KPMG

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Board of Directors
Government Development Bank for Puerto Rico:

We have audited the accompanying combined balance sheet of Government Development Bank for Puerto Rico (the "Bank"), a component unit of the Commonwealth of Puerto Rico, as of June 30, 2001, and the related combined statements of revenues, expenses and changes in fund equity and of cash flows for the year then ended. These combined financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these combined financial statements, based on our audit. The combined financial statements of the Bank and the related combining statements for the year ended June 30, 2000 were audited by other auditors whose opinion dated September 8, 2000 expressed an unqualified opinion.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Government Development Bank for Puerto Rico as of June 30, 2001, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2(p) to the accompanying combined financial statements, effective July 1, 2000 the Bank adopted the provisions of Financial Accounting Standards Board's Statement No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities."

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The combining balance sheet information as of June 30, 2001 and the related combining statements of revenue, expenses and changes in fund equity information and cash flows information for the year then ended are presented for the purpose of additional analysis and are not a required part of the basic combined financial statements. This additional information is the responsibility of the Bank's management. This information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic combined financial statements taken as a whole.

KPMG LLP

September 21, 2001, except for note 19, which is dated December 17, 2001

Stamp No. 1746958 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

# COMBINED BALANCE SHEET

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

June 30, 2001 and 2000 (in thousands)

| ASSETS | 2001 | 2000 |
|---|---|---|
| Cash and due from banks (note 3) | $ 15,651 | 16,452 |
| Federal funds sold and securities purchased under agreements to resell (notes 3 and 4) | 1,605,540 | 782,104 |
| Deposits placed with banks (notes 3 and 4) | 20,966 | 82,483 |
| Investments and investment contracts (note 4) | 1,620,489 | 3,199,590 |
| Loans and other receivables, net: (note 5) | | |
| Public sector entities and municipalities of the Commonwealth of Puerto Rico | 3,710,506 | 3,329,042 |
| Private sector and other, net of allowance for loan losses of $18,148 in 2001 and $15,455 in 2000 | 144,468 | 218,253 |
| Total loans and other receivables, net | 3,854,974 | 3,547,295 |
| Accrued interest receivable: | | |
| Investments and money market instruments | 10,202 | 40,134 |
| Loans to public sector entities and municipalities of the Commonwealth of Puerto Rico | 258,173 | 179,891 |
| Loans to the private sector | 1,038 | 1,333 |
| Total accrued interest receivable | 269,413 | 221,358 |
| Tax lien receivables (notes 2g and 10) | 96,864 | 285,898 |
| Accounts receivable from CRIM and the Commonwealth of Puerto Rico (notes 5 and 10) | 208,594 | — |
| Real estate owned | 34,685 | 49,952 |
| Other assets | 96,420 | 67,355 |
| Total assets | $ 7,823,596 | 8,252,487 |

| LIABILITIES AND FUND EQUITY | 2001 | 2000 |
|---|---|---|
| Deposits, principally from the Commonwealth of Puerto Rico and its public entities: (notes 4 and 6) | | |
| Demand | $ 2,392,064 | 2,047,353 |
| Certificates of deposit | 766,590 | 1,500,154 |
| Total deposits | 3,158,654 | 3,547,507 |
| Certificates of indebtedness (notes 4 and 8) | 253,216 | 197,881 |
| Securities sold under agreements to repurchase (notes 4 and 7) | — | 19,850 |
| Commercial paper (note 9) | 1,250,430 | 1,408,832 |
| Accrued interest payable | 29,366 | 60,358 |
| Allowance for losses on guarantees and letters of credit | 46,759 | 38,139 |
| Other (note 5) | 198,846 | 54,320 |
| Total liabilities, excluding other borrowed funds | 4,937,271 | 5,326,887 |
| Other borrowed funds: (notes 4 and 10) | | |
| Notes payable | 21,241 | 116,778 |
| Bonds payable, net | 1,132,999 | 1,161,673 |
| Total other borrowed funds | 1,154,240 | 1,278,451 |
| Total liabilities and other borrowed funds | 6,091,511 | 6,605,338 |
| Fund equity: | | |
| Contributed capital | 20,500 | 20,500 |
| Retained earnings | 1,711,585 | 1,626,649 |
| Total fund equity | 1,732,085 | 1,647,149 |
| Commitments and contingencies (notes 10, 13, 14, 15, and 19) | | |
| Total liabilities and fund equity | $ 7,823,596 | 8,252,487 |

See accompanying notes to combined financial statements.

Years ended June 30, 2001 and 2000 (in thousands)

# COMBINED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND EQUITY



| | 2001 | 2000 |
|---|---|---|
| Investment income: | | |
| Interest income on federal funds sold and securities purchased under agreements to resell | $ 36,473 | 30,309 |
| Interest income on deposits placed with banks | 6,623 | 10,587 |
| Interest and dividend income on investments and investment contracts and tax lien receivables held in trust | 125,321 | 153,084 |
| Net decrease in fair value of investments | (10,998) | (7,540) |
| Total | 157,419 | 186,440 |
| Interest income on loans receivable (note 5): | | |
| Public sector entities and municipalities of the Commonwealth of Puerto Rico | 242,823 | 223,590 |
| Private sector | 13,162 | 15,924 |
| Total | 255,985 | 239,514 |
| Total investment income | 413,404 | 425,954 |
| Interest expense: | | |
| Deposits | 145,074 | 139,146 |
| Certificates of indebtedness (note 8) | 9,560 | 10,490 |
| Federal funds purchased and securities sold under agreements to repurchase (note 7) | 5,504 | 1,695 |
| Commercial paper (note 9) | 42,843 | 48,982 |
| Other borrowed funds | 70,556 | 77,860 |
| Total interest expense | 273,537 | 278,173 |
| Net investment income | 139,867 | 147,781 |
| (Provision) credit for loan losses (note 5) | (2,678) | 2,433 |
| Net investment income after credit for loan losses | 137,189 | 150,214 |
| Noninterest income: | | |
| Fiscal agency fees | 5,971 | 3,593 |
| Commitment, service and administrative fees | 17,427 | 16,196 |
| Income from sponsored housing programs | — | 122 |
| Other | 15,315 | 17,588 |
| Total noninterest income | 38,713 | 37,499 |
| Noninterest expense: | | |
| Salaries and fringe benefits (note 13) | 20,747 | 20,380 |
| Occupancy and equipment costs (note 14) | 6,734 | 5,422 |
| Professional fees | 17,954 | 21,774 |
| Provision for loss on real property taxes receivable (note 5) | — | 5,000 |
| Provision (credit) for losses on guarantees and letters of credit | 24,052 | (2,613) |
| Construction of Puerto Rico Art Museum (note 14b) | 1,477 | 19,057 |
| Other (note 14b) | 20,002 | 16,193 |
| Total noninterest expense | 90,966 | 85,213 |
| Net income | 84,936 | 102,500 |
| Fund equity at beginning of year | 1,647,149 | 1,544,649 |
| Fund equity at end of year | $ 1,732,085 | 1,647,149 |

See accompanying notes to combined financial statements.

