

# COMMONWEALTH OF PUERTO RICO



## COMPREHENSIVE ANNUAL FINANCIAL REPORT



2001  
FISCAL YEAR ENDED JUNE 30, 2001



About our cover:

This new century begins posing a great challenge for Puerto Rico. Immersed in increasingly complex economy and facing critical needs as a people, we initiated this millennium with a strong commitment reflected in the images chosen for our cover.

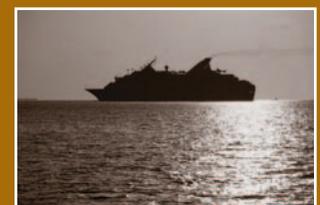
There are various central themes, which provide the axis for development. At the center of it all are the Puerto Rican family and its quality of life. Employment is therefore a priority, which is being supported by stimulating industry, manufacturing processes and the growth of local investment.

Education plays an important role in setting the bases for a successful future. Not only by providing the resources that will allow a better quality of teaching in values but also as a means to increase the specific abilities required to maintain Puerto Rico's highly skilled work force up to date with the demands of specialized skills in the technologically oriented economy.

Agriculture and the development of local industry is one of the top priorities we are facing. There is a clear commitment, backed by investments that will allow us to fortify the actual farms and develop new crop alternatives that take in account the smart use of land and the ever-increasing demand for tropical high priced crops that will provide a variety of development avenues for our local growers.

Continuity is also required from our actual administration. There are various key projects under development that need to be concluded taking in account time frames and budget restrictions that demand a very tight scrutiny of financial processes and behaviors. Complete transparency and strict guidelines will be key to success in the completion of our task. Projects ranging from a sophisticated and integrated transportation system to basic infrastructure requirements will be adapted and conducted towards their goals.

This is only the beginning of a century that will be, we are sure, one of immense challenges but also of amazing satisfaction. To do it well, we must commence it well. The focus on providing Puerto Rico's families with the quality of life they deserve will provide a strong direction and meaning to the efforts for the future of our island.



# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

*Fiscal Year Ended June 30, 2001*



***Commonwealth of Puerto Rico***  
***Honorable Sila María Calderón***  
***Governor***

*Prepared by:*

***Puerto Rico Department of the Treasury***

***Juan Flores Galarza, CPA***  
***Secretary of the Treasury***

***José A. Soliván Galio, CPA***  
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***Deputy Assistant Secretary of Central Accounting***

# COMMONWEALTH OF PUERTO RICO

## Comprehensive Annual Financial Report

Year ended June 30, 2001

### Table of Contents

	<b>Page</b>
<b>Introductory Section</b>	
Letter of Transmittal	1
Principal Officials	12
Organization Chart	13
Certificate of Achievement for Excellence in Financial Reporting	14
<b>Financial Section</b>	
Independent Auditors' Report	1
General Purpose Financial Statements:	
Combined Balance Sheet – All Fund Types, Account Groups and Discretely Presented Component Units	3
Combined Statement of Revenue, Expenditures and Changes in Fund Balances – All Governmental Fund Types and Expendable Trust Funds	5
Combined Statement of Revenue and Expenditures – Budget and Actual – Budget Basis – Budgeted General and Debt Service Funds	6
Combined Statement of Revenue, Expenses and Changes in Retained Earnings (Deficit)/Fund Balances – Proprietary Fund Type and Similar Discretely Presented Component Units	7
Combined Statement of Cash Flows – Proprietary Fund Type and Similar Discretely Presented Component Units	8
Combined Statement of Changes in Plan Net Assets Available for Pension Benefits – Pension Trust Fund Types and Similar Discretely Presented Component Units	11
Combined Statement of Changes in Fund Balances – Public University Funds – University of Puerto Rico	12
Combined Statement of Current Funds Revenue, Expenditures and Other Changes – Public University Funds – University of Puerto Rico	13
Notes to General Purpose Financial Statements	14

# COMMONWEALTH OF PUERTO RICO

## Comprehensive Annual Financial Report

Year ended June 30, 2001

### Table of Contents

	<b>Page</b>
Combining, Individual Fund Financial Statements and Schedules:	
General Fund:	
Supplemental Schedule of Expenditures by Agency – Budget and Actual – Statutory Basis – General Fund	132
Debt Service Funds:	
Combining Balance Sheet – Debt Service Funds	138
Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Debt Service Funds	139
Capital Projects Funds:	
Combining Balance Sheet – Capital Projects Funds	140
Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Capital Projects Funds	142
Enterprise Funds:	
Combining Balance Sheet – Enterprise Funds	144
Combining Statement of Revenue, Expenses and Changes in Retained Earnings (Deficit) – Enterprise Funds	145
Combining Statement of Cash Flows – Enterprise Funds	146
Trust and Agency Funds:	
Combining Balance Sheet – Trust and Agency Funds	147
Combining Statement of Plan Net Assets Available for Pension Benefits – Pension Trust Funds	148
Combining Statement of Changes in Plan Net Assets Available for Pension Benefits – Pension Trust Funds	149
Combining Balance Sheet – Expendable Trust Funds	150
Combining Statement of Revenue, Expenditures and Changes in Fund Balance – Expendable Trust Funds	151

# COMMONWEALTH OF PUERTO RICO

## Comprehensive Annual Financial Report

Year ended June 30, 2001

### Table of Contents

	<b>Page</b>
Combining Balance Sheet – Agency Funds	152
Statement of Changes in Assets and Liabilities – Agency Funds	153
Public University Funds:	
Combining Balance Sheet – Public University Funds	154
Component Units – Other:	
Combining Balance Sheet – Component Units – Other	155
Combining Statement of Revenue, Expenses and Changes in Retained Earnings (Deficit)/Fund Balance – Component Units – Other	173
Combining Statement of Cash Flows – Component Units – Other	182
General Fixed Assets Account Group:	
Schedule of General Fixed Assets – By Source	200
Schedule of General Fixed Assets – By Function and Activity	201
Schedule of Changes in General Fixed Assets – By Function and Activity	202
Combining Statement of Primary Government General Fixed Assets Account Group	203
General Long-Term Debt Account Group:	
Combining Statement of Primary Government General Long-Term Debt Account Group	204
<b>Statistical Section</b>	
General Governmental Expenditures by Function All Governmental Fund Types for the Last Ten Fiscal Years	1
General Governmental Revenue by Source All Governmental Fund Types for the Last Ten Fiscal Years	2
Computation of the Legal Debt Margin at July 1, 2001	3

# COMMONWEALTH OF PUERTO RICO

## Comprehensive Annual Financial Report

Year ended June 30, 2001

### Table of Contents

	<b>Page</b>
Ratio of Annual Debt Service for General Bonded Debt to Total General Expenditures for the Last Ten Fiscal Years	4
Demographic Statistics for the Last Ten Fiscal Years	5
Construction and Bank Deposits for the Last Ten Fiscal Years	6
Miscellaneous Statistics at June 30, 2001	7
General Fund Net Revenue for the Last Ten Fiscal Years	8
General Fund Net Revenue for the Fiscal Year 2001	9
General Fund Net Revenue for the Last Ten Fiscal Years (Chart)	10
Income Tax Receipts – for Fiscal Year 2001	11
Gross Product – for the Last Ten Fiscal Years	12
Real Gross Product Growth – for the Last Ten Fiscal Years	13
Employment and Unemployment – for the Last Ten Fiscal Years	14
Average Employment by Sector – for the Last Ten Fiscal Years	15
Employment – for the Last Ten Fiscal Years	16
Tourism Indicators – for the Last Ten Fiscal Years	17

## **INTRODUCTORY SECTION**



Juan A. Flores Galarza, CPA  
Secretary

February 28, 2002

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

It is a pleasure to submit, for your information, the Comprehensive Annual Financial Report of the Commonwealth of Puerto Rico (“the Commonwealth”) as of and for the fiscal year ended June 30, 2001. The Puerto Rico Department of the Treasury is responsible for the preparation of this report. The responsibility for the accuracy of presented data and the completeness and fairness of the presentation, including all of the disclosures, rests on the Commonwealth’s management. To the best of our knowledge and belief, the following data, as presented, is accurate in all material respects, and is presented in a manner designed to set forth the financial position and the results of operations of the various funds, account groups and component units of the Commonwealth in accordance with generally accepted accounting principles in the United States of America. We have included all the necessary disclosures to enable the reader to gain a thorough understanding of the Commonwealth’s activities.

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial and Statistical. The Introductory Section, which is not audited, includes this Letter of Transmittal, general information about the Commonwealth, a list of the Commonwealth’s principal elected and appointed officials, an Organizational Chart, and a reproduction of the Certificate of Achievement for Excellence in Financial Reporting that the Commonwealth received for its June 30, 2000 Comprehensive Annual Financial Report. The Financial Section includes the general purpose financial statements, the combining and individual fund and account group financial statements and schedules, as well as the independent auditors’ report on the general purpose financial statements. The Statistical Section, which is not audited, includes selected financial and demographic information, generally presented on a multi-year basis.

The financial reporting entity includes all funds and account groups of the Commonwealth, which is the primary government, as well as all its component units. Component units are legally-separate entities for which the primary government is financially accountable, or other organizations, the nature and significance of whose relationship with the Commonwealth are such that exclusion would cause the Commonwealth’s general purpose financial statements to be misleading and incomplete. Blended component units, although legally separate entities, are, in substance, part of the primary government’s operations and are included as part of the primary government. Discretely presented component units are reported in separate columns in the combined financial statements to emphasize that they are not part of the primary government and to differentiate their financial position, results of operations and cash flows from those of the primary government.

Generally, each component unit issues audited financial statements, which can be obtained from the component unit's administrative offices. The general purpose financial statements included in the Financial Section of this Comprehensive Annual Financial Report provide descriptions of the operations of each of the following component units of the Commonwealth:

Blended Component Units:

Public Buildings Authority  
Puerto Rico Maritime Shipping Authority  
Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities  
Puerto Rico Judiciary Retirement System  
Puerto Rico System of Annuities and Pensions for Teachers  
The Children's Trust

Discretely Presented Component Units:

University of Puerto Rico  
University of Puerto Rico Retirement System  
Agricultural Services and Development Administration  
Automobile Accident Compensation Administration  
Caribbean Basin Projects Financing Authority  
Economic Development Bank for Puerto Rico  
Employment and Training Enterprises Corporation and Subsidiary  
Farm Insurance Corporation of Puerto Rico  
Fine Arts Center Corporation  
Government Development Bank for Puerto Rico and Subsidiaries  
Industries for the Blind, Mentally Retarded and Other Disabled Persons of Puerto Rico  
Institute of Puerto Rican Culture  
Institutional Trust of the National Guard of Puerto Rico  
Land Authority of Puerto Rico  
Medical University Services, Inc.  
Musical Arts Corporation and Subsidiaries  
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives  
Puerto Rico Aqueduct and Sewer Authority  
Puerto Rico and Caribbean Cardiovascular Center Corporation  
Puerto Rico Conservatory of Music Corporation  
Puerto Rico Council on Higher Education  
Puerto Rico Electric Power Authority  
Puerto Rico Exports Development Corporation  
Puerto Rico Government Investment Trust Fund  
Puerto Rico Health Insurance Administration  
Puerto Rico Highway and Transportation Authority  
Puerto Rico Housing Bank and Finance Agency  
Puerto Rico Industrial Development Company  
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities  
Financing Authority



Puerto Rico Infrastructure Financing Authority  
Puerto Rico Land Administration  
Puerto Rico Maritime Transportation Authority  
Puerto Rico Medical Services Administration  
Puerto Rico Metropolitan Bus Authority  
Puerto Rico Municipal Finance Agency  
Puerto Rico Ports Authority  
Puerto Rico Public Broadcasting Corporation  
Puerto Rico School of Plastic Arts  
Puerto Rico Solid Waste Authority  
Puerto Rico Telephone Authority  
Puerto Rico Water Pollution Control Revolving Fund  
Recreational Development Company of Puerto Rico  
Right to Employment Administration  
State Insurance Fund Corporation  
Sugar Corporation of Puerto Rico  
Tourism Company of Puerto Rico

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

Puerto Rico has enjoyed seventeen years of uninterrupted economic expansion. Factors contributing to this expansion include government-sponsored economic development programs, periodic declines in the exchange value of the US Dollar which is the currency used in the Commonwealth, increases in the level of federal transfers, the relatively low cost of borrowing, and until recently, low fuel prices.

Gross product in fiscal 2001 was \$44.2 billion (\$31.6 billion in 1992 prices) and in fiscal 1992 was \$23.7 billion. This represents an increase in gross product of 33.3% from fiscal 1992 to 2001. Since fiscal 1985, personal income, per capita has increased consistently each fiscal year. In fiscal 2001, personal income per capita was \$10,394.

Average employment increased from 977,000 in fiscal 1992, to 1,158,000 in 2001. Average unemployment decreased from 16.5% in fiscal 1992 to 10.5% in fiscal 2001. According to the Labor Department's Household Employment Survey, during fiscal 2001 total employment remained the same in comparison with fiscal 2000.

The Planning Board's real gross product forecast for fiscal 2001, prepared in March 2001, projected an increase of 1.7% over fiscal 2000 and a increase of 2.0% for fiscal 2002. The performance of the economy during fiscal 2001 and 2002 will be affected principally by the performance of the United States economy and by the increase in fuel prices and the level of interest rates. The Federal Reserve's recent monetary policy to lower interest rates embodies a positive impact for the Commonwealth's economy, primarily its construction industry. Puerto Rico is dependent on oil imports for its energy needs; if the level of oil remains at its current high level for a long period of time, that could have an adverse effect on the level of economic activity in Puerto Rico during fiscal 2002.



Puerto Rico has a diversified economy with the manufacturing and services sectors comprising the principal sectors. Manufacturing is the largest sector in terms of gross domestic product. According to the Planning Board's figures, in fiscal 2001 manufacturing accounted for 13.7% of total employment, remaining the same as compared with fiscal 2000. Manufacturing is now more diversified than during the earlier phases of its industrial development and includes several industries less prone to business cycles. In the last two decades, industrial development has tended to be more capital intensive and more dependent on skilled labor. This gradual shift in emphasis is best exemplified by the significant investment in pharmaceutical, scientific instruments, computers, medical products and electrical products industries in Puerto Rico over the last decade. One of the factors assisting the development of the manufacturing sector has been the tax incentives offered by the federal and Puerto Rico governments. Federal legislation enacted in 1996, however, which amended Internal Revenue Code Section 936, phased out federal tax incentives during a ten-year period.

The services sector, which includes hotel and related services currently accounts for approximately 26.1% of total employment, in fiscal 2001, as compared with 26.5% in fiscal 2000.

Growth in construction contributed to increased economic activity in fiscal 2001. The growth in the construction industry was evidenced by a nominal increase of 9.6% in construction investment for fiscal 2001 over fiscal 2000.

Tourism continues to make a significant contribution to economic activity. San Juan has become the largest home port for cruise ships in the Caribbean and the second largest home port in the world. Twenty-six US and international airlines offer scheduled service to and from San Juan and American Airlines uses San Juan as a hub for its intra-caribbean operations. This reflects the importance of Puerto Rico as a tourist destination and as a transportation hub for the Caribbean.

## **Major Initiatives**

### *Individual Income Taxes*

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

### *Industrial Incentives Program*

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

For many years, US companies operating in Puerto Rico enjoyed a special tax credit that was available under Section 936 of the US Internal Revenue Code. Originally, the credit provided an effective 100% federal income tax exemption for most operating income, as well as qualifying



investment income from Puerto Rico sources. Amendments to Section 936 made in 1993 (the “1993 Amendments”) instituted certain methods for calculating the tax credit and limited the amount of the credit that a qualifying company can claim.

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

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

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

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



### *Public Sector Debt*

Historically, the Commonwealth has maintained, as a matter of fiscal policy, a prudent relationship between the growth of public sector debt and the growth of the economic base required to service that debt. During fiscal years 1996, 1997 and 1998, however, public sector debt increased at a greater rate than the rate of gross product primarily due to an increase in the amount of debt incurred to finance certain key infrastructure projects, which are important to the development of the economy and are expected to produce long-term economic benefits, and debt incurred to refinance outstanding debt to enable Puerto Rico to benefit from the historically low levels of interest rates and realize debt service savings. During fiscal year 2001, public sector debt increased 12.1%.

As of June 30, 2001, outstanding short term debt, relative to total debt, was 12.07%.

### *Prospects for the Future*

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

Puerto Rico is experiencing the effects of a demographic transition in which the working age population growth is declining and is expected to continue to decline resulting in a reduction of the net number of new entrants into the working age population.

The Commonwealth intends to exploit this demographic transition to move up market into more productive employment. The island can leverage its position as a surplus labor region in the United States market.

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

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



## Financial Information

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

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

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

## Budgetary Controls

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

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

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

The annual budget, which is developed using elements of performance-based program budgeting and zero-based budgeting, includes an estimate of revenues and other resources for the ensuing fiscal year under laws existing at the time the budget is submitted and legislative measures proposed by the Governor and submitted with the proposed budget, as well as the Governor's



recommendations as to appropriations that in her judgment are necessary, convenient and in conformity with the four-year investment plan prepared by the Planning Board.

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

### General Government Functions

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

Income tax revenues slightly decreased to \$4,537 million in fiscal year 2001 or approximately 8.7% in comparison to fiscal 2000.

The Commonwealth experienced increases in the excise tax in the general fund to \$1.8 billion in fiscal 2001 from \$1.7 billion in fiscal 2000, or 5.9%.

Other increases in revenues are attributable to intergovernmental revenues, mainly composed of federal financial assistance programs.

### Enterprise operations

The Commonwealth's enterprise operations comprise two activities: the Lottery of Puerto Rico and the Additional Lottery System ("the Lotteries"). The Lotteries had operating revenues of \$731,315 and net operating income of \$154,093 (as described below), most of which is transferred to the general fund, as provided by law.

Comparative data for the enterprise funds for the past two fiscal years (expressed in thousands) follows:

	<u>June 30, 2001</u>	<u>June 30 2000</u>	<u>Increase (Decrease)</u>
Operating Revenues	\$ 731,315	\$ 744,343	\$ (13,028)
Operating Expenditures	<u>577,222</u>	<u>581,158</u>	<u>3,936</u>
	<u>\$ 154,093</u>	<u>\$ 163,185</u>	<u>\$ ( 9,092)</u>



## **Fiduciary Operations**

Fiduciary funds are used to account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, other governmental units or other funds. These include the expendable trust, pension trust and agency funds. Trust funds are established through trust agreements specifying how the fund will operate. Agency funds are custodial in nature and do not report fund balances. The trust funds include the Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities, Puerto Rico Judiciary Retirement System, Puerto Rico System of Annuities and Pensions for Teachers, the Unemployment Trust Fund and the Children's Trust.

Agency funds include the Special Deposits Fund. This agency fund includes deposits under the custody of the Courts of Justice for alimony payments, deposits under the custody of the Insurance Commissioner for escheated property and for insurance companies under bankruptcy.

## **Financial Advisor and Fiscal Agent**

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

GDB was the first governmental entity in Puerto Rico to obtain a Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report. It has received the award for the years ended June 30, 1994 through 2000. The Government Development Bank for Puerto Rico and Subsidiaries is presented as a discrete component unit.

## **Debt Administration**

As of June 30, 2001, the Commonwealth had a number of debt issues outstanding. These issues included approximately \$5.6 billion in general obligation bonds and approximately \$1.7 billion in revenue bonds, including \$1.6 billion of the Public Buildings Authority, a blended component unit. The Commonwealth has maintained an **A** credit rating from Standard and Poor's Corporation and a **Baa1** from Moody's Investor Service on general obligation bond issues, and we expect that these classifications will be maintained or improved in future years.

The Constitution of the Commonwealth limits the amount of debt service that can be incurred with respect to issued or guaranteed debt to 15% of internal revenues, as therein defined. As of June 30, 2001, the Commonwealth is in compliance with the debt limitation requirement. See the computation of the Legal Debt Margin, Page No. 3 in the Statistical Section.



## **Risk Financing**

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

## **Cash Management Policies and Practices**

The Commonwealth maintains a cash pool for its cash and cash equivalents. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest bearing accounts in GDB, a discretely presented component unit. In addition, the Puerto Rico Government Investment Trust Fund (PRGITF), was created by the Commonwealth pursuant to Act No. 176 of August 11, 1995, and began operations on December 4, 1995.

The PRGITF is a no-load diversified collective investment trust that was created for the purpose of providing eligible investors with a convenient and economical way to invest in a professionally managed money market portfolio. The deposits on hand and the investments purchased are not collateralized, secured or guaranteed by the Commonwealth or any of its agencies, instrumentalities or political subdivisions.

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

## **Other Information**

### Independent Audit

Commonwealth statutes require an annual audit by independent certified public accountants. The firm of KPMG LLP was selected by the Commonwealth to perform the audit of the general purpose financial statements in accordance with auditing standards generally accepted in the United States of America for the fiscal year 2000-2001. The independent auditor's report on the general purpose financial statements is included in the financial section of this report.

### Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the Commonwealth of Puerto Rico for its Comprehensive Annual Financial Report (CAFR) for the fiscal years ended from June 1996 through 2000. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for the preparation of state and local government financial reports.



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

We believe the Comprehensive Annual Financial Report of the Commonwealth of Puerto Rico as of and for the fiscal year ended June 30, 2001 continues to conform to GFOA standards and we are submitting it to the GFOA to determine its eligibility for a Certificate of Achievement for Excellence in Financial Reporting.

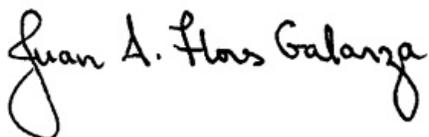
#### Acknowledgements

The preparation of this report on a timely basis requires the collective efforts of numerous finance personnel throughout the Commonwealth and is made possible only with the cooperation and support of the Executive, Legislative, and Judicial branch agencies, universities, and component units of the Commonwealth.

The report could not have been accomplished without the professionalism and dedication of José Alberto Soliván Galio and Miguel Rivera Rivera from our accounting staff as well as the rest of the personnel of the central government accounting area. Also, we would like to give special thanks to our independent auditors, KPMG LLP, especially to Anthony D. Cruz and Eduardo Herencia for their advice and commitment.

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

Respectfully submitted,



Juan A. Flores Galarza  
Secretary of Treasury



# COMMONWEALTH OF PUERTO RICO

## PRINCIPAL OFFICIALS

**Sila M. Calderón**  
Governor

### Members of the Cabinet

**César Miranda**  
Chief of Staff

**Ferdinand Mercado**  
Secretary of State

**Anabelle Rodríguez**  
Secretary of Justice

**Juan A. Flores Galarza**  
Secretary of the Treasury

**César Rey**  
Secretary of Education

**Víctor Rivera Hernández**  
Secretary of Labor and  
Human Resources

**Johnny Rullán**  
Secretary of Health

**Fernando Toledo**  
Secretary of Agriculture

**José Izquierdo**  
Secretary of Transportation and  
Public Works

**Ramón Cantero Frau**  
Secretary of Economic  
Development and Commerce

**Yolanda Zayas**  
Secretary of Family Affairs

**Ileana Echeгойen**  
Secretary of Housing

**Salvador Salas Quintana**  
Secretary of Natural and  
Environmental Resources

**Fernando Torres Ramírez**  
Secretary of Consumer Affairs

**Jorge Rosario**  
Secretary of Sports and Recreation

**Víctor Rivera González**  
Secretary of Correction and  
Rehabilitation

**Miguel Pereira**  
Commissioner of Protection and  
Public Safety

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## LEGISLATIVE OFFICERS

**Antonio Fas Alzamora**  
President, Senate

**Carlos Vizcarrondo**  
Speaker, House of Representatives

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## FISCAL OFFICERS

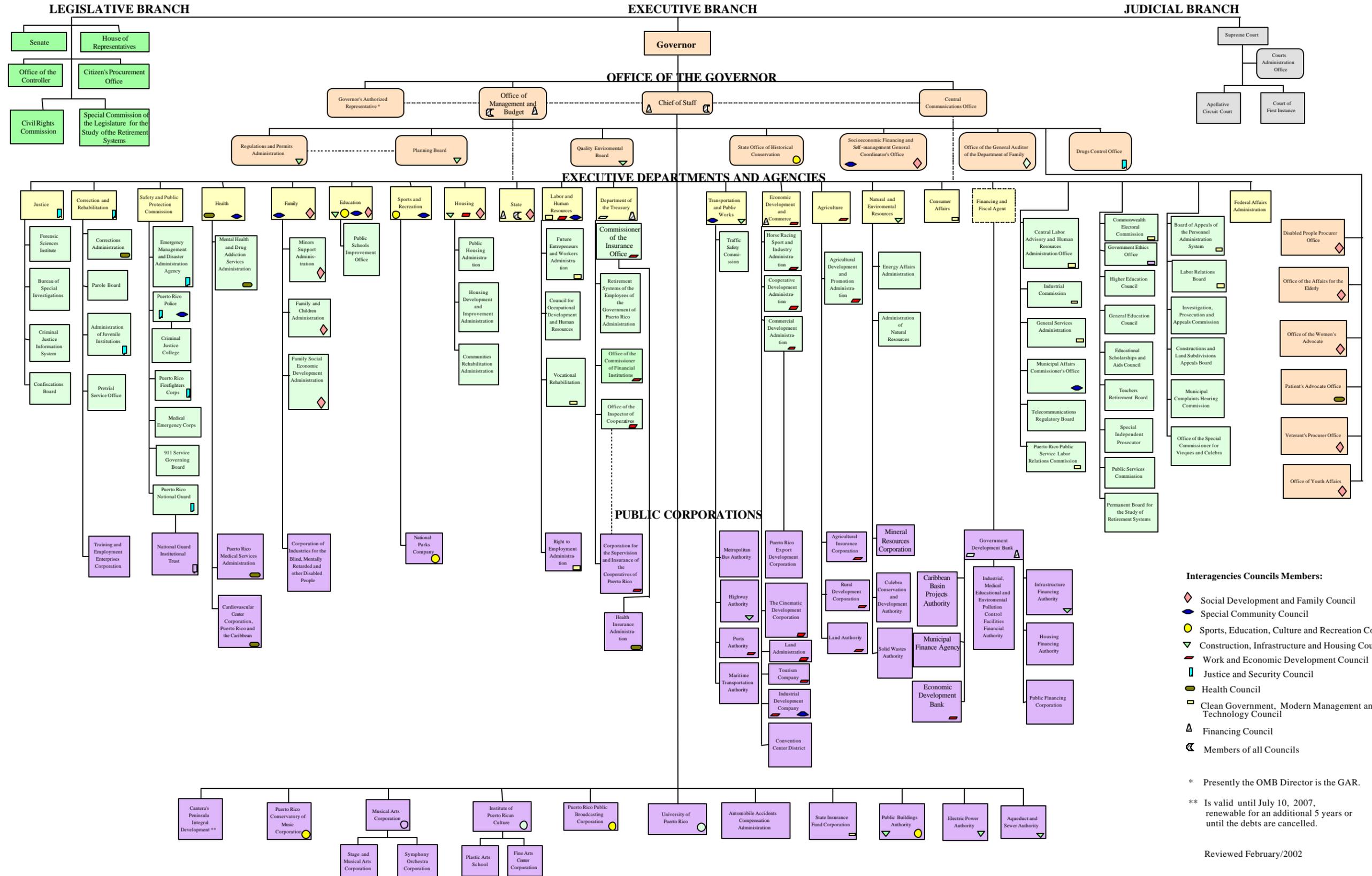
**Melba Acosta**  
Director, Office of Management  
and Budget

**Juan Agosto Alicea**  
President, Government Development  
Bank for Puerto Rico

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## OTHER OFFICERS

**Hermenegildo Ortiz**  
President, Planning Board



- Interagencies Councils Members:**
- ◆ Social Development and Family Council
  - ◆ Special Community Council
  - Sports, Education, Culture and Recreation Council
  - ▽ Construction, Infrastructure and Housing Council
  - ▬ Work and Economic Development Council
  - ▮ Justice and Security Council
  - Health Council
  - Clean Government, Modern Management and Technology Council
  - ▲ Financing Council
  - ⌘ Members of all Councils

\* Presently the OMB Director is the GAR.  
 \*\* Is valid until July 10, 2007, renewable for an additional 5 years or until the debts are cancelled.

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Commonwealth of Puerto Rico

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2000

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



*Imelda Arce*  
President

*Jeffrey L. Essler*  
Executive Director

## **FINANCIAL SECTION**



American International Plaza  
Suite 1100  
250 Ave. Muñoz Rivera  
San Juan, PR 00918-1811

## Independent Auditors' Report

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

We have audited the accompanying general purpose financial statements of the Commonwealth of Puerto Rico (the "Commonwealth") as of June 30, 2001, and for the year then ended, listed in the table of contents. These general purpose financial statements are the responsibility of the management of the Commonwealth. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the pension trust funds, the public university funds, and the activities and component units described below. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the general fund, trust and agency fund, public university funds and the following activities and component units, is based solely on the reports of the other auditors:

- Public Buildings Authority, a blended component unit, which represents 24 percent and 69 percent, respectively, of the total assets and revenue of the debt service fund; 45 percent and 86 percent, respectively, of the total assets and revenue of the capital project fund; and 50 percent and 11 percent, respectively, of the total general fixed assets and long-term debt account groups.
- Office for the Improvements of the Public Schools, which represents 3 percent of total assets of the general fund and 2 percent of the total general long-term debt account group.
- Office for the Administration of the Assets of the Puerto Rico Urban Renewal and Housing Corporation, which represents 4 percent of total assets of the general fund.
- The Additional Lottery System, an enterprise fund, which represents 86 percent and 37 percent, respectively, of total assets and operating revenue of the enterprise funds.
- Entities identified in note 2, that are presented as component units – other, which collectively represent 55 percent and 80 percent, respectively, of the total assets and operating revenues of the component units – other column.



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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth of Puerto Rico as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types and discretely presented component units – other for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We audited the adjustments in note 18, that were applied to restate certain beginning balances as of July 1, 2000. In our opinion, such adjustments are appropriate and have been properly applied. Also as discussed in note 18, certain changes and restatements were made to the reporting entity as presented in these general purpose financial statements and to accounting policies of certain discretely presented component units.

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

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

KPMG LLP

January 21, 2002

Stamp No. 1747050 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

## **GENERAL PURPOSE FINANCIAL STATEMENTS**

**COMMONWEALTH OF PUERTO RICO**

Combined Balance Sheet – All Fund Types, Account Groups and Discretely Presented Component Units

June 30, 2001  
(In thousands)

Assets and Other Debits	Governmental fund types			Proprietary fund type	Fiduciary fund types	Account Groups		Totals (memorandum only) primary government	Component Units		Totals (memorandum only) reporting entity
	General	Debt service	Capital projects	Enterprise	Trust and agency	General fixed assets	General long-term debt		Public university	Other	
Assets:											
Cash and cash equivalents	\$ 59,901	56	126,619	9,698	1,044,740	—	—	1,241,014	51,495	413,303	1,705,812
Cash and cash equivalents in governmental banks	21,841	474,698	291,521	38,323	627,955	—	—	1,454,338	47,516	283,575	1,785,429
Investments, including collateral from securities lending transactions	—	171,192	86,233	—	4,711,245	—	—	4,968,670	539,959	5,139,427	10,648,056
Receivables, net:											
Taxes	1,319,731	—	—	—	71,848	—	—	1,391,579	—	—	1,391,579
Intergovernmental	137,764	75,457	—	—	—	—	—	213,221	—	118,419	331,640
Accounts	231,832	86,972	26,512	4,049	60,940	—	—	410,305	3,550	939,694	1,353,549
Loans and advances	167,882	—	36	—	605,170	—	—	773,088	99,340	359,614	1,232,042
Accrued interest	2,978	7,509	—	—	15,069	—	—	25,556	4,025	343,058	372,639
Other	3,836	—	—	—	13,375	—	—	17,211	12,221	52,387	81,819
Due from:											
Other funds	81,377	—	87,207	—	8,462	—	—	177,046	—	—	177,046
Primary government	—	—	—	—	—	—	—	—	35	65,104	65,139
Component units	69,905	—	—	—	—	—	—	69,905	—	5,896	75,801
Other governmental entities	—	—	—	—	—	—	—	—	—	831	831
Advances to:											
Primary government	—	—	—	—	—	—	—	—	47,180	1,542,348	1,589,528
Component units	—	—	—	—	—	—	—	—	—	1,892,392	1,892,392
Other governmental entities	—	—	—	—	—	—	—	—	—	561,968	561,968
Inventories	—	—	—	—	—	—	—	—	5,697	264,953	270,650
Restricted assets:											
Cash and cash equivalents	399,777	—	—	—	2,775	—	—	402,552	32,234	1,018,135	1,452,921
Other restricted assets	35,311	—	14,013	271,528	—	—	—	320,852	262,441	5,463,333	6,046,626
Housing units and land lots held for sale	75,994	—	—	—	—	—	—	75,994	—	125,988	201,982
Fixed assets, net	—	—	—	5,916	21,201	4,780,428	—	4,807,545	877,353	12,265,999	17,950,897
Other assets	6,605	5,267	1,370	—	30,520	—	—	43,762	2,119	334,317	380,198
Other debits:											
Amount available in debt service funds	—	—	—	—	—	—	212,198	212,198	—	464,097	676,295
Amount to be provided for retirement of bonds and notes payable and debt payable to component units	—	—	—	—	—	—	11,273,413	11,273,413	—	5,748,894	17,022,307
Amount to be provided for payment of accrued compensated absences, and other long-term liabilities	—	—	—	—	—	—	4,246,030	4,246,030	—	345,121	4,591,151
<b>Total assets and other debits</b>	<b>\$ 2,614,734</b>	<b>821,151</b>	<b>633,511</b>	<b>329,514</b>	<b>7,213,300</b>	<b>4,780,428</b>	<b>15,731,641</b>	<b>32,124,279</b>	<b>1,985,165</b>	<b>37,748,853</b>	<b>71,858,297</b>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO**

Combined Balance Sheet – All Fund Types, Account Groups and Discretely Presented Component Units

June 30, 2001  
(In thousands)

Liabilities, Equity (Deficit) and and Other Credits	Governmental fund types			Proprietary fund type	Fudiciary fund types	Account groups		Totals (memorandum only)	Component units		Totals (memorandum only)
	General	Debt service	Capital projects	Enterprise	Trust and agency	General fixed assets	General long-term debt	primary government	Public university	Other	reporting entity
Liabilities:											
Accounts payable and accrued liabilities	\$ 909,979	4,327	196,330	5,271	320,209	—	—	1,436,116	94,791	3,231,709	4,762,616
Tax refunds payable	222,087	—	—	—	—	—	—	222,087	—	—	222,087
Deposits	—	—	—	—	—	—	—	—	3,223	4,069,232	4,072,455
Due to:											
Other funds	8,462	87,207	1,242	19,177	60,958	—	—	177,046	—	—	177,046
Primary government	—	—	—	—	—	—	—	—	—	69,905	69,905
Other governmental entities	528	—	—	—	—	—	—	528	—	—	528
Component units	3,957	—	24,252	—	36,930	—	—	65,139	—	—	65,139
Advances from component units	—	—	255,197	—	—	—	—	255,197	—	1,901,074	2,156,271
Securities lending transactions and reverse repurchase agreements	—	—	—	—	72,496	—	—	72,496	—	557,577	630,073
Interest payable	577	181,401	—	174	—	—	—	182,152	1,993	344,406	528,551
Deferred revenues	1,149,502	—	—	12,994	—	—	—	1,162,496	—	204,389	1,366,885
Lottery prizes payable	—	—	—	286,896	—	—	—	286,896	—	—	286,896
Debt payable to component units	—	—	—	—	—	—	—	—	—	—	—
Notes payable	—	—	—	—	—	—	1,334,331	1,334,331	—	—	1,334,331
Bonds payable	—	326,691	—	—	24,220	—	2,472,239	2,472,239	—	1,865,614	4,337,853
Accrued compensated absences	—	—	—	766	—	—	7,679,041	8,029,952	467,909	13,631,784	22,129,645
Other liabilities	47,626	9,327	8,815	3,742	649,530	—	1,191,001	1,191,767	96,202	343,630	1,631,599
Other long-term liabilities	—	—	—	—	—	—	—	719,040	28,814	173,759	921,613
Net pension obligation	—	—	—	—	—	—	—	420,962	—	345,176	766,138
	—	—	—	—	—	—	—	2,634,067	—	21,767	2,655,834
<b>Total liabilities</b>	<b>2,342,718</b>	<b>608,953</b>	<b>485,836</b>	<b>329,020</b>	<b>1,164,343</b>	<b>—</b>	<b>15,731,641</b>	<b>20,662,511</b>	<b>692,932</b>	<b>26,760,022</b>	<b>48,115,465</b>
Equity (Deficit) and Other Credits:											
Investment in general fixed assets	—	—	—	—	—	4,780,428	—	4,780,428	500,443	312,578	5,593,449
Contributed capital	—	—	—	1,819	—	—	—	1,819	—	5,617,748	5,619,567
Retained earnings (deficit)	—	—	—	(1,325)	—	—	—	(1,325)	—	2,096,429	2,095,104
Fund balances:											
Reserved for:											
Encumbrances	207,263	—	41,852	—	1,947	—	—	251,062	30,397	64	281,523
Debt service	—	212,198	—	—	—	—	—	212,198	32,834	473,356	718,388
Unemployment benefits	—	—	—	—	778,212	—	—	778,212	—	—	778,212
Employees' pension benefits	—	—	—	—	4,782,301	—	—	4,782,301	686,067	—	5,468,368
Advances and other specified purposes	578,124	—	226,609	—	483,604	—	—	1,288,337	25,536	1,981,903	3,295,776
Net assets in liquidation	75,994	—	—	—	—	—	—	75,994	—	—	75,994
Unreserved (deficit)	(589,365)	—	(120,786)	—	2,893	—	—	(707,258)	16,956	506,753	(183,549)
<b>Total equity and other credits</b>	<b>272,016</b>	<b>212,198</b>	<b>147,675</b>	<b>494</b>	<b>6,048,957</b>	<b>4,780,428</b>	<b>—</b>	<b>11,461,768</b>	<b>1,292,233</b>	<b>10,988,831</b>	<b>23,742,832</b>
<b>Total liabilities, equity and other credits</b>	<b>\$ 2,614,734</b>	<b>821,151</b>	<b>633,511</b>	<b>329,514</b>	<b>7,213,300</b>	<b>4,780,428</b>	<b>15,731,641</b>	<b>32,124,279</b>	<b>1,985,165</b>	<b>37,748,853</b>	<b>71,858,297</b>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO**

Combined Statement of Revenue, Expenditures and Changes in Fund Balances –  
All Governmental Fund Types and Expendable Trust Funds

Year ended June 30, 2001  
(In thousands)

	Governmental fund types			Fiduciary fund type	Totals (memorandum only)
	General	Debt service	Capital projects	Expendable trust	
Revenue:					
Taxes:					
Income taxes	\$ 4,536,840	—	—	—	4,536,840
Excise taxes	1,771,104	17,888	—	—	1,788,992
Unemployment	—	—	—	253,558	253,558
Other taxes	92,024	—	—	—	92,024
Charges for services	370,217	275,589	—	6,743	652,549
Revenue from global settlement agreement	—	—	—	67,313	67,313
Intergovernmental	3,712,628	91,903	2,518	23,602	3,830,651
Interest	37,725	14,252	15,043	64,127	131,147
Other	269,688	120	903	550	271,261
<b>Total revenue</b>	<b>10,790,226</b>	<b>399,752</b>	<b>18,464</b>	<b>415,893</b>	<b>11,624,335</b>
Expenditures:					
Current:					
General government	739,009	—	—	24,081	763,090
Public safety	1,623,362	—	—	5,401	1,628,763
Health	954,563	—	—	1,095	955,658
Public housing and welfare	2,315,899	—	—	293,502	2,609,401
Education	2,308,479	—	—	85,060	2,393,539
Economic development	170,937	—	—	11,212	182,149
Intergovernmental	222,721	—	—	—	222,721
Capital outlays	132,297	—	888,047	—	1,020,344
Debt service:					
Principal	124,003	342,464	—	—	466,467
Interest and other	150,496	394,505	—	4,242	549,243
<b>Total expenditures</b>	<b>8,741,766</b>	<b>736,969</b>	<b>888,047</b>	<b>424,593</b>	<b>10,791,375</b>
Excess (deficiency) of revenue over (under) expenditures	2,048,460	(337,217)	(869,583)	(8,700)	832,960
Other financing sources (uses):					
Proceeds from long-term financing arrangements	238,578	—	431,596	392,992	1,063,166
Proceeds from promissory note	—	164,222	—	—	164,222
Proceeds from refunding bonds	—	329,370	—	—	329,370
Transfers-in from component units	88,380	—	—	—	88,380
Operating transfers-out to other funds	(414,174)	(59,106)	(34,856)	(3,142)	(511,278)
Payment to refunded bond escrow agent	—	(227,369)	—	—	(227,369)
Operating transfers-in from other funds	212,754	293,752	161,343	—	667,849
Transfers-out to component units	(2,252,179)	—	(103,741)	—	(2,355,920)
<b>Total other financing sources (uses)</b>	<b>(2,126,641)</b>	<b>500,869</b>	<b>454,342</b>	<b>389,850</b>	<b>(781,580)</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(78,181)	163,652	(415,241)	381,150	51,380
Fund balances at beginning of year (as restated)	350,197	48,546	562,916	885,506	1,847,165
Fund balances at end of year	\$ 272,016	212,198	147,675	1,266,656	1,898,545

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO**

Combined Statement of Revenue and Expenditures – Budget and Actual –  
Budget Basis – Budgeted General and Debt Service Funds

Year ended June 30, 2001  
(In thousands)

	Budgeted general fund			Budgeted debt service fund		
	Budget	Actual	Variance	Budget	Actual	Variance
<b>Revenue:</b>						
Income taxes	\$ 5,171,000	4,777,990	(393,010)	—	—	—
Excise taxes	1,875,000	1,629,920	(245,080)	—	16,709	16,709
Other taxes	80,000	84,186	4,186	—	—	—
Charges for services	147,000	132,814	(14,186)	—	—	—
Intergovernmental	58,000	43,152	(14,848)	92,455	99,930	7,475
Interest	—	—	—	—	10,085	10,085
Other	159,220	77,555	(81,665)	—	—	—
<b>Total revenue</b>	<b>7,490,220</b>	<b>6,745,617</b>	<b>(744,603)</b>	<b>92,455</b>	<b>126,724</b>	<b>34,269</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	465,522	400,394	65,128	—	—	—
Public safety	1,482,975	1,497,929	(14,954)	—	—	—
Health	191,024	370,423	(179,399)	—	—	—
Public housing and welfare	317,548	303,585	13,963	—	—	—
Education	1,648,032	1,609,768	38,264	—	—	—
Economic development	133,781	131,131	2,650	—	—	—
Intergovernmental	293,976	291,468	2,508	—	—	—
<b>Debt service:</b>						
Principal	156,353	111,170	45,183	265,330	265,330	—
Interest and other	66,252	57,045	9,207	274,045	264,052	9,993
<b>Total expenditures</b>	<b>4,755,463</b>	<b>4,772,913</b>	<b>(17,450)</b>	<b>539,375</b>	<b>529,382</b>	<b>9,993</b>
Excess (deficiency) of revenue over (under) expenditures	<u>2,734,757</u>	<u>1,972,704</u>	<u>(762,053)</u>	<u>(446,920)</u>	<u>(402,658)</u>	<u>44,262</u>
<b>Other financing sources (uses):</b>						
Proceeds of refunding bonds	—	—	—	—	329,370	329,370
Proceeds from bond anticipation notes	—	—	—	—	164,222	164,222
Proceeds from long-term financing arrangements	—	168,622	168,622	—	—	—
Operating transfers-in from general fund	—	—	—	446,920	245,814	(201,106)
Proceeds from notes payable	—	—	—	—	—	—
Operating transfers-in from other funds	121,000	216,517	95,517	—	—	—
Operating transfers-out to other funds	(378,314)	(376,987)	1,327	—	(2,935)	(2,935)
Operating transfers-out to debt service fund	(446,920)	(245,814)	201,106	—	—	—
Transfers-out to component units	(2,030,523)	(2,030,452)	71	—	—	—
Payment to refunded bond escrow agent	—	—	—	—	(164,042)	(164,042)
<b>Total other financing sources (uses)</b>	<b>(2,734,757)</b>	<b>(2,268,114)</b>	<b>466,643</b>	<b>446,920</b>	<b>572,429</b>	<b>125,509</b>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	\$ <u>—</u>	<u>(295,410)</u>	<u>(295,410)</u>	<u>—</u>	<u>169,771</u>	<u>169,771</u>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO**

Combined Statement of Revenue, Expenses and Changes in Retained  
Earnings (Deficit)/Fund Balances – Proprietary Fund Type and  
Similar Discretely Presented Component Units

Year ended June 30, 2001  
(In thousands)

	<u>Proprietary fund type</u>	<u>Other discretely presented component units</u>
	<u>Enterprise</u>	
Operating revenue:		
Charges for services	\$ 731,315	4,467,204
Financing income	—	269,986
Investment earnings	—	457,945
Other	—	56,803
	<hr/>	<hr/>
Total operating revenue	731,315	5,251,938
Operating expenses:		
Cost of services	575,073	5,397,627
Interest	—	448,873
Depreciation and amortization	2,149	444,798
Other	—	19,108
	<hr/>	<hr/>
Total operating expenses	577,222	6,310,406
Operating income (loss)	<hr/>	<hr/>
	154,093	(1,058,468)
Nonoperating revenue (expenses):		
Intergovernmental	—	69,382
Interest income	—	211,196
Interest expense	—	(364,522)
Other, net	354	78,880
	<hr/>	<hr/>
Total nonoperating revenue (expenses)	354	(5,064)
Income (loss) before operating transfers	<hr/>	<hr/>
	154,447	(1,063,532)
Transfers:		
Operating transfers-out to general fund	156,571	—
Transfers-in from primary government	—	1,621,029
	<hr/>	<hr/>
Total transfers, net	156,571	1,621,029
Net income (loss)	<hr/>	<hr/>
	(2,124)	557,497
Excess of revenue over expenditures from governmental operations	—	360,694
Depreciation on fixed assets acquired through capital contributions	<hr/>	<hr/>
	2,124	77,803
Increase in retained earnings/fund balances	—	995,994
Retained earnings (deficit)/fund balances at beginning of year (as restated)	(1,325)	4,228,050
Residual equity transfer	<hr/>	<hr/>
	—	(165,539)
Retained earnings (deficit)/fund balances at end of year	<hr/>	<hr/>
	\$ (1,325)	5,058,505

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO**

Combined Statement of Cash Flows – Proprietary Fund Type and  
Similar Discretely Presented Component Units

Year ended June 30, 2001  
(In thousands)

	<u>Proprietary fund type</u>	<u>Other discretely presented component units</u>
	<u>Enterprise</u>	
Cash flows from operating activities:		
Operating income (loss)	\$ 154,093	(1,058,468)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	2,149	444,798
Provision for uncollectible accounts	—	272,748
Amortization of debt discount	—	449
Net gain on disposition of fixed assets	—	(14,143)
Net gain on sale of investments	—	(63,634)
Contribution in lieu of taxes	—	(148,271)
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating loss	—	(165,110)
Other	—	(74,560)
Change in assets and liabilities:		
Increase in:		
Receivables	(278)	(221,693)
Due from primary government	—	(187)
Inventories	—	(2,106)
Other assets	—	(55,722)
Accounts payable and accrued liabilities	263	163,436
Due to primary government	—	19,313
Deposits	—	12,911
Interest payable	—	809
Deferred revenue	2,785	28,081
Lottery prizes payable	20,204	—
Accrued compensated absences	—	2,165
Other liabilities	—	20,650
Other long-term liabilities	—	249
Decrease in:		
Receivables	—	35,719
Inventories	—	23,974
Other assets	—	10,029
Accounts payable and accrued liabilities	—	(68,973)
Deposits	—	(459)
Due to general fund	(11,295)	—
Deferred revenue	(591)	(2,975)
Accrued compensated absences	(85)	(10,032)
Other liabilities	—	(39,103)
Other long-term liabilities	—	(540)
Total adjustments	<u>13,152</u>	<u>167,823</u>
Net cash provided by (used in) operating activities, (carried forward)	\$ <u>167,245</u>	<u>(890,645)</u>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO**

Combined Statement of Cash Flows – Proprietary Fund Type and  
Similar Discretely Presented Component Units, Continued

Year ended June 30, 2001  
(In thousands)

	<u>Proprietary fund type</u>	<u>Other discretely presented component units</u>
	<u>Enterprise</u>	
Net cash provided by (used in) operating activities, (brought forward)	\$ 167,245	(890,645)
Cash flows from noncapital financing activities:		
Proceeds from notes and loans	—	1,223,740
Principal paid on notes and loans	—	(1,938,779)
Interest paid on notes and loans	—	(455,369)
Operating grants received	—	120,399
Operating transfers-out to general fund	(156,571)	—
Transfers-in from primary government	—	1,186,610
Transfers-out to primary government	—	(160,890)
Noncapital contributions	—	343,331
Net cash provided by (used in) noncapital financing activities	<u>(156,571)</u>	<u>319,042</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(60)	(1,082,422)
Proceeds from issuance of bonds and notes	—	937,236
Principal paid on bonds and notes	—	(584,055)
Interest paid on bonds and notes	—	(291,118)
Proceeds from sale of equipment	—	39,430
Capital contributions	—	158,878
Net cash used in capital and related financing activities	<u>(60)</u>	<u>(822,051)</u>
Cash flows from investing activities:		
Purchase of investment securities	(19,965)	(9,569,636)
Proceeds from sales and maturities of investment securities	—	10,878,074
Interest and dividends on investments	—	784,647
Principal collected on loans to:		
Component units and primary government	—	2,234,032
Private sector	—	119,405
Loans originated to:		
Component units and primary government	—	(2,597,272)
Private sector	—	(62,440)
Net decrease in securities lending transactions	—	(140,761)
Net cash provided (used) in investing activities	<u>(19,965)</u>	<u>1,646,049</u>
Net increase (decrease) in cash and cash equivalents	(9,351)	252,395
Cash and cash equivalents at beginning of year (as restated)	57,372	1,202,843
Cash and cash equivalents from governmental operations	—	259,775
Cash and cash equivalents at end of year	\$ <u>48,021</u>	<u>1,715,013</u>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO**

Combined Statement of Cash Flows – Proprietary Fund Type and  
Similar Discretely Presented Component Units, Continued

Year ended June 30, 2001  
(In thousands)

	<u>Proprietary fund type</u>	<u>Other discretely presented component units</u>
	<u>Enterprise</u>	
Reconciliation of cash and cash equivalents to the combined balance sheet:		
Cash and cash equivalents	\$ 9,698	413,303
Cash and cash equivalents in governmental banks	38,323	283,575
Cash and cash equivalents – restricted assets	<u>—</u>	<u>1,018,135</u>
	<u>\$ 48,021</u>	<u>1,715,013</u>
Reconciliation of beginning cash and cash equivalents:		
Cash and cash equivalents as of June 30, 2000, as previously reported		\$ 1,404,014
Net beginning cash and cash equivalents of component units included (excluded) in fiscal year 2001		7,696
Cash and cash equivalents from governmental operations		<u>(208,867)</u>
		<u>\$ 1,202,843</u>
Schedule of noncash investing, capital and financing activities:		
Transfer of preferred shares of Puerto Rico Telephone Authority to the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities		\$ <u>165,539</u>
Recognition of receivable from primary government to compensate for losses on sale of tax liens transaction		\$ <u>116,862</u>
Adjustments to offset accounts receivable with notes and accounts payable		\$ <u>109,039</u>
Transfer of accounts receivable to intergovernmental receivables		\$ <u>75,817</u>
Donation of utility plant and real estate property		\$ <u>56,047</u>
Accretion of discount on liability financial instruments, net		\$ <u>44,820</u>
Bifurcation of embedded derivative from deposit liabilities		\$ <u>43,462</u>
Transfer of assets in exchange for accounts receivable		\$ <u>23,666</u>
Accrued interest on capital appreciation bonds		\$ <u>17,200</u>
Decrease in fair value of investments		\$ <u>15,559</u>
Accretion of discount on asset financial instruments		\$ <u>11,213</u>
Amortization of bond issue costs		\$ <u>7,452</u>
Financing of property acquisition		\$ <u>6,707</u>
Capitalized interest on loans and investments		\$ <u>4,633</u>
Real estate acquired through foreclosure, net		\$ <u>2,384</u>
Retirement of fully depreciated assets		\$ <u>1,424</u>
Net unrealized loss on derivatives		\$ <u>712</u>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO**

Combined Statement of Changes in Plan Net Assets  
Available for Pension Benefits – Pension Trust Fund Types  
and Similar Discretely Presented Component Units

Year ended June 30, 2001  
(In thousands)

	<u>Fiduciary fund type</u>	<u>Public university fund</u>
	<u>Pension trust funds</u>	<u>University of Puerto Rico Retirement System</u>
Additions:		
Contributions:		
Employer	\$ 449,715	54,809
Employees	341,756	23,615
Special	729,791	—
Total contributions	<u>1,521,262</u>	<u>78,424</u>
Investment income (expense):		
Interest	152,600	24,549
Dividends	20,930	3,356
Net decrease in fair value of investments	<u>(599,690)</u>	<u>(91,364)</u>
Total investment loss	(426,160)	(63,459)
Less investment expense	<u>(10,266)</u>	<u>(2,386)</u>
Net investment loss	(436,426)	(65,845)
Other income	<u>20,890</u>	<u>5,191</u>
Total additions	<u>1,105,726</u>	<u>17,770</u>
Deductions:		
Benefits	880,596	83,805
Refunds of contributions	26,047	—
General and administrative	<u>50,846</u>	<u>2,178</u>
Total deductions	<u>957,489</u>	<u>85,983</u>
Net increase (decrease)	148,237	(68,213)
Net assets available for pension benefits at beginning of year	<u>4,634,064</u>	<u>754,280</u>
Net assets available for pension benefits at end of year	<u>\$ 4,782,301</u>	<u>686,067</u>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO**

Combined Statement of Changes in Fund Balances –  
Public University Funds – University of Puerto Rico

Year ended June 30, 2001  
(In thousands)

	Current funds		Loan funds	Endowment and similar funds	Plant funds			
	Unrestricted	Restricted			Unexpended	Renewal and replacement	Retirement of indebtedness	Investment in plant
Revenue and other additions:								
Unrestricted current fund revenue	\$ 698,681	—	—	—	—	—	—	—
Commonwealth of Puerto Rico	—	—	—	—	—	—	—	—
appropriations, grants and contracts	—	44,547	—	—	190	—	—	—
Federal grants and contracts	—	191,310	—	—	414	—	—	—
Private gifts, grants and contracts	—	11,547	—	237	—	—	—	—
Net investment income	—	489	53	—	6,461	—	3,081	—
Interest on loans receivable	—	—	318	—	—	—	—	—
Expended for plant facilities	—	—	—	—	—	5,630	—	36,854
Retirement of indebtedness	—	—	—	—	—	—	—	18,760
Other	—	51,274	2,108	—	74	2	—	—
Total revenue and other additions	698,681	299,167	2,479	237	7,139	5,632	3,081	55,614
Expenditures and other deductions:								
Educational and general expenditures	628,285	316,099	—	—	—	—	—	—
Auxiliary enterprises expenditures	9,002	—	—	—	—	—	—	—
Refunded to grantors	—	491	—	—	—	—	—	—
Loan cancellations and assignments	—	—	3	—	—	—	—	—
Administrative and collection costs	—	—	965	—	—	—	—	—
Expended for plant facilities	—	—	1	—	11,465	4,813	—	—
Retirement of indebtedness	—	—	—	—	—	—	18,760	—
Interest on indebtedness	—	—	—	—	—	—	24,175	—
Disposal of plant facilities	—	—	—	—	—	—	—	7,661
Net investment loss	—	—	—	1,438	—	—	—	—
Other	—	—	—	—	—	—	—	301
Total expenditures and other deductions	637,287	316,590	969	1,438	11,465	4,813	42,935	7,962
Transfers among funds—additions (deductions):								
Mandatory:								
Principal and interest	(36,393)	—	—	—	(665)	—	37,058	—
Restricted current fund matching grants	(5,315)	4,778	—	550	(13)	—	—	—
Other transfers:								
Unrestricted current funds	(23,336)	18,279	1,458	(6)	3,860	(255)	—	—
Total transfers	(65,044)	23,057	1,458	544	3,182	(255)	37,058	—
Net increase (decrease) for the year	(3,650)	5,634	2,968	(657)	(1,144)	564	(2,796)	47,652
Fund balances (deficit) at beginning of year	20,458	25,108	4,598	23,624	(5,120)	506	35,630	452,791
Fund balances (deficit) at end of year	\$ 16,808	30,742	7,566	22,967	(6,264)	1,070	32,834	500,443

See accompanying notes to general purpose financial statements.

