	(6,454)	(5)	424,592

(1) Positive (negative) values represent a decrease (an increase) in the liability's fair value.
(2) Negative values indicate that the Commonwealth is in a payable position. The fair value excludes the accrued interest receivable or payable at year-end.
(3) Derivative instrument corresponds to COFINA.
(4) Insured swap.
(5) Amortizing swap. The notional amount of the swap matches the principal amount of the associated debt. The swap agreement contains scheduled reductions to the notional amount that matches scheduled reductions in the associated debt outstanding principal balance.

The fair values of the pay-fixed interest rate swaps and the basis swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps.

Accrued interest payable on swaps are presented separately from the fair values of the swaps in the Commonwealth's government-wide statement of net assets and in the governmental funds- balance sheet and amounted to $8.1 million at June 30, 2012.

The following table shows the derivative instruments position by counterparty at June 30, 2012 (in thousands):

Counterparty/Swap	Total Notional Amount	Total Fair Value
Goldman Sachs Capital Markets	$ 1,409,777	$ (104,845)
Morgan Stanley Capital Services Inc.	581,158	(23,473)
Bank of New York	233,615	(49,228)
DEPFA BANK plc	114,071	(27,037)
Merrill Lynch Capital Services, Inc.	83,314	(20,391)
Total	$ 2,421,935	$ (224,974)

Hedging Derivative Instruments

The following table displays the objective and terms of the Commonwealth's hedging derivative instruments outstanding at June 30, 2012, along with the credit rating of the associated counterparty (amounts in thousands):

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms: Pays	Terms: Receives	Counterparty Credit Rating Moody's/S&P
1	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C-5-1 and C-5-2 bonds	$233,615	7/1/2008	7/1/2021	3.7658 %	67% 1M LIBOR	Aa1/AA-
2	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	32,815	8/10/2006	7/1/2021	4.2000	CPI+0.90%	Baa1/A-
3	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	32,625	8/10/2006	7/1/2020	4.3200	CPI+1.02%	Baa1/A-
4	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	31,280	8/10/2006	7/1/2019	4.2900	CPI+1.00%	Baa1/A-
5	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	30,005	8/10/2006	7/1/2018	4.2600	CPI+0.98%	Baa1/A-
6	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A3 bonds	14,925	10/16/2007	7/1/2029	3.5180	66% 1M LIBOR	Baa1/A-
7	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A2 bonds	14,915	10/16/2007	7/1/2029	3.5180	66% 1M LIBOR	Baa1/A-
8	Pay-fixed interest rate swap	Hedge of changes in cash flows on the COFINA 2007 Series A bonds	136,000	7/31/2007	8/1/2057	4.9200	67% 3M LIBOR +0.93%	A2/A-

LIBOR: London Interbank Offered Rate Index
CPI: Consumer Price Index

For derivative instruments No. 2, 3, 4, and 5, the floating interest rate, CPI plus a spread (the rate to receive), is capped to the maximum rate permitted by Commonwealth law (12% as of June 30, 2012). This cap is equal to the cap in the hedged bond. Other swaps do not have significant embedded options.

During the year ended June 30, 2012, the Commonwealth terminated various hedging derivative instruments with an aggregate notional amount of $437.1 million in connection with refunding resulting in the defeasance of the hedged debt in April, 2012. The balance of the deferred outflows of resources at such date of $95.7 million was included in the net carrying amount of the old debt for purposes of calculating the gain/loss on the refunding.

Investment Derivative Instruments — The following table displays the terms of the Commonwealth's investment derivative instruments outstanding at June 30, 2012, along with the credit rating of the associated counterparty (amounts in thousands):

Item	Type	Notional Amount	Effective Date	Maturity Date	Terms Pays	Receives	Counterparty Credit Rating Moody's/S&P
9	Pay-fixed interest rate swap	$ 114,071	7/1/2008	7/1/2024	3.6815 %	67% 1M LIBOR	Baa3/BBB
10	Pay-fixed interest rate swap	83,314	7/1/2008	7/1/2024	3.6815 %	67% 1M LIBOR	Baa2/A-
11	Basis Swap	1,273,778	7/1/2006	7/1/2035	SIFMA	67% 3M LIBOR + 0.4409	A2/A
12	Basis Swap	424,592	7/5/2007	7/1/2035	SIFMA	67% 3M LIBOR + 0.4409	Baa1/A-

None of the investment derivative instruments has significant embedded options.

The Commonwealth entered into the basis swaps (derivative instruments No. 11 and 12) to economically hedge the portion of the fair value of the underlying liabilities attributable to the relative value/basis risk between tax-exempt and taxable rates, which can be expressed as a ratio. At June 30, 2012, management of the Commonwealth concluded that these basis swaps were not considered as effective hedging instruments under GASB Statement No. 53.

During the year ended June 30, 2012, the Commonwealth and COFINA terminated various investment derivative instruments with notional amount of $69.2 million and $907.0 million, respectively, and paid $21.4 million and $390.6 million, respectively, to terminate the swaps.

Risks on Derivative Instruments:

Credit or Counterparty Risk — The Commonwealth is exposed to credit risk on 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. If the counterparty were to default under its agreement when the counterparty owes a termination payment to the Commonwealth, the Commonwealth may have to pay another entity to assume the position of the defaulting counterparty. 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 credit risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap agreements. In addition, to minimize its exposure to loss related to credit risk, it is the Commonwealth's policy to require counterparty collateral posting provisions on its derivative agreements. These terms require collateralization of the fair value of the derivative instruments in asset position (net of the effect of applicable netting arrangements) in excess of certain agreed upon thresholds which range from $20.0 million to zero (full collateralization) should the credit rating of the counterparty falls a specified rating. Collateral posted is to be in the form of cash, U.S. Treasury securities, or specified agency securities. The Commonwealth has never failed to access collateral when required.

It is the Commonwealth's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, closeout netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

At June 30, 2012, none of the derivative instruments was in an asset position. Thus, the Commonwealth did not have aggregate counterparty credit exposure or netting arrangements as of that date.

Interest Rate Risk — The Commonwealth is exposed to interest rate risk on its swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR or the Consumer Price Index (CPI) decreases, the Commonwealth's net payment on the swap increases. Additionally, as long-term LIBOR and CPI rates decrease, the fair values of the derivative instruments in liability positions increase. On its basis swaps, as LIBOR decreases and/or SIFMA trades as a higher percentage of LIBOR, the Commonwealth's net payment on the basis swap increases. Additionally, as long-term LIBOR rates increase and/or long-term SIFMA/LIBOR ratios increase, the fair values of the basis swaps in liability positions decrease.

Basis Risk — The Commonwealth is exposed to basis risk on some of its pay-fixed interest rate swaps where the variable-rate payments received by the Commonwealth on the derivative and the rate paid on the hedged variable-rate debt are based on different reference rates or indexes.

Termination Risk — The Commonwealth or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The Commonwealth is at risk that the counterparty will terminate a swap at a time when the Commonwealth owes a termination payment to the counterparty. The Commonwealth has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by the Commonwealth; other Commonwealth defaults which remain uncured for 30 days after notice; Commonwealth bankruptcy; insolvency of the Commonwealth (or similar events); or a downgrade of the Commonwealth's credit rating below Ba1 as issued by Moody's Investor Service or BB+ by Standard & Poor's for the majority of the derivative instruments. On the COFINA's derivative instrument No. 8, COFINA 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 COFINA; insolvency of COFINA (or similar events); or a downgrade of COFINA's credit rating below Baa1 by Moody's Investor Service or BBB+ by Standard & Poor's). The derivative instruments that are insured by Assured Guaranty Municipal Corp. (derivative instruments No. 1, 6 and 7) may not be terminated by the counterparty unless an Insurer Event has occurred (i.e., Insurer's credit rating falls below A3 by Moody's Investor Service or A- by Standard & Poor's) and the Commonwealth's credit ratings are downgraded below Ba1 as issued by Moody's Investor Service or BB+ by Standard & Poor's. If at the time of termination, a derivative instrument is in a liability position, the Commonwealth would be liable to the counterparty for a payment equal to the liability's value as determined in accordance with the swap agreement provisions, subject to netting arrangements.

Rollover Risk — The Commonwealth is exposed to rollover risk on hedging derivative instruments that mature prior to the maturity of the hedged debt, thus re-exposing the Commonwealth to the risk being hedged. None of the Commonwealth's derivative instruments matures prior to the maturity of the hedged debt.

Collateral Posting Requirements and Contingencies — All of the Commonwealth's derivative instruments, except for the Commonwealth 's derivative instruments that are insured by Assured Guaranty Municipal Corp. (derivative instruments No. 1, 6 and 7) and the COFINA's derivative instrument No. 8, include provisions that require the Commonwealth to post collateral in excess of certain agreed upon thresholds (that range from $30.0 million to $50.0 million) when its credit rating falls below Baa1 (Moody's Investor Service) or BBB+ (Standard & Poor's). If the Commonwealth's credit rating falls below Baa3 (Moody's Investor Service) or BBB- (Standard & Poor's), it is required to post collateral of 100% of their payable positions. The collateral posted is to be in the form of cash, U.S. Treasury securities, or specified agency securities for derivative instruments in liability positions, net of the effect of applicable netting arrangements and thresholds. If the Commonwealth does not post collateral, the derivative instrument may be terminated by the counterparty.

At June 30, 2012, the aggregate fair value of the Commonwealth's derivative instruments with these collateral posting provisions was a liability position of $82.1 million. The Commonwealth's credit rating as of June 30, 2012 was Baa1 (Moody's Investor Service) and BBB (Standard & Poor's). Since the aggregate fair value of these derivative instruments was below the established threshold with each of the counterparties, the Commonwealth was not required to post collateral as of June 30, 2012.

At June 30, 2012, no collateral posting requirement applied to the COFINA's derivative instrument.

24. FUND BALANCE (DEFICIT)

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the classification of Fund Balance is based on the extent to which the Commonwealth is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

Nonspendable — includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints requiring such amounts to remain intact.

Restricted — includes fund balance amounts that are constrained for specific purposes which are externally imposed by creditors (such as through debt covenants), laws or regulations of other governments, or constrained due to constitutional provisions or enabling legislation.

Committed — includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government's formal action at the highest level of decision making authority and does not lapse at year-end. The highest level of decision authority for the Commonwealth is the Legislature and the Governor.

In accordance with the Commonwealth's Constitution, the Governor is required to submit to the Legislature an annual balanced budget of the Commonwealth for the ensuing fiscal year. The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon passage by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by two thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Governor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. The Office of Management and Budget, which respond to the Governor as part of the Commonwealth's Executive Branch, has authority to amend the budget within a department, agency, or government unit without legislative approval.

Assigned — includes fund balance amounts that are constrained by the Commonwealth Legislature and the Governor and are intended to be used for specific purposes that are neither considered restricted or committed.

Unassigned — is the residual classification for the General Fund. In a governmental fund other than the General Fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed and assigned to that purpose.

The Commonwealth uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available, unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, unless required by law or agreement, the Commonwealth would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Commonwealth does not have a formal minimum fund balance policy.

Below is the detail included in the fund balance (deficit) classifications for the governmental funds at June 30, 2012 (expressed in thousands):

	General	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
Nonspendable:						
Minimum fund balance for natural resource preservation	$ 5,000	$ -	$ -	$ -	$ -	$ 5,000
Other assets	10,591	-	-	-	-	10,591
Education	1,374	-	-	-	-	1,374
Public housing and welfare	77,594	-	-	-	-	77,594
Subtotal	94,559	-	-	-	-	94,559
Spendable:						
Restricted for:						
Debt service	-	335,614	-	713,792	150,672	1,200,078
Special revenue	-	-	57,031	-	-	57,031
Public housing and welfare	8,700	-	-	-	-	8,700
Capital project	53,043	-	-	-	848,453	901,496
Education	30,890	-	-	-	-	30,890
Other purposes	88,500	-	-	-	-	88,500
Subtotal	181,133	335,614	57,031	713,792	999,125	2,286,695
Committed to:						
General Fund	589,890	-	-	-	-	589,890
Debt service	-	274,829	-	-	-	274,829
Special revenue	-	-	-	-	35,922	35,922
Public housing and welfare	42,329	-	-	-	-	42,329
Education	1,440	-	-	-	-	1,440
Subtotal	633,659	274,829	-	-	35,922	944,410
Assigned to:						
Education	22,056	-	-	-	-	22,056
Special revenue	-	-	-	-	165,742	165,742
Subtotal	22,056	-	-	-	165,742	187,798
Unassigned	(2,037,963)	-	-	-	1,608	(2,036,355)
Total fund balance (deficit)	$(1,106,556)	$610,443	$57,031	$713,792	$1,202,397	$ 1,477,107

25. SUBSEQUENT EVENTS

Subsequent events were evaluated through September 16, 2013, the date the basic financial statements of the Commonwealth were available to be issued, to determine if any such events should either be recognized or disclosed in the 2012 basic financial statements**.**

Primary Government — On July 2, 2012, the Commonwealth issued Public Improvement Refinancing Notes, Series 2012 B-1 for $384,495,980 (the "Notes") to GDB for the purpose of providing funds to make the required monthly principal deposits on certain outstanding public improvement and public improvement refunding bond issues of the Commonwealth, until such time as refunding bonds may be issued. The Notes mature on June 30, 2042 and bear interest, payable in arrears, at a rate of interest per annum equal to the Prime Rate plus 150 basis points, but in no event shall such rate be less than 6% per annum nor greater than 12% per annum. The Notes shall be payable in annual installments, equal to $1/30^{th}$ of the principal amount outstanding plus accrued interest to the payment date on each June 30 commencing on June 30, 2013. The good faith, credit and taxing power of the Commonwealth are pledged to the payment of the principal of and interest on the Notes. On June 30 2013, the Commonwealth and GDB amended the loan agreement to change the payment dates in order to permit additional time for the Commonwealth to issue the public improvement refunding bonds. Under the terms of the amended loan agreement, the principal of the Notes is payable in equal annual installments, based on a 30-year amortization schedule, plus accrued interest to the payment date, on each June 30, commencing on June 30, 2014, with the balance of the principal of, plus all accrued and unpaid interest on, the Notes due and payable on June 30, 2042.

On July 13, 2012, the Department of the Treasury transferred $35 million to PBA related to the fourth payment of rent in arrears from agencies of the Commonwealth due before June 30, 2011.

On July 18, 2012, Moody's Investors Service (Moody's) downgraded COFINA's outstanding senior sales tax revenue bonds from Aa2 to Aa3 and the outstanding subordinate sales tax revenue bonds from A1 to A3. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

On July 19, 2012, the Commonwealth issued Public Improvement Refinancing Notes, Series 2012 C-1 for $215,936,841 (the "Notes") to GDB for the purpose of providing funds to make the required monthly interest deposits on certain outstanding public improvement and public improvement refunding bonds of the Commonwealth, until such time as refunding bonds may be issued. The Notes shall mature on June 30, 2042 and bear interest, payable in arrears, at a rate of interest per annum equal to the Prime Rate plus 150 basis points, but in no event shall such rate be less than 6% per annum nor greater than 12% per annum. The Notes shall be payable in annual installments, equal to $1/30^{th}$ of the principal amount outstanding plus accrued interest to the payment date on each June 30 commencing on June 30, 2013. The good faith, credit and taxing power of the Commonwealth are pledged to the payment of the principal of and interest on the Notes. On June 30 2013, the Commonwealth and GDB amended the loan agreement to change the payment dates in order to permit additional time for the Commonwealth to issue the public improvement refunding bonds. Under the terms of the amended loan agreement, the principal of the Notes is payable in equal annual installments, based on a 30-year amortization schedule, plus accrued interest to the payment date, on each June 30, commencing on June 30, 2014, with the balance of the principal of, plus all accrued and unpaid interest on, the Notes due and payable on June 30, 2042.

On July 20 2012, PBA obtained a loan from GDB in the amount of $175 million for the purpose of paying all or any portion of the principal and interest components of certain outstanding revenue and revenue refunding bonds of PBA coming due during the twelve months after the first drawing. The loan shall mature and be due and payable on June 30, 2013. Each drawing shall bear interest daily from the date such drawing is made until its repayment at a rate of interest per annum equal to GDB's "all inclusive" cost of funding plus a spread of 150 basis points, such rate not to be less than 6% per annum. On June 24, 2013, PBA and GDB amended the loan agreement to extend the maturity date of the loan up to December 31, 2013.

In October 2012, the Commonwealth entered into a novation transaction whereby it transferred its obligation for $424.6 million notional amount under a basis swap to a third party at no cost.

On December 13, 2012, Moody's downgraded its rating on the general obligation bonds of the Commonwealth from "Baa1" to "Baa3" with a negative outlook. On March 13, 2013, Standard & Poor's Rating Services (S&P) downgraded its rating on such bonds from "BBB" to "BBB-" with a negative outlook; and on March 20, 2013, Fitch, Inc. (Fitch) downgraded its rating on the Commonwealth's general obligation and appropriation debt from "BBB+" to "BBB-" with a negative outlook. The ratings reflect only the opinions of such rating agencies and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

On December 13, 2012, Moody's downgraded its rating on PBA's bonds from "Baa1" to "Baa3" with a negative outlook.

On April 30, 2013, COFINA issued its Bond Anticipation Notes, Series 2013A, amounting to approximately $333.3 million. The Series 2013A notes bear interest at 1.95% and mature on September 30, 2014. The proceeds from the issuance of these notes were used to complete the funding of the Commonwealth's operating budget deficit for fiscal year 2013.

On May 7, 2013, a group of governmental employees that worked on the PBA's central offices in Minillas since 1984 up to May 2012, filed a lawsuit claiming damages suffered during the years working at such offices, caused by the existence of asbestos in the building. The employees are claiming a total of $300 million of which $100 million would be used to create a medical program to monitor health conditions on all of these employees and $200 million to be paid to them for damages. This case is in its initial stages, therefore no provision for any liability that may result upon adjudication of this lawsuit has been recorded by the Commonwealth.

In May 2013, the Commonwealth entered into a $256 million and $320 million line of credit agreement with GDB to cover required deposits of interest and principal, respectively, on the Commonwealth's 2014 debt service. The line of credit agreements mature on June 30, 2043.