# COMBINED STATEMENTS OF CASH FLOWS

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

Years ended June 30, 2001 and 2000 (in thousands)

| | 2001 | 2000 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 84,936 | 102,500 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Net decrease in fair value of investments | 10,998 | 7,540 |
| Gain on sale of real estate owned | (3,822) | (1,310) |
| Net unrealized loss on derivatives | 712 | — |
| Provision (credit) for loan losses | 2,678 | (2,433) |
| Provision for loss on real property taxes receivable | — | 5,000 |
| Provision (credit) for losses on guarantees and letters of credit | 24,052 | (2,613) |
| Provision for loss on valuation of real estate owned | — | 3,000 |
| Provision for losses on other assets | 1,573 | — |
| Disbursements for obligations guaranteed | (15,432) | — |
| Depreciation and amortization | 2,978 | 1,730 |
| Interest and dividend income, excluding low-income housing loans | (415,920) | (423,403) |
| Interest expense | 274,249 | 278,173 |
| Other | (3,169) | — |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accrued interest receivable on low-income housing loans | 247 | (144) |
| Other assets | (30,941) | (26,353) |
| (Decrease) increase in other liabilities | (20,134) | 1,633 |
| Net cash used in operating activities | (86,995) | (56,680) |
| Cash flows from investing activities: | | |
| Interest and dividends collected | 353,902 | 274,410 |
| Net increase in federal funds sold and securities purchased under agreements to resell | (823,436) | (210,068) |
| Net decrease in deposits placed with banks and commercial paper | 61,535 | 120,537 |
| Proceeds from redemptions of investments | 5,679,575 | 4,358,271 |
| Proceeds from sales of investments | 328,790 | 443,286 |
| Proceeds from sales and other real estate owned transactions | 22,646 | 14,246 |
| Purchases of investments | (4,428,504) | (4,605,013) |
| Proceeds from sale of loans | — | 532,690 |
| Principal collected on loans to: | | |
| Public sector entities and municipalities of the Commonwealth of Puerto Rico | 2,163,656 | 1,166,788 |
| Private sector | 52,634 | 34,237 |
| Principal collected on tax lien receivables | 19,285 | 22,860 |
| Loans originated to: | | |
| Public sector entities and municipalities of the Commonwealth of Puerto Rico | (2,544,630) | (1,911,197) |
| Private sector | (3,334) | (21,327) |
| Low-income housing loans originated | (13,147) | (22,080) |
| Repayment of low-income housing loans | 22,359 | 31,326 |
| Net cash provided by investing activities | 891,331 | 228,966 |
| Cash flows from noncapital financing activities: | | |
| Interest paid | (259,507) | (238,080) |
| Net decrease in deposits | (391,814) | (112,328) |
| Net (decrease) increase in certificates of indebtedness | 96,219 | (24,500) |
| Net decrease in securities sold under agreements to repurchase | (19,850) | (57,344) |
| Net (decrease) increase in commercial paper | (161,326) | 498,943 |
| Proceeds from issuance of notes and bonds payable | 17,720 | — |
| Payment of bond issue costs | (157) | — |
| Matured notes and bonds payable | (83,063) | (422,897) |
| Net cash used in noncapital financing activities | (801,778) | (356,206) |
| Cash used in capital and related financing activities – capital expenditures for real estate owned | (3,359) | (6,279) |
| Net decrease in cash and due from banks | (801) | (190,199) |
| Cash and due from banks at beginning of year | 16,452 | 206,651 |
| Cash and due from banks at end of year | $ 15,651 | 16,452 |

Years ended June 30, 2001 and 2000 (in thousands)

| | 2001 | 2000 |
|---|---|---|
| Noncash financing and investment activities: | | |
| Transfers from loans to real estate owned | $ — | 7,166 |
| Capitalized interest on loans | $ 1,935 | 51,710 |
| Capitalized interest recognized as payable at June 30 | $ 311 | — |
| Accretion of discount on: | | |
| Deposits placed with banks and commercial paper | $ 18 | — |
| Nonparticipating investment contracts | $ 11,195 | 20,351 |
| Deposits | $ 5,539 | 4,087 |
| Commercial paper | $ 2,924 | 8,123 |
| Bonds payable | $ 36,670 | 36,787 |
| Decrease in fair value of investments | $ (10,998) | (7,540) |
| Unrealized loss on embedded derivative | $ (3,831) | — |
| Unrealized gain on swap (included in other assets) | $ 3,119 | — |
| Amortization of bond issue costs (included in interest expense) | $ 513 | — |
| Additions to real estate owned which remain unpaid at June 30 | $ 198 | 1,681 |
| Adjustment to reduce tax lien receivables and subordinated note payable (note 10) | $ 95,537 | — |
| Transfer from tax lien receivable to accounts receivable from CRIM and the Commonwealth (note 10) | $ 75,817 | — |
| Amount recoverable from the Commonwealth for losses on tax liens transactions (note 5) | $ 116,862 | — |
| Bifurcation of embedded derivative (included in other liabilities) from certificate of indebtedness | $ 43,462 | — |

See accompanying notes to combined financial statements.

**(1) ORGANIZATION**

Government Development Bank for Puerto Rico (the "Bank") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") created by Act No. 17 of September 23, 1948, as amended. The Bank's principal functions are to act as fiscal agent for the Commonwealth and its public entities and to make loans to public entities and private enterprises which will further the economic development of Puerto Rico. The charter of the Bank provides for its perpetual existence, and no amendment to the charter, or to any other law of Puerto Rico, shall impair any outstanding obligations or commitments of the Bank. The Bank is exempt from taxation in Puerto Rico, except for excise taxes. The Bank's charter, as amended, allows the Bank to invest in securities issued by any corporate entity engaged in the economic development of Puerto Rico, as well as to guarantee loans and other obligations incurred by public and private entities.