## COMMONWEALTH OF PUERTO RICO

### Combined Statement of Current Funds Revenue, Expenditures and Other Changes – Public University Funds – University of Puerto Rico

Year ended June 30, 2001  
(In thousands)

	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total</b>
<b>Revenue:</b>			
Tuition and fees	\$ 62,194	6,723	68,917
Commonwealth appropriations, grants and contracts, including transfers of \$646,511 from primary government	620,851	56,701	677,552
Federal grants and contracts	—	191,310	191,310
Private gifts, grants and contracts	—	11,547	11,547
Sales and services of educational departments	753	39,156	39,909
Sales and services of auxiliary enterprises	6,308	—	6,308
Investment income	5,925	489	6,414
Other sources	2,650	5,395	8,045
	<b>698,681</b>	<b>311,321</b>	<b>1,010,002</b>
<b>Expenditures and mandatory transfers:</b>			
<b>Education and general:</b>			
Instruction	268,172	29,737	297,909
Research	21,266	67,779	89,045
Public service	14,513	32,260	46,773
Academic support	72,451	6,512	78,963
Student services	36,278	3,357	39,635
Institutional support	116,380	6,993	123,373
Operation and maintenance of plant	87,977	729	88,706
Scholarships and fellowships	1,931	130,032	131,963
Hospitals	—	35,355	35,355
Independent operations	13	1,635	1,648
Other	9,304	1,710	11,014
	<b>628,285</b>	<b>316,099</b>	<b>944,384</b>
<b>Mandatory transfers for:</b>			
Principal and interest	36,393	—	36,393
Restricted current fund matching grants	5,315	(4,778)	537
	<b>41,708</b>	<b>(4,778)</b>	<b>36,930</b>
<b>Total education, general and mandatory transfers</b>	<b>669,993</b>	<b>311,321</b>	<b>981,314</b>
Auxiliary enterprises – expenditures	9,002	—	9,002
	<b>678,995</b>	<b>311,321</b>	<b>990,316</b>
<b>Transfers and additions (deductions):</b>			
Deficiency of restricted receipts under transfers to revenue	—	(12,154)	(12,154)
Refunded to grantors	—	(491)	(491)
Nonmandatory transfers	(23,336)	18,279	(5,057)
	<b>(23,336)</b>	<b>5,634</b>	<b>(17,702)</b>
<b>Total transfers and additions (deductions)</b>	<b>(23,336)</b>	<b>5,634</b>	<b>(17,702)</b>
<b>Net increase in fund balance</b>	<b>\$ (3,650)</b>	<b>5,634</b>	<b>1,984</b>

See accompanying notes to general purpose financial statements.

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

### 1. Summary of Significant Accounting Policies

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

#### (a) *The Financial Reporting Entity*

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

The accompanying general purpose financial statements include all departments, agencies and governmental entities whose funds are under the custody and control of the Secretary of the Treasury, and the Commonwealth’s component units pursuant to Act No. 230 of July 23, 1974, as amended, known as “Commonwealth of Puerto Rico Accounting Law.” The component units discussed below are included as part of the Commonwealth’s reporting entity because they are financially accountable to the Commonwealth pursuant to GASB Statement No. 14, “The Financial Reporting Entity” (“GASB No. 14”).

#### (b) *Component Units*

GAAP defines component units as those entities which are legally separate organizations for which the Commonwealth’s elected officials are financially accountable, or other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth’s general purpose financial statements to be misleading and incomplete. GAAP details two methods of presentation: blending the financial data of the component units’ balances and transactions in a manner similar to the presentation of the Commonwealth’s balances and transactions; or discrete presentation of the component units’ financial data in columns separate from the Commonwealth’s balances and transactions.

The Commonwealth can impose its will on each of the component units through appointment of their governing authorities.

The financial statements of the component units discussed below have been included in the financial reporting entity either as blended component units or as discretely presented component units in accordance with GAAP.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

#### ***Blended Component Units:***

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

#### ***Public Buildings Authority (“PBA”)***

The Public Buildings Authority is governed by a seven-member board of which the Secretary of the Department of Transportation and Public Works (“DTPW”) is a permanent member and the other six members are appointed by the Governor with the consent of the Senate. It is a legally separate entity, whose activities are blended within the primary government because it exists to construct, purchase or lease office, school, health, correctional, social welfare, and other facilities for lease to the Commonwealth’s departments, component units and instrumentalities. Bonds issued by PBA to finance such facilities are payable from lease collections, which are largely derived from Commonwealth appropriations and are further secured by the Commonwealth’s guaranty (see note 15).

#### ***Puerto Rico Maritime Shipping Authority (“PRMSA”)***

The Puerto Rico Maritime Shipping Authority is governed by the President of the Government Development Bank for Puerto Rico. The operations of PRMSA consist of servicing the long-term liability to third parties that resulted from the sale of certain maritime operations formerly owned and operated by PRMSA. The Commonwealth is required to annually appropriate funds in its general operating budget to provide for the payment of principal and interest on such debt (see note 14[d]).

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

The Employees’ Retirement System of the Government of Puerto Rico and its Instrumentalities is governed by a board of trustees which is composed of the Secretary of the Treasury, who is the president, the president of the Government Development Bank for Puerto Rico, the Insurance Commissioner, the director of the Puerto Rico Central Office of Personnel Administration, two participating employees and one retiree, who are appointed by the Governor. The Commonwealth reports ERS as a single-employer pension plan. ERS is the administrator of a defined-benefit pension plan which covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their own retirement system. On September 24, 1999, an amendment to the Law that created ERS was enacted with the purpose of establishing a new plan (System 2000) for persons joining the government on or after January 1, 2000 (see note 21).

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

The Puerto Rico Judiciary Retirement System is governed by the same Board of Trustees as ERS. JRS is a single-employer defined benefit plan, administered by the ERS, which covers all individuals holding a position as Justice of the Supreme Court, Judge of the Superior Court or the District Court or Municipal Judges of the Commonwealth (see note 21).

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

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

The Puerto Rico System of Annuities and Pensions for Teachers is governed by a five-member board comprised of the Secretary of Education, the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico and two participating members (one of whom is a retiree and the President of one of the teachers organizations) appointed by the Governor with the advice and consent of the Senate for four years, of which one must be a retiree and the other an active member. The Commonwealth reports TRS as a single-employer pension plan. TRS provides retirement benefits to all teachers of the Department of Education of the Commonwealth, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education, teachers who work in the Teachers’ Association of Puerto Rico, and those who practice in private institutions accredited by the Department of Education. TRS provides retirement, death and disability benefits (see note 21).

### *The Children’s Trust*

The Children’s Trust (the “Trust”) is governed by a seven-member board comprised by the Governor of Puerto Rico, who is the Chairman, the President of the GDB, the Director of the Office of Management and Budget (“OMB”), the Secretary of Justice and three private citizens appointed by the Governor with the consent of the Senate. The Trust has been blended within the primary government. The Trust’s sole operation consists of providing financial assistance principally to the Commonwealth’s departments to carry out projects aimed at promoting the well-being of children and youth of Puerto Rico, especially in the areas of education, recreation and health. The operation of the Trust is financed with the moneys being received by the Commonwealth from a Global Settlement Agreement dated November 23, 1998, between certain tobacco companies and certain states, territories and other jurisdictions of the United States of America, including the Commonwealth.

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

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

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

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

Puerto Rico Judiciary Retirement System  
P.O. Box 364267  
Santurce, PR 00940

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

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

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

### ***Discretely Presented Component Units:***

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

#### **Public University Funds**

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

The University of Puerto Rico is governed by a 13-member board of trustees of which 10 members are appointed by the Governor with the consent of the Senate, one full-time student and two member professors. Board members are appointed for a period from four to eight years. The terms for the student and professors are one year.

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

The University of Puerto Rico Retirement System is the administrator of a single-employer pension plan for the employees of the UPR. It is governed by the board of trustees of the UPR, and is reported as a component unit of the UPR (see note 21).

#### **Component Units – Other**

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

The Government Development Bank for Puerto Rico and Subsidiaries are governed by a seven-member board appointed by the Governor. The president of GDB is also the chairman of the board. GDB acts as the financial advisor and fiscal agent for the Commonwealth, its public corporations and municipalities in connection with the issuance of bonds and notes; and it also makes loans and advances funds predominantly to public corporations and the Commonwealth's municipalities.

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

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

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

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

The Puerto Rico Highway and Transportation Authority is governed by a governing board composed by the Secretary of the Department of Transportation and Public Works (“DTPW”), who will be the President of the board, the Secretary of the Treasury, the Secretary of Agriculture, the President of the Planning Board of Puerto Rico, and one mayor who is appointed by the Governor with the consent of the Senate. PRHTA has broad powers to carry out its responsibilities in accordance with DTPW’s overall transportation policies. These powers include, among other things, the complete control and supervision of any highway facilities constructed, owned or operated by PRHTA, the ability to set tolls for the use of the highway facilities, and the power to issue bonds, notes or other obligations. PRHTA plans and manages the construction of all major projects relating to the Commonwealth toll highway system, undertakes major repairs and maintains the tollways.

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

The Puerto Rico Aqueduct and Sewer Authority is governed by a nine-member board composed by five members appointed by the Governor, the Secretary of Transportation and Public Works, the President of the Government Development Bank and two members elected in a referendum carried out by the Puerto Rico Consumer Affairs Department. PRASA owns and operates the system of public water supply and sanitary sewer facilities. PRASA is authorized, among other powers, to borrow money and issue revenue bonds for any of its corporate purposes. Through the approval of Act No. 328 of 1998, PRASA was authorized to enter into privatization contracts for the administration of its operations. PRASA is required, under the terms of its Trust Agreements, to determine and collect reasonable rates for water and sewer services to produce revenue sufficient to cover all operating and financing obligations. PRASA’s capital is generated by nonreimbursable legislative appropriations from the Commonwealth, grants from various agencies of the federal government, donations in-kind, or other operating cash transfers from various governmental agencies and instrumentalities of the Commonwealth, other customers of PRASA, and internally generated funds. As discussed in note 15(a), the Commonwealth guarantees the principal and interest payments of certain outstanding bonds and of all future bonds issued to refinance those outstanding bonds, and other loans under the State Revolving Fund Program.

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

The Puerto Rico Telephone Authority is governed by a five-member board composed by the President of GDB and the remaining four members are appointed by the board of directors of GDB.

PRTA is the legal entity responsible to account for the equity interest in Telecomunicaciones de Puerto Rico, Inc. for the benefit of the ERS (see note 24).

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

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

The Puerto Rico Government Investment Trust Fund was created in fiscal year 1996 and is governed by the Secretary of the Treasury of the Commonwealth, who is appointed by the Governor, with the consent of the Senate. 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. PRGITF is neither subject to regulation under the Investment Company Act of 1940, nor is it required to register under the Securities and Exchange Act of 1933 (see note 4).

#### ***Puerto Rico Housing Bank and Finance Agency (“PRHBFA”)***

The Puerto Rico Housing Bank and Finance Agency is governed by the Secretary of Housing who is appointed by the Governor with the consent of the Senate. PRHBFA issues bonds and notes to provide interim and permanent financing for low-income housing projects and single-family home ownership programs. It is also engaged in insuring and servicing mortgages originated by the former Puerto Rico Urban Renewal and Housing Corporation which ceased operations effective August 9, 1991. PRHBFA obtains funds from legislative appropriations, sale of mortgages, collection of mortgage repayments, and other sources. As described in note 23, PRHBFA will transfer all its assets and liabilities to Housing Finance Corporation, a component unit of GDB, which was redenominated as the Puerto Rico Housing Finance Authority pursuant to Act No. 103 of August 11, 2001.

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

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

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

The Economic Development Bank for Puerto Rico is governed by a nine-member board comprised of the President of GDB, who is the Chairman, the Secretary of Agriculture, the Secretary of Economic Development and Commerce, the Economic Development Administrator, the Executive Director of the Tourism Company of Puerto Rico, and four other members appointed by the Governor with the consent of the Senate. EDB is responsible for the promotion and development of the private sector economy of the Commonwealth. This purpose is to be met by granting direct loans, loan guarantees, and/or direct investments to any person or business organization devoted to manufacturing, agriculture, trade, tourism, or other service enterprises, whose economic activity may have the effect of substituting imports.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

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

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

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

#### ***Puerto Rico Ports Authority (“PRPA”)***

The Puerto Rico Ports Authority is governed by a five-member board consisting of the Secretary of Transportation and Public Works, who is the Chairman, the Secretary of Economic Development and Commerce, the Economic Development Administrator, the Executive Director of the Tourism Company of Puerto Rico and one private citizen appointed by the Governor with the consent of the Senate. The purpose of PRPA is to administer all ports and aviation transportation facilities of the Commonwealth and to render other related services.

#### ***Puerto Rico Municipal Finance Agency (“PRMFA”)***

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

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

The Puerto Rico Infrastructure Financing Authority is governed by the Secretary of the Treasury and six members of the board of GDB. 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.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

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

The Sugar Corporation of Puerto Rico is administered by the Governing Board of the Land Authority of Puerto Rico consisting of the Secretary of Agriculture who is the Chairman and four other members appointed by the Governor with the consent of the Senate. SCPR was created to consolidate ownership and management of the Commonwealth’s interests in Puerto Rico’s sugar industry. As stated in note 26, SCPR is in the process of transferring its assets to sugar cane growers and the Land Authority of Puerto Rico.

#### ***Puerto Rico School of Plastic Arts (“SPA”)***

The Puerto Rico School of Plastic Arts is governed by a seven-member board elected by the Board of Directors of the Institute of Puerto Rican Culture (the “Institute”). Board members may not be employees of the SPA. Of these, three are elected from among the members of the Board of Directors of the Institute, one of whom will serve as president. SPA was created to develop, promote, plan, and coordinate programs of study in higher education oriented to the plastic arts, teaching artistic techniques and to help students to develop humanistic values.

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

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

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

The Caribbean Basin Projects Financing Authority is governed by a five-member board consisting of the Economic Development Administrator, the President of GDB, the President of EDB and two private citizens appointed by the Governor with the consent of the Senate. CBPFA is authorized to issue revenue bonds and to loan the proceeds thereof to finance projects for the development of the Caribbean Basin countries that were authorized to receive investments of funds under the provisions of Section 936 of the U.S. Internal Revenue Code.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

#### ***Automobile Accident Compensation Administration (“ACA”)***

The Automobile Accident Compensation Administration is governed by a board comprised of one member of the Cabinet of the Governor and four members appointed by the Governor with the consent of the Senate. ACA operates a system of compulsory insurance coverage for all registered motor vehicles and compensates citizens for injuries arising from motor vehicle accidents.

#### ***Puerto Rico Metropolitan Bus Authority (“PRMBA”)***

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

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

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

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

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

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

Act No. 29 of May 6, 2001 changed the composition of the board of directors. TCPR is now governed by a nine-member board comprised of representatives of different tourist-related sectors appointed by the Governor with the consent of the Senate. Its purpose is to promote the tourism industry of Puerto Rico.

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

The Employment and Training Enterprises Corporation and Subsidiary is governed by a 10-member board comprised of the Corrections Administrator, the Administrator of Youth Correctional Institutions, the Secretary of Justice, the Secretary of Education, the Executive Director of the Right to Employment Administration, the Administrator of the Administration of Mental Health and Anti-Addiction Services, the Sub-Administrator for the Promotion of Puerto Rico Industries of the Economic Development Administration, the Director of the Volunteer Corps, and two private citizens appointed by the Governor with the consent of the Senate. The purpose of ETEC is to provide training, management development and employment for inmates of the correctional institutions of the Commonwealth.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

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

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

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

The Institutional Trust of the National Guard of Puerto Rico is administered by a seven-member board comprised of the Adjutant General of the Puerto Rico National Guard, the President of GDB, the Secretary of Justice and four members of the Puerto Rico National Guard appointed by the Governor with the consent of the Senate. ITNGPR’s purpose is to provide life insurance, retirement benefits and economic assistance to the active members of the Puerto Rico National Guard and their families.

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

The Musical Arts Corporation and Subsidiaries are governed by a seven-member board appointed by the Governor with the consent of the Senate. MAC was created to promote the development of the arts and cultural programs of the Commonwealth.

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

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

#### ***Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (“PCSDIPRC”)***

The Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (formerly the Corporation of Stock and Deposit Insurance for the Savings and Loans Cooperatives) is governed by a nine-member board consisting of the Commissioner of Financial Institutions of Puerto Rico, the Insurance Commissioner of Puerto Rico, the Administrator of the Cooperative Development Administration, the Secretary of the Treasury, the Director of OMB, a representative of GDB, two citizens representing the cooperative movement, and one private citizen. PCSDIPRC has the responsibility of providing to all the cooperatives and the Federation of Cooperatives of Puerto Rico, insurance coverage over the stocks and deposits, for monitoring the financial condition of the insured cooperatives, and of uninsured cooperatives when requested by the Commissioner of Financial Institutions of Puerto Rico.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

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

The Puerto Rico Land Administration is governed by an 11-member board comprised of the Secretary of Economic Development and Commerce, who serves as Chairman, the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Transportation and Public Works, the Secretary of Housing, the Economic Development Administrator, the President of the Planning Board, and four other members appointed by the Governor with the consent of the Senate. PRLA acquires parcels of land on behalf of government instrumentalities through negotiation or expropriation.

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

The Puerto Rico Health Insurance Administration is governed by a seven-member board comprised of the Secretary of Health, the Secretary of the Treasury, the Insurance Commissioner of Puerto Rico, and four additional members appointed by the Governor, with the consent of the Senate. Act No. 372 of September 2, 2000 requires that one of the members be a participant health provider. PRHIA was created for implementing, administering and negotiating a health insurance system, through contracts with insurance underwriters, to provide quality medical and hospital care to low-income individuals.

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

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

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

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

#### ***Right to Employment Administration***

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

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

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

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

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

The Puerto Rico Medical Services Administration is governed by the Secretary of Health who is appointed by the Governor with the consent of the Senate. It was created to plan, organize, operate, and administer the centralized health services, provided in support of the hospital and other functions offered by the member institutions and users of the medical complex known as *Puerto Rico Medical Center*.

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

The Puerto Rico and Caribbean Cardiovascular Center Corporation is governed by a seven-member board comprised of the Secretary of Health, the Director of the Medical Sciences Campus of the University of Puerto Rico, the Executive Director of the Puerto Rico Medical Services Administration, and four additional members appointed by the Governor with the consent of the Senate, one of which should be from the Cardiology Society of Puerto Rico, and another a member of a cardiology foundation properly registered in the Department of State. The purpose of the PRCCCC is to provide special treatment to patients suffering from cardiovascular diseases.

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

The Puerto Rico Exports Development Corporation (formerly, the Commercial and Farm Credit and Development Corporation for Puerto Rico), is governed by an eight-member board comprised of the Secretary of Economic Development and Commerce, who is the Chairman, the Executive Director of the Puerto Rico Industrial Development Company, the President of EDB, the Executive Director of the Puerto Rico Ports Authority, the director of the Commercial Development Administration (a department ascribed to the Economic Development and Commerce), and three representatives of the private sector appointed by the other members of the board. PREDC's purpose is to encourage the economic development of Puerto Rico by promoting the export of products and services of Puerto Rico to other countries and maintaining commercial facilities for lease to the public and private sector.

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

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

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

Act. No. 10 of April 8, 2001 merged RDCPR with the Trust for the Conservation, Operation and Maintenance of the Puerto Rico National Parks of Puerto Rico. The new entity has been renamed National Parks of Puerto Rico.

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

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

#### ***Institute of Puerto Rican Culture (“IPRC”)***

The Institute of Puerto Rican Culture was created by Act No. 89 of June 21, 1955 to engage in the attainment, promotion, enrichment, and divulging of the Puerto Rican cultural values. The IPRC is governed by a board of directors composed of nine members which are appointed by the Governor, with the consent of the Senate.

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

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

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

Medical University Services, Inc. is a nonprofit corporation created to operate and administer three hospital facilities acquired by the UPR. MUS is the primary medical education institution of the UPR and offers health services to the people of the Commonwealth.

#### ***Puerto Rico Maritime Transportation Authority (“PRMTA”)***

The Puerto Rico Maritime Transportation Authority was created by Law No. 1 of January 1, 2000 to administer and operate the maritime transportation services (ferries operations) formerly operated by the Puerto Rico Ports Authority. PRMTA was separated from the Puerto Rico Ports Authority and the powers of PRMTA are under the control of the Secretary of Transportation and Public Works.

#### ***Puerto Rico Water Pollution Control Revolving Fund (“PRWPC”)***

Puerto Rico Water Pollution Control Revolving Fund was created by Act No. 44 of June 21, 1988, as amended. PRWPC was constituted separately and independently from any other funds or resources of the Commonwealth.

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

PRWPC is administered, pursuant to Act No. 2 of June 18, 1970, as amended, by the Environmental Quality Board (“EQB”), a department ascribed to the Office of the Governor, and by the Puerto Rico Infrastructure Financing Authority (“PRIFA”). Pursuant to such act, EQB, on behalf of the Commonwealth, is authorized to enter into operating and capitalization grant agreements with the U.S. Environmental Protection Agency (“EPA”) under Title VI of Clean Water Act of 1972 (“Clean Water Act”). EQB, PRIFA, Puerto Rico Aqueduct and Sewer Authority, 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 PRWPC in accordance with the requirements of the Clean Water Act.

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

University of Puerto Rico  
P.O. Box 364984  
San Juan, PR 00936-4984

Puerto Rico Housing Bank and Finance  
Agency  
P.O. Box 345  
San Juan, PR 00919-0345

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

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

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

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

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

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

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

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

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

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

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

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

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

Sugar Corporation of Puerto Rico  
P.O. Box 9745  
San Juan, PR 00908-9745

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

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

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

Caribbean Basin Projects Financing Authority  
P.O. Box 42001  
San Juan, PR 00940-2001

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

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

Puerto Rico Public Broadcasting Corporation  
P.O. Box 190-0909  
San Juan, PR 00919-0909

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

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

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

Industries for the Blind, Mentally Retarded and  
Other Disabled Persons of Puerto Rico  
P.O. Box 13382  
San Juan, PR 00908

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

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

Puerto Rico Conservatory of Music  
Corporation  
350 Lamar Street & Roosevelt Avenue  
San Juan, PR 00918-2199

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

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

Puerto Rico Health Insurance  
Administration  
P.O. Box 4264  
San Juan, PR 00902-4264

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

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

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

Farm Insurance Corporation of Puerto  
Rico  
P.O. Box 9200  
San Juan, PR 00908-0200

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

Puerto Rico Medical Services Administration P.O. Box 2129 San Juan, PR 00922-2129	Institute of Puerto Rican Culture P.O. Box 4184 San Juan, PR 00902-4184
Puerto Rico and Caribbean Cardiovascular Center Corporation P.O. Box 366528 San Juan, PR 00936-6528	Puerto Rico Council on Higher Education P.O. Box 19900 San Juan, PR 00910-1900
Puerto Rico Exports Development Corporation P.O. Box 195009 San Juan, PR 00936-5009	Medical University Services, Inc. P.O. Box 364984 San Juan, PR 00936-4984
Recreational Development Company of Puerto Rico P.O. Box 9022089 San Juan, PR 00902-2089	Puerto Rico Maritime Transportation Authority P.O. Box 362829 San Juan, PR 00940-2001
Agricultural Services and Development Administration P.O. Box 9200 San Juan, PR 00908-0202	Puerto Rico Water Pollution Control Revolving Fund P.O. Box 42001 San Juan, PR 00940-2001

The financial statements of the discretely presented component units have a year-end of June 30, 2001 except for Sugar Corporation of Puerto Rico and Puerto Rico Telephone Authority, which have a year-end of December 31, 2000.

**(c) Basis of Presentation**

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

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

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

### ***Governmental Fund Types***

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

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

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

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

### ***Proprietary Fund Type***

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

### ***Fiduciary Fund Types***

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

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

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

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

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

### *Account Groups*

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

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

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

### *Discretely Presented Component Units*

Discrete presentation of component units is used to present the financial information of entities that do not qualify to be blended, in accordance with GASB No. 14, with the funds and account groups of the primary government. The following are the Commonwealth's discrete presentation columns:

*Public University Funds* – are used to account for the activities of the UPR and the UPRRS.

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

### **(d) Basis of Accounting**

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

The modified accrual basis of accounting is followed by governmental fund types, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenue is recorded when it becomes measurable and available (that is, earned and collected or expected to be collected within the next 120 days) to pay liabilities of the current period. Tax revenue, net of estimated overpayments (refunds), is recorded by the Commonwealth as taxpayers earn income (income and unemployment), as sales are made (consumption and use taxes) and as cash is received (miscellaneous taxes).

In applying the susceptible to accrual concept to intergovernmental revenue, 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. For the other revenue, moneys

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

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

The Commonwealth reports deferred revenue on its combined balance sheet. Deferred revenue arises when a potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Commonwealth has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when the Commonwealth has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and the revenue is recognized.

In December 1998, GASB issued Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions” (“GASB No. 33”), effective for financial statements for periods after June 15, 2000, which the Commonwealth adopted on July 1, 2000. This statement establishes accounting and reporting standards for nonexchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. The statement groups nonexchange transactions of governments into four classes, based on their principal characteristics: (a) derived tax revenue; (b) imposed nonexchange revenue; (c) government mandated nonexchange transactions; and (d) voluntary nonexchange transactions.

The adoption of this statement did not alter significantly the basis of accounting used by the Commonwealth for the recognition of revenue and expenditures and related assets and liabilities, as described above, except for the recognition of tax receivables in the amount of \$1 billion and a corresponding deferred revenue for the same amount. This receivable is based on taxes on income earned by taxpayers in periods prior to June 30, 2001, estimated to be collectible but not currently available. On the other hand, the Commonwealth has recognized neither a receivable nor a deferred revenue for approximately \$310 million of prior years’ unclaimed federal expenditures because, although measurable, they are not expected to be collectible.

GASB No. 33 also requires governments to recognize capital contributions to proprietary funds and to other governmental entities that use proprietary fund accounting as revenue, not contributed capital. However, governments should not restate contributed capital arising from periods prior to implementation of this statement until GASB issues one or more statements requiring restatement of those prior-period balances. The Commonwealth’s proprietary funds and

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

the discretely presented component units that use proprietary fund accounting have adopted these provisions of GASB No. 33. The effects of the adoption of this statement during the year ended June 30, 2001 was to record contributed capital amounting to \$419.5 million as revenue instead of presenting such amount as an addition to contributed capital.

The accrual basis of accounting is used by proprietary fund types, pension trust funds, and all proprietary discretely presented component units. Under the accrual basis, revenue is recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The accrual basis is also used by the public university funds, except that depreciation of fixed assets is not required to be recorded.

The public university funds include the UPR and the UPRRS. The UPR reports using the American Institute of Certified Public Accountants (“AICPA”) Audit and Accounting Guide model defined by GASB No. 15, “Governmental College and University Accounting and Financial Reporting Models.” Accordingly, the public university funds are an aggregate of the following funds: current funds – restricted and unrestricted; loan funds; endowment and similar funds; plant funds; agency funds; and the activities of the retirement system. The Retirement System is a defined benefit single-employer retirement plan and, therefore, follows the accounting and reporting practices applicable to public employees’ retirement systems.

The Commonwealth’s primary government and the blended component units have elected not to follow FASB pronouncements issued subsequent to November 30, 1989 for its proprietary fund types, as allowed by GASB No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.” However, certain discretely presented component units have disclosed their election in their separately issued financial statements. The component units – other follow GAAP as issued by GASB, and FASB as applicable to each component unit based on the nature of their operations. Certain discretely presented component units also follow specialized accounting and financial reporting practices, such as banking, insurance, public utilities, and higher education. 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.”

**(e) *Statutory (Budgetary) Accounting***

The Commonwealth’s budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with GAAP. Revenue is generally recognized when cash is received, net of tax refunds claimed by taxpayers as of year-end.

Expenditures are generally recorded when the related expenditure is incurred or encumbered. Until June 30, 2001 available appropriations and encumbrances were established to lapse three years after the end of the fiscal year. Effective July 1, 2001, available appropriations and encumbrances will lapse the year following the end of the fiscal year when the encumbrance was established, as established by Act No. 123 of August 17, 2001, which amended the then existing appropriations and encumbrances lapsing provisions of Act No. 230 of July 23, 1974. Amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

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

Federal grants' activities carry a cumulative deficit of approximately \$286 million at June 30, 2001, representing federal expenditures in prior years that have remained unclaimed. This deficit has been subsidized with operating transfers from the budgetary funds. To the extent the Commonwealth recovers previously unreimbursed expenses from the federal government, such recoveries are treated as a transfer-in to the budgetary funds from the federal grants' funds.

The combined statement of revenue and expenditures – budget and actual – budget basis – general and debt service funds, only present the information for those funds for which there is a legally adopted budget, as required by GAAP. See note 3 for a reconciliation of the combined statement of revenue and expenditures – budget and actual – budget basis – general and debt service funds with the combined statement of revenue, expenditures and changes in fund balance (deficit), for the general and debt service funds.

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

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

Cash and cash equivalents include investments with original maturities of 90 days or less.

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

**(g) *Securities Purchased Under Agreements to Resell***

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

**(h) *Securities Lending Transactions***

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

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

**(i) Investments**

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

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

**(j) Receivables**

Tax receivables in the general fund represent amounts owed by taxpayers for individual and corporate income taxes. A portion of these income tax receivables is recognized when they become measurable and available based on actual collections during the 120 days following the fiscal year-end related to tax returns due before year-end. Tax receivables also include amounts owed by taxpayers on income earned in periods prior to June 30, 2001, estimated to be collectible but not currently available, as a result of the adoption of GASB No. 33. Tax receivables in the expendable trust fund comprise actual collections of unemployment, disability and chauffer insurance contributions from taxpayers during the next 90 days following the fiscal year-end corresponding to periods prior to June 30, 2001.

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

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

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

The loans of the pension trust funds and public university 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.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

Loans of the component units – other consist predominantly of small and medium business, agricultural and low-income housing loans from nongovernmental customers, and are presented net of estimated losses on such portfolios.

**(k) Inventories**

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

**(l) Restricted Assets**

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

**(m) Housing Units and Land Lots Held for Sale**

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

**(n) Fixed Assets**

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

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

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

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

The estimated useful lives of fixed assets are as follows:

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

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

The fixed assets of the component units – other are recorded in accordance with the applicable standards. Depreciation has been recorded when required by these standards based on the types of assets, use and estimated useful lives of the respective assets and on the nature of each of the component unit’s operations.

The estimated useful lives of fixed assets are as follows:

	<u>Years</u>
Buildings	20-50
Building improvements	10-30
Equipment, furniture, fixtures, and vehicles	3-15

**(o) 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.

**(p) Long-Term Debt**

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

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

**(q) Reservations of Fund Balance**

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

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

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

*Unemployment Benefits* – Represent net assets available to fund future unemployment benefits payments.

*Employees' Pension Benefits* – Represent the public employees retirement systems' net assets available to finance future benefit obligations.

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

*Net Assets in Liquidation* – The net assets in liquidation represent the dollar amount of certain real estate that are being liquidated.

**(r) Bond Premiums, Discounts and Issuance Costs**

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recorded in the combined statement of revenue, expenditures, and changes in fund balance during the current period. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures. Issuance costs are reported as deferred charges. Public university funds present bond premiums and discounts in the net investment in plant fund and are amortized using the interest method. Component units – other follow appropriate statements issued by GASB.

**(s) Accounting for Pension Costs**

For the purpose of applying the requirements of GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers" ("GASB No. 27"), the Commonwealth's financial reporting entity is considered to be a participant in three single-employer defined-benefit pension plans: Employees Retirement System of the Government of Puerto Rico and Its Instrumentalities ("ERS"); Puerto Rico Judiciary Retirement System ("JRS"); and the Puerto Rico System of Annuities and Pensions for Teachers ("TRS"). This is because substantially all the participants in the three pension trust funds are part of the financial reporting entity of the Commonwealth. For the purpose of the general purpose financial statements, and as disclosed in

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

note 21, the Commonwealth's annual pension cost, measured on the accrual basis of accounting, for the year ended June 30, 2001 amounted to approximately \$922 million. However, the amount recognized as pension expenditure in the governmental funds was recorded under the modified accrual basis, and amounted to approximately \$651 million. The excess of the annual required contribution over the statutorily required contributions plus estimated interest of approximately \$245.7 million increased the net pension obligation at June 30, 2001 to approximately \$2.6 billion. This amount is presented in the general long-term debt account group at June 30, 2001.

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

In addition, the UPR, which is reported in the public university funds, applied the provisions of GASB No. 27 as it is applicable to an entity with a single-employer defined-benefit pension plan.

**(t) *Deferred Compensation Plan***

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

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

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

**(u) *Postemployment Benefits***

In addition to the pension benefits described in note 21, the Commonwealth provides postemployment health care benefits and a Christmas bonus for its retired employees in accordance with local law. Substantially all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. Health care benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share of not more than \$40 per month for each retiree. During the year ended June 30, 2001, the cost of providing health care benefits amounted to approximately \$30.8 million for approximately 64,000 retirees. The Christmas bonus paid to the retired employees during the year ended June 30, 2001 was \$300 per retiree and the total amount was approximately \$29.8 million for approximately 99,000 retirees. These benefits are recorded as expenditures when paid in the general fund.

**(v) *Compensated Absences***

The vacation policy of the Commonwealth generally provides for the accumulation of 2.5 days per month, except for the teachers who accrue 4 days per month. Vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of 60 days. Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid leave at the current rate, if the employee has at least 10 years of service with the Commonwealth. Accrued compensated absences of the primary government at June 30, 2001 amounting to approximately \$1.2 billion is presented in the general long-term debt account group.

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

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

**(w) *Interfund and Intra-Entity Transactions***

The Commonwealth has the following types of transactions among funds:

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

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

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

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

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

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

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

**(x) *Lottery Revenue and Prizes***

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

**(y) *Public University Funds***

Financial activities of the UPR and the UPRRS are reported in the public university funds. Such funds are discretely presented in a separate column in the general purpose financial statements and represent the combination of the following funds of the UPR:

*Current Funds* – Account for resources that may be used for any purpose in carrying out the primary objectives of the UPR.

*Loan Funds* – Account for resources available for loans to students, faculty or staff of the UPR.

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

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

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

*Agency Funds* – Account for resources held by the UPR as custodian or agent for others.

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

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

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

**(z) Risk Financing**

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 State Insurance Fund Corporation, which provides workers' compensation to both, public and private employees.

In the past three years, the Commonwealth has not settled claims that exceed insurance coverage.

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

**(aa) Totals Columns (Memorandum Only)**

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

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

***(bb) Reclassifications***

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

***(cc) Use of Estimates***

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

***(dd) Future Adoption of Accounting Pronouncements***

The GASB has issued the following statements which the Commonwealth, or its component units, have not yet adopted.

In June 1999, GASB issued Statement No. 34, “Basic Financial Statements—and Management Discussion and Analysis—for State and Local Governments” (“GASB No. 34”). This statement significantly changes the financial reporting model for state and local governments and will result in significant changes to the general purpose financial statements of the Commonwealth fiscal year 2002. The Commonwealth has completed an analysis of the impact of GASB No. 34 on its general purpose financial statements and is currently implementing changes needed to adopt such statement. GASB No. 34 requires governmentwide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Governmentwide financial statements will not provide information by fund or account group, but will distinguish between the Commonwealth’s governmental activities and business-type activities, and the activities of its discretely presented component units on the Commonwealth’s statement of net assets and statement of activities. The Commonwealth’s statement of net assets will include both noncurrent assets and noncurrent liabilities of the Commonwealth, which are currently recorded in the general fixed assets account group and the general long-term debt account group. In addition to the fixed assets now recorded in the general fixed asset account group, the Commonwealth will be required to retroactively capitalize infrastructure assets that were acquired beginning with the Commonwealth’s fiscal year ended June 30, 1981. The Commonwealth’s governmentwide statement of activities will reflect depreciation expense on the Commonwealth’s fixed assets, including infrastructure. If certain conditions are met, the Commonwealth may use an alternative method to recording depreciation on infrastructure assets.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

In addition to the governmentwide financial statements, the Commonwealth will be required to prepare fund financial statements. Fund financial statements will continue to use the modified accrual basis of accounting and current financial resources measurement focus for its governmental fund types. Accordingly, the accounting and financial reporting for the Commonwealth's general fund, capital projects funds and debt service funds will be similar to that currently presented in the Commonwealth's general purpose financial statements, although the general purpose financial statements will be modified by GASB No. 34.

GASB No. 34 also requires two components of required supplementary information. Management's discussion and analysis will include an analytical overview of the Commonwealth's financial activities. Budgetary comparison schedules will compare the adopted and modified general fund budget with actual results.

The Commonwealth will be required to implement GASB No. 34 in fiscal year ending June 30, 2002, except that the Commonwealth can delay the retroactive recording of infrastructure assets until fiscal year ending June 30, 2006. The component units currently included in the Commonwealth's financial reporting entity will also be required to implement GASB No. 34 at the same time the Commonwealth implements this statement.

In November 1999, GASB issued Statement No. 35, "Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities" ("GASB No. 35"). This statement amends GASB No. 34 to make it applicable to public colleges and universities. The UPR has completed an analysis of the impact of GASB No. 35 on its financial statements and is currently implementing changes needed to adopt such statement.

In June 2001, GASB issued statement No. 37 "Basic Financial Statements—and Management's discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34" ("GASB No. 37"). This statement changes the reporting presentation of escheat property from the expendable trust fund into a private purpose trust fund. The statement also clarifies and modifies certain provisions of GASB No. 34. The Commonwealth is analyzing the impact of this statement in conjunction with GASB No. 34. The effective date of this statement coincides with the effective date of GASB No. 34.

In June 2001, GASB issued Statement No. 38, "Certain Financial Statement Note Disclosures" ("GASB No. 38"). This statement modifies existing disclosure requirements. The Commonwealth is analyzing the impact of this statement in conjunction with GASB No. 34. The effective date of this statement coincides with the effective date of GASB No. 34.

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

### (2) Component Units

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

- Agricultural Services and Development Administration
- Automobile Accident Compensation Administration
- Employment and Training Enterprises Corporation and Subsidiary
- Farm Insurance Corporation of Puerto Rico
- Fine Arts Center Corporation
- Industries for the Blind, Mentally Retarded and Other Disabled Persons  
of Puerto Rico
- Institutional Trust of the National Guard of Puerto Rico
- Land Authority of Puerto Rico
- Medical University Services, Inc.
- Musical Arts Corporation and Subsidiaries
- Puerto Rico Aqueduct and Sewer Authority
- Puerto Rico Council on Higher Education
- Puerto Rico and Caribbean Cardiovascular Center Corporation
- Puerto Rico Electric Power Authority
- Puerto Rico Highway and Transportation Authority
- State Insurance Fund Corporation
- Puerto Rico Conservatory of Music Corporation
- Public Corporation for the Supervision and Insurance of Puerto Rico Cooperatives
- Puerto Rico Maritime Transportation Authority
- Puerto Rico Medical Services Administration
- Puerto Rico Metropolitan Bus Authority
- Puerto Rico Ports Authority
- Puerto Rico Public Broadcasting Corporation
- Puerto Rico School of Plastic Arts
- Recreational Development Company of Puerto Rico
- Puerto Rico Land Administration
- Right to Employment Administration
- Puerto Rico Solid Waste Authority
- Sugar Corporation of Puerto Rico
- Puerto Rico Health Insurance Administration
- Puerto Rico Exports Development Corporation
- Institute of Puerto Rican Culture
- University of Puerto Rico
- University of Puerto Rico Retirement System

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

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

	<u>University of Puerto Rico</u>	<u>Retirement System</u>	<u>Total</u>
<b>Assets</b>			
Current assets	\$ 110,003	703,099	813,102
Due from primary government	35	—	35
Restricted assets:			
Cash and cash equivalents	32,234	—	32,234
Other restricted assets	262,192	249	262,441
Fixed assets – net	<u>876,871</u>	<u>482</u>	<u>877,353</u>
 Total assets	 <u>\$ 1,281,335</u>	 <u>703,830</u>	 <u>1,985,165</u>
<b>Liabilities and Fund Equity</b>			
Current liabilities	\$ 82,244	17,763	100,007
Bonds payable	467,909	—	467,909
Other liabilities	<u>125,016</u>	<u>—</u>	<u>125,016</u>
 Total liabilities	 675,169	 17,763	 692,932
 Fund equity	 <u>606,166</u>	 <u>686,067</u>	 <u>1,292,233</u>
 Total liabilities and fund equity	 <u>\$ 1,281,335</u>	 <u>703,830</u>	 <u>1,985,165</u>

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

COMMONWEALTH OF PUERTO RICO

Notes to General Purpose Financial Statements

June 30, 2001

Balance Sheet	Government Development Bank for Puerto Rico and Subsidiaries	Puerto Rico Highway and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Municipal Finance Agency	State Insurance Fund Corporation	Puerto Rico Housing Bank and Finance Agency	Economic Development Bank for Puerto Rico	Other entities	Total component units other
<b>Assets and Other Debits</b>											
Current assets	\$ 730,033	18,174	823,254	206,805	39,241	64,092	104,762	226,239	126,856	382,534	2,721,990
Investments	2,975,431	—	—	—	—	—	745,081	354,082	584,377	867,786	5,526,757
Due from:											
Primary government	—	11,142	—	—	5,000	—	—	—	—	48,962	65,104
Component units	—	—	—	—	—	—	—	—	—	5,896	5,896
Other governmental entities	—	—	—	—	—	—	—	—	—	831	831
Advances to:											
Primary government	1,504,424	—	37,924	—	—	—	—	—	—	—	1,542,348
Component units	1,778,975	—	—	—	—	—	—	—	12,101	101,316	1,892,392
Other governmental entities	559,884	—	—	—	—	—	—	—	—	2,084	561,968
Restricted assets:											
Cash and cash equivalents	—	106,458	309,680	26,536	77,112	—	—	268,306	—	230,043	1,018,135
Other restricted assets	274,849	543,111	393,950	—	1,989,219	1,305,842	398,848	276,599	—	280,915	5,463,333
Housing units and land lots held for sale	—	—	—	—	—	—	—	—	—	125,988	125,988
Fixed assets, net	—	1,560,798	4,171,743	4,239,304	32,840	—	174,320	815	12,648	2,073,531	12,265,999
Amount available in debt service funds	—	389,299	—	—	49,480	—	—	24,449	—	869	464,097
Amount to be provided for the retirement of bonds and notes payable	—	3,479,456	—	—	2,041,507	—	—	172,581	—	55,350	5,748,894
Amount to be provided for payment of accrued compensated absences and other long-term debt	—	333,233	—	—	—	—	—	—	—	11,888	345,121
<b>Total</b>	<b>\$ 7,823,596</b>	<b>6,441,671</b>	<b>5,736,551</b>	<b>4,472,645</b>	<b>4,234,399</b>	<b>1,369,934</b>	<b>1,423,011</b>	<b>1,323,071</b>	<b>735,982</b>	<b>4,187,993</b>	<b>37,748,853</b>
<b>Liabilities and Fund Equity</b>											
Current liabilities	\$ 3,569,979	344,498	884,255	405,164	89,649	29,869	1,370,132	270,627	529,964	1,256,806	8,750,943
Due to primary government	—	—	—	—	—	—	—	13,552	—	56,353	69,905
Advances from component units	—	40,788	—	966,968	21,692	—	—	92,195	13,605	765,826	1,901,074
Notes payable	1,271,671	300,000	130,000	—	—	—	59,046	—	85,806	19,091	1,865,614
Bonds payable	1,132,999	3,904,492	4,237,155	440,031	2,069,295	1,021,771	—	538,990	—	287,051	13,631,784
Other liabilities	116,862	2,900	—	—	—	—	36,379	—	—	17,618	173,759
Other long-term liabilities	—	18,000	—	—	—	249,075	—	3,416	—	74,685	345,176
Net pension obligation	—	—	20,586	—	—	—	—	—	—	1,181	21,767
<b>Total liabilities</b>	<b>6,091,511</b>	<b>4,610,678</b>	<b>5,271,996</b>	<b>1,812,163</b>	<b>2,180,636</b>	<b>1,300,715</b>	<b>1,465,557</b>	<b>918,780</b>	<b>629,375</b>	<b>2,478,611</b>	<b>26,760,022</b>
Fund equity	1,732,085	1,830,993	464,555	2,660,482	2,053,763	69,219	(42,546)	404,291	106,607	1,709,382	10,988,831
<b>Total</b>	<b>\$ 7,823,596</b>	<b>6,441,671</b>	<b>5,736,551</b>	<b>4,472,645</b>	<b>4,234,399</b>	<b>1,369,934</b>	<b>1,423,011</b>	<b>1,323,071</b>	<b>735,982</b>	<b>4,187,993</b>	<b>37,748,853</b>

COMMONWEALTH OF PUERTO RICO

Notes to General Purpose Financial Statements

June 30, 2001

Statement of Operations	Government Development Bank for Puerto Rico and Subsidiaries	Puerto Rico Highway and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Municipal Finance Agency	State Insurance Fund Corporation	Puerto Rico Housing Bank and Finance Agency	Economic Development Bank for Puerto Rico	Other entities	Total component units other
Operating revenues	\$ 452,117	2,347	2,331,990	311,437	73,152	121,207	548,727	60,699	66,425	1,283,837	5,251,938
Operating expenses	364,503	19,873	1,958,354	554,352	—	74,369	696,599	41,407	85,933	2,515,016	6,310,406
Operating income (loss)	87,614	(17,526)	373,636	(242,915)	73,152	46,838	(147,872)	19,292	(19,508)	(1,231,179)	(1,058,468)
Non-operating revenues (expenses)	(2,678)	61,460	(331,741)	16,459	—	(7,873)	68,854	—	27,317	163,138	(5,064)
Income (loss) before operating transfers	84,936	43,934	41,895	(226,456)	73,152	38,965	(79,018)	19,292	7,809	(1,068,041)	(1,063,532)
Transfers from (to) primary government	—	—	—	225,946	90,000	—	(26,092)	77,315	4,000	1,249,860	1,621,029
Net income (loss)	84,936	43,934	41,895	(510)	163,152	38,965	(105,110)	96,607	11,809	181,819	557,497
Excess (deficiency) of revenues over expenditures from governmental operations	—	(175,378)	—	—	682,774	—	—	(44,461)	—	(102,241)	360,694
Depreciation on fixed assets acquired through contributed capital	—	1,381	—	68,894	—	—	—	—	—	7,528	77,803
Increase (decrease) in retained earnings (deficit) fund balance	84,936	(130,063)	41,895	68,384	845,926	38,965	(105,110)	52,146	11,809	87,106	995,994
Retained earnings (deficit) fund balance at beginning of year (as restated)	1,626,649	764,797	282,677	158,871	1,174,997	30,254	62,564	208,562	29,862	(111,183)	4,228,050
Residual equity transfer	—	—	—	—	—	—	—	—	—	(165,539)	(165,539)
Retained earnings (deficit)/fund balances at end of year	\$ 1,711,585	634,734	324,572	227,255	2,020,923	69,219	(42,546)	260,708	41,671	(189,616)	5,058,505

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

### (3) Stewardship, Compliance and Accountability

#### (a) *Budgetary Control*

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

The annual budget, which is developed utilizing elements of performance-based program budgeting and zero-based budgeting, includes an estimate of revenue and other resources for the ensuing fiscal year under: (1) laws existing at the time the budget is submitted; and (2) legislative measures proposed by the Governor and submitted with the proposed budget, as well as the Governor’s recommendations as to appropriations that in her judgment are necessary, convenient, and in conformity with the four-year investment plan adopted by the Planning Board.

The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon approval by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with her objections. The Legislature, by two-thirds majority in each house, may override the Governor’s veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Governor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. This permits the Commonwealth to continue making payments for its operating and other expenses until the new budget is approved. The Legislature made several special budgetary appropriations to the general fund throughout the year, which amounted to approximately \$3.0 billion.

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

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

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

Until June 30, 2001, the unencumbered balance of any appropriation of the general fund at the end of the fiscal year was established to lapse three years after the end of such fiscal year or at the date prescribed by the Secretary of the Treasury. 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. Commencing July 1, 2001, the unencumbered balance of any appropriation of the general fund at the end of the fiscal year (including the fiscal year ended June 30, 2001) will lapse the following fiscal year-end.

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 combined balance sheet of the general fund and the debt service fund. For these funds, a combined statement of revenue and expenditures – budget and actual – budget basis – budgeted general and debt service funds is included.

Appropriations for capital projects are made for each bond issue and the authorization continues for the expected construction period.

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

**(b) *Budget/GAAP Reconciliation***

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity, timing and basis differences in the excess (deficiency) of revenue and other sources of financial resources over expenditures and other uses of financial

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

resources for the year ended June 30, 2001 is presented below for the general and debt service funds (expressed in thousands):

	<u>General</u>	<u>Debt service</u>
Excess (deficiency) of revenue and other sources over (under) expenditures and other uses – budget basis	\$ (295,410)	169,771
Entity differences:		
Deficiency of revenue and other sources over expenditures and other uses for:		
Nonbudgeted amounts	(268,396)	—
Inclusion of blended component units	—	(4,975)
Timing differences:		
Adjustment for encumbrances	128,924	—
Expenditure against prior year encumbrances	(113,852)	—
Basis of accounting differences:		
Net increase (decrease) in taxes receivable	131,758	(1,144)
Net increase in other receivables and other assets	268,839	—
Proceeds from lines of credit reported as other financing source on GAAP basis for payment of prior years' expenditures	49,456	—
Long-term restructuring of line of credit reported as an other financing source on a GAAP basis	20,500	—
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses (GAAP basis)	\$ <u>(78,181)</u>	<u>163,652</u>

**(c) Deficit Fund Equity**

The following funds and component units reflect a deficit fund balance or retained earnings at June 30, 2001 (expressed in thousands):

Primary government – enterprise fund – additional lottery system	\$ <u>1,365</u>
Components units – other:	
Sugar Corporation of Puerto Rico	\$ <u>313,069</u>
Tourism Company of Puerto Rico	\$ <u>216,741</u>
Land Authority of Puerto Rico	\$ <u>166,801</u>
Puerto Rico Metropolitan Bus Authority	\$ <u>46,269</u>
State Insurance Fund Corporation	\$ <u>42,546</u>
Puerto Rico Medical Services Administration	\$ <u>38,807</u>
Medical University Services, Inc.	\$ <u>23,232</u>
Puerto Rico and Caribbean Cardiovascular Center Corporation	\$ <u>13,183</u>
Agricultural Services and Development Administration	\$ <u>11,916</u>
Puerto Rico Maritime Transportation Authority	\$ <u>9,964</u>
Employment and Training Enterprises Corporation and Subsidiary	\$ <u>8,203</u>
Puerto Rico Exports Development Corporation	\$ <u>4,463</u>
Musical Arts Corporation and Subsidiaries	\$ <u>168</u>

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

In the past, the Commonwealth and the component units have provided financial resources and capital investments to support these activities. In addition, certain loans and obligations of Sugar Corporation of Puerto Rico, Tourism Company of Puerto Rico and Land Authority of Puerto Rico, with GDB, have been restructured pursuant to Act No. 164, of December 17, 2001 described in note 23(d) (under primary government). Sugar Corporation of Puerto Rico is also in the process of transferring certain assets, liabilities and operations for a nominal value to the sugar cane farmers, as part of its liquidation process (see note 26).

#### **(4) Puerto Rico Government Investment Trust Fund (“PRGITF”)**

The Puerto Rico Government Investment Trust Fund (“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, 2001 consisted of certificates of deposit, bank notes, corporate obligations, commercial paper, and U.S. government and agencies obligations, all of which may be considered highly-liquid. However, the participants’ investments are subject to the ability of the PRGITF to receive payment from the securities’ issuer when due. The liquidity of certain investments and changes in interest rates may affect PRGITF’s yield and the fair value of its investments.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

The dollar amount of the deposits on hand at June 30, 2001, at \$1.00 per unit of participation, was reported in the individual component units financial statements of each of the participants, and combined in the general purpose financial statements as follows (expressed in thousands):

	<b>Balance outstanding</b>	<b>Percentage of total</b>
Primary government:		
Commonwealth	\$ 43,760	17.66%
Office for the Improvement of the Public Schools	24,894	10.04%
Employees' Retirement System of the Government of Puerto Rico and its instrumentalities	4,705	1.90%
Public Buildings Authority	510	0.21%
The Children's Trust	207	0.08%
Total for primary government	74,076	29.89%
Public university funds – University of Puerto Rico Retirement System	249	.10%
Discretely presented component units:		
Recreational Development Company of Puerto Rico	74,211	29.95%
Puerto Rico Land Administration	51,530	20.79%
Public Corporation for the Supervision and Insurance of Puerto Rico Cooperatives	10,157	4.10%
Puerto Rico Council on Higher Education	7,821	3.16%
State Insurance Fund Corporation	6,753	2.72%
Government Development Bank for Puerto Rico and Subsidiaries	3,997	1.61%
Institutional Trust of the National Guard of Puerto Rico	3,055	1.23%
Puerto Rico School of Plastic Arts	137	0.06%
Puerto Rico Ports Authority	126	0.05%
Total for discretely presented component units	157,787	63.67%
Other governmental entities	15,716	6.34%
Total for all participants	\$ 247,828	100.00%

The deposits at June 30, 2001 were invested in securities with a cost which approximates fair value, plus accrued interest, for approximately \$247.8 million.