On June 30, 2013, the Commonwealth enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended the following Acts, Regulations and Codes: 1) the Puerto Rico Insurance Code under Act No. 77 of June 19, 1957, as amended, 2) the Property Tax Act under Act No. 83 of 1991, 3) the Savings and Loans Cooperatives Act under Act No. 255 of 2002, as amended, 4) the Puerto Rico Sales Tax Financing Corporation (COFINA) Act under Act No. 91 of 2006, 5) several articles of Act No. 1 of 2011 (also known as the Internal Revenue Code for a New Puerto Rico), 6) the Fiscal Reform Act of 2006 under Act No. 103 of 2006, 7) Act No. 164 of 2001, and 8) Act No. 221 of May 15, 1948. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth, and are expected to bring additional and consistent tax revenue. These revenue enhancing measures, along with other cost cutting plans, are intended to address the structural deficit of the Commonwealth, add new revenues to the general fund that would serve as a catalyst for economic growth and protect and strengthen the credit rating of the Commonwealth and its principal component units. The aforementioned amendments involve, among other changes, increases in the excise taxes on cigarettes' imports (Act No. 41); the establishment of a new national “volume of business” tax ranging between 0.2% to a maximum of .85% (1% for financial institutions) on the gross sales/revenue to businesses with a volume of sales/revenue exceeding $1 million (Act No. 40); the imposition of the sales and use taxes to certain business to business transactions, as defined, previously excluded, and other procedural changes (Acts No’s. 40 and 42); additional limitations on certain deductions and credits that were formerly available on the tax returns of individuals (Act No. 40); increase in the corporate tax rates from 30% to 39% coupled with a reduction in the surtax exemption base from $750,000 to $25,000 (Act No. 40); increases in the escalating tax rates applicable for the alternative minimum tax determination on individuals and corporations (Act No. 40); a new surtax of 2% applicable to self-employed individuals with over $200,000 in gross income as defined (Act No. 40); a special contribution of 1.5% imposed on payments made for professional and consulting services rendered to a governmental entity (Act No. 48); and increases in the share of slot machines in casinos and the restructuring of the manner in which their profits are distributed (Act No. 48). Some of these Acts also assigned funds for the enhancing and strengthening of the sales and use tax collection process (Act No. 46); created the 2013–2014 Budgetary Support Fund to be nourished with $96.5 million to be provided from transfers of excess cash from other funds, mostly coming from the Department of Education and the State Insurance Fund Corporation (Act No. 43); and the creation of a $245 million Fiscal Reconstruction Fund to be contributed by GDB for deficit financing (Act No. 45). The Fiscal Reconstruction Fund will be nourished with a $245 million loan to be structured by GDB using either its own funds or third party financing, in its capacity as the Commonwealth’s fiscal agent. The loan, which will be evidenced by bonds and notes, will constitute an obligation of the Commonwealth, whose good faith, credit, and taxing power will be irrevocably pledged for the prompt payment of the principal of and interests on the bonds/notes. The $245 million to be deposited in the Fiscal Reconstruction Fund will be assigned to the Municipal Revenue Collection Center (CRIM).

The Fiscal Reform Act of 2006 (Act. No. 103 of May 25, 2006) prohibited the use of debts, loans, or any financing mechanism to cover operational expenses and/or balance the Commonwealth’s general budget. Acts No. 2, 95, 130, and 44 of 2009, 2011, 2012, and 2013, respectively, suspended the provisions of Act. No. 103 of May 25, 2006 through June 30, 2011, 2013, 2014 and 2015, respectively.

Act No. 47 of June 30, 2013 authorizes the Secretary of the Treasury to issue public improvement bonds in an amount no to exceed $100 million. It also authorized the Secretary of the Treasury to issue, in anticipation of the bond issuance, bond anticipation notes. The bonds and notes will constitute an obligation of the Commonwealth, whose good faith, credit, and taxing power will be irrevocably pledged for the prompt payment of the principal of and interest on the bonds and notes.

On June 21, 2013, the Commonwealth entered into a $98 million line of credit agreement with GDB for working capital purposes. The line of credit bears interest at prime rate plus 150 basis points with a floor of 6% and a cap of 12%, and matures on November 1, 2013, as amended.

On July 1, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series A (2014) for $300,000,000 (the “Note”) to GDB for the purpose of providing funds to pay the general fund appropriations made for fiscal year 2014 in anticipation of the receipt of taxes and revenues required to be deposited in the general fund and estimated in the budget of the Commonwealth to be realized in cash during fiscal year 2014. The Note bears interest at a rate equal to the greater of (i) the rate of interest determined from time to time by GDB as its prime rate plus 150 basis points or (ii) 6.0%, and shall mature and be due and payable on July 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this Note.

On July 2, 2013, the Commonwealth issued Public Improvement Refinancing Note of 2013, Series B for $319,645,474 (the “Note”) to GDB for the purpose of providing funds to make during fiscal year 2014 the monthly principal deposits in respect and thereby refinance the principal component of certain outstanding public improvement and public improvement refunding bond issues of the Commonwealth. The Note bears interest at a rate of interest per annum equal to the prime rate as determined and announced by GDB from time to time plus 150 basis points. No such rate of interest per annum shall be in excess of 12% or be less than 6% per annum. The Note shall mature and be due and payable on June 30, 2043. The good faith, credit and taxing power of the Commonwealth are pledged to the payment of the principal of and interest on the Note.

On July 16, 2013, the Commonwealth issued Public Improvement Refinancing Note of 2013, Series A for $255,755,568 (the "Note") to GDB for the purpose of providing funds to make during fiscal year 2014 the monthly interest deposits in respect and thereby refinance the interest component of certain outstanding public improvement and public improvement refunding bond issues of the Commonwealth. The Note bears interest at a rate of interest per annum equal to the prime rate as determined and announced by GDB from time to time plus 150 basis points. No such rate of interest per annum shall be in excess of 12% or be less than 6% per annum. The Note shall mature and be due and payable on June 30, 2043. The good faith, credit and taxing power of the Commonwealth are pledged to the payment of the principal of and interest on the Note.

On July 16, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series B (2014) for $100,000,000 (the "Note") to Oriental Bank for the purpose of providing resources which are necessary to meet the appropriations in the fiscal year 2014 annual budget in anticipation of the receipt of taxes and revenues. The Note bears interest at a rate of Base LIBOR plus the applicable margin, as defined, and shall mature and be due and payable on June 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this Note.

On July 23, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series C (2014) for $100,000,000 (the "Note") to Banco Popular de Puerto Rico for the purpose of providing resources which are necessary to meet the appropriations in the fiscal year 2014 annual budget in anticipation of the receipt of taxes and revenues. The Note bears interest at a rate of Base LIBOR plus the applicable margin, as defined, and shall mature and be due and payable on June 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this Note.

On July 23, 2013, the Commonwealth sold, in a private placement, $104,700,000 of Public Improvement Refinancing Notes, Series 2013 A (the "Notes"). The Notes will have a maturity date of December 1, 2013 and bear interest at a per annum interest rate equal to the sum of LIBOR and 2.50%.

On August 12, 2013, the Commonwealth sold, in a private placement, $210,300,000 of Public Improvement Refinancing Notes, Series 2013 B (the "Refinancing Notes") and $85,000,000 Commonwealth's Bond Anticipation Notes, Series 2013 A (the "BANs and together with the Refinancing Notes, the "Notes"). The Notes will have a maturity date of December 1, 2013 and bear interest at a per annum interest rate equal to the sum of LIBOR and 2.5%.

On August 13, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series D (2014) for $200,000,000 (the "Note") to Banco Santander Puerto Rico for the purpose of providing resources which are necessary to meet the appropriations in the fiscal year 2014 annual budget in anticipation of the receipt of taxes and revenues. The Note bears interest at a rate of Base LIBOR plus the applicable margin, as defined, and shall mature and be due and payable on June 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this Note.

On August 22, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series E (2014) for $200,000,000 (the "Note") to JP Morgan Chase Bank, National Association for the purpose of providing resources which are necessary to meet the appropriations in the fiscal year 2014 annual budget in anticipation of the receipt of taxes and revenues. The Note bears interest at a fixed interest rate equal to 3.25% multiplied by a margin rate factor, as defined, and shall mature and be due and payable on June 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this Note.

On September 12, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series F (2014) for $100,000,000 (the "Note") to Scotiabank of Puerto Rico for the purpose of providing funds to pay the general fund appropriations made for fiscal year 2014 in anticipation of the receipt of taxes and revenues that would otherwise be required to be deposited in the general fund and estimated in the budget of the Commonwealth to be realized in cash during fiscal year 2014. The Note bears interest at a fixed rate equal to 3% per annum, and shall be due and payable on June 30, 2014. Upon the failure of the Commonwealth to maintain a rating on its general obligation debt of at least investment grade by each of the rating agencies, the Note shall bear interest at a fixed interest rate equal to 6% per annum. The good faith, credit, and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on the Note.

Component Units:

(a) GDB

On December 13, 2012, Moody's downgraded GDB's Senior Notes from Baa1 to Baa3 and Puerto Rico Public Finance Corporation (PRPFC), a blended component unit of GDB, Commonwealth Appropriation Bonds from Baa2 to Ba1 with a negative outlook. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

Act No. 45 of June 30, 2013 amended Article No. 8 of Act No. 164 of December 17, 2001 to increase the limit of GDB loans whose repayment source are Legislative appropriations not already approved or to be approved in the future by the Commonwealth's Legislature from $200 million to $245 million through June 30, 2014.

Housing Finance Authority **—** On July 24, 2012, the Housing Finance Authority issued general obligation bonds amounting to $38 million secured by mortgage-backed securities. The principal of and interest on the bonds will be payable by the Housing Finance Authority regardless of the performance of the mortgage loan collateral. The notes will carry a 5.875% annual interest rate payable monthly. The bonds are subject to a redemption schedule that ranges from 103% to 100% on or after the second throughout the fifth anniversary of the date of issuance.

On October 25, 2012, the Housing Finance Authority issued approximately $30.5 million of its special obligation notes, 2012 Series A (the "2012 Notes") at an aggregate discounted price of $15.5 million. The 2012 Notes will be collateralized by certain second mortgages originated under the Home Purchase Stimulus Program and will be repaid from collections of principal and interest of the underlying collateral. The mortgage loans will be guaranteed by the Housing Finance Authority's Act No. 87 mortgage loan insurance.

During April 2013, the Housing Finance Authority entered into the following bond defeasance transaction: Homeownership Mortgage Revenue Bonds 1998 Series A, 2000 Series A, 2001 Series A, 2001 Series B, 2001 Series C and 2003 Series A for a total amount of $99.3 million, which includes an outstanding principal amount of $96.8 million and accumulated interest and other costs of $2.5 million.

Tourism Development Fund — In July 2012, the boards of directors of GDB and the Tourism Development Fund approved a resolution whereby, among other, GDB released the Tourism Development Fund from paying $85 million of its line of credit with GDB. In August 2013, GDB approved a line of credit to the Tourism Development Fund in order to provide funding to the Tourism Development Fund to lend the money to a private entity for the development of a hotel.

(b) PRASA

On December 13, 2012, Moody's downgraded PRASA's Commonwealth Guaranteed Bonds from Baa1 to Baa3 and Revenue Bonds from Baa2 to Ba1 with a negative outlook. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

Effective July 15, 2013, PRASA revised the actual rate structure to increase operating revenues for fiscal year 2014.

On June 12, 2013, PRASA issued approximately $45.6 million of Series II of United States Department of Agriculture (USDA) Rural Development Program Bonds guaranteed by the Commonwealth of Puerto Rico. The proceeds of these bonds were used to finance the cost of acquiring and constructing improvements to PRASA's water and sewer properties, including the repayment of a portion of certain notes payable to GDB for such purpose. These bonds mature in semi-annual installments (subject to the right of prior redemption) payable January 1 and July 1 in each year, beginning January 1, 2014 and ending January 1, 2053 and bear interest payable January 1 and July 1 in each year, beginning July 1, 2013 at fixed rates that range from 2.00% to 3.50%.

On July 24, 2013, PRASA entered into a $50.0 million credit agreement with a commercial bank. The loan proceeds were used to finance certain capital improvements to the PRASA's water system and cover associated loan costs. The loan is mainly repayable from bond anticipation notes to be issued by PRASA. The loan agreement bears interest equal to LIBOR rate plus the applicable margin, as defined, with a floor of 4.25% and the interest is payable at maturity date. The applicable margin is 400 basis points or 600 basis points if the long-term credit rating of the PRASA outstanding senior bonds is downgraded below Ba1 by Moody's Investors Service and below BB+ by Standard & Poor's and Fitch Ratings. As amended on August 28, 2013, the loan matures not later than December 30, 2013. The loan is a senior debt on a parity with the PRASA's senior bonds and shall be equally and ratably secured by the pledged of the PRASA's revenues (other than that portion of the PRASA's revenues consisting of appropriations from the Commonwealth for the payment of principal and interest on the PRASA's Commonwealth Guaranteed Indebtedness and the PRASA's Commonwealth Supported Obligations.

(c) PREPA

On December 17, 2012, Moody's downgraded from Baa1 to Baa2 the rating on the Puerto Rico Electric Power Authority's (PREPA) approximately $8 billion of outstanding power revenue bonds. The rating remains under review for possible further downgrade. The rating change was based on the downgrade of the Commonwealth's general obligation rating to Baa3 with a negative outlook as well as the downgrade of entities that are based on or capped at the Commonwealth's general obligation's rating, including GDB, which is an important source of liquidity for PREPA. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

On April 25, 2013, the $500.0 million revolving line of credit with participating commercial banks for working capital purposes was amended to extend its maturity date to June 30, 2013. On June 28, 2013, this line of credit was amended to decrease its authorized amount to $450.0 million and to extend its maturity date to August 15, 2013. On August 14, 2013, this line of credit was amended to extend its maturity date to August 14, 2014, to increase its authorized amount to $550.0 million and to increase the applicable margin and applicable spread on its interest rate in case of a downgrade by Moody's Investors Service and Standard & Poor's in the long term rating of the PREPA's senior debt.

On June 21, 2013, PREPA entered into a $100.0 million revolving line of credit agreement with GDB to cover the margin calls related to its swap agreements. The line of credit matures on December 31, 2014 and bears interest at prime rate plus 200 basis points (with a cap of 12% and a floor of 6.00%), payable monthly.

On June 21, 2013, S&P downgraded its rating on PREPA's revenue bonds from "BBB+" to "BBB" with a stable outlook. This move came a day after Moody's downgraded PREPA's revenue bonds to Baa3 from Baa2, with a negative outlook. On July 1, 2013, Fitch downgraded its rating on PREPA's revenue bonds from "BBB+" to "BBB-" with a stable outlook, eliminating the previous negative watch. The ratings reflect only the opinions of such rating agencies and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

PREPA assumed $53.2 million in fuel expenses not billed to the customers from July to November 2012, which were financed by the revenue stabilization fund.

On August 15, 2013, PREPA issued $673,145,000 Puerto Rico Power Electric Authority Power Revenue Bonds, Series 2013A (the "Series 2013A Bonds"). The Series 2013A Bonds consist of $35,000,000 and $130,645,000 serial bonds maturing on July 1, 2030 and 2043, respectively, and bearing interest at 7.25% and 7%, respectively, and $150,000,000, $307,500,000 and $50,000,000 term bonds due on July 1, 2033, 2036, and 2040, respectively, and bearing interest at 7%, 6.75%, and 7%, respectively. The proceeds of the Bonds will be used to (i) finance a portion of the cost of various projects under its capital improvement program, (ii) fund a deposit to the Reserve Account in the Puerto Rico Electric Power Authority Revenue Bonds Interest and Sinking Fund, (iii) pay capitalized interest on the Series 2013A Bonds through January 1, 2016 and (iv) pay the costs of issuance of the Series 2013A Bonds.

Act No. 50 of July 1, 2013 authorizes PREPA to charge an "all in rate" preferential rate to PRASA of twenty-two (22) cents per kilowatt hour for fiscal years 2014, 2015, and 2016. Starting in fiscal year 2017, the "all in rate" preferential rate charged to PRASA will be reduced to sixteen (16) cents per kilowatt hour subject to certain terms and conditions.

(d) PRHTA

On December 13, 2012, Moody's downgraded PRHTA's Transportation Revenue Bonds from Baa1 to Baa3, its Highway Revenue Bonds from A3 to Baa2 and its Subordinate Transportation Revenue Bonds from Baa2 to Ba1 with a negative outlook. The rating changes were driven by the downgrade of the Commonwealth's general obligation bonds from Baa1 to Baa3. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

On July 6, 2012, PRHTA entered into a new agreement with GDB for the amount of $64.1 million to increase the $63.0 million nonrevolving line of credit agreed on July 12, 2010, with the same loan terms and an extension in the maturity date until January 31, 2013.

On July 6, 2012, PRHTA entered into a new agreement with GDB for the amount of $156.9 million to increase the $147.0 million nonrevolving line of credit agreed on June 30, 2009, with the same loan terms and an extension in the maturity date until January 31, 2013. On February 14, 2013, PRHTA entered into a new agreement with GDB to extend the maturity of the line of credit until January 31, 2014.

On July 6, 2012, PRHTA entered into a new agreement with GDB for the amount of $151.2 million to increase the $140.0 million nonrevolving line of credit agreed on March 19, 2008, with the same loan terms and an extension in the maturity date until January 31, 2013. On February 14, 2013, PRHTA entered into a new agreement with GDB to extend the maturity of the line of credit until January 31, 2014.

On July 18, 2012, PRHTA entered into a new agreement with GDB for the amount of $94.4 million to establish a nonrevolving line of credit with maturity of January 31, 2013. On February 11, 2013, PRHTA entered into a new agreement with GDB to extend the maturity of the line of credit until January 31, 2014.

On August 22, 2012, PRHTA entered into a new agreement with GDB for the amount of $21.5 million to increase the $20.0 million nonrevolving line of credit agreed on October 30, 2009, with the same loan terms and an extension in the maturity date until January 31, 2013.

On August 22, 2012, PRHTA entered into a new agreement with GDB for the amount of $93.7 million to increase the $78.3 million nonrevolving line of credit agreed on July 6, 2009, with the same loan terms and an extension in the maturity date until January 31, 2013. On February 14, 2013, PRHTA entered into a new agreement with GDB to extend the maturity of the line of credit until January 31, 2014.

On February 8, 2013, PRHTA entered into a new agreement with GDB to extend the loan terms on the $147.1 million nonrevolving line of credit agreed on December 28, 2012, until January 31, 2014.

On February 14, 2013, PRHTA entered into a new agreement with GDB to extend the loan terms on the $172.9 million nonrevolving line of credit agreed on November 9, 2009, until January 31, 2014.

On February 14, 2013, PRHTA entered into a new agreement with GDB to extend the loan terms on the $477.6 million nonrevolving line of credit agreed on October 30, 2009, until January 31, 2014.

On February 14, 2013, PRHTA entered into a new agreement with GDB to increase the $428.8 million nonrevolving line of credit agreed on September 23, 2011, until January 31, 2014.

On June 24, 2013, PRHTA refunded in advance its Grant Anticipation Revenue Bonds, Series 2004, issued under its Resolution No. 04-18, adopted on April 7, 2004. The outstanding principal balance of these bonds amounted to $86.1 million. A deposit of $90.0 million was made to the escrow agent sufficient to pay principal and interest on these bonds on March 15, 2014.