The Bank has the following component units: Puerto Rico Housing Finance Corporation (the "Housing Finance Corporation"), Puerto Rico Tourism Development Fund (the "Tourism Fund"), Puerto Rico Development Fund (the "Development Fund"), Puerto Rico Public Finance Corporation (the "Public Finance Corporation"), Government Development Bank for Puerto Rico Capital Fund (the "Capital Fund"), GDB Holdings Corporation (the "GDB Holdings"), and Puerto Rico Higher Education Assistance Corporation (the "Education Assistance Corporation").

The Housing Finance Corporation [refer to footnote 19(c)] was created in 1977 to provide public and private housing developers with interim and permanent financing through mortgage loans for the construction, improvement, operation, and maintenance of rental housing for low- and moderate-income families. The Housing Finance Corporation is authorized by the United States ("U.S.")Department of Housing and Urban Development to administer the U.S. Housing Act Section 8 program in Puerto Rico and to act as an approved mortgagee, both for multifamily rental units and for single-family homes. The Housing Finance Corporation also issues bonds and notes, the proceeds of which are deposited in separate trusts and generally invested in federally insured mortgage loans on properties located in Puerto Rico and purchased by low- and moderate-income families. In addition, it is an authorized issuer of Government National Mortgage Association ("GNMA") mortgage-backed securities. The Housing Finance Corporation is also Puerto Rico's State Credit Agency for Low-Income Housing Tax Credit program under Section 42 of the U.S. Internal Revenue Code.

The Tourism Fund was created in 1993 to promote the hotel and tourism industry of the Commonwealth, primarily through the issuance of letters of credit and guarantees. The Tourism Fund is also authorized to make capital investments and provide direct financing to tourism-related projects.

The Development Fund was created in 1977 to expand the sources of financing available for the development of the private sector of the economy of Puerto Rico and to complement the Bank's lending program. The Development Fund may also guarantee obligations of private sector enterprises and invest in their equity securities.

The Public Finance Corporation was created in 1984 to provide the agencies and instrumentalities of the Commonwealth with alternate means of satisfying financial needs. The Resolution creating the Public Finance Corporation states that if it were to be dissolved or cease to exist without a successor public entity being appointed, any funds or assets not required for the payment of its bonds or any other obligation, will be transferred to the Secretary of the Treasury of the Commonwealth for deposit in the Commonwealth General Fund.

The Capital Fund was created in 1992 to expand the investment options available to the Bank and administer, separately from the Bank's investment operations, the investment process through experienced, proven, and professional equity investment managers. In February 2001, the board of directors of the Bank approved to gradually phase out the investments within the Capital Fund.

GDB Holdings was created in 1999 to hold, administer, and dispose of any or all of the shares of any corporation which may be transferred to the Bank by Puerto Rico Telephone Authority ("PRTA"), for the exclusive benefit of the Retirement System of the Commonwealth and its instrumentalities. GDB Holdings was liquidated in 2000.

The Education Assistance Corporation was created in 1981 to administer the Stafford Loan Program in Puerto Rico and guarantee the payment of student loans granted by financial institutions in Puerto Rico under certain terms and restrictions. The operations of this component unit were transferred to a guarantee agency designated by the U.S. Department of Education. The Education Assistance Corporation is currently inactive and is expected to be liquidated.

The board of directors has, during a number of years, designated a portion of the annual net income of the Bank as permanent capital. Cumulative designations at June 30, 2001 and 2000 amounted to $1.3 billion.

The Bank and its component units are exposed to various risks of loss related to torts, theft, casualty, errors and omissions, and other losses for which the Bank carries commercial insurance. Also, the Bank obtains workers' compensation coverage from another component unit of the Commonwealth. Settlements made during fiscal years 2001, 2000, and 1999 did not exceed insurance coverage.

## (2) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Bank and its component units conform to accounting principles generally accepted in the United States of America ("GAAP"), as applicable to governmental entities.

The accompanying combined financial statements include the accounts of the Bank and its component units. All significant transactions between the Bank and its component units have been eliminated in the accompanying combined financial statements.

The balances and transactions of the component units discussed above have been blended with those of the Bank in accordance with GAAP because, while legally separate, they were created and can be dissolved through resolutions of the Bank's board of directors. The board of directors of each of the component units is substantively the same as that of the Bank. A copy of the financial statements of each component unit may be obtained from the Bank.

The Bank applies all applicable Governmental Accounting Standards Board ("GASB") pronouncements, as well as statements and interpretations issued by the Financial Accounting Standards Board ("FASB"), Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARBs") of the Committee on Accounting Procedures that do not conflict with or contradict GASB pronouncements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reported period. Actual results could differ from those estimates. Following is a description of the most significant accounting policies:

*(a)* *Statements of Cash Flows*

The accompanying combined statements of cash flows are presented in accordance with the provisions of GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, items in process of collection, and restricted cash held by trustees.

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

The Bank enters into purchases of securities under agreements to resell. The amounts advanced under these agreements generally represent short-term loans and are reflected as an asset in the accompanying combined balance sheets.

*(c) Investments and Investment Contracts*

Investments and investment contracts are carried at fair value, except for money market instruments and participating investment contracts with a remaining maturity at the time of purchase of one year or less; nonparticipating investment contracts, which are carried at cost; and investment positions in a 2a – 7-like external investment pools, which are carried at the pools' share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in net decrease in fair value of investments in the accompanying combined statements of revenue, expenses and changes in fund equity.

*(d) Loans*

Loans are presented at the outstanding unpaid principal balance reduced by any charge-offs and the allowance for loan losses. The accrual of interest on loans to the private sector ceases when loans become past due over six months. For loans to public sector entities, the accrual of interest ceases when management determines that all of the following characteristics are present: (a) a loan is six months past due, (b) has no current source of repayment, (c) is not covered by a formal commitment from the Commonwealth, and (d) has no designated collateral or such collateral is insufficient. Once a loan is placed in nonaccrual status, all accrued interest receivable is reversed from interest income. Interest income on nonaccrual loans is thereafter recognized as income only to the extent actually collected. The allowance for loan losses is established through provisions charged to income. The allowance is based on management's evaluation of the risk characteristics of the loan including such factors as the nature of individual credits outstanding, past loss experience, known and inherent risks in the portfolios, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and general economic conditions. Loan charge-offs are recorded against the allowance when management believes that the collectibility of the principal is unlikely. Recoveries of amounts previously charged off are credited to the respective allowance.