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

**(5) Deposits and Investments**

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

Cash, cash equivalents and investments of the primary government at June 30, 2001 consist of (expressed in thousands):

***Primary Government***

	<u>Unrestricted</u>	<u>Included in debt service</u>	<u>Included in capital projects</u>	<u>Included in trust and agency</u>	<u>Included in restricted assets</u>	<u>Total</u>
Cash and cash equivalents	\$ 69,599	56	126,619	1,044,740	30,166	1,271,180
Cash and cash equivalents in governmental banks	60,164	474,698	291,521	627,955	372,386	1,826,724
Investments	—	171,192	86,233	4,711,245	306,839	5,275,509
Total	<u>\$ 129,763</u>	<u>645,946</u>	<u>504,373</u>	<u>6,383,940</u>	<u>709,391</u>	<u>8,373,413</u>

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

- Category 1: Insured or collateralized with securities held by the Secretary of the Treasury's agents in the Commonwealth's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Commonwealth's name.
- Category 3: Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Commonwealth's name).

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

The carrying amount of deposits with financial institutions of the primary government at June 30, 2001 consists of (expressed in thousands):

Carrying amount of deposits in commercial banks	\$ 727,133
Carrying amount of deposits in governmental banks	1,799,287
Carrying amount of deposits in U.S. government	544,047
Investments disclosed as cash equivalents for statement of cash flows	<u>27,437</u>
Total carrying amount of deposits as reported on the combined balance sheet	<u>\$ 3,097,904</u>
Bank balance of deposits in commercial banks:	
Category 1	\$ 749,270
Category 2	28,959
Category 3	<u>10,062</u>
Total bank balance of deposits in commercial banks	<u>\$ 788,291</u>

The amount of the bank balance of deposits in commercial banks uninsured or uncollateralized at June 30, 2001 shown above, belongs mainly to the Puerto Rico System of Annuities and Pensions for Teachers, a blended component unit.

The bank balance of deposits in governmental banks, which as of June 30, 2001, is uninsured and uncollateralized, is approximately \$1,815 million. Deposits of approximately \$544 million with the U.S. government represent unemployment insurance taxes collected from employers which are transferred to the Federal Unemployment Insurance Trust Fund in the U.S. Treasury.

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

The bank balance of GDB's and EDB's deposits at June 30, 2001 is broken down as follows (expressed in millions):

Primary government	\$ 1,708
Other discretely presented components units	<u>644</u>
Total reporting entity	2,352
Municipalities of Puerto Rico	506
Other nongovernmental entities	526
Certificates of indebtedness	253
Escrow accounts	<u>186</u>
Total deposits per GDB and EDB	<u>\$ 3,823</u>

On February 22, 1996, the board of directors of GDB adopted the "Statement of Investment Guidelines for the Government of Puerto Rico." These guidelines promulgate a uniform investment policy for the Commonwealth and its municipalities. The guidelines under this statement are to be followed by municipalities, agencies and public corporations, public insurance companies and public employees'

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

retirement plans. These guidelines include the allowable and the prohibited assets in which each governmental entity may invest, except for GDB and EDB, which may establish their own investment policy with the approval of the board of directors of GDB.

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

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

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

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

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

	Category			Carrying amount
	1	2	3	
Unrestricted:				
Stocks	\$ —	1,141,112	1,348,555	2,489,667
Investment in preferred stock in PRTA Holdings (see note 24)	—	—	701,000	701,000
U.S. government and agencies securities	52,448	432,243	48,628	533,319
Corporate bonds	—	422,081	117,289	539,370
Certificates of deposits	—	—	9,030	9,030
Mortgage-backed securities	—	—	637	637
Commercial paper	192	5,728	—	5,920
Short-term investments	165,328	—	5,022	170,350
Subtotal	217,968	2,001,164	2,230,161	4,449,293
Investments not subject to categorization:				
P.R. government Trust Fund				57,546
Limited partnership/private equity				29,171
Mortgage loans				271
Investment pool				81,007
Guaranteed investment contracts				378,819
Total – unrestricted carried forward				4,996,107

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

	<b>Category</b>			<b>Carrying Amount</b>
	<b>1</b>	<b>2</b>	<b>3</b>	
Total – unrestricted brought forward	\$ 217,968	2,001,164	2,230,161	4,996,107
Restricted:				
U.S. government and agencies securities	32,810	—	—	32,810
Certificates of deposit	2,501	—	—	2,501
Subtotal	35,311	—	—	35,311
Investments not subject to categorization – deep discount securities				271,528
Total – restricted				306,839
Total	\$ 253,279	2,001,164	2,230,161	5,302,946

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

Carrying amount of investments	\$ 5,302,946
Investments disclosed as cash equivalents for statement of cash flows	(27,437)
Other restricted assets	14,013
Investments reported on the combined balance sheet	\$ 5,289,522

Unrestricted investments include approximately \$44 million of deposits from the Commonwealth that are invested in the Puerto Rico Government Investment Trust Fund (see note 4). Such amount has been included as cash and cash equivalents in the combined balance sheet.

Deep discount securities included as restricted investments are purchased through GDB to fund Lotto prizes of \$200 thousand or more, payable on an installment basis. Investments in zero coupon U.S. Treasury strips (with maturity dates that coincide with pay-out schedules of the Lotto prizes) constitute collateral for the prizes. As of June 30, 2001, the fair value of such collateral amounts to approximately \$289.9 million. Annuity contracts are recorded at present value of future installment prize payments. Interest earned is not recognized as revenue, but credited to obligations for unpaid prize awards.

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

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

***Public University Funds***

Cash and investments of the public university funds at June 30, 2001 consist of (expressed in thousands):

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash in commercial banks	\$ 51,495	24,136	75,631
Cash in governmental banks	47,516	8,098	55,614
Investments	<u>539,959</u>	<u>192,800</u>	<u>732,759</u>
Total	<u>\$ 638,970</u>	<u>225,034</u>	<u>864,004</u>

As of June 30, 2001, cash mainly includes certificates of deposit, demand and interest-bearing accounts in commercial and governmental banks. The carrying amount and the bank balance of deposits at June 30, 2001 consists of (expressed in thousands):

	<u>Carrying amount</u>	<u>Bank balance</u>
Commercial banks	\$ 75,631	75,631
Governmental banks	<u>55,614</u>	<u>55,545</u>
Total	<u>\$ 131,245</u>	<u>131,176</u>

Bank balances of deposits in commercial banks are classified in category 1.

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

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

	<u>Category 1</u>	<u>Category 3</u>	<u>Carrying amount</u>
Unrestricted:			
Stocks	\$ 356,470	—	356,470
U.S. government and agencies securities	77,759	—	77,759
Corporate bonds	59,265	—	59,265
Mortgage-backed securities	31,887	—	31,887
Foreign securities certificates	2,018	—	2,018
Foreign and municipal bonds	<u>3,574</u>	<u>—</u>	<u>3,574</u>
Subtotal carried forward	<u>\$ 530,973</u>	<u>—</u>	<u>530,973</u>

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

	<u>Category 1</u>	<u>Category 3</u>	<u>Carrying amount</u>
Subtotal carried forward	\$ 530,973	—	530,973
Unrestricted investments not subject to categorization:			
Limited partnerships/private equity			8,349
Mortgage loans			<u>637</u>
Total – unrestricted			<u>539,959</u>
Restricted:			
Certificates of deposit	3,645	603	4,248
U.S. government and agencies securities	140,278	—	140,278
Stocks	7,611	—	7,611
Corporate bonds	<u>11,253</u>	<u>—</u>	<u>11,253</u>
Subtotal	<u>162,787</u>	<u>603</u>	<u>163,390</u>
Restricted investments not subject to categorization:			
Mutual funds			28,808
Real estate			350
P.R. Government Investment Trust Fund			249
Mortgage loans			<u>3</u>
Total – restricted			<u>192,800</u>
Total	\$ <u>693,760</u>	<u>603</u>	<u>732,759</u>

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

Carrying amounts of investments	\$ 732,759
Other restricted assets	<u>69,641</u>
Investments and other restricted assets as reported on the combined balance sheet	\$ <u>802,400</u>

Unrestricted investments mainly belong to the UPRRS. Such investments have been presented in the general purpose financial statements at their fair value, which as of June 30, 2001 amounts to approximately \$540 million.

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

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

***Component Units – Other***

Cash, cash equivalents and investments of the component units – other at June 30, 2001 consist of (expressed in thousands):

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and cash equivalents	\$ 696,878	1,018,135	1,715,013
Investments	<u>5,139,427</u>	<u>5,463,333</u>	<u>10,602,760</u>
Total	<u>\$ 5,836,305</u>	<u>6,481,468</u>	<u>12,317,773</u>

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

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

	<u>Carrying amount</u>	<u>Bank balance</u>
Deposits in commercial banks	\$ 2,253,793	2,381,545
Deposits in governmental banks	<u>583,306</u>	<u>589,295</u>
Total	<u>\$ 2,837,099</u>	<u>2,970,840</u>

Bank balances of deposits in commercial banks:

Category 1	738,956
Category 3	<u>1,642,589</u>

Total bank balance of deposits in commercial banks	\$ <u>2,381,545</u>
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The bank balance of deposits in governmental banks is uninsured and uncollateralized. Such deposits are maintained with GDB and with EDB.

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

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

Carrying amounts of deposits	\$ 2,837,099
Cash equivalents disclosed as investments for GASB No. 9	(1,662,918)
Investments disclosed as cash equivalents for GASB No. 9	<u>540,832</u>
 Deposits as reported on the combined balance sheet	 \$ <u>1,715,013</u>

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

	<u>Category</u>			<u>Carrying amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Unrestricted:				
Mortgage-backed securities	\$ 1,127,075	—	—	1,127,075
U.S. government and agencies securities	725,258	352,144	—	1,077,402
Negotiable certificates of deposit	215,926	70,262	34,500	320,688
Stocks	293,680	—	—	293,680
Corporate bonds	287,080	—	—	287,080
Commercial paper	7,808	—	168,323	176,131
Repurchase agreements	87,648	—	—	87,648
Short-term investment	52,484	—	—	52,484
Foreign and municipal bonds	<u>14,291</u>	<u>—</u>	<u>—</u>	<u>14,291</u>
Subtotal	\$ <u>2,811,250</u>	<u>422,406</u>	<u>202,823</u>	<u>3,436,479</u>
Investments not subject to categorization:				
P.R. Government Investment Trust Fund				89,701
Investment pool				17,670
Securities lending underlying securities				45,211
Limited partnership/private equity				44,470
Money market funds				<u>13,552</u>
Total – unrestricted carried forward				\$ <u>3,647,083</u>

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

	<b>Category</b>			<b>Carrying amount</b>
	<b>1</b>	<b>2</b>	<b>3</b>	
Total – unrestricted brought forward	\$ <u>2,811,250</u>	<u>422,406</u>	<u>202,823</u>	<u>3,647,083</u>
Restricted:				
U.S. government and agencies securities	2,391,758	2,052	—	2,393,810
Foreign and municipal bonds	996,098	—	—	996,098
Mortgage-backed securities	91	276,485	—	276,576
Repurchase agreements	44,366	—	325,196	369,562
Commonwealth securities	582	—	124,528	125,110
Guaranteed investment contracts	780,414	—	—	780,414
Negotiable certificates of deposit	99,632	—	—	99,632
Commercial paper	4,537	—	4,695	9,232
Corporate bonds	—	—	24,742	24,742
Stocks	557	—	—	557
Subtotal	<u>4,318,035</u>	<u>278,537</u>	<u>479,161</u>	<u>5,075,733</u>
Investments not subject to categorization:				
Guaranteed investment contracts				367,224
Securities lending underlying securities				239,715
P.R. Government Investment Trust Fund				68,086
Investment pool				82,499
Money market funds				<u>334</u>
Total – restricted				<u>5,833,591</u>
Total	<u>\$ 7,168,998</u>	<u>700,943</u>	<u>681,984</u>	<u>9,480,674</u>

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

Carrying amounts of investments	\$ 9,480,674
Cash equivalents disclosed as investments for GASB No. 9	1,662,918
Investments disclosed as cash equivalents for GASB No. 9	<u>(540,832)</u>
Investments as reported on the combined balance sheet	<u>\$ 10,602,760</u>

Unrestricted investments do not include approximately \$1.6 billion of interest-bearing deposits, which have been classified as investments in the combined balance sheet. Such amount has been categorized as deposits with financial institutions.

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

Restricted investments do not include approximately \$17.6 million of interest-bearing deposits, which have been classified as investments in the combined balance sheet. Such amount has been categorized as deposits with financial institutions.

In addition, contributions made by GDB to the Puerto Rico Government Investment Trust Fund amounting to approximately \$3.9 million are included as investments in the combined balance sheet.

Unrestricted repurchase agreements of approximately \$88 million belong to the EDB. As of June 30, 2001, the fair value of the collateral for the repurchase agreements amounted to approximately \$89 million and consisted primarily of investment securities held in custody by EDB's agent.

Restricted repurchase agreements of approximately \$250 million correspond to the Puerto Rico Housing Bank and Finance Agency and are funded through obligations under reverse repurchase agreements. As of June 30, 2001, the fair value of the underlying securities amounted to approximately \$250 million and mainly consisted of U.S. government obligations and mortgage-backed securities held by the broker or his agent, with whom the agreement is transacted.

During the year ended June 30, 2001, EDB entered into investment transactions in commercial paper. Information related to these transactions is as follows (expressed in thousands):

Carrying amount as of June 30, 2001	\$ <u>143,447</u>
Maximum amount outstanding at any month-end	\$ <u>199,431</u>
Average amount outstanding during the year	\$ <u>125,703</u>
Weighted average interest rate for the year	<u>5.90%</u>
Weighted average interest rate at year-end	<u>4.25%</u>

### (6) Securities Lending Transactions

During the year, the Employees' Retirement System of the Government of Puerto Rico and its instrumentalities and the Puerto Rico Judiciary Retirement System, included within the fiduciary fund types, and the State Insurance Fund Corporation and the Automobile Accident Compensation Administration, two discretely presented component units, entered into securities lending transactions. These transactions amounting to \$72.5 million and \$208.9 million at June 30, 2001, respectively, are included within investments and securities lending transactions and reverse repurchase agreements in the combined balance sheet.

#### *Employees' Retirement System of the government of Puerto Rico and its Instrumentalities and Puerto Rico Judiciary Retirement System (the "Retirement Systems")*

The Retirement Systems' securities custodian, as agent for the Retirement Systems, manages the securities lending program and receives liquid collateral. The collateral requirement is equal to 102.1

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

percent of the fair value of the securities lent. The collateral securities cannot be pledged or sold unless the borrower defaults. Securities lending obligations for which collateral was received as of June 30, 2001 consist of (expressed in thousands):

<u>Securities lent</u>	<u>Fair value of underlying securities</u>
Corporate bonds	\$ 4,205
Equity securities	<u>66,773</u>
	<u>\$ 70,978</u>

Collateral received amounted to \$72.5 million and it was invested as follows; \$19.3 million in commercial paper and \$53.2 million in repurchase agreements.

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

***State Insurance Fund Corporation (“SIFC”)***

The SIFC securities custodian, as agent of SIFC, manages the securities lending program and receives cash collateral, securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by SIFC unless the borrower defaults. The collateral requirement is equal to 102 percent of the fair value of the security lent for securities issued in the United States and 105 percent for securities issued outside of the United States. Additional collateral has to be provided by the next business day if its value falls to less than 100 percent of the fair value of the securities lent. At year-end, SIFC has no credit risk exposure to borrowers because the amounts SIFC owes the borrowers exceed the amounts the borrowers owe SIFC. Contracts with the lending agents require them to indemnify SIFC if the borrowers fail to return the securities or fail to pay SIFC for income distributions by the securities’ issuers while the securities are on loan.

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

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

Securities lending obligations for which cash was received as collateral as of June 30, 2001 consist of (expressed in thousands):

<u>Securities lent</u>	<u>Fair value of underlying securities</u>
U.S. government and agencies obligations	\$ 142,120
Corporate bonds and notes	5,446
Equity securities	<u>7,857</u>
	<u>\$ 155,423</u>

Cash collateral received amounted to \$159.1 million and it was invested as follows; \$10 million in interest-bearing deposits, \$69.7 million in repurchase agreements, \$24.7 million in corporate bonds and notes, \$50 million in money market funds and \$4.7 million in commercial paper.

In addition, SIFC had the following securities lending obligations collateralized by securities as of June 30, 2001 (expressed in thousands):

<u>Securities lent</u>	<u>Fair value of underlying securities</u>	<u>Securities collateral received</u>
U.S. government and agencies obligations	\$ <u>84,293</u>	<u>87,588</u>

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

***Automobile Accident Compensation Administration (“ACA”)***

Under the provisions of Commonwealth statutes and ACA’s board of directors, ACA lends securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The custodial bank manages the securities lending program and receives cash, government securities and letters of credit as collateral. The collateral securities cannot be pledged or sold by ACA unless the borrower defaults. The securities lending program provides for an initial minimum collateralization of 102 percent of the fair value of the securities on loan plus accrued income. Additional collateral has to be provided by the close of the next business day if its value falls to less than 100 percent. The contract with the custodial bank requires that should a collateral deficiency occur beyond the custodian’s responsibilities, the deficiency shall be allocated pro rata among all client lenders within the program.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

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

The following represents the balances relating to the securities lending transactions as of June 30, 2001 (expressed in thousands):

<b>Securities lent</b>	<b>Fair value of underlying securities</b>	<b>Securities collateral received</b>
U.S. Treasury bills, bonds and notes	\$ 30,978	31,833
Common stocks and preferred stocks	3,392	3,465
Corporate bonds	8,728	8,935
U.S. agencies	4,118	4,229
Foreign government bonds	1,258	1,337
Totals	\$ 48,474	49,799

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

#### (7) Investments in Limited Partnerships

Pursuant to the "Statement of Investment Guidelines for the Government of Puerto Rico," the Pension Trust Funds, the University of Puerto Rico Retirement System and a component unit invested \$18.8 million in limited partnerships during the fiscal year ended June 30, 2001. The investments were as follows:

- \$5.0 million was invested in Guayacán Funds of Funds, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc. as general partner, that has total commitments of \$55.5 million of which \$50 million are from public pension funds and the remaining balance from the private corporate investors. This fund invests in United States and international private equity partnerships that in turn invest in private companies.
- \$5.4 million was invested in Guayacán Private Equity Fund, L.P., a Delaware limited partnership, organized by Advent/Morro Partners as general partner, that has total commitments of \$41.9 million of which \$32.5 million are from the government pension funds and the remaining balance from the private corporate investors in Puerto Rico. This fund invests in Puerto Rico private equity.
- \$8.4 million was invested in Guayacán Fund of Funds II, L.P., a Delaware limited partnership, organized by Grupo Guayacán as general partner, that has total commitments of \$62 million of which \$56 million are from the government pension funds and the remaining balance from the private corporate investors in Puerto Rico. The fund invests in a broad range of United States and international private equity investment partnerships that, in turn, will make equity and equity-related investments primarily in private businesses.

The carrying value of these investments at June 30, 2001 amounted to \$79.8 million and is presented within investments in the combined balance sheet.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

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

As of June 30, 2001 the primary government and discretely presented component units had capital commitments and contributions as follows (expressed in thousands):

	<u>Public sector commitments</u>	<u>Fiscal year contributions</u>	<u>Cumulative contributions</u>
<b>Guayacán Funds of Funds, LP</b>			
Primary government:			
Employees' Retirement System of the Government of Puerto Rico and its instrumentalities	\$ 25,000	2,500	22,004
Puerto Rico System of Annuities and Pensions for Teachers	20,000	2,000	17,603
Public University Fund – University of Puerto Rico Retirement System	<u>5,000</u>	<u>500</u>	<u>4,401</u>
Subtotal	<u>50,000</u>	<u>5,000</u>	<u>44,008</u>
 <b>Guayacán Fund of Funds II, LP</b>			
Primary government:			
Employees' Retirement System of the Government of Puerto Rico and its instrumentalities	25,000	3,750	8,813
Puerto Rico System of Annuities and Pensions for Teachers	25,000	3,750	8,813
Public University Fund – University of Puerto Rico Retirement System	<u>6,000</u>	<u>900</u>	<u>2,115</u>
Subtotal	<u>56,000</u>	<u>8,400</u>	<u>19,741</u>
 <b>Guayacán Private Equity Fund, LP</b>			
Primary government:			
Employees' Retirement System of the Government of Puerto Rico and its instrumentalities	5,000	835	2,908
Puerto Rico System of Annuities and Pensions for Teachers	5,000	835	2,908
Public University Fund – University of Puerto Rico Retirement System	2,500	418	1,455
Subtotal	<u>20,000</u>	<u>3,340</u>	<u>11,632</u>
Subtotal	<u>32,500</u>	<u>5,428</u>	<u>18,903</u>
Total	<u>\$ 138,500</u>	<u>18,828</u>	<u>82,652</u>

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

**(8) Receivables**

Receivables in the general fund include approximately \$1.3 billion of accrued income and excise taxes and \$150.2 million of receivables from the federal government. In addition, the trust and agency funds include \$66.7 million of accrued unemployment and disability taxes.

**(9) Interfund and Intraentity Transactions**

Interfund receivables and payables at June 30, 2001 are summarized as follows (expressed in thousands):

Due from/to other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Pension trust	58,343
	Lottery of Puerto Rico	10,140
	The Additional Lottery System	9,037
	Unemployment trust	2,615
	Capital projects	1,242
Capital projects	Debt service	87,207
Fiduciary	General	8,462
Total		<u>177,046</u>

Due from/to primary government and component units:

<u>Receivable entity/fund</u>	<u>Payable entity/fund</u>	<u>Amount</u>
Public university funds	Capital projects	<u>35</u>
Tourism Company of Puerto Rico	Fiduciary	36,930
Puerto Rico Maritime Transportation Authority	General fund	3,603
Puerto Rico Health Insurance Administration	General fund	354
Puerto Rico Highway and Transportation Authority	Capital projects	11,142
Puerto Rico Conservatory of Music Corporation	Capital projects	8,075
Puerto Rico Infrastructure Financing Authority	Capital projects	5,000
		<u>65,104</u>
General fund	Tourism Company of Puerto Rico	33,040
General fund	Puerto Rico Health Insurance Administration	23,313
General fund	Puerto Rico Housing Bank and Finance Agency	13,552
		<u>69,905</u>

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

<u>Receivable entity</u>	<u>Payable entity</u>	<u>Amount</u>
Puerto Rico Metropolitan Bus Authority	Puerto Rico Highway and Transportation Authority	5,298
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	Puerto Rico Infrastructure Financing Authority	598
		<u>5,896</u>

Advances to/from primary government and component units:

<u>Receivable entity</u>	<u>Payable fund/entity</u>	<u>Amount</u>
Government Development Bank for Puerto Rico	General fund	1,504,424
	Puerto Rico Aqueduct and Sewer Authority	865,652
	Puerto Rico Ports Authority	239,600
	Tourism Company of Puerto Rico	147,942
	Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	94,989
	Puerto Rico Housing Bank and Finance Agency	92,195
	Sugar Corporation of Puerto Rico	66,641
	Land Authority of Puerto Rico	66,442
	Puerto Rico Industrial Development Company	41,635
	Puerto Rico Highway and Transportation Authority	40,788
	Solid Waste Authority of Puerto Rico	38,658
	Puerto Rico Infrastructure Financing Authority	21,692
	Puerto Rico Metropolitan Bus Authority	20,257
	Medical University Services, Inc.	13,632
	Economic Development Bank for Puerto Rico	13,605
	Agricultural Services and Development Administration	10,002
	Institutional Trust of the National Guard of Puerto Rico	3,386
	Puerto Rico Land Administration	870
	Trust for the Conservation, Operation and Maintenance of the Puerto Rico National Parks University of Puerto Rico	518
		471
Economic Development Bank for Puerto Rico	Puerto Rico Exports Development Corporation	12,101
University of Puerto Rico	General fund	47,180
Puerto Rico Electric Power Authority	General fund	37,924
Water Pollution Control Revolving Fund	Puerto Rico Aqueduct and Sewer Authority	101,316
		<u>3,481,920</u>

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

The immaterial difference between due and advances to/from arise primarily as a result of a component unit having a fiscal year-end different from that of the Commonwealth. Certain component units reflect inter-entity loans as advances in their separately issued financial statements, principally GDB.

### (10) Restricted Assets

Restricted assets included in the general purpose financial statements at June 30, 2001 consist of cash, investments and other assets to be used for the following purposes (expressed in thousands):

Primary government:	
Debt service and sinking fund requirements	\$ 401,461
Payment of lottery prizes	271,528
Other restricted assets of the Public Housing Administration	35,311
Renewal and replacement fund	12,505
Construction fund	<u>2,599</u>
Total for the primary government	<u>\$ 723,404</u>
Public university funds:	
Construction funds	\$ 142,010
Retirement plan	28,852
Donations	23,505
Renewal and replacement funds	14,001
General reserved funds	11,985
University future development funds	4,430
Debt service and sinking fund requirements	251
Other restricted assets	<u>69,641</u>
Total for public university funds	<u>\$ 294,675</u>
Component units – other:	
Debt service and sinking fund requirements	\$ 2,843,725
Construction funds	1,402,475
Trust fund	1,201,612
Collateral for underlying securities	398,848
Payment of reverse repurchase agreements	255,500
Contingency reserve	147,196
Production and personnel	74,868
Purchase of assets	51,631
Maintenance reserve fund	32,612
Special revenue fund	20,065
Payment of incentives to farmers	<u>17,183</u>
Balance carried forward	<u>\$ 6,445,715</u>

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

Balance brought forward	\$ 6,445,715
Federal grants	12,457
Malpractice professional development	5,655
Reserve for reinsurance claims	5,610
Liquidation costs	4,228
Life and funeral insurance fund	2,725
Court order restriction	2,510
Death, catastrophe and disability funds	1,621
Educational fund	639
Severance payment	224
Childcare	84
	<u>6,481,468</u>
Total for component units – other	\$ <u>6,481,468</u>

**(11) Fixed Assets**

***Primary Government***

Activity in the general fixed assets account group for the fiscal year ended June 30, 2001 is as follows (expressed in thousands):

	<b>Balance July 1, 2000 (as restated)</b>	<b>Additions</b>	<b>Retirements/ transfers</b>	<b>Other adjustments</b>	<b>Balance June 30, 2001</b>
Land	\$ 608,948	9,55	—	(275,485)	343,021
Buildings and improvements	3,353,303	275,22	(4,642)	(122,423)	3,501,464
Equipment	239,505	37,64	(312)	(84,861)	191,976
Construction in progress	656,932	134,89	—	(47,858)	743,967
Total	<u>\$ 4,858,688</u>	<u>457,32</u>	<u>(4,954)</u>	<u>(530,627)</u>	<u>4,780,428</u>

The general fixed assets of the primary government have been restated as of the beginning of the year in the amount of \$2.1 billion, in order to include the general fixed assets of the Puerto Rico Public Housing Administration (“PRPHA”), a government agency ascribed to the Department of Housing. PRPHA had been excluded in prior years from the Commonwealth’s general purpose financial statements, a situation which management corrected by including it during the year ended June 30, 2001 as part of the Commonwealth’s primary government (see note 18).

The other adjustments in general fixed assets consist primarily of the elimination of certain capital lease properties of the Health Facilities and Services Administration of Puerto Rico (“HFSA”) (formerly presented as an enterprise fund entity), leased from Puerto Rico Public Building Authority, a blended component unit, that were duplicated in prior year when the net assets of HFSA were transferred to governmental type activities effective July 1, 1999.

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

Fixed assets for the proprietary and fiduciary fund types as of June 30, 2001 were as follows (expressed in thousands):

	<b>Enterprise funds</b>	<b>Fiduciary funds</b>
Land	\$ —	969
Buildings and improvements	—	20,638
Equipment	14,760	13,971
Other fixed assets	233	—
Total	<u>14,993</u>	<u>35,578</u>
Less: accumulated depreciation and amortization	<u>9,077</u>	<u>14,377</u>
Fixed assets, net	<u>\$ 5,916</u>	<u>21,201</u>

***Discretely Presented Component Units***

	<b>Public university funds</b>	<b>Component units – other</b>
Land	\$ 34,797	432,341
Buildings and improvements	479,011	12,383,724
Equipment	265,932	755,543
Construction in progress	95,580	2,153,548
Other fixed assets	<u>3,504</u>	<u>1,606,002</u>
Total	878,824	17,331,158
Less: accumulated depreciation and amortization	<u>1,471</u>	<u>5,065,159</u>
Fixed assets, net	<u>\$ 877,353</u>	<u>12,265,999</u>

**(12) Obligations Under Lease/Purchase Arrangements**

The Commonwealth and its component units are obligated under capital leases with third parties that expire through 2030 for buildings and equipment. At June 30, 2001 the capitalized cost of the buildings and equipment amounted to approximately \$174 million and is included in the general fixed assets account group. The present value of future minimum capital lease payments as of June 30, 2001 included in other long-term liabilities in the general long-term debt account group is as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Amount</u>
2002	\$ 20,332
2003	17,873
2004	15,098
2005	9,079
2006	7,995
Thereafter	<u>128,022</u>
Total minimum lease payments	198,399
Less: amount representing interest	<u>97,326</u>
Present value of minimum lease payments	<u>\$ 101,073</u>

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

The Commonwealth and its component units are also committed under numerous operating leases, excluding those with the Public Buildings Authority (“PBA”), covering real property and equipment. Rental expenditures within the general fund for the year ended June 30, 2001 under such operating leases were approximately \$355 million. Management believes that future minimum rental commitments under noncancelable real property and equipment leases with terms exceeding one year are not significant.

**(13) Advances from Component Units to Primary Government**

***Capital Projects Funds***

Advances from component units consist of a construction line of credit from GDB for the construction financing activities of PBA. At June 30, 2001 PBA had an authorized line of credit of approximately \$847 million. Advances outstanding under the line of credit amounted to approximately \$231 million bearing interest at 4.68 percent.

Advances from component units also include \$24.5 million of two lines of credit of the Corrections Administration with GDB for the improvement, construction and expansion of several correctional facilities.

**(14) Long-Term Debt**

**(a) *Governmental Funds Operations***

*Summary of General Long-Term Debt*

The following schedule shows the changes in the general long-term debt account group for the year ended June 30, 2001 (expressed in thousands):

	<b>Balance at June 30, 2000 (as restated)</b>	<b>Debt issued</b>	<b>Debt paid or defeased</b>	<b>Other net increases (decreases)</b>	<b>Balance at June 30, 2001</b>
Bonds payable	\$ 7,097,295	1,145,210	(580,559)	17,095	7,679,041
Notes payable	2,434,044	—	(43,599)	81,794	2,472,239
Debts payable to component units	882,747	387,462	(55,918)	120,040	1,334,331
Compensated absences	1,013,148	—	—	177,853	1,191,001
Net pension obligation	2,388,340	—	—	245,727	2,634,067
Other long-term liabilities	968,048	—	(9,505)	(537,581)	420,962
Total	<u>\$ 14,783,622</u>	<u>1,532,672</u>	<u>(689,581)</u>	<u>104,928</u>	<u>15,731,641</u>

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

Total debt issued includes approximately \$7.5 million of bond issuance costs, discounts and premiums.

The other net increases in bonds and notes payable consist of discount accretions on bonds, interest accruals capitalized into the notes' principal balance and other adjustments to record previously unrecognized refinanced interest of certain notes. These adjustments did not require any source or use of cash.

The other net increases in debt to component units respond principally to the acknowledgement by the Department of the Treasury during 2001 of its obligation to repay GDB, a discretely presented component unit, \$132.8 million of estimated losses GDB had sustained in the \$140 million tax liens transaction described on section (e) below. The acknowledgment of this obligation did not result in the use of funds during fiscal year ended June 30, 2001.

Compensated absences, net pension obligation and other long-term liabilities reflect other net increases (decreases) resulting from adjustments and changes to agree these obligations to their estimated balances at June 30, 2001.

#### **(b) Debt Limitation**

The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit and taxing power of the Commonwealth, are not to be issued if the amount of the principal of, and interest on, such bonds and notes and on all such bonds and notes issued thereafter which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceed 15 percent of the average annual revenue raised under the provisions of Commonwealth legislation and conveyed into the Treasury (hereinafter "internal revenue") in the two fiscal years preceding the then current fiscal year. Section 2, Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15 percent limitation is not exceeded. Internal revenue consists principally of income taxes and excise taxes. Certain revenue, such as federal excise taxes on offshore shipments of alcoholic beverages, tobacco products and customs duties, which are collected by the U.S. government and returned to the Commonwealth, and motor vehicle fuel taxes and license fees, which are allocated to the Puerto Rico Highway and Transportation Authority, a discrete component unit, are not included as revenue for the purpose of calculating the debt limit, although they may be available for the payment of debt service. At June 30, 2001 the Commonwealth is in compliance with the debt limitation requirement.

#### **(c) Bonds Payable**

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

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

Law No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03 percent of the assessed value of all real and personal property not exonerated from taxation. The levy is made by the Municipal Revenues Collection Center (“MRCC”), a municipal corporation, not a component unit of the Commonwealth. MRCC is required to remit the 1.03 percent of property tax collected to the Commonwealth to be used by the Commonwealth’s debt service funds for payment of debt service on general obligations and notes of the Commonwealth. During the year ended June 30, 2001 the total revenue and receivable to the Commonwealth amounted to approximately \$91.9 million and \$75.5 million, respectively, which are reported in the debt service fund.

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

Bonds payable outstanding at June 30, 2001 are as follows (expressed in thousands):

	<b>General obligation</b>	<b>Revenue bonds</b>	<b>Total</b>
Term bonds payable through 2030; interest payable semiannually at rates varying from 3% to 8%. \$	2,289,675	763,755	3,053,430
Serial bonds payable through 2024; interest payable semiannually at rates varying from 4.25% to 7.5%.	2,354,865	569,165	2,924,030
Capital appreciation bonds payable through 2019; no interest rate, yield ranging from 4.42% to 7.8%. Net of unaccreted discount of \$231 million.	453,321	101,095	554,416
Children’s trust fund tobacco settlement asset-backed bonds payable through 2026; interest payable annually at rates varying from 4.625% to 6%.	—	397,005	397,005
New housing authority bonds payable through 2010; interest payable annually at rates ranging from 2.125% to 6%.	—	103,829	103,829
Appropriation refunding bonds for low income housing payable through 2005; interest payable at rates varying from 6.9% to 8%.	78,830	—	78,830
Bond payment obligation payable through 2008; interest payable at rates varying from 3.5% to 5.5%.	33,450	—	33,450
Bond payment obligation payable through 2009; interest payable at rates varying from 3.5% to 5.5%.	44,240	—	44,240
Bond payment obligation payable through 2010; interest payable at rates varying from 1.5% to 5.5%.	48,220	—	48,220
Balance carried forward	\$ 5,302,601	1,934,849	7,237,450

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

	<b>General obligation</b>	<b>Revenue bonds</b>	<b>Total</b>
Balance brought forward	\$ 5,302,601	1,934,849	7,237,450
Auction rate notes payable from 2007 through 2008; and from 2015 through 2020; interest payable in arrears from 2007 through 2008 at rates varying from 2.65% to 11.564%, and from 2015 through 2020 at rates varying from 2.65% to 11.662%.	136,600	—	136,600
Yield curve notes payable from 2007 through 2008; no interest rate, yield of 8.914%.	26,700	—	26,700
Yield curve notes payable from 2015 through 2020; no interest rate, yield of 9.012%.	94,900	—	94,900
Tax-exempt components maturing through 2007 and 2008; interest at rates ranging from 5.5% to 5.6%.	—	72,160	72,160
Deferred interest bonds payable through 2002; interest payable semiannually at 8%	50,000	—	50,000
Indexed inverse floaters maturing through 2016 with interest at 5.70%.	—	46,000	46,000
Inverse rate securities payable from 2009 through 2011, at an interest rate of 6%.	15,000	—	15,000
Total	5,625,801	2,053,009	7,678,810
Savings bonds	231	—	231
Total bonds payable	\$ 5,626,032	2,053,009	7,679,041

The children's trust fund tobacco settlement asset-backed bonds were issued primarily to pay the costs of certain capital expenditures in accordance with Act No. 173 of July 30, 1999 ("Act No. 173"), which created The Children's Trust, a blended component unit, including but not limited to the costs of constructing and equipping a children's museum and acquiring certain equipment for public schools located throughout Puerto Rico. These bonds are secured by and payable from 50 percent of the moneys received under the global settlement agreement and from investment earnings of certain amounts pledged under a trust indenture agreement.

The new housing authority bonds are the balance of bonds payable by PRPHA. As discussed in notes 11 and 18, PRPHA had been excluded in prior years from the Commonwealth's general purpose financial statements but corrected by management by including it during the year ended June 30, 2001 as part of the Commonwealth's primary government. As a result, the Commonwealth's bonds payable balance has been restated as of the beginning of the year in the amount of \$114.6 million (see note 18). The new housing authority bonds are paid through annual contributions from the federal government as provided in their annual contribution contract. These bonds are secured by the annual contribution and the housing units constructed.

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

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

During the year ended June 30, 2001 the following changes occurred in the bonds payable (expressed in thousands):

	<b>Outstanding June 30, 2000 (as restated)</b>	<b>Issued</b>	<b>Discount accretion (redeemed)</b>	<b>Outstanding June 30, 2001</b>
Term bonds	\$ 2,829,445	369,095	(145,110)	3,053,430
Serial bonds	2,918,580	379,110	(373,660)	2,924,030
Capital appreciation bonds	568,745	—	(14,329)	554,416
Children's trust fund tobacco settlement asset-backed bonds	—	397,005	—	397,005
New housing authority bonds	114,564	—	(10,735)	103,829
Appropriation refunding bonds	98,460	—	(19,630)	78,830
Auction rate notes	136,600	—	—	136,600
Bond payment obligations	125,910	—	—	125,910
Yield curve notes	121,600	—	—	121,600
Tax-exempt components	72,160	—	—	72,160
Deferred interest bonds	50,000	—	—	50,000
Indexed inverse	46,000	—	—	46,000
Inverse rate notes	15,000	—	—	15,000
Savings bonds	231	—	—	231
	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total	\$ <u>7,097,295</u>	<u>1,145,210</u>	<u>(563,464)</u>	<u>7,679,041</u>

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 336,455	415,762	752,217
2003	305,555	469,707	775,262
2004	256,917	460,829	717,746
2005	315,201	376,948	692,149
2006	260,433	382,239	642,672
Thereafter	<u>5,973,229</u>	<u>3,681,007</u>	<u>9,654,236</u>
Total	7,447,790	<u>5,786,492</u>	<u>13,234,282</u>
Plus accreted discount	<u>231,251</u>		
Total	\$ <u>7,679,041</u>		

The Commonwealth authorized on May 24, 2001, but has not yet issued, approximately \$501.6 million of Public Improvement Refunding Bonds Series 2002. The Series 2002 Refunding Bonds are expected to be issued on or about April 4, 2002.

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

**(d) Notes Payable**

The Commonwealth has financed certain long-term obligations with third parties and with the Puerto Rico Public Finance Corporation (“PFC”), a component unit of GDB, through the issuance of Commonwealth appropriation bonds under special trust agreements.

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

U.S. Department of Housing and Urban Development (“HUD”) notes	\$ 1,051,134
Federal Financial Bank notes	12,445
Farmers Home Administration and HUD mortgage notes	21,655
Police Department note	<u>6,430</u>
Total debt due to third parties	<u>1,091,664</u>

The remaining outstanding balance on the notes payable to PFC, tantamount to Commonwealth appropriation bonds, is comprised of the following:

Health Facilities and Services Administration of Puerto Rico	586,476
Public schools infrastructure improvement loan	363,305
Promissory note of the Puerto Rico Maritime Shipping Authority	281,250
Property tax settlement loan	<u>149,544</u>
Total debt to PFC	<u>1,380,575</u>
Total notes payable	<u><u>\$ 2,472,239</u></u>

Both, HUD and the Federal Financial Bank notes are obligations of PRPHA. Similar to the New Housing Authority bonds discussed above, these notes had been excluded in prior years from the Commonwealth’s general purpose financial statements but corrected by management by including them during the year ended June 30, 2001. As a result, the notes payable balance has been restated as of the beginning of the year in the amount of approximately \$1 billion (see note 18).

The notes payable to HUD bear interest at rates ranging from 3.375 percent to 10 percent. Proceeds from these notes were used for the construction and modernization of the Commonwealth’s public housing projects. These notes will be forgiven when PRPHA completes the certification and closing procedures of certain projects, and amends its annual contribution contract with HUD. In the meantime, the notes continue accruing interest which are capitalized into the notes principal balance. The following presents the composition of the notes (expressed in thousands):

Principal balance	\$ 506,637
Accrued interests	<u>544,497</u>
Total	<u><u>\$ 1,051,134</u></u>

Presently, PRPHA is working to complete the aforementioned certifications and closing procedures. At June 30, 2001 no forgiveness of the notes has been granted by HUD.

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

The Federal Financial Bank notes bear interest ranging from 10.62 percent to 16.15 percent and are payable in annual installments through November 2014. These notes are paid through annual contributions from the federal government as provided in the annual contribution contract with HUD. Debt service requirements in future years are as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 877	821	1,698
2003	934	1,064	1,998
2004	996	702	1,698
2005	1,060	638	1,698
2006	1,091	566	1,657
Thereafter	<u>7,487</u>	<u>1,828</u>	<u>9,315</u>
Total	\$ <u>12,445</u>	<u>5,619</u>	<u>18,064</u>

In addition, the notes payable at June 30, 2001 also included approximately \$21.6 million mortgage notes payable to the Farmers Home Administration and the U.S. Department of Housing and Urban Development, secured by land. The notes are due in monthly installments of varying amounts, including annual interest rates ranging between 3.125 percent and 9 percent through the year 2022. Future amounts required to pay principal balances at June 30, 2001 are as follows (expressed in thousands):

<u>Year ending June 30,</u>	
2002	\$ 666
2003	719
2004	712
2005	766
2006	830
Thereafter	<u>17,962</u>
Total	\$ <u>21,655</u>

As of June 30, 2001 the balance outstanding for the loan to the Police Department to pay for the lawsuit of Rivera Correa and others vs. Betancourt Lebrón and the Commonwealth of Puerto Rico and related expenses was approximately \$6.4 million. The loan will be fully paid in 2002, including estimated interest of approximately \$100,500.

The notes payable to PFC were originally loans granted by GDB, but which PFC acquired and restructured through the issuance of Commonwealth appropriation bonds. These bonds were issued under trust indenture agreements where PFC pledged the notes to certain trustees and created a first lien on the pledged revenue (consisting of annual Commonwealth appropriations earmarked to repay these notes) for the benefit of the bondholders. As a result of this arrangement, the PFC bonds are considered no-commitment debt and neither the bonds nor the notes purchased are presented in the financial statements of PFC. In substance, the notes are payable to the corresponding trustees to which PFC pledged the notes. During 2001, management reclassified these obligations as notes payable, rather than as debt payable to component units as presented in prior years. As a result, the beginning balances of notes payable and debt to component units have been restated by \$1.4 billion to reflect this reclassification. A detailed description of the notes payable is presented on the ensuing paragraphs.

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

As of July 1, 1999 approximately \$595 million (including unpaid interest) of a promissory note of HFSA due to PFC was transferred to the Department of Health which will be paid through future appropriations of the general fund. Principal and interest on the note are payable solely from legislative appropriations to be made pursuant to Act No. 223 of August 9, 1998. The Act provides that the OMB shall include in the annual budget of the Commonwealth an amount equal to \$56.5 million for the fiscal year 1998-99, and for the next succeeding 15 fiscal years the amount necessary to pay the principal of and interest on the note, up to a maximum annual amount of \$57.7 million. As of June 30, 2001 approximately \$586 million were still outstanding.

The public schools infrastructure improvement loan provided additional funds for major repairs and improvements to the public schools in Puerto Rico. This activity is administered by the Office for the Improvement of the Public Schools of Puerto Rico (“OIPS”), included as part of the capital project fund of the primary government. The loan is repaid by the Commonwealth using annual legislative appropriations, beginning with appropriations made in fiscal year 1998-1999. As of June 30, 2001 OIPS outstanding indebtedness under the loan agreement totaled \$363.3 million.

Act No. 85 of the Legislature of Puerto Rico, approved on June 13, 1998 (“Act 85”), authorized OIPS to obtain from GDB a new loan in a principal amount not to exceed \$425 million and bearing interest at a maximum rate of 8 percent. Act 85 provided that the proceeds of the loan will be used to refinance OIPS existing loan at that time (\$284.9 million) as well as all closing costs associated with the loans. On June 25, 1998 GDB, OIPS and PFC entered into a Debt Restructuring and Assignment Agreement whereby, (1) GDB made the loan to OIPS in order to refinance and restructure OIPS’s existing loan and fund the undisbursed portion of the existing line-of-credit facility; (2) OIPS executed a note to evidence its obligation under the new loan; and (3) PFC purchased the note from GDB, without recourse to GDB, through the issuance of Commonwealth appropriation bonds. Minimum payments in future years, of principal and interest, are as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 7,410	18,300	25,710
2003	7,835	17,879	25,714
2004	8,285	17,146	25,431
2005	8,725	16,552	25,277
2006	9,090	16,098	25,188
Thereafter	<u>321,960</u>	<u>210,886</u>	<u>532,846</u>
Total	<u>\$ 363,305</u>	<u>296,861</u>	<u>660,166</u>

The promissory note payable of approximately \$281.3 million is the liability owed by the Puerto Rico Maritime Shipping Authority (“PRMSA”) to PFC that was assumed by the Commonwealth in connection with the sale of the maritime operations of PRMSA. PFC issued bonds to

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

restructure this liability, and pledged the note receivable for the payment of the bonds. The promissory note payable bears interest at a variable rate not to exceed 12 percent (7.0 percent at June 30, 2001). Debt service requirements in future years are as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 6,325	17,817	24,142
2003	6,770	17,387	24,157
2004	7,235	16,921	24,156
2005	7,730	16,426	24,156
2006	8,265	15,889	24,154
Thereafter	<u>235,553</u>	<u>245,782</u>	<u>481,335</u>
Total	271,878	<u>330,222</u>	<u>602,100</u>
Plus accreted discount	<u>9,372</u>		
Total	<u>\$ 281,250</u>		

During fiscal year 1996, the Commonwealth refinanced the liability for the settlement of the property taxes owed to the municipalities of Puerto Rico. PFC issued bonds to restructure this liability. The new financing was for approximately \$192 million, bearing interest at rates ranging from 5.87 percent to 7.25 percent. Debt service requirements in future years are as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 9,850	8,032	17,882
2003	10,550	7,333	17,883
2004	11,185	6,699	17,884
2005	12,415	5,596	18,011
2006	13,310	5,083	18,393
Thereafter	<u>92,234</u>	<u>74,092</u>	<u>166,326</u>
Total	<u>\$ 149,544</u>	<u>106,835</u>	<u>256,379</u>

**(e) Debt Payable to Component Units**

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

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

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

Health facilities loan	\$	609,386
Health care reform loan		201,986
Department of the Treasury notes and other long-term obligations		318,417
Disaster assistance loan		33,029
Department of Agriculture loan		37,642
Court Administration Office loan		23,000
Police Department loan		20,500
Office of the Superintendent of the Capitol		5,267
Total debt due to GDB		<u>1,249,227</u>

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

Note payable to Puerto Rico Electric Power Authority (“PREPA”)		37,924
Health facilities agreement payable to the Medical Science Campus of the UPR		47,180
Total debt to other component units		<u>85,104</u>
Total	\$	<u>1,334,331</u>

As of July 1, 1999 two outstanding revolving lines of credit of the Health Facilities and Services Administration (“HFSA”) with GDB for approximately \$454 million were transferred to the Department of Health and will be payable by future appropriations of the general fund. The lines of credit bear interest at rates between 8 percent and 8.15 percent. One line was due on September 30, 2000 but not paid while the other is due on September 30, 2003. As of June 30, 2001 there were approximately \$452 million outstanding. On March 21, 2001 the Department of the Treasury entered into an additional line-of-credit agreement with GDB which provides for borrowings up to \$250 million to repay certain Department of Health’s debt with vendors and other government’s agencies and instrumentalities. Borrowings under this line of credit bear interest at variable rates and is due on June 30, 2002. At June 30, 2001, there was approximately \$157.4 million outstanding pertaining to this line of credit. These loans have been included in the debt restructuring provisions of Act No. 164 of December 17, 2001 disclosed in note 23(d) (under primary government) to the general purpose financial statements.

On February 5, 1997 the Department of the Treasury entered into a revolving line-of-credit agreement for the Health Care Reform with GDB which provided for borrowings up to \$332 million. Borrowings outstanding under this revolving line of credit bear interest at variable rates and are payable quarterly, before the 10th day of July, October, January, and April. Advances under the revolving line of credit were made only upon the authorization of the Director of the Office of Management and Budget of the Commonwealth. The line of credit was used solely for the purpose of implementing the Health Care Reform. As of June 30, 2001 approximately \$202 million were still outstanding. This line of credit has been included within the debt restructuring provisions of Act No.164 of December 17, 2001, disclosed in note 23(d) (under primary government) to the general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

The Department of the Treasury notes and other long-term obligations include \$164.2 million of special promissory notes issued on behalf of the Commonwealth for the purpose of making a portion of the required monthly deposits to the Commonwealth's debt service fund prior to June 30, 2001. These notes were issued in anticipation of the Series 2001 Public Improvement Refunding Bonds, which eventually paid the notes on July 31, 2001.

On June 30, 1998 GDB, through its component unit, PFC, acquired from the Commonwealth the rights of the Department of the Treasury to receive its share of certain tax liens which were expected to be realized in exchange for \$140 million, which was paid to the Department of the Treasury at that date. Later in February 1999 and pursuant to Act No. 21 of June 26, 1997, which authorized MRCC to sell delinquent tax debts, PFC acquired from MRCC certain delinquent tax liens which were immediately sold to investors in a Tax Debt Collateralized Bond Issue ("Tax Bonds"). Following these two separate transactions, a significant amount of the aforementioned delinquent tax liens were identified as being defective, prompting GDB to propose legislation to authorize the cancellation of the Tax Bonds transactions in an effort to maintain the bondholders whole. The Department of the Treasury agreed during fiscal year 2001 to pay GDB approximately \$132.8 million during fiscal year 2002 for the estimated losses caused by the defective tax liens. GDB agreed to provide the necessary financing to repay such debt. As described in note 23(d) (under primary government), this obligation is included as part of the debt restructuring transaction contemplated in Act. No. 164 of December 17, 2001.

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

The disaster assistance loan of approximately \$93.9 million was used to repay a debt for such amount to the Federal Emergency Management Agency, which funded the Commonwealth's share of the relief grants for the residents of Puerto Rico affected by Hurricane Hugo in 1989. As of June 30, 2001 approximately \$33 million were outstanding. Debt service requirements in future years are as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 10,500	1,655	12,155
2003	11,025	1,130	12,155
2004	11,504	579	12,083
Total	<u>\$ 33,029</u>	<u>3,364</u>	<u>36,393</u>

On August 9, 1999 the Department of Agriculture entered into a \$125 million nonrevolving line of credit with GDB to provide economic assistance to the agricultural sector, which sustained severe damages caused by Hurricane Georges in 1998. Borrowings under this line of credit bear interest at variable rates and are payable upon the maturity of the line of credit on September 30, 2004. As of June 30, 2001 \$37.6 million were outstanding. The line of credit will be repaid from future legislative appropriations.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

On May 7, 2001, the Puerto Rico Court Administration Office (the "Office") entered into a \$49.4 million nonrevolving line-of-credit agreement with GDB for operating purposes. Borrowings under this line of credit bear interest at a variable rate of three months LIBOR plus 1 percent, not to exceed 8 percent. The Office must deposit \$6 million a year, from the total fees collected on the filing of civil cases lawsuits, in a special fund created by the Department of the Treasury which will be pledged for repayment until July 31, 2015. As of June 30, 2001 approximately \$23 million remains outstanding.

The Police Department loan consists of a line of credit granted to complete the payroll payment of June 1999. At that time, the line of credit was intended to be repaid from legislative appropriations of the 2000 budget; however, such appropriations were not approved. The terms of repayment of the line of credit will be renegotiated pursuant to the debt restructuring provisions of Act No. 164 of December 17, 2001, disclosed in note 23(d) (under primary government) to the accompanying general purpose financial statements.

On June 21, 2001 the Office of the Superintendent of the Capitol ("Superintendent") entered into a \$10 million line-of-credit agreement with GDB for the construction of a parking lot. Borrowings under this line of credit bear interest at a fixed rate of 8 percent and are payable from future legislative appropriations commencing in fiscal year 2003 through fiscal year 2007. As of June 30, 2001 only \$5.3 million had been drawn from the line of credit.

The note payable to the PREPA, a discretely presented component unit, consists of approximately \$37.9 million of fuel adjustment subsidy due by the Commonwealth. The yearly amortization will vary depending on the gross electric sales for the year. The amortized amount for the year ended June 30, 2001 was approximately \$6.3 million.

As of July 1, 1999 approximately \$102 million from various agreements with the UPR in relation to outstanding debt accumulated in prior years were transferred to the Commonwealth. As of June 30, 2001 approximately \$47.2 million are outstanding.

**(f) *Compensated Absences***

General long-term debt includes approximately \$651 million of accrued sick leave benefits, and approximately \$540 million of accrued vacation benefits, representing the Commonwealth's commitment to fund such costs from future operations.

**(g) *Net Pension Obligation***

The amount presented as net pension obligation of approximately \$2.6 billion represents the cumulative amount owed by the Commonwealth to the pension plans for the unfunded prior years actuarially required pension contribution (see note 21).

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

### **(h) Other Long-Term Liabilities**

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

Provisions for legal claims and judgments	\$	138,459
Provision for federal cost disallowances		94,684
Obligations under capital lease		101,073
Christmas bonus		84,214
Other		<u>2,532</u>
Total	\$	<u>420,962</u>

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

Provisions for legal claims and judgments – July 1, 2000	\$	350,000
Incurred claims and changes in estimates		12,728
Payments for claims and adjustments		<u>(224,269)</u>
Provision for legal claims and judgments – June 30, 2001	\$	<u>138,459</u>

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

The Commonwealth advance refunded certain general obligation bonds and obtained the funds for the repayment of certain special promissory notes to GDB through the issuance of approximately \$337.2 million of general obligation public improvements refunding bonds during the year ended June 30, 2001. The Commonwealth used approximately \$164 million from the net proceeds of the issued bonds to purchase U.S. government securities which were deposited in an irrevocable trust fund with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities have therefore been removed from the general long-term debt account group. As a result of this advance refunding, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$37.7 million over the next 30 years and obtained an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$37.6 million. At June 30, 2001 approximately \$160.2 million of the bonds refunded during the year ended June 30, 2001 remain outstanding and are considered defeased. The Commonwealth also deposited in a debt service fund bank account approximately another \$165.3 million from the net proceeds of the issued refunding bonds to refund at par on July 31, 2001, \$164.2 million, plus interest, of special promissory notes issued to GDB and described on note 14 (e).

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2001 approximately \$911.9 million of bonds outstanding from prior years advance refundings are considered defeased.

In addition, the Public Buildings Authority (“PBA”) a blended component unit, has defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old debts. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the general purpose financial statements. As of June 30, 2001 approximately \$1.3 billion of PBA bonds are considered defeased.