On June 25, 2013, the Commonwealth enacted Act No. 31, which amended several articles of Act No. 1 of 2011, known as the Internal Revenue Code for a New Puerto Rico, related to the excise taxes on crude oil, unfinished oil and derivative products, which proceeds go to the PRHTA. Before the effective date of these amendments, the applicable excise tax rates to be applied on imports of crude oil, unfinished oil and derivative products would fluctuate inversely to the changes in the price of the crude oil barrel. These excise tax rates would fluctuate from a maximum of $6 per barrel when the barrel price reaches a floor of $16, down to an excise tax rate of $3 per barrel when the barrel price increases to a price exceeding $28, up to a limit of $120 million per fiscal year. Over the past years since 2005, the barrel of crude oil has been over $28, therefore, PRHTA has only been receiving the related excise tax proceeds from the minimum excise tax rate of $3 per barrel. In order to create additional credit margin for the PRHTA and in turn enable it to repay its outstanding lines of credit with GDB of almost $2 billion, currently without a source of repayment, and return it to a self sufficient capacity, the aforementioned amendments would fix the excise tax rate per barrel to $9.25 and would eliminate the limit of $120 million on such excise taxes. Act No. 31 also allowed for the first $20 million raised from the excise tax on cigarettes' imports, recently increased through Act No. 41 of June 30, 2013, to be deposited in a special account in favor of the PRHTA.

On August 28, 2013, PRHTA entered into a $61.8 million nonrevolving line of credit agreement with GDB for working capital purposes. The line of credit matures on February 28, 2014 and bears interest at prime rate plus 150 basis points (with a cap of 12% and a floor of 6.00%), payable at maturity date.

On August 29, 2013, the PRHTA issued $400,000,000 Puerto Rico Highways and Transportation Authority Special Revenue Bonds, 2013A Bond Anticipation Notes (the "Series A Notes"). The Series A Notes mature on September 1, 2015 and bear interest at the Index Rate, as defined. The Index Rate is computed as the sum of the LIBOR plus the Applicable Spread (2.40%) and is subject to adjustment as provided in the 2013 Resolution. The Series A Notes are payable from, and are secured by the pledge of, certain revenues of the PRHTA, which include (i) the excise taxes in excess of $120 million per fiscal year, imposed by the Commonwealth on certain petroleum products; (ii) the remaining $25 per vehicle annual license fees imposed by the Commonwealth, which was previously allocated to the Treasury Department; (iii) the total amount of excise taxes up to $20 million per fiscal year, imposed by the Commonwealth on cigarettes; (iv) unencumbered revenues held in the 1998 Construction Fund established under Resolution No. 98-06 adopted by the PRHTA on February 26, 1998, as amended and (v) any additional revenues pledged to the PRHTA in accordance with the 2013 Resolution. The proceeds of the Series A Notes will be used to (i) pay a portion of the PRHTA's loans from the GDB and (ii) pay the costs of issuance of the Series A Notes.

(e) UPR

On December 14, 2012, Moody's downgraded the UPR's University System Revenue Bonds and Pledged Revenue Bonds from Baa2 to Ba1 and Educational Facilities Revenue Bonds, 2000 Series A issued through AFICA from Baa3 to Ba2. The rating action affects $599 million of rated debt that remain under review for possible downgrade. The downgrade was driven by an extraordinary high reliance on the Commonwealth for operating revenue and its dependence on GDB for operating lines for liquidity. In addition, the UPR has and limited ability to grow revenue given resistance to raising tuition and enrollment decline. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

In January 2013, the $75 million line of credit facility with GDB was amended to extend the maturity date to January 31, 2014.

On April 7, 2013, Act No. 7 amended Act. No. 2 of January 20, 1966, as amended, to revise the formula for the Commonwealth appropriations, an amount equal to 9.60% of the average total amount of annual general fund's revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year. Act No. 7 is effective on July 1, 2013.

In addition, Act No. 7 of April 7, 2013 derogated Act No. 176 of November 2010, as amended by Act No. 46 of April 2011, in which the Commonwealth of Puerto Rico had committed to transfer 10% of the Additional Lottery's net annual income with a guaranteed minim amount of $30 million per academic year, for the creation of a Special Scholarship Fund for the UPR. The purpose of the fund was to provide financial aid to graduate and undergraduate students.

On January 26, 2013, the Board of Trustees of the UPR approved Certification No. 41 (2012–2013) which derogated the stabilization fee established by the Board of Trustees of the UPR on June 30, 2010 to address the UPR's budgetary deficit issues. This stabilization fee was charged to all students in addition to tuition charges and other fees already in place in the UPR. The stabilization fee amounted to $400 per student per semester. Board of Trustees Certification No. 41 is effective on July 1, 2013.

On April 30, 2013, Act No. 13 derogated Article 3 of Act No. 1 of 1996, as amended, and established a new Article 3 of Act No. 1 that, among other matters, defines the composition, faculties and duties of the Governing Board of the UPR (the "Governing Board"), the new governing body of the UPR. Act No. 13 substitutes the Board of Trustees of the UPR with the Governing Board composed of thirteen members, of which nine members are appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico. The remaining members of the Governing Board consist of two tenured professors and two full-time students. The Secretary of the Department of Education of the Commonwealth becomes ex-officio member of the Governing Board.

(f) ACAA

On July 2, 2012, the Commonwealth enacted Act No. 134, which creates a support fund for the Commonwealth budget of the fiscal year 2012–2013. ACAA is required to contribute $12.5 million to this fund during fiscal year 2013.

(g) PRIDCO

On July 5, 2012, Moody's upgraded the rating on PRIDCO's general purpose revenue bonds from Baa2 to Baa1. The rating changes affect approximately $210 million of debt outstanding. The upgrade reflects the fact that PRIDCO's management managed to keep revenue and debt service coverage relatively stable during one of the worst economic downturns in the Commonwealth's history and recently called some near-term debt, bolstering coverage.

(h) PAA

On October 8, 2012, PAA entered into a line of credit agreement with GDB, whereby GDB agreed to provide PAA certain advances up to a maximum aggregate principal amount of $1.7 million plus any accrued interest. Interest would be based on 1.5% over the prime rate, with a floor of 6% and a ceiling of 12%. The proceeds of the line of credit are to finance some of the terms of the preliminary agreement between United States Army Corps of Engineers and PAA, if finally accepted by the United States Department of Justice. The aggregate unpaid outstanding line of credit balance including interest shall be payable on or before October 31, 2013. If debt is not paid at the maturity date, interest would be charged at 2% over the prime rate. The principal amount will be paid with legislative appropriations.

(i) PRCCDA

On July 15, 2012, PRCCDA entered into a development agreement with Lighthouse Group, LLC for the development of a mixed use urban project named “Trocadero Diverplex Complex”. This agreement includes the development and operation of a food, beverage, entertainment venue, and the construction of a hotel in the final phase.

On October 22, 2012, PRCCDA entered into a development ground lease agreement with District Hotel Co., LLC. The agreement includes the construction of a minimum of 126 room hotel under the Hyatt House brand.

On December 13, 2012, Moody’s downgraded PRCCDA’s Hotel Occupancy Tax Revenue Bonds from Baa1 to Baa3 with a negative outlook. The rating changes were driven by the downgrade of the Commonwealth general obligation bonds from Baa1 to Baa3. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

(j) PRPA

On February 27, 2013, the Federal Aviation Administration (FAA) approved the closing of the Lease and Use Agreements (the “APP Agreements”) entered into on July 27, 2012 between the PRPA and Aerostar Airport Holdings, LLC (Aerostar) with respect to the Luis Muñoz Marín International Airport Project (LMMIA Project). Aerostar is a partnership formed between Grupo Aeropuertario de Sureste S.A.B de C.V (ASUR), a New York Stock Exchange-listed Mexican airport management firm, and Highstar Capital L.P., a fourth-generation infrastructure investor and private equity funds manager.

The APP Agreements awarded Aerostar the right to operate, manage, maintain, develop and rehabilitate the LMMIA during a term of 40 years, subject to extension conditions, as defined, in exchange for an upfront payment of a leasehold fee of $615 million to PRPA. In addition, upon the closing of the APP Agreements, PRPA will receive from Aerostar annual rental payments for the first five full reporting years of $2.5 million; then from the sixth full reporting year through and including the thirtieth reporting year, PRPA will receive annual rental payments equal to 5% of the gross airport revenue earned by Aerostar in such years; and finally from the thirty-first reporting year and each succeeding year, PRPA will receive annual rental payments equal to 10% of the gross airport revenue earned by Aerostar in such years. Aerostar also funded with a $6 million deposit a separate escrow account to be called the Puerto Rico Air Travel Promotion and Support Fund, with the purpose of compensating airlines that increase their services to the LMMIA over certain established thresholds during the first three years of the APP Agreements.

The right awarded to Aerostar to operate, manage and rehabilitate the LMMIA (following certain Operating Standards established by the FAA and PRPA) is accompanied with the assignment of all the revenues from the LMMIA facilities through the different lease agreements with the airport concessionaries, including food and beverage providers, retailers, ground transportation providers, and other airport users, formerly belonging to PRPA. Aerostar will also be able to charge a maximum level of fees to the airlines operating at LMMIA, as established in the APP Agreements.

The APP Agreements also provide for a series of capital improvement expenditures on the LMMIA from Aerostar over the term of the APP Agreements, with certain required initial projects and general accelerated upgrades, as defined. PRPA will be required to provide police and firefighter services to the LMMIA in exchange for an annual compensation of $2.8 million, to be adjusted thereafter based on inflation. The APP Agreements also provide each party with indemnity rights in the event of certain third party claims or breaches of covenants or representations and warranties included in the APP Agreements. Upon expiration of the term of the APP Agreements, PRPA will be required to reimburse Aerostar for any Passenger Facility Charges, Grants in Aid or increased airline charges allowed by the Use Agreement it expected to receive, but had not yet received, to finance related capital improvements.

The LMMIA facilities leased to the Puerto Rico Air National Guard are excluded from the APP Agreements and upon the satisfaction of certain conditions, as defined, Aerostar will have option and negotiation rights for the use of such areas, that the parties will agree on the amount and form of compensation regarding the option. The hotel property within the LMMIA and the cargo facilities leased to Caribbean Airport Facilities (CAF) and the ongoing related litigation, will remain under the responsibility of PRPA. If the litigation is resolved, Aerostar will have option and negotiation rights for the use of such areas.

The upfront payment received was used to pay some of PRPA's outstanding debt with bondholders, several banks, including GDB, other creditors and related transaction costs.

(k) PRIFA

On March 18, 2013, S&P downgraded its ratings on PRIFA's Series 2011A, 2011B and 2011C revenue bonds from BBB to BBB-. The three issues are supported by letters of credit provided by GDB. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

(l) PPPA

On July 7, 2012, PPPA signed an agreement with PRIFA, to provide design management and evaluation services related to the proposed extension of toll road PR-22 from the Municipality of Aguadilla to the Municipality of Hatillo.

Through September 2012, PPPA has awarded fifty-two partnership contracts for ninety-nine (99) public schools as part of the *Schools for the 21st Century Program* described in Note 13. Also, seventy (70) schools were under construction and twenty-nine (29) schools have been completed and turned over to the Commonwealth's Department of Education. The fifty-two (52) partnership contracts awarded through September 2012 represented a total investment of approximately $650 million.

(m) SIFC

On July 2, 2012, the Commonwealth enacted Act No. 134, which creates a support fund for the Commonwealth budget of the fiscal year 2012–2013. SIFC is required to contribute $24 million to this fund during fiscal year 2013. Such transfer was made on September 7, 2012.

(n) PRMFA

On September 5, 2012, S&P reviewed the rating for PRMFA's outstanding bonds and affirmed the BBB- rating but changed the outlook to negative from stable. On December 13, 2012, Moody's downgraded PRMFA's bonds from Baa1 to Baa3 with a negative outlook. The rating changes were driven by the downgrade of the Commonwealth's general obligation bonds from Baa1 to Baa3. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

(o) LRA

On December 11, 2012, the United States Marine Corps transferred Parcels I and II of the Roosevelt Roads Navy Base consisting of 2,039 acres of land to the Commonwealth of Puerto Rico. This transaction completes the transfer of the total 8,468 acres of land of Roosevelt Roads Navy Base.

(p) PRMBA

On June 25, 2013, the Commonwealth enacted Act No. 31, which allowed for $10 million raised from the excise tax on cigarettes' imports, recently increased through Act No. 41 of June 30, 2013, to be deposited in a special account in favor of the PRMBA, after the first $20 million are deposited with priority in favor of PRHTA.

Pension Trust Funds — On December 13, 2012, Moody's downgraded the Commonwealth's Pension Funding Bonds from Baa1 to Baa3 with a negative outlook. The rating changes were driven by the downgrade of the Commonwealth general obligation bonds from Baa1 to Baa3 as a result of a continued weak economic trend, increasing debt levels, weak finances and continued deterioration of underfunded retirement systems.

On July 6, 2012, ERS loans with a carrying value of $53.5 million were sold to a commercial bank. Pursuant to a servicing agreement, ERS will be in charge of the servicing, administration and collection of the loans at and after the closing date. A servicing fee will be charged by ERS.

As discussed in Note 20, in April 4, 2013, the Governor of Puerto Rico signed into law Act. No. 3 of 2013, which significantly amends the provisions of ERS.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS — RETIREMENT SYSTEMS
JUNE 30, 2012

The Schedule of Funding Progress presents the following information for the current year and each of the two preceding years for each of the Commonwealth's Retirement Systems. All actuarially determined information has been calculated in accordance with actuarial assumptions and methods reflected in the actuarial valuations as of the indicated actuarial valuation date.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	$1,237,532	$27,645,786	$26,408,254	4.5 %	$3,570,339	739.7 %
June 30, 2011	1,723,811	25,457,354	23,733,543	6.8	3,666,402	647.3
June 30, 2010	1,664,991	19,501,761	17,836,770	8.5	3,818,332	467.1

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	$58,588	$416,340	$357,752	14.1 %	$33,066	1,081.9 %
June 30, 2011	63,975	382,776	318,801	16.7	31,811	1,002.2
June 30, 2010	55,410	338,195	282,785	16.4	32,061	882.0

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	$2,099,261	$12,350,836	$10,251,575	17.0 %	$1,292,975	792.9 %
June 30, 2011	2,385,863	11,448,609	9,062,746	20.8	1,320,400	686.4
June 30, 2010	2,221,977	9,279,776	7,057,799	23.9	1,370,344	515.0

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS — POSTEMPLOYMENT HEALTHCARE BENEFITS
JUNE 30, 2012

The Schedule of Funding Progress presents GASB 45 results of OPEB valuations as of fiscal years ended June 30, 2012, 2011 and 2010 for each of the Commonwealth's Retirement Systems. The schedule provides a three year information trend about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	$ -	$2,120,970	$2,120,970	- %	$3,570,339	59.4%
June 30, 2011	-	1,758,389	1,758,389	-	3,666,402	48.0
June 30, 2010	-	1,646,148	1,646,148	-	3,818,332	43.1

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	$ -	$ 6,592	$ 6,592	- %	$33,066	19.9 %
June 30, 2011	-	5,810	5,810	-	31,811	18.3
June 30, 2010	-	5,808	5,808	-	32,061	18.1

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	$ -	$ 797,332	$ 797,332	- %	$1,292,975	61.7 %
June 30, 2011	-	706,069	706,069	-	1,320,400	53.5
June 30, 2010	-	694,230	694,230	-	1,370,344	50.7

See accompanying independent auditors' report.

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

GENERAL FUND

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

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL BUDGET BASIS — GENERAL FUND YEAR ENDED JUNE 30, 2012 (In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES:			
Current:			
General government:			
Senate of Puerto Rico	$ 44,298	$ 47,799	$ 47,799
House of Representatives of Puerto Rico	52,775	56,275	56,285
Comptroller’s Office	43,000	43,000	42,282
Governor’s Office	20,120	21,444	-
Office of Management and Budget (1)	480,309	136,419	113,717
Planning Board	13,094	11,536	10,990
Department of State	5,656	6,420	6,259
Department of the Treasury (1)	383,642	839,907	1,138,151
Central Office of Personnel Administration	4,507	4,675	4,643
Commonwealth Elections Commission	53,017	53,119	50,823
Federal Affairs Administration	4,641	4,622	4,306
General Services Administration	200	200	205
Municipal Complaints Hearing Commission	5,024	4,978	6,751
Civil Rights Commission	1,193	1,190	1,039
Office of the Citizen’s Ombudsman	5,376	5,368	5,049
Legislative Assembly	200	200	-
Government Ethics Board	10,290	10,290	10,290
Legislative Affairs Office	14,497	14,297	14,497
Office of the Superintendent of the Capitol	13,955	15,155	16,471
Comptroller’s Special Reports Joint Commission	691	691	665
Legislative Donation Commission	21,767	1,167	-
Coordination Office for Special Communities of Puerto Rico	3,522	3,503	4,796
Corporation “Enlace” Caño Martín Peña	1,013	1,013	1,013
Puerto Rico Statistics Institute	641	641	641
Office for the Governmental’s Integrity and Efficiency	3,828	6,231	6,266
Permits Management Office	3,005	3,005	2,998
Permits Inspector General Office	3,926	5,334	4,885
Board for the Review of Permits and Use of Lands	1,450	1,433	1,192
Public Service Board of Appeals	3,880	3,799	3,768
Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico	249,672	270,083	270,126
Puerto Rico System of Annuities and Pensions for Teachers	98,640	110,515	110,515
Contributions to Political Parties	1,200	8,700	1,200
Public Buildings Authority	16,940	16,590	16,590
Procurement Administration Offices	-	63	63
Office of Elections Comptroller	-	3,200	3,305
Labor Development Administration	-	18,400	-
Total general government	1,565,969	1,731,262	1,957,580
Public safety:			
Puerto Rico General Court of Justice	327,944	342,763	349,766
Civil Defense	6,338	6,312	5,902
Commission of Investigation, Processing and Appeals Board	507	507	411
Department of Justice	137,705	134,294	143,590
Puerto Rico Police Department	759,154	772,355	834,728
Puerto Rico Firefighters Corps	63,410	63,093	63,858
Puerto Rico National Guard	8,313	8,290	26,789
Public Service Commission	6,508	6,989	6,730
Consumer Affairs Department	10,981	9,546	9,451
Juvenile Institutions Administration	66,616	64,665	69,120
Correction Administration	360,068	350,784	324,691
Natural Resources Administration	49,246	46,943	46,980
Department of Correction and Rehabilitation	4,891	4,390	4,874

(1) As a department and a fiscal agent.