Loans considered to be impaired are generally reduced to the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, by allocating a portion of the allowance for loan losses to such loans. If these allocations cause increases to the allowance for loan losses, such increase is reported as provision for loan losses. Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a loan to be impaired when it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Interest income and cash receipts on impaired loans are accounted predominantly in the same manner as nonaccrual loans.

Management believes that no losses will be incurred by the Bank with respect to principal and interest on loans to the public sector (including municipalities), and, as a result, such loans are excluded from impairment classification and no allowance for loan losses is generally established for them. For public sector loans, excluding municipalities, management bases its position in that in the past, the Director of the Office of Management and Budget of the Commonwealth ("OMB") has included in the budget of the Commonwealth appropriations to assist certain public sector corporations, agencies, and instrumentalities in repaying their loans with the Bank. The legislature has generally approved these appropriations, and such practice is intended to continue in the future. In addition, loans financing the capital improvement programs of certain public corporations are generally bound and subject to repayment from the proceeds of future bonds issuance from these public corporations. Puerto Rico is one of the U.S. jurisdictions with the highest participation in the bond issuance market. The public corporations and the Commonwealth have never defaulted on its bonds obligations. Although management of the Bank believes that no losses of principal and interest will be incurred by the Bank with respect to loans to the public sector, there can be no assurance that the Director of OMB will include in the Commonwealth budget, and that the Legislature will appropriate, sufficient funds in the future to cover all amounts due to the Bank by public sector entities requiring such support. Also, the participation of certain public corporations in the bond issuance market has been delayed waiting for the credit standing of the issuer to become more favorable. Because of the relationship among the Bank, the public sector entities, the Director of OMB, and the Legislature, the timing and amount of any financial assistance and bonds proceeds to be provided to certain entities in repaying their loans cannot be reasonably estimated by the Bank, and therefore no allowance has been established in the case of public sector loans for any shortfall between the present value of the expected future cash flows and the recorded investment in the loans. Loans to municipalities are collateralized by a pledge of a portion of property tax assessments of each municipality.

From time to time, the Bank sells at par selected loans granted to municipalities of Puerto Rico to the Puerto Rico Municipal Finance Agency ("MFA"), a component unit of the Commonwealth organized to create a capital market to assist municipalities in financing their public improvements program. These loans, when sold, are pledged to secure the debt service payments for the bonds issued by MFA. Loans sold in 2000 (none in 2001) amounted to approximately $533 million.

*(e) Allowance for Losses on Guarantees and Letter of Credit*

Management of the Bank periodically evaluates the credit risk inherent in the guarantees and letters of credit on the same basis as loans are evaluated. The Bank charges to income the amount required to cover estimated losses by establishing a specific allowance component for guarantees and letters of credit relating to loans in default, determined on the basis of the estimated future net cash outlays in connection with the related guarantees, and a general component for the risk inherent in the other guarantees and letters of credit outstanding, established as a percentage of the principal amount of the underlying loans based on the Bank's charge-off experience on financial guarantees and management's best judgment.

The concentration of risk in the guarantees and letters of credit issued, predominantly those issued by the Tourism Fund (small number of large guarantees, geographical concentration in Puerto Rico, industry concentration in hotel and tourism), as well as the limited historical loss experience and other factors, compounds the uncertainty in management's estimate of the allowance for losses on guarantees and letters of credit. As a result, the aggregate losses on guarantees and letters of credit ultimately incurred by the Bank may differ from the allowance for losses as reflected in the accompanying combined financial statements, and such differences may be material.

The Executive Director of the Tourism Fund is required to certify each year to the Director of OMB the amount, if any, that is necessary to reimburse the Tourism Fund for disbursements made in the previous year, in connection with obligations guaranteed in excess of fees and charges collected on such guarantees. The Director of the OMB has to include the amount subject to reimbursement in the General Budget of the Commonwealth for the following fiscal year for the Legislature's consideration and approval. The Legislature is not obligated to authorize such appropriations. As of June 30, 2001, no reimbursements had been requested by the Executive Director of the Tourism Fund to the Director of OMB. However, during the fiscal year ended June 30, 2001, the Tourism Fund made payments under its guarantees and letters of credits in an aggregate amount of $15,431,437 (see note 11). These payments exceeded the related fees and charges collected by $8,462,909. Reimbursements from the Commonwealth, if any, will be recorded as a receivable to the extent appropriated by the Commonwealth's Legislature.

*(f) Loan Origination Costs and Commitment Fees*

Statement of Financial Accounting Standards ("SFAS") No. 91, "Accounting for Nonrefundable Fees and Costs Associated With Originating or Acquiring Loans and Initial Direct Costs of Leases," requires that loan origination and commitment fees and direct origination costs be amortized over the contractual life of the related loan. The Bank generally recognizes commitment fees as income when collected and the related loan origination costs as expense when incurred. In the opinion of management, the difference between the two methods does not have a significant effect on the Bank's financial position and results of operations.

*(g) Tax Lien Receivables*

Tax lien receivables represent claims for the amount of ad valorem taxes assessed on real property located in Puerto Rico purchased from the "Centro de Recaudación de Ingresos Municipales ('CRIM')." These receivables accrue interest at an annual rate of 15 percent, compounded monthly, however, interest is recognized as income when collected, due to uncertainty of collection. These receivables are held by a trustee under the trust indenture created in connection with the issuance of the Tax Debt Collateralized Bonds described on note 10.

*(h) Real Estate Owned*

Real estate owned comprises properties acquired through foreclosure proceedings. It also includes loans that are treated as if the underlying collateral had been foreclosed because the Bank or the Housing Finance Corporation has taken possession of the collateral, even though legal foreclosure or repossession proceedings have not taken place. Those properties are carried at the lower of fair value minus estimated costs to sell or cost. At the time of acquisition of properties in full or in partial satisfaction of loans, any excess of the loan balance over the fair value of the properties minus estimated costs to sell is charged against the allowance for loan losses. Subsequent declines in the value of real estate owned are charged to expense when it is probable that a loss will be incurred. Results of operations related to real estate owned are included within other – noninterest income in the accompanying combined statements of revenue, expenses and changes in fund equity.