**(j) Pension Trust Funds**

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

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

Bonds payable outstanding at June 30, 2001 are as follows (expressed in thousands):

Term Bonds Series A payable through 2011; interest payable on a monthly basis at rates varying from 6.5% to 6.65%	\$ 9,010
Term Bonds Series B payable through 2021; interest payable semiannually at 5.50%	<u>15,210</u>
Total	<u>\$ 24,220</u>

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 665	1,394	2,059
2003	710	1,346	2,056
2004	755	1,300	2,055
2005	805	1,246	2,051
2006	855	1,194	2,049
Thereafter	<u>20,430</u>	<u>11,550</u>	<u>31,980</u>
Total	<u>\$ 24,220</u>	<u>18,030</u>	<u>42,250</u>

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

The Series A and Series B Bonds at the time outstanding maturing on or after July 1, 2006 and July 1, 2016, respectively, are subject to redemption, at the option of the TRS, in whole or in part on July 1, 2006, or any date thereafter at the determined redemption prices, plus accrued interest to the redemption date as follows:

July 1, 2006	Through June 30, 2007	102%
July 1, 2007	Through June 30, 2008	101%
July 1, 2008	And thereafter 100%	100%

**(k) Discretely Presented Component Units**

***Public University Funds***

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

Revenue bonds outstanding at June 30, 2001, were approximately \$467.9 million net of discounts of approximately \$32.6 million with interest rates varying from 3 percent to 5.75 percent and a final maturity date of 2030. Future amounts required to pay principal and interest on University System Revenue Bonds at June 30, 2001, are as follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 19,265	23,919	43,184
2003	20,185	22,990	43,175
2004	21,170	22,013	43,183
2005	17,255	20,815	38,070
2006	18,200	19,864	38,064
Thereafter	<u>404,442</u>	<u>234,235</u>	<u>638,677</u>
Total	500,517	<u>343,836</u>	<u>844,353</u>
Less net discounts	<u>(32,608)</u>		
	<u>\$ 467,909</u>		

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

***Component Units – Other***

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

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

Commonwealth. Bonds payable and notes payable outstanding at June 30, 2001 are as follows (expressed in thousands):

	<b>Final maturity date</b>	<b>Interest rates</b>	<b>Balance</b>
Bonds payable:			
Government Development Bank for Puerto Rico	2032	Variable	1,132,999
Puerto Rico Highway and Transportation Authority	2039	2.85% to 7.70%	3,904,492
Puerto Rico Electric Power Authority	2030	3.80% to 7.60%	4,237,155
Puerto Rico Aqueduct and Sewer Authority	2040	3.50% to 8.22%	440,031
Puerto Rico Infrastructure Financing Authority	2028	4.10% to 7.90%	2,069,295
Puerto Rico Municipal Finance Agency	2012	5.00% to 8.62%	1,021,771
Puerto Rico Housing Bank and Finance Agency	2029	2.70% to 7.37%	538,990
Puerto Rico Industrial Development Company	2021	5.375% to 8.05%	189,486
Puerto Rico Ports Authority	2021	5.00% to 7.30%	97,565
Total bonds payable			13,631,784
Notes payable:			
Government Development Bank for Puerto Rico	2002	Variable	1,271,671
Puerto Rico Highway and Transportation Authority	2035	5.74%	300,000
Puerto Rico Electric Power Authority	Not fixed	Variable	130,000
State Insurance Fund Corporation	2019	Variable	59,046
Economic Development Bank for Puerto Rico	2015	4.10% to 6.90%	85,806
Puerto Rico Industrial Development Company	2012	6.625% to 8.00%	15,176
Puerto Rico and Caribbean Cardiovascular Center Corporation	2005	7.50%	2,704
Tourism Company of Puerto Rico	2002	8.25% to 8.35%	900
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives	2004	N/A	311
Total notes payable			1,865,614

Notes payable of \$130 million of PREPA have no fixed maturity date and variable interest rates.

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

Future amounts required to pay principal and interest on other component units bonds and notes payable with fixed maturities at June 30, 2001, were as follows (expressed in thousands):

<b>Bonds payable</b>			
<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 627,502	900,528	1,528,030
2003	436,759	662,986	1,099,745
2004	454,790	643,481	1,098,271
2005	455,711	625,010	1,080,721
2006	475,030	603,608	1,078,638
Thereafter	<u>11,435,166</u>	<u>9,574,482</u>	<u>21,009,648</u>
Total	13,884,958	13,010,095	26,895,053
Discounts, net	<u>(253,174)</u>	—	<u>(253,174)</u>
Total	\$ <u>13,631,784</u>	<u>13,010,095</u>	<u>26,641,879</u>

<b>Notes payable</b>			
<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 1,258,093	38,488	1,296,581
2003	9,431	27,013	36,444
2004	7,038	26,684	33,722
2005	41,132	25,433	66,565
2006	6,533	24,760	31,293
Thereafter	<u>458,122</u>	<u>370,418</u>	<u>828,540</u>
Total	1,780,349	512,796	2,293,145
Discounts, net	<u>(44,735)</u>	—	<u>(44,735)</u>
Total	\$ <u>1,735,614</u>	<u>512,796</u>	<u>2,248,410</u>

The Puerto Rico Highway and Transportation Authority, has defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old debts. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the general purpose financial statements. As of June 30, 2001 approximately \$445 million are considered defeased.

The Puerto Rico Electric Power Authority has refunded in advance certain Power Revenue Bonds and Electric Revenue Bonds (the "Power Revenue Bonds") by placing the proceeds of new debt in an irrevocable trust to provide for future debt service payments on such bonds. Accordingly, the trust account assets, and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2001, \$94.1 million of Power Revenue Bonds series M, N, O, P, R, T, and X, which remain outstanding, are considered defeased.

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

In prior years, Puerto Rico Aqueduct and Sewer Authority (“PRASA”) defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts invested in U.S. Treasury securities to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the general purpose financial statements. PRASA has \$10 million of bonds outstanding at June 30, 2001 which are considered defeased.

The Puerto Rico Municipal Finance Agency refunded and defeased in prior years its outstanding 1992 Series A Bonds and its 1994 Series A Bonds with an average interest rate of 5.74 percent, with the net proceeds of the 1999 Series B Refunding Bonds with an average interest rate of 5.41 percent, plus moneys available under the 1992 Series A Bonds and the 1994 Series A Bonds trust indentures. These moneys were used to purchase U.S. government securities, which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments on the 1992 Series A Bonds and the 1994 Series A Bonds. As a result, the 1992 Series A Bonds and the 1994 Series A Bonds amounting to \$270.5 million at June 30, 2001 are considered defeased, and the liability from those bonds has been removed from the general purpose financial statements.

During fiscal year 1998, Puerto Rico Industrial Development Company issued approximately \$150 million in refunding bonds and general purpose revenue bonds. The proceeds of the fiscal 1998 bond issuance destined to refund the previous outstanding bonds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. As a result, all the series prior to 1997, except for the series 1991 serial and capital appreciation bonds, were considered defeased and the liability for those bonds was considered extinguished and have been removed from the accompanying general purpose financial statements. The outstanding balance of the defeased bonds at June 30, 2001 amounted to \$88.9 million.

**(15) Guaranteed and Appropriation Debt**

**(a) Guaranteed Debt**

The Commonwealth may provide guarantees for the repayment of certain borrowings of component units to carry out designated projects. At June 30, 2001, the following component unit debts are guaranteed by the Commonwealth (expressed in thousands):

	<u>Maximum guarantee</u>	<u>Outstanding balance</u>
Blended component unit:		
Public Buildings Authority	\$ 2,100,000	1,621,106
Discretely presented component units:		
Puerto Rico Aqueduct and Sewer Authority	625,300	541,347
Government Development Bank for Puerto Rico	550,000	267,000
Puerto Rico Housing Bank and Finance Agency	<u>112,500</u>	<u>87,505</u>
Total	<u>\$ 3,387,800</u>	<u>2,516,958</u>

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

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 discounts) as of June 30, 2001 for the next five years and thereafter follows (expressed in thousands):

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2002	\$ 68,931	95,313
2003	69,408	91,290
2004	69,973	88,726
2005	46,949	85,948
2006	47,825	80,283
Thereafter	<u>1,318,020</u>	<u>712,699</u>
Total	<u>\$ 1,621,106</u>	<u>1,154,259</u>

Law 45 of July 28, 1994, states that the Commonwealth guarantees the payment of principal and interest of all outstanding bonds at the date the law was enacted and of all future bond issues to refinance those outstanding bonds of PRASA. During December 1995, PRASA issued refunding bonds to refinance all outstanding bonds amounting to approximately \$400.3 million. The outstanding balance of these refunding bonds at June 30, 2001, amounted to \$316.3 million. Law No. 140 of August 3, 2000, amended Law No. 45 to extend the Commonwealth guarantee to include the principal and interest payments of the Rural Development Serial Bonds and the loans under the State Revolving Fund Program ("SRFP") outstanding at the effective date of Law No. 140, and of all future bonds and SRFP loans that may be issued until June 30, 2005. The outstanding balance of the Rural Development Serial Bonds and SRFP loans at June 30, 2001 amounted to \$123.7 million and \$101.3 million, respectively.

The Commonwealth guarantees the Adjustable Refunding Bonds, Series 1985, issued by GDB, a discretely presented component unit. The outstanding balance of these bonds amount to \$267 million at June 30, 2001.

The Puerto Rico Housing Bank and Finance Agency ("PRHBFA") insures mortgages granted to low- and moderate-income families through its mortgage loan insurance program. The Commonwealth guarantees up to \$75 million of such mortgage loans. As of June 30, 2001 the mortgage loan insurance program was insuring loans aggregating \$370 million and had not issued any debenture bonds. Currently, the Commonwealth has not been called to make any direct payments pursuant to these guarantees.

On April 15, 1992, PRHBFA issued Urban Renewal and Housing Corporation ("CRUV") Bonds ("Series H") to refund all the outstanding Special Obligation Bonds of CRUV (which was dissolved effective August 9, 1991). The Series H Bonds are payable from certain pledged moneys recovered from mortgages, other loans and other revenue of CRUV. In addition, the bonds are further secured by the pledge of the Commonwealth to draw from any available

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

funds in the Department of the Treasury of Puerto Rico as may be necessary to cover any deficiency in the amount required for the payment of principal and interest on bonds issued to refund bonds previously issued by CRUV in aggregate principal amount not exceeding \$32.5 million. The good faith and credit of the Commonwealth is pledged for such payments. Inasmuch as the final maturity date of the CRUV Bonds is 2002, and the liquidation of all assets of CRUV is expected to conclude subsequent to thereto, in case that the PRHBFA is unable to obtain moneys from any other source, including appropriations from the Commonwealth and moneys in the Special Fund, to pay principal and interest of the CRUV Bonds, it may be necessary for the Commonwealth to honor its guaranty of the Series H Bonds. The outstanding balance of these bonds at June 30, 2001 amounted to \$12.5 million.

During the fiscal year ended June 30, 1995, PRHBFA created a new loan insurance program to provide mortgage credit insurance to low- and moderate-income families for the purchase of land lots. Under this program, PRHBFA is authorized to commit the good faith and credit of the Commonwealth for up to \$5 million in connection with the issuance of debenture bonds. Such debenture bonds had not been issued.

### **(b) Appropriation Debt**

At June 30, 2001 the outstanding balances of debt payable by government appropriations and which are included in the individual financial statements of these entities are as follows (expressed in thousands):

#### Component units – other:

Puerto Rico Infrastructure and Financing Authority	\$	977,634
Puerto Rico Aqueduct and Sewer Authority		865,652
Puerto Rico Housing Bank and Finance Agency		305,855
Tourism Company of Puerto Rico		151,621
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority		94,989
Puerto Rico Land Authority		66,813
Sugar Corporation of Puerto Rico		66,641
Puerto Rico Solid Waste Authority		38,658
Puerto Rico Metropolitan Bus Authority		20,257
Puerto Rico Industrial Development Company		11,744
Agricultural Services and Development Administration		10,000
Institutional Trust of the National Guard of Puerto Rico		3,386
Puerto Rico Land Administration		870
Other entities		5,822
	\$	<u>2,619,942</u>

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

**(16) Conduit Debt Obligations**

From time to time, certain of the Commonwealth’s component units issue revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of transportation, environmental, industrial, tourism, commercial facilities, and Caribbean Basin projects deemed to be in the public interest and that are expected to provide benefits to Puerto Rico. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. Neither the Commonwealth, nor any political subdivision or component unit thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements of the issuing entities. As of June 30, 2001, conduit debt obligations consisted of the following bonds issued by component units (expressed in thousands):

<u>Issuing entity</u>	<u>Issued to date</u>	<u>Amount outstanding</u>
Discretely presented component units:		
Caribbean Basin Projects Financing Authority	\$ <u>676,000</u>	<u>132,500</u>
Puerto Rico Ports Authority	\$ <u>155,410</u>	<u>155,410</u>
Puerto Rico Highway and Transportation Authority	\$ <u>117,000</u>	<u>116,757</u>
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	\$ <u>5,614,421</u>	<u>3,353,493</u>

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

Pursuant to the loan agreements covering the issuance of these bonds, the proceeds from the sales were borrowed from CBPFA by corporations and partnerships operating in qualified Caribbean Basin countries. The revenue bonds are special and limited obligations of CBPFA and, except to the extent payable from bond proceeds and investments thereof, will be payable solely from and secured by a pledge and assignment of the amounts payable under the loan agreements between CBPFA and the borrowers. Furthermore, payment of the principal and interest on the revenue bonds is unconditionally guaranteed by the borrowers, their parent companies and/or letters of credit from major U.S. banks or U.S. branches of international banks. The revenue bonds do not constitute a debt or a pledge of the good faith and credit of CBPFA or the Commonwealth or any political subdivision thereof. Since inception and up to June 30, 2001, CBPFA has issued revenue bonds aggregating \$676 million of which \$132.5 million were outstanding at June 30, 2001.

**(b) Puerto Rico Ports Authority**

The Puerto Rico Ports Authority (“PRPA”) issued Special Facilities Revenue Bonds (1993 Series A) under the provisions of a trust agreement between PRPA and a private bank. The proceeds from the sale of the bonds were used to finance the construction of facilities, acquisition of equipment, and improvements to the Luis Muñoz Marín International Airport, for the benefit of a major private airline. The property is owned by PRPA and leased to the private company. Pursuant to the agreement between PRPA and the private company, the bonds will be paid from

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

the rent collected from the airline in amounts sufficient to pay principal, premium (if any) and interest on the bonds. The airline has guaranteed these payments. At June 30, 2001, the outstanding debt balance amounted to \$155.4 million.

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

In March 1992, PRHTA issued Special Facility Revenue Bonds for approximately \$117 million for the construction of a toll bridge. The proceeds from the sale of these bonds were transferred by PRHTA to a private entity, pursuant to a signed agreement for the construction, transfer and operation of the bridge. The bonds shall be paid from the proceeds received by the private entity from the operations of the bridge. However, under certain circumstances, the private entity may have the right of terminating the agreement and PRHTA will assume the obligation to pay the bonds. At June 30, 2001, the outstanding debt balance, amounted to approximately \$116.8 million.

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

The revenue bonds of the AFICA are used to finance facilities for environmental control, development of industrial and commercial companies, tourism projects, hospitals, and educational facilities. Pursuant to the loan agreements, the proceeds from the sales were borrowed by corporations and partnerships operating in Puerto Rico. The bonds are limited obligations of AFICA and, except to the extent payable from bond proceeds and investment thereof, will be payable solely from and secured by a pledge and assignment of the amounts payable under the loan agreements between AFICA and each borrower. Furthermore, payment of the principal and interest on the revenue bonds is unconditionally guaranteed by each of the borrowers, their parent companies or letters of credit from major U.S. banks or U.S. branches of international banks. Since inception and up to June 30, 2001, AFICA has issued revenue bonds aggregating \$5,614 million, of which \$3,353 million were outstanding as of June 30, 2001.

**(17) Contributed Capital**

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

	<b>Enterprise funds</b>	<b>Component units – other</b>
Contributed capital, at beginning of year, as previously reported	\$ 3,943	5,588,522
Contributing sources (uses):		
Depreciation on equipment acquired through capital contributions	(2,124)	(77,803)
Contributed capital of component unit excluded in prior years	—	107,029
Contributed capital, at end of year	\$ 1,819	5,617,748

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

**(18) Restatements, Changes in the Reporting Entity and Other Equity Changes**

The Commonwealth has included within the primary government the net assets and operations of the Puerto Rico Public Housing Administration (“PRPHA”), which had been excluded in prior years. As a result, beginning fund balance in the general fund, beginning balance in the general fixed assets account group (see note 11) and beginning balance in the general long-term debt account group (see note 14) have been restated (increased) in the amounts of \$121 million, \$2.1 billion, and \$1.1 billion, respectively. PRPHA is a governmental agency created by Act No. 66 of August 17, 1989 and ascribed to the Puerto Rico Department of Housing (the “Department of Housing”) by Act No. 58 of August 9, 1991, at which time it assumed certain assets, liabilities and operations of the Puerto Rico Urban Renewal and Housing Corporation, which was dissolved at that time. PRPHA is engaged in the implementation of the governmental policy related to the Puerto Rico public housing projects and its administration. The primary source of funds to carry out the management, maintenance, and improvement of public housing are federal government subsidies and grants. PRPHA operates approximately 57,000 public housing units, located in over 300 residential complexes scattered throughout the island.

On December 28, 2000 by Resolution 2000-02, Puerto Rico Telephone Authority (“PRTA”) created a new subsidiary as a private corporation, and authorized its incorporation with the name of PRTA Holdings Corporation (“PRTA Holdings”). PRTA Holdings was organized to hold, administer and dispose of the Telecomunicaciones de Puerto Rico, Inc. (“TELPRI”) shares that would be transferred by PRTA, for the exclusive benefit of the Employees’ Retirement System of the Government of Puerto Rico and its Instrumentalities (“ERS”). At the same time, PRTA transferred to PRTA Holdings all of its shares in the common stocks of TELPRI (10,749,975) in exchange for all shares of common stock and preferred stock of PRTA Holdings. Also on December 28, 2000, PRTA transferred all shares of preferred stock of PRTA Holdings to the Retirement System in the amount of \$165,538,614, representing the full carrying balance of its investment in TELPRI at December 28, 2000. The transfer was recorded in PRTA by reducing retained earnings. The ERS recorded this investment at its estimated fair value of approximately \$701 million (see note 24 for an explanation of this transfer and its accounting treatment).

Certain discretely presented component units restated beginning retained earnings/fund balances or represent new inclusions or exclusions from prior years’ presentation (expressed in thousands):

	<u>Component units – other</u>
Beginning retained earnings/fund balances, as previously reported	\$ 4,222,437
Component units included (excluded) in fiscal year 2001:	
Institute of Puerto Rican Culture	22,257
Puerto Rico Water Pollution Control Revolving Fund	10,415
Trust for the Conservation, operation and maintenance of the Puerto Rico National Parks	(9,203)
Balance carried forward	\$ 4,245,906

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

	<b>Component units – other</b>
Balance brought forward	\$ 4,245,906
Restatements:	
Puerto Rico Medical Services Administration	(11,208)
Tourism Company of Puerto Rico	(6,976)
Agricultural Services and Development Administration	1,736
Musical Arts Corporation and Subsidiaries	(874)
Land Authority of Puerto Rico	(534)
Beginning retained earnings/fund balances, as restated	<u>\$ 4,228,050</u>

The Institute of Puerto Rican Culture (“IPRC”) was created by Act No. 89 of June 21, 1955 to engage in the attainment, promotion, enrichment, and divulging of the Puerto Rican cultural values. IPRC was not presented as a component unit in fiscal year 2000.

Puerto Rico Water Pollution Control Revolving Fund (“PRWPC”) was created by Act No. 44 of June 21, 1988, as amended, to provide financing for water-related projects under Title VI of the Clean Water Act of 1972. PRWPC was not presented as a component unit in fiscal year 2000.

The Trust for the Conservation, Operation and Maintenance of the Puerto Rico National Parks was excluded from the discretely presented component units – other in fiscal year 2001 because its audited financial statements were not obtained.

The Puerto Rico Medical Services Administration adjusted the beginning fund balance by \$11.2 million to correct prior years’ overstatement of receivables and understatement of accrued pension cost.

The Tourism Company of Puerto Rico adjusted the beginning retained earnings by approximately \$7 million to adjust equity in investment in tourism projects and other investments, previously accounted for at cost.

The Agricultural Services and Development Administration adjusted the beginning fund balance by \$1.7 million to write-off and correct accounts payable and other balances from prior years.

The Musical Arts Corporation and Subsidiaries adjusted the beginning retained earnings by \$874 thousand to record prior year’s unpaid Christmas bonus.

The Land Authority of Puerto Rico adjusted the beginning retained earnings by \$534 thousand to reflect the effect of applying a discount rate, not considered in prior years, to a note receivable.

### (19) Risk Management

The following describes the risk management programs administered by the UPR, PREPA, PRASA, SIFC, and AACA.

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

**(a) Public University Funds**

The UPR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. UPR carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Under Act No. 98 of August 24, 1994, the responsibility of UPR on medical malpractice claims is limited to a maximum amount of \$75,000 per person, or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Self-insured risks liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the claims liability amount for the current and prior fiscal years were as follows (expressed in thousands):

	<b>2001</b>	<b>2000</b>
Claims payable – July 1	\$ 13,355	11,789
Incurred claims and changes in estimates	5,212	2,682
Net payments for claims and adjustment expenses	(5,102)	(1,116)
Claims payable – June 30	\$ 13,465	13,355

Claims payable is reported as accounts payable and accrued liabilities in the accompanying combined balance sheet.

UPR continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(b) Puerto Rico Electric Power Authority (“PREPA”)**

PREPA is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Under the property and casualty insurance program, PREPA provides coverage, among others, for up to a maximum of \$250,000 for each general and liability claim, and \$2 million for each boiler and machinery and property liability claim. In addition, the property liability policy imposes windstorm and earthquake deductibles at 2 percent and 5 percent of the location’s value subject to a maximum deductible of \$25 million per occurrence. PREPA purchases commercial insurance for claims in excess of coverage provided through the property and casualty insurance program. PREPA considers its self-insurance fund adequate to provide for its self-insurance risk. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

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

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

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

	<u>2001</u>	<u>2000</u>
Claims payable – July 1	\$ 40,921	37,804
Incurred claims	95,344	85,173
Claims payment	<u>(89,443)</u>	<u>(82,056)</u>
 Claims payable – June 30	 <u>\$ 46,822</u>	 <u>40,921</u>

Claims payable is reported as accounts payable and accrued liabilities in the accompanying combined balance sheet.

**(c) Puerto Rico Aqueduct and Sewer Authority (“PRASA”)**

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

The comprehensive general liability and automobile liability has basic limits of \$3 million and the umbrella is \$50 million per occurrence. The general liability coverage has a deductible of \$100,000 subject to an annual stop loss limit of \$2.5 million.

The boiler and machinery policy has an \$18 million aggregate coverage and the director and officers liability policy has a \$12 million aggregate coverage.

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

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

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

PRASA has a cost plus health insurance program covering its managerial employees. The plan administrator has a contract for the processing, approval and payment of claims at cost plus an administrative fee. PRASA incurred health insurance claims, including an estimate for incurred but not reported claims, of approximately \$3.2 million and \$3.0 million for the years ended June 30, 2001 and 2000, respectively.

**(d) State Insurance Fund Corporation ("SIFC")**

SIFC provides workers' compensation insurance to public and private employees. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because illness suffered as a consequence of their employment.

SIFC establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits.

The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid benefits and benefit adjustment expenses for the years ended June 30, 2001 and 2000 (expressed in thousands):

	<b>2001</b>	<b>2000</b>
Liability for incurred but unpaid benefits and benefit adjustment expenses, beginning of year	\$ 870,459	913,894
Incurred benefits related to:		
Insured events of the current year	423,804	439,301
Insured events of prior years	60,794	(89,194)
Total incurred benefits	484,598	350,107
Benefit payments related to:		
Insured events of the current year	187,329	204,068
Insured events of prior years	221,297	189,474
Total benefit payments	408,626	393,542
Liability for incurred but unpaid benefits and benefit adjustment expenses, end of year	\$ 946,431	870,459

The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as accounts payable and accrued liabilities in the accompanying combined balance sheet.

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

The liability for compensation benefits is based on historical claims experience data, assumptions and projections as to future events, including claims frequency, severity, persistency, and inflationary trends determined by an independent actuary. The liability for benefits and expenses payable has been discounted at 5 percent in 2001 and 6 percent 2000. The actuarial study considered the experience of SIFC from fiscal years 1986-1987 to 2000-2001, and included estimates for cases reported that have not been adjudicated and cases incurred but not reported. The actuarial study also included estimates for medical benefits, benefit adjustment expenses and reimbursement of premiums. The assumptions used in estimating and establishing the liability are reviewed annually based on current circumstances and any adjustments resulting thereof are reflected in operations in the current period.

**(e) Automobile Accident Compensation Administration (“ACA”)**

ACA operates a system of compulsory insurance for vehicles licensed to be used on public highways in Puerto Rico. This insurance covers bodily injuries caused by automobile accidents. The annual premium is \$35 per motor vehicle

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

The following table provides a reconciliation of the beginning and ending liability for future benefits for the years ended June 30, 2001 and 2000 (expressed in thousands):

	<u>2001</u>	<u>2000</u>
Liability for future benefits at beginning of year	\$ 104,851	97,978
Incurred benefits related to:		
Insured events of the current year	79,203	63,260
(Decrease) increase attributable to insured events of prior years	<u>(2,274)</u>	<u>2,091</u>
Total incurred benefits	<u>76,929</u>	<u>65,351</u>
Benefit payments related to:		
Insured events of the current year	27,542	23,514
Insured events of prior years	<u>42,558</u>	<u>34,964</u>
Total benefit payments	<u>70,100</u>	<u>58,478</u>
Liability for future benefits at end of year	\$ <u>111,680</u>	<u>104,851</u>

The liability for future benefits is reported as account payable and accrued liabilities in the accompanying combined balance sheet.

ACA has recorded this liability, including administrative expenses for claim processing, based on the results of actuarial reports prepared by independent actuaries, determined under two different methods. Death, funeral, disability, dismemberment, and the basic medical hospitalization liabilities were determined using a triangulation method. The extended benefits medical hospitalization reserve uses regression methodology to predict the ultimate incurred claims for each incurred calendar quarter. Additionally, assumptions are made about the mortality rates of the extended benefit claimants, recognizing the impact of their traumatic injuries on life span. The assumptions used in estimating and establishing the liability are reviewed annually based on current circumstances and any adjustments resulting thereof are reflected in operations in the current period.

COMMONWEALTH OF PUERTO RICO

Notes to General Purpose Financial Statements

June 30, 2001

(f) *Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives ("PCSDIPRC")*

At June 30, 2001 the maximum limit of the insurance coverage was \$100 thousand per member or depositor. The total shares and deposits of insured cooperatives as of June 30, 2001 approximated \$4.2 billion.

The activity in the liability for possible losses during the years ended June 30, 2001 and 2000 was as follows (expressed in thousands):

	<u>2001</u>	<u>2000</u>
Balance, beginning of year	\$ 23,000	22,000
Provision for the year	3,886	4,318
Claim payments	(3,274)	(4,145)
Recoveries	388	827
Balance, end of year	<u>\$ 24,000</u>	<u>23,000</u>

(20) **Commitments and Contingencies**

(a) *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 thousand if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Commonwealth may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgment.

With respect to pending and threatened litigation, excluding the litigation mentioned in the following paragraph, the Commonwealth has reported liabilities of approximately \$138 million for awarded and anticipated unfavorable judgments. This amount was included as other long-term liabilities in the general long-term debt account group and represents the amount estimated as a probable liability or a liability with a fixed or expected due date which will require future available financial resources for its payment. Management believes that the ultimate liability in excess of amounts provided, if any, would not be significant.

The Commonwealth and various component units are defendants in a lawsuit alleging violations of civil rights. Preliminary hearings and discovery proceedings are in progress. The amounts claimed exceed \$3 billion; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claim is excessive and exaggerated. No provision for any liability that may result upon adjudication of this lawsuit has been recognized in the financial statements by the Commonwealth. Management believes that the ultimate liability in excess of amounts provided, if any, would not be significant.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

The Commonwealth's escheat bank account regulations require financial institutions doing business in Puerto Rico to remit to the Commonwealth all balances in deposit accounts under their custody that have been inactive for a period of five years. The Commonwealth reimburses any claims received from the owners of those accounts for a period of 10 years from the date of receipt from the financial institution. The balance of unclaimed escheat bank accounts as of June 30, 2001 is approximately \$51.2 million and is included as cash and cash equivalent and other liabilities in the general fund.

The minimum annual payments related to unpaid awards for the lotto game of The Additional Lottery System, an enterprise fund, during the next five years is approximately \$29.7 million during 2002, \$29.5 million during 2003, \$29.6 million during 2004, 2005 and 2006, and \$271.4 million thereafter. Imputed interest amounts to approximately \$147.9 million at June 30, 2001. Unpaid awards for the Lottery of Puerto Rico at June 30, 2001, amounted to approximately \$12.9 million. These amounts are included within lottery prizes payable in the enterprise fund.

The Commonwealth receives financial assistance from the federal government in the form of grants and entitlements. Noncash federal financial assistance programs received by the Commonwealth amounted to approximately \$45.3 million. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under 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 agency level. Disallowances as a result of these audits may become liabilities of the Commonwealth. At June 30, 2001, based on an evaluation of pending disallowances, the Commonwealth has recorded approximately \$94.7 million as other long-term liabilities in the general long-term debt account group for this purpose.

Construction commitments at June 30, 2001 for the Public Buildings Authority, a blended component unit amounted to approximately \$663 million.

At June 30, 2001, the Children's Trust, a blended component unit, has commitments to provide assistance in the amount of \$328 million, mostly to the Department of Education.

On November 23, 1998, a global settlement agreement (the "Agreement") was entered into by and between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The Agreement calls for annual payments through the year 2025 which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies are to continue making contributions in perpetuity. Pursuant to Act No. 173 of July 30, 1999, which created the Children's Trust, the Commonwealth assigned and transferred to the Children's Trust all payments which the Commonwealth is entitled to receive under the Agreement. Payments received under the Agreement and recognized as

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

revenue during the year ended June 30, 2001, amounted to approximately \$67.3 million. Following is a summary of estimated payments to be received by the Children’s Trust through the year ending June 30, 2025 (expressed in thousands).

<u>Year ending June 30,</u>		
2002	\$	79,863
2003		80,920
2004		71,208
2005		71,998
2006		72,949
Thereafter		<u>1,850,453</u>
Total	\$	<u>2,227,391</u>

**(b) Public University Funds**

The UPR’s unpaid obligation under the capital construction program for educational facilities at June 30, 2001 amounted to approximately \$6.9 million. This program is intended to be permanently financed with a future bond issuance.

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

Desarrollos Universitarios, Inc. (“Desarrollos”) was incorporated on October 2, 1996. Desarrollos is a nonprofit corporation, with the sole purpose of developing, constructing and operating academic, residential, administrative, office, commercial, and maintenance facilities (“Plaza Universitaria”) for use by students, faculty members, administrators, employees, visitors, invitees, and other members of or persons and entities related to or conducting business with the UPR community, or other activities conducted in such facility.

On May 11, 2000 the UPR’s board of trustees ratified a Memorandum of Agreement (“MOA”) to establish a contractual agreement between the UPR and Desarrollos. The MOA, dated May 22, 1998, states among other things the following: (1) the UPR will lease to, or otherwise grant to, Desarrollos the right for the long-term use of the land, for the sole purpose of developing, constructing and operating Plaza Universitaria; (2) Desarrollos shall finance the development of Plaza Universitaria from AFICA Bond proceeds and/or line-of-credit and/or any other structure of credit facility; (3) Desarrollos will own the Plaza Universitaria improvements and will lease them exclusively to the UPR, during the life of the AFICA bonds; (4) the UPR shall have the right to prepay or refinance the Bonds at any time, consistent with the restrictions on refinancing

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

contained in the financing documents; (5) upon the payment or prepayment in full of all the AFICA bonds, the lease on the land shall terminate and the UPR shall become, *ipso facto*, owner of all the Plaza Universitaria improvements, without the need or obligation to make any additional payment of any kind (other than any “bargain purchase” payment as may be required under the project documents); and (6) rental payments (lease payments) from the UPR shall have a fixed component and a variable component. The fixed component shall be in an amount sufficient to guarantee to bondholders the payment of principal and interest on the AFICA bonds as may be established in the financing documents, and will be pledged to guarantee such payments. The variable component of the lease payments will be used to cover operating, maintenance, administrative, management, and other fees and cost, which will be established periodically and reviewed annually between the parties, as well as such amounts for reserves and special funds, which may be required under the financing documents related to the bond issue.

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

**(c) Component Units – Other**

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

**(i) Government Development Bank for Puerto Rico and Subsidiaries (“GDB”)**

At June 30, 2001 GDB has financial guarantees for public entities for approximately \$112.7 million and for private sector of approximately \$717.8 million. In addition, standby letters of credit to public entities were approximately \$134.2 million and to private sector were approximately \$23 million. Commitments to extend credit to public entities were approximately \$1.7 billion and to private sector were approximately \$14.9 million.

GDB enters into sales of securities under agreements to repurchase. These agreements generally represent short-term debts and are presented as a liability in the general purpose financial statements. The securities underlying these agreements, are usually held by the broker, or its agent, with whom the agreement is transacted. As of June 30, 2001 there were no such agreements outstanding; however, during the year, the average amount outstanding was approximately \$91.9 million; the maximum amount outstanding at any month-end was approximately \$169.4 million; and the weighted average interest rate for the year-and at year-end was approximately 5.98 percent and 5.08 percent, respectively.

GDB issues commercial paper in the U.S. taxable and tax exempt commercial paper markets, the Euro-dollar commercial paper market and to corporations that have tax exemption under the Commonwealth’s Industrial Incentives Act and qualify for benefits provided by the U.S. Internal Revenue Code Section 936. Commercial paper represents

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

unsecured obligations of GDB. The carrying amount of commercial paper at June 30, 2001 was approximately \$1.2 billion, the maximum amount outstanding at any month-end was approximately \$1.5 billion, the weighted average amount outstanding during the year was approximately \$1.2 billion, and the weighted average interest rate for the year and at year-end was approximately 3.70 percent and 2.95 percent, respectively.

At June 30, 2001 GDB had outstanding interest rate swap agreements with other financial institutions in the aggregate national amounts of \$370 million, having a fair value (receivable position) of approximately \$5 million. GDB also had an equity appreciation index embedded in a \$200 million certificate of indebtedness. Such embedded derivative has been recognized as a liability at its fair value of approximately \$47 million as of June 30, 2001. GDB is exposed to credit loss in the event of nonperformance by the other parties to the swap agreements. However, GDB does not anticipate nonperformance by the counter parties.

**(ii) *Puerto Rico Electric Power Authority (“PREPA”)***

The PREPA is required to make contributions to the Commonwealth, and to the municipalities, to the extent net revenue (as defined by the bond indentures of PREPA) are available. For the year ended June 30, 2001 PREPA contributed approximately \$26.3 million and \$121.9 million to the Commonwealth and to the municipalities of Puerto Rico, respectively. These contributions are included within other nonoperating revenue, net in the combined statement of revenue, expenses and changes in retained earnings (deficit) fund balances – other discretely presented component units.

Facilities and operations of PREPA are subject to regulations under numerous federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act and the National Pollutant Discharge Elimination System. In February 1992, the Environmental Protection Agency (“EPA”) performed an inspection of various facilities of PREPA and noted deficiencies in various areas. Since 1993, EPA, the federal Department of Justice (“DOJ”) and PREPA have been involved in negotiations to pursue a comprehensive settlement of the case and assure future compliance with applicable regulatory provisions. Among other things, the settlement proposal considers investment in capital improvements and Supplemental Environmental Projects.

In October 1994, PREPA signed a contract with AES Puerto Rico, L.P. (“AES”) for the purchase of up to 454 megawatts of electrical power generated from a coal fluidized bed combustion facility. PREPA will pay its purchased power based on energy and dependable capacity delivered, as more fully explained in the contract. The term of the agreement is for 25 years. This project is currently in its final stages.

In March 1995, PREPA signed a contract with EcoEléctrica to purchase power from a 507 megawatt gas-fired combined cycle power plant. The term of the agreement is for 22 years. This plant has commenced generating power. Both agreements obligate PREPA to purchase power only if generated by the plants.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

As of June 30, 2001 PREPA has commitments of approximately \$357.5 million on active construction, maintenance and engineering services contracts.

**(iii) Puerto Rico Highway and Transportation Authority (“PRHTA”)**

Construction commitments at June 30, 2001 for the Puerto Rico Highway and Transportation Authority amounted to approximately \$790 million. As part of the PRHTA’s urban train system (“Tren Urbano”) project, a number of contractors have presented claims amounting to approximately \$290 million. These claims are at various stages of analysis to reach a final resolution. From this amount, approximately \$65 million has been categorized as valid claims. Therefore, these amounts were included as accounts payable in PRHTA’s financial statements. The effect of the resolution of these claims, if any, in future years would be to increase the amounts being capitalized for the Tren Urbano project and increase the accounts payable in the proprietary fund.

**(iv) Puerto Rico Aqueduct and Sewer Authority (“PRASA”)**

Facilities and operations of PRASA’s water and sewer system are subject to regulation under numerous federal and Commonwealth environmental laws. Under agreements with the federal government, acting on behalf of EPA, PRASA and the Commonwealth are subject to consent decrees to enforce compliance with environmental laws. Accordingly, PRASA is assessed stipulated noncompliance penalties. During the year ended June 30, 2001 such penalties amounted to \$1.7 million. In addition, PRASA has committed to perform environmental projects, in lieu of penalties, in the amount of \$1.7 million as of June 30, 2001. As of June 30, 2001 PRASA has a deposit with GDB, amounting to \$700,000 in escrow for environmental projects.

On May 26, 1995 PRASA and Professional Services Group, Inc. (“PSG”) entered into an agreement (“Agreement”) for the operation, management, repair, and maintenance of PRASA’s aqueduct, sewer and customer services systems (“System”). The Agreement commenced on September 1, 1995 for a five-year term. This Agreement was amended and restated on September 15, 1998. PSG changed its name subsequently to Compañía de Aguas de Puerto Rico, Inc. (“CAPR”).

On March 1, 1999 PRASA, Compagnie Generale Des Eaux-Sahide (“CGE”) and Aqua Alliance Inc. (“AA”), as assignee of CAPR, entered into a Second Amended and Restated Agreement (the “New Agreement”) for the operation, management, repair, and maintenance of the System. The New Agreement covers contract years commencing on September 1, 1998 and expires on August 31, 2001, unless terminated earlier pursuant to the provisions of the New Agreement. This agreement was further extended through February 28, 2002 and several months thereafter. Payments under the contract for management fees and administrative expenses amounted to \$169.7 million for the year ended June 30, 2001.

CGE guarantees performance of the New Agreement, and GDB, guarantees the full payment and collection of the management fee and incentives earned by CAPR pursuant to the New Agreement.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

PRASA, pursuant to the New Agreement will make payments to CGE for the final contract year (from September 1, 1999 through August 31, 2001) as follows (expressed in millions):

	<u>Amount</u>
Management fee	\$ 19.2
Operational costs	46.3
Water trucking	7.0
Electricity	51.5
Chemicals	17.2
Training	<u>2.7</u>
Total	<u>\$ 143.9</u>

The federal government has made various audits in which it claims that PRASA should reimburse the federal government for grants used in the construction of projects which it considers are ineligible and are unsupported. Audit findings amount to approximately \$5.3 million. PRASA is challenging and expects that the final resolution will not be significant to its financial position; accordingly, no provision for any liability that may result upon final resolution of these findings has been made at June 30, 2001.

The estimated cost of construction contracts in progress at June 30, 2001 amounted to approximately \$150 million.

(v) ***Puerto Rico Telephone Authority (“PRTA”)***

The PRTA has been advised of certain unasserted claims and, together with Puerto Rico Telephone Company, Inc. (“PRTC”) and Celulares Telefónica, Inc. (“CT”), are defendants in several lawsuits arising out of the conduct of their normal course of business, including those related to regulatory actions and commercial transactions. These claims have been vigorously contested and management of PRTA and PRTC and CT, after consultation with legal counsels, established adequate reserves at PRTC and CT to cover the claims. Management believes that the final resolution of the legal cases will not have a material adverse effect on the financial position and results of operations of PRTA and its subsidiaries.

Verizon (formerly GTE Corporation), delivered a notice of claim for indemnity to PRTA related to certain alleged actions of PRTA that occurred before the closing of the purchase transaction described in note 24. The amount of indemnity sought by GTE is approximately \$105 million, mostly related to PRTC’s exposure to a potential reduction in tariffs or required rebate to clients as a result of an adverse decision by the FCC on a regulatory matter. The FCC’s decision has been appealed by PRTC and is waiting a determination by the FCC. In connection with the privatization, PRTA agreed to indemnify, defend and hold Telecomunicaciones de Puerto Rico, Inc. (“TELPRI”), the corporation created for acquiring the stock of PRTC and CT, harmless for specified litigation in excess of \$50 million in the aggregate.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

**(vi) Puerto Rico Industrial Development Company (“PRIDCO”)**

PRIDCO estimates expenditures of approximately \$129 million for construction, land acquisition and development for the year ended June 30, 2001. The expenditures will be financed through internally generated funds, federal grants and external financing sources. A significant amount of PRIDCO’s revenue is derived from United States mainland companies most of which operate in Puerto Rico under the benefits of the U.S. Internal Revenue Code Section 936. On August 20, 1996 the President of the United States signed into law a minimum wage legislative package which, among other matters, eliminated U.S. Tax Code Section 936. However, the management of PRIDCO does not foresee a major impact in PRIDCO’s operations due to the elimination of Section 936. PRIDCO further believes that the phase-out period allows sufficient time to implement incentive programs to safeguard Puerto Rico’s competitive position.

**(vii) Puerto Rico Infrastructure Financing Authority (“PRIFA”)**

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

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

The federal excise taxes securing the bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient to deposit the amount required by the Act into the Infrastructure Fund, the Act requires that PRIFA request, and the Director of the OMB include in the annual budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Commonwealth’s Legislature, however, is not legally obligated to make the necessary appropriation to cover such deficiency. During the year ended June 30, 2001 the amount required by the Act was deposited in the Infrastructure Fund.

Act No. 92 of the Legislature of the Commonwealth of June 24, 1998 (“Act No. 92”) provides, among others, for the creation of an Infrastructure Development Fund (the “Development Fund”) to be administered by PRIFA. The Development Fund consists of a corpus account, to be funded with a portion of the proceeds from the sale of assets of Puerto Rico Telephone Authority (“PRTA”), and additional accounts created or to be created by PRIFA. Act No. 92 provides that the principal of the corpus account may not

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

be reduced for any reason and that income received from the investment of moneys in the corpus account and other moneys received may be deposited in any of the additional accounts. On March 2, 1999 PRIFA received \$1.2 billion in connection with the sale of certain assets of PRTA, which were deposited in the corpus account. Moneys deposited in the additional accounts are to be used first to pay the principal and interest of any bonds outstanding or to be issued by PRIFA and then for the expansion, development and modernization of infrastructure related to the aqueduct and sewer systems of Puerto Rico.

The moneys deposited in the Development Fund shall be invested up to \$1 billion in: (1) direct obligations of the U.S. government; (2) obligations, for which the payment of principal and interest is unconditionally guaranteed by the U.S. government; (3) certificates of deposit of any bank, national bank association or trust company organized and existing under the laws of the Commonwealth, the United States of America or any of its States, on which the excess over the federal deposit insurance is secured by investments of the types described in (1) and (2) above; or (4) tax-exempt obligations of any state, instrumentality, agency or political subdivision of Puerto Rico or the United States, the payment of principal and interest of which is secured by investments of the types described in (1) and (2) above. Moneys in excess of \$1 billion shall be invested in any of the instruments mentioned above or in any other instruments, including publicly traded common and preferred stock, not prohibited by investment guidelines promulgated by GDB.

PRASA and PRIFA have entered into an agreement as amended, under which PRIFA may exercise certain oversight powers to assist PRASA. The agreement provides a contractual framework for construction of water and sewer facilities to assist PRASA in implementing its capital improvement program and to improve its operations. The estimated cost of the immediate action projects programmed by PRIFA for PRASA was \$240 million.

**(viii) *Puerto Rico Housing Bank and Finance Agency (“PRHBFA”)***

The PRHBFA is an “Eligible Similar Institution”, as defined by the Commissioner of Financial Institutions of Puerto Rico. Such designation allows PRHBFA to receive up to \$250 million in eligible funds (commonly known as “936” tax-exempt funds) which are received through obligations under reverse repurchase agreements and used for an arbitrage program. At June 30, 2001 PRHBFA has approximately \$250 million in such funds, through obligations under reverse repurchase agreements.

The \$250 million of 936 funds received under reverse repurchase agreements are presented as a liability in the general purpose financial statements at June 30, 2001. As of June 30, 2001 the aggregate market value plus accrued interest of the underlying securities does not exceed the obligations under reverse repurchase agreement including accrued interest.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

**(ix) *Land Authority of Puerto Rico (“LAPR”)***

LAPR is a defendant under a claim brought by a group of pineapple farmers amounting to approximately \$43 million. LAPR is vigorously contesting this action, but the ultimate outcome cannot be presently determined due to the stage of the legal proceedings. Accordingly, no provision for any liability that may result upon final resolution of these actions has been made in the general purpose financial statements at June 30, 2001.

**(x) *Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (“PCSDIPRC”)***

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

**(xi) *Economic Development Bank for Puerto Rico (“EDB”)***

Time deposits of approximately \$410.9 million at June 30, 2001 consist principally of certificates of indebtedness from eligible or similar depository institutions which are recipients of funds from corporations that have grants of tax exemption under the Commonwealth’s Industrial Incentives Act, and that qualify for the benefits provided under U.S. Internal Revenue Code Section 936, pursuant to the investment requirements under Regulation 5105 of the Commissioner of Financial Institutions of the Commonwealth.

EDB enters into sale of securities under agreements to repurchase. These agreements generally represent short-term borrowings and are presented as a liability in the general purpose financial statements. The securities underlying these agreements, are usually held by the broker, or its agent, with whom the agreement is transacted. As of June 30, 2001, the carrying amount of those investments was approximately \$103.2 million. During the year, the average amount outstanding was approximately \$351.1 million; the maximum amount outstanding at any month-end was approximately \$690.9 million; and the weighted average interest rate for the year and at year-end was approximately 5.95 percent and 3.88 percent, respectively.

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

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

The activity in the allowance for loan losses during the year ended June 30, 2001 was as follows (expressed in thousands):

Balance, beginning of year	\$	36,729
Provision changed to operations		14,647
Loans changed-off		(10,121)
Recoveries		<u>1,101</u>
Balance, end of year	\$	<u>42,356</u>

Approximately 48 percent of EDB's deposits, repurchase agreements and promissory notes represent funds ("936 Funds") received from U.S. corporations ("936 Corporations") which qualified for the income tax credit provided by Section 936 of the U.S. Internal Revenue Code of 1986 (the "Code"). The interest paid by EDB on these 936 Funds constituted qualified possession source investment income ("QPSII") eligible for the credit provided by Section 936 of the Code.

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

In the normal course of business, EDB is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and to purchase investment and mortgage-backed securities, financial guarantees, and interest-rate exchange agreements. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements.

These off-balance sheet risks are managed and monitored in manners similar to those used for on-balance sheet risks. EDB's exposure to credit loss for lending commitments is represented by the contractual amount of such transactions. The notional amounts for other off-balance sheet risks express the dollar volume of the transactions, but the credit risk might be lower. At June 30, 2001 total outstanding loan guarantees amounted to approximately \$8.0 million. EDB has recorded an accrual for losses on loan guarantees amounting to approximately \$2.2 million, which is included in the financial statements of EDB. Commitments to extend credit at June 30, 2001 amounted to \$18.2 million.

**(xii) State Insurance Fund Corporation ("SIFC")**

During March and April 1998, SIFC entered into various contracts for the construction of its new headquarters at an estimated cost of approximately \$52.3 million. The undisbursed portion of these contracts amounted to approximately \$15.1 million at June 30, 2001.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

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

SCPR is a defendant in several wage actions for retroactive wages and other claims. Most of these claims resulted from the sugar mills closing throughout the years. Labor related claims amount to approximately \$20.8 million. Management is defending its position vigorously and believes that resulting financial impact, if any, is adequately covered with recorded legal claim liabilities.

Also, there is a provision of approximately \$15 million for the estimated environment costs to be incurred in the clean up of the SCPR's properties. These costs will be covered by Legislative appropriations from the Commonwealth.

SCPR is also involved in other legal cases arising in the normal course of business amounting to approximately \$2.5 million. SCPR is in the process of litigating these actions, but the ultimate outcome is uncertain at this time and accordingly, the liability of SCPR, if any, cannot be presently determined.

A liability related to the liquidation process was established which considers an estimate for labor legal cases, environmental financial exposure and, employee severance, refinery repair costs and other claims. However, it is not presently determinable if this liability will be sufficient to cover actual losses (see note 26).

**(xiv) *Puerto Rico Ports Authority ("PRPA")***

PRPA has entered into various contracts with outside contractors for the construction of terminal buildings and other facilities. PRPA records the liabilities for these contracts as progress billings are made by the contractor, based on completed work, as received. At June 30, 2001 PRPA had unperformed construction commitments of approximately \$46 million.

In December 1992, an arbitrator entered a decision against PRPA regarding a claim made by certain unions under collective bargaining agreements and applicable law. After the decision, PRPA initiated a legal proceeding alleging that a penalty imposed by the arbitrator is against applicable laws. During 1997, the Superior Court of the Commonwealth ruled in favor of PRPA; however, the union requested revision of the decision in the Court of Appeals. In case the court rules in favor of the union, the estimated liability will be in excess of \$7 million. PRPA has recorded a legal claim liability for this case amounting to approximately \$8.4 million.

**(xv) *Tourism Company of Puerto Rico ("TCPR")***

TCPR has entered into several agreements with private third parties to make capital contributions and investments in several hotel development projects. At June 30, 2001, capital contributions made amounted to approximately \$13.2 million.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

In November 29, 2000 TCPR transferred all assets and liabilities of one of its subsidiaries, PRISMA El Exploratoria Inc. ("PRISMA") to PRISMA Zona Exploratoria de Puerto Rico, an unrelated entity. In connection with this transaction, TCPR is a defendant or codefendant in various lawsuits amounting to approximately \$15.7 million. In addition, TCPR is seeking the annulment of the transfer of net assets from PRISMA to PRISMA Zona Exploratoria de Puerto Rico. No liability has been recorded for these contingencies as the legal cases on claims are in a discovery stage. Management of TCPR understands that the ultimate disposition of these matters will not have a material adverse effect on the TCPR financial position, results of operations or liquidity.

**(xvi) Puerto Rico Solid Waste Authority ("PRSWA")**

PRSWA initiated in 1996 the implementation and development of the first phase of the Infrastructure Regional Plan for Recycling and Disposal of Solid Waste in Puerto Rico at an estimated cost of approximately \$96 million. The first stage consisted of the construction of 39 projects financed through an interim financing agreement with GDB, of which \$43 million was approved through a line of credit until October 24, 2000. In October 24, 2000, PRSWA amended and restated the loan agreement with GDB for a nonrevolving line-of-credit of approximately \$112 million, to continue the projects. As of June 30, 2001, 16 projects out of the 39 have been completed.

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

PRSWA's operations include activities which are subject to state environmental regulations. PRSWA is currently involved in the implementation and development of the infrastructure regional plan for recycling and disposal of solid waste in Puerto Rico. As of June 30, 2001, PRSWA has no insurance coverage for environmental risks and management believes that, at this time, there is no sufficient information available to determine the potential amount of related losses, if any, and no provision for losses has been made in the accompanying financial statements. Nevertheless, preventive infrastructure has been constructed to minimize any possible impact or events that occur. In addition, operational plans have been developed to incorporate good maintenance practices.

**(xvii) Puerto Rico Land Administration ("PRLA")**

During fiscal year 1998, PRLA was sued by Paseo Portuario and Company, S.E. (the "Developer") for allegedly illegally terminating the Development Agreement for the Barrio La Marina Project in the Old San Juan Waterfront Project. The Developer is asking for specific contract compliance and damages of approximately \$50 million. The Developer also sought injunctive relief for the specific performance of the contract and to enjoin PRLA from negotiating with third parties the continuance of the development. The Superior Court of San Juan dismissed the request for injunctive relief. The Court of Appeals affirmed. Both, plaintiff and PRLA, have filed motions for summary judgment requesting the adjudication of their respective principal claims. PRLA believes it will also succeed in the ordinary course of this litigation. Therefore, management believes the outcome of the case should not have an adverse effect upon the PRLA's financial condition.

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

### (21) Retirement Systems

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

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

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

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

(a) *Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities ("ERS")*

*Plan Description*

The ERS is the administrator of a single-employer (as related to the Commonwealth financial reporting entity) defined-benefit pension plan established by the Commonwealth. The System was created under Act No. 447 (the "Act"), approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth and its instrumentalities and certain municipalities and component units not covered by their own retirement systems.

The System provides retirement, death and disability benefits. Death and disability retirement benefits are available to members for occupational and nonoccupational death and disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after 10 years of plan participation.

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

On September 24, 1999 an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension program ("System 2000").

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, had the option to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, are only allowed to become members of System 2000.

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

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

### ***Funding Policy***

Contribution requirements are established by law and are as follows:

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

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

#### ***Plan Description***

The JRS is a single-employer defined benefit plan, which is administered by the ERS. The system was created under Act No. 12, approved on October 19, 1954. The membership includes all individuals holding a position as Judge of the Supreme Court, Judge of the Superior Court or the District Court or Municipal Judges of the Commonwealth.

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

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

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

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

#### ***Funding Policy***

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

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

##### ***Plan Description***

The TRS, which is administered by a board of trustees, is a single-employer defined benefit plan (as related to the Commonwealth's financial reporting entity) which was created under Act No. 218 approved on May 6, 1951. TRS provides retirement benefits to all teachers of the Department of Education of the Commonwealth, those holding positions in the Retirement Board, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education, teachers who work in the Teachers' Association of Puerto Rico, and those who practice in private institutions accredited by the Department of Education.

The Plan provides retirement, death and disability benefits. Benefits vest after completion of a given number of years of credited service based on age. Benefits are determined by the application of stipulated benefit ratios to the members' average compensation. Average compensation is computed based on the highest three years of compensation recognized by TRS. The annuity for which a plan member is eligible is limited to a minimum of \$300 per month and a maximum of 75 percent of the average compensation.

##### ***Funding Policy***

A member was required to contribute to the plan 7 percent of total salary until January 2000. Effective January 27, 2000 participant contributions were increased to 9 percent, as provided by Act No. 45 of 2000. The Commonwealth matches the member's contribution at a rate of 8.5 percent of total salary. Contribution rates are established by law, and are not actuarially determined.