(Continued)

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2012
(In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES (Continued):			
Public safety (continued):			
Parole Board	$ 2,628	$ 2,685	$ 2,554
Forensic Sciences Institute	16,011	16,268	16,393
Special Prosecutor Panel	2,064	2,058	2,058
Pre-Trial Services Office	6,673	8,096	6,998
Correctional Health	73,417	71,821	66,857
Medical Emergencies Service	26,764	27,454	27,339
Criminal Justice College	2,771	2,876	2,876
Total public safety	1,932,009	1,942,189	2,011,965
Health:			
Environmental Quality Board	5,641	7,447	8,014
Department of Health	290,569	297,417	578,062
Puerto Rico Medical Services Administration	17,710	22,910	22,910
Mental Health and Drug Addiction Services Administration	100,990	111,467	109,400
Puerto Rico Solid Waste Authority	6,802	7,075	7,108
Puerto Rico Health Insurance Administration	871,371	945,185	960,908
Total health	1,293,083	1,391,501	1,686,402
Public housing and welfare:			
Office of Youth Affairs	4,132	4,401	5,714
New Business Training Administration	7,148	7,530	266
Department of Labor and Human Resources	-	25,363	17,745
Labor Relations Board	908	902	900
Department of Housing	15,727	16,948	33,177
Department of Recreation and Sports	40,411	43,873	48,633
Administration for the Horse Racing Sport and Industry	2,644	2,688	2,670
Women's Affairs Commission	6,042	4,487	4,746
Public Housing Administration	1,500	1,500	1,550
Office of the Veteran's Ombudsman	2,777	2,720	2,680
Department of Family	25,788	31,197	30,075
Family and Children Administration	173,717	172,851	169,277
Minors Support Administration	14,511	14,746	14,734
Vocational Rehabilitation Administration	17,271	17,995	18,635
Social Economic Development Administration	96,342	83,572	76,970
Office of the Disabled Persons Ombudsman	2,197	2,169	2,507
Office for Elderly Affairs	3,547	3,492	2,354
Right to Employment Administration	8,641	13,712	13,755
Company for the Integral Development of the Península de Cantera	574	574	574
Industries for the Blind, Mentally Retarded, and Other Disabled Persons of Puerto Rico	500	500	500
Patient Ombudsman	2,558	2,792	2,659
Administration for the Care and Development of the Childhood	9,276	24,061	23,953
Total public housing and welfare	436,211	478,073	474,074

(Continued)

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2012
(In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES (Continued):			
Education:			
Department of Education	$2,227,898	$ 2,103,807	$ 2,063,475
Institute of Puerto Rican Culture	22,974	29,048	26,035
Puerto Rico School of Plastics Arts	2,229	2,274	2,296
State Office for Historic Preservation	1,794	3,853	4,065
University of Puerto Rico	771,005	772,418	772,418
Musical Arts Corporation	7,517	7,538	7,546
Fine Arts Center Corporation	4,281	4,487	4,519
Puerto Rico Public Broadcasting Corporation	15,358	16,017	15,363
Athenaeum of Puerto Rico	900	900	900
Puerto Rico Conservatory of Music Corporation	6,023	6,392	6,392
Puerto Rico Council on Education	23,581	23,637	23,629
Total education	3,083,560	2,970,371	2,926,638
Economic development:			
Department of Transportation and Public Works	60,600	65,105	79,159
Department of Natural and Environmental Resources	4,960	19,983	18,728
Department of Agriculture	16,165	18,698	37,706
Cooperative Enterprises Development Administration	-	-	423
Rural Development Corporation	-	-	18
Department of Economic Development and Commerce	-	-	2,438
Energy Affairs Administration	332	463	416
Puerto Rico Infrastructure Financing Authority	117,000	117,000	130,379
Land Authority of Puerto Rico	-	-	350
Puerto Rico Ports Authority	900	4,900	4,900
Puerto Rico Metropolitan Bus Authority	45,026	44,445	44,195
Puerto Rico Maritime Transportation Authority	24,604	24,749	24,925
Culebra Conservation and Development Authority	301	315	321
National Parks Company of Puerto Rico	19,939	26,042	27,001
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	463	481	468
Local Redevelopment Authority for Roosvelt Roads Puerto Rico	900	900	900
Agricultural Enterprises Development Administration	84,929	86,143	85,500
Puerto Rico Tourism Company	4,070	275	275
Total economic development	380,189	409,499	458,102
Intergovernmental — Municipal Services Administration	389,620	406,299	396,447
TOTAL EXPENDITURES	$9,080,641	$ 9,329,194	$ 9,911,208
OPERATING TRANSFER-OUT TO OTHER FUNDS —			
Department of the Treasury — transfer to Debt Service Fund and other funds	$ 179,359	$ 803,030	$ 2,055,095

See accompanying independent auditors' report. (Concluded)

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Public Buildings Authority Special Revenue Fund — The operating fund of the Public Buildings Authority, a blended component unit, used to account for the operation, maintenance, equipment replacement, and other extraordinary operation and maintenance costs of the buildings and facilities that, when constructed, are leased to the Commonwealth's primary government agencies.

The Children's Trust Special Revenue Fund — The special revenue fund of the Children's Trust, a blended component unit, is used to account for the money received by the Commonwealth from a global settlement agreement dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United State of America, including the Commonwealth. The financial resources received by this fund are used to carry out projects aimed at promoting the well-being of children and youth of Puerto Rico.

Debt Service Funds

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

The Children's Trust Debt Service Fund — The debt service fund of The Children's Trust accounts for the financial resources that are restricted, committed, or assigned to expenditure for the payment of interest and principal on long-term obligations financed with moneys to be received by the Commonwealth from the global settlement agreement signed by certain tobacco companies.

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

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

Capital Projects Funds

Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not being financed by the Public Buildings Authority's Capital Projects Fund, proprietary fund types, pension trust funds, and discretely presented component units.

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.

Public Buildings Authority's Capital Projects Fund — The Public Buildings Authority's capital projects fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not financed by proprietary fund types, pension trust funds, and discretely presented component units.

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET — NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012
(In thousands)

	Special Revenue		Debt Service			Capital Projects		
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 Authority	Total Nonmajor Governmental Funds
CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS	$122,429	$ -	$ -	$ -	$ -	$ -	$ -	$ 122,429
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	52	20,427	-	-	1,684	-	-	22,163
INVESTMENTS	-	23,268	-	-	-	-	-	23,268
RECEIVABLES — Net of allowance for uncollectibles:								
Accounts	-	-	-	-	-	671	-	671
Loans	-	-	-	-	-	39	-	39
Accrued interest	-	1	442	-	-	-	-	443
Other	1,156	-	40,585	-	-	-	-	41,741
DUE FROM:								
Other funds	46,872	-	-	-	-	4,786	-	51,658
Component units	38,621	-	-	-	-	-	-	38,621
Other governmental entities	22,847	-	-	-	-	-	-	22,847
OTHER ASSETS	851	-	-	-	-	-	-	851
RESTRICTED ASSETS:								
Cash and cash equivalents in commercial banks	-	-	-	201,575	37	26,857	619,243	847,712
Cash and cash equivalents in governmental banks	-	-	-	-	-	258,386	31,542	289,928
Investments	-	-	110,455	-	-	-	-	110,455
Due from other funds	-	-	-	-	13,596	-	-	13,596
REAL ESTATE HELD FOR SALE OR FUTURE DEVELOPMENT	3,084	-	-	-	-	1,853	-	4,937
TOTAL ASSETS	$235,912	$43,696	$151,482	$201,575	$ 15,317	$292,592	$ 650,785	$ 1,591,359

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET — NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012
(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 Authority	Total Nonmajor Governmental Funds
LIABILITIES:								
Accounts payable and accrued liabilities	$ 37,633	$ 633	$ -	$ -	$ 76	$ 11,981	$ 7,108	$ 57,431
Due to:								
Other funds	1,684	-	-	-	-	-	-	1,684
Other governmental entities	-	-	-	-	-	-	-	-
Component units	2,924	-	-	-	-	-	-	2,924
Bond anticipation notes payable	-	-	-	-	-	75,835	-	75,835
Bonds payable	-	-	-	78,580	-	-	-	78,580
Interest payable	-	-	-	96,853	-	-	-	96,853
Deferred revenue	35,070	-	40,585	-	-	-	-	75,655
Total liabilities	77,311	633	40,585	175,433	76	87,816	7,108	388,962
FUND BALANCES:								
Restricted for:								
Debt service	-	-	110,897	26,142	13,633	-	-	150,672
Capital projects	-	-	-	-	-	204,776	643,677	848,453
Committed to:								
Special revenue	-	35,922	-	-	-	-	-	35,922
Assigned to:								
Special revenue	158,601	7,141	-	-	-	-	-	165,742
Unassigned	-	-	-	-	1,608	-	-	1,608
Total fund balances	158,601	43,063	110,897	26,142	15,241	204,776	643,677	1,202,397
TOTAL LIABILITIES AND FUND BALANCES	$235,912	$43,696	$151,482	$201,575	$ 15,317	$292,592	$650,785	$ 1,591,359

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, 2012
(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	Nonmajor Governmental Funds
REVENUES:								
Interest and investment earnings	$ 3,050	$ 47	$ 3,373	$ -	$ 2	$ -	$ -	$ 6,472
Intergovernmental	-	-	-	28,061	-	-	-	28,061
Other	8,151	406	-	-	-	2,990	-	11,547
Total revenues	11,201	453	3,373	28,061	2	2,990	-	46,080
EXPENDITURES:								
Current:								
General government	80,854	334	10	-	-	10,548	-	91,746
Public safety	-	-	-	-		3,832	-	3,832
Health	-	1,376	-	-	-	6,021	-	7,397
Public housing and welfare	-	1,255	-	-	-	5,695	-	6,950
Education	-	449	-	-	-	2,254	-	2,703
Economic development	-	-	-	-	69	205,047	-	205,116
Intergovernmental	-	660	-	-	-	-	-	660
Capital outlays	-	-	-	-	-	51,797	375,092	426,889
Debt service:								
Principal	336,852	-	22,060	78,580	-	-	-	437,492
Interest	26,020	-	54,475	210,410	5,810	377	-	297,092
Other — debt issuance costs	-	-	-	9,596	1,722	2,836	9,566	23,720
Total expenditures	443,726	4,074	76,545	298,586	7,601	288,407	384,658	1,503,597
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(432,525)	(3,621)	(73,172)	(270,525)	(7,599)	(285,417)	(384,658)	(1,457,517)
OTHER FINANCING SOURCES (USES):								
Transfers in	449,541	-	72,491	-	5,858	-	141,054	668,944
Transfers out	-	-	-	(259,104)	-	(25,198)	-	(284,302)
Payment to refunded bonds escrow agent	-	-	-	(390,343)	(116,376)	-	-	(506,719)
Proceeds from long term debt issued	73,893	-	-	-	-	333,311	877,977	1,285,181
Issuance of refunding bonds	-	-	-	886,290	131,694	-	-	1,017,984
Discount on bonds issued	-	-	-	(6,846)	-	(8,463)	-	(15,309)
Premium on bonds issued	-	-	-	1,079	-	-	-	1,079
Total other financing sources	523,434	-	72,491	231,076	21,176	299,650	1,019,031	2,166,858
NET CHANGE IN FUND BALANCES	90,909	(3,621)	(681)	(39,449)	13,577	14,233	634,373	709,341
FUND BALANCES — Beginning of year	67,692	46,684	111,578	65,591	1,664	190,543	9,304	493,056
FUND BALANCES — End of year	$ 158,601	$ 43,063	$ 110,897	$ 26,142	$ 15,241	$ 204,776	$ 643,677	$ 1,202,397

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, 2012
(In thousands)

	Business-Type Activities — Nonmajor Enterprise Funds				
	Disability Insurance	Drivers' Insurance	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total
ASSETS					
Current assets:					
Cash and cash equivalents in commercial banks	$ 32	$ 51	$ -	$ -	$ 83
Cash and cash equivalents in governmental banks	52,239	11,606	-	-	63,845
Cash and cash equivalents in commercial banks — restricted	1,528	-	-	-	1,528
Cash and cash equivalents in governmental banks — restricted	-	-	81,952	29,245	111,197
Insurance premiums receivables, net	3,143	1,156	-	-	4,299
Loans receivable from component unit — restricted	-	-	14,274	4,892	19,166
Accrued interest receivable	90	-	-	-	90
Restricted receivables	-	-	3,048	1,523	4,571
Other receivables	256	-	-	-	256
Total current assets	57,288	12,813	99,274	35,660	205,035
Noncurrent assets:					
Loans receivable from component unit — restricted	-	-	290,525	140,353	430,878
Due from other funds	-	18,131	-	-	18,131
Restricted investments	34,538	-	-	-	34,538
Other restricted assets	-	-	1,130	-	1,130
Total assets	91,826	30,944	390,929	176,013	689,712
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and accrued liabilities	684	249	1,777	290	3,000
Due to other funds	803	-	-	-	803
Due to other governmental entities	20	27	-	-	47
Deferred revenue	2,142	20	-	-	2,162
Compensated absences	558	323	-	-	881
Insurance benefits payable	713	120	-	-	833
Total current liabilities	4,920	739	1,777	290	7,726
Noncurrent liabilities — Compensated absences	838	485	-	-	1,323
Total liabilities	5,758	1,224	1,777	290	9,049
NET ASSETS:					
Restricted for payment of insurance benefits	35,353	-	-	-	35,353
Restricted for lending activities	-	-	389,152	175,723	564,875
Unrestricted	50,715	29,720	-	-	80,435
TOTAL NET ASSETS	$ 86,068	$ 29,720	$ 389,152	$ 175,723	$ 680,663

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, 2012 (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	$15,077	$ 4,444	$ -	$ -	$ 19,521
Interest	-	-	5,676	2,916	8,592
Total operating revenues	15,077	4,444	5,676	2,916	28,113
OPERATING EXPENSES:					
Insurance benefits	2,957	1,080	-	-	4,037
General, administrative, and other operating expenses	10,192	4,453	1,109	865	16,619
Total operating expenses	13,149	5,533	1,109	865	20,656
OPERATING INCOME (LOSS)	1,928	(1,089)	4,567	2,051	7,457
NONOPERATING REVENUES (EXPENSES):					
Contributions from U.S. government	-	-	45,749	11,866	57,615
Contributions to component unit	-	-	(6,216)	(7,365)	(13,581)
Interest and investment earnings	1,406	37	-	-	1,443
Total nonoperating revenues	1,406	37	39,533	4,501	45,477
INCOME (LOSS) BEFORE TRANSFERS	3,334	(1,052)	44,100	6,552	52,934
TRANSFERS FROM OTHER FUNDS	-	-	4,855	52	4,907
TRANSFERS TO OTHER FUNDS	(1,882)	(93)	-	-	(1,975)
NET CHANGE IN NET ASSETS	1,452	(1,145)	48,955	6,604	55,866
NET ASSETS — Beginning of year	84,616	30,865	340,197	169,119	624,797
NET ASSETS — End of year	$86,068	$29,720	$389,152	$175,723	$680,663

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS — NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012
(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	$ 14,846	$ 4,388	$ -	$ -	$ 19,234
Other receipts	-	-	-	-	-
Payments to suppliers	(5,004)	(1,258)	(660)	(682)	(7,604)
Payments to employees	(5,101)	(3,128)	-	-	(8,229)
Payments of insurance benefits	(2,676)	(1,082)	-	-	(3,758)
Other payments	(411)	(213)	-	-	(624)
Net cash provided by (used in) operating activities	1,654	(1,293)	(660)	(682)	(981)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Intergovernmental grants and contributions	-	-	45,749	11,781	57,530
Contributions to component unit	-	-	(6,216)	(7,365)	(13,581)
Transfers from other funds	-	-	4,855	52	4,907
Transfers to other funds	(1,882)	(93)	-	-	(1,975)
Net cash provided by (used in) noncapital financing activities	(1,882)	(93)	44,388	4,468	46,881
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest collected on deposits, investments and loans	1,233	204	5,410	2,873	9,720
Loans originated	-	-	(51,337)	(4,318)	(55,655)
Principal collected on loans	-	2,500	13,620	5,558	21,678
Proceeds from sales and maturities of investments	20,945	-	-	-	20,945
Purchases of investments	(20,198)	-	-	-	(20,198)
Net cash provided by (used in) investing activities	1,980	2,704	(32,307)	4,113	(23,510)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,752	1,318	11,421	7,899	22,390
CASH AND CASH EQUIVALENTS — Beginning of year	52,047	10,339	70,531	21,346	154,263
CASH AND CASH EQUIVALENTS — End of year	$ 53,799	$11,657	$ 81,952	$29,245	$176,653
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	$ 1,928	$ (1,089)	$ 4,567	$ 2,051	$ 7,457
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Interests earned on deposits, loans and investments	-	-	(5,676)	(2,916)	(8,592)
Changes in operating assets and liabilities:					
Increase in accounts receivable	(323)	(58)	-	-	(381)
Decrease in other assets	-	-	393	-	393
Increase in accounts payable and accrued liabilities	27	83	56	183	349
Decrease in due to other governmental entities	(458)	(213)	-	-	(671)
Increase in deferred revenues	92	2	-	-	94
Increase (decrease) in compensated absences	107	(15)	-	-	92
Increase (decrease) in liability for insurance benefits payable	281	(3)	-	-	278
Total adjustments	(274)	(204)	(5,227)	(2,733)	(8,438)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,654	$ (1,293)	$ (660)	$ (682)	$ (981)

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, 2012
(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	$ 309,800	$ 321,635	$ 11,543	$ 642,978
Cash and cash equivalents in governmental banks:				
Unrestricted	172,563	16,220	745	189,528
Restricted	233,931	-	-	233,931
Collateral for securities lending transactions	54,870	20,528	1,088	76,486
Investments:				
Debt and equity securities — at fair value	2,409,363	1,412,695	48,730	3,870,788
Other	57,370	19,221	-	76,591
Receivables — net:				
Accounts	124,672	-	-	124,672
Loans and advances	955,057	403,812	471	1,359,340
Accrued interest and dividends	13,044	7,603	255	20,902
Other	100,993	73,147	27	174,167
Capital assets — net	11,668	20,885	-	32,553
Other assets	36,451	832	-	37,283
Total assets	4,479,782	2,296,578	62,859	6,839,219
LIABILITIES:				
Accounts payable and accrued liabilities	118,453	175,724	2,948	297,125
Securities lending transactions	54,870	20,528	1,088	76,486
Interest payable	13,877	-	-	13,877
Other liabilities	28,457	1,110	235	29,802
Bonds payable	3,026,593	-	-	3,026,593
Total liabilities	3,242,250	197,362	4,271	3,443,883
NET ASSETS — held in trust for pension benefits	$ 1,237,532	$ 2,099,216	$ 58,588	$ 3,395,336

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS — PENSION TRUST FUNDS
YEAR ENDED JUNE 30, 2012
(In thousands)

	Pension Trust Funds			
	Employees' Retirement System (ERS)	Teachers' Retirement System (TRS)	Judiciary Retirement System (JRS)	Total
ADDITIONS:				
Contributions:				
Sponsor	$ 388,915	$ 123,614	$ 10,088	$ 522,617
Participants	316,178	123,249	2,943	442,370
Special	192,539	53,405	537	246,481
Total contributions	897,632	300,268	13,568	1,211,468
Investment income and investment expense:				
Interest	176,892	56,306	1,361	234,559
Dividends	2,095	4,342	7	6,444
Net change in fair value of investments	99,012	(20,134)	517	79,395
Investment expenses	(5,617)	(3,361)	(167)	(9,145)
Net investment income	272,382	37,153	1,718	311,253
Other income	24,727	1,374	18	26,119
Total additions	1,194,741	338,795	15,304	1,548,840
DEDUCTIONS:				
Pension and other benefits	1,376,892	596,447	20,175	1,993,514
Refunds of contributions	52,228	5,220	-	57,448
General and administrative	61,163	23,775	516	85,454
Interest on bonds payable	190,737	-	-	190,737
Total deductions	1,681,020	625,442	20,691	2,327,153
NET CHANGE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	(486,279)	(286,647)	(5,387)	(778,313)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:				
Beginning of year	1,723,811	2,385,863	63,975	4,173,649
End of year	$ 1,237,532	$ 2,099,216	$ 58,588	$ 3,395,336