*(i) Premises and Equipment*

Premises and equipment, included as other assets, are stated at cost less accumulated depreciation and amortization. Depreciation is charged to operations and presented as noninterest expense and is computed on the straight-line basis over the estimated useful lives of the depreciable assets, which have been determined to be from three to five years for furniture and equipment. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Costs of maintenance and repairs, which do not improve or extend the lives of the respective assets, are charged to expense as incurred.

*(j) Securities Sold Under Agreements to Repurchase*

The Bank enters into sales of securities under agreements to repurchase. These agreements generally represent short-term financings and are reflected as a liability. The securities underlying these agreements are usually held by the broker, or his agent, with whom the agreement is transacted.

*(k) Refundings*

Refundings involve the issuance of new debt whose proceeds are used to repay immediately (current refunding) or at a future time (advance refunding) previously issued debt. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is recorded as an addition to or deduction from the new debt.

*(l)* *Housing Finance Corporation Trusts*

The Housing Finance Corporation issues notes and bonds in connection with the financing of low- and moderate-income housing projects. Certain of the obligations issued by the Housing Finance Corporation are considered no-commitment debt and are excluded, along with the related assets held in trust, from the accompanying combined financial statements. The Bank, the Commonwealth, and the Housing Finance Corporation, except for the assets held in trust and earnings thereon, are not liable directly or indirectly for the payment of such obligations.

The accounts of the Mortgage Trust II, III, and IV Collateralized Mortgage Obligations and the Homeownership Mortgage Revenue Bonds issued by the Housing Finance Corporation are included in the accompanying combined financial statements either because they represent general obligations of the Housing Finance Corporation or it maintains effective control over the assets transferred.

*(m)* *Transfers and Servicing of Financial Assets*

Transfers and servicing of financial assets and extinguishments of liabilities are accounted and reported based on a consistent application of a financial-components approach that focuses on control. This approach distinguishes transfers of financial assets that are sales from transfers that are secured borrowings.

Servicing assets and other retained interests in the assets transferred after December 31, 1996 are measured by allocating the previous carrying amount between the assets sold, if any, and retained interests, if any, based on their relative fair values at the date of the transfer. Prior to December 31, 1996, accounting pronouncements did not provide for recognition of servicing assets. Assets currently being serviced were transferred or sold prior to December 31, 1996; therefore no servicing assets have been recognized.

The Housing Finance Corporation services loans for investors and receives servicing fees, late charges, and other miscellaneous fees that are recognized as revenue as the related mortgage payments are collected.

*(n)* *Accounting and Financial Reporting for Securities Lending Transactions*

Governmental entities may enter from time to time in securities lending transactions in which governmental entities (lenders) transfer their securities to broker-dealers and other entities (borrowers) for collateral and simultaneously agree to return the collateral for the same securities in the future. Securities received as collateral should be reported as assets if the governmental entity has the ability to pledge or sell them without a borrower default. Liabilities resulting from these securities lending transactions also should be reported in the combined balance sheet. The Bank did not enter into securities lending transactions during fiscal years 2001 and 2000.

*(o)* *Accounting and Financial Reporting for Nonexchange Transactions*

In December 1998, the GASB issued Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" ("GASB Statement No. 33"). This statement establishes accounting and financial 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. Government mandated and voluntary nonexchange transactions, the most relevant to the Bank, frequently contain eligibility requirements established by the provider of resources. Until those requirements are met, the provider does not have a liability, the recipient does not have a receivable, and the recognition of expenses or revenue for resources transmitted in advance should be deferred. The Bank adopted GASB Statement No. 33 on July 1, 2000. The adoption of this statement did not have any effect on the combined financial statements of the Bank.

*(p) Derivative Instruments and Hedging Activities*

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities." The provisions of this statement changed the accounting treatment of derivative contracts employed as risk management strategies, as well as certain derivative-like instruments embedded in other contracts. SFAS No. 133 requires that all derivatives must be recorded on the balance sheet at their fair value and that the treatment of changes in the fair value of such instruments depends on the character of the derivative. The Bank partially adopted SFAS No. 133 as explained in the ensuing paragraphs.

For fair value hedges, in which derivatives hedge the fair value of assets and liabilities, changes in the fair value of derivatives are reflected in earnings, together with changes in the fair value of the related hedged item. At June 30, 2001 and 2000, the Bank had no fair value hedging derivatives.

For cash flow hedges, in which derivatives hedge the variability of cash flows related to floating rate assets, liabilities, or forecasted transactions, the accounting treatment depends on the effectiveness of the hedge. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, changes in the derivatives' fair value will not be included in current earnings but reported as other changes in equity, also known as other comprehensive income ("OCI"). These changes in fair value will be included in earnings of future periods when earnings are also affected by the variability of the hedged cash flows. The GASB is presently evaluating whether or not certain provisions of SFAS No. 133 contradict existing governmental accounting standards, which do not recognize the concept of OCI. As a result, the Bank decided not to adopt this statement for its existing cash flow hedges pending the resolution of this matter. Had the cash flow hedge provisions been adopted, the Bank would have recognized an asset of approximately $1.6 million with a corresponding increase in fund equity.

The fair value of derivative instruments not designated for hedging is recorded by the Bank in the balance sheet, and the change in fair value is reported in operations, as required by this statement. Derivative-like instruments embedded in contracts, that meet certain criteria prescribed in SFAS No. 133 are separated from their host contract and carried at their fair value, while the host contract is accounted for based on the accounting principles generally accepted in the United States of America applicable to instruments of that type that do not contain embedded derivative instruments.

The adoption of this Statement had no significant cumulative effect on either earnings or fund equity at July 1, 2000.

*(q) Basic Financial Statements and Management Discussion and Analysis for State and Local Governments (GASB Statement No. 34)*

This statement establishes new financial reporting requirements for state and local governments. In the case of entities engaged only in business-type activities, this statement will require, among other things, the inclusion of management's discussion and analysis of the entity's financial activities, along with other required supplementary information. The Bank expects to implement this statement in fiscal year 2002.