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

Other relevant information on the Commonwealth's retirement systems is presented below:

***Membership***

	<u>ERS</u>	<u>JRS</u>	<u>TRS</u>	<u>Total</u>
Retirees and beneficiaries				
currently receiving benefits	87,087	269	22,879	110,235
Current employees	160,664	346	50,736	211,746
<b>Total</b>	<u>247,751</u>	<u>615</u>	<u>73,615</u>	<u>321,981</u>

***Annual Pension Cost and Net Pension Obligation***

The Commonwealth's annual pension cost and net pension obligation to the three pension plans for the year ended June 30, 2001 were as follows (expressed in thousands):

	<u>ERS</u>	<u>JRS</u>	<u>TRS</u>	<u>Total</u>
Annual required contributions	\$ 890,849	9,216	103,230	1,003,295
Interest on net pension obligation	170,854	(1,636)	28,829	198,047
Adjustment to annual required contribution	<u>(258,177)</u>	<u>2,472</u>	<u>(23,903)</u>	<u>(279,608)</u>
Annual pension cost	803,526	10,052	108,156	921,734
Statutory contributions made	<u>(527,400)</u>	<u>(7,300)</u>	<u>(116,100)</u>	<u>(650,800)</u>
Estimated interest for six months at 8.5%	<u>(22,455)</u>	<u>(327)</u>	<u>—</u>	<u>(22,782)</u>
Increase (decrease) in net pension obligation	253,671	2,425	(7,944)	248,152
Net pension obligation (asset) at beginning of year	<u>2,010,051</u>	<u>(19,250)</u>	<u>378,289</u>	<u>2,369,090</u>
Net pension obligation (asset) at end of year	<u>\$ 2,263,722</u>	<u>(16,825)</u>	<u>370,345</u>	<u>2,617,242</u>

The net pension obligation for ERS and TRS of approximately \$2.6 billion is recorded in the general long-term debt account group (see note 14). No asset is recognized for JRS accumulated excess of contributions over annual pension costs due to the measurement focus of the general fund.

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

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

	<u>ERS</u>	<u>JRS</u>	<u>TRS</u>
Date of actuarial valuation	July 1, 2000	July 1, 2000	July 1, 2000
Actuarial cost method	Projected unit credit cost	Projected unit credit cost	Entry age normal
Amortization method	Level percentage of the projected payroll	Level percentage of the projected payroll	Level percentage closed
Remaining amortization period	26 years	26 years	20 years
Amortization approach	Closed	Closed	Closed
Asset valuation method	Market value	Market value	Market value
Actuarial assumptions:			
Inflation	3.5%	3.5%	3.5%
Investment rate of return	8.5%	8.5%	8.0%
Projected salary increases	5%	5%	5.0%
Cost-of-living adjustments	3% every three years	3% every three years	3% every three years

***Three-Year Trend Information***

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

<b>Annual pension cost ("APC")</b>	<u>ERS</u>	<u>JRS</u>	<u>TRS</u>
Year ended June 30, 2001	\$ 803,526	10,052	108,156
Year ended June 30, 2000	768,761	5,244	118,101
Year ended June 30, 1999	709,649	3,359	143,803
<b>Percentage of APC contributed</b>			
Year ended June 30, 2001	65.6%	72.6%	107.3%
Year ended June 30, 2000	63.9%	150.6%	72.9%
Year ended June 30, 1999	70.7%	181.6%	63.4%
<b>Net pension obligation (asset)</b>			
Year ended June 30, 2001	2,263,722	(16,825)	370,345
Year ended June 30, 2000	2,010,051	(19,250)	378,829
Year ended June 30, 1999	1,754,030	(16,301)	346,388

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

***Schedule of Funding Progress (in thousands)***

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

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability ("AAL")</u>	<u>Unfunded AAL ("UAAL")</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
July 1, 2000	\$ 2,041,800	9,459,300	7,417,500	22%	\$ 2,463,400	301%
July 1, 1999	1,858,000	8,308,000	6,450,000	22%	2,275,000	250%
July 1, 1998	1,675,000	7,638,000	5,963,000	22%	2,366,000	252%

Puerto Rico Judiciary Retirement System:

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability AAL</u>	<u>Unfunded AAL UAAL</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
July 1, 2000	\$ 82,800	135,800	53,000	61%	\$ 25,700	206%
July 1, 1999	73,900	118,200	44,300	63%	26,300	168%
July 1, 1998	67,200	95,600	28,400	70%	18,000	158%

Puerto Rico System of Annuities and Pensions for Teachers:

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability AAL</u>	<u>Unfunded AAL UAAL</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
July 1, 2000	\$ 2,509,000	3,205,000	696,000	78%	1,006,000	69%
July 1, 1999	2,314,000	2,904,000	590,000	80%	996,000	59%
July 1, 1998	2,135,000	3,155,000	1,020,000	68%	1,091,000	93%

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

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

(d) *University of Puerto Rico Retirement System*

***Plan Description***

The UPR contributes to the University of Puerto Rico Retirement System (“UPRRS”), a single-employer defined-benefit public employee retirement system that acts as a common investment and administrative agent for the UPR. UPRRS is the administrator of the plan created under Act No. 135, approved on May 7, 1942, which became effective on January 1, 1945. UPRRS covers all employees of the UPR except hourly, temporary, part time, contract and substitute employees, and visiting professors.

UPRRS provides retirement, disability, and death benefits. Cost-of-living adjustments are provided at the discretion of the board of trustees of the UPR. Benefits vest after completion of a given number of years of credited service based on age. Benefits are determined by the application of stipulated benefit ratios of the members average compensation.

***Funding Policy***

UPR employees are required to contribute from 4 percent to 9 percent of their annual salary, up to certain maximum amounts, to the UPRRS, depending on certain qualifications. The UPR was required to contribute 14.6 percent of the applicable payroll in 2001. The contributions are established by law, and are not actuarially determined. Although the UPR has not expressed any intent to terminate the plan administered by UPRRS, it may do so at any time. In the event of termination, the rights of participants and beneficiaries are nonforfeitable to the extent funded.

***Membership***

Retirees and beneficiaries currently receiving benefits	5,873
Terminated-vested	340
Current employees	12,133
	<hr/>
	18,346
	<hr/> <hr/>

***Annual Pension Cost and Net Pension Obligation***

The UPR’s annual pension cost and net pension obligation to the UPRRS for the year ended June 30, 2001 is as follows (expressed in thousands):

Annual required contributions	\$ 41,496
Interest on net pension obligation	214
Adjustment to annual required contribution	(212)
	<hr/>
Annual pension cost	41,498
Contributions made	(54,041)
	<hr/>
Decrease in net pension of obligation	(12,543)
Net pension obligation at beginning of year	2,676
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Net pension obligation (asset) at end of year	\$ (9,867)
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**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

The annual required contribution was determined as part of the June 30, 2001 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (1) an 8 percent investment rate of return; and (2) projected salary increases of 5 percent per year. The assumptions did not include postemployment benefit increases, which are funded by the UPR when granted. The actuarial value of assets is equal to the fair value of the assets. The unfunded accrued liability is being amortized as a level dollar on a declining basis from 40 to 30 years starting on June 30, 1995. The remaining amortization period at June 30, 2001 is 34 years.

*Three-Year Trend Information (in thousands)*

<u>Fiscal year ending</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension (asset) obligation</u>
June 30, 2001	\$ 41,496	130.2%	(9,867)
June 30, 2000	43,907	113.1%	2,676
June 30, 1999	38,662	137.3%	8,421

*Schedule of Funding Progress (in thousands)*

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability AAL</u>	<u>Unfunded AAL UAAL</u>	<u>Funded ratio</u>	<u>Covered payroll*</u>	<u>UAAL as a percentage of covered payroll</u>
June 30, 2001	\$ 686,067	1,311,021	624,954	52.3%	363,995	171.7%
June 30, 2000	753,863	1,212,559	458,695	62.2%	341,872	134.2%
June 30, 1999	650,295	1,161,101	510,806	56.0%	333,153	153.3%

\*Rate of pay as of the valuation date.

**(22) Segment Information – Enterprise Funds**

**(a) Lottery of Puerto Rico (the “Lottery”)**

The Lottery was created in 1947 and is an operational unit of the Commonwealth’s Department of the Treasury. It was created to provide authorized agents with an additional source of revenue and to supplement revenue for the general fund of the Commonwealth. It is engaged in the sale of tickets through authorized agents. The Lottery’s revenue from the sale of tickets is distributed pursuant to the approved budget to cover the payment of prizes and general and administrative expenses. The excess of revenue over prizes and expenses must be transferred to the general fund of the Commonwealth.

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

**(b) The Additional Lottery System (the “Additional Lottery”)**

The Additional Lottery was created in 1989 as an operational unit of the Commonwealth’s Department of the Treasury. Presently, two games (Pick 3 and Lotto) with several betting alternatives are offered. The Additional Lottery is required to distribute the excess of revenue over expenses to the Commonwealth. The remittances are earmarked as follows: \$4 million to the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly included within the general fund of the Commonwealth; 35 percent of the net balance (net revenue over expenses less the amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) will be earmarked to the municipalities of which a maximum of \$26 million, on an annual basis, will be distributed to the Municipal Equalization Fund, held by the Municipal Revenue Collection Center to cover operating expenses and permanent improvements of the municipalities and the remaining, but not exceeding \$16 million, on an annual basis to cover accumulated municipal appropriations up to June 30, 1997, for the implementation of the Health Reform. Any amount exceeding the annual \$16 million will be distributed to the Municipal Equalization Fund, provided it is within the 35 percent corresponding to the municipalities. When the accumulated municipal appropriations up to June 30, 1997, from the municipalities Puerto Rico Health Reform is covered, these resources will be assigned to the Health Insurance Administration, a discrete component unit. The remaining net revenue over expenses from the Additional Lottery operations after covering all the items described above, will be distributed to the Commonwealth’s general fund. Prizes expire in 180 days. Expired prizes transferred to the general fund during 2001 approximated \$4 million.

Segment information for the enterprise funds is as follows (expressed in thousands):

	<u>Lottery</u>	<u>Additional Lottery</u>	<u>Total</u>
Operating revenue	\$ 457,827	273,488	731,315
Depreciation and amortization	\$ 2,124	25	2,149
Operating income	\$ 56,688	97,405	154,093
Nonoperating revenue	\$ 354	—	354
Operating transfers-out	\$ 59,166	97,405	156,571
Net loss	\$ (2,124)	—	(2,124)
Current capital:			
Depreciation on contributed fixed assets	\$ 2,124	—	2,124
Property, plant and equipment:			
Additions and adjustments	\$ 62	—	62
Net working capital	\$ 478	1,071	1,549
Long-term liabilities	\$ 4,508	273,991	278,499
Total assets	\$ 44,229	285,285	329,514
Total liabilities	\$ 42,370	286,650	329,020
Total equity (deficit)	\$ 1,859	(1,365)	494

# COMMONWEALTH OF PUERTO RICO

## Notes to General Purpose Financial Statements

June 30, 2001

### (23) Subsequent Events

#### *Primary Government*

##### *(a) Terrorist Attacks*

On September 11, 2001 certain terrorists' attacks were perpetrated through the hijacking of several commercial airplanes that were subsequently crashed into both towers of New York City's World Trade Center, the U.S. Pentagon Building in Washington, D.C., and a field in Pennsylvania. The travel and tourism sectors have experienced closing of airports, cancellation of flights and very significant reductions in hotel occupancies. The Commonwealth is presently unable to estimate the effects, if any, these events will have in the long-term occupancy of hotels in Puerto Rico, the island's airports' operations and the consequences, if any, in the Commonwealth's and its component units' results of operations as it relates to lost revenue, increased level of expenditures and contingencies arising from financial guarantees on tourist and hotel development projects.

##### *(b) Bonds and Notes Issuance*

On January 18, 2002, the Public Buildings Authority ("PBA"), a blended component unit of the Commonwealth, issued \$789 million of Government Facilities Revenue Bonds consisting of \$185.3 million of "Facilities Revenue Refunding Bonds Series C," \$553.7 million of "Facilities Revenue Bonds Series D" and \$50 million of "Facilities Revenue Bonds Series E" (collectively "the 2002 Bonds"). The proceeds from these bonds will be used to provide funds to carryout PBA's buildings and facilities construction program and to refund certain bonds and interim financing notes. The "Facilities Revenue Refunding Bonds Series C," will bear fixed-interest rates ranging from 4 percent to 5.75 percent, payable semiannually on each July 1 and January 1, beginning on July 1, 2002 through July 1, 2022. The "Facilities Revenue Bonds Series D" will bear fixed-interest rates ranging from 5 percent to 5.38 percent, payable semiannually on each July 1 and January 1, beginning on July 1, 2002 through July 1, 2036. The "Facilities Revenue Bonds Series E" will bear fixed-interest rates ranging from 4.5 percent to 5.80 percent, payable semiannually on each July 1 and January 1, beginning on July 1, 2002 through July 1, 2011. The Bonds are payable in full at their respective stated maturity dates.

On October 11, 2001 the Commonwealth issued \$1.3 billion of General Obligation Bonds consisting of \$455 million of "2002 Series A Public Improvement Bonds," \$837.9 million of "2002 Series A Public Improvement Refunding Bonds" and \$20 million of "2002 Series B Public Improvement Bonds" (collectively "the 2002 Bonds"). The proceeds from these bonds will be used to provide funds to carryout the capital improvement programs authorized by the Legislature, to refund certain general obligation bonds of the Commonwealth and to reimburse GDB for advances made to fund subsidies granted to homeowners under Act. No. 124 of December 10, 1993. The "2002 Series A Public Improvement Bonds," will bear interest rates ranging from 5.13 percent to 5.50 percent, payable semiannually on each July 1 and January 1, beginning on January 1, 2002 through July 1, 2031. The Series 2002 A Public Improvement Bonds will bear interest rates ranging from 3.75 percent to 5.50 percent, payable semiannually on each July 1, beginning on July 1, 2009 through 2021. The 2002 Series B Public Improvement Refunding Bonds will bear interest rates ranging from 5.40 percent to 5.50 percent, payable semiannually on each July 1 and January 1, beginning on January 1, 2002 through July 1, 2011. The Bonds are payable in full at their respective stated maturity dates.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

On October 5, 2001 the Commonwealth issued \$800 million tax and revenue anticipation notes for the purpose of funding a portion of the projected cash flow requirements of the general fund in fiscal year 2002, which requirements result from timing differences between expected disbursements and receipts of taxes and other revenue. The notes are due on July 30, 2002 and bear an annual interest rate of 3 percent.

**(c) Cancellation of Sale of Delinquent Tax Debt Transaction**

Act. No. 146 of October 11, 2001 authorized the Municipal Revenue Collection Center (“MRCC”) to obtain financing, through a line of credit from GDB, for the advance repayment of the outstanding balance of the Tax Bonds described in note 14 to the accompanying general purpose financial statements. The source of repayment of this line of credit will be the assignment, by the consenting municipalities, of their corresponding share to the increase of 0.48 percent in the municipal subsidy provided by the general fund of the Commonwealth, pursuant to Act. No. 99 of August 10, 2001. The increase in the municipal subsidy from 2.02 percent to 2.50 percent became effective during fiscal year 2001. The repayment schedule of the line of credit will commence with interest payments for the first five years, at the end of which time the balance will be restructured into equal principal and interest installments over a period of 25 years. Collections ultimately realized by MRCC from defective tax liens, will be applied to the principal of the line of credit. Any resulting deficiency in the servicing of this line of credit will be provided by the operational funds of the municipalities.

**(d) Debt Restructuring**

Act No. 164 of December 17, 2001 authorized certain government agencies and public corporations to refinance 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 Act at the same time forbids GDB, with limited exceptions, from granting future loans to government agencies and public corporations to be repaid with Commonwealth appropriations, without the prior approval of such appropriations by the Legislature.

**Component Units – Other**

**(a) Government Development Bank for Puerto Rico (“GDB”)**

On December 19, 2001 Puerto Rico Public Finance Corporation (“PFC”), a component unit of GDB, issued \$812 million of 2001 Series C and D Bonds (with an average interest rate of 5.89 percent) and \$1.1 billion of 2001 Series E Bonds (with an average interest rate of 5.65 percent), respectively, to fund the purchase of certain promissory notes issued by GDB in connection with the debt restructuring authorized by Act No. 164 of December 17, 2001 described in the preceding paragraph. These and additional bonds to be issued to complete the purchase of the totality of the loans to be restructured under Act No. 164, will be repaid over a period not exceeding 30 years with annual Commonwealth appropriations not to exceed \$225 million.

Act. No 103 of August 11, 2001, as amended, known as the Law of the Puerto Rico Housing Finance Authority (the “Housing Finance Authority”), redenominates the Housing Finance Corporation as the Puerto Rico Housing Finance Authority, and dissolves the Puerto Rico

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

Housing Bank and Finance Agency (“PRHBFA”) by transferring all its assets and liabilities to the Housing Finance Authority. This Act will be effective 180 days after its approval. Management has recently commenced the process of evaluating the integration between the Housing Finance Corporation and the PRHBFA including the prevailing accounting principles, and consequently, is unable to estimate the effects that this Act will have on the financial position or operations of the Housing Finance Corporation and PRHBFA.

Act No. 92 of August 4, 2001 amended Act No. 280 and 282 of 1998 to designate the Housing Finance Corporation, in substitution of the Puerto Rico Infrastructure Financing Authority (“PRIFA”) and in conjunction with the Housing Department of Puerto Rico, as the agency in charge of certifying the projects under the “Nuevo Hogar Seguro” program with the approval of the Federal Emergency Management Agency (“FEMA”). This program is directed to plan, coordinate and develop the construction of new housing as a replacement for houses destroyed by the Hurricane Georges in 1998 and to attend the housing needs of those families living in flooding areas.

On August 1, 2001 the Housing Finance Corporation, a component unit of GDB, issued \$127.1 million of Home Mortgage Revenue Bonds (mortgage-backed securities) consisting of \$22.5 million of “2001 Series A Bonds,” \$75 million of “2001 Series B Bonds,” \$4.6 million of “2001 Series C Bonds” and \$25 million of “Home Mortgages Revenue Notes, Series 1” (collectively the “Housing Finance Bonds and Notes”). The proceeds from these bonds and notes will be used to provide funds for a program under which the Housing Finance Corporation will purchase and transfer to the trustee mortgage-backed securities guaranteed by the Government National Mortgage Corporation, Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation (collectively the “Mortgage Certificates”). The Mortgage Certificates will be backed by pools of mortgage loans made by participating lending institutions to low- and moderate-income families to finance the purchase of qualified single-family residential housing in Puerto Rico. The 2001 Series A and C Bonds and the Home Mortgage Revenue Notes, Series 1, will bear fixed-interest rates of 5.20 percent, 5.50 percent and 3.35 percent, respectively, payable semiannually on each June 1 and December 1. The 2001 Series B Bonds will bear fixed interest rates ranging from 2.75 percent to 4.70 percent payable semiannually on each June 1 and December 1. The bonds and notes are payable in full on their respective stated maturity dates, and are subject to redemption prior to their stated maturity dates, including redemption at par. The Housing Finance Bonds and Notes are limited obligations of the Housing Finance Corporation. The principal of and redemption premium, if any, and interest on the Housing Finance Bonds and Notes will be payable solely from the proceeds of certain assets, including the Mortgage Certificates to be acquired from time to time by the trustee, and certain investments and proceeds of the Housing Finance Bonds and Notes.

**(b) Puerto Rico Highway and Transportation Authority (“PRHTA”)**

PRHTA is in the process of issuing \$1.1 billion for Transportation Revenue Bonds with an average interest rate of 5.34 percent to finance a portion of the costs of construction of the Tren Urbano and certain highway system improvements, and to refund a portion of PRHTA’s outstanding bonds in the amount of \$403 million.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

On August 28, 2001, the board of directors of GDB approved an increase in the line-of-credit agreement PRHTA by \$205 million for a total amount of \$325 million. The increase in the line of credit is to finance the construction programs and improvements of PRHTA. The line of credit expires on July 1, 2004 and the interest rate will be a monthly variable interest plus 125 basis points.

During July 2001, the Authority agreed with the Federal Transit Administration (“FTA”) to comply with various construction requirements related to the Tren Urbano in order to request and receive a reimbursement of approximately \$165 million of eligible expenses from FTA, which had been previously withheld.

**(c) Puerto Rico Aqueduct and Sewer Authority (“PRASA”)**

On September 5, 2001 Rural Development Bonds Series BB were issued in the par amount of \$20.1 million, bearing a 4.5 percent interest rate and with semiannual payments through the year 2041. The proceeds of this issuance and rural development federal grants of \$3.2 million will pay lines of credit for construction projects with GDB. Payment of principal and interest of these bonds are guaranteed by the Commonwealth.

On August 2, 2001 the Puerto Rico Public Finance Corporation, a component unit of GDB, issued Commonwealth Appropriation Bonds in the par amount of \$390 million, consisting of serial bonds for the purpose of funding the purchase from GDB of the Superaqueduct line of credit, plus the payment of bond insurance and other issuance costs. These bonds have coupon interest rates ranging from 4.0 percent to 5.5 percent, are payable semiannually on August 1 and February 1, and mature through August 1, 2031.

The Commonwealth initiated a process to request proposals for the operation and management of PRASA. The actual agreement was extended through February 28, 2002 until a new operator is selected.

**(d) Puerto Rico Electric Power Authority (“PREPA”)**

On December 13, 2001 PREPA issued \$720.4 million power revenue bonds and refunding bonds (with an average interest rate of 5.25 percent) to finance a portion of the cost of various projects under its capital improvement program and to refund existing power revenue bonds and refunding bonds in the amount of \$203.7 million.

On October 26, 2001 PREPA entered into a long-term agreement for its optical fiber cable requirements with Puerto Rico Information Network, Inc. (“PRIN”). Under this agreement PRIN is required to design, build and transfer to PREPA title to all fiber optic cable installed on PREPA’s rights-of-way (mainly its transmission lines). The agreement also provides for the long-term lease to PRIN of any surplus capacity of the cables installed. In addition, PREPA is obligated to make purchase price payments of \$43.7 million in October 2002 to acquire the fiber optic telecommunication system.

**(e) Puerto Rico Ports Authority (“PRPA”)**

On August 2001, PRPA filed a certificate of incorporation for Waterman Terminal, Corp. with the Secretary of State. The purpose of the Corporation is to develop, operate, manage, and administer, through concessionaries business establishments dedicated, among others, to provide services in the food, clothing, jewelry, and entertainment industries, located in the facilities of PRPA.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

**(f) *Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (“PCSDIPRC”)***

Act No. 114 of August 17, 2001 “Law of the Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives,” restructured the formerly Corporation of Stocks and Deposits Insurance for the Savings and Loans Cooperatives in order to redefine their objectives and purposes. It also superseded Act No. 5 of January 15, 1990, and transferred to PCSDIPRC all the functions and powers of the Commissioner of Financial Institutions of the Commonwealth and others public agencies related with the cooperatives which will enable PCSDIPRC to supervise and regulate the cooperatives operating in Puerto Rico. The duties and powers of the Commissioner of Financial Institutions of the Commonwealth and the Office of the Inspector of Cooperatives that will be transferred to PCSDIPRC include the examination process related to the regulatory oversight and the power to grant licenses and permits to the cooperatives.

**(g) *Puerto Rico Public Broadcasting Corporation (“PRPBC”)***

The Federal Communications Commission (“FCC”) issued an order to all broadcast television stations to implement a digital television transmission system (known as Advance Television or ATV) designed to replace the current 50-year old analog system. This new system provides a larger, wide screen display, high quality picture and sound, simultaneously with a substantial data delivery service.

The ATV station is, in effect, a duplicate transmitter operating in a second channel assigned by FCC specifically for ATV use. After a designated period from 8 to 10 years (to be established by the FCC) the old analog transmitter will be turned off leaving only the ATV signal.

Digital television broadcast facilities for noncommercial television stations that comply with FCC Digital Television Standard shall be constructed by May 1, 2003. The cost of new equipment capable of displaying the ATV signal and producing digital programs are estimated in \$30 million during a period from three to five years for the two television stations, WIPR and WIPM. The Commonwealth approved an appropriation of \$9.1 million for the fiscal years 1999 to 2001 for this project, of which \$3.6 million has been received. The appropriations not received are in custody of the Department of the Treasury. From the appropriations received, \$2.7 million have been expended.

**(h) *Puerto Rico Solid Waste Authority (“PRSWA”)***

On December 28, 2001 a supplier of the PRSWA (the “Supplier”) filed a complaint against the PRSWA for breach of contract, collection of moneys, and execution of a penalty clause before the Court of First Instance, Superior Court of the Commonwealth. The Supplier is claiming the sum of \$4.2 million plus interest, for work allegedly performed and not paid. Furthermore, the Supplier is claiming the sum of \$6.3 million on the basis of the contract’s penalty clause. Due to the fact that this case is in its initial stage, the PRSWA and its internal and external legal representatives are presently working on their answer to the complaint, and are of the opinion that at this moment it is not possible to predict the outcome of the litigation. However, the PRSWA sustains the contract is null and void because it is contrary to public policy of the Commonwealth.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

On November 14, 2001 a three-member Panel of Arbitrators was selected and time tables for various prehearing activities were established, and the parties (the PRSWA and a construction contractor) filed a joint document stating all their allegations and defenses regarding the PRSWA's termination of an agreement entered into on September 17, 1997, for the design and construction of a sludge and yard waste compost facility. The termination was based on several applicable provisions of the agreement. The demand for arbitration claimed for relief for alleged moneys owed and damages in excess of \$4.1 million. Pursuant to the directives issued by the Panel of Arbitrators, the parties exchanged substantial documentary evidence and other information. The parties are also in the process of taking depositions of designated party representatives, witnesses and experts. Therefore, the PRSWA and its internal and external legal representatives are of the opinion that, at this moment, it is not possible to predict the outcome of this action.

#### **(24) Sale of Puerto Rico Telephone Authority**

On April 7, 1997 the Commonwealth announced a plan to privatize Puerto Rico Telephone Company, Inc. ("PRTC") and Celulares Telefónica, Inc. ("CT") through a competitive bidding process. On July 21, 1998, after the conclusion of the bidding process, a consortium led by Verizon (formerly GTE Corporation) was awarded the right to purchase a controlling interest in PRTC and CT. Under the provision of the acquisition agreement, the Commonwealth created Telecomunicaciones de Puerto Rico, Inc. ("TELPRI"), a Puerto Rico Corporation, which was utilized for the purpose of acquiring the stock of PRTC and CT from Puerto Rico Telephone Authority ("PRTA") in connection with the privatization. On March 1, 1999, pursuant to the terms of the acquisition agreement, TELPRI acquired 100 percent of the common stock of PRTC and CT. Prior to the acquisition, PRTA owned 100 percent of the shares of common stock of TELPRI.

The acquisition was completed on March 2, 1999 under the following terms:

- A subsidiary of Verizon (member of the Verizon Group) acquired 40.01 percent, plus one share of the TELPRI stock and Popular, Inc. ("Popular") acquired 9.99 percent.
- PRTA obtained 43 percent less one share of the shares of the stock of TELPRI in exchange for its remaining interests in PRTC and CT.
- PRTA received approximately \$2.040 billion from the transaction, a portion of which was paid by TELPRI from a special dividend amounting to approximately \$1.570 billion. Also, PRTA agreed to contribute cash or stock worth a total of \$200 million as a capital contribution in equal annual installments over five years beginning on March 2, 1999, to reduce unfunded pension and other post-employment benefit obligations. The contribution must be in cash for the first two installments and cash or stock for the last three installments. On March 2, 1999 PRTA deposited \$173 million in an escrow account to satisfy the \$200 million commitment, and recorded a liability for the same amount.

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

In conjunction with the acquisition, PRTA contributed 3 percent of TELPRI's shares to TELPRI's newly created employee stock ownership plan (the "ESOP") (approximately \$26.1 million), and the Verizon Group purchased an additional 1 percent of the shares of TELPRI from PRTA and contributed them to the ESOP. The ESOP also acquired an additional 3 percent with funds borrowed from TELPRI.

On February 2000, TELPRI declared a stock split whereby each TELPRI shareholder received 25 TELPRI shares for each TELPRI share owned (430,000 shares), resulting in 10,749,975 of shares owned of TELPRI after such stock split.

On December 28, 2000 by Resolution 2000-02, PRTA created a new subsidiary as a private corporation, and authorized its incorporation with the name of PRTA Holdings Corporation ("PRTA Holdings"). PRTA Holdings was organized to hold, administer and dispose of the TELPRI shares that would be transferred by PRTA, for the exclusive benefit of the Employees' Retirement System of the Commonwealth and its instrumentalities ("ERS").

PRTA Holdings issued 100 shares of common stock at one cent (.01) par value per share, and 100 shares preferred stock at one dollar (\$1.00) par value per share. The preferred stock is entitled to receive distributions by way of divided or liquidating distributions, is not cumulative with respect to dividends and is ranked senior to the common stock in respect of the right to receive payments out of the assets of PRTA Holdings upon any liquidation. On December 28, 2000 PRTA transferred to PRTA Holdings all of its shares in the common stocks of TELPRI (10,749,975) in exchange for all shares of common stock and preferred stock of PRTA Holdings.

It is contemplated that all shares of common stock of TELPRI held by PRTA Holdings will be sold in public offerings and private placement. All dividends and proceeds received from the sale of the shares will be distributed to the ERS, in accordance with Joint Resolution No. 209 of June 24, 1998 of the Legislature of Puerto Rico, as amended. Upon its creation, PRTA Holdings assumed all obligations under the various guaranty agreements entered into as part of the TELPRI privatization transaction.

Also on December 28, 2000 PRTA transferred all shares of preferred stock of PRTA Holdings to the ERS. Considering that the preferred stock transferred is entitled to all economic benefits from the ownership in TELPRI shares, the full carrying balance of investment in TELPRI at December 28, 2000 of \$165,538,614, carried at the equity method of accounting, was recorded and transferred to the ERS. The ERS in turn recorded this investment at its estimated fair value of approximately \$701 million, in accordance with the provisions of GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."

## COMMONWEALTH OF PUERTO RICO

### Notes to General Purpose Financial Statements

June 30, 2001

Summarized financial information of TELPRI as of December 31, 2000 and for the year then ended is as follows (expressed in thousands):

Total assets	\$ <u>2,766,801</u>
Total liabilities	\$ <u>2,269,034</u>
Stockholders' equity	\$ <u>497,767</u>
Operating revenue	\$ <u>1,388,979</u>
Operating expenses, net	\$ <u>1,158,672</u>
Net income	\$ <u>126,191</u>

#### (25) Partial Settlement of Contingency

On January 22, 1996 the U.S. District Court in Puerto Rico (the "Court") consolidated all cases against the Commonwealth related to the complaints filed in 1979 by the inmates of the correctional facilities in Puerto Rico. The Court ruled a permanent order requiring the Commonwealth to comply with the requirement of the minimum fixed living space per inmate. In the opinion of management, based on advice of legal counsel, this order will limit the imposition of further fines and the fines already paid shall be sufficient to carry out the Court's requirements.

#### (26) Sugar Corporation of Puerto Rico

On September 5, 1996 the Commonwealth enacted Act No. 189 to authorize the negotiation for the transfer of certain assets, liabilities and operations of the Sugar Corporation of Puerto Rico ("SCPR"), for a nominal value, to the sugar cane farmers, as part of the liquidation process of SCPR. These operations consisted of sugar mills and a sugar refinery.

On December 28, 1997 the Commonwealth enacted Act No. 202 amending Act No. 189. Under the amendment, the sugar mills were transferred to the sugar cane growers during 1998. Also, effective December 31, 2000, SCPR transferred its remaining sugar producing assets to the sugar cane growers and the Land Authority of Puerto Rico ("LAPR"), a discretely presented component unit. Assets transferred included land with a carrying value of \$28.2 million and fully depreciated buildings with an original cost of \$52 million to the LAPR, as well as \$14.2 million in fully reserved accounts receivable resulting from advances to the sugar cane growers.

During calendar year 2000, SCPR operated its sugar refinery on its behalf and engaged in its normal for profit activities. As apart of the liquidation process, SCPR sold its entire sugar inventory to the sugar cane growers in exchange for a note receivable amounting to \$17.9 million. The note receivable is due in 10 monthly installments of \$1.8 million plus interest beginning on February 16, 2001.

The assets transferred can be used only for the sugar cane operations and if not used for such purposes, must be returned to SCPR. The assets cannot be sold, transferred or ceded for 25 years unless prior payment is made to SCPR of certain stipulated amounts.

**COMMONWEALTH OF PUERTO RICO**

Notes to General Purpose Financial Statements

June 30, 2001

Estimated liquidation costs accrued by SCPR at December 31, 2000, consist of (expressed in thousands):

<u>Description</u>	<u>Amount</u>
Reserve for Mercedita Refinery operations and liquidation of liabilities	\$ 85,864
Reserve for Central Office	39,230
Reserve for operations transferred	645
Other reserves and accounts payable trade	<u>7,438</u>
Total	<u>\$ 133,177</u>

The law provides that SCPR should from time to time request the Legislature to approve the funds necessary for the orderly liquidation of all liabilities of SCPR.

At December 31, 2000 SCPR has an accumulated deficit of approximately \$313 million, and contributed capital of approximately \$140.8 million.

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

## **GENERAL FUND**

The general fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund. Following is the supplemental schedule of expenditures – budget and actual – budget basis – general fund.

**COMMONWEALTH OF PUERTO RICO**

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

Year ended June 30, 2001  
(In thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Expenditures:			
Current:			
General Government:			
Senate of Puerto Rico	\$ 24,260	24,246	14
House of Representatives of Puerto Rico	33,205	33,429	(224)
Comptroller's Office	24,721	25,467	(746)
Governor's Office	15,024	15,909	(885)
Office of Management and Budget	63,931	18,810	45,121
Planning Board	11,489	11,248	241
Constructions and Land Subdivisions Appeals Board	1,176	1,151	25
Department of State	8,625	9,327	(702)
Department of the Treasury	163,264	151,114	12,150
Central Office of Personnel Administration	6,022	4,855	1,167
Commonwealth Electoral Commission	65,771	56,328	9,443
Federal Affairs Administration	9,403	9,305	98
General Services Administration	2,075	2,079	(4)
Municipal Complaints Hearing Commission	3,817	3,813	4
Civil Rights Commission	590	618	(28)
Office of the Citizens Ombudsman	3,636	3,480	156
Rules and Permits Administration	4,759	4,758	1
Commonwealth's Commission to Settle Municipal Complaints	177	188	(11)
Central Communications Office	2,141	2,680	(539)
Government Ethics Board	4,331	4,331	—
Legislative Affairs Office	8,588	7,620	968
Government Organization and Public Policy Secretary	344	335	9
Commission for the Public Service Work Relations	2,207	2,172	35
Office of the Superintendent of the Capitol	4,885	6,357	(1,472)
Comptroller's Special Reports Joint Commission	310	311	(1)
Legislative Donation Commission	571	406	165
Coordination Office for Special General Commission of Puerto Rico	200	57	143
Total general government	\$ <u>465,522</u>	<u>400,394</u>	<u>65,128</u>

**COMMONWEALTH OF PUERTO RICO**

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

Year ended June 30, 2001  
(In thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Public Safety:			
Puerto Rico General Court of Justice	\$ 197,401	216,747	(19,346)
State Civil Defense Agency	4,895	5,260	(365)
Commission of Investigation, Processing, and Appeals Board	707	785	(78)
Department of Justice	103,053	96,818	6,235
Puerto Rico Police Department	572,981	563,409	9,572
Puerto Rico Firefighters Corps	44,838	44,925	(87)
Puerto Rico National Guard	8,019	8,129	(110)
Consumer Affairs Department	11,447	11,452	(5)
Public Service Commission	9,717	9,730	(13)
Juvenile Institutions Administration	87,457	92,066	(4,609)
Corrections Administration	320,638	326,993	(6,355)
Security and Public Protection Commission	852	854	(2)
Department of Correction and Rehabilitation Parole Board	3,805	3,839	(34)
Forensic Sciences Institute	3,272	3,287	(15)
Special Prosecutor Panel	9,383	9,383	—
Pre-trial Services Office	2,027	1,994	33
Correctional Health	3,611	3,628	(17)
Medical Emergencies Services	80,985	80,743	242
	17,887	17,887	—
Total Public Safety	<u>1,482,975</u>	<u>1,497,929</u>	<u>(14,954)</u>
Health:			
Environmental Quality Board	8,418	8,311	107
Department of Health	75,789	250,016	(174,227)
Mental Health and Drug Addiction Services Administration	92,317	98,397	(6,080)
Pediatric University Hospital	14,500	13,699	801
Total Health	<u>191,024</u>	<u>370,423</u>	<u>(179,399)</u>
Public Housing and Welfare:			
Rural Housing and Welfare	8,385	8,337	48
Minor's Support Administration	8,351	8,351	—
Puerto Rico Volunteers Service Corps	12,522	12,507	15
Puerto Rico Police Department			
Department of Labor and Human Resources	7,217	7,217	—
Labor Relations Board	1,284	1,294	(10)
Department of Housing	8,296	7,880	416
Department of Recreation and Sports	32,837	34,014	(1,177)
Administration for the Horse Racing Sport and Industry	2,833	2,832	1
Women's Affairs Commission	4,857	3,272	1,585
Public Housing Administration	1,605	1,606	(1)
Balance carried forward	\$ <u>88,187</u>	<u>87,310</u>	<u>877</u>

**COMMONWEALTH OF PUERTO RICO**

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

Year ended June 30, 2001  
(In thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Balance brought forward	\$ 88,187	87,310	877
Citizens' Rights Commission	238	238	—
Office of the Veterans Ombudsman	1,229	1,223	6
Department of Family	33,273	26,774	6,499
Family and Children Administration	96,853	91,160	5,693
Vocational Rehabilitation Administration	15,263	15,255	8
Social Economic Development Administration	72,290	72,194	96
Office of the Disabled Persons Ombudsman	2,043	2,045	(2)
Office for Elderly Affairs	2,955	2,158	797
Cantera's Peninsula Integral Development Company	200	200	—
Communities Rehabilitation Administration	5,017	5,028	(11)
<b>Total Public Housing and Welfare</b>	<u>317,548</u>	<u>303,585</u>	<u>13,963</u>
<b>Education:</b>			
Department of Education	1,644,178	1,605,936	38,242
State Office for Historic Preservation	1,651	1,592	59
General Education Council	1,843	1,880	(37)
Athenaeum of Puerto Rico	360	360	—
<b>Total Education</b>	<u>1,648,032</u>	<u>1,609,768</u>	<u>38,264</u>
<b>Economic Development:</b>			
Department of Transportation and Public Works	62,535	61,769	766
Department of Natural and Environmental Resources	882	727	155
Department of Agriculture	18,928	20,065	(1,137)
Cooperative Enterprises Development Administration	2,973	2,988	(15)
Cooperative Enterprises Inspector's Office	605	577	28
Natural Resources Administration	28,610	28,590	20
Rural Development Corporation	2,510	2,496	14
Department of Economic Development and Commerce	14,863	12,343	2,520
Energy Affairs Administration	356	105	251
Development of the Film Industry in Puerto Rico	1,077	1,071	6
Culebra Conservation and Development	442	400	42
<b>Total Economic Development</b>	<u>133,781</u>	<u>131,131</u>	<u>2,650</u>
<b>Intergovernmental:</b>			
Vieques Commissioner's Office	—	156	(156)
Apelative Board of the Personnel System Administration	1,470	1,538	(68)
Municipal Services Administration			
Municipal Revenue Recollection Center	3	—	3
Municipal contributions	292,503	289,774	2,729
<b>Total Intergovernmental</b>	<u>\$ 293,976</u>	<u>291,468</u>	<u>2,508</u>

**COMMONWEALTH OF PUERTO RICO**

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

Year ended June 30, 2001  
(In thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Debt service:			
Principal	\$ 156,353	111,170	45,183
Interest and other	66,252	57,045	9,207
Total debt service	<u>222,605</u>	<u>168,215</u>	<u>54,390</u>
Total expenditures	<u>\$ 4,755,463</u>	<u>4,772,913</u>	<u>(17,450)</u>
Other financing uses:			
Operating transfers-out to other funds:			
Senate of Puerto Rico	\$ 1,922	1,922	—
House of Representatives of Puerto Rico	160	160	—
Comptroller's Office	360	360	—
Puerto Rico General Court of Justice	53	53	—
Office of Youth Affairs	3,454	3,530	(76)
Environmental Quality Board	153	153	—
Governor's Office	216	216	—
Office of Management and Budget	141,838	141,838	—
Planning Board	145	145	—
Constructions and Land Subdivisions Appeals Board	215	215	—
State Civil Defense Agency	11	11	—
Department of State	70	70	—
Department of the Treasury	356	356	—
Puerto Rico Government Employees' Retirement			
Systems Administration	83,535	82,132	1,403
Central Office of Personnel Administration	145	145	—
Commonwealth Elections Commission	153	153	—
Federal Affairs Administration	45	45	—
General Services Administration	81	81	—
Rural Housing Administration	33	33	—
Municipal Complaints Hearing Commission	491	491	—
Civil Rights Commission	122	122	—
Department of Justice	67	67	—
Puerto Rico Police Department	120	120	—
Puerto Rico Firefighters Corps	54	54	—
Puerto Rico National Guard	1	1	—
Department of Transportation and Public Works	421	421	—
Department of Economic Development and Commerce	314	314	—
Office of the Citizens Ombudsman	107	107	—
Cooperative Enterprises Development Administration	33	33	—
Public Service Commission	393	393	—
Labor Relations Board	53	53	—
Consumer Affairs Department	43	43	—
Department of Health	1,562	1,562	—
Balance carried forward	<u>\$ 236,726</u>	<u>235,399</u>	<u>1,327</u>

**COMMONWEALTH OF PUERTO RICO**

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

Year ended June 30, 2001  
(In thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Balance brought forward	\$ 236,726	235,399	1,327
Cooperative Enterprises Inspector's Office	104	104	—
Department of Housing	9	9	—
Department of Education	5	5	—
Department of Recreation and Sports	21	21	—
Administration for the Horse Racing Sport and Industry	4	4	—
Puerto Rico System of Annuities and Pensions for Teachers	14,596	14,596	—
Personnel Administration Appeals Board	10	10	—
Rules and Permits Administration	60	60	—
Mental Health and Drug Addiction Services Administration	5,925	5,925	—
Women's Affairs Commission	97	97	—
Commonwealth's Commission to Settle Municipal Complaints	28	28	—
Corrections Administration	4	4	—
Public Housing Administration	26,631	26,631	—
Security and Public Protection Commission	27	27	—
Citizens' Rights Commission	72	72	—
Department of Economic Development and Commerce	177	177	—
Office of the Veterans Ombudsman	34	34	—
Family and Children Administration	7,191	7,191	—
Minors Support Administration	53	53	—
Social Economic Development Administration	2,418	2,418	—
Government Organization and Public Policy Secretary	190	190	—
Commission for the Public Service Work Relations	43	43	—
Energy Affairs Administration	15	15	—
Natural Resources Administration	31	31	—
Development of the Film Industry in Puerto Rico	128	128	—
Department of Correction and Rehabilitation	3	3	—
Parole Board	1	1	—
Office of the Disabled Persons Ombudsman	5	5	—
Office for Elderly Affairs	14	14	—
State Office for Historic Preservation	26	26	—
General Education Council	48	48	—
Central Communications Office	145	145	—
Puerto Rico Maritime Shipping Authority	24,193	24,193	—
Contributions to Political Parties	3,029	3,029	—
Communities Rehabilitation Administration	46	46	—
Correctional Health	1	1	—
Balance carried forward	\$ <u>322,110</u>	<u>320,783</u>	<u>1,327</u>

**COMMONWEALTH OF PUERTO RICO**

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

Year ended June 30, 2001  
(In thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Balance brought forward	\$ 322,110	320,783	1,327
Legislative Affairs Office	1,992	1,992	—
Office of the Superintendent of the Capitol	59	59	—
Comptroller's Special Reports Joint Commission	24	24	—
Legislative Donation Commission	129	129	—
Scholarships Council	54,000	54,000	—
Total operating transfers-out to other funds	\$ <u>378,314</u>	<u>376,987</u>	<u>1,327</u>
Transfers-out to component units:			
Institute of Puerto Rican Culture	\$ 22,878	22,845	33
Recreational Development Company of Puerto Rico	13,352	13,352	—
Plastic Arts School	1,743	1,743	—
Institutional Trust of the National Guard of Puerto Rico	1,237	1,237	—
Puerto Rico Infrastructure Financing Agency	70,000	70,000	—
Puerto Rico Aqueduct and Sewer Authority	119,794	119,794	—
Right to Employment Administration	33,348	33,348	—
Puerto Rico Industrial Development Company	8,000	8,000	—
Puerto Rico Housing Bank and Finance Agency	4,755	4,755	—
Puerto Rico Metropolitan Bus Authority	500	500	—
Industries for the Blind, Mentally Retarded and Other			
Disabled Persons of Puerto Rico	147	147	—
University of Puerto Rico	635,354	635,353	1
Puerto Rico Land Administration	550	550	—
Puerto Rico Maritime Transportation Authority	15,500	15,500	—
Tourism Company of Puerto Rico	3,545	3,525	20
Solid Waste Authority of Puerto Rico	6,268	6,268	—
Agricultural Services and Development Administration	80,713	80,713	—
Puerto Rico Health Insurance Administration	964,017	964,000	17
Musical Arts Corporation and Subsidiaries	6,820	6,820	—
Fine Arts Center Corporation	2,690	2,690	—
Sugar Corporation of Puerto Rico	10,400	10,400	—
Puerto Rico Public Broadcasting Corporation	22,505	22,505	—
Trust for the Development, Operation and Conservation of National Parks of Puerto Rico	2,565	2,565	—
Puerto Rico Conservatory of Music Corporation	3,842	3,842	—
Total transfers-out to component units	\$ <u>2,030,523</u>	<u>2,030,452</u>	<u>71</u>

## **DEBT SERVICE FUNDS**

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

**Debt Redemption Fund:** This fund is used to account for the accumulation of resources for the payment of general obligation bonds issued by the Commonwealth's central government and is separately budgeted by the Commonwealth of Puerto Rico.

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

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

**Office for the Improvements of the Public Schools:** Created by the Joint Resolution No. 3 of August 28, 1990. Its debt service fund is used to account for the payment of principal and interest on debt used to finance the construction and improvement of the public schools in Puerto Rico. The debt service is budgeted in the general fund.

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Debt Service Funds

June 30, 2001  
(In thousands)

<b>Assets</b>	<b>Debt redemption fund</b>	<b>Public Buildings Authority</b>	<b>Puerto Rico Maritime Shipping Authority</b>	<b>Office for the Improvements of Public Schools</b>	<b>Totals</b>
Cash and cash equivalents	\$ —	56	—	—	56
Cash and cash equivalents in governmental banks	350,563	121,723	2,412	—	474,698
Investments	165,328	5,864	—	—	171,192
Receivables, net:					
Intergovernmental	75,457	—	—	—	75,457
Accounts	—	70,071	16,901	—	86,972
Accrued interest	7,509	—	—	—	7,509
Other assets	5,267	—	—	—	5,267
Total assets	\$ <u>604,124</u>	<u>197,714</u>	<u>19,313</u>	<u>—</u>	<u>821,151</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable and accrued liabilities	\$ —	—	4,327	—	4,327
Due to other funds	978	86,229	—	—	87,207
Interest payable	131,347	42,525	7,529	—	181,401
Bonds payable	257,731	68,960	—	—	326,691
Other liabilities	8,353	—	974	—	9,327
Total liabilities	<u>398,409</u>	<u>197,714</u>	<u>12,830</u>	<u>—</u>	<u>608,953</u>
Fund balances:					
Reserved for – debt service	205,715	—	6,483	—	212,198
Total liabilities and fund balances	\$ <u>604,124</u>	<u>197,714</u>	<u>19,313</u>	<u>—</u>	<u>821,151</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Revenue, Expenditures and Changes in Fund Balances  
Debt Service Funds

Year ended June 30, 2001  
(In thousands)

	<b>Debt redemption fund</b>	<b>Public Buildings Authority</b>	<b>Puerto Rico Maritime Shipping Authority</b>	<b>Office for the Improvements of Public Schools</b>	<b>Totals</b>
Revenue:					
Excise taxes	\$ 17,888	—	—	—	17,888
Charges for services	—	275,589	—	—	275,589
Intergovernmental	91,903	—	—	—	91,903
Interest	10,086	—	—	4,166	14,252
Other	—	—	120	—	120
Total revenue	<u>119,877</u>	<u>275,589</u>	<u>120</u>	<u>4,166</u>	<u>399,752</u>
Expenditures:					
Debt service:					
Principal	260,559	68,960	5,935	7,010	342,464
Interest and other	263,520	87,131	24,649	19,205	394,505
Total expenditures	<u>524,079</u>	<u>156,091</u>	<u>30,584</u>	<u>26,215</u>	<u>736,969</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(404,202)</u>	<u>119,498</u>	<u>(30,464)</u>	<u>(22,049)</u>	<u>(337,217)</u>
Other financing sources (uses):					
Proceeds from promissory note	164,222	—	—	—	164,222
Proceeds from refunding bonds	329,370	—	—	—	329,370
Operating transfers-in from other funds	245,814	—	25,889	22,049	293,752
Operating transfers-out to other funds	(2,935)	(56,171)	—	—	(59,106)
Payment to refunded bond escrow agent	(164,042)	(63,327)	—	—	(227,369)
Total other financing sources (uses)	<u>572,429</u>	<u>(119,498)</u>	<u>25,889</u>	<u>22,049</u>	<u>500,869</u>
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	168,227	—	(4,575)	—	163,652
Fund balances at beginning of year	<u>37,488</u>	<u>—</u>	<u>11,058</u>	<u>—</u>	<u>48,546</u>
Fund balances at end of year	\$ <u>205,715</u>	<u>—</u>	<u>6,483</u>	<u>—</u>	<u>212,198</u>

## **CAPITAL PROJECT FUNDS**

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

**Public Improvements Funds and Other Funds:** These funds present the activities of the capital improvements program of the Commonwealth, financed with the proceeds of general obligation bonds.

**Public Buildings Authority:** A blended component unit. Its capital project fund is used to account for the construction activities and related financing means for buildings and facilities that, when completed, are leased to the Commonwealth's primary government agencies.

**Office for the Improvements of the Public Schools:** Created by the Joint Resolution No. 3 of August 28, 1990. The primary functions of the office are the development and implementation of repairs and improvement plan of the public schools in Puerto Rico.

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Capital Projects Funds

June 30, 2001  
(In thousands)

<b>Assets</b>	<b>2000 public improvements fund</b>	<b>1999 public improvements fund</b>	<b>1998 public improvements fund</b>	<b>1997 public improvements fund</b>
Cash and cash equivalents	\$ —	—	—	—
Cash and cash equivalents in governmental banks	78,029	57,218	11,957	38,345
Investments	—	—	—	—
Receivables, net:				
Accounts	—	4,500	5,800	2,118
Loans and advances	—	—	—	—
Due from other funds	355	316	66	241
Other restricted assets	—	—	—	—
Other assets	—	—	—	—
<b>Total assets</b>	<b>\$ 78,384</b>	<b>62,034</b>	<b>17,823</b>	<b>40,704</b>
 <b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 6,658	3,875	3,044	(923)
Due to other funds	—	—	1	—
Due to component units	—	—	—	24,252
Advances from component units	—	—	—	(13)
Other liabilities	173	1,087	1,557	5,998
<b>Total liabilities</b>	<b>6,831</b>	<b>4,962</b>	<b>4,602</b>	<b>29,314</b>
Fund balances:				
Reserved for encumbrances	3,448	3,451	2,222	3,259
Reserved for public improvements	68,105	53,621	10,999	8,131
Deficit	—	—	—	—
<b>Total fund balances (deficit)</b>	<b>71,553</b>	<b>57,072</b>	<b>13,221</b>	<b>11,390</b>
<b>Total liabilities and fund balances</b>	<b>\$ 78,384</b>	<b>62,034</b>	<b>17,823</b>	<b>40,704</b>

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Capital Projects Funds, Continued

June 30, 2001  
(In thousands)

<b>Assets</b>	<b>Public Buildings Authority</b>	<b>Office for the Improvements of Public Schools</b>	<b>Other funds</b>	<b>Totals</b>
Cash and cash equivalents	\$ 121,346	6	5,267	126,619
Cash and cash equivalents in governmental banks	—	42,347	63,625	291,521
Investments	61,339	24,894	—	86,233
Receivables, net:				
Accounts	2,668	173	11,253	26,512
Loans and advances	—	—	36	36
Due from other funds	86,229	—	—	87,207
Other restricted assets	14,013	—	—	14,013
Other assets	1,370	—	—	1,370
Total assets	<u>\$ 286,965</u>	<u>67,420</u>	<u>80,181</u>	<u>633,511</u>
 <b>Liabilities and Fund Balances (Deficit)</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 177,027	4,779	1,870	196,330
Due to other funds	—	—	1,241	1,242
Due to component units	—	—	—	24,252
Advances from component units	230,724	—	24,486	255,197
Other liabilities	—	—	—	8,815
Total liabilities	<u>407,751</u>	<u>4,779</u>	<u>27,597</u>	<u>485,836</u>
Fund balances:				
Reserved for encumbrances	—	17,762	11,710	41,852
Reserved for public improvements	—	44,879	40,874	226,609
Deficit	<u>(120,786)</u>	<u>—</u>	<u>—</u>	<u>(120,786)</u>
Total fund balances (deficit)	<u>(120,786)</u>	<u>62,641</u>	<u>52,584</u>	<u>147,675</u>
Total liabilities and fund balances	<u>\$ 286,965</u>	<u>67,420</u>	<u>80,181</u>	<u>633,511</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Revenue, Expenditures and Changes in Fund Balances (Deficit)  
Capital Projects Funds

Year ended June 30, 2001  
(In thousands)

	<u>2000 public improvements fund</u>	<u>1999 public improvements fund</u>	<u>1998 public improvements fund</u>	<u>1997 public improvements fund</u>
Revenue:				
Intergovernmental	\$ —	—	—	2,518
Interest	—	—	—	—
Other	—	—	—	—
Total revenue	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,518</u>
Expenditures – capital outlays	<u>268,449</u>	<u>74,389</u>	<u>36,608</u>	<u>41,371</u>
Total expenditures	<u>268,449</u>	<u>74,389</u>	<u>36,608</u>	<u>41,371</u>
Deficiency of revenue under expenditures	<u>(268,449)</u>	<u>(74,389)</u>	<u>(36,608)</u>	<u>(38,853)</u>
Other financing sources (uses):				
Proceeds from long-term debt issues	426,329	—	—	—
Operating transfers-in from other funds	—	—	—	366
Operating transfers-out to other funds	(27,620)	(189)	(100)	(3,623)
Transfer out to component units	<u>(58,707)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total other financing sources (uses)	<u>340,002</u>	<u>(189)</u>	<u>(100)</u>	<u>(3,257)</u>
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	71,553	(74,578)	(36,708)	(42,110)
Fund balances at beginning of year	<u>—</u>	<u>131,650</u>	<u>49,929</u>	<u>53,500</u>
Fund balances (deficit) at end of year	\$ <u><u>71,553</u></u>	<u><u>57,072</u></u>	<u><u>13,221</u></u>	<u><u>11,390</u></u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Revenue, Expenditures and Changes in Fund Balances (Deficit)  
Capital Projects Funds, continued

Year ended June 30, 2001  
(In thousands)

	<b>Public Buildings Authority</b>	<b>Office for the Improvements of Public Schools</b>	<b>Other funds</b>	<b>Totals</b>
Revenue:				
Intergovernmental	\$ —	—	—	2,518
Interest	15,043	—	—	15,043
Other	790	—	113	903
Total revenue	<u>15,833</u>	<u>—</u>	<u>113</u>	<u>18,464</u>
Expenditures – capital outlays	<u>394,095</u>	<u>73,135</u>	<u>—</u>	<u>888,047</u>
Total expenditures	<u>394,095</u>	<u>73,135</u>	<u>—</u>	<u>888,047</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(378,262)</u>	<u>(73,135)</u>	<u>113</u>	<u>(869,583)</u>
Other financing sources (uses):				
Proceeds from long-term debt issues	—	—	5,267	431,596
Operating transfers-in from other funds	111,428	47,600	1,949	161,343
Operating transfers-out to other funds	—	(1,833)	(1,491)	(34,856)
Transfer out to component units	—	—	(45,034)	(103,741)
Total other financing sources (uses)	<u>111,428</u>	<u>45,767</u>	<u>(39,309)</u>	<u>454,342</u>
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	<u>(266,834)</u>	<u>(27,368)</u>	<u>(39,196)</u>	<u>(415,241)</u>
Fund balances at beginning of year	<u>146,048</u>	<u>90,009</u>	<u>91,780</u>	<u>562,916</u>
Fund balances (deficit) at end of year	<u><u>\$ (120,786)</u></u>	<u><u>62,641</u></u>	<u><u>52,584</u></u>	<u><u>147,675</u></u>

## **ENTERPRISE FUNDS**

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

**The Additional Lottery System:** It was created by Act No. 10 of May 24, 1989, as amended, and commenced operations on June 1, 1990. The Additional Lottery System is an operational unit of the Commonwealth's Department of the Treasury. Presently, two games (Pick 3 and Lotto) with several betting alternatives are offered by the Additional Lottery.