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
YEAR ENDED JUNE 30, 2012
(In thousands)

	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
ASSETS				
CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS	$ 697,988	$ 984	$ -	$ 698,972
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	661,560	3,496,985	3,611,614	546,931
OTHER RECEIVABLES	9,393	5,252	9,393	5,252
OTHER INVESTMENTS	1,270	-	1,270	-
TOTAL ASSETS	$ 1,370,211	$ 3,503,221	$ 3,622,277	$ 1,251,155
LIABILITIES				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 1,370,211	$ 3,503,221	$ 3,622,277	$ 1,251,155
TOTAL LIABILITIES	$ 1,370,211	$ 3,503,221	$ 3,622,277	$ 1,251,155

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, 2012
(In thousands)

ASSETS	Agricultural Enterprises Development Administration	Automobile Accidents Compensation Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Company for the Integral Development of the "Península de Cantera"	Corporation for the "Caño Martín Peña" ENLACE Project
CURRENT ASSETS:					
Cash and cash equivalents in commercial banks	$ 30,607	$ 18,973	$ 8,925	$ 1,080	$ 324
Cash and cash equivalents in governmental banks	12,453	-	-	-	-
Investments	300	147,125	-	-	-
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	-
Investments	-	-	-	-	-
Other restricted assets	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-
Receivables — net:					
Insurance premiums	-	50	-	-	-
Intergovernmental	-	-	-	-	-
Accounts	5,678	-	6,878	-	-
Loans and advances	-	-	-	9	-
Accrued interest	-	756	-	-	-
Other governmental entities	3,945	247	692	383	725
Other	613	1,325	-	26	-
Due from:					
Primary government	16,356	-	1,391	23,192	-
Component units	-	-	-	-	-
Inventories	5,529	-	2,599	-	-
Prepaid expenses	3,849	-	1,237	50	1
Total current assets	79,330	168,476	21,722	24,740	1,050
NONCURRENT ASSETS:					
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	2,270	-	35
Cash and cash equivalents in governmental banks	-	-	-	-	-
Investments	-	-	-	-	-
Other restricted assets	-	-	-	497	-
Investments	-	-	-	-	-
Receivables:					
Loans, interest, and other	-	-	-	5,958	-
Other governmental agencies	-	-	-	-	-
Other	-	-	-	-	-
Due from:					
Primary government	-	-	-	-	-
Component units	-	-	-	-	-
Deferred expenses and other assets	-	43	-	-	-
Real estate held for sale or future development	-	-	-	848	-
Capital assets, not being depreciated	4,100	901	103	80	3,774
Capital assets, depreciable — net	31,490	7,194	16,069	82	1,495
Total noncurrent assets	35,590	8,138	18,442	7,465	5,304
TOTAL ASSETS	114,920	176,614	40,164	32,205	6,354

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

ASSETS	Corporation for the Development of the 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
CURRENT ASSETS:					
Cash and cash equivalents in commercial banks	$ 1,688	$ 64	$ 3,380	$ 1	$ 1,547
Cash and cash equivalents in governmental banks	8,317	-	268	329	-
Investments	937	-	259,694	-	-
Restricted assets:					
Cash and cash equivalents in commercial banks	-	11	1,832	-	5,677
Cash and cash equivalents in governmental banks	-	-	-	-	-
Investments	-	-	-	-	-
Other restricted assets	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-
Receivables — net:					
Insurance premiums	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Accounts	73	6	-	-	-
Loans and advances	-	-	103,578	-	-
Accrued interest	-	-	9,358	-	-
Other governmental entities	810	-	-	252	814
Other	-	-	-	-	-
Due from:					
Primary government	-	-	-	-	-
Component units	-	-	-	-	-
Inventories	-	-	-	207	-
Prepaid expenses	-	-	-	-	95
Total current assets	11,825	81	378,110	789	8,133
NONCURRENT ASSETS:					
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	788	-
Investments	-	-	-	-	-
Other restricted assets	-	-	6,602	-	-
Investments	-	-	1,049,258	-	-
Receivables:					
Loans, interest, and other	930	-	129,764	-	-
Other governmental agencies	-	-	66	-	9,256
Other	-	-	-	-	-
Due from:					
Primary government	-	-	-	-	-
Component units	-	-	-	-	-
Deferred expenses and other assets	-	-	6,107	-	-
Real estate held for sale or future development	-	-	-	-	-
Capital assets, not being depreciated	-	640	2,735	-	-
Capital assets, depreciable — net	-	318	6,448	146	248
Total noncurrent assets	930	958	1,200,980	934	9,504
TOTAL ASSETS	12,755	1,039	1,579,090	1,723	17,637

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

	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
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents in commercial banks	$ 4,013	$ -	$ 1,251	$ -	$ 1,391
Cash and cash equivalents in governmental banks	-	18,044	118	3,521	24,906
Investments	-	-	-	-	-
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	18,879	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	-
Investments	-	-	-	-	-
Other restricted assets	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-
Receivables — net:					
Insurance premiums	-	-	-	-	-
Intergovernmental	-	-	32	-	-
Accounts	49	1,931	32	814	14,657
Loans and advances	-	-	-	-	-
Accrued interest	-	-	-	634	-
Other governmental entities	301	-	648	155	5,340
Other	-	1,712	-	-	-
Due from:					
Primary government	-	-	-	-	12,303
Component units	-	-	-	-	20,051
Inventories	-	43	1,900	-	-
Prepaid expenses	121	4	-	9	26
Total current assets	4,484	21,734	22,860	5,133	78,674
NONCURRENT ASSETS:					
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	6,656	-	-	-
Investments	-	13,496	-	-	-
Other restricted assets	-	-	-	-	-
Investments	-	4,110	-	55,687	-
Receivables:					
Loans, interest, and other	-	-	-	-	-
Other governmental agencies	-	-	-	-	-
Other	-	-	-	209	-
Due from:					
Primary government	-	-	-	-	-
Component units	-	-	-	-	-
Deferred expenses and other assets	-	-	-	-	7,847
Real estate held for sale or future development	-	-	-	-	-
Capital assets, not being depreciated	3,472	1,980	2,100	24,040	87,956
Capital assets, depreciable — net	15,433	2,269	56,724	5,091	9,386
Total noncurrent assets	18,905	28,511	58,824	85,027	105,189
TOTAL ASSETS	23,389	50,245	81,684	90,160	183,863

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

ASSETS	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
CURRENT ASSETS:					
Cash and cash equivalents in commercial banks	$2,202	$ 231	$ -	$ 2,040	$ 117
Cash and cash equivalents in governmental banks	567	1,141	2,486	-	-
Investments	-	-	-	17,772	-
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	-	-	-
Cash and cash equivalents in governmental banks	408	-	-	-	-
Investments	-	-	-	-	-
Other restricted assets	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-
Receivables — net:				-	
Insurance premiums	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Accounts	42	448	2	-	-
Loans and advances	-	-	-	-	-
Accrued interest	-	-	-	1,680	-
Other governmental entities	170	174	-	-	1,886
Other	-	-	-	159	377
Due from:					
Primary government	-	-	-	-	-
Component units	-	-	-	-	-
Inventories	-	-	-	-	-
Prepaid expenses	32	23	90	-	36
Total current assets	3,421	2,017	2,578	21,651	2,416
NONCURRENT ASSETS:					
Restricted assets:					
Cash and cash equivalents in commercial banks	-	5,576	-	-	1,382
Cash and cash equivalents in governmental banks	-	11,424	-	-	-
Investments	-	-	-	77,515	-
Other restricted assets	-	-	-	-	-
Investments	-	-	-	111,128	-
Receivables:					
Loans, interest, and other	-	-	-	3,300	-
Other governmental agencies	-	-	-	-	-
Other	-	-	-	-	-
Due from:					
Primary government	-	-	-	-	-
Component units	-	-	-	-	-
Deferred expenses and other assets	-	-	-	-	-
Real estate held for sale or future development	-	-	-	-	-
Capital assets, not being depreciated	568	19,817	323,912	-	40,335
Capital assets, depreciable — net	216	146,368	3	2,972	43,222
Total noncurrent assets	784	183,185	323,915	194,915	84,939
TOTAL ASSETS	4,205	185,202	326,493	216,566	87,355

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

ASSETS	Puerto Rico Convention Center District Authority	Puerto Rico Council on Education	Puerto Rico Industrial Development Company	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental, Control Facilities Financing Authority	Puerto Rico Infrastructure Financing Authority
CURRENT ASSETS:					
Cash and cash equivalents in commercial banks	$ 14,446	$ 12	$ 9,094	$ -	$ 1,329
Cash and cash equivalents in governmental banks	1,346	2,520	-	9,665	713
Investments	-	-	-	-	-
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	-	-	110,542
Cash and cash equivalents in governmental banks	12,800	3,017	-	-	48,734
Investments	23,780	-	30,814	-	-
Other restricted assets	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-
Receivables — net:					
Insurance premiums	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Accounts	6,784	-	24,795	1	289
Loans and advances	-	-	576	-	-
Accrued interest	-	-	-	1	-
Other governmental entities	-	330	1,500	-	1,383
Other	-	-	-	-	-
Due from:					
Primary government	-	5,221	-	-	8,613
Component units	11,718	-	-	-	-
Inventories	-	-	-	-	-
Prepaid expenses	1,193	-	4,583	-	567
Total current assets	72,067	11,100	71,362	9,667	172,170
NONCURRENT ASSETS:					
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	-	-	-
Cash and cash equivalents in governmental banks	4,767	-	-	-	-
Investments	33,364	-	27,182	-	260,698
Other restricted assets	-	-	-	-	66,909
Investments	-	-	93	-	-
Receivables:				-	
Loans, interest, and other	2,066	-	142	-	-
Other governmental agencies	-	-	-	-	-
Other	4,717	-	-	-	-
Due from:				-	
Primary government	-	-	-	-	179,643
Component units	-	-	-	-	-
Deferred expenses and other assets	13,651		1,837	-	35,250
Real estate held for sale or future development	-	-	-	-	-
Capital assets, not being depreciated	301,086	-	241,704	-	32,223
Capital assets, depreciable — net	395,469	266	444,041	-	22,732
Total noncurrent assets	755,120	266	714,999	-	597,455
TOTAL ASSETS	827,187	11,366	786,361	9,667	769,625

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

ASSETS	Puerto Rico Land Administration	Puerto Rico and Municipal Islands Maritime Transport Authority	Puerto Rico Medical Services Administration	Puerto Rico Metropolitan Bus Authority	Puerto Rico Municipal Finance Agency
CURRENT ASSETS:					
Cash and cash equivalents in commercial banks	$ 267	$ 462	$ 267	$ 4,024	$ -
Cash and cash equivalents in governmental banks	31,342	-	-	80	3,445
Investments	11,569	-	-	-	-
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	-	-	3,445
Cash and cash equivalents in governmental banks	-	-	-	-	-
Investments	-	-	-	-	237,495
Other restricted assets	-	-	-	-	25,628
Collateral from securities lending transactions	-	-	-	-	-
Receivables — net:					
Insurance premiums	-	-	-	-	-
Intergovernmental	-	137	-	-	-
Accounts	308	134	16,979	-	-
Loans and advances	-	-	-	-	-
Accrued interest	542	-	-	-	-
Other governmental entities	2,182	403	45,187	6,073	-
Other	502	-	-	-	-
Due from:					
Primary government	-	-	9,273	1,909	-
Component units	1,306	-	7,320	-	-
Inventories	-	63	2,806	3,149	-
Prepaid expenses	67	5,365	1,197	2,052	32
Total current assets	48,085	6,564	83,029	17,287	270,045
NONCURRENT ASSETS:					
Restricted assets:					
Cash and cash equivalents in commercial banks	733	-	7,746	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	-
Investments	-	-	-	-	880,014
Other restricted assets	-	-	-	-	-
Investments	-	-	-	-	-
Receivables:					
Loans, interest, and other	-	-	-	-	-
Other governmental agencies	-	-	-	-	-
Other	-	-	-	-	-
Due from:					
Primary government	-	-	-	-	-
Component units	-	-	-	-	-
Deferred expenses and other assets			-	542	10,620
Real estate held for sale or future development	159,325	-	-	-	-
Capital assets, not being depreciated	30,523	26,194	6,872	4,303	-
Capital assets, depreciable — net	9,370	34,088	47,858	47,960	-
Total noncurrent assets	199,951	60,282	62,476	52,805	890,634
TOTAL ASSETS	248,036	66,846	145,505	70,092	1,160,679

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

ASSETS	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation	Puerto Rico Public Private Partnerships Authority	Puerto Rico School of Plastic Arts	Solid Waste Authority
CURRENT ASSETS:					
Cash and cash equivalents in commercial banks	$ 2,185	$ 512	$ -	$ 14	$ 558
Cash and cash equivalents in governmental banks	3,019	5	385	643	2,635
Investments	-	-	-	-	18,608
Restricted assets:					
Cash and cash equivalents in commercial banks	-	1,204	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	15,172
Investments	-	-	-	-	-
Other restricted assets	2,442	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-
Receivables — net:					
Insurance premiums	-	-	-	-	-
Intergovernmental	29,081	-	-	-	-
Accounts	-	487	-	473	-
Loans and advances	-	-	-	-	-
Accrued interest	-	-	-	-	-
Other governmental entities	-	375	-	-	1,401
Other	-	682	-	-	1,476
Due from:					
Primary government	-	-	1,529	-	3,001
Component units	-	-	-	-	-
Inventories	-	-	-	-	-
Prepaid expenses	7,532	-	1	-	1
Total current assets	44,259	3,265	1,915	1,130	42,852
NONCURRENT ASSETS:					
Restricted assets:					
Cash and cash equivalents in commercial banks	23,686	-	-	-	-
Cash and cash equivalents in governmental banks	9,128	-	-	-	-
Investments	-	-	-	1,624	-
Other restricted assets	25,351	-	-	-	-
Investments	-	-	-	-	500
Receivables:					
Loans, interest, and other	-	-	-	-	-
Other governmental agencies	10,429	-	-	-	-
Other	-	-	-	-	-
Due from:					
Primary government	11,800	-	-	-	674
Component units	32,655	-	-	-	-
Deferred expenses and other assets	7,764	313	-	-	169
Real estate held for sale or future development	-	-	-	-	-
Capital assets, not being depreciated	398,397	83	-	-	29,614
Capital assets, depreciable — net	741,767	15,147	1	8,052	108,544
Total noncurrent assets	1,260,977	15,543	1	9,676	139,501
TOTAL ASSETS	1,305,236	18,808	1,916	10,806	182,353

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

	Puerto Rico Telephone Authority	Puerto Rico Tourism Company	Puerto Rico Trade and Export Company	Local Redevelopment Authority for Roosevelt Roads Puerto Rico
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents in commercial banks	$ -	$ 14,701	$ 6,405	$ -
Cash and cash equivalents in governmental banks	7,971	10,578	7,202	468
Investments	-	7,577	-	-
Restricted assets:				
Cash and cash equivalents in commercial banks	-	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-
Investments	-	-	-	-
Other restricted assets	-	-	-	-
Collateral from securities lending transactions	-	-	-	-
Receivables — net:				
Insurance premiums	-	-	-	-
Intergovernmental	-	-	-	-
Accounts	-	6,750	2,185	451
Loans and advances	-	15	-	-
Accrued interest	1	-	5,292	-
Other governmental entities	-	-	-	-
Other	-	187	-	-
Due from:				-
Primary government	-	2,441	-	-
Component units	-	-	-	-
Inventories	-	-	-	-
Prepaid expenses	-	261	110	-
Total current assets	7,972	42,510	21,194	919
NONCURRENT ASSETS:				
Restricted assets:				
Cash and cash equivalents in commercial banks	-	-	4,997	-
Cash and cash equivalents in governmental banks	3,892	-	1,267	-
Investments	-	-	374,892	-
Other restricted assets	-	-	-	-
Investments	-	51,147	-	-
Receivables:				
Loans, interest, and other	-	1,500	-	-
Other governmental agencies	-	-	-	-
Other	-	-	-	-
Due from:				
Primary government	-	1,412	-	-
Component units	-	-	-	-
Deferred expenses and other assets	-	453	-	-
Real estate held for sale or future development	-	-	-	-
Capital assets, not being depreciated	-	14,152	60,279	8,045
Capital assets, depreciable — net	-	20,618	54,712	-
Total noncurrent assets	3,892	89,282	496,147	8,045
TOTAL ASSETS	11,864	131,792	517,341	8,964

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

	Special Communities Perpetual Trust	State Insurance Fund Corporation	University of Puerto Rico Comprehensive Cancer Center	Nonmajor Component Units Totals
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents in commercial banks	$ -	$ 71,142	$ 1,441	$ 204,693
Cash and cash equivalents in governmental banks	-	10,013	1,355	165,535
Investments	-	419,658	-	883,240
Restricted assets:				
Cash and cash equivalents in commercial banks	-	-	-	141,590
Cash and cash equivalents in governmental banks	135,303	-	-	215,434
Investments	-	-	-	292,089
Other restricted assets	151	-	-	28,221
Collateral from securities lending transactions	-	112,060	-	112,060
Receivables — net:				
Insurance premiums	-	46,149	-	46,199
Intergovernmental	-	-	674	29,924
Accounts	-	-	-	90,246
Loans and advances	-	-	-	104,178
Accrued interest	-	9,649	-	27,913
Other governmental entities	569	4,481	9,649	90,075
Other	-	14,719	-	21,778
Due from:				
Primary government	-	-	1,649	86,878
Component units	-	6,218	-	46,613
Inventories	-	3,225	-	19,521
Prepaid expenses	-	129	244	28,907
Total current assets	136,023	697,443	15,012	2,635,094
NONCURRENT ASSETS:				
Restricted assets:				
Cash and cash equivalents in commercial banks	-	-	60	46,485
Cash and cash equivalents in governmental banks	-	-	141	38,063
Investments	-	314,600	-	1,983,385
Other restricted assets	-	-	-	99,359
Investments	-	768,616	-	2,040,539
Receivables:				
Loans, interest, and other	-	-	-	143,660
Other governmental agencies	-	-	-	19,751
Other	-	-	-	4,926
Due from:				
Primary government	-	-	2,000	195,529
Component units	-	-	-	32,655
Deferred expenses and other assets	-	-	-	84,596
Real estate held for sale or future development	-	-	-	160,173
Capital assets, not being depreciated	-	13,010	7,406	1,690,404
Capital assets, depreciable — net	-	93,203	22,421	2,411,423
Total noncurrent assets	-	1,189,429	32,028	8,950,948
TOTAL ASSETS	136,023	1,886,872	47,040	11,586,042