## (3) CASH AND DUE FROM BANKS, FEDERAL FUNDS SOLD, SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL, AND DEPOSITS PLACED WITH BANKS

The reported amount and depository bank balances of deposits with financial institutions at June 30, 2001 were as follows:

| | Reported amount | Depository bank balance |
|---|---|---|
| | (in thousands) | |
| Cash and due from banks | $ 15,651 | 10,324 |
| Deposits placed with banks (nonparticipating investment contracts) | 20,966 | 20,966 |
| Federal funds sold | 1,605,540 | 1,605,540 |
| Total | $ 1,642,157 | 1,636,830 |

The total depository bank balance categorized by level of risk is as follows (in thousands):

| | |
|---|---|
| Amount insured by the Federal Depository Insurance Corporation | $ 682 |
| Uninsured and uncollateralized | 1,636,148 |
| Total depository bank balance | $ 1,636,830 |

Restricted cash and due from banks and deposits placed with banks at June 30, 2001 amounting to $3.3 million and $867,000, respectively, consist of accounts held by trustees under trust indentures created in connection with the issuance of bonds.

There were no securities purchased under agreements to resell at June 30, 2001. However, the average amount outstanding during the year amounted to approximately $78 million with the largest amount outstanding at any month-end amounting to approximately $282 million.

The reported amount and the fair value of securities purchased under agreements to resell at June 30, 2000 amounted to approximately $215.4 million. At June 30, 2000, these agreements mature within one month. At June 30, 2000, the underlying collateral, consisting primarily of investment securities, was held by the Bank or its agents in the Bank's name, except for $2.1 million for which the collateral was held by the counterparty. The Bank's investment policies establish minimum amounts of acceptable collateral, as well as the price of the securities in collateral. The market prices of the collateral are revised monthly, and the margin amount adjusted accordingly.

## (4) INVESTMENTS

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

- U.S. government and agencies obligations
- Certificates and time deposits
- Bankers acceptances

- Obligations of the Commonwealth of Puerto Rico, its agencies, municipalities, public corporation obligations, and instrumentalities
- Federal funds
- Securities purchased under agreements to resell
- World Bank securities
- Mortgage- and asset-backed securities
- Corporate debt, including investment contracts
- Stock of corporations created under the laws of the United States or the Commonwealth
- Options, futures and interest-rate swap agreements for hedging and risk control purposes, as well as for the creation of synthetic products which qualify under any of the foregoing investment categories
- Open-end mutual funds with acceptable underlying assets and rated AAA by Standard & Poor's or Aaa by Moody's

The Bank's investment policies also establish limitations and other guidelines on amounts to be invested in the aforementioned investment categories and on exposure by country. In addition, such policies provide guidelines on the institutions with which investment transactions can be entered into. In addition, the investment committee and the board of directors of the Bank will determine, from time to time, other transactions that the Investment and Treasury Departments may enter into.

The reported amount of investment securities as of June 30, 2001 and 2000 classified below into category 1, are insured or registered, or they are held by the Bank or its agent in the Bank's name.

Investments and investment contracts as of June 30, 2001 and 2000, consist of the following:

| | Category | Reported amount | Fair value |
|---|---|---|---|
| | | (in thousands) | |
| June 30, 2001: | | | |
| Obligations of the U.S. government, its agencies and instrumentalities | 1 | $ 382,261 | 382,261 |
| Obligations of the Puerto Rico government, its agencies and instrumentalities | 1 | 12,515 | 12,515 |
| Mortgage- and asset-backed securities | 1 | 850,395 | 850,395 |
| Corporate debt | 1 | 7,512 | 7,512 |
| Equity securities | 1 | 76,880 | 76,880 |
| Total investment classified into category | 1 | 1,329,563 | 1,329,563 |
| Investments held by counterparties as collateral certificates of indebtedness: | | | |
| Obligations of the U.S. government, its agencies and instrumentalities | | 83,019 | 83,019 |
| Nonparticipating investment contracts | | 188,545 | 258,672 |
| External investment pools | | 19,362 | 19,362 |
| Total investments and investment contracts | | $ 1,620,489 | 1,690,616 |

| | Category | Reported amount | Fair value |
|---|---|---|---|
| | | (in thousands) | |
| June 30, 2000: | | | |
| Obligations of the U.S. government, its agencies and instrumentalities | 1 | $ 1,332,517 | 1,332,517 |
| Obligations of the Puerto Rico government, its agencies and instrumentalities | 1 | 201,147 | 201,147 |
| Mortgage- and asset-backed securities | 1 | 915,974 | 915,974 |
| Corporate debt | 1 | 11,763 | 11,763 |
| Equity securities | 1 | 311,303 | 311,303 |
| Total investment classified in 1 | | $ 2,772,704 | 2,772,704 |
| Investments held by broker-dealer under agreements to repurchase: | | | |
| Obligations of the U.S. government, its agencies and instrumentalities | | 19,856 | 19,856 |
| Investments held by counterparties as collateral for certificates of indebtedness: | | | |
| Obligations of the U.S. government, its agencies and instrumentalities | | 135,173 | 135,173 |
| Nonparticipating investment contracts | | 253,533 | 254,433 |
| External investment pools | | 18,324 | 18,324 |
| Total investments and investment contracts | | $ 3,199,590 | 3,200,490 |

Investments in external investment pools were subject to regulatory oversight by the Commissioner of Financial Institutions of Puerto Rico, except for $501,655, which was not subject to regulatory oversight.

Investments and investment contracts, excluding equity securities and external investment pools, at June 30, 2001 are shown below by contractual maturity. Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | June 30, 2001 (in thousands) | | | | |
|---|---|---|---|---|---|
| | Obligations of the U.S. government, its agencies and instrumentalities | Obligations of the P.R. government, its agencies and instrumentalities | Corporate Debt | Non-participating investment contracts | Total |
| Within 1 year | $ 306,526 | — | 2,498 | 18,397 | 327,421 |
| After 1 to 5 years | 149,059 | — | 5,014 | — | 154,073 |
| After 5 to 10 years | 9,695 | — | — | 17,397 | 27,092 |
| After 10 years | — | 12,515 | — | 152,751 | 165,266 |
| Total | $ 465,280 | 12,515 | 7,512 | 188,545 | 673,852 |
| Mortgage- and asset-backed securities | | | | | 850,395 |
| Total | | | | | $ 1,524,247 |

As of June 30, 2001 and 2000, the Bank had pledged investments and investment contracts to secure the following:

| | 2001 | 2000 |
|---|---|---|
| | (in thousands) | |
| Payment of principal and interest on obligations issued by a component unit | $ 659,660 | 681,571 |
| Securities sold under agreements to repurchase | — | 19,850 |
| Certificates of deposits and certificates of indebtedness | 80,100 | 133,881 |
| Total | $ 739,760 | 835,302 |

Additional investments and investment contracts amounting to approximately $31.5 million and $36.7 million at June 30, 2001 and 2000, respectively, were held by trustee under the trust indenture created in connection with the issuance of the Tax Debt Collateralized Bonds described on note 10.