**Lottery of Puerto Rico:** It was created by Act No. 465 of May of 1947. The Lottery is an operational unit of the Commonwealth's Department of the Treasury and is engaged in the sales of tickets to authorized agents throughout the Commonwealth. It was created to help those authorized agents with an additional source of revenue and to supplement revenue for the general fund of the Commonwealth.

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Enterprise Funds

Year ended June 30, 2001

(In thousands)

<b>Assets</b>	<b><u>The Additional Lottery System</u></b>	<b><u>Lottery of Puerto Rico</u></b>	<b><u>Totals</u></b>
Cash and cash equivalents	\$ 9,698	—	9,698
Cash and cash equivalents in governmental banks	—	38,323	38,323
Accounts receivable, net	4,032	17	4,049
Other restricted assets	271,528	—	271,528
Fixed assets, net	27	5,889	5,916
Total assets	<u>\$ 285,285</u>	<u>44,229</u>	<u>329,514</u>
<b>Liabilities and Fund Equity (Deficit)</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 3,622	1,649	5,271
Due to other funds	9,037	10,140	19,177
Interest payable	—	174	174
Deferred revenue	—	12,994	12,994
Lottery prizes payable	273,991	12,905	286,896
Accrued compensated absences	—	766	766
Other liabilities	—	3,742	3,742
Total liabilities	<u>286,650</u>	<u>42,370</u>	<u>329,020</u>
Fund equity (deficit):			
Contributed capital	—	1,819	1,819
Retained earnings (deficit)	<u>(1,365)</u>	<u>40</u>	<u>(1,325)</u>
Total fund equity (deficit)	<u>(1,365)</u>	<u>1,859</u>	<u>494</u>
Total liabilities and fund equity	<u>\$ 285,285</u>	<u>44,229</u>	<u>329,514</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Revenue, Expenses and Changes in  
Retained Earnings (Deficit) – Enterprise Funds

Year ended June 30, 2001  
(In thousands)

	<u>The Additional Lottery System</u>	<u>Lottery of Puerto Rico</u>	<u>Totals</u>
Operating revenue:			
Charges for services	\$ 273,488	457,827	731,315
Total operating revenue	<u>273,488</u>	<u>457,827</u>	<u>731,315</u>
Operating expenses:			
Cost of services	176,058	399,015	575,073
Depreciation and amortization	25	2,124	2,149
Total operating expenses	<u>176,083</u>	<u>401,139</u>	<u>577,222</u>
Operating income	97,405	56,688	154,093
Nonoperating revenue – other, net	—	354	354
Income before operating transfers	<u>97,405</u>	<u>57,042</u>	<u>154,447</u>
Transfers – operating transfers-out to general fund	<u>(97,405)</u>	<u>(59,166)</u>	<u>(156,571)</u>
Net loss	—	(2,124)	(2,124)
Depreciation on fixed assets acquired through capital contributions	<u>—</u>	<u>2,124</u>	<u>2,124</u>
Change in retained earnings	—	—	—
Retained earnings (deficit) at beginning of year	<u>(1,365)</u>	<u>40</u>	<u>(1,325)</u>
Retained earnings (deficit) at end of year	\$ <u><u>(1,365)</u></u>	<u><u>40</u></u>	<u><u>(1,325)</u></u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Cash Flows – Enterprise Funds

Year ended June 30, 2001  
(In thousands)

	<u>The Additional Lottery System</u>	<u>Lottery of Puerto Rico</u>	<u>Totals</u>
Cash flows from operating activities:			
Operating income	\$ 97,405	56,688	154,093
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	25	2,124	2,149
(Increase) decrease in:			
Receivables	(632)	354	(278)
Accounts payable and accrued liabilities	331	(68)	263
Lottery prizes payable	19,849	355	20,204
Accrued compensated absences	—	(591)	(591)
Other liabilities	—	(85)	(85)
(Decrease) increase in:			
Due to other funds	(6,086)	(5,209)	(11,295)
Deferred revenue	—	2,785	2,785
Total adjustments	<u>13,487</u>	<u>(335)</u>	<u>13,152</u>
Net cash provided by operating activities	<u>110,892</u>	<u>56,353</u>	<u>167,245</u>
Cash flows from noncapital financing activities:			
Operating transfers-out to general fund	<u>(97,405)</u>	<u>(59,166)</u>	<u>(156,571)</u>
Net cash used in noncapital financing activities	<u>(97,405)</u>	<u>(59,166)</u>	<u>(156,571)</u>
Cash flows from capital and related financing activities:			
Capital expenditures	<u>—</u>	<u>(60)</u>	<u>(60)</u>
Net cash used in capital and related financing activities	<u>—</u>	<u>(60)</u>	<u>(60)</u>
Cash flows from investing activities:			
Purchase of investments securities	<u>(19,965)</u>	<u>—</u>	<u>(19,965)</u>
Net cash used in investing activities	<u>(19,965)</u>	<u>—</u>	<u>(19,965)</u>
Net decrease in cash and cash equivalents	(6,478)	(2,873)	(9,351)
Cash and cash equivalents at beginning of year	16,176	41,196	57,372
Cash and cash equivalents at end of year	\$ <u>9,698</u>	<u>38,323</u>	<u>48,021</u>

## TRUST AND AGENCY FUNDS

Trust funds are used to account for assets held by the government in a trustee capacity. Agency funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments, and/or other funds.

**Pension Trust Funds:** These funds are used to account for the accumulation of resources for pension benefit payments of qualified public employees. The pension trust funds included are the following:

- **Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities:** Is the administrator of a single-employer retirement system established by the Commonwealth. The system was created under Act No. 477, approved on May 15, 1951, as amended, and became effective on January 1, 1952. The system covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their own retirement systems.
- **Puerto Rico Judiciary Retirement System:** Is a single-employer defined benefit plan, which is administered by the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities, mentioned above. It was created under Act No. 12, approved on October 19, 1954. The membership includes all individuals holding a position as Justice of the Supreme Court, Judge of the Superior Court or the District Court or Municipal Judge of the Commonwealth. The system provides retirement as well as death and disability benefits.
- **Puerto Rico System of Annuities and Pensions for Teachers:** Is a single-employer plan, which was created under Act No. 218, approved on May 6, 1951. The system provides retirement benefits to all teachers of the Department of Education of the Commonwealth, those holding positions in the Retirement Board, all pensioned teachers transferred to an administrative position in the Department of Education, teachers who worked in the Teachers' Association of Puerto Rico, and those who practice in private institutions accredited by the Department of Education.

**Expendable Trust Funds:** These funds are used to account for the following activity:

- **Unemployment Trust Fund:** The unemployment trust fund accounts for funds received from the U.S. Department of Labor to reimburse 50 percent of the administrative costs of extended benefits paid under the provisions of Puerto Rico laws, which conform to the provisions of the federal Social Security and Unemployment Tax Acts. Also, they account for contributions received to reimburse the benefits paid to unemployed ex-military and ex-federal civilian employees, whose unemployment is caused by a presidential declared disaster under the Disaster Relief Act, and adversely affected works under the Trade Act.

**Agency Fund** – This fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

- **Special Deposits Fund:** This agency funds acts in a fiduciary capacity in order to account for moneys received with specific purposes for which the law does not address any other fund. It mainly includes deposits under the custody of the courts of justice for alimony payments.

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Trust and Agency Funds

June 30, 2001  
(In thousands)

<b>Assets</b>	<b>Pension trust</b>	<b>Expendable trust</b>	<b>Agency</b>	<b>Totals</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Cash and cash equivalents	\$ 43,626	583,760	417,354	1,044,740
Cash and cash equivalents in governmental banks	84,275	271,723	271,957	627,955
Investments including collateral from securities lending transactions	4,284,598	420,994	5,653	4,711,245
Receivables, net:				
Taxes	—	71,848	—	71,848
Accounts	44,128	—	16,812	60,940
Loans and advances	605,170	—	—	605,170
Accrued interest	14,063	1,004	2	15,069
Other	13,375	—	—	13,375
Due from other funds	—	8,462	—	8,462
Restricted cash and cash equivalents	2,725	—	50	2,775
Fixed assets, net	21,201	—	—	21,201
Other assets	30,037	—	483	30,520
<b>Total assets</b>	<u>\$ 5,143,198</u>	<u>1,357,791</u>	<u>712,311</u>	<u>7,213,300</u>
 <b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 209,581	17,452	93,176	320,209
Due to other funds	54,600	4,528	1,830	60,958
Securities lending transactions and reverse repurchase agreements	72,496	—	—	72,496
Due to component units	—	36,930	—	36,930
Bonds payable	24,220	—	—	24,220
Other liabilities	—	32,225	617,305	649,530
<b>Total liabilities</b>	<u>360,897</u>	<u>91,135</u>	<u>712,311</u>	<u>1,164,343</u>
Fund balances:				
Reserved for:				
Encumbrances	—	1,947	—	1,947
Unemployment benefits	—	778,212	—	778,212
Employees' pension benefits	4,782,301	—	—	4,782,301
Advances and other specified purposes	—	483,604	—	483,604
Unreserved	—	2,893	—	2,893
<b>Total fund balances</b>	<u>4,782,301</u>	<u>1,266,656</u>	<u>—</u>	<u>6,048,957</u>
<b>Total liabilities and fund balances</b>	<u>\$ 5,143,198</u>	<u>1,357,791</u>	<u>712,311</u>	<u>7,213,300</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Plan Net Assets Available  
for Pension Benefits – Pension Trust Funds

June 30, 2001  
(In thousands)

<b>Assets</b>	<b>Employees' retirement system</b>	<b>Teachers' retirement system</b>	<b>Judiciary retirement system</b>	<b>Eliminations</b>	<b>Totals</b>
Cash and cash equivalents	\$ 32,932	8,567	2,127	—	43,626
Cash and cash equivalents in governmental banks	79,211	3,468	1,596	—	84,275
Investments including collateral from securities lending transactions	2,183,546	2,030,606	70,446	—	4,284,598
Receivables, net:					
Accounts	44,128	—	—	—	44,128
Loans and advances	266,377	338,461	332	—	605,170
Accrued interest	2,527	11,148	388	—	14,063
Other	8,049	4,680	646	—	13,375
Due from other funds	1,908	—	—	(1,908)	—
Restricted cash and cash equivalents	489	2,236	—	—	2,725
Fixed assets, net	8,267	12,934	—	—	21,201
Other assets	16,586	13,451	—	—	30,037
<b>Total assets</b>	<b>\$ 2,644,020</b>	<b>2,425,551</b>	<b>75,535</b>	<b>(1,908)</b>	<b>5,143,198</b>
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 145,490	63,177	914	—	209,581
Due to other funds	—	54,600	1,908	(1,908)	54,600
Securities lending transactions and reverse repurchase agreements	69,866	—	2,630	—	72,496
Bonds payable	—	24,220	—	—	24,220
<b>Total liabilities</b>	<b>215,356</b>	<b>141,997</b>	<b>5,452</b>	<b>(1,908)</b>	<b>360,897</b>
<b>Net assets available for pension benefits</b>	<b>\$ 2,428,664</b>	<b>2,283,554</b>	<b>70,083</b>	<b>—</b>	<b>4,782,301</b>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Changes in Plan Net Assets  
Available for Pension Benefits – Pension Trust Funds

Year ended June 30, 2001  
(In thousands)

	<u>Employees’ retirement system</u>	<u>Judiciary retirement system</u>	<u>Teachers’ retirement system</u>	<u>Totals</u>
Additions:				
Contributions:				
Employer	\$ 342,767	5,394	101,554	449,715
Employees	245,221	2,240	94,295	341,756
Special	715,211	—	14,580	729,791
Total contributions	<u>1,303,199</u>	<u>7,634</u>	<u>210,429</u>	<u>1,521,262</u>
Investment income (expense):				
Interest	50,345	304	101,951	152,600
Dividends	5,379	173	15,378	20,930
Net decrease in fair value of investments	(301,872)	(11,184)	(286,634)	(599,690)
Investment expense	<u>(5,755)</u>	<u>(341)</u>	<u>(4,170)</u>	<u>(10,266)</u>
Total investment loss	<u>(251,903)</u>	<u>(11,048)</u>	<u>(173,475)</u>	<u>(436,426)</u>
Other income	<u>20,512</u>	<u>—</u>	<u>378</u>	<u>20,890</u>
Total additions	<u>1,071,808</u>	<u>(3,414)</u>	<u>37,332</u>	<u>1,105,726</u>
Deductions:				
Benefits	631,573	8,262	240,761	880,596
Refunds of contributions	23,845	—	2,202	26,047
General and administrative	<u>29,492</u>	<u>1,049</u>	<u>20,305</u>	<u>50,846</u>
Total deductions	<u>684,910</u>	<u>9,311</u>	<u>263,268</u>	<u>957,489</u>
Net increase (decrease)	386,898	(12,725)	(225,936)	148,237
Net assets available for pension benefits at beginning of year	<u>2,041,766</u>	<u>82,808</u>	<u>2,509,490</u>	<u>4,634,064</u>
Net assets available for pension benefits at end of year	<u>\$ 2,428,664</u>	<u>70,083</u>	<u>2,283,554</u>	<u>4,782,301</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Expendable Trust Funds

June 30, 2001  
(In thousands)

<b>Assets</b>	<b>Unemployment trust fund</b>	<b>Other funds</b>	<b>Totals</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Cash and cash equivalents	\$ 544,047	39,713	583,760
Cash and cash equivalents in governmental banks	136,881	134,842	271,723
Investments	33,664	387,330	420,994
Receivables, net:			
Taxes	71,848	—	71,848
Accrued interest	412	592	1,004
Due from other funds	—	8,462	8,462
Total assets	<u>\$ 786,852</u>	<u>570,939</u>	<u>1,357,791</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 6,930	10,522	17,452
Due to other funds	—	4,528	4,528
Due to component units	—	36,930	36,930
Other liabilities	238	31,987	32,225
Total liabilities	<u>7,168</u>	<u>83,967</u>	<u>91,135</u>
Fund balances:			
Reserved for:			
Encumbrances	1,472	475	1,947
Unemployment benefits	778,212	—	778,212
Advances and other specified purposes	—	483,604	483,604
Unreserved	—	2,893	2,893
Total fund balances	<u>779,684</u>	<u>486,972</u>	<u>1,266,656</u>
Total liabilities and fund balances	<u>\$ 786,852</u>	<u>570,939</u>	<u>1,357,791</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Revenue, Expenditures and Changes in Fund Balances –  
Expendable Trust Funds

Year ended June 30, 2001  
(In thousands)

	<b>Unemployment trust fund</b>	<b>Other funds</b>	<b>Totals</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Revenue:			
Unemployment taxes	\$ 253,558	—	253,558
Charges for services	547	6,196	6,743
Intergovernmental	11,289	12,313	23,602
Revenue from global settlement agreement	—	67,313	67,313
Interest	43,164	20,963	64,127
Other	133	417	550
	<u>308,691</u>	<u>107,202</u>	<u>415,893</u>
Total revenue			
Expenditures:			
Current:			
General government	752	23,329	24,081
Public safety	271	5,130	5,401
Health	2	1,093	1,095
Public housing and welfare	289,477	4,025	293,502
Education	—	85,060	85,060
Economic development	6,419	4,793	11,212
Debt service – interest and other	—	4,242	4,242
	<u>296,921</u>	<u>127,672</u>	<u>424,593</u>
Total expenditures			
Excess (deficiency) of revenue over (under) expenditures	<u>11,770</u>	<u>(20,470)</u>	<u>(8,700)</u>
Other financing sources (uses):			
Proceeds from long-term debt issues	—	392,992	392,992
Operating transfers-out to other funds	(3,142)	—	(3,142)
	<u>(3,142)</u>	<u>392,992</u>	<u>389,850</u>
Total other financing sources (uses)			
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	8,628	372,522	381,150
Fund balances at beginning of year (as restated)	771,056	114,450	885,506
Fund balances at end of year	\$ <u>779,684</u>	<u>486,972</u>	<u>1,266,656</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Agency Funds

June 30, 2001  
(In thousands)

	<u>Special deposit funds</u>	<u>Other funds</u>	<u>Totals</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 417,354	—	417,354
Cash and cash equivalents in governmental banks	22,430	249,527	271,957
Investments	5,653	—	5,653
Receivables, net:			
Accounts	9,284	7,528	16,812
Accrued interest	2	—	2
Restricted assets	—	50	50
Other assets	—	483	483
Total assets	\$ <u>454,723</u>	<u>257,588</u>	<u>712,311</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 34,264	58,912	93,176
Due to other funds	1,830	—	1,830
Other liabilities	418,629	198,676	617,305
Total liabilities	\$ <u>454,723</u>	<u>257,588</u>	<u>712,311</u>

**COMMONWEALTH OF PUERTO RICO**

Statement of Changes in Assets and Liabilities – Agency Funds

Year ended June 30, 2001  
(In thousands)

	<u>Balance</u> <u>June 30, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2001</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 647,642	1,666,012	1,896,300	417,354
Cash and cash equivalents in governmental banks	—	271,957	—	271,957
Investments	7,653	—	2,000	5,653
Receivables, net:				
Accounts	16,155	41,428	40,771	16,812
Accrued interest	2	—	—	2
Restricted assets	50	—	—	50
Other assets	—	483	—	483
Total assets	\$ <u>671,502</u>	<u>1,979,880</u>	<u>1,939,071</u>	<u>712,311</u>
<b>Liabilities</b>				
Accounts payables and accrued liabilities	\$ 121,271	2,223,175	2,251,270	93,176
Due to other fund	1,830	—	—	1,830
Other liabilities	548,401	68,904	—	617,305
Total liabilities	\$ <u>671,502</u>	<u>2,292,079</u>	<u>2,251,270</u>	<u>712,311</u>

## **PUBLIC UNIVERSITY FUNDS**

The public university funds are used to account for the activities of the public university and the public employees' retirement system of the university.

**University of Puerto Rico:** The University of Puerto Rico is the largest institution of higher education in Puerto Rico.

**University of Puerto Rico Retirement System:** The University of Puerto Rico Retirement System is the administrator of the retirement system of the employees of the University of Puerto Rico, created under Act No. 135 approved on May 7, 1942 and became effective on January 1, 1945. It is a single-employer defined-benefit retirement system.

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Public University Funds

June 30, 2001  
(In thousands)

<b>Assets</b>	<b>University of Puerto Rico</b>	<b>University of Puerto Rico Retirement System</b>	<b>Total</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Assets:			
Cash and cash equivalents	\$ —	51,495	51,495
Cash and cash equivalents in governmental banks	47,446	70	47,516
Investments	—	539,959	539,959
Receivables, net:			
Accounts	3,550	—	3,550
Loans and advances	—	99,340	99,340
Accrued interest	783	3,242	4,025
Other	3,228	8,993	12,221
Due from primary government	35	—	35
Advances to primary government	47,180	—	47,180
Inventories	5,697	—	5,697
Restricted assets:			
Cash and cash equivalents	32,234	—	32,234
Other restricted assets	262,192	249	262,441
Fixed assets, net	876,871	482	877,353
Other assets	2,119	—	2,119
Total assets	<u>\$ 1,281,335</u>	<u>703,830</u>	<u>1,985,165</u>
 <b>Liabilities, Fund Balance and Other Credits</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 80,251	14,540	94,791
Deposits	—	3,223	3,223
Interest payable	1,993	—	1,993
Bonds payable	467,909	—	467,909
Accrued compensated absences	96,202	—	96,202
Other liabilities	28,814	—	28,814
Total liabilities	<u>675,169</u>	<u>17,763</u>	<u>692,932</u>
Fund balance and other credits:			
Investment in general fixed assets	500,443	—	500,443
Fund balance:			
Reserved for:			
Encumbrances	30,397	—	30,397
Debt service	32,834	—	32,834
Advances and other specified purposes	25,536	—	25,536
Employees' pension benefits	—	686,067	686,067
Unreserved	16,956	—	16,956
Total fund balance and other credits	<u>606,166</u>	<u>686,067</u>	<u>1,292,233</u>
Total liabilities, fund balance and other credits	<u>\$ 1,281,335</u>	<u>703,830</u>	<u>1,985,165</u>

## **COMPONENT UNITS**

These entities are presented because the nature and significance of their relationship with the primary government are such that their exclusion would cause the general purpose financial statements to be misleading. These are discretely presented in a separate column in the general purpose financial statements due to the nature of the services they provide. The accounting principles followed by each of the component units included herein may vary depending on the type of industries these are involved (that is, banking, construction, public utilities, and so forth). The detailed information for each of these entities may be obtained directly from the administrative offices of the corresponding entities, as described in note 1, pages 27 to 29 of the general purpose financial statements included in the financial section of this report.

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

<b>Assets and Other Debits</b>	<b>Government Development Bank for Puerto Rico and Subsidiaries</b>	<b>Puerto Rico Highway and Transportation Authority</b>	<b>Puerto Rico Electric Power Authority</b>	<b>Puerto Rico Aqueduct and Sewer Authority</b>	<b>Puerto Rico Infrastructure Financing Authority</b>
Assets:					
Cash and cash equivalents	\$ 12,366	—	92,365	69,589	—
Cash and cash equivalents in governmental banks	—	—	—	—	12,683
Investments, including collateral from securities lending transactions	2,975,431	—	—	—	—
Receivables, net:					
Intergovernmental	75,817	6,930	—	—	—
Accounts	96,864	—	426,576	105,767	—
Loans and advances	144,468	—	—	—	—
Accrued interest	269,413	—	4,623	—	26,538
Other	—	9,342	—	—	—
Due from:					
Primary government	—	11,142	—	—	5,000
Component units	—	—	—	—	—
Other governmental entities	—	—	—	—	—
Advances to:					
Primary government	1,504,424	—	37,924	—	—
Component units	1,778,975	—	—	—	—
Other governmental entities	559,884	—	—	—	—
Inventories	—	—	222,835	15,850	—
Restricted assets:					
Cash and cash equivalents	—	106,458	309,680	26,536	77,112
Other restricted assets	274,849	543,111	393,950	—	1,989,219
Housing units and land lots held for sale	—	—	—	—	—
Fixed assets, net	—	1,560,798	4,171,743	4,239,304	32,840
Other assets	131,105	1,902	76,855	15,599	20
Other debits:					
Amount available in debt service funds	—	389,299	—	—	49,480
Amount to be provided for retirement of bonds and notes payable	—	3,479,456	—	—	2,041,507
Amount to be provided for payment of accrued compensated absences and other long-term liabilities	—	333,233	—	—	—
Total assets and other debits	\$ <u>7,823,596</u>	<u>6,441,671</u>	<u>5,736,551</u>	<u>4,472,645</u>	<u>4,234,399</u>

COMMONWEALTH OF PUERTO RICO

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

Assets and Other Debits	Puerto Rico Housing Bank and Finance Agency	State Insurance Fund Corporation	Economic Development Bank for Puerto Rico	Puerto Rico Ports Authority	Puerto Rico Municipal Finance Agency
Assets:					
Cash and cash equivalents	\$ 118,876	2,279	1,015	5,599	—
Cash and cash equivalents in governmental banks	—	104	342	49	19,796
Investments, including collateral from securities lending transactions	354,082	745,081	584,377	—	—
Receivables, net:					
Intergovernmental	—	—	—	—	—
Accounts	6,665	96,971	—	62,934	—
Loans and advances	88,335	—	107,744	—	—
Accrued interest	—	—	4,378	—	30,543
Other	—	—	5,698	—	—
Due from:					
Primary government	—	—	—	—	—
Component units	—	—	—	—	—
Other governmental entities	—	—	—	—	—
Advances to:					
Primary government	—	—	—	—	—
Component units	—	—	12,101	—	—
Other governmental entities	—	—	—	—	—
Inventories	—	5,408	—	506	—
Restricted assets:					
Cash and cash equivalents	268,306	—	—	83,990	—
Other restricted assets	276,599	398,848	—	7,704	1,305,842
Housing units and land lots held for sale	—	—	—	—	—
Fixed assets, net	815	174,320	12,648	588,791	—
Other assets	12,363	—	7,679	7,529	13,753
Other debits:					
Amount available in debt service funds	24,449	—	—	—	—
Amount to be provided for retirement of bonds and notes payable	172,581	—	—	—	—
Amount to be provided for payment of accrued compensated absences and other long-term liabilities	—	—	—	—	—
Total assets and other debits	<u>\$ 1,323,071</u>	<u>1,423,011</u>	<u>735,982</u>	<u>757,102</u>	<u>1,369,934</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

<b>Assets and Other Debits</b>	<b>Puerto Rico Industrial Development Company</b>	<b>Puerto Rico Telephone Authority</b>	<b>Automobile Accident Compensation Administration</b>	<b>Puerto Rico Land Administration</b>	<b>Recreational Development Company of Puerto Rico</b>
Assets:					
Cash and cash equivalents	\$ 18,632	—	5,176	706	721
Cash and cash equivalents in governmental banks	—	76,744	—	10,134	1,065
Investments, including collateral from securities lending transactions	3,000	—	270,981	69,551	19,260
Receivables, net:					
Intergovernmental	—	—	—	—	—
Accounts	19,158	—	5,542	1,444	208
Loans and advances	—	—	—	1,746	—
Accrued interest	3,225	—	2,106	529	—
Other	—	—	2,757	5,743	—
Due from:					
Primary government	—	—	—	—	—
Component units	—	—	—	—	—
Other governmental entities	—	—	—	—	407
Advances to:					
Primary government	—	—	—	—	—
Component units	—	—	—	—	—
Other governmental entities	—	—	—	—	—
Inventories	—	—	—	—	—
Restricted assets:					
Cash and cash equivalents	73,687	—	—	—	379
Other restricted assets	33,848	147,196	—	—	63,467
Housing units and land lots held for sale	—	—	—	125,988	—
Fixed assets, net	612,675	—	6,066	7,387	118,780
Other assets	9,878	628	34	31,740	386
Other debits:					
Amount available in debt service funds	—	—	—	—	869
Amount to be provided for retirement of bonds and notes payable	—	—	—	—	107
Amount to be provided for payment of accrued compensated absences and other long-term liabilities	—	—	—	—	4,094
Total assets and other debits	\$ <u>774,103</u>	<u>224,568</u>	<u>292,662</u>	<u>254,968</u>	<u>209,743</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

Assets and Other Debits	<b>Puerto Rico Medical Services Administration</b>	<b>Puerto Rico Exports Development Corporation</b>	<b>Tourism Company of Puerto Rico</b>	<b>Puerto Rico and Caribbean Cardiovascular Center Corporation</b>	<b>Agricultural Services and Development Administration</b>
Assets:					
Cash and cash equivalents	\$ 8,689	84	32,865	10,616	5
Cash and cash equivalents in governmental banks	—	357	248	—	—
Investments, including collateral from securities lending transactions	—	26,134	19,647	—	—
Receivables, net:					
Intergovernmental Accounts	59,427	805	—	21,051	3,133
Loans and advances	—	—	16,031	—	—
Accrued interest	—	110	—	—	—
Other	545	—	8,665	388	—
Due from:					
Primary government Component units	—	—	36,930	—	—
Other governmental entities	—	—	—	—	—
Advances to:					
Primary government Component units	—	—	—	—	—
Other governmental entities	—	—	—	—	—
Inventories	3,989	—	—	2,450	3,520
Restricted assets:					
Cash and cash equivalents	5,659	—	1,398	—	17,183
Other restricted assets	—	—	—	—	—
Housing units and land lots held for sale	—	—	—	—	—
Fixed assets, net	31,412	93,273	54,630	49,631	29,234
Other assets	—	1,258	11,393	796	—
Other debits:					
Amount available in debt service funds	—	—	—	—	—
Amount to be provided for retirement of bonds and notes payable	—	—	42,076	—	13,167
Amount to be provided for payment of accrued compensated absences and other long-term liabilities	—	—	3,660	—	—
<b>Total assets and other debits</b>	<b>\$ 109,721</b>	<b>122,021</b>	<b>227,543</b>	<b>84,932</b>	<b>66,242</b>

COMMONWEALTH OF PUERTO RICO

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

Assets and Other Debits	Land Authority of Puerto Rico	Puerto Rico Metropolitan Bus Authority	Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental, Control Facilities Financing Authority	Puerto Rico Solid Waste Authority	Sugar Corporation of Puerto Rico
Assets:					
Cash and cash equivalents	\$ 7,206	1,534	—	2,371	11,265
Cash and cash equivalents in governmental banks	29,925	1,283	34,473	—	—
Investments, including collateral from securities lending transactions	—	—	—	1,497	—
Receivables, net:					
Intergovernmental	—	3,861	—	101	—
Accounts	4,087	—	—	3,161	2,210
Loans and advances	1,290	—	—	—	—
Accrued interest	26	—	99	—	—
Other	—	390	—	—	17,924
Due from:					
Primary government	—	—	—	—	—
Component units	—	5,298	598	—	—
Other governmental entities	—	—	—	—	—
Advances to:					
Primary government	—	—	—	—	—
Component units	—	—	—	—	—
Other governmental entities	—	—	—	—	—
Inventories	82	5,828	—	—	—
Restricted assets:					
Cash and cash equivalents	—	2,702	1,962	20,175	4,582
Other restricted assets	—	—	—	534	—
Housing units and land lots held for sale	—	—	—	—	—
Fixed assets, net	66,719	61,870	115,205	113,638	—
Other assets	2,000	42	16	221	193
Other debits:					
Amount available in debt service funds	—	—	—	—	—
Amount to be provided for retirement of bonds and notes payable	—	—	—	—	—
Amount to be provided for payment of accrued compensated absences and other long-term liabilities	—	—	—	—	—
Total assets and other debits	\$ 111,335	82,808	152,353	141,698	36,174

COMMONWEALTH OF PUERTO RICO

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

Assets and Other Debits	<b>Public Corporation for the Supervision and Deposit Insurance of Puerto Rico</b>	<b>Right to Employment Administration</b>	<b>Puerto Rico Public Broadcasting Corporation</b>	<b>Fine Arts Center Corporation</b>	<b>Institutional Trust of the National Guard of Puerto Rico</b>
Assets:					
Cash and cash equivalents	\$ —	1,367	1,828	2,012	—
Cash and cash equivalents in governmental banks	1,095	13,926	2	19	4,717
Investments, including collateral from securities lending transactions	68,119	—	—	—	417
Receivables, net:					
Intergovernmental	—	31,153	—	—	—
Accounts	—	2,113	496	43	1,012
Loans and advances	—	—	—	—	—
Accrued interest	277	42	—	—	—
Other	261	229	—	—	—
Due from:					
Primary government	—	—	—	—	—
Component units	—	—	—	—	—
Other governmental entities	—	—	14	—	—
Advances to:					
Primary government	—	—	—	—	—
Component units	—	—	—	—	—
Other governmental entities	—	—	—	—	—
Inventories	—	117	—	—	—
Restricted assets:					
Cash and cash equivalents	—	—	2,033	36	2,172
Other restricted assets	—	—	—	—	3,030
Housing units and land lots held for sale	—	—	—	—	—
Fixed assets, net	192	2,227	11,252	18,284	5,783
Other assets	59	8	3,544	397	2,546
Other debits:					
Amount available in debt service funds	—	—	—	—	—
Amount to be provided for retirement of bonds and notes payable	—	—	—	—	—
Amount to be provided for payment of accrued compensated absences and other long-term liabilities	—	1,658	—	—	—
Total assets and other debits	\$ 70,003	52,840	19,169	20,791	19,677

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

<b>Assets and Other Debits</b>	<b>Puerto Rico Health Insurance Administration</b>	<b>Puerto Rico Maritime Transportation Authority</b>	<b>Puerto Rico Council on Higher Education</b>	<b>Farm Insurance Corporation of Puerto Rico</b>	<b>Employment and Training Enterprise Corporation</b>
Assets:					
Cash and cash equivalents	\$ 946	793	—	402	1
Cash and cash equivalents in governmental banks	44,245	67	424	—	—
Investments, including collateral from securities lending transactions	—	—	1,451	—	—
Receivables, net:					
Intergovernmental	—	—	—	—	—
Accounts	—	801	842	4,522	1,124
Loans and advances	—	—	—	—	—
Accrued interest	—	—	—	—	—
Other	251	—	—	—	—
Due from:					
Primary government	354	3,603	—	—	—
Component units	—	—	—	—	—
Other governmental entities	—	—	—	—	—
Advances to:					
Primary government	—	—	—	—	—
Component units	—	—	—	—	—
Other governmental entities	—	—	—	—	—
Inventories	—	1,274	—	—	1,318
Restricted assets:					
Cash and cash equivalents	—	126	718	5,610	788
Other restricted assets	—	—	6,371	—	—
Housing units and land lots held for sale	—	—	—	—	—
Fixed assets, net	794	55,187	2,018	133	638
Other assets	13	1,656	—	24	—
Other debits:					
Amount available in debt service funds	—	—	—	—	—
Amount to be provided for retirement of bonds and notes payable	—	—	—	—	—
Amount to be provided for payment of accrued compensated absences and other long-term liabilities	—	—	247	—	—
Total assets and other debits	\$ <u>46,603</u>	<u>63,507</u>	<u>12,071</u>	<u>10,691</u>	<u>3,869</u>

COMMONWEALTH OF PUERTO RICO

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

Assets and Other Debits	Medical University Services, Inc.	Caribbean Basin Projects Financing Authority	Puerto Rico Conservatory of Music Corporation	Musical Arts Corporation and Subsidiaries	Puerto Rico School of Plastic Arts
Assets:					
Cash and cash equivalents	\$ 2	—	214	2,545	—
Cash and cash equivalents in governmental banks	—	5,038	—	—	675
Investments, including collateral from securities lending transactions	—	—	262	—	137
Receivables, net:					
Intergovernmental	—	—	13	—	—
Accounts	12,063	—	—	386	—
Loans and advances	—	—	—	—	—
Accrued interest	—	14	—	—	—
Other	—	—	35	—	—
Due from:					
Primary government	—	—	8,075	—	—
Component units	—	—	—	—	—
Other governmental entities	—	—	410	—	—
Advances to:					
Primary government	—	—	—	—	—
Component units	—	—	—	—	—
Other governmental entities	—	—	—	—	—
Inventories	1,537	—	—	—	—
Restricted assets:					
Cash and cash equivalents	—	—	561	534	389
Other restricted assets	—	—	1,228	—	—
Housing units and land lots held for sale	—	—	—	—	—
Fixed assets, net	2,015	—	6,639	560	1,820
Other assets	615	—	39	26	—
Other debits:					
Amount available in debt service funds	—	—	—	—	—
Amount to be provided for retirement of bonds and notes payable	—	—	—	—	—
Amount to be provided for payment of accrued compensated absences and other long-term liabilities	—	—	—	—	276
Total assets and other debits	\$ 16,232	5,052	17,476	4,051	3,297

COMMONWEALTH OF PUERTO RICO

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

Assets and Other Debits	Industries for the Blind, Mentally Retarded and Other Disabled Persons of Puerto Rico	Puerto Rico Water Pollution Control and Revolving Fund	Institute of Puerto Rican Culture	Total
Assets:				
Cash and cash equivalents	\$ 19	—	1,215	413,303
Cash and cash equivalents in governmental banks	931	25,233	—	283,575
Investments, including collateral from securities lending transactions	—	—	—	5,139,427
Receivables, net:				
Intergovernmental	—	—	544	118,419
Accounts	138	—	151	939,694
Loans and advances	—	—	—	359,614
Accrued interest	—	1,092	43	343,058
Other	—	—	159	52,387
Due from:				
Primary government	—	—	—	65,104
Component units	—	—	—	5,896
Other governmental entities	—	—	—	831
Advances to:				
Primary government	—	—	—	1,542,348
Component units	—	101,316	—	1,892,392
Other governmental entities	—	2,084	—	561,968
Inventories	192	—	47	264,953
Restricted assets:				
Cash and cash equivalents	—	—	5,359	1,018,135
Other restricted assets	—	—	17,537	5,463,333
Housing units and land lots held for sale	—	—	—	125,988
Fixed assets, net	8	—	16,670	12,265,999
Other assets	—	—	—	334,317
Other debits:				
Amount available in debt service funds	—	—	—	464,097
Amount to be provided for retirement of bonds and notes payable	—	—	—	5,748,894
Amount to be provided for payment of accrued compensated absences and other long-term liabilities	—	—	1,953	345,121
Total assets and other debits	\$ 1,288	129,725	43,678	37,748,853

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

<b>Liabilities, Equity (Deficit) and Other Credits</b>	<b>Government Development Bank for Puerto Rico and Subsidiaries</b>	<b>Puerto Rico Highway and Transportation Authority</b>	<b>Puerto Rico Electric Power Authority</b>	<b>Puerto Rico Aqueduct and Sewer Authority</b>	<b>Puerto Rico Infrastructure Financing Authority</b>
Liabilities:					
Accounts payable and accrued liabilities	\$ 128,743	222,430	404,954	251,553	82,765
Deposits	3,411,870	—	125,540	56,066	—
Due to primary government	—	—	—	—	—
Advances from component units	—	40,788	—	966,968	21,692
Securities lending transactions and reverse repurchase agreements	—	—	—	—	—
Interest payable	29,366	100,692	112,562	47,450	—
Deferred revenue	—	—	46,894	—	6,884
Notes payable	1,271,671	300,000	130,000	—	—
Bonds payable	1,132,999	3,904,492	4,237,155	440,031	2,069,295
Accrued compensated absences	—	21,376	194,305	50,095	—
Other liabilities	116,862	2,900	—	—	—
Other long-term liabilities	—	18,000	—	—	—
Net pension obligation	—	—	20,586	—	—
<b>Total liabilities</b>	<b>6,091,511</b>	<b>4,610,678</b>	<b>5,271,996</b>	<b>1,812,163</b>	<b>2,180,636</b>
Equity (deficit) and other credits:					
Investment in general fixed assets	—	60,370	—	—	32,840
Contributed capital	20,500	1,135,889	139,983	2,433,227	—
Retained earnings (deficit)	1,711,585	—	324,572	227,255	—
Fund balances:					
Reserved for:					
Encumbrances	—	—	—	—	—
Debt service	—	388,759	—	—	49,480
Advances and other specified purposes	—	10,980	—	—	1,946,284
Unreserved (deficit)	—	234,995	—	—	25,159
<b>Total equity (deficit) and other credits</b>	<b>1,732,085</b>	<b>1,830,993</b>	<b>464,555</b>	<b>2,660,482</b>	<b>2,053,763</b>
<b>Total liabilities, equity (deficit) and other credits</b>	<b>\$ 7,823,596</b>	<b>6,441,671</b>	<b>5,736,551</b>	<b>4,472,645</b>	<b>4,234,399</b>

COMMONWEALTH OF PUERTO RICO

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

<b>Liabilities, Equity (Deficit) and Other Credits</b>	<b>Puerto Rico Housing Bank and Finance Agency</b>	<b>State Insurance Fund Corporation</b>	<b>Economic Development Bank for Puerto Rico</b>	<b>Puerto Rico Ports Authority</b>	<b>Puerto Rico Municipal Finance Agency</b>
Liabilities:					
Accounts payable and accrued liabilities	\$ 20,627	1,133,882	9,419	92,753	2,151
Deposits	—	—	411,057	1,469	—
Due to primary government	13,552	—	—	—	—
Advances from component units	92,195	—	13,605	239,600	—
Securities lending transactions and reverse repurchase agreements	250,000	159,133	103,233	—	—
Interest payable	—	—	3,185	3,336	24,214
Deferred revenue	—	46,470	3,070	14,925	3,504
Notes payable	—	59,046	85,806	—	—
Bonds payable	538,990	—	—	97,565	1,021,771
Accrued compensated absences	—	30,647	—	7,422	—
Other liabilities	—	36,379	—	1,777	—
Other long-term liabilities	3,416	—	—	11,250	249,075
Net pension obligation	—	—	—	—	—
Total liabilities	<u>918,780</u>	<u>1,465,557</u>	<u>629,375</u>	<u>470,097</u>	<u>1,300,715</u>
Equity (deficit) and other credits:					
Investment in general fixed assets	—	—	—	—	—
Contributed capital	143,583	—	64,936	247,095	—
Retained earnings (deficit)	—	(42,546)	41,671	39,910	69,219
Fund balances:					
Reserved for:					
Encumbrances	—	—	—	—	—
Debt service	24,449	—	—	—	—
Advances and other specified purposes	—	—	—	—	—
Unreserved (deficit)	236,259	—	—	—	—
Total equity (deficit) and other credits	<u>404,291</u>	<u>(42,546)</u>	<u>106,607</u>	<u>287,005</u>	<u>69,219</u>
Total liabilities, equity (deficit) and other credits	<u>\$ 1,323,071</u>	<u>1,423,011</u>	<u>735,982</u>	<u>757,102</u>	<u>1,369,934</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

<b>Liabilities, Equity (Deficit) and Other Credits</b>	<b>Puerto Rico Industrial Development Company</b>	<b>Puerto Rico Telephone Authority</b>	<b>Automobile Accident Compensation Administration</b>	<b>Puerto Rico Land Administration</b>	<b>Recreational Development Company of Puerto Rico</b>
Liabilities:					
Accounts payable and accrued liabilities	\$ 50,961	148,162	123,667	8,829	9,821
Deposits	15,945	—	—	37,163	—
Due to primary government	—	—	—	—	—
Advances from component units	41,635	—	—	870	—
Securities lending transactions and reverse repurchase agreements	—	—	45,211	—	—
Interest payable	6,558	—	—	—	—
Deferred revenue	—	—	33,727	—	—
Notes payable	15,176	—	—	—	—
Bonds payable	189,486	—	—	—	—
Accrued compensated absences	—	—	2,543	681	3,168
Other liabilities	—	—	—	—	926
Other long-term liabilities	—	—	—	—	—
Net pension obligation	—	—	—	—	—
<b>Total liabilities</b>	<b>319,761</b>	<b>148,162</b>	<b>205,148</b>	<b>47,543</b>	<b>13,915</b>
Equity (deficit) and other credits:					
Investment in general fixed assets	—	—	—	—	118,780
Contributed capital	325,997	24,962	—	82,484	—
Retained earnings (deficit)	128,345	51,444	87,514	124,941	77,048
Fund balances:					
Reserved for:					
Encumbrances	—	—	—	—	—
Debt service	—	—	—	—	—
Advances and other specified purposes	—	—	—	—	—
Unreserved (deficit)	—	—	—	—	—
<b>Total equity (deficit) and other credits</b>	<b>454,342</b>	<b>76,406</b>	<b>87,514</b>	<b>207,425</b>	<b>195,828</b>
<b>Total liabilities, equity (deficit) and other credits</b>	<b>\$ 774,103</b>	<b>224,568</b>	<b>292,662</b>	<b>254,968</b>	<b>209,743</b>

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

Liabilities, Equity (Deficit) and Other Credits	Puerto Rico Medical Services Administration	Puerto Rico Exports Development Corporation	Tourism Company of Puerto Rico	Puerto Rico and Caribbean Cardiovascular Center Corporation	Agricultural Services and Development Administration
Liabilities:					
Accounts payable and accrued liabilities	\$ 74,306	—	49,617	16,487	30,513
Deposits	—	2,365	—	—	—
Due to primary government	—	—	33,040	—	—
Advances from component units	—	12,101	150,721	—	10,002
Securities lending transactions and reverse repurchase agreements	—	—	—	—	—
Interest payable	—	142	—	5,809	1,317
Deferred revenue	—	—	—	—	765
Notes payable	—	—	900	2,704	—
Bonds payable	—	—	—	—	—
Accrued compensated absences	—	479	4,240	1,405	7,381
Other liabilities	—	3,809	604	—	—
Other long-term liabilities	1,688	288	576	58,983	—
Net pension obligation	—	—	—	—	—
Total liabilities	75,994	19,184	239,698	85,388	49,978
Equity (deficit) and other credits:					
Investment in general fixed assets	—	—	54,565	—	23,288
Contributed capital	72,534	107,300	150,021	12,727	4,892
Retained earnings (deficit)	(38,807)	(4,463)	(254,002)	(13,183)	(20,283)
Fund balances:					
Reserved for:					
Encumbrances	—	—	64	—	—
Debt service	—	—	10,668	—	—
Advances and other specified purposes	—	—	1,879	—	22,677
Unreserved (deficit)	—	—	24,650	—	(14,310)
Total equity (deficit) and other credits	33,727	102,837	(12,155)	(456)	16,264
Total liabilities, equity (deficit) and other credits	\$ 109,721	122,021	227,543	84,932	66,242

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

<b>Liabilities, Equity (Deficit) and Other Credits</b>	<b>Land Authority of Puerto Rico</b>	<b>Puerto Rico Metropolitan Bus Authority</b>	<b>Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental, Control Facilities Financing Authority</b>	<b>Puerto Rico Solid Waste Authority</b>	<b>Sugar Corporation of Puerto Rico</b>
Liabilities:					
Accounts payable and accrued liabilities	\$ 95,465	12,754	17,889	18,979	127,974
Deposits	7,428	—	—	—	—
Due to primary government	—	—	—	—	—
Advances from component units	65,799	20,257	94,989	38,659	74,213
Securities lending transactions and reverse repurchase agreements	—	—	—	—	—
Interest payable	—	1,055	7,600	—	—
Deferred revenue	1,522	—	—	—	—
Notes payable	—	—	—	—	—
Bonds payable	—	—	—	—	—
Accrued compensated absences	1,322	3,727	—	687	4,528
Other liabilities	—	1,421	—	—	—
Other long-term liabilities	—	—	—	—	1,789
Net pension obligation	—	—	—	—	—
<b>Total liabilities</b>	<b>171,536</b>	<b>39,214</b>	<b>120,478</b>	<b>58,325</b>	<b>208,504</b>
Equity (deficit) and other credits:					
Investment in general fixed assets	—	—	—	—	—
Contributed capital	106,600	89,863	—	64,778	140,739
Retained earnings (deficit)	(166,801)	(46,269)	31,875	18,595	(313,069)
Fund balances:					
Reserved for:					
Encumbrances	—	—	—	—	—
Debt service	—	—	—	—	—
Advances and other specified purposes	—	—	—	—	—
Unreserved (deficit)	—	—	—	—	—
<b>Total equity (deficit) and other credits</b>	<b>(60,201)</b>	<b>43,594</b>	<b>31,875</b>	<b>83,373</b>	<b>(172,330)</b>
<b>Total liabilities, equity (deficit) and other credits</b>	<b>\$ 111,335</b>	<b>82,808</b>	<b>152,353</b>	<b>141,698</b>	<b>36,174</b>

**COMMONWEALTH OF PUERTO RICO**

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

<b>Liabilities, Equity (Deficit) and Other Credits</b>	<b>Public Corporation for the Supervision and Deposit Insurance of Puerto Rico</b>	<b>Right to Employment Administration</b>	<b>Puerto Rico Public Broadcasting Corporation</b>	<b>Fine Arts Center Corporation</b>	<b>Institutional Trust of the National Guard of Puerto Rico</b>
Liabilities:					
Accounts payable and accrued liabilities	\$ 25,658	3,547	3,165	234	677
Deposits	—	—	—	278	—
Due to primary government	—	—	—	—	—
Advances from component units	—	—	—	—	3,348
Securities lending transactions and reverse repurchase agreements	—	—	—	—	—
Interest payable	—	—	—	—	—
Deferred revenue	—	43,087	964	571	—
Notes payable	311	—	—	—	—
Bonds payable	—	—	—	—	—
Accrued compensated absences	579	1,659	1,512	439	37
Other liabilities	—	—	332	473	—
Other long-term liabilities	—	—	—	30	—
Net pension obligation	—	—	—	—	—
Total liabilities	<u>26,548</u>	<u>48,293</u>	<u>5,973</u>	<u>2,025</u>	<u>4,062</u>
Equity (deficit) and other credits:					
Investment in general fixed assets	—	2,227	—	—	—
Contributed capital	42,751	—	5,974	17,251	3,100
Retained earnings (deficit)	704	2,320	7,222	1,515	12,432
Fund balances:					
Reserved for:					
Encumbrances	—	—	—	—	—
Debt service	—	—	—	—	—
Advances and other specified purposes	—	—	—	—	83
Unreserved (deficit)	—	—	—	—	—
Total equity (deficit) and other credits	<u>43,455</u>	<u>4,547</u>	<u>13,196</u>	<u>18,766</u>	<u>15,615</u>
Total liabilities, equity (deficit) and other credits	<u>\$ 70,003</u>	<u>52,840</u>	<u>19,169</u>	<u>20,791</u>	<u>19,677</u>

COMMONWEALTH OF PUERTO RICO

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

<b>Liabilities, Equity (Deficit) and Other Credits</b>	<b>Puerto Rico Health Insurance Administration</b>	<b>Puerto Rico Maritime Transportation Authority</b>	<b>Puerto Rico Council on Higher Education</b>	<b>Farm Insurance Corporation of Puerto Rico</b>	<b>Employment and Training Enterprise Corporation</b>
Liabilities:					
Accounts payable and accrued liabilities	\$ 12,302	10,472	2,308	3,878	3,413
Deposits	—	51	—	—	—
Due to primary government	23,313	—	—	—	—
Advances from component units	—	—	—	—	—
Securities lending transactions and reverse repurchase agreements	—	—	—	—	—
Interest payable	—	—	—	—	—
Deferred revenue	—	—	—	404	788
Notes payable	—	—	—	—	—
Bonds payable	—	—	—	—	—
Accrued compensated absences	645	147	247	174	259
Other liabilities	—	431	—	—	7,108
Other long-term liabilities	45	—	—	—	—
Net pension obligation	—	—	—	—	—
Total liabilities	<u>36,305</u>	<u>11,101</u>	<u>2,555</u>	<u>4,456</u>	<u>11,568</u>
Equity (deficit) and other credits:					
Investment in general fixed assets	—	—	2,018	—	—
Contributed capital	608	62,370	—	—	504
Retained earnings (deficit)	9,690	(9,964)	7,498	6,235	(8,203)
Fund balances:					
Reserved for:					
Encumbrances	—	—	—	—	—
Debt service	—	—	—	—	—
Advances and other specified purposes	—	—	—	—	—
Unreserved (deficit)	—	—	—	—	—
Total equity (deficit) and other credits	<u>10,298</u>	<u>52,406</u>	<u>9,516</u>	<u>6,235</u>	<u>(7,699)</u>
Total liabilities, equity (deficit) and other credits	<u>\$ 46,603</u>	<u>63,507</u>	<u>12,071</u>	<u>10,691</u>	<u>3,869</u>

COMMONWEALTH OF PUERTO RICO

Combining Balance Sheet – Components Units – Other

June 30, 2001  
(In thousands)

Liabilities, Equity (Deficit) and Other Credits	Medical University Services, Inc.	Caribbean Basin Projects Financing Authority	Puerto Rico Conservatory of Music Corporation	Musical Arts Corporation and Subsidiaries	Puerto Rico School of Plastic Arts
Liabilities:					
Accounts payable and accrued liabilities	\$ 23,404	2	930	2,164	520
Deposits	—	—	—	—	—
Due to primary government	—	—	—	—	—
Advances from component units	13,632	—	—	—	—
Securities lending transactions and reverse repurchase agreements	—	—	—	—	—
Interest payable	1,120	—	—	—	—
Deferred revenue	—	—	69	700	45
Notes payable	—	—	—	—	—
Bonds payable	—	—	—	—	—
Accrued compensated absences	535	—	734	174	276
Other liabilities	737	—	—	—	—
Other long-term liabilities	36	—	—	—	—
Net pension obligation	—	—	—	1,181	—
Total liabilities	<u>39,464</u>	<u>2</u>	<u>1,733</u>	<u>4,219</u>	<u>841</u>
Equity (deficit) and other credits:					
Investment in general fixed assets	—	—	—	—	1,820
Contributed capital	—	—	9,863	188	—
Retained earnings (deficit)	(23,232)	5,050	5,880	(356)	636
Fund balances:					
Reserved for:					
Encumbrances	—	—	—	—	—
Debt service	—	—	—	—	—
Advances and other specified purposes	—	—	—	—	—
Unreserved (deficit)	—	—	—	—	—
Total equity (deficit) and other credits	<u>(23,232)</u>	<u>5,050</u>	<u>15,743</u>	<u>(168)</u>	<u>2,456</u>
Total liabilities, equity (deficit) and other credits	<u>\$ 16,232</u>	<u>5,052</u>	<u>17,476</u>	<u>4,051</u>	<u>3,297</u>

COMMONWEALTH OF PUERTO RICO

Combining Balance Sheet – Components Units – Other

June 30, 2001

(In thousands)