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Agricultural Enterprises Development Administration	Automobile Accidents Compensation Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Company for the Integral Development of the "Península de Cantera"	Corporation for the "Caño Martín Peña" ENLACE Project
LIABILITIES:					
Current liabilities:					
Accounts payable and accrued liabilities	64,841	11,260	29,027	3,843	89
Deposits and escrow liabilities	-	-	-	-	-
Due to:					
Primary government	-	-	28,769	-	-
Component units	13,863	1,079	15,762	23,103	-
Other governmental entities	3,421	586	524	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Interest payable	-	-	-	-	-
Deferred revenue	-	38,270	-	-	-
Notes payable, current portion	1,830	-	-	-	-
Bonds payable, current portion	-	-	-	-	-
Accrued compensated absences, current portion	2,340	2,941	3,370	108	63
Voluntary termination benefits payable	2,464	-	-	-	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	157,140	-	-	-
Capital leases	-	-	-	-	-
Current portion of other long-term liabilities	-	-	-	-	-
Total current liabilities	88,759	211,276	77,452	27,054	152
Noncurrent liabilities:					
Due to:					
Primary government	-	-	-	-	-
Component units	97,408	-	-	-	-
Other governmental entities	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Notes payable	-	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-
Bonds payable	-	-	-	-	-
Accrued compensated absences	3,241	-	-	-	39
Voluntary termination benefits payable	23,503	-	-	-	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Other long-term liabilities	-	-	5,611	-	-
Total noncurrent liabilities	124,152	-	5,611	-	39
Total liabilities	212,911	211,276	83,063	27,054	191
NET ASSETS (DEFICIT):					
Invested in capital assets, net of related debt	35,591	8,095	16,172	162	5,269
Restricted for:					
Trust — nonexpendable	-	-	-	-	-
Capital projects	-	-	-	-	-
Debt service	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	-
Other specified purposes	-	-	2,270	497	35
Unrestricted	(133,582)	(42,757)	(61,341)	4,492	859
TOTAL NET ASSETS (DEFICIT)	$ (97,991)	$ (34,662)	$ (42,899)	$ 5,151	$ 6,163

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Corporation for the Development of the 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
LIABILITIES:					
Current liabilities:					
Accounts payable and accrued liabilities	360	20	-	2,793	612
Deposits and escrow liabilities	-	-	543,614	4	-
Due to:					
Primary government	-	-	-	-	-
Component units	-	-	471	-	-
Other governmental entities	271	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	104,925	-	-
Interest payable	-	-	6,901	-	-
Deferred revenue	-	-	-	788	4,255
Notes payable, current portion	-	-	41,800	-	-
Bonds payable, current portion	-	-	-	-	-
Accrued compensated absences, current portion	232	14	-	257	673
Voluntary termination benefits payable	-	35	-	-	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	1	-	-	-
Current portion of other long-term liabilities	-	-	3,068	-	-
Total current liabilities	863	70	700,779	3,842	5,540
Noncurrent liabilities:					
Due to:					
Primary government	-	-	-	-	-
Component units	-	-	9,422	-	4,992
Other governmental entities	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	19,000	-	-
Deferred revenue	-	-	-	-	-
Notes payable	-	-	684,341	-	-
Commonwealth appropriation bonds	-	-	-	-	-
Bonds payable	-	-	-	-	-
Accrued compensated absences	-	45	2,123	-	-
Voluntary termination benefits payable	-	154	-	-	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	4	-	-	-
Other long-term liabilities	-	-	5,912	-	-
Total noncurrent liabilities	-	203	720,798	-	4,992
Total liabilities	863	273	1,421,577	3,842	10,532
NET ASSETS (DEFICIT):					
Invested in capital assets, net of related debt	-	953	(710)	146	248
Restricted for:		-			
Trust — nonexpendable	-	-	-	-	-
Capital projects	-		-	-	-
Debt service	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	-
Other specified purposes	-	27	13,158	-	-
Unrestricted	11,892	(214)	145,065	(2,265)	6,857
TOTAL NET ASSETS (DEFICIT)	$ 11,892	$ 766	$ 157,513	$(2,119)	$ 7,105

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	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
LIABILITIES:					
Current liabilities:					
Accounts payable and accrued liabilities	396	1,124	3,505	1,254	19,964
Deposits and escrow liabilities	319	-	-	-	9,363
Due to:					
Primary government	-	4,508	-	-	-
Component units	-	-	-	-	-
Other governmental entities	-	1,977	43	34	234
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Interest payable	-	-	-	-	310
Deferred revenue	-	-		-	-
Notes payable, current portion	-	-		-	-
Bonds payable, current portion	-	-	-	-	-
Accrued compensated absences, current portion	206	555	151	64	1,004
Voluntary termination benefits payable	141	161	268	-	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Current portion of other long-term liabilities	-	-	-	-	2,234
Total current liabilities	1,062	8,325	3,967	1,352	33,109
Noncurrent liabilities:					
Due to:					
Primary government	-	-	-	-	-
Component units	-	-	2,515	-	42,629
Other governmental entities	-	-	2,434	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Notes payable	-	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	55,178
Bonds payable	-	-	-	-	-
Accrued compensated absences	508	865	1,675	-	962
Voluntary termination benefits payable	1,388	617	2,124	-	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Other long-term liabilities	-	-	-	-	35,432
Total noncurrent liabilities	1,896	1,482	8,748	-	134,201
Total liabilities	2,958	9,807	12,715	1,352	167,310
NET ASSETS (DEFICIT):					
Invested in capital assets, net of related debt	18,338	4,250	56,309	26,530	92,342
Restricted for:					
Trust — nonexpendable	-	-	-	-	-
Capital projects	-	10,005	8,123	-	-
Debt service	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	-
Other specified purposes	-	5,750	6,216	-	-
Unrestricted	2,093	20,433	(1,679)	62,278	(75,789)
TOTAL NET ASSETS (DEFICIT)	$20,431	$40,438	$68,969	$88,808	$ 16,553

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	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
LIABILITIES:					
Current liabilities:					
Accounts payable and accrued liabilities	745	1,490	16,104	28,289	2,128
Deposits and escrow liabilities	-	-	-	-	-
Due to:					
Primary government	-	1,930	-	-	-
Component units	-	8,463	-	-	1,411
Other governmental entities	498	7,916	-	-	692
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Interest payable	-	316	13,721	-	-
Deferred revenue	599	211	-	-	1,095
Notes payable, current portion	-	-	-	-	-
Bonds payable, current portion	-	-	-	-	-
Accrued compensated absences, current portion	421	248	44	1,999	146
Voluntary termination benefits payable	-	-	-	-	184
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Current portion of other long-term liabilities	-	-	-	-	3,506
Total current liabilities	2,263	20,574	29,869	30,288	9,162
Noncurrent liabilities:					
Due to:					
Primary government	-	-	-	-	-
Component units	-	12,174	219,349	-	-
Other governmental entities	5,530	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Notes payable	-	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-
Bonds payable	-	-	-	-	-
Accrued compensated absences	248	4,715	-	-	706
Voluntary termination benefits payable	750	12,070	-	747	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Other long-term liabilities	-	2,621	-	-	-
Total noncurrent liabilities	6,528	31,580	219,349	747	706
Total liabilities	8,791	52,154	249,218	31,035	9,868
NET ASSETS (DEFICIT):					
Invested in capital assets, net of related debt	784	160,291	79,936	2,972	48,379
Restricted for:					
Trust — nonexpendable	-	-	-	-	
Capital projects	-	16,652	-	-	31,667
Debt service	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	1,377
Other specified purposes	408	-	-	77,379	-
Unrestricted	(5,778)	(43,895)	(2,661)	105,180	(3,936)
TOTAL NET ASSETS (DEFICIT)	$(4,586)	$133,048	$ 77,275	$185,531	$77,487

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Convention Center District Authority	Puerto Rico Council on Education	Puerto Rico Industrial Development Company	Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental, Control Facilities Financing Authority	Puerto Rico Infrastructure Financing Authority
LIABILITIES:					
Current liabilities:					
Accounts payable and accrued liabilities	11,409	685	25,826	267	237,621
Deposits and escrow liabilities	2,326	-	-	-	-
Due to:					
Primary government	-	-	7,634	-	6,682
Component units	4,057	-	89,148	-	4,595
Other governmental entities	108	-	-	-	7,149
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Interest payable	10,435	-	5,106	-	41,077
Deferred revenue	3,647	-	-	-	-
Notes payable, current portion	-	-	6,574	-	-
Bonds payable, current portion	9,470	-	28,570	-	37,460
Accrued compensated absences, current portion	165	371	5,394	12	318
Voluntary termination benefits payable	-	190	752	-	347
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Current portion of other long-term liabilities	-	-	76	-	-
Total current liabilities	41,617	1,246	169,080	279	335,249
Noncurrent liabilities:					
Due to:					
Primary government	-	-	-	-	-
Component units	145,889	-	-	-	36,885
Other governmental entities	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Deferred revenue	2,931	-	-	-	-
Notes payable	-	-	86,158	-	-
Commonwealth appropriation bonds	-	-	-	-	3,607
Bonds payable	436,992	-	196,701	-	1,912,738
Accrued compensated absences	-	334	-	-	-
Voluntary termination benefits payable	-	1,704	8,243	-	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Other long-term liabilities	-	-	9,973	-	7,550
Total noncurrent liabilities	585,812	2,038	301,075	-	1,960,780
Total liabilities	627,429	3,284	470,155	279	2,296,029
NET ASSETS (DEFICIT):					
Invested in capital assets, net of related debt	104,204	266	393,160	-	(1,212)
Restricted for:					
Trust — nonexpendable	-	-	-	-	256,932
Capital projects	12,413	-	-	-	-
Debt service	46,710	-	26,080	-	116,872
Affordable housing and related loan insurance programs	-	-	-	-	-
Student loans and other educational purpose	-	7,813	-	-	-
Other specified purposes	-	-	-	-	507
Unrestricted	36,431	3	(103,034)	9,388	(1,899,503)
TOTAL NET ASSETS (DEFICIT)	$199,758	$ 8,082	$ 316,206	$9,388	$(1,526,404)

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Land Administration	Puerto Rico and Municipal Islands Maritime Transport Authority	Puerto Rico Medical Services Administration	Puerto Rico Metropolitan Bus Authority	Puerto Rico Municipal Finance Agency
LIABILITIES:					
Current liabilities:					
Accounts payable and accrued liabilities	2,038	13,651	17,664	11,091	556
Deposits and escrow liabilities	-	-	-	-	62,241
Due to:					
Primary government	-	-	3,366	15,695	-
Component units	-	3,088	19,764	5,134	-
Other governmental entities	-	1,173	37,309	6,013	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Interest payable	-	-	-	81	21,240
Deferred revenue	1,923	7,306	-	2,238	-
Notes payable, current portion	-	-	-	2,711	-
Bonds payable, current portion	-	-	-	-	93,835
Accrued compensated absences, current portion	1,059	1,239	13,696	4,344	-
Voluntary termination benefits payable	266	348	-	1,344	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Current portion of other long-term liabilities	-	-	82	-	-
Total current liabilities	5,286	26,805	91,881	48,651	177,872
Noncurrent liabilities:					
Due to:					
Primary government	-	-	-	-	-
Component units	-	46,797	264,390	-	-
Other governmental entities	-	-	10,344	-	3,524
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Deferred revenue	4,750	-	-	-	-
Notes payable	-	-	-	34,337	-
Commonwealth appropriation bonds	-	-	-	-	-
Bonds payable	-	-	-	-	909,697
Accrued compensated absences	-	211	-	1,277	-
Voluntary termination benefits payable	1,965	3,688	-	6,764	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Other long-term liabilities	33,998	-	6,626	4,399	-
Total noncurrent liabilities	40,713	50,696	281,360	46,777	913,221
Total liabilities	45,999	77,501	373,241	95,428	1,091,093
NET ASSETS (DEFICIT):					
Invested in capital assets, net of related debt	9,370	56,977	54,649	52,263	-
Restricted for:					
Trust — nonexpendable	-	-	-	-	-
Capital projects	-	-	-	-	-
Debt service	-	-	-	-	128,906
Affordable housing and related loan insurance programs	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	-
Other specified purposes	-	-	-	-	-
Unrestricted	192,667	(67,632)	(282,385)	(77,599)	(59,320)
TOTAL NET ASSETS (DEFICIT)	$202,037	$(10,655)	$(227,736)	$(25,336)	$ 69,586

(Continued)

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation	Puerto Rico Public Private Partnerships Authority	Puerto Rico School of Plastic Arts	Solid Waste Authority
LIABILITIES:					
Current liabilities:					
Accounts payable and accrued liabilities	78,092	2,212	2,376	256	4,183
Deposits and escrow liabilities	1,369	-	-	-	-
Due to:					
Primary government	-	-	-	-	-
Component units	125,947	-	6,050	-	79,701
Other governmental entities	-	676	-	-	1,299
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Interest payable	6,151	-	-	-	-
Deferred revenue	141	-	-	-	4
Notes payable, current portion	12,712	-	-	-	-
Bonds payable, current portion	340,000	-	-	-	-
Accrued compensated absences, current portion	-	973	106	85	292
Voluntary termination benefits payable	2,205	422	-	77	5,748
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Current portion of other long-term liabilities	-	-	-	-	-
Total current liabilities	566,617	4,283	8,532	418	91,227
Noncurrent liabilities:					
Due to:					
Primary government	20,006	-	-	-	-
Component units	52,068	-	-	-	-
Other governmental entities	16,090	-	-	-	4,541
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Deferred revenue	1,806	-	-	-	-
Notes payable	80,588	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	7,778
Bonds payable	336,791	-	-	-	-
Accrued compensated absences	-	1,402	-	229	372
Voluntary termination benefits payable	18,706	3,542	-	518	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Other long-term liabilities	5,844	-	-	-	-
Total noncurrent liabilities	531,899	4,944	-	747	12,691
Total liabilities	1,098,516	9,227	8,532	1,165	103,918
NET ASSETS (DEFICIT):					
Invested in capital assets, net of related debt	193,496	15,229	1	8,052	63,742
Restricted for:					
Trust — nonexpendable	-	-	-	-	-
Capital projects	60,607	-	-	-	6,000
Debt service	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-
Student loans and other educational purpose	-	-	-	1,624	-
Other specified purposes	-	1,078	-	-	125
Unrestricted	(47,383)	(6,726)	(6,617)	(35)	8,568
TOTAL NET ASSETS (DEFICIT)	$ 206,720	$ 9,581	$(6,616)	$ 9,641	$ 78,435

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Telephone Authority	Puerto Rico Tourism Company	Puerto Rico Trade and Export Company	Local Redevelopment Authority Roosevelt Roads Puerto Rico
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued liabilities	11	33,765	5,490	284
Deposits and escrow liabilities	-	-	-	-
Due to:				
Primary government	-	12,546	-	-
Component units	-	23,943	1,429	-
Other governmental entities	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-
Interest payable	-	1,338	4,932	-
Deferred revenue	-	7,504	-	-
Notes payable, current portion	-	11,570	493	-
Bonds payable, current portion	-	-	-	-
Accrued compensated absences, current portion	-	487	498	-
Voluntary termination benefits payable	-	487	339	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-
Capital leases	-	101	14	-
Current portion of other long-term liabilities	-	-	-	-
Total current liabilities	11	91,741	13,195	284
Noncurrent liabilities:				
Due to:				
Primary government	-	-	-	-
Component units	-	-	-	-
Other governmental entities	-	-	-	7,845
Securities lending transactions and reverse repurchase agreements	-	-	-	-
Deferred revenue	-	-	-	-
Notes payable	-	-	390,038	-
Commonwealth appropriation bonds	-	43,484	-	-
Bonds payable	-	-	-	-
Accrued compensated absences	-	4,774	1,371	-
Voluntary termination benefits payable	-	5,623	2,932	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-
Capital leases	-	152	-	-
Other long-term liabilities	7,026	303	3,114	-
Total noncurrent liabilities	7,026	54,336	397,455	7,845
Total liabilities	7,037	146,077	410,650	8,129
NET ASSETS (DEFICIT):				
Invested in capital assets, net of related debt	-	34,517	99,339	-
Restricted for:				
Trust — nonexpendable	-	-	-	-
Capital projects	-	-	-	-
Debt service	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-
Student loans and other educational purpose	-	-	-	-
Other specified purposes	3,892	-	4,555	-
Unrestricted	935	(48,802)	2,797	835
TOTAL NET ASSETS (DEFICIT)	$ 4,827	$ (14,285)	$106,691	$ 835

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Special Communities Perpetual Trust	State Insurance Fund Corporation	University of Puerto Rico Comprehensive Cancer Center	Nonmajor Component Units Totals
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued liabilities	26,621	162,170	3,404	827,516
Deposits and escrow liabilities	-	-	-	619,236
Due to:				
Primary government	-	-	-	81,130
Component units	-	-	-	427,008
Other governmental entities	-	145	10,801	80,869
Securities lending transactions and reverse repurchase agreements	-	112,060	-	216,985
Interest payable	1,414	-	-	113,022
Deferred revenue	-	24,628	-	92,609
Notes payable, current portion	-	4,489	-	82,179
Bonds payable, current portion	-	-	-	509,335
Accrued compensated absences, current portion	-	13,756	-	57,631
Voluntary termination benefits payable	-	-	-	15,778
Liability for automobile accident insurance, workmen compensation and medical claims	-	188,981	-	346,121
Capital leases	-	624	15	755
Current portion of other long-term liabilities	-	-	-	8,966
Total current liabilities	28,035	506,853	14,220	3,479,140
Noncurrent liabilities:				
Due to:				
Primary government	-	-	-	20,006
Component units	363,639	-	19,886	1,318,043
Other governmental entities	-	-	-	50,308
Securities lending transactions and reverse repurchase agreements	-	-	-	19,000
Deferred revenue	-	-	-	9,487
Notes payable	-	275,162	-	1,550,624
Commonwealth appropriation bonds	-	-	-	110,047
Bonds payable	-	-	-	3,792,919
Accrued compensated absences	-	28,854	-	53,951
Voluntary termination benefits payable	-	-	-	95,038
Liability for automobile accident insurance, workmen compensation and medical claims	-	631,031	-	631,031
Capital leases	-	29,972	-	30,128
Other long-term liabilities	-	83,635	-	212,044
Total noncurrent liabilities	363,639	1,048,654	19,886	7,892,626
Total liabilities	391,674	1,555,507	34,106	11,371,766
NET ASSETS (DEFICIT):				
Invested in capital assets, net of related debt	-	37,965	9,926	1,688,001
Restricted for:				
Trust — nonexpendable	-	-	-	256,932
Capital projects	-	-	141	145,608
Debt service	-	72,600	-	391,168
Affordable housing and related loan insurance programs	108,278	-	-	108,278
Student loans and other educational purpose	-	-	-	10,814
Other specified purposes	-	-	60	115,957
Unrestricted	(363,929)	220,800	2,807	(2,502,482)
TOTAL NET ASSETS (DEFICIT)	$(255,651)	$ 331,365	$12,934	$ 214,276