## (5) LOANS, RECEIVABLES AND ALLOWANCE FOR LOAN AND RECEIVABLE LOSSES

Loans to public sector entities at June 30 consist of the outstanding balance of credit facilities granted to:

| | 2001 | 2000 |
|---|---|---|
| | (in thousands) | |
| Public corporations and agencies of the Commonwealth (related-party loans) | $ 3,169,976 | 2,992,293 |
| Municipalities | 540,530 | 336,749 |
| Total | $ 3,710,506 | 3,329,042 |

Public sector loans which as of June 30, 2001 and 2000 were delinquent by 90 days or more amounted to approximately $1.1 billion each. Of this total, nonaccrual loans amounted to approximately $187 million and $209 million at June 30, 2001 and 2000, respectively. The gross interest income that would have been recorded if these loans had been accruing in accordance with their original terms would have amounted to approximately $13 million and $10 million in 2001 and 2000, respectively. Interest collected on these loans amounted to $15.6 million and $12.2 million in 2001 and 2000, respectively.

The Bank has provided various credit facilities to the Puerto Rico Aqueduct and Sewer Authority ("PRASA"), a component unit of the Commonwealth, which at June 30, 2001 and 2000 have an outstanding principal balance of approximately $865.6 million and $694.8 million, respectively.

The Bank has also provided various credit facilities to the Department of Health of Puerto Rico, formerly Puerto Rico Health Facilities Administration ("AFASS"), a component unit of the Commonwealth, which at June 30, 2001 and 2000 has an outstanding principal balance of approximately $654 million and $687.6 million, respectively. At June 30, 2001, credit facilities to AFASS amounting to approximately $544.4 million were being repaid through Legislative appropriations submitted annually by the Director of OMB.

Loans to the private sector include the outstanding principal balance of credit facilities granted by the Bank to private enterprises in Puerto Rico, the activities of which are deemed to further the economic development of Puerto Rico. These credit facilities amounted to $20.5 million and $68.9 million at June 30, 2001 and 2000, respectively. They also include the outstanding principal balance of mortgage loans ($123.9 million and $134.9 million at June 30, 2001 and 2000, respectively) granted by the Housing Finance Corporation to developers of multifamily housing units in Puerto Rico.

Included in receivables from the private sector are also the rights to collect real property taxes, which Public Finance Corporation purchased from the Commonwealth for $140 million in 1998. As of June 30, 2000, management, based on advice from outside consultants, believed that the present value of the future cash flows to be received in connection with these rights was lower than the acquisition amount and had therefore established an allowance to reduce the rights to the amount expected to be realized of approximately $14 million. During the fiscal year ended June 30, 2001, the remaining outstanding balance of these receivables (amounting to approximately $12.7 million) were also deemed unrecoverable. However, the Department of the Treasury of the Commonwealth has subsequently acknowledged that the Bank has incurred in losses as a result of this transaction and has agreed to compensate the Bank for this losses, as well as for the estimated losses that the Bank and Public Finance Corporation, its subsidiary, will incur in the proposed cancellation of delinquent tax debt transaction, more fully described in footnote 19 (f). Consequently, included as part of the debt restructuring described in footnote 19 (f), the Commonwealth has agreed to pay the Bank approximately $132.8 million, which is part of such restructuring. This amount was recorded effective June 30, 2001, and is included as accounts receivable from CRIM and the Commonwealth of Puerto Rico in the accompanying 2001 combined balance sheet. Thus, the remaining outstanding balance of these receivables ($12.7 million referred to above) were offset against the amount recoverable from Commonwealth. The Balance of this recovery, including amounts recovering losses of prior years, amounting to approximately $116.9 million, has been deferred (included in other liabilities in the accompanying 2001 combined balance sheet) until the proposed cancellation of delinquent tax debt transaction is completed (note 19 (f)), and recoverable amounts are collected.

Nonaccrual private sector loans amounted to approximately $26.2 million and $19.8 million at June 30, 2001 and 2000, respectively. The gross interest income that would have been recorded if these loans had been performing in accordance with their original terms would have amounted to $1.3 million and $1.1 million in 2001 and 2000, respectively. Interest collected on these loans amounted to approximately $500,000 and $420,000, in 2001 and 2000, respectively.

The following is a summary of the activity in the allowance for loan losses for the years ended June 30, 2001 and 2000:

| | 2001 | 2000 |
|---|---|---|
| | (in thousands) | |
| Balance at beginning of year | $ 15,455 | 19,328 |
| Provision (credit) charged to operations | 2,678 | (2,433) |
| Recoveries | 15 | 1,495 |
| Charge-offs | — | (2,935) |
| Balance at end of year | $ 18,148 | 15,455 |

The following is a summary of private sector loans considered to be impaired as of June 30, 2001 and 2000, and the related interest income for the years than ended:

| | 2001 | 2000 |
|---|---|---|
| | (in thousands) | |
| Recorded investment in impaired loans not requiring an allowance for loan losses | $ 399 | 2,564 |
| Recorded investment in impaired loans requiring an allowance for loan losses | 49,796 | 35,637 |
| Total recorded investment in impaired loans | $ 50,195 | 38,201 |
| Related valuation allowance | $ 13,321 | 8,770 |
| Average recorded investment in impaired loans | $ 44,198 | 32,640 |
| Interest income recognized | $ 1,110 | 1,117 |

Mortgage loans amounting to $34 million and $37.6 million at June 30, 2001 and 2000, respectively, are restricted and held in trust under trust indentures created in connection with the issuance of bonds.

## (6) DEPOSITS

Deposits consist predominantly of interest-bearing demand accounts, special government deposit accounts, and time deposits from the Commonwealth, its agencies and instrumentalities and municipalities. Interest expense on these deposits amounted to approximately $145 million and $139 million in 2001 and 2000, respectively.