Liabilities, Equity (Deficit) and Other Credits	Industries for the Blind, Mentally Retarded and Other Disabled Persons of Puerto Rico	Puerto Rico Water Pollution Control and Revolving Fund	Institute of Puerto Rican Culture	Total
Liabilities:				
Accounts payable and accrued liabilities	\$ 143	4	4,187	3,231,709
Deposits	—	—	—	4,069,232
Due to primary government	—	—	—	69,905
Advances from component units	—	—	—	1,901,074
Securities lending transactions and reverse repurchase agreements	—	—	—	557,577
Interest payable	—	—	—	344,406
Deferred revenue	—	—	—	204,389
Notes payable	—	—	—	1,865,614
Bonds payable	—	—	—	13,631,784
Accrued compensated absences	76	—	2,131	343,630
Other liabilities	—	—	—	173,759
Other long-term liabilities	—	—	—	345,176
Net pension obligation	—	—	—	21,767
Total liabilities	<u>219</u>	<u>4</u>	<u>6,318</u>	<u>26,760,022</u>
Equity (deficit) and other credits:				
Investment in general fixed assets	—	—	16,670	312,578
Contributed capital	—	107,029	—	5,617,748
Retained earnings (deficit)	1,069	22,692	20,690	2,096,429
Fund balances:				
Reserved for:				
Encumbrances	—	—	—	64
Debt service	—	—	—	473,356
Advances and other specified purposes	—	—	—	1,981,903
Unreserved (deficit)	—	—	—	506,753
Total equity (deficit) and other credits	<u>1,069</u>	<u>129,721</u>	<u>37,360</u>	<u>10,988,831</u>
Total liabilities, equity (deficit) and other credits	<u>\$ 1,288</u>	<u>129,725</u>	<u>43,678</u>	<u>37,748,853</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Revenue, Expenses and Changes in  
Retained Earnings (Deficit)/Fund Balances – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<b>Government Development Bank for Puerto Rico and Subsidiaries</b>	<b>Puerto Rico Highway and Transportation Authority</b>	<b>Puerto Rico Electric Power Authority</b>	<b>Puerto Rico Aqueduct and Sewer Authority</b>	<b>Puerto Rico Infrastructure Financing Authority</b>
Operating revenue:					
Charges for services	\$ —	2,347	2,331,990	311,437	—
Financing income	255,985	—	—	—	—
Investment earnings	157,419	—	—	—	73,152
Other	38,713	—	—	—	—
<b>Total operating revenue</b>	<b>452,117</b>	<b>2,347</b>	<b>2,331,990</b>	<b>311,437</b>	<b>73,152</b>
Operating expenses:					
Cost of services	87,988	18,492	1,725,185	430,545	—
Interest	273,537	—	—	—	—
Depreciation and amortization	2,978	1,381	233,169	123,807	—
Other	—	—	—	—	—
<b>Total operating expenses</b>	<b>364,503</b>	<b>19,873</b>	<b>1,958,354</b>	<b>554,352</b>	<b>—</b>
Operating income (loss)	87,614	(17,526)	373,636	(242,915)	73,152
Nonoperating revenue (expenses):					
Intergovernmental	—	61,460	—	—	—
Interest income	—	—	45,239	42,372	—
Interest expense	—	—	(238,018)	(82,206)	—
Other, net	(2,678)	—	(138,962)	56,293	—
<b>Total nonoperating revenue (expenses)</b>	<b>(2,678)</b>	<b>61,460</b>	<b>(331,741)</b>	<b>16,459</b>	<b>—</b>
Income (loss) before transfers	84,936	43,934	41,895	(226,456)	73,152
Transfers, net – from (to) primary government	—	—	—	225,946	90,000
Net income (loss)	84,936	43,934	41,895	(510)	163,152
Excess of revenue over (under) expenditures from governmental operations	—	(175,378)	—	—	682,774
Depreciation on fixed assets acquired through capital contributions	—	1,381	—	68,894	—
Increase (decrease) in retained earnings/fund balances	84,936	(130,063)	41,895	68,384	845,926
Retained earnings (deficit)/fund balance at beginning of year (as restated)	1,626,649	764,797	282,677	158,871	1,174,997
Residual equity transfer	—	—	—	—	—
<b>Retained earnings (deficit)/fund balance at end of year</b>	<b>\$ 1,711,585</b>	<b>634,734</b>	<b>324,572</b>	<b>227,255</b>	<b>2,020,923</b>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Revenue, Expenses and Changes in  
Retained Earnings (Deficit)/Fund Balances – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<b>Puerto Rico Housing Bank and Finance Agency</b>	<b>State Insurance Fund Corporation</b>	<b>Economic Development Bank for Puerto Rico</b>	<b>Puerto Rico Ports Authority</b>	<b>Puerto Rico Municipal Finance Agency</b>
Operating revenue:					
Charges for services	\$ 3,671	548,727	—	163,578	—
Financing income	—	—	10,818	—	—
Investment earnings	49,173	—	55,607	—	121,207
Other	7,855	—	—	—	—
Total operating revenue	<u>60,699</u>	<u>548,727</u>	<u>66,425</u>	<u>163,578</u>	<u>121,207</u>
Operating expenses:					
Cost of services	4,060	687,188	18,756	94,644	—
Interest	37,296	—	51,410	—	74,369
Depreciation and amortization	51	9,411	1,120	23,541	—
Other	—	—	14,647	—	—
Total operating expenses	<u>41,407</u>	<u>696,599</u>	<u>85,933</u>	<u>118,185</u>	<u>74,369</u>
Operating income (loss)	<u>19,292</u>	<u>(147,872)</u>	<u>(19,508)</u>	<u>45,393</u>	<u>46,838</u>
Nonoperating revenue (expenses):					
Intergovernmental	—	—	—	9,973	(7,609)
Interest income	—	55,579	—	1,743	—
Interest expense	—	—	—	(18,178)	—
Other, net	—	13,275	27,317	—	(264)
Total nonoperating revenue (expenses)	<u>—</u>	<u>68,854</u>	<u>27,317</u>	<u>(6,462)</u>	<u>(7,873)</u>
Income (loss) before transfers	19,292	(79,018)	7,809	38,931	38,965
Transfers, net – from (to) primary government	<u>77,315</u>	<u>(26,092)</u>	<u>4,000</u>	<u>—</u>	<u>—</u>
Net income (loss)	96,607	(105,110)	11,809	38,931	38,965
Excess of revenue over (under) expenditures from governmental operations	(44,461)	—	—	—	—
Depreciation on fixed assets acquired through capital contributions	—	—	—	—	—
Increase (decrease) in retained earnings/fund balances	52,146	(105,110)	11,809	38,931	38,965
Retained earnings (deficit)/fund balance at beginning of year (as restated)	208,562	62,564	29,862	979	30,254
Residual equity transfer	—	—	—	—	—
Retained earnings (deficit)/fund balance at end of year	\$ <u>260,708</u>	<u>(42,546)</u>	<u>41,671</u>	<u>39,910</u>	<u>69,219</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Revenue, Expenses and Changes in  
Retained Earnings (Deficit)/Fund Balances – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<b>Puerto Rico Industrial Development Company</b>	<b>Puerto Rico Telephone Authority</b>	<b>Automobile Accident Compensation Administration</b>	<b>Puerto Rico Land Administration</b>	<b>Recreational Development Company of Puerto Rico</b>
Operating revenue:					
Charges for services	\$ 55,002	—	71,516	23,432	6,856
Financing income	—	—	—	—	—
Investment earnings	—	—	—	—	—
Other	—	—	—	36	—
Total operating revenue	<u>55,002</u>	<u>—</u>	<u>71,516</u>	<u>23,468</u>	<u>6,856</u>
Operating expenses:					
Cost of services	93,863	—	115,884	9,335	37,441
Interest	—	—	—	—	—
Depreciation and amortization	16,398	—	827	1,233	—
Other	—	985	—	—	—
Total operating expenses	<u>110,261</u>	<u>985</u>	<u>116,711</u>	<u>10,568</u>	<u>37,441</u>
Operating income (loss)	<u>(55,259)</u>	<u>(985)</u>	<u>(45,195)</u>	<u>12,900</u>	<u>(30,585)</u>
Nonoperating revenue (expenses):					
Intergovernmental	1,726	—	—	—	(2,483)
Interest income	24,133	4,372	13,164	4,970	4,989
Interest expense	(14,722)	—	(2)	(68)	—
Other, net	12,857	55,974	8,404	—	1,141
Total nonoperating revenue (expenses)	<u>23,994</u>	<u>60,346</u>	<u>21,566</u>	<u>4,902</u>	<u>3,647</u>
Income (loss) before transfers	<u>(31,265)</u>	<u>59,361</u>	<u>(23,629)</u>	<u>17,802</u>	<u>(26,938)</u>
Transfers, net – from (to) primary government	<u>8,000</u>	<u>—</u>	<u>—</u>	<u>550</u>	<u>31,091</u>
Net income (loss)	<u>(23,265)</u>	<u>59,361</u>	<u>(23,629)</u>	<u>18,352</u>	<u>4,153</u>
Excess of revenue over (under) expenditures from governmental operations	—	—	—	—	—
Depreciation on fixed assets acquired through capital contributions	—	—	—	—	—
Increase (decrease) in retained earnings/fund balances	<u>(23,265)</u>	<u>59,361</u>	<u>(23,629)</u>	<u>18,352</u>	<u>4,153</u>
Retained earnings (deficit)/fund balance at beginning of year (as restated)	151,610	157,622	111,143	106,589	72,895
Residual equity transfer	—	(165,539)	—	—	—
Retained earnings (deficit)/fund balance at end of year	\$ <u>128,345</u>	<u>51,444</u>	<u>87,514</u>	<u>124,941</u>	<u>77,048</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Revenue, Expenses and Changes in  
Retained Earnings (Deficit)/Fund Balances – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<b>Puerto Rico Medical Services Administration</b>	<b>Puerto Rico Exports Development Corporation</b>	<b>Tourism Company of Puerto Rico</b>	<b>Puerto Rico and Caribbean Cardiovascular Center Corporation</b>	<b>Agricultural Services and Development Administration</b>
Operating revenue:					
Charges for services	\$ 109,495	14,017	197,224	49,253	40,181
Financing income	—	—	—	—	—
Investment earnings	—	1,387	—	—	—
Other	—	—	—	—	—
Total operating revenue	<u>109,495</u>	<u>15,404</u>	<u>197,224</u>	<u>49,253</u>	<u>40,181</u>
Operating expenses:					
Cost of services	130,936	9,993	94,093	53,424	51,440
Interest	—	656	9,647	—	—
Depreciation and amortization	3,965	2,970	418	3,882	1,410
Other	—	—	—	—	—
Total operating expenses	<u>134,901</u>	<u>13,619</u>	<u>104,158</u>	<u>57,306</u>	<u>52,850</u>
Operating income (loss)	<u>(25,406)</u>	<u>1,785</u>	<u>93,066</u>	<u>(8,053)</u>	<u>(12,669)</u>
Nonoperating revenue (expenses):					
Intergovernmental	—	—	—	—	—
Interest income	661	—	347	—	25
Interest expense	(390)	—	—	(4,572)	—
Other, net	—	174	(2,199)	1,186	371
Total nonoperating revenue (expenses)	<u>271</u>	<u>174</u>	<u>(1,852)</u>	<u>(3,386)</u>	<u>396</u>
Income (loss) before transfers	<u>(25,135)</u>	<u>1,959</u>	<u>91,214</u>	<u>(11,439)</u>	<u>(12,273)</u>
Transfers, net – from (to) primary government	—	—	(52,661)	—	83,558
Net income (loss)	<u>(25,135)</u>	<u>1,959</u>	<u>38,553</u>	<u>(11,439)</u>	<u>71,285</u>
Excess of revenue over (under) expenditures from governmental operations	—	—	(21,986)	—	(80,092)
Depreciation on fixed assets acquired through capital contributions	—	—	—	—	—
Increase (decrease) in retained earnings/fund balances	<u>(25,135)</u>	<u>1,959</u>	<u>16,567</u>	<u>(11,439)</u>	<u>(8,807)</u>
Retained earnings (deficit)/fund balance at beginning of year (as restated)	<u>(13,672)</u>	<u>(6,422)</u>	<u>(233,308)</u>	<u>(1,744)</u>	<u>(3,109)</u>
Residual equity transfer	—	—	—	—	—
Retained earnings (deficit)/fund balance at end of year	<u>\$ (38,807)</u>	<u>(4,463)</u>	<u>(216,741)</u>	<u>(13,183)</u>	<u>(11,916)</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Revenue, Expenses and Changes in  
Retained Earnings (Deficit)/Fund Balances – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<b>Land Authority of Puerto Rico</b>	<b>Puerto Rico Metropolitan Bus Authority</b>	<b>Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental, Control Facilities Financing Authority</b>	<b>Puerto Rico Solid Waste Authority</b>	<b>Sugar Corporation of Puerto Rico</b>
Operating revenue:					
Charges for services	\$ 7,580	20,683	5,386	991	56,987
Financing income	—	—	—	—	—
Investment earnings	—	—	—	—	—
Other	4,491	649	—	—	459
Total operating revenue	<u>12,071</u>	<u>21,332</u>	<u>5,386</u>	<u>991</u>	<u>57,446</u>
Operating expenses:					
Cost of services	12,836	51,790	3,119	10,374	50,071
Interest	—	879	—	—	—
Depreciation and amortization	601	6,126	—	2,481	—
Other	—	—	—	—	3,476
Total operating expenses	<u>13,437</u>	<u>58,795</u>	<u>3,119</u>	<u>12,855</u>	<u>53,547</u>
Operating income (loss)	<u>(1,366)</u>	<u>(37,463)</u>	<u>2,267</u>	<u>(11,864)</u>	<u>3,899</u>
Nonoperating revenue (expenses):					
Intergovernmental	—	5,719	—	125	—
Interest income	1,275	—	1,794	1,041	—
Interest expense	(5,027)	—	—	(305)	—
Other, net	(868)	23,184	—	16,769	(8,651)
Total nonoperating revenue (expenses)	<u>(4,620)</u>	<u>28,903</u>	<u>1,794</u>	<u>17,630</u>	<u>(8,651)</u>
Income (loss) before transfers	<u>(5,986)</u>	<u>(8,560)</u>	<u>4,061</u>	<u>5,766</u>	<u>(4,752)</u>
Transfers, net – from (to) primary government	<u>—</u>	<u>5,541</u>	<u>—</u>	<u>7,121</u>	<u>10,400</u>
Net income (loss)	<u>(5,986)</u>	<u>(3,019)</u>	<u>4,061</u>	<u>12,887</u>	<u>5,648</u>
Excess of revenue over (under) expenditures from governmental operations	—	—	—	—	—
Depreciation on fixed assets acquired through capital contributions	<u>—</u>	<u>4,783</u>	<u>—</u>	<u>2,138</u>	<u>—</u>
Increase (decrease) in retained earnings/fund balances	<u>(5,986)</u>	<u>1,764</u>	<u>4,061</u>	<u>15,025</u>	<u>5,648</u>
Retained earnings (deficit)/fund balance at beginning of year (as restated)	<u>(160,815)</u>	<u>(48,033)</u>	<u>27,814</u>	<u>3,570</u>	<u>(318,717)</u>
Residual equity transfer	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Retained earnings (deficit)/fund balance at end of year	<u>\$ (166,801)</u>	<u>(46,269)</u>	<u>31,875</u>	<u>18,595</u>	<u>(313,069)</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Revenue, Expenses and Changes in  
Retained Earnings (Deficit)/Fund Balances – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<b>Public Corporation for the Supervision and Deposit Insurance of Puerto Rico</b>	<b>Right to Employment Administration</b>	<b>Puerto Rico Public Broadcasting Corporation</b>	<b>Fine Arts Center Corporation</b>	<b>Institutional Trust of the National Guard of Puerto Rico</b>
Operating revenue:					
Charges for services	\$ 9,904	14,036	1,505	1,836	7,490
Financing income	—	—	—	—	—
Investment earnings	—	—	—	—	—
Other	—	—	—	—	—
Total operating revenue	<u>9,904</u>	<u>14,036</u>	<u>1,505</u>	<u>1,836</u>	<u>7,490</u>
Operating expenses:					
Cost of services	8,109	65,771	24,803	3,856	6,755
Interest	—	—	—	—	—
Depreciation and amortization	179	—	2,293	627	328
Other	—	—	—	—	—
Total operating expenses	<u>8,288</u>	<u>65,771</u>	<u>27,096</u>	<u>4,483</u>	<u>7,083</u>
Operating income (loss)	<u>1,616</u>	<u>(51,735)</u>	<u>(25,591)</u>	<u>(2,647)</u>	<u>407</u>
Nonoperating revenue (expenses):					
Intergovernmental	—	—	—	—	—
Interest income	4,147	—	247	77	610
Interest expense	—	—	—	(30)	(262)
Other, net	924	—	3,119	20	480
Total nonoperating revenue (expenses)	<u>5,071</u>	<u>—</u>	<u>3,366</u>	<u>67</u>	<u>828</u>
Income (loss) before transfers	6,687	(51,735)	(22,225)	(2,580)	1,235
Transfers, net – from (to) primary government	<u>—</u>	<u>51,186</u>	<u>22,530</u>	<u>3,515</u>	<u>1,222</u>
Net income (loss)	6,687	(549)	305	935	2,457
Excess of revenue over (under) expenditures from governmental operations	—	—	—	—	(163)
Depreciation on fixed assets acquired through capital contributions	<u>—</u>	<u>—</u>	<u>83</u>	<u>524</u>	<u>—</u>
Increase (decrease) in retained earnings/fund balances	6,687	(549)	388	1,459	2,294
Retained earnings (deficit)/fund balance at beginning of year (as restated)	(5,983)	2,869	6,834	56	10,221
Residual equity transfer	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Retained earnings (deficit)/fund balance at end of year	\$ <u>704</u>	<u>2,320</u>	<u>7,222</u>	<u>1,515</u>	<u>12,515</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Revenue, Expenses and Changes in  
Retained Earnings (Deficit)/Fund Balances – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<b>Puerto Rico Health Insurance Administration</b>	<b>Puerto Rico Maritime Transportation Authority</b>	<b>Puerto Rico Council on Higher Education</b>	<b>Farm Insurance Corporation of Puerto Rico</b>	<b>Employment and Training Enterprise Corporation</b>
Operating revenue:					
Charges for services	\$ 345,622	5,371	—	4,045	2,285
Financing income	—	—	—	—	—
Investment earnings	—	—	—	—	—
Other	—	—	2,387	—	—
Total operating revenue	<u>345,622</u>	<u>5,371</u>	<u>2,387</u>	<u>4,045</u>	<u>2,285</u>
Operating expenses:					
Cost of services	1,304,768	27,347	47,879	4,466	3,434
Interest	—	—	—	—	—
Depreciation and amortization	386	3,940	—	35	118
Other	—	—	—	—	—
Total operating expenses	<u>1,305,154</u>	<u>31,287</u>	<u>47,879</u>	<u>4,501</u>	<u>3,552</u>
Operating income (loss)	<u>(959,532)</u>	<u>(25,916)</u>	<u>(45,492)</u>	<u>(456)</u>	<u>(1,267)</u>
Nonoperating revenue (expenses):					
Intergovernmental	—	—	—	—	149
Interest income	2,979	37	754	167	75
Interest expense	—	(742)	—	—	—
Other, net	—	18	—	1,351	(1,208)
Total nonoperating revenue (expenses)	<u>2,979</u>	<u>(687)</u>	<u>754</u>	<u>1,518</u>	<u>(984)</u>
Income (loss) before transfers	<u>(956,553)</u>	<u>(26,603)</u>	<u>(44,738)</u>	<u>1,062</u>	<u>(2,251)</u>
Transfers, net – from (to) primary government	<u>965,666</u>	<u>15,500</u>	<u>48,583</u>	<u>2,000</u>	<u>—</u>
Net income (loss)	9,113	(11,103)	3,845	3,062	(2,251)
Excess of revenue over (under) expenditures from governmental operations	—	—	—	—	—
Depreciation on fixed assets acquired through capital contributions	—	—	—	—	—
Increase (decrease) in retained earnings/fund balances	9,113	(11,103)	3,845	3,062	(2,251)
Retained earnings (deficit)/fund balance at beginning of year (as restated)	577	1,139	3,653	3,173	(5,952)
Residual equity transfer	—	—	—	—	—
Retained earnings (deficit)/fund balance at end of year	\$ <u>9,690</u>	<u>(9,964)</u>	<u>7,498</u>	<u>6,235</u>	<u>(8,203)</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Revenue, Expenses and Changes in  
Retained Earnings (Deficit)/Fund Balances – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<b>Medical University Services, Inc.</b>	<b>Caribbean Basin Projects Financing Authority</b>	<b>Puerto Rico Conservatory of Music Corporation</b>	<b>Musical Arts Corporation and Subsidiaries</b>	<b>Puerto Rico School of Plastic Arts</b>
Operating revenue:					
Charges for services	\$ 47,875	—	1,007	587	2,084
Financing income	—	—	—	—	—
Investment earnings	—	—	—	—	—
Other	2,120	—	—	93	—
Total operating revenue	<u>49,995</u>	<u>—</u>	<u>1,007</u>	<u>680</u>	<u>2,084</u>
Operating expenses:					
Cost of services	56,533	3	5,292	8,505	3,824
Interest	1,079	—	—	—	—
Depreciation and amortization	728	—	264	128	—
Other	—	—	—	—	—
Total operating expenses	<u>58,340</u>	<u>3</u>	<u>5,556</u>	<u>8,633</u>	<u>3,824</u>
Operating income (loss)	<u>(8,345)</u>	<u>(3)</u>	<u>(4,549)</u>	<u>(7,953)</u>	<u>(1,740)</u>
Nonoperating revenue (expenses):					
Intergovernmental	—	—	—	322	—
Interest income	—	265	134	—	—
Interest expense	—	—	—	—	—
Other, net	—	—	516	935	—
Total nonoperating revenue (expenses)	<u>—</u>	<u>265</u>	<u>650</u>	<u>1,257</u>	<u>—</u>
Income (loss) before transfers	<u>(8,345)</u>	<u>262</u>	<u>(3,899)</u>	<u>(6,696)</u>	<u>(1,740)</u>
Transfers, net – from (to) primary government	<u>—</u>	<u>—</u>	<u>8,498</u>	<u>6,139</u>	<u>1,745</u>
Net income (loss)	<u>(8,345)</u>	<u>262</u>	<u>4,599</u>	<u>(557)</u>	<u>5</u>
Excess of revenue over (under) expenditures from governmental operations	—	—	—	—	—
Depreciation on fixed assets acquired through capital contributions	—	—	—	—	—
Increase (decrease) in retained earnings/fund balances	<u>(8,345)</u>	<u>262</u>	<u>4,599</u>	<u>(557)</u>	<u>5</u>
Retained earnings (deficit)/fund balance at beginning of year (as restated)	(14,887)	4,788	1,281	201	631
Residual equity transfer	—	—	—	—	—
Retained earnings (deficit)/fund balance at end of year	\$ <u>(23,232)</u>	<u>5,050</u>	<u>5,880</u>	<u>(356)</u>	<u>636</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Revenue, Expenses and Changes in  
Retained Earnings (Deficit)/Fund Balances – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<b>Industries for the Blind, Mentally Retarded and Other Disabled Persons of Puerto Rico</b>	<b>Puerto Rico Water Pollution Control and Revolving Fund</b>	<b>Institute of Puerto Rican Culture</b>	<b>Total</b>
Operating revenue:				
Charges for services	\$ 486	—	2,718	4,467,204
Financing income	—	3,183	—	269,986
Investment earnings	—	—	—	457,945
Other	—	—	—	56,803
<b>Total operating revenue</b>	<b>486</b>	<b>3,183</b>	<b>2,718</b>	<b>5,251,938</b>
Operating expenses:				
Cost of services	703	308	33,814	5,397,627
Interest	—	—	—	448,873
Depreciation and amortization	3	—	—	444,798
Other	—	—	—	19,108
<b>Total operating expenses</b>	<b>706</b>	<b>308</b>	<b>33,814</b>	<b>6,310,406</b>
Operating income (loss)	(220)	2,875	(31,096)	(1,058,468)
Nonoperating revenue (expenses):				
Intergovernmental	—	—	—	69,382
Interest income	—	—	—	211,196
Interest expense	—	—	—	(364,522)
Other, net	—	9,402	—	78,880
<b>Total nonoperating revenue (expenses)</b>	<b>—</b>	<b>9,402</b>	<b>—</b>	<b>(5,064)</b>
Income (loss) before transfers	(220)	12,277	(31,096)	(1,063,532)
Transfers, net – from (to) primary government	147	—	29,529	1,621,029
Net income (loss)	(73)	12,277	(1,567)	557,497
Excess of revenue over (under) expenditures from governmental operations	—	—	—	360,694
Depreciation on fixed assets acquired through capital contributions	—	—	—	77,803
Increase (decrease) in retained earnings/fund balances	(73)	12,277	(1,567)	995,994
Retained earnings (deficit)/fund balance at beginning of year (as restated)	1,142	10,415	22,257	4,228,050
Residual equity transfer	—	—	—	(165,539)
<b>Retained earnings (deficit)/fund balance at end of year</b>	<b>\$ 1,069</b>	<b>22,692</b>	<b>20,690</b>	<b>5,058,505</b>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<u>Government Development Bank for Puerto Rico and Subsidiaries</u>	<u>Puerto Rico Highway and Transportation Authority</u>	<u>Puerto Rico Electric Power Authority</u>	<u>Puerto Rico Aqueduct and Sewer Authority</u>	<u>Puerto Rico Infrastructure Financing Authority</u>
Cash flows from operating activities:					
Operating income (loss)	\$ 87,614	(17,526)	373,636	(242,915)	73,152
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	2,978	1,381	233,169	123,807	—
Provision for uncollectible accounts	25,625	—	11,469	19,726	—
Amortization of debt discount	—	—	—	—	—
Net loss (gain) on disposition of fixed assets	—	—	—	—	—
Net gain on sale of investments and fixed assets	(3,822)	—	—	—	—
Contribution in lieu of taxes	—	—	(148,271)	—	—
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)	(132,459)	—	—	—	(73,152)
Other	(6,891)	—	—	—	(59,427)
Change in assets and liabilities:					
Increase in:					
Receivables	—	—	(28,105)	(18,192)	—
Due from primary government	—	—	—	—	—
Inventories	—	—	—	—	—
Other assets	(34,226)	—	(15,719)	(2,895)	—
Accounts payable and accrued liabilities	—	—	6,627	6,695	—
Due to primary government	—	—	—	—	—
Deposits	—	—	8,514	2,449	—
Interest payable	—	—	—	—	—
Deferred revenue	—	—	—	—	—
Accrued compensated absences	—	—	—	—	—
Other liabilities	—	—	—	—	—
Other long-term liabilities	—	—	—	—	—
Decrease in:					
Receivables	247	—	—	—	—
Inventories	—	—	6,419	1,303	—
Other assets	—	—	—	—	—
Accounts payable and accrued liabilities	—	—	—	—	—
Deposits	—	—	—	—	—
Deferred revenue	—	—	—	—	—
Accrued compensated absences	—	—	—	(9,823)	—
Other liabilities	(20,134)	—	(4,345)	—	—
Other long-term liabilities	—	—	—	—	—
Total adjustments	<u>(168,682)</u>	<u>1,381</u>	<u>69,758</u>	<u>123,070</u>	<u>(132,579)</u>
Net cash provided by (used in) operating activities	\$ <u>(81,068)</u>	<u>(16,145)</u>	<u>443,394</u>	<u>(119,845)</u>	<u>(59,427)</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<b>Puerto Rico Housing Bank and Finance Agency</b>	<b>State Insurance Fund Corporation</b>	<b>Economic Development Bank for Puerto Rico</b>	<b>Puerto Rico Ports Authority</b>	<b>Puerto Rico Municipal Finance Agency</b>
Cash flows from operating activities:					
Operating income (loss)	\$ 19,292	(147,872)	(19,508)	45,393	46,838
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	51	9,411	1,120	23,541	—
Provision for uncollectible accounts	(745)	142,881	20,242	8,000	—
Amortization of debt discount	290	—	—	159	—
Net loss (gain) on disposition of fixed assets	(1,813)	—	—	—	—
Net gain on sale of investments and fixed assets	(1,027)	—	(7,120)	—	(41,329)
Contribution in lieu of taxes	—	—	—	—	—
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)	(10,849)	17,351	(35,015)	11,326	(13,383)
Other	1,429	1,410	27,317	(11,979)	—
Change in assets and liabilities:					
Increase in:					
Receivables	(1,741)	(48,681)	—	(26,566)	—
Due from primary government	—	—	—	—	—
Inventories	—	—	—	—	—
Other assets	(348)	—	—	—	—
Accounts payable and accrued liabilities	—	38,711	—	—	—
Due to primary government	—	—	—	—	—
Deposits	—	—	1,942	—	—
Interest payable	—	—	—	—	—
Deferred revenue	—	4,653	—	—	—
Accrued compensated absences	—	—	—	—	—
Other liabilities	—	—	—	—	—
Other long-term liabilities	—	—	—	—	—
Decrease in:					
Receivables	—	—	—	—	1,722
Inventories	—	288	—	—	—
Other assets	—	—	1,878	2,063	985
Accounts payable and accrued liabilities	(3,935)	(4,076)	—	(1,749)	—
Deposits	—	—	—	(253)	—
Deferred revenue	—	—	—	(2,532)	—
Accrued compensated absences	—	—	—	—	—
Other liabilities	—	—	—	—	—
Other long-term liabilities	(540)	—	—	—	—
Total adjustments	(19,228)	161,948	10,364	2,010	(52,005)
Net cash provided by (used in) operating activities	\$ 64	14,076	(9,144)	47,403	(5,167)

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<u>Puerto Rico Industrial Development Company</u>	<u>Puerto Rico Telephone Authority</u>	<u>Automobile Accident Compensation Administration</u>	<u>Puerto Rico Land Administration</u>	<u>Recreational Development Company of Puerto Rico</u>
Cash flows from operating activities:					
Operating income (loss)	\$ (55,259)	(985)	(45,195)	12,900	(30,585)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	16,398	—	827	1,233	—
Provision for uncollectible accounts	10,650	—	705	287	—
Amortization of debt discount	—	—	—	—	—
Net loss (gain) on disposition of fixed assets	422	—	—	(12,781)	—
Net gain on sale of investments and fixed assets	—	—	(5,906)	—	—
Contribution in lieu of taxes	—	—	—	—	—
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)	11,166	—	8,402	—	6,330
Other	—	—	—	—	—
Change in assets and liabilities:					
Increase in:					
Receivables	—	(297)	—	(4,592)	—
Due from primary government	—	—	—	—	—
Inventories	—	—	—	—	—
Other assets	—	—	—	(85)	(77)
Accounts payable and accrued liabilities	15,725	—	8,827	259	214
Due to primary government	—	—	—	—	—
Deposits	—	—	—	6	—
Interest payable	—	—	—	—	—
Deferred revenue	—	—	289	—	—
Accrued compensated absences	—	—	—	—	—
Other liabilities	—	—	—	—	—
Other long-term liabilities	—	—	—	—	—
Decrease in:					
Receivables	10,435	—	6,209	—	90
Inventories	—	—	—	—	—
Other assets	2,408	6	69	—	—
Accounts payable and accrued liabilities	—	(32,578)	—	—	—
Deposits	—	—	—	—	—
Deferred revenue	—	—	—	—	—
Accrued compensated absences	—	—	—	—	—
Other liabilities	—	—	—	—	—
Other long-term liabilities	—	—	—	—	—
Total adjustments	<u>67,204</u>	<u>(32,869)</u>	<u>19,422</u>	<u>(15,673)</u>	<u>6,557</u>
Net cash provided by (used in) operating activities	\$ <u>11,945</u>	<u>(33,854)</u>	<u>(25,773)</u>	<u>(2,773)</u>	<u>(24,028)</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<u>Puerto Rico Medical Services Administration</u>	<u>Puerto Rico Exports Development Corporation</u>	<u>Tourism Company of Puerto Rico</u>	<u>Puerto Rico and Caribbean Cardiovascular Center Corporation</u>	<u>Agricultural Services and Development Administration</u>
Cash flows from operating activities:					
Operating income (loss)	\$ (25,406)	1,785	93,066	(8,053)	(12,669)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	3,965	2,970	418	3,882	1,410
Provision for uncollectible accounts	24,396	91	—	1,157	—
Amortization of debt discount	—	—	—	—	—
Net loss (gain) on disposition of fixed assets	26	—	—	—	—
Net gain on sale of investments and fixed assets	—	—	—	—	—
Contribution in lieu of taxes	—	—	—	—	—
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)	—	(731)	45,817	(3,386)	—
Other	—	174	—	—	(26,289)
Change in assets and liabilities:					
Increase in:					
Receivables	(7,990)	(59)	(20,984)	—	—
Due from primary government	—	—	—	—	—
Inventories	—	—	—	(252)	(385)
Other assets	—	—	—	(484)	—
Accounts payable and accrued liabilities	2,756	—	6,556	9,054	8,490
Due to primary government	—	—	—	—	—
Deposits	—	—	—	—	—
Interest payable	—	—	—	—	—
Deferred revenue	—	—	—	—	—
Accrued compensated absences	—	—	34	—	—
Other liabilities	—	—	20,355	—	—
Other long-term liabilities	—	249	—	—	—
Decrease in:					
Receivables	—	—	—	6,528	3,561
Inventories	894	—	—	—	—
Other assets	762	—	746	—	—
Accounts payable and accrued liabilities	—	—	—	—	—
Deposits	—	—	—	—	—
Deferred revenue	—	—	—	—	(296)
Accrued compensated absences	—	—	—	—	—
Other liabilities	—	—	(14,111)	—	—
Other long-term liabilities	—	—	—	—	—
Total adjustments	<u>24,809</u>	<u>2,694</u>	<u>38,831</u>	<u>16,499</u>	<u>(13,509)</u>
Net cash provided by (used in) operating activities	\$ <u>(597)</u>	<u>4,479</u>	<u>131,897</u>	<u>8,446</u>	<u>(26,178)</u>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<b>Land Authority of Puerto Rico</b>	<b>Puerto Rico Metropolitan Bus Authority</b>	<b>Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental, Control Facilities Financing Authority</b>	<b>Puerto Rico Solid Waste Authority</b>	<b>Sugar Corporation of Puerto Rico</b>
Cash flows from operating activities:					
Operating income (loss)	\$ (1,366)	(37,463)	2,267	(11,864)	3,899
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	601	6,126	—	2,481	—
Provision for uncollectible accounts	2,048	—	—	839	—
Amortization of debt discount	—	—	—	—	—
Net loss (gain) on disposition of fixed assets	—	—	—	—	—
Net gain on sale of investments and fixed assets	(4,430)	—	—	—	—
Contribution in lieu of taxes	—	—	—	—	—
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)	(4,620)	—	—	—	1,749
Other	—	894	—	—	—
Change in assets and liabilities:					
Increase in:					
Receivables	(148)	—	—	(130)	(17,924)
Due from primary government	—	—	—	—	—
Inventories	(67)	(512)	—	—	—
Other assets	—	—	—	(103)	—
Accounts payable and accrued liabilities	23,316	—	7,261	—	—
Due to primary government	—	—	—	—	—
Deposits	—	—	—	—	—
Interest payable	—	—	—	—	—
Deferred revenue	—	—	—	—	—
Accrued compensated absences	—	—	—	—	—
Other liabilities	—	—	—	—	—
Other long-term liabilities	—	—	—	—	—
Decrease in:					
Receivables	—	169	820	—	1,532
Inventories	—	—	—	—	14,766
Other assets	—	—	1	—	203
Accounts payable and accrued liabilities	—	(4,369)	—	(48)	(17,742)
Deposits	—	—	—	—	—
Deferred revenue	—	—	—	—	—
Accrued compensated absences	—	—	—	—	—
Other liabilities	—	—	—	—	—
Other long-term liabilities	—	—	—	—	—
Total adjustments	16,700	2,308	8,082	3,039	(17,416)
Net cash provided by (used in) operating activities	\$ 15,334	(35,155)	10,349	(8,825)	(13,517)

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<b>Public Corporation for the Supervision and Deposit Insurance of Puerto Rico</b>	<b>Right to Employment Administration</b>	<b>Puerto Rico Public Broadcasting Corporation</b>	<b>Fine Arts Center Corporation</b>	<b>Institutional Trust of the National Guard of Puerto Rico</b>
Cash flows from operating activities:					
Operating income (loss)	\$ 1,616	(51,735)	(25,591)	(2,647)	407
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	179	—	2,293	627	328
Provision for uncollectible accounts	—	—	42	—	—
Amortization of debt discount	—	—	—	—	—
Net loss (gain) on disposition of fixed assets	—	—	—	—	—
Net gain on sale of investments and fixed assets	—	—	—	—	—
Contribution in lieu of taxes	—	—	—	—	—
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)	—	—	—	—	—
Other	50	—	—	—	—
Change in assets and liabilities:					
Increase in:					
Receivables	—	(30,702)	—	—	(134)
Due from primary government	—	—	—	—	—
Inventories	—	—	—	—	—
Other assets	—	—	(92)	(2)	—
Accounts payable and accrued liabilities	—	493	—	101	—
Due to primary government	—	—	—	—	—
Deposits	—	—	—	—	—
Interest payable	—	—	—	—	—
Deferred revenue	—	22,567	—	—	—
Accrued compensated absences	—	—	—	—	—
Other liabilities	—	—	—	—	—
Other long-term liabilities	—	—	—	—	—
Decrease in:					
Receivables	563	—	436	30	—
Inventories	—	10	—	—	—
Other assets	—	393	—	—	—
Accounts payable and accrued liabilities	(1,342)	—	(2,786)	—	(150)
Deposits	—	—	—	(202)	—
Deferred revenue	—	—	—	—	—
Accrued compensated absences	—	—	—	—	—
Other liabilities	—	—	—	—	—
Other long-term liabilities	—	—	—	—	—
Total adjustments	(550)	(7,239)	(107)	554	44
Net cash provided by (used in) operating activities	\$ 1,066	(58,974)	(25,698)	(2,093)	451

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<u>Puerto Rico Health Insurance Administration</u>	<u>Puerto Rico Maritime Transportation Authority</u>	<u>Puerto Rico Council on Higher Education</u>	<u>Farm Insurance Corporation of Puerto Rico</u>	<u>Employment and Training Enterprise Corporation</u>
Cash flows from operating activities:					
Operating income (loss)	\$ (959,532)	(25,916)	(45,492)	(456)	(1,267)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	386	3,940	—	35	118
Provision for uncollectible accounts	—	—	—	—	138
Amortization of debt discount	—	—	—	—	—
Net loss (gain) on disposition of fixed assets	1	—	—	2	—
Net gain on sale of investments and fixed assets	—	—	—	—	—
Contribution in lieu of taxes	—	—	—	—	—
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)	—	—	—	—	—
Other	—	—	—	—	(1,208)
Change in assets and liabilities:					
Increase in:					
Receivables	(55)	—	(773)	(595)	—
Due from primary government	(187)	—	—	—	—
Inventories	—	—	—	—	—
Other assets	—	(1,618)	—	—	—
Accounts payable and accrued liabilities	1,999	8,153	1,960	2,687	1,218
Due to primary government	19,313	—	—	—	—
Deposits	—	—	—	—	—
Interest payable	—	—	—	—	—
Deferred revenue	—	—	—	—	—
Accrued compensated absences	—	—	—	—	—
Other liabilities	—	—	—	—	—
Other long-term liabilities	—	—	—	—	—
Decrease in:					
Receivables	—	1,920	—	—	517
Inventories	—	225	—	—	69
Other assets	—	—	—	2	33
Accounts payable and accrued liabilities	—	(198)	—	—	—
Deposits	—	(4)	—	—	—
Deferred revenue	—	—	—	(45)	(102)
Accrued compensated absences	(209)	—	—	—	—
Other liabilities	—	(513)	—	—	—
Other long-term liabilities	—	—	—	—	—
Total adjustments	<u>21,248</u>	<u>11,905</u>	<u>1,187</u>	<u>2,086</u>	<u>783</u>
Net cash provided by (used in) operating activities	\$ <u>(938,284)</u>	<u>(14,011)</u>	<u>(44,305)</u>	<u>1,630</u>	<u>(484)</u>

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<u>Medical University Services, Inc.</u>	<u>Caribbean Basin Projects Financing Authority</u>	<u>Puerto Rico Conservatory of Music Corporation</u>	<u>Musical Arts Corporation and Subsidiaries</u>	<u>Puerto Rico School of Plastic Arts</u>
Cash flows from operating activities:					
Operating income (loss)	\$ (8,345)	(3)	(4,549)	(7,953)	(1,740)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	728	—	264	128	—
Provision for uncollectible accounts	5,145	—	—	52	—
Amortization of debt discount	—	—	—	—	—
Net loss (gain) on disposition of fixed assets	—	—	—	—	—
Net gain on sale of investments and fixed assets	—	—	—	—	—
Contribution in lieu of taxes	—	—	—	—	—
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)	—	—	—	—	—
Other	—	—	—	—	—
Change in assets and liabilities:					
Increase in:					
Receivables	(12,585)	—	(491)	—	—
Due from primary government	—	—	—	—	—
Inventories	(828)	—	—	—	—
Other assets	—	—	(23)	(50)	—
Accounts payable and accrued liabilities	7,293	—	732	—	70
Due to primary government	—	—	—	—	—
Deposits	—	—	—	—	—
Interest payable	809	—	—	—	—
Deferred revenue	—	—	69	458	45
Accrued compensated absences	—	—	—	—	—
Other liabilities	—	—	—	295	—
Other long-term liabilities	—	—	—	—	—
Decrease in:					
Receivables	—	—	—	940	—
Inventories	—	—	—	—	—
Other assets	480	—	—	—	—
Accounts payable and accrued liabilities	—	—	—	—	—
Deposits	—	—	—	—	—
Deferred revenue	—	—	—	—	—
Accrued compensated absences	—	—	—	—	—
Other liabilities	—	—	—	—	—
Other long-term liabilities	—	—	—	—	—
Total adjustments	1,042	—	551	1,823	115
Net cash provided by (used in) operating activities	\$ (7,303)	(3)	(3,998)	(6,130)	(1,625)

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In thousands)

	<u>Industries for the Blind, Mentally Retarded and Other Disabled Persons of Puerto Rico</u>	<u>Puerto Rico Water Pollution Control and Revolving Fund</u>	<u>Institute of Puerto Rican Culture</u>	<u>Total</u>
Cash flows from operating activities:				
Operating income (loss)	\$ (220)	2,875	(31,096)	(1,058,468)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	3	—	—	444,798
Provision for uncollectible accounts	—	—	—	272,748
Amortization of debt discount	—	—	—	449
Net loss (gain) on disposition of fixed assets	—	—	—	(14,143)
Net gain on sale of investments and fixed assets	—	—	—	(63,634)
Contribution in lieu of taxes	—	—	—	(148,271)
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)	—	(3,183)	9,527	(165,110)
Other	(40)	—	—	(74,560)
Change in assets and liabilities:				
Increase in:				
Receivables	(52)	—	(897)	(221,693)
Due from primary government	—	—	—	(187)
Inventories	(15)	—	(47)	(2,106)
Other assets	—	—	—	(55,722)
Accounts payable and accrued liabilities	48	4	4,187	163,436
Due to primary government	—	—	—	19,313
Deposits	—	—	—	12,911
Interest payable	—	—	—	809
Deferred revenue	—	—	—	28,081
Accrued compensated absences	—	—	2,131	2,165
Other liabilities	—	—	—	20,650
Other long-term liabilities	—	—	—	249
Decrease in:				
Receivables	—	—	—	35,719
Inventories	—	—	—	23,974
Other assets	—	—	—	10,029
Accounts payable and accrued liabilities	—	—	—	(68,973)
Deposits	—	—	—	(459)
Deferred revenue	—	—	—	(2,975)
Accrued compensated absences	—	—	—	(10,032)
Other liabilities	—	—	—	(39,103)
Other long-term liabilities	—	—	—	(540)
Total adjustments	(56)	(3,179)	14,901	167,823
Net cash provided by (used in) operating activities	\$ (276)	(304)	(16,195)	(890,645)

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In Thousands)

	<b>Government Development Bank for Puerto Rico and Subsidiaries</b>	<b>Puerto Rico Highway and Transportation Authority</b>	<b>Puerto Rico Electric Power Authority</b>	<b>Puerto Rico Aqueduct and Sewer Authority</b>	<b>Puerto Rico Infrastructure Financing Authority</b>
Cash flows from noncapital financing activities:					
Proceeds from notes and loans	\$ 17,720	—	1,040,000	136,394	—
Principal paid on notes and loans	(559,991)	—	(1,040,000)	(6,800)	—
Interest paid on notes and loans	(259,507)	—	(8,068)	(7,067)	—
Operating grants received	—	—	—	—	—
Transfers-in from primary government	—	16,146	—	90,471	—
Transfers-out to primary government	—	—	—	—	—
Noncapital contributions	—	252,122	—	—	—
Net cash provided by (used in) noncapital financing activities	(801,778)	268,268	(8,068)	212,998	—
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(3,359)	(252,123)	(359,309)	(219,446)	—
Proceeds from issuance of bonds and notes	—	—	636,002	162,654	—
Principal paid on bonds and notes	—	—	(443,863)	(95,368)	—
Interest paid on bonds and notes	—	—	(217,037)	(30,456)	—
Proceeds from sale of equipment	—	—	—	—	—
Capital contributions	—	—	—	128,723	—
Net cash provided by (used in) capital and related financing activities	(3,359)	(252,123)	(384,207)	(53,893)	—
Cash flows from investing activities:					
Purchase of investment securities	(4,366,969)	—	(1,480,156)	—	(1,006,361)
Proceeds from sales and maturities of investment securities	5,207,575	—	1,456,331	—	1,009,064
Interest and dividends on investments	353,902	—	38,223	4,351	56,724
Principal collected on loans to:					
Component units and primary governmenten	2,163,656	—	—	—	—
Private sector	71,919	—	—	—	—
Loans originated to:					
Component units and primary governmenten	(2,544,630)	—	—	—	—
Private sector	(3,334)	—	—	—	—
Net increase (decrease) in securities lending transactions	—	—	—	—	—
Net cash provided by (used in) investing activities	882,119	—	14,398	4,351	59,427
Net increase (decrease) in cash and cash equivalents	(4,086)	—	65,517	43,611	—
Cash and cash equivalents at beginning of year	16,452	—	336,528	52,514	—
Cash and cash equivalents from governmental operations	—	106,458	—	—	89,795
Cash and cash equivalents at end of year	\$ 12,366	106,458	402,045	96,125	89,795

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In Thousands)

	<b>Puerto Rico Housing Bank and Finance Agency</b>	<b>State Insurance Fund Corporation</b>	<b>Economic Development Bank for Puerto Rico</b>	<b>Puerto Rico Ports Authority</b>	<b>Puerto Rico Municipal Finance Agency</b>
Cash flows from noncapital financing activities:					
Proceeds from notes and loans	\$ —	—	—	—	—
Principal paid on notes and loans	(60,438)	(4,529)	(13,034)	—	(231,161)
Interest paid on notes and loans	(37,441)	—	(54,554)	—	(83,055)
Operating grants received	—	—	4,000	—	—
Transfers-in from primary government	—	—	—	—	—
Transfers-out to primary government	—	(26,092)	—	—	—
Noncapital contributions	4,755	—	—	—	—
Net cash provided by (used in) noncapital financing activities	(93,124)	(30,621)	(63,588)	—	(314,216)
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	—	(16,386)	(357)	(32,128)	—
Proceeds from issuance of bonds and notes	—	—	—	27,786	—
Principal paid on bonds and notes	—	(4,552)	—	(13,680)	—
Interest paid on bonds and notes	—	—	—	(20,455)	—
Proceeds from sale of equipment	1,307	—	—	—	—
Capital contributions	—	—	—	9,973	—
Net cash provided by (used in) capital and related financing activities	1,307	(20,938)	(357)	(28,504)	—
Cash flows from investing activities:					
Purchase of investment securities	(73,012)	(1,037,629)	(325,727)	—	(693,279)
Proceeds from sales and maturities of investment securities	192,289	955,889	541,273	—	935,423
Interest and dividends on investments	48,850	56,104	69,421	4,844	82,321
Principal collected on loans to:					
Component units and primary government	64,355	—	1,432	—	—
Private sector	—	—	47,370	—	—
Loans originated to:					
Component units and primary government	(42,909)	—	—	—	—
Private sector	—	(1,864)	(57,242)	—	—
Net increase (decrease) in securities lending transactions	—	63,655	(204,416)	—	—
Net cash provided by (used in) investing activities	189,573	36,155	72,111	4,844	324,465
Net increase (decrease) in cash and cash equivalents	97,820	(1,328)	(978)	23,743	5,082
Cash and cash equivalents at beginning of year	276,556	3,711	2,335	65,895	14,714
Cash and cash equivalents from governmental operations	12,806	—	—	—	—
Cash and cash equivalents at end of year	\$ 387,182	2,383	1,357	89,638	19,796

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In Thousands)

	Puerto Rico Industrial Development Company	Puerto Rico Telephone Authority	Automobile Accident Compensation Administration	Puerto Rico Land Administration	Recreational Development Company of Puerto Rico
Cash flows from noncapital financing activities:					
Proceeds from notes and loans	\$ —	—	—	—	—
Principal paid on notes and loans	—	—	—	—	—
Interest paid on notes and loans	—	—	—	—	—
Operating grants received	9,726	—	—	—	—
Transfers-in from primary government	—	—	—	—	—
Transfers-out to primary government	—	—	—	—	—
Noncapital contributions	1,726	—	—	—	31,091
Net cash provided by (used in) noncapital financing activities	11,452	—	—	—	31,091
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(70,301)	—	(692)	(66)	(7,672)
Proceeds from issuance of bonds and notes	40,881	—	—	—	—
Principal paid on bonds and notes	(23,929)	—	(194)	(550)	—
Interest paid on bonds and notes	(13,615)	—	—	—	—
Proceeds from sale of equipment	14,740	—	—	15,409	—
Capital contributions	—	—	—	550	—
Net cash provided by (used in) capital and related financing activities	(52,224)	—	(886)	15,343	(7,672)
Cash flows from investing activities:					
Purchase of investment securities	(10,735)	—	(136,093)	(12,734)	(16,955)
Proceeds from sales and maturities of investment securities	—	32,722	149,752	—	—
Interest and dividends on investments	24,133	4,372	13,164	4,364	4,989
Principal collected on loans to:					
Component units and primary government	—	—	—	—	—
Private sector	—	—	—	—	—
Loans originated to:					
Component units and primary government	—	—	—	—	—
Private sector	—	—	—	—	—
Net increase (decrease) in securities lending transactions	—	—	—	—	—
Net cash provided by (used in) investing activities	13,398	37,094	26,823	(8,370)	(11,966)
Net increase (decrease) in cash and cash equivalents	(15,429)	3,240	164	4,200	(12,575)
Cash and cash equivalents at beginning of year	107,748	73,504	5,012	6,640	14,740
Cash and cash equivalents from governmental operations	—	—	—	—	—
Cash and cash equivalents at end of year	\$ 92,319	76,744	5,176	10,840	2,165

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In Thousands)

	<b>Puerto Rico Medical Services Administration</b>	<b>Puerto Rico Exports Development Corporation</b>	<b>Tourism Company of Puerto Rico</b>	<b>Puerto Rico and Caribbean Cardiovascular Center Corporation</b>	<b>Agricultural Services and Development Administration</b>
Cash flows from noncapital financing activities:					
Proceeds from notes and loans	\$ —	—	—	—	—
Principal paid on notes and loans	—	(1,433)	(983)	—	(65)
Interest paid on notes and loans	—	(664)	(3,331)	—	(4)
Operating grants received	—	—	—	—	—
Transfers-in from primary government	—	—	—	—	—
Transfers-out to primary government	—	—	(134,798)	—	—
Noncapital contributions	—	—	—	—	17,313
Net cash provided by (used in) noncapital financing activities	<u>—</u>	<u>(2,097)</u>	<u>(139,112)</u>	<u>—</u>	<u>17,244</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(1,659)	(2,254)	(5,835)	(3,166)	(970)
Proceeds from issuance of bonds and notes	—	—	—	2,704	—
Principal paid on bonds and notes	(483)	—	(35)	(397)	—
Interest paid on bonds and notes	(333)	—	(8,061)	—	—
Proceeds from sale of equipment	—	—	2,738	—	—
Capital contributions	—	—	—	—	—
Net cash provided by (used in) capital and related financing activities	<u>(2,475)</u>	<u>(2,254)</u>	<u>(11,193)</u>	<u>(859)</u>	<u>(970)</u>
Cash flows from investing activities:					
Purchase of investment securities	—	(2,242)	—	—	—
Proceeds from sales and maturities of investment securities	678	—	308	—	—
Interest and dividends on investments	—	1,471	347	—	45
Principal collected on loans to:					
Component units and primary government	—	—	—	—	—
Private sector	—	—	—	—	—
Loans originated to:					
Component units and primary government	—	—	—	—	—
Private sector	—	—	—	—	—
Net increase (decrease) in securities lending transactions	—	—	—	—	—
Net cash provided by (used in) investing activities	<u>678</u>	<u>(771)</u>	<u>655</u>	<u>—</u>	<u>45</u>
Net increase (decrease) in cash and cash equivalents	(2,394)	(643)	(17,753)	7,587	(9,859)
Cash and cash equivalents at beginning of year	16,742	1,084	18,732	3,029	9,863
Cash and cash equivalents from governmental operations	—	—	33,532	—	17,184
Cash and cash equivalents at end of year	<u>\$ 14,348</u>	<u>441</u>	<u>34,511</u>	<u>10,616</u>	<u>17,188</u>

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In Thousands)

	Land Authority of Puerto Rico	Puerto Rico Metropolitan Bus Authority	Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental, Control Facilities Financing Authority	Puerto Rico Solid Waste Authority	Sugar Corporation of Puerto Rico
Cash flows from noncapital financing activities:					
Proceeds from notes and loans	\$ 8,495	—	—	—	16,702
Principal paid on notes and loans	(8,495)	—	—	—	(10,561)
Interest paid on notes and loans	—	(631)	—	(305)	—
Operating grants received	—	31,018	—	255	10,400
Transfers-in from primary government	—	—	—	—	—
Transfers-out to primary government	—	—	—	—	—
Noncapital contributions	—	—	—	6,655	—
Net cash provided by (used in) noncapital financing activities	—	30,387	—	6,605	16,541
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(1,326)	(2,444)	(37,458)	(46,643)	—
Proceeds from issuance of bonds and notes	—	1,764	30,671	34,774	—
Principal paid on bonds and notes	—	—	—	(18)	—
Interest paid on bonds and notes	—	—	—	(878)	—
Proceeds from sale of equipment	4,521	—	—	—	—
Capital contributions	—	3,159	—	15,858	—
Net cash provided by (used in) capital and related financing activities	3,195	2,479	(6,787)	3,093	—
Cash flows from investing activities:					
Purchase of investment securities	(2,000)	—	—	(351)	—
Proceeds from sales and maturities of investment securities	—	—	—	—	—
Interest and dividends on investments	—	—	1,852	1,041	—
Principal collected on loans to:					
Component units and primary government	—	—	—	—	—
Private sector	116	—	—	—	—
Loans originated to:					
Component units and primary government	—	—	—	—	—
Private sector	—	—	—	—	—
Net increase (decrease) in securities lending transactions	—	—	—	—	—
Net cash provided by (used in) investing activities	(1,884)	—	1,852	690	—
Net increase (decrease) in cash and cash equivalents	16,645	(2,289)	5,414	1,563	3,024
Cash and cash equivalents at beginning of year	20,486	7,808	31,021	20,983	12,823
Cash and cash equivalents from governmental operations	—	—	—	—	—
Cash and cash equivalents at end of year	\$ 37,131	5,519	36,435	22,546	15,847

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In Thousands)