(Concluded)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(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	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
Agricultural Enterprises Development Administration	$ 182,659	$ 97,925	$ -	$ -	$ -	$ (84,734)	$ 89,059	$ -	$ -	$ -	$ 67	$ 9,600	$ 13,992	$ (111,983)	$ (97,991)
Automobile Accidents Compensation Administration	78,403	86,570	-	-	-	8,167	-	-	-	-	4,249	-	12,416	(47,078)	(34,662)
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	92,381	83,901	-	-	-	(8,480)	7,597	-	-	-	155	-	(728)	(42,171)	(42,899)
Company for the Integral Development of the "Península de Cantera"	9,052	-	5,771	-	-	(3,281)	-	-	44	-	84	-	(3,153)	8,304	5,151
Corporation for the "Caño Martin Peña" Enlace Project	4,899	-	-	-	-	(4,899)	5,799	-	-	-	6	1	907	5,256	6,163
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	5,906	323	-	-	-	(5,583)	3,703	-	-	-	-	6	(1,874)	13,766	11,892
Culebra Conservation and Development Authority	661	238	-	-	-	(423)	308	-	-	-	-	-	(115)	881	766
Economic Development Bank for Puerto Rico	67,457	67,545	-	-	8,710	8,798	-	-	-	-	647	890	10,335	147,178	157,513
Employment and Training Enterprises Corporation	4,923	4,642	-	-	-	(281)	-	-	-	-	-	31	(250)	(1,869)	(2,119)
Farm Insurance Corporation of Puerto Rico	9,592	4,589	1,177	-	-	(3,826)	-	-	-	-	153	-	(3,673)	10,778	7,105
Fine Arts Center Corporation	8,675	1,978	-	-	-	(6,697)	5,127	-	-	-	89	-	(1,481)	21,912	20,431
Governing Board of the 9-1-1 Service	13,652	20,461	-	-	-	6,809	(10,600)	-	-	-	241	1,655	(1,895)	42,333	40,438
Institute of Puerto Rican Culture	27,851	-	-	-	947	(26,904)	14,856	-	-	-	-	(3,896)	(15,944)	84,913	68,969
Institutional Trust of the National Guard of Puerto Rico	7,572	5,219	-	-	-	(2,353)	-	-	-	-	4,513	-	2,160	86,648	88,808
Land Authority of Puerto Rico	32,225	11,508	-	-	-	(20,717)	45,096	-	-	-	144	228	24,751	(8,198)	16,553
Musical Arts Corporation	9,372	442	-	-	-	(8,930)	7,517	-	-	-	202	225	(986)	(3,600)	(4,586)
National Parks Company of Puerto Rico	54,856	9,129	-	-	243	(45,484)	21,857	-	-	-	117	687	(22,823)	155,871	133,048
Port of the Americas Authority	1,273	-	-	-	-	(1,273)	17,315	-	-	-	2	-	16,044	61,231	77,275
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives	17,938	21,955	3,004	-	-	7,021	-	-	-	-	9,804	-	16,825	168,706	185,531
Puerto Rico Conservatory of Music Corporation	15,121	2,822	947	-	24	(11,328)	12,278	-	1,949	-	4	76	2,979	74,508	77,487
Puerto Rico Convention Center District Authority	72,409	28,076	-	-	-	(44,333)	12,281	34,326	-	-	307	-	2,581	197,177	199,758
Puerto Rico Council on Education	32,443	525	1,903	-	-	(30,015)	28,802	-	-	-	18	60	(1,135)	9,217	8,082
Puerto Rico Industrial Development Company	88,505	63,118	-	-	2,258	(23,129)	-	-	-	-	9,924	19,098	5,893	310,313	316,206
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	1,541	1,502	-	-	-	(39)	-	-	-	-	13,520	-	13,481	(4,093)	9,388
Puerto Rico Infrastructure Financing Authority	270,598	3,525	-	91,710	-	(175,363)	211,569	-	-	-	313	-	36,519	(1,562,923)	(1,526,404)
Puerto Rico Land Administration	10,228	10,495	-	-	-	267	-	-	-	-	280	747	1,294	200,743	202,037
Puerto Rico and Municipal Islands Transport Authority	44,432	4,730	1,162	-	2,493	(36,047)	33,500	-	-	-	-	-	(2,547)	(8,108)	(10,655)
Puerto Rico Medical Services Administration	193,414	122,571	-	-	-	(70,843)	23,892	-	-	-	1,668	11	(45,272)	(182,464)	(227,736)
Puerto Rico Metropolitan Bus Authority	104,713	5,395	14,393	-	2,178	(82,747)	71,741	-	-	-	3	-	(11,003)	(14,333)	(25,336)
Puerto Rico Municipal Finance Agency	50,127	-	-	-	-	(50,127)	-	-	-	-	57,086	75	7,034	62,552	69,586
Puerto Rico Ports Authority	243,440	176,714	20,254	-	-	(46,472)	5,139	-	-	-	536	10,075	(30,722)	237,442	206,720
Puerto Rico Public Broadcasting Corporation	27,730	3,650	-	-	-	(24,080)	16,305	-	3,276	-	4	265	(4,230)	13,811	9,581
Puerto Rico Public Private Partnerships Authority	18,852	23,511	-	-	-	4,659	-	-	-	-	1	-	4,660	(11,276)	(6,616)
Puerto Rico School of Plastic Arts	5,936	794	1,913	-	-	(3,229)	2,229	-	-	-	151	-	(849)	10,490	9,641
Solid Waste Authority	25,270	1,266	-	-	-	(24,004)	22,100	-	-	-	202	201	(1,501)	79,936	78,435
Puerto Rico Telephone Authority	106	-	-	-	-	(106)	-	-	-	-	11	-	(95)	4,922	4,827
Puerto Rico Tourism Company	172,633	170,052	-	-	-	(2,581)	1,319	(105,217)	-	58,468	523	-	(47,488)	33,203	(14,285)
Puerto Rico Trade and Export Company	40,550	16,556	-	-	-	(23,994)	-	-	-	-	18,613	3,094	(2,287)	108,978	106,691
Local Redevelopment Authority Roosevelt Road Puerto Rico	2,324	86	-	-	1,973	(265)	1,100	-	-	-	-	-	835	-	835
Special Communities Perpetual Trust	42,505	-	-	-	-	(42,505)	29,538	-	-	-	754	18	(12,195)	(243,456)	(255,651)
State Insurance Fund Corporation	692,225	636,541	-	-	-	(55,684)	(51,342)	-	-	-	60,123	(125)	(47,028)	378,393	331,365
University of Puerto Rico Comprehensive Cancer Center	9,563	-	1,417	-	-	(8,146)	7,976	-	-	-	2	-	(168)	13,102	12,934
Total nonmajor component units	$2,794,012	$1,688,354	$51,941	$91,710	$18,826	$(943,181)	$636,061	$ (70,891)	$5,269	$58,468	$184,516	$43,022	$(86,736)	$ 301,012	$ 214,276

See accompanying independent auditor's report.

STATISTICAL SECTION

STATISTICAL SECTION (UNAUDITED)

This part of the Commonwealth of Puerto Rico's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health. The following are the categories of the various schedules that are included in this Section:

Contents Pages

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

SCHEDULES OF FINANCIAL TRENDS INFORMATION

COMMONWEALTH OF PUERTO RICO

CHANGES IN NET ASSETS (DEFICIT) (UNAUDITED)
LAST TEN FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
EXPENSES:										
Governmental activities:										
General government	$ 3,989,149	$ 2,880,614	$ 3,156,646	$ 2,460,391	$ 2,592,834	$ 2,847,596	$ 2,844,494	$ 1,827,816	$ 1,963,879	$ 2,324,715
Public safety	2,227,507	2,205,782	2,228,000	2,247,480	2,161,265	1,983,782	2,217,294	2,580,951	1,950,635	1,606,272
Health	2,926,901	3,022,000	2,843,744	2,858,750	2,471,960	1,943,582	1,422,813	2,364,110	2,386,735	1,903,811
Public housing and welfare	3,658,873	3,937,901	3,726,041	3,560,871	3,194,945	3,157,877	3,287,559	3,443,886	2,919,315	3,239,366
Education	4,729,574	4,469,337	4,543,362	5,280,249	4,571,722	4,748,008	4,110,669	5,000,686	3,684,331	3,375,815
Economic development	785,918	517,921	292,037	779,449	471,640	554,271	564,447	1,006,945	896,925	451,945
Payment of obligations of component units	458,207	6,411	196,898	136,415	-	-	-	-	-	-
Intergovernmental	374,127	430,941	533,939	613,033	474,023	593,264	440,390	-	591,237	466,762
Interest and other	1,957,885	1,807,230	1,648,875	1,128,918	1,086,906	863,723	882,163	845,556	778,700	671,228
Total governmental activities	21,108,141	19,278,137	19,169,542	19,065,556	17,025,295	16,692,103	15,769,829	17,069,950	15,171,757	14,039,914
Business-type activities:										
Lotteries	722,620	697,746	720,992	723,287	699,005	679,274	670,425	699,407	731,344	695,888
Unemployment	486,342	635,145	820,261	467,788	269,924	192,484	207,483	197,967	142,652	343,243
Other	34,237	40,044	20,180	31,947	28,738	26,860	25,043	32,437	26,763	22,385
Total business-type activities	1,243,199	1,372,935	1,561,433	1,223,022	997,667	898,618	902,951	929,811	900,759	1,061,516
Total primary government expenses	22,351,340	20,651,072	20,730,975	20,288,578	18,022,962	17,590,721	16,672,780	17,999,761	16,072,516	15,101,430
PROGRAM REVENUES:										
Governmental activities:										
Charges for services	560,313	632,005	600,473	758,427	664,505	757,724	828,993	702,691	769,207	757,116
Operating grants and contributions	6,531,687	6,006,310	6,536,125	5,541,715	4,311,592	4,773,174	4,365,711	4,096,204	1,038,776	3,830,639
Earnings on investments	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions	152,591	457,725	129,947	110,847	137,916	257,514	100,990	121,083	2,592,055	173,644
Total governmental activities	7,244,591	7,096,040	7,266,545	6,410,989	5,114,013	5,788,412	5,295,694	4,919,978	4,400,038	4,761,399
Business-type activities:										
Charges for services	1,219,769	1,192,724	1,218,613	1,206,080	1,161,084	1,140,539	1,149,426	1,187,009	1,136,705	1,132,285
Operating grants and contributions	364,219	450,689	544,393	245,770	77,803	43,480	59,613	22,315	59,728	97,033
Total business-type activities	1,583,988	1,643,413	1,763,006	1,451,850	1,238,887	1,184,019	1,209,039	1,209,324	1,196,433	1,229,318
NET (EXPENSE) REVENUE:										
Governmental activities	(13,863,550)	(12,182,097)	(11,902,997)	(12,654,567)	(11,911,282)	(10,903,691)	(10,474,135)	(12,149,972)	(10,771,719)	(9,278,515)
Business-type activities	340,789	270,478	201,573	228,828	241,220	285,401	306,088	279,513	295,674	167,802
TOTAL PRIMARY GOVERNMENT NET EXPENSE	$ (13,522,761)	$ (11,911,619)	$ (11,701,424)	$ (12,425,739)	$ (11,670,062)	$ (10,618,290)	$ (10,168,047)	$ (11,870,459)	$ (10,476,045)	$ (9,110,713)

COMMONWEALTH OF PUERTO RICO

CHANGES IN NET ASSETS (DEFICIT) (UNAUDITED)
LAST TEN FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
GENERAL REVENUES:										
Governmental activities:										
Taxes:										
Income	$ 4,037,400	$ 4,726,036	$ 4,857,035	$ 5,424,476	$ 5,493,881	$ 6,488,211	$ 6,255,391	$ 5,526,006	$ 5,191,080	$ 4,941,128
Excise	2,695,543	2,106,784	1,145,538	1,118,283	1,318,866	1,475,311	2,013,998	2,101,216	1,924,610	1,894,729
Sales and use tax	1,144,659	1,129,006	1,087,053	1,089,073	910,609	583,639	-	-	-	-
Property taxes	66,375	233,703	227,812	-	-	-	-	-	-	-
Other	84,727	83,589	98,531	103,348	11,356	4,663	15,145	7,128	19,211	3,055
Revenue from global tobacco settlement agreement	72,491	71,097	75,584	90,073	82,608	69,604	66,796	106,521	70,420	101,849
Unrestricted investment earnings (losses)	(191,479)	71,144	(42,682)	114,699	160,926	176,674	117,080	116,686	60,585	85,565
Revenue from component units	85,573	84,610	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
Special items	-	-	-	175,102	3,749,348	-	(2,485)	-	(35,646)	(203,514)
Gain on sale of assets	-	-	-	-	-	-	19,588	-	-	-
Transfers	219,794	230,551	265,852	251,170	309,815	342,743	242,642	492,796	203,258	279,060
Other	156,966	163,184	166,517	96,696	299,631	71,187	203,525	322,185	384,719	214,381
Total governmental activities	8,372,049	8,899,704	8,072,737	8,964,278	12,531,435	9,659,680	9,197,146	9,249,298	7,999,672	7,531,428
Business-type activities:										
Unrestricted investment earnings	12,029	17,900	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	(219,794)	(230,551)	(265,852)	(251,170)	(309,815)	(342,743)	(242,642)	(492,796)	(203,258)	(279,060)
Total business-type activities	(207,765)	(212,651)	(244,592)	(231,134)	(274,392)	(305,566)	(209,477)	(460,512)	(179,427)	(200,660)
Total primary government	8,164,284	8,687,053	7,828,145	8,733,144	12,257,043	9,354,114	8,987,669	8,788,786	7,820,245	7,330,768
CHANGE IN NET ASSETS:										
Governmental activities	(5,491,501)	(3,282,393)	(3,830,260)	(3,690,289)	620,153	(1,244,011)	(1,276,989)	(2,900,674)	(2,772,047)	(1,747,087)
Business-type activities	133,024	57,827	(43,019)	(2,306)	(33,172)	(20,165)	96,611	(180,999)	116,247	(32,858)
TOTAL PRIMARY GOVERNMENT	$ (5,358,477)	$ (3,224,566)	$(3,873,279)	$(3,692,595)	$ 586,981	$(1,264,176)	$(1,180,378)	$(3,081,673)	$(2,655,800)	$(1,779,945)

COMMONWEALTH OF PUERTO RICO

NET ASSETS (DEFICIT) BY COMPONENT (UNAUDITED)
LAST TEN FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
GOVERNMENTAL ACTIVITIES:										
Invested in capital assets — net of related debt	$ 3,473,838	$ 3,691,871	$ 3,866,328	$ 3,888,495	$ 3,979,308	$ 3,635,271	$ 3,485,882	$ 3,774,098	$ 3,133,230	$ 1,969,864
Restricted	2,273,099	2,067,282	2,941,461	979,094	713,814	331,051	280,078	296,692	-	19,749
Unrestricted deficit	(45,747,573)	(40,267,354)	(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 DEFICIT	$ (40,000,636)	$ (34,508,201)	$ (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	$ 1,726	$ 1,660	$ 1,586	$ 682	$ 674	$ 674	$ 1,008	$ 847	$ 1,672	$ 1,895
Restricted	950,753	840,241	505,906	29,209	33,803	910,479	947,507	872,215	853,194	736,947
Unrestricted net assets (deficit)	10,771	(11,675)	289,418	810,038	689,686	(153,818)	(171,015)	(202,212)	(3,037)	(3,260)
TOTAL BUSINESS-TYPE ACTIVITIES NET ASSETS	$ 963,250	$ 830,226	$ 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	$ 3,475,564	$ 3,693,531	$ 3,867,914	$ 3,889,177	$ 3,979,982	$ 3,635,945	$ 3,486,890	$ 3,774,945	$ 3,134,902	$ 1,971,759
Restricted	3,223,852	2,907,523	3,447,367	1,008,303	747,617	1,241,530	1,227,585	1,168,907	853,194	756,696
Unrestricted deficit	(45,736,802)	(40,279,029)	(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 DEFICIT	$ (39,037,386)	$ (33,677,975)	$ (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)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
REVENUES:										
Taxes:										
Income	$ 4,068,802	$ 4,749,942	$ 5,109,313	$ 5,191,042	$ 5,493,881	$ 6,389,973	$ 6,181,995	$ 5,564,673	$ 5,061,761	$ 4,874,795
Excise	2,695,543	2,106,784	1,145,538	1,118,283	1,306,416	1,475,311	2,013,998	2,101,216	1,924,610	1,894,729
Sales and use tax	1,144,659	1,129,006	1,094,208	1,081,918	910,609	583,639	-	-	-	-
Property taxes	66,375	241,719	227,812	-	-	-	-	-	-	-
Other	90,514	83,589	98,530	103,348	11,356	4,663	15,145	7,128	19,211	3,055
Charges for services	624,069	632,005	600,473	758,427	664,505	757,724	828,993	702,691	750,978	780,905
Intergovernmental	6,778,445	6,126,212	6,655,543	5,767,738	4,569,457	5,166,604	4,663,422	4,319,977	3,654,766	4,107,706
Interest and investment earnings	28,659	28,529	56,145	114,699	160,926	176,674	117,080	116,686	58,914	85,565
Other	315,020	366,101	278,874	540,854	455,439	434,024	334,591	869,338	629,426	436,668
Total revenues all governmental fund types	15,812,086	15,463,887	15,266,436	14,676,309	13,572,589	14,988,612	14,155,224	13,681,709	12,099,666	12,183,423
EXPENDITURES:										
General government	2,027,460	1,284,878	1,830,482	1,512,909	1,769,498	2,537,999	2,489,093	1,675,428	1,777,365	1,774,156
Public safety	2,319,640	2,044,398	2,207,228	2,071,001	2,134,919	1,864,256	2,108,152	2,409,668	1,765,199	1,424,846
Health	2,950,367	2,932,836	2,785,439	2,762,476	2,345,650	1,948,201	1,429,888	2,344,522	2,176,741	1,908,717
Public housing and welfare	3,406,021	3,736,104	3,553,699	3,428,546	3,098,684	3,048,585	3,130,373	3,320,849	2,738,016	2,953,189
Education	4,599,069	4,453,332	4,584,792	5,053,505	4,432,880	4,400,321	4,101,980	4,177,664	3,474,013	3,297,248
Economic development	783,490	460,986	249,899	688,460	415,976	533,253	516,444	706,066	868,926	428,621
Intergovernmental	377,427	430,171	533,762	613,033	470,395	593,247	409,727	-	528,829	465,699
Capital outlays	558,377	452,482	293,298	352,582	429,238	512,824	502,348	665,630	581,788	1,184,976
Payments of obligations of component units	458,207	6,411	196,898	136,415	-	-	-	-	-	-
Debt service:										
Principal	1,871,727	1,845,785	2,009,870	482,742	2,163,704	904,604	446,281	391,554	526,572	330,346
Interest and other	1,683,802	1,601,987	1,369,445	1,094,142	1,037,136	814,723	822,234	733,931	737,502	1,158,749
Total expenditures all governmental fund types	21,035,587	19,249,370	19,614,812	18,195,811	18,298,080	17,158,013	15,956,520	16,425,312	15,174,951	14,926,547
OTHER FINANCING SOURCES (USES):										
Transfers in	4,886,177	5,704,579	6,296,416	9,974,368	1,305,040	1,165,075	1,423,240	1,745,992	1,034,090	1,664,278
Transfers out	(4,666,383)	(5,474,028)	(6,030,564)	(9,723,198)	(995,225)	(822,332)	(1,180,598)	(1,253,216)	(830,832)	(1,385,218)
Long-term debt issued	3,703,223	1,684,135	4,754,372	5,965,925	1,921,363	1,140,356	1,518,355	1,619,562	3,001,116	2,241,190
Discount on bonds issued	(24,474)	(20,253)	(64,011)	(63,715)	(4,060)	-	(323)	(6,078)	(23,061)	(36,204)
Capital leases		198	427	292	43,850	2,975	4,580	847	2,300	58,897
Refunding bonds issued	4,482,178	1,364,475	1,163,735	237,875	2,086,240	379,498	-	-	2,372,689	1,754,686
Sale of capital assets	1,434	4,081	2,431	158,940	-	-	-	-	-	-
Upfront fee on swap agreements	-	-	-	35,980	-	-	-	-	-	-
Proceeds from termination of swap agreements	-	-	12,231	-	-	-	-	-	-	-
Termination fee on swap agreements	(550,855)	(23,854)	(40,849)	(74,671)	-	-	-	-	-	-
Payment for refunding of bonds	(2,822,288)	(483,515)	(1,047,297)	(183,000)	-	-	-	-	-	-
Bond proceeds — premium	42,888		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)
Other	-	-	-	-	106,107	-	54,135	-	-	-
Total other financing sources all governmental fund types	5,051,900	2,755,818	5,064,936	6,538,740	3,704,835	1,865,572	1,819,389	2,107,107	3,239,392	2,542,943
NET CHANGE IN FUND BALANCES (DEFICIT)	$ (171,601)	$ (1,029,665)	$ 716,560	$ 3,019,238	$ (1,020,656)	$ (303,829)	$ 18,093	$ (636,496)	$ 164,107	$ (200,181)