## (7) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The following is selected information concerning securities sold under agreements to repurchase:

| | 2001 | 2000 |
|---|---|---|
| | (in thousands) | |
| Carrying amount at June 30 | $ — | $ 19,850 |
| Maximum amount outstanding at any month-end | 169,413 | 149,941 |
| Average amount outstanding during the year | 91,940 | 29,805 |
| Weighted-average interest rate for the year | 5.98% | 5.64% |
| Weighted-average interest rate at year-end | 5.08% | 6.45% |

All sales of investments under agreements to repurchase are for fixed terms. In investing the proceeds of securities sold under agreements to repurchase, the Bank's policy is for the term to maturity of investments to be on or before the maturity of the securities sold under agreements to repurchase. At June 30, 2000, securities sold under agreements to repurchase had a maturity of one week.

## (8) CERTIFICATES OF INDEBTEDNESS

Certificates of indebtedness consist of time deposits from corporations that have grants of tax exemptions under the Commonwealth's industrial incentive acts and that quality for the benefits provided under Section 936 of the U.S. Internal Revenue Code. At June 30, 2001, the scheduled maturities of time deposits are as follows (in thousands):

| | |
|---|---|
| 2002 | $ 44,000 |
| 2003 | 30,000 |
| 2004 | — |
| 2005 | 20,100 |
| 2006 | 159,116 |
| | $ 253,216 |

## (9) COMMERCIAL PAPER

The Bank issues commercial paper in the U.S. taxable and tax-exempt commercial paper markets, in the Eurodollar commercial paper market, and to corporations that have grants of tax exemption under the Commonwealth's industrial incentive acts and that qualify for the benefits provided under Section 936 of the U.S. Internal Revenue Code. Commercial paper represents unsecured obligations of the Bank. The following information corresponds to commercial paper:

| | 2001 | 2000 |
|---|---|---|
| | (in thousands) | |
| Carrying amount at June 30 | $ 1,250,430 | $ 1,408,832 |
| Maximum amount outstanding at any month-end | 1,458,195 | 1,636,008 |
| Average amount outstanding during the year | 1,156,646 | 1,316,459 |
| Weighted-average interest rate for the year | 3.70% | 3.72% |

## (10) OTHER BORROWED FUNDS

A detail of other borrowed funds at June 30, 2001 and 2000, including outstanding principal, interest rate, and maturity date, is included in the following schedule:

| Description and Maturity Date | Interest rate | | Amount outstanding 2001 | Amount outstanding 2000 |
|---|---|---|---|---|
| | | | | (in thousands) |
| Note – not guaranteed by the Commonwealth: | | | | |
| Subordinated note – April 15, 2008 | Noninterest | $ | 21,241 | 116,778 |
| Bonds: | | | | |
| Guaranteed by the Commonwealth: | | | | |
| Adjustable Refunding Bonds – January 1, 2015 | Variable | | 267,000 | 267,000 |
| Collateralized Mortgage Obligations: | | | | |
| Mortgage Trust II | | | | |
| February 1, 2015 | 9.20% | | — | 47,557 |
| Mortgage Trust III: | | | | |
| January 1, 2001 to July 1, 2011 | Zero-coupon | | 188,977 | 186,011 |
| January 1, 2001 to January 1, 2021 | Zero-coupon | | 248,111 | 240,524 |
| Mortgage Trust IV: | | | | |
| June 1, 2007 | 89% Libid | | 32,891 | 37,000 |
| April 1, 2011 | 5.90% | | 34,819 | 33,479 |
| May 1, 2015 | 6.00% | | 42,334 | 40,678 |
| Homeownership Mortgage Revenue Bonds: | | | | |
| December 1, 2002 to December 1, 2012 | 3.80% – 4.75% | | 17,945 | 18,270 |
| December 1, 2018 | 5.10% | | 15,170 | 15,205 |
| June 1, 2020 | 4.40% | | 2,630 | 3,100 |
| June 1, 2020 | 5.15% | | 16,715 | — |
| December 1, 2031 | 5.10% | | 21,990 | 22,000 |
| December 1, 2032 | 5.20% | | 37,885 | 37,985 |
| Tax Debt Collateralized Bonds: | | | | |
| April 15, 2008 | 6.15% | | 173,679 | 179,206 |
| April 15, 2008 | 6.79% | | 32,853 | 33,897 |
| Less unaccreted discount – net | | | — | (239) |
| Total bonds, net | | | 1,132,999 | 1,161,673 |
| Total other borrowed funds | | $ | 1,154,240 | 1,278,451 |

A summary of scheduled maturities of notes and bonds payable outstanding as of June 30, 2001 is as follows (in thousands):

| Year ending June 30, | | |
|---|---|---|
| 2002 | $ | 44,809 |
| 2003 | | 42,075 |
| 2004 | | 38,785 |
| 2005 | | 35,142 |
| 2006 | | 32,282 |
| Thereafter | | 961,147 |
| | $ | 1,154,240 |

The Adjustable Refunding Bonds were issued in December 1985. Interest due on these bonds is payable monthly at a rate determined weekly, based on the factor necessary to produce as nearly as practicable a par bid for each bond on the date of determination, but not greater than 12 percent per annum in any case. The payment of principal and interest on the bonds is secured by a stand-by bond purchase agreement issued by a third party to a trustee. The payment of principal and interest is also guaranteed by the Commonwealth. The bonds are convertible to a fixed rate commencing on any date at the election of the Bank. Such conversion will subject the bonds to mandatory tender for purchase on the effective date of the conversion to a fixed rate, but holders desiring to keep their bonds after conversion may waive such mandatory tender. Furthermore, as long as interest on the bonds is payable at a variable rate, each bondholder has the option to have any of the bonds purchased in whole or in part, in multiples of $50,000, at par plus interest accrued to the purchase date. Prior to conversion of the bonds to a fixed rate of interest, the bonds are subject to mandatory tender for purchase, at the option of the Bank, on any interest payment date at par, with at least 10 days notice from the trustee. The bonds are also subject to mandatory tender and redemption in the event of expiration or termination of the letter of credit or the Commonwealth guaranty.

Collateralized Mortgage Obligations consist of the outstanding principal balance of: $370 million Mortgage Trust II Collateralized Mortgage Obligations, Series I issued in fiscal year