	Public Corporation for the Supervision and Deposit Insurance of Puerto Rico	Right to Employment Administration	Puerto Rico Public Broadcasting Corporation	Fine Arts Center Corporation	Institutional Trust of the National Guard of Puerto Rico
Cash flows from noncapital financing activities:					
Proceeds from notes and loans	\$ —	—	—	—	—
Principal paid on notes and loans	—	—	—	(1,289)	—
Interest paid on notes and loans	—	—	—	—	—
Operating grants received	—	—	2,429	3,515	—
Transfers-in from primary government	—	51,186	22,506	—	1,222
Transfers-out to primary government	—	—	—	—	—
Noncapital contributions	874	—	—	—	—
Net cash provided by (used in) noncapital financing activities	874	51,186	24,935	2,226	1,222
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(24)	—	(2,629)	(57)	(160)
Proceeds from issuance of bonds and notes	—	—	—	—	—
Principal paid on bonds and notes	—	—	(135)	(13)	(443)
Interest paid on bonds and notes	—	—	(21)	—	(262)
Proceeds from sale of equipment	—	—	715	—	—
Capital contributions	—	—	615	—	—
Net cash provided by (used in) capital and related financing activities	(24)	—	(1,455)	(70)	(865)
Cash flows from investing activities:					
Purchase of investment securities	(400,453)	—	—	—	(280)
Proceeds from sales and maturities of investment securities	393,566	—	—	—	250
Interest and dividends on investments	4,147	—	451	76	603
Principal collected on loans to:					
Component units and primary government	—	—	—	—	—
Private sector	—	—	—	—	—
Loans originated to:					
Component units and primary government	—	—	—	—	—
Private sector	—	—	—	—	—
Net increase (decrease) in securities lending transactions	—	—	—	—	—
Net cash provided by (used in) investing activities	(2,740)	—	451	76	573
Net increase (decrease) in cash and cash equivalents	(824)	(7,788)	(1,767)	139	1,381
Cash and cash equivalents at beginning of year	1,919	23,081	5,630	1,928	5,508
Cash and cash equivalents from governmental operations	—	—	—	—	—
Cash and cash equivalents at end of year	\$ 1,095	15,293	3,863	2,067	6,889

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In Thousands)

	Puerto Rico Health Insurance Administration	Puerto Rico Maritime Transportation Authority	Puerto Rico Council on Higher Education	Farm Insurance Corporation of Puerto Rico	Employment and Training Enterprise Corporation
Cash flows from noncapital financing activities:					
Proceeds from notes and loans	\$ —	37	—	—	—
Principal paid on notes and loans	—	—	—	—	—
Interest paid on notes and loans	—	(742)	—	—	—
Operating grants received	—	—	48,583	—	149
Transfers-in from primary government	965,666	—	—	2,000	—
Transfers-out to primary government	—	—	—	—	—
Noncapital contributions	—	15,674	—	—	—
Net cash provided by (used in) noncapital financing activities	965,666	14,969	48,583	2,000	149
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	—	(853)	—	(43)	(234)
Proceeds from issuance of bonds and notes	—	—	—	—	—
Principal paid on bonds and notes	(12)	—	—	—	—
Interest paid on bonds and notes	—	—	—	—	—
Proceeds from sale of equipment	—	—	—	—	—
Capital contributions	—	—	—	—	—
Net cash provided by (used in) capital and related financing activities	(12)	(853)	—	(43)	(234)
Cash flows from investing activities:					
Purchase of investment securities	—	—	(4,652)	—	—
Proceeds from sales and maturities of investment securities	—	—	—	—	—
Interest and dividends on investments	2,980	—	754	1,519	75
Principal collected on loans to:					
Component units and primary government	—	—	—	—	—
Private sector	—	—	—	—	—
Loans originated to:					
Component units and primary government	—	—	—	—	—
Private sector	—	—	—	—	—
Net increase (decrease) in securities lending transactions	—	—	—	—	—
Net cash provided by (used in) investing activities	2,980	—	(3,898)	1,519	75
Net increase (decrease) in cash and cash equivalents	30,350	105	380	5,106	(494)
Cash and cash equivalents at beginning of year	14,841	881	762	906	1,283
Cash and cash equivalents from governmental operations	—	—	—	—	—
Cash and cash equivalents at end of year	\$ 45,191	986	1,142	6,012	789

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In Thousands)

	Medical University Services, Inc.	Caribbean Basin Projects Financing Authority	Puerto Rico Conservatory of Music Corporation	Musical Arts Corporation and Subsidiaries	Puerto Rico School of Plastic Arts
Cash flows from noncapital financing activities:					
Proceeds from notes and loans	\$ 4,392	—	—	—	—
Principal paid on notes and loans	—	—	—	—	—
Interest paid on notes and loans	—	—	—	—	—
Operating grants received	—	—	8,498	1,375	—
Transfers-in from primary government	—	—	—	6,139	1,745
Transfers-out to primary government	—	—	—	—	—
Noncapital contributions	3,700	—	324	—	—
Net cash provided by (used in) noncapital financing activities	8,092	—	8,822	7,514	1,745
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(404)	—	(4,809)	(88)	—
Proceeds from issuance of bonds and notes	—	—	—	—	—
Principal paid on bonds and notes	(383)	—	—	—	—
Interest paid on bonds and notes	—	—	—	—	—
Proceeds from sale of equipment	—	—	—	—	—
Capital contributions	—	—	—	—	—
Net cash provided by (used in) capital and related financing activities	(787)	—	(4,809)	(88)	—
Cash flows from investing activities:					
Purchase of investment securities	—	—	—	—	(8)
Proceeds from sales and maturities of investment securities	—	—	187	—	—
Interest and dividends on investments	—	275	134	—	—
Principal collected on loans to:					
Component units and primary government	—	—	—	—	—
Private sector	—	—	—	—	—
Loans originated to:					
Component units and primary government	—	—	—	—	—
Private sector	—	—	—	—	—
Net increase (decrease) in securities lending transactions	—	—	—	—	—
Net cash provided by (used in) investing activities	—	275	321	—	(8)
Net increase (decrease) in cash and cash equivalents	2	272	336	1,296	112
Cash and cash equivalents at beginning of year	—	4,766	439	1,783	952
Cash and cash equivalents from governmental operations	—	—	—	—	—
Cash and cash equivalents at end of year	\$ 2	5,038	775	3,079	1,064

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows – Component Units – Other

Year ended June 30, 2001  
(In Thousands)

	<b>Industries for the Blind, Mentally Retarded and Other Disabled Persons of Puerto Rico</b>	<b>Puerto Rico Water Pollution Control and Revolving Fund</b>	<b>Institute of Puerto Rican Culture</b>	<b>Total</b>
Cash flows from noncapital financing activities:				
Proceeds from notes and loans	\$ —	—	—	1,223,740
Principal paid on notes and loans	—	—	—	(1,938,779)
Interest paid on notes and loans	—	—	—	(455,369)
Operating grants received	147	304	—	120,399
Transfers-in from primary government	—	—	29,529	1,186,610
Transfers-out to primary government	—	—	—	(160,890)
Noncapital contributions	—	9,097	—	343,331
Net cash provided by (used in) noncapital financing activities	<u>147</u>	<u>9,401</u>	<u>29,529</u>	<u>319,042</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	—	—	(9,527)	(1,082,422)
Proceeds from issuance of bonds and notes	—	—	—	937,236
Principal paid on bonds and notes	—	—	—	(584,055)
Interest paid on bonds and notes	—	—	—	(291,118)
Proceeds from sale of equipment	—	—	—	39,430
Capital contributions	—	—	—	158,878
Net cash provided by (used in) capital and related financing activities	<u>—</u>	<u>—</u>	<u>(9,527)</u>	<u>(822,051)</u>
Cash flows from investing activities:				
Purchase of investment securities	—	—	—	(9,569,636)
Proceeds from sales and maturities of investment securities	—	—	2,767	10,878,074
Interest and dividends on investments	—	3,115	—	784,647
Principal collected on loans to:				
Component units and primary government	—	4,589	—	2,234,032
Private sector	—	—	—	119,405
Loans originated to:				
Component units and primary government	—	(9,733)	—	(2,597,272)
Private sector	—	—	—	(62,440)
Net increase (decrease) in securities lending transactions	—	—	—	(140,761)
Net cash provided by (used in) investing activities	<u>—</u>	<u>(2,029)</u>	<u>2,767</u>	<u>1,646,049</u>
Net increase (decrease) in cash and cash equivalents	(129)	7,068	6,574	252,395
Cash and cash equivalents at beginning of year	1,079	18,165	—	1,202,843
Cash and cash equivalents from governmental operations	—	—	—	259,775
Cash and cash equivalents at end of year	<u>\$ 950</u>	<u>25,233</u>	<u>6,574</u>	<u>1,715,013</u>

**GENERAL FIXED ASSETS ACCOUNT GROUP**

**COMMONWEALTH OF PUERTO RICO**

Schedule of General Fixed Assets – By Source

June 30, 2001  
(In thousands)

General fixed assets:	
Land	\$ 343,021
Buildings and improvements	3,501,464
Equipment	191,976
Construction in progress	<u>743,967</u>
Total general fixed assets	<u>\$ 4,780,428</u>
Investment in general fixed assets by source:	
General fund	\$ 2,642,728
Capital projects fund	2,135,718
Debt service fund	<u>1,982</u>
Total investment in general fixed assets	<u>\$ 4,780,428</u>

**COMMONWEALTH OF PUERTO RICO**

Schedule of General Fixed Assets – By Function and Activity

June 30, 2001  
(In thousands)

Function and Activity	Land	Buildings	Equipment	Construction in progress	Total
General government:					
Public Buildings Authority	\$ 98,453	1,593,827	13,004	638,143	2,343,427
House of Representatives	—	—	240	—	240
General Services Administration	—	—	16,876	—	16,876
Municipal Services Administration	—	—	734	—	734
Department of Family Affairs	—	—	3,914	—	3,914
Office of Management and Budget	—	—	3,546	—	3,546
Commonwealth Elections Commission	—	—	4,085	—	4,085
Planning Board	—	—	878	—	878
Department of the Treasury	—	—	13,907	—	13,907
Commissioner of Financial Institutions	—	—	185	—	185
Rules and Permits Administration	—	—	875	—	875
Total general government	<u>98,453</u>	<u>1,593,827</u>	<u>58,244</u>	<u>638,143</u>	<u>2,388,667</u>
Public safety:					
Department of Justice	—	—	9,520	—	9,520
Puerto Rico Volunteers Service Corporation	—	—	335	—	335
Correction Administration	—	—	5,128	—	5,128
General Court of Justice	47,210	23,534	12,675	—	83,419
Police Department	—	—	20,638	—	20,638
Pre-Trial Services Office	—	—	663	—	663
Puerto Rico Firefighters Corps	—	—	9,994	—	9,994
Juvenile Institutions Administration	—	—	2,099	—	2,099
Total public safety	<u>47,210</u>	<u>23,534</u>	<u>61,052</u>	<u>—</u>	<u>131,796</u>
Health:					
Environmental Quality Board	—	—	285	—	285
Department of Health	—	—	15,832	—	15,832
Total health	<u>—</u>	<u>—</u>	<u>16,117</u>	<u>—</u>	<u>16,117</u>
Public Housing and Welfare:					
Public Housing Administration	197,358	1,873,733	27,027	105,824	2,203,942
Department of Labor and Human Resources	—	10,370	1,668	—	12,038
Industrial Commission	—	—	294	—	294
Department of Recreation and Sports	—	—	2,475	—	2,475
Department of Housing	—	—	238	—	238
Total public housing and welfare	<u>197,358</u>	<u>1,884,103</u>	<u>31,702</u>	<u>105,824</u>	<u>2,218,987</u>
Education:					
Office for the Improvements of Public Schools	—	—	2,147	—	2,147
Department of Education	—	—	13,743	—	13,743
Total education	<u>—</u>	<u>—</u>	<u>15,890</u>	<u>—</u>	<u>15,890</u>
Economic development:					
Department of Transportation and Public Works	—	—	3,426	—	3,426
Department of Agriculture	—	—	1,000	—	1,000
Department of Natural and Environmental Resources	—	—	4,545	—	4,545
Total economic development	<u>—</u>	<u>—</u>	<u>8,971</u>	<u>—</u>	<u>8,971</u>
Total general fixed assets	<u>\$ 343,021</u>	<u>3,501,464</u>	<u>191,976</u>	<u>743,967</u>	<u>4,780,428</u>

**COMMONWEALTH OF PUERTO RICO**

Schedule of Changes in General Fixed Assets – By Function and Activity

Year ended June 30, 2001  
(In thousands)

<b>Function and Activity</b>	<b>Balance as of June 30, 2000 (as restated)</b>	<b>Additions</b>	<b>Retirements</b>	<b>Other</b>	<b>Balance as of June 30, 2001</b>
<b>General government:</b>					
Public Buildings Authority	\$ 2,097,828	300,272	(312)	(54,361)	2,343,427
House of Representatives	240	—	—	—	240
General Services Administration	16,876	—	—	—	16,876
Municipal Services Administration	734	—	—	—	734
Department of Family Affairs	1,170	2,744	—	—	3,914
Office of Management and Budget	528	3,018	—	—	3,546
Commonwealth Electoral Commission	1,788	2,297	—	—	4,085
Planning Board	587	291	—	—	878
Department of the Treasury	13,013	4,436	—	(3,542)	13,907
Commissioner of Financial Institutions	185	—	—	—	185
Permits and Regulations Administration	676	199	—	—	875
<b>Total general government</b>	<b>2,133,625</b>	<b>313,257</b>	<b>(312)</b>	<b>(57,903)</b>	<b>2,388,667</b>
<b>Public safety:</b>					
Department of Justice	1,449	8,071	—	—	9,520
Puerto Rico Volunteers Service Corporation	335	—	—	—	335
Correction Administration	5,128	—	—	—	5,128
General Court of Justice	181,941	—	—	(98,522)	83,419
Police Department	19,287	1,351	—	—	20,638
Pre-Trial Services Office	552	111	—	—	663
Puerto Rico Firefighters Corps	9,182	812	—	—	9,994
Juvenile Institutions Administration	1,488	611	—	—	2,099
<b>Total public safety</b>	<b>219,362</b>	<b>10,956</b>	<b>—</b>	<b>(98,522)</b>	<b>131,796</b>
<b>Health:</b>					
Environmental Quality Board	111	174	—	—	285
Department of Health	390,034	—	—	(374,202)	15,832
<b>Total health</b>	<b>390,145</b>	<b>174</b>	<b>—</b>	<b>(374,202)</b>	<b>16,117</b>
<b>Public housing and welfare:</b>					
Public Housing Administration	2,086,626	121,958	(4,642)	—	2,203,942
Department of Labor and Human Resources	12,038	—	—	—	12,038
Industrial Commission	294	—	—	—	294
Department of Recreation and Sports	178	2,297	—	—	2,475
Department of Housing	238	—	—	—	238
<b>Total public housing and welfare</b>	<b>2,099,374</b>	<b>124,255</b>	<b>(4,642)</b>	<b>—</b>	<b>2,218,987</b>
<b>Education:</b>					
Office for the Improvements of Public Schools	2,147	—	—	—	2,147
Department of Education	8,762	4,981	—	—	13,743
<b>Total education</b>	<b>10,909</b>	<b>4,981</b>	<b>—</b>	<b>—</b>	<b>15,890</b>
<b>Economic development:</b>					
Department of Transportation and Public Works	829	2,597	—	—	3,426
Department of Agriculture	1,000	—	—	—	1,000
Department of Natural and Environmental Resources	3,444	1,101	—	—	4,545
<b>Total economic development</b>	<b>5,273</b>	<b>3,698</b>	<b>—</b>	<b>—</b>	<b>8,971</b>
<b>Total general fixed assets</b>	<b>\$ 4,858,688</b>	<b>457,321</b>	<b>(4,954)</b>	<b>(530,627)</b>	<b>4,780,428</b>

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Primary Government  
General Fixed Assets Account Group

June 30, 2001  
(In thousands)

	<u>Commonwealth of Puerto Rico</u>	<u>Public Buildings Authority</u>	<u>Totals</u>
Assets:			
Land	\$ 244,568	98,453	343,021
Building and improvements	1,907,637	1,593,827	3,501,464
Equipment	178,972	13,004	191,976
Construction in progress	105,824	638,143	743,967
Total assets	<u>2,437,001</u>	<u>2,343,427</u>	<u>4,780,428</u>
Investment in general fixed assets	<u>\$ 2,437,001</u>	<u>2,343,427</u>	<u>4,780,428</u>

**GENERAL LONG-TERM DEBT ACCOUNT GROUP**

**COMMONWEALTH OF PUERTO RICO**

Combining Statement of Primary Government  
General Long-Term Debt Account Group

June 30, 2001  
(In thousands)

	<u>Commonwealth of Puerto Rico</u>	<u>Public Buildings Authority</u>	<u>Puerto Rico Maritime Shipping Authority</u>	<u>The Children's Trust</u>	<u>Totals</u>
Assets and other debits:					
Amount available in debt service fund	\$ 212,198	—	—	—	212,198
Amount to be provided for retirement of bonds and notes payable and debt payable to components units	9,042,983	1,552,175	281,250	397,005	11,273,413
Amount to be provided for payment of accrued compensated absences, and other long-term liabilities	<u>4,234,350</u>	<u>9,641</u>	<u>—</u>	<u>2,039</u>	<u>4,246,030</u>
Total assets and other debits	\$ <u>13,489,531</u>	<u>1,561,816</u>	<u>281,250</u>	<u>399,044</u>	<u>15,731,641</u>
Liabilities:					
Debt payable to component units	\$ 1,334,331	—	—	—	1,334,331
Notes payable	2,190,989	—	281,250	—	2,472,239
Bonds payable	5,729,861	1,552,175	—	397,005	7,679,041
Accrued compensated absences	1,191,001	—	—	—	1,191,001
Other long-term liabilities	409,282	9,641	—	2,039	420,962
Net pension obligation	<u>2,634,067</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,634,067</u>
Total liabilities	\$ <u>13,489,531</u>	<u>1,561,816</u>	<u>281,250</u>	<u>399,044</u>	<u>15,731,641</u>

## **STATISTICAL SECTION**

**Commonwealth of Puerto Rico**  
**General Governmental Expenditures by Function**  
**All Governmental Fund Types**  
**For the last ten fiscal years**  
**(In thousands)**

Function:	2001	%	2000	1999	1998	1997	1996	1995	1994	1993	1992
<b>General Government</b>	\$ 739,009	7.1%	853,040	526,629	484,547	499,652	661,359	451,275	341,066	412,606	388,053
<b>Public Safety</b>	1,623,362	15.7%	1,310,322	1,103,606	1,241,762	1,188,814	926,498	878,673	798,367	679,354	644,666
<b>Health</b>	954,563	9.2%	972,757	625,475	656,498	508,659	245,743	231,212	192,118	109,235	189,129
<b>Public Housing and Welfare</b>	2,315,899	22.4%	2,102,410	2,485,092	1,902,902	2,086,828	1,701,434	1,681,688	1,524,344	1,402,358	1,447,961
<b>Education</b>	2,308,479	22.3%	2,436,267	2,272,903	2,744,630	1,960,185	1,832,271	1,760,784	1,511,610	1,260,580	1,583,749
<b>Economic Development</b>	170,937	1.6%	337,255	314,897	186,296	333,290	88,143	154,796	235,915	405,002	435,215
<b>Intergovernmental</b>	222,721	2.1%	373,016	318,664	55,739	496,844	306,226	207,389	184,261	504,244	331,700
<b>Lottery Prizes*</b>	-	-	-	-	-	-	-	-	-	288,041	416,873
<b>Capital Outlays</b>	1,020,344	9.8%	833,597	642,016	1,515,230	1,395,463	1,255,430	848,801	549,352	630,589	746,708
<b>Debt Service:</b>											
Principal	466,467	4.5%	416,369	351,722	620,866	359,851	367,198	660,133	317,561	294,983	310,166
Interest and Other	545,001	5.3%	444,595	442,614	595,053	556,835	504,480	435,549	348,260	385,664	357,645
<b>Total Expenditures</b>											
<b>All Governmental Fund Types</b>	<u>\$ 10,366,782</u>	<u>100.0%</u>	<u>10,079,628</u>	<u>9,083,618</u>	<u>10,003,523</u>	<u>9,386,421</u>	<u>7,888,782</u>	<u>7,310,300</u>	<u>6,002,854</u>	<u>6,372,656</u>	<u>6,851,865</u>

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

**Commonwealth of Puerto Rico  
General Governmental Revenue by Source  
All Governmental Fund Types  
For the last ten fiscal years  
(In thousands)**

Source:	2001	%	2000	1999	1998	1997	1996	1995	1994	1993	1992
<b>Taxes:</b>											
Income	\$ 4,536,840	40.5%	4,967,138	4,413,860	3,989,239	3,622,988	3,396,724	3,242,876	2,876,542	2,418,006	2,478,803
Property	-	-	-	-	-	-	-	-	-	77,289	121,087
Excise	1,788,992	16.0%	1,736,539	1,714,444	1,884,348	1,827,305	1,713,537	1,664,529	1,589,770	1,529,241	1,348,022
Other	92,024	0.8%	87,523	78,926	73,426	64,910	57,662	56,556	53,521	52,787	57,125
Charges for Services	645,806	5.8%	617,020	457,454	569,096	464,034	461,736	455,500	236,609	727,093	682,474
Intergovernmental	3,807,049	34.0%	2,971,528	3,435,765	3,009,169	3,077,042	2,545,615	2,492,443	2,328,427	2,024,451	2,211,605
Interest	67,020	0.6%	91,525	97,880	116,030	110,777	59,788	-	-	-	-
Other	<u>270,711</u>	<u>2.4%</u>	<u>383,548</u>	<u>162,228</u>	<u>189,476</u>	<u>134,819</u>	<u>186,591</u>	<u>170,025</u>	<u>144,227</u>	<u>116,637</u>	<u>207,207</u>
<b>Total Revenue - All Governmental Fund Types</b>	<u>\$ 11,208,442</u>	<u>100.0%</u>	<u>10,854,821</u>	<u>10,360,557</u>	<u>9,830,784</u>	<u>9,301,875</u>	<u>8,421,653</u>	<u>8,081,929</u>	<u>7,229,096</u>	<u>6,945,504</u>	<u>7,106,323</u>

**Commonwealth of Puerto Rico**  
**Computation of the Legal Debt Margin**  
**July 1, 2001**  
**(In thousands)**

<b>Statutory Margin</b>	
<b>Section 2, Article VI of Constitution of Puerto Rico</b>	
<b>(Section 2, Article VI of Constitution of Puerto Rico)</b>	
<b>Internal Revenue for the year ended June 30, 2000</b>	<b>\$ 6,647,632</b>
<b>Internal Revenue for the year ended June 30, 2001 (p)</b>	<b>6,621,203</b>
<b>Total Internal Revenue for the years ended June 30, 2000 and 2001</b>	<b>\$ 13,268,835</b>
<b>Internal Revenue average for the two years</b>	<b>\$ 6,634,418</b>
<b>Legal Debt Limit - 15% of Internal Revenue average for the two years</b>	<b>\$ 995,163</b>
<b>Maximum Debt Service Requirement - 8.868% on Commonwealth Bonds maturing on 2003 and PRASA debt service paid during fiscal year 2001</b>	<b>588,359</b>
<b>Additional Legal Debt Service Requirement Margin</b>	<b>\$ 406,804</b>

**(p) Preliminary**

**Source: Government Development Bank for Puerto Rico.**

**Commonwealth of Puerto Rico**  
**Ratio of Annual Debt Service for General**  
**Bonded Debt to Total General Expenditures**  
**For the last ten fiscal years**  
**(In thousands)**

Fiscal Year	Total Debt Service	General Governmental Expenditures	Ratio (%)
2001	\$ 538,436	\$ 10,366,782	5.2
2000	507,336	10,079,628	5.0
1999	468,970	9,083,618	5.2
1998	435,894	10,003,523	4.4
1997	430,153	9,386,421	4.6
1996	424,753	7,888,782	5.4
1995	389,278	7,310,300	5.3
1994	362,294	6,002,854	6.0
1993	356,291	6,372,656	5.6
1992	331,290	6,851,865	4.8

**Commonwealth of Puerto Rico  
Demographic Statistics  
For the last ten fiscal years**

Fiscal year		(1) Population *	Per capita income	(1) Median age **	(2) School enrollment	(1) Unemployment rate (%)
2001	(p)	3,850	\$10,394	32.6	735,448	10.5
2000	(p)	3,818	9,870	32.2	715,073	11.0
1999		3,782	9,482	31.8	753,705	12.5
1998		3,748	9,005	31.4	753,428	13.6
1997		3,716	8,665	31.0	749,938	13.1
1996		3,685	8,028	30.7	770,537	13.8
1995		3,655	7,394	30.3	709,559	13.8
1994		3,627	7,079	29.9	714,705	16.0
1993		3,600	6,835	29.6	741,914	16.8
1992		3,575	6,429	29.2	755,009	16.5

\* Amounts expressed in thousands

\*\* Estimated value using the distribution of total population

(p) Preliminary

(1) Source: Puerto Rico Planning Board

(2) Source: Puerto Rico Department of Education

**Commonwealth of Puerto Rico  
Construction and Bank Deposits  
For the last ten fiscal years**

Fiscal year	Commercial construction (1)		Residential construction (1)		(2) Bank deposits *
	Number of permits	Value *	Number of permits	Value *	
2001 (p)	368	\$170,388	4,990	\$932,128	\$37,788,557
2000	358	251,003	6,578	991,834	30,449,860
1999	286	106,186	6,498	694,714	28,423,313
1998	351	147,486	6,732	631,465	25,354,086
1997	354	149,121	6,159	635,343	23,191,572
1996	291	89,405	6,180	582,186	24,191,572
1995	346	126,021	6,678	674,797	22,876,069
1994	37	81,087	6,677	470,158	19,350,635
1993	346	89,960	5,806	493,027	18,687,652
1992	48	26,714	5,041	357,792	18,684,334

\* Amounts expressed in thousands

(p) Preliminary

(1) Source: Puerto Rico Planning Board.

(2) Source: Commissioner of Financial Institutions

**Commonwealth of Puerto Rico**  
**Miscellaneous Statistics**  
**June 30, 2001**

Statistic	Quantity
Population ( millions )	3.9 (p)
Life expectancy	74
Area in square miles	3,426
<b>Fire Protection:</b>	
Number of stations	92
Number of fire personnel and officers	1,852
Calls answered	14,271
Building inspections conducted	31,693
<b>Police Protection:</b>	
Number of stations	239
Police personnel and officers	20,800
Total police vehicles	4,957
<b>Water System:</b>	
Customers	1,195,038
Water consumption ( millions of cubic meter )	348
<b>Electric Distribution System:</b>	
Customers	1,365,668
Electricity consumption ( millions of kilowatt )	18,723.3
Electricity production ( millions of kilowatt )	22,132.2
<b>Education:</b>	
<b>Enrollment in public schools:</b>	
kindergarten to sixth grade	341,467
seventh to ninth grade	145,858
tenth to twelfth grade	119,162
<b>Enrollment in private schools:</b>	
kindergarten to sixth grade	79,764
seventh to ninth grade	27,503
tenth to twelfth grade	21,694
<b>Enrollment in universities and colleges (1):</b>	
Public	73,846
Private	100,704

(p) Preliminary

(1) This is the last information available corresponding to fiscal year 2000.

Source: Various Commonwealth Public Agencies.

**Commonwealth of Puerto Rico**  
**General Fund Net Revenue**  
**For the last ten fiscal years**  
**(In thousands)**

	1992	1993	1994	1995	1996	1997	1998	1999	2000 (r)	2001 (p)
<b>TOTAL</b>	\$ 3,861,136	4,025,305	4,665,331	5,080,139	5,247,616	5,600,748	5,902,506	6,550,043	6,943,613	6,962,134
<b>FROM INTERNAL REVENUE</b>	3,573,070	3,767,832	4,357,569	4,780,492	4,974,918	5,335,879	5,630,040	6,271,392	6,647,632	6,632,090
<b>TAX REVENUE</b>	3,356,945	3,531,014	4,111,119	4,531,788	4,729,320	5,095,218	5,358,805	5,982,504	6,344,398	6,204,639
<b>PROPERTY TAXES</b>	15,003	12,877	4,567	7,889	5,107	8,286	5,673	2,214	1,131	287
<b>INCOME TAXES, TOTAL</b>	2,335,631	2,401,279	2,856,134	3,220,937	3,368,175	3,610,016	3,972,869	4,433,804	4,856,011	4,778,590
INDIVIDUALS	1,122,335	1,241,924	1,409,824	1,578,269	1,709,116	1,825,337	2,026,612	2,244,376	2,352,066	2,259,090
CORPORATIONS	1,019,468	975,134	1,107,265	1,304,612	1,348,160	1,440,691	1,527,415	1,653,762	1,781,862	1,696,766
PARTNERSHIPS	1,167	1,165	1,802	3,391	3,323	2,120	4,404	2,087	2,339	3,026
WITHHOLDING TO NONRESIDENTS	62,066	50,531	73,626	79,072	78,235	88,603	192,463	369,384	557,276	696,835
TOLLGATE TAX (REGULAR)	98,502	98,771	130,829	110,945	78,554	83,640	65,285	49,249	57,203	23,664
TOLLGATE TAX (PREPAYMENT)	-	-	93,527	109,928	100,900	126,605	105,668	65,284	53,927	25,847
INTEREST SUBJECT TO 17%	8,505	6,076	5,293	6,070	6,662	7,582	11,406	10,666	11,674	14,782
TAXES ON DIVIDENDS	23,588	27,678	33,968	28,650	43,225	35,438	39,616	38,996	39,664	58,580
<b>INHERITANCE AND GIFT TAXES</b>	1,148	1,072	934	1,535	1,547	4,028	1,380	1,811	3,109	7,475
<b>EXCISE TAXES, TOTAL</b>	958,321	1,067,535	1,200,400	1,252,327	1,304,024	1,419,353	1,312,716	1,473,827	1,410,346	1,341,949
<b>ALCOHOLIC BEVERAGES, TOTAL</b>	216,890	215,035	220,882	222,187	237,915	229,043	238,118	243,464	236,374	237,512
DISTILLED SPIRITS	48,537	48,535	45,864	50,586	54,934	51,855	48,034	47,519	49,425	46,963
BEER	161,484	159,471	168,555	162,630	172,425	167,321	178,465	181,348	170,065	177,448
OTHER BEVERAGES	6,869	7,029	6,463	8,971	10,556	9,867	11,619	14,597	16,884	13,101
<b>GENERAL TAXES , TOTAL</b>	741,431	852,500	979,518	1,030,140	1,066,109	1,190,310	1,074,598	1,230,363	1,173,972	1,104,437
CIGARETTES	102,400	106,740	115,453	107,943	107,177	120,287	111,094	119,105	115,157	119,135
PETROLEUM PRODUCTS	8,742	13,415	12,782	16,706	20,006	22,095	6,172	5,562	4,689	7,046
MOTOR VEHICLE	178,329	217,012	275,654	319,676	307,931	365,820	350,004	411,573	389,995	406,252
HORSE RACES	17,062	27,068	28,899	30,828	29,535	29,138	27,401	21,405	26,351	18,893
INSURANCE PREMIUMS	16,570	14,289	22,687	20,942	20,748	19,430	19,364	20,368	21,564	22,845
CEMENT	1,563	1,616	1,773	1,849	1,901	2,234	1,702	2,417	2,531	2,707
SLOT MACHINES	-	-	-	-	-	-	12,230	26,330	30,869	-
CRUDE OIL AND DERIVED PRODUCTS	120,374	130,465	152,911	139,594	157,742	158,739	51,636	70,056	24,786	1,901
5% GENERAL EXCISE TAX	279,812	325,056	346,015	367,545	396,689	446,500	468,425	520,351	525,561	508,972
HOTEL ROOMS	7,189	7,845	9,152	10,800	11,237	12,139	13,299	15,923	17,275	-
OTHERS	9,390	8,994	14,192	14,257	13,143	13,928	13,271	17,273	15,194	16,686
<b>LICENSES</b>	46,842	48,251	49,084	49,100	50,467	53,535	66,167	70,848	73,801	76,338
MOTOR VEHICLES	36,964	38,560	39,257	38,530	39,667	42,354	46,268	46,781	49,133	49,834
ENTERTAINMENT MACHINES	-	-	-	-	-	-	7,327	9,235	10,545	11,322
ALCOHOLIC BEVERAGES AND OTHERS	9,878	9,691	9,827	10,570	10,800	11,181	12,572	14,832	14,123	15,182
<b>NON-TAX REVENUE</b>	216,125	236,818	246,450	248,704	245,598	240,661	271,235	288,888	303,234	427,451
TRADITIONAL LOTTERY	60,597	70,821	62,348	63,317	60,856	52,829	57,986	59,206	63,779	57,482
ELECTRONIC LOTTERY	59,091	56,284	52,193	59,414	57,008	47,994	54,681	53,013	70,209	70,211
TRANSFER IN FROM NON-BUDGETED FUNDS	-	-	-	-	-	-	-	-	-	89,093
MISCELLANEOUS	96,437	109,713	131,909	125,973	127,734	139,838	158,568	176,669	169,246	210,665
<b>FROM NON-INTERNAL REVENUE</b>	288,066	257,473	307,762	299,647	272,698	264,869	272,466	278,651	295,981	330,044
CUSTOM DUTIES	93,038	89,741	122,477	112,153	77,781	61,114	72,206	61,355	50,231	43,154
EXCISES ON OFF-SHORE SHIPMENTS	195,028	167,732	185,285	187,494	194,917	203,755	200,260	217,296	245,750	286,890

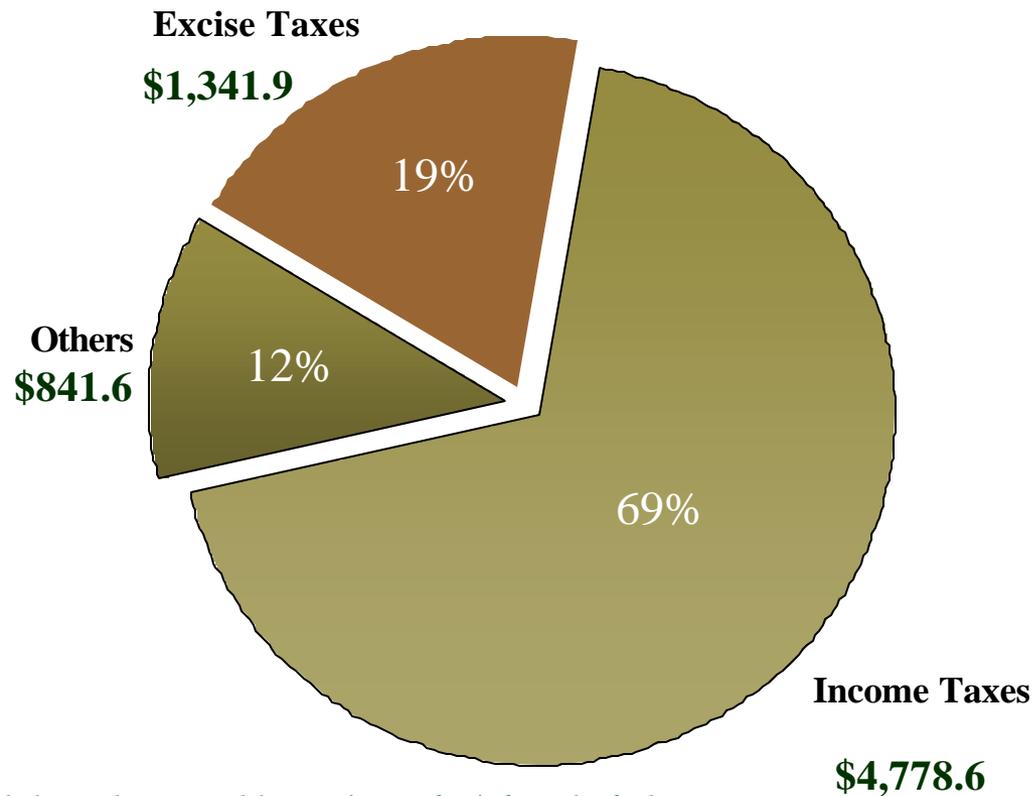
Note : The net revenue presented above include the actual revenue and the operating transfers-in from other funds presented in the combined statement of revenue and expenditures – budget and actual – budget basis.

r- revised

p-preliminary

# Commonwealth of Puerto Rico General Fund Net Revenues

For the fiscal year 2001  
(In millions)

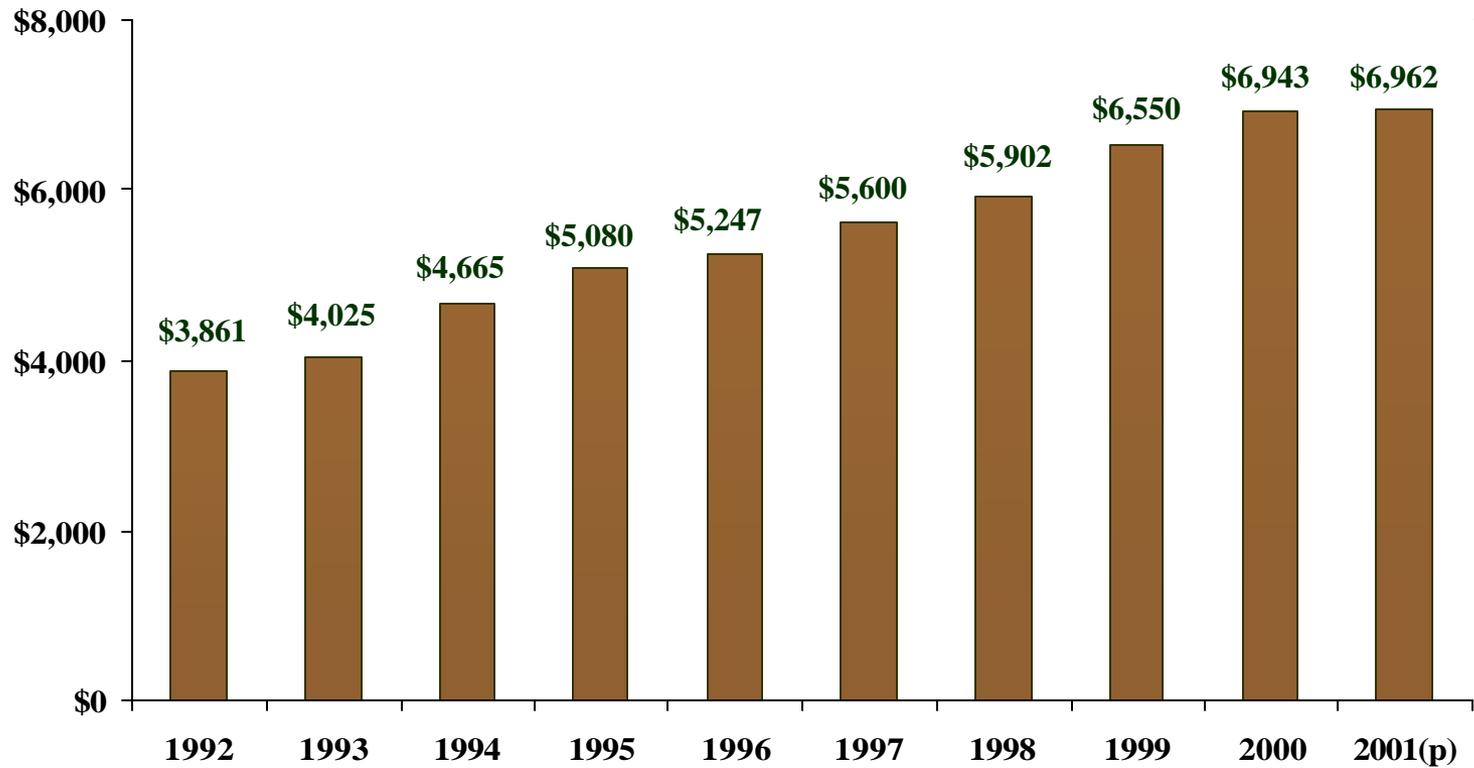


Note: The net revenue presented above include the actual revenue and the operating transfers-in from other funds presented in the combined statement of revenue and expenditures – budget and actual – budget basis.

Source: Puerto Rico Department of the Treasury

# Commonwealth of Puerto Rico General Fund Net Revenues

For the last ten fiscal years  
(In millions)

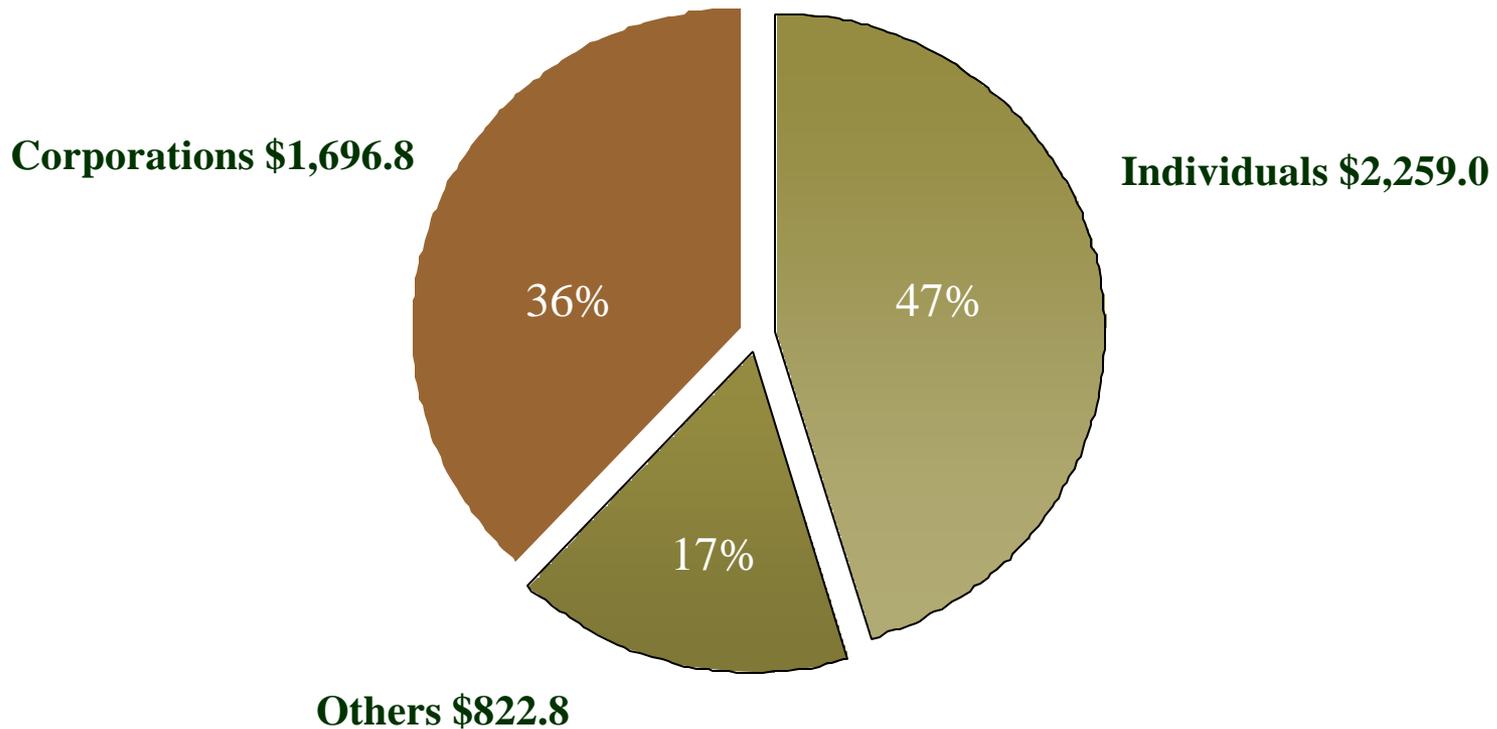


Note: The net revenue presented above, include the actual revenue and the operating transfers-in from other funds presented in the combined statement of revenue and expenditures – budget and actual – budget basis.

(p) Preliminary

# Commonwealth of Puerto Rico Income Tax Receipts

For the fiscal year 2001  
(In millions)



**Commonwealth of Puerto Rico**  
**Gross Product**  
**For the last ten fiscal years**  
**(In millions)**

	2001 (p)	2000 (p)	1999 (r)	1998	1997	1996	1995	1994	1993	1992
Gross product - (current prices)	\$ 43,979	\$ 41,366	\$ 38,297	\$ 35,160	\$ 32,342	\$ 30,357	\$ 28,452	\$ 26,641	\$ 25,133	\$ 23,696
Real gross product - (1992 prices)	31,429	30,746	29,810	28,617	27,727	26,813	25,964	25,101	24,481	23,696
Increase in real gross product (%)										
Puerto Rico	1.7p	3.1	4.2	3.2	3.4	3.3	3.4	2.5	3.3	0.8
United States (1)	2.8p	4.4	3.9	4.4	4.0	2.8	3.6	3.1	3.2	1.2

p - preliminary

r - revised

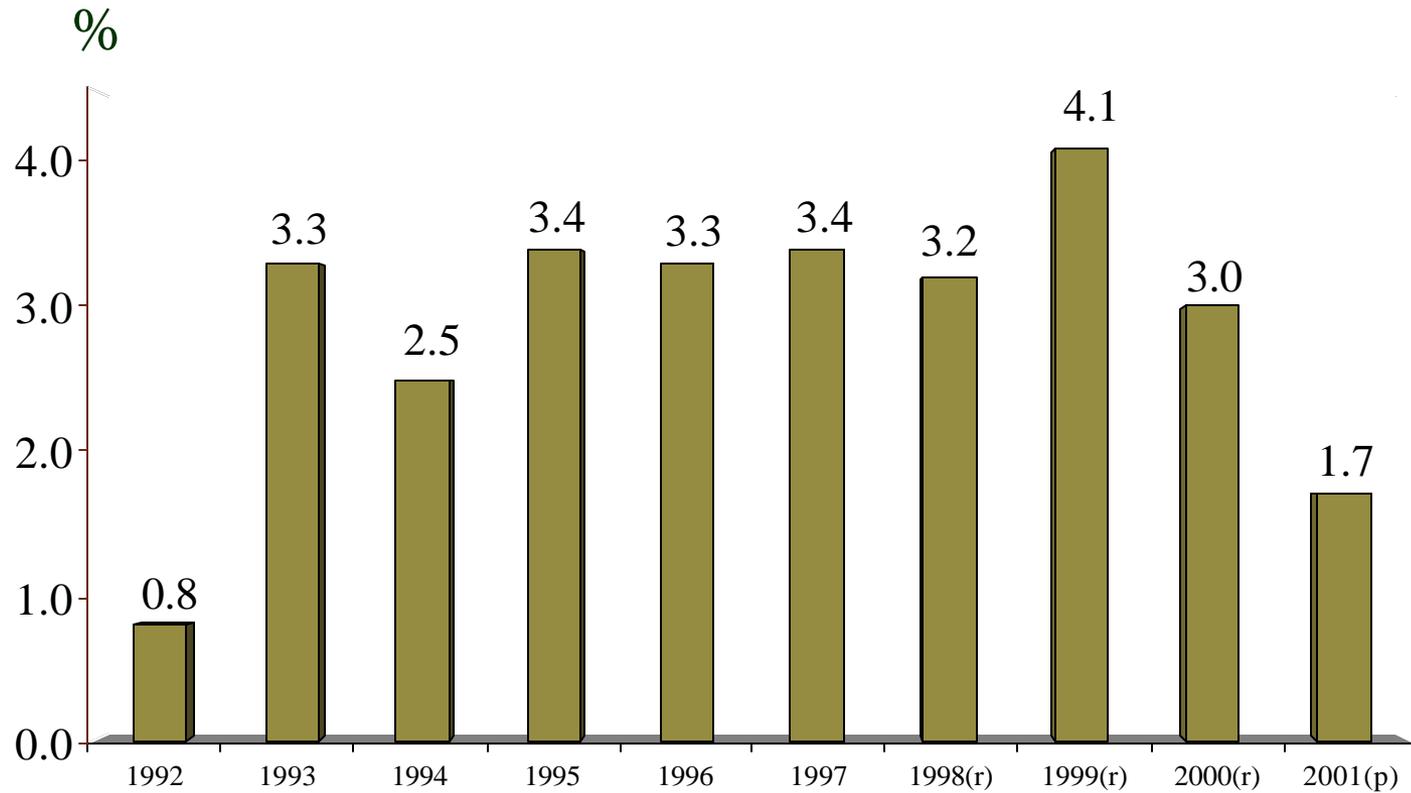
Source: Puerto Rico Planning Board and the Government Development Bank for Puerto Rico

(1) Base in 1996 Chained Method

# Commonwealth of Puerto Rico

## Real Gross Product Growth

For the last ten fiscal years



(p) Preliminary

(r) Revised

Source: Puerto Rico Planning Board.

**Commonwealth of Puerto Rico  
Employment and Unemployment  
For the last ten fiscal years  
(In thousands)**

Fiscal year	Labor force	Employed	Unemployed	Unemployment rate (%)
2001	1,293	1,158	135	10.5
2000	1,303	1,160	143	11.0
1999	1,310	1,147	163	12.5
1998	1,316	1,137	179	13.6
1997	1,298	1,128	170	13.1
1996	1,267	1,092	175	13.8
1995	1,219	1,051	168	13.8
1994	1,203	1,011	192	16.0
1993	1,201	999	202	16.8
1992	1,170	977	193	16.5

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

**Commonwealth of Puerto Rico  
Average Employment by Sector  
For the last ten fiscal years  
(In thousands)**

Sector	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Agriculture	22	24	27	31	31	32	34	34	34	34
Manufacturing	159	159	159	161	161	167	172	166	168	164
Construction (1)	85	85	78	69	64	59	57	54	59	56
Trade	242	239	229	236	228	218	211	201	201	193
Finance , insurance and real estates	40	42	43	40	37	39	36	33	32	32
Transportation , communications and public utilities	56	55	59	59	59	61	59	55	54	55
Services	302	307	306	297	285	270	249	244	234	224
Government (2)	252	249	246	244	263	246	233	224	217	219
<b>Total</b>	1,158	1,160	1,147	1,137	1,128	1,092	1,051	1,011	999	977

Note : Includes population of ages 16 years and older

(1) Includes mining.

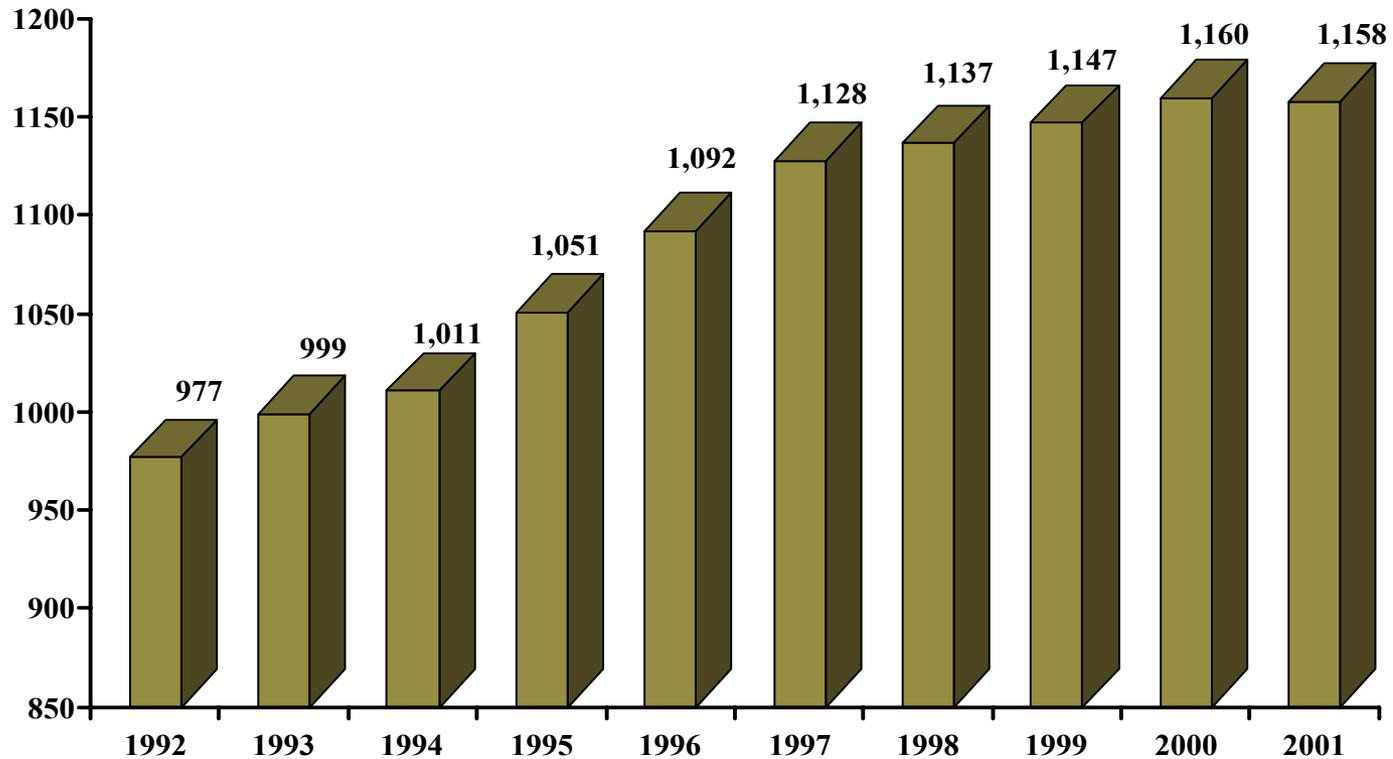
(2) Includes the Commonwealth, its municipalities and federal government, and excludes public corporations.

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

# Commonwealth of Puerto Rico

## Employment

For the last ten fiscal years  
(In thousands)



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

**Commonwealth of Puerto Rico**  
**Tourism Indicators**  
**For the last ten fiscal years**

	2001(p)	2000	1999	1998	1997	1996	1995	1994	1993	1992
All hotels and hostelry registration	1,833,504	1,674,092	1,637,620	1,570,683	1,461,567	1,400,815	1,302,387	1,177,571	1,087,949	1,001,303
Occupancy rates	67.0%	70.7%	71.9%	67.3%	69.8%	69.0%	68.0%	68.7%	68.5%	66.3%
Numbers of rooms	12,353	11,928	11,102	11,848	10,869	10,265	10,251	9,519	8,581	8,415
Visitors expenditures*	N/A	\$ 2,388	\$ 2,138	\$ 2,232	\$ 2,046	\$ 1,898	\$ 1,826	\$ 1,728	\$ 1,628	\$ 1,520

\*Amounts expressed in millions of dollars

N/A Not available.

Sources: Puerto Rico Tourism Company and Puerto Rico Planning Board

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*Thomas A. Chew*  
President

*Jeffrey L. Euse*  
Executive Director

The Commonwealth of Puerto Rico has been honored consecutively with the “Certificate of Achievement for Excellence in Financial Reporting”, by the Government Finance Officers Association of the United States and Canada, for the fiscal years ended June 30, 1996, 1997, 1998, 1999 and 2000.

We are proud of this achievement and congratulate our associates for their excellence.