COMMONWEALTH OF PUERTO RICO

FUND BALANCE (DEFICIT) OF GOVERNMENTAL FUNDS (UNAUDITED)
LAST TEN FISCAL YEARS
MODIFIED-ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
GENERAL FUND:										
Nonspendable	$ 94,559	$ 17,747	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Spendable:										
Restricted	181,133	551,699	-	-	-	-	-	-	-	-
Committed	633,659	629,591	-	-	-	-	-	-	-	-
Assigned	22,056	14,512	-	-	-	-	-	-	-	-
Unassigned	(2,037,963)	(1,464,609)	-	-	-	-	-	-	-	-
Reserved	-	-	1,252,903	1,247,211	723,634	993,320	770,628	810,314	1,102,232	262,758
Unreserved	-	-	(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	(1,106,556)	(251,060)	(547,296)	(1,435,627)	(1,770,885)	(511,158)	(383,755)	(511,271)	(365,950)	(80,183)
ALL OTHER GOVERNMENTAL FUNDS:										
Spendable:										
Restricted	2,105,562	1,515,583	-	-	-	-	-	-	-	-
Committed	310,751	308,763	-	-	-	-	-	-	-	-
Assigned	165,742	74,752	-	-	-	-	-	-	-	-
Unassigned	1,608	-	-	-	-	-	-	-	-	-
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	2,583,663	1,899,098	3,224,141	3,395,912	860,749	618,267	794,693	896,982	1,386,317	936,442
TOTAL FUND BALANCE	$ 1,477,107	$ 1,648,038	$ 2,676,845	$ 1,960,285	$ (910,136)	$ 107,109	$ 410,938	$ 385,711	$ 1,020,367	$ 856,259

Note: In fiscal year 2011, the fund balance classifications were changed to conform to the requirements of GASB 54.

SCHEDULE OF REVENUE CAPACITY

COMMONWEALTH OF PUERTO RICO

GENERAL FUND NET REVENUES FOR THE LAST TEN FISCAL YEARS (UNAUDITED)
(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Excises on off-shore shipments rum	$ 302,308	$ 330,181	$352,301	$404,265	$356,827	$377,872	$ 346,272	$ 341,166	$ 328,921	$ 309,958
Custom duties	7,739	-	-	3,269	4,846	14,504	9,553	26,731	34,266	25,918
From noninternal revenues	310,047	330,181	352,301	407,534	361,673	392,376	355,825	367,897	363,187	335,876
Miscellaneous	240,857	346,580	314,754	284,436	466,742	330,064	331,803	430,534	379,501	314,857
Transfer from nonbudgeted funds	-	-	-	-	-	-	-	-	-	123,600
Electronic lottery	56,163	55,690	80,006	75,213	105,298	71,815	55,212	68,011	86,115	89,443
Traditional lottery	38,225	46,164	42,826	51,480	46,636	73,014	62,729	64,638	65,387	67,621
Nontax revenues	335,245	448,434	437,586	411,129	618,676	474,893	449,744	563,183	531,003	595,521
Alcoholic beverages and others	13,927	18,197	15,339	14,307	16,014	15,179	14,804	14,528	14,200	13,518
Entertainment machines	236	251	18,712	19,263	19,682	16,930	16,981	15,019	14,393	13,932
Motor vehicles	62,483	62,933	61,717	62,853	51,994	65,501	59,525	55,669	55,638	58,426
Licenses	76,646	81,381	95,768	96,423	87,690	97,610	91,310	85,216	84,231	85,876
Others	4,299	3,478	1,864	5,159	7,224	20,235	25,681	29,927	24,334	20,539
Hotel rooms	-	-	-	-	-	-	-	-	-	9,056
5% general excise tax	-	-	-	-	-	193,949	551,723	557,323	535,381	505,709
Crude oil and derived products	-	-	-	-	-	-	-	-	-	12,925
Slot machines	25,504	24,073	23,273	23,764	23,492	23,128	23,167	85,513	76,966	90,018
Cement	1,171	1,128	1,195	1,555	2,054	2,627	2,919	3,228	3,432	3,279
Insurance premiums	23,382	23,785	24,089	26,816	42,060	39,052	43,055	28,324	27,217	26,771
Horse races	19,302	20,983	22,862	25,245	26,783	29,321	30,786	31,463	28,865	28,872
Motor vehicle	386,468	364,188	350,764	310,920	366,341	396,667	533,957	606,662	551,181	499,252
Petroleum products	3,846	4,203	4,695	4,335	8,401	6,028	5,146	5,143	4,934	5,860
Foráneas (Ley 54)	1,875,823	677,565	-	-	-	-	-	-	-	-
Cigarettes	172,155	201,965	182,501	129,429	119,124	132,399	135,267	146,527	144,733	149,487
General taxes — total	2,511,950	1,321,368	611,243	527,223	595,479	843,406	1,351,701	1,494,110	1,397,043	1,351,768

(Continued)

COMMONWEALTH OF PUERTO RICO

GENERAL FUND NET REVENUES FOR THE LAST TEN FISCAL YEARS (UNAUDITED)
(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Other beverages	$ 22,831	$ 20,158	$ 19,081	$ 19,248	$ 19,026	$ 18,932	$ 18,745	$ 19,692	$ 17,428	$ 17,884
Beer	217,126	209,568	211,785	203,386	198,879	207,813	219,379	221,902	217,568	223,309
Distilled spirits	52,657	51,237	53,930	54,767	50,189	52,283	54,056	56,641	61,306	58,389
Alcoholic beverages — total	292,614	280,963	284,796	277,401	268,094	279,028	292,180	298,235	296,302	299,582
Excise taxes — total	2,804,564	1,602,931	896,039	804,624	863,573	1,122,434	1,643,881	1,792,345	1,693,345	1,651,350
Sales and use tax	540,026	531,837	540,348	797,194	911,000	582,560	-	-	-	-
Inheritance and gift taxes	5,465	3,101	3,617	5,064	6,600	4,663	9,466	7,129	15,691	2,825
Taxes on dividends to 10%	35,087	26,756	29,774	48,663	59,770	138,859	66,721	80,398	70,192	49,790
Interest subject to 17%	6,807	6,985	9,902	11,738	13,657	12,112	11,536	10,489	10,108	11,278
Tollgate tax	27,678	12,607	15,034	19,372	21,610	25,083	27,396	22,973	31,579	45,321
Withholding to nonresidents	890,761	1,000,428	830,352	1,081,739	1,087,782	933,728	921,260	612,005	631,100	517,141
Partnerships	1,333	3,249	1,688	1,839	1,942	2,960	2,787	3,245	3,005	2,101
Corporations	1,460,354	1,677,345	1,682,321	1,375,596	1,565,534	2,002,718	1,872,458	1,870,937	1,831,027	1,776,985
Individuals	2,129,434	2,187,080	2,593,598	2,648,261	2,759,305	3,071,655	3,087,748	2,885,903	2,720,920	2,767,678
Income taxes — total	5,096,945	5,449,388	5,706,634	5,989,466	6,427,200	6,774,338	5,999,372	5,493,079	5,313,622	5,173,119
Property taxes	44,438	246,619	227,812	1,011	219	800	1,106	3,949	-	-
Tax revenues	8,022,593	7,379,701	6,926,253	6,891,524	7,378,682	7,995,182	7,735,669	7,374,589	7,091,198	6,910,345
From internal revenues	8,357,838	7,828,135	7,363,839	7,302,653	7,997,358	8,470,075	8,185,413	7,937,772	7,622,201	7,505,866
Total	$8,667,885	$8,158,316	$7,716,140	$7,710,187	$8,359,031	$8,862,451	$8,541,238	$8,305,669	$7,985,388	$7,841,742

Note: The net revenues presented above include the actual revenues and the operating transfers-in from other funds presented in the statement of revenues and expenditures — budget and actual — budget basis.

Source: Puerto Rico Treasury Department.

(Concluded)

SCHEDULES OF DEBT CAPACITY INFORMATION

COMMONWEALTH OF PUERTO RICO

LEGAL DEBT MARGIN INFORMATION (UNAUDITED)
LAST TEN FISCAL YEARS
(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Internal revenue average for two years	$ 8,092,987	$7,592,395	$ 7,333,246	$ 7,650,006	$ 8,233,717	$ 8,327,744	$ 8,061,593	$ 7,779,987	$ 7,564,034	$ 7,185,660
Legal debt limit — 15% of internal revenue average for two years	1,213,948	1,138,859	1,099,987	1,147,501	1,235,058	1,249,162	1,209,239	1,166,998	1,134,605	1,077,849
Maximum debt service requirement	964,416	876,205	826,812	785,298	785,298	719,927	680,742	630,685	598,547	599,611
Additional legal debt service requirement margin	249,532	262,654	273,175	362,203	449,760	529,235	528,497	536,313	536,058	478,238
Total maximum debt service requirement as a percentage of internal revenue average for two years	11.92 %	11.54 %	11.27 %	10.27 %	9.54 %	8.64 %	8.44 %	8.11 %	7.91 %	8.34 %

Legal debt margin calculation for fiscal year 2012:	
Internal revenue for the year ended June 30, 2011	$ 7,828,135
Internal revenue for the year ended June 30, 2012	8,357,838
Total internal revenue for the years ended June 30, 2011 and 2012	16,185,973
Internal revenue average for the two years	8,092,987
Legal debt limit — 15% of internal revenue average for the two years	1,213,948
Maximum debt service requirement	964,416
Additional legal debt service requirement as a percentage of internal revenue average for two years	$ 249,532

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:			
2012	$ 745,210	$ 21,035,587	3.5 %
2011	722,456	19,249,370	3.7
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

SCHEDULES OF DEMOGRAPHIC AND ECONOMIC INFORMATION

COMMONWEALTH OF PUERTO RICO

DEMOGRAPHIC AND ECONOMIC STATISTICS (UNAUDITED)
LAST TEN FISCAL YEARS

	Population *		Per Capita Income		Median Age	Life Expectancy (Years) (1)	School Enrollment	Labor Force (in thousands)	Unemployment Rate (%)		Gross Product (Current Prices $)**		Real Gross Product (2000 Prices $)**	
Fiscal year:														
2012	3,667	(p)	16,934		37.9	79.0	588,384	1,221	15.2	(p)	69,462	(p)	41,419	(p)
2011	3,694	(r)	16,611	(r)	37.0	77.7	620,622	1,249	16.2	(r)	65,567	(r)	39,508	
2010	3,722	(r)	16,078	(r)	36.3	77.7	671,154	1,285	16.3	(r)	64,295	(r)	39,907	
2009	3,740	(r)	15,739	(r)	36.3	77.7	649,692	1,325	13.7	(r)	63,618	(r)	41,464	
2008	3,761	(r)	15,155	(r)	37.5	77.7	685,348	1,355	11.2	(r)	62,703	(r)	43,205	
2007	3,783	(r)	14,030	(r)	37.0	77.7	710,861	1,413	10.6	(r)	60,643	(r)	44,475	
2006	3,805	(r)	13,627	(r)	36.5	77.7	731,644	1,410	11.0	(r)	57,584	(r)	45,009	
2005	3,821	(r)	13,056	(r)	36.0	77.7	714,306	1,357	10.6		54,862	(r)	44,785	
2004	3,827	(r)	12,199	(r)	35.6	77.2	764,861	1,339	11.4		51,827	(r)	43,950	
2003	3,826	(r)	11,825	(r)	35.1	77.5	746,500	1,337	12.1		48,492	(r)	42,795	

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	2012 (p)	2011 (r)	2010 (r)	2009	2008	2007	2006	2005	2004	2003
Agriculture	17	17	17	18	15	16	22	25	25	24
Manufacturing	95	97	101	111	128	137	135	135	134	132
Mining	a/	1	a/	a/	1	a/	a/	a/	a/	a/
Construction	50	48	54	70	84	98	88	85	86	81
Trade	231	234	237	242	256	262	269	256	249	250
Finance, insurance, and real estate	34	39	40	42	42	44	46	42	41	42
Transportation, communications, and public utilities	40	48	57	57	54	54	56	58	53	55
Services	342	333	319	344	354	363	351	342	335	325
Government (1)	225	230	250	259	269	290	285	268	264	266
Total	1,034	1,047	1,075	1,143	1,203	1,264	1,252	1,211	1,187	1,175

(p) Preliminary figures.
(r) Revised figures.
a/ Less than 1,000.

COMMONWEALTH OF PUERTO RICO

TOURISM INDICATORS (UNAUDITED)
LAST TEN FISCAL YEARS

	2012 (p)	2011 (r)	2010 (r)	2009 (r)	2008 (r)	2007 (r)	2006 (r)	2005 (r)	2004 (r)	2003 (r)
All hotels and hostelry registration	3,321,709	2,130,325	2,030,941	1,936,662	1,196,890	2,044,097	2,160,455	2,097,606	2,008,730	1,964,963
Occupancy rates	67.9 %	66.2 %	66.2 %	63.4 %	67.6 %	68.7 %	67.9 %	67.7 %	68.9 %	64.9 %
Number of rooms	14,211	14,335	13,392	13,392	13,255	13,403	13,439	13,336	12,766	12,854
Visitors' expenditures*	$ 3,193	$ 3,143	$ 3,211	$ 3,176	$ 3,535	$ 3,414	$ 3,369	$ 3,239	$ 3,024	$ 2,677

* Amounts expressed in millions of dollars.
(p) Preliminary figures.
(r) revised figures

Sources: Puerto Rico Tourism Company and Puerto Rico Planning Board.

SCHEDULE OF OPERATING INFORMATION

COMMONWEALTH OF PUERTO RICO

OPERATING INDICATORS BY FUNCTION (UNAUDITED)
LAST TEN FISCAL YEARS

Function	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Fire protection:										
Number of stations	95	94	95	95	95	94	94	94	98	93
Fire personnel and officers	1,825	1,713	1,889	2,225	2,232	2,232	2,233	2,233	1,851	1,894
Calls answered	10,676	11,013	14,021	9,698	10,146	10,441	10,435	11,514	10,716	12,340
Building inspections conducted	73,301	76,407	76,246	83,626	71,006	73,478	73,360	71,610	56,093	53,750
Police protection:										
Number of stations	192	192	210	193	233	238	238	234	231	228
Police personnel and officers	17,965	18,333	18,274	18,834	19,422	19,069	20,552	20,806	21,185	21,079
Calls answered	6,389	7,050	7,271	7,451	7,258	7,101	7,146	7,178	6,907	5,538
Water system:										
Customers	1,307,436	1,290,800	1,279,757	1,265,798	1,257,336	1,290,497	1,285,732	1,251,699	1,256,981	1,238,461
Personnel	5,076	4,919	5,001	5,617	5,839	5,830	5,544	5,459	5,442	5,580
Water consumption										
(millions of cubic meters)	316	317	325	331	327	350	365	356	359	350
Electric distribution system:										
Customers	1,469,541	1,475,126	1,469,493	1,458,636	1,449,221	1,452,529	1,450,227	1,438,699	1,419,602	1,401,301
Personnel	8,626	8,659	8,804	9,332	9,429	9,444	9,541	9,712	9,635	9,646
Electricity consumption										
(millions of kilowatt)	18,112	18,501	19,235	18,516	19,602	20,672	20,620	20,507	20,260	19,887
Electricity production										
(millions of kilowatt)	22,192	22,631	23,580	22,651	23,935	25,082	24,870	24,500	24,100	23,717
Education:										
Enrollment in public schools (1):										
Kindergarten to sixth grade	231,119	246,770	264,049	262,234	276,291	293,781	306,073	323,270	321,653	326,606
Seventh to ninth grade	110,568	114,658	124,343	122,506	128,641	133,171	135,166	137,717	142,305	146,896
Tenth to twelfth grade	92,922	97,203	104,731	103,255	108,028	117,205	122,251	118,491	116,829	118,519
Teachers actively teaching	31,843									
(in public school)		39,863	46,472	45,268	45,064	45,124	46,064	46,858	47,286	46,772
Enrollment in private schools:										
Kindergarten to sixth grade	87,034	99,975	11,614	97,004	105,724	103,442	107,358	83,548	117,622	98,719
Seventh to ninth grade	34,175	31,542	32,144	33,510	35,437	33,294	32,850	27,612	37,226	31,245
Tenth to twelfth grade	32,566	30,474	29,773	31,183	31,227	29,968	27,946	23,668	29,226	24,515
Enrollment in universities										
and colleges:										
Public	59,279	67,291	71,569	69,475	68,132	66,990	68,813	71,044	74,056	74,801
Private	190,732	182,901	177,803	166,143	157,306	158,412	140,734	136,650	132,735	125,041

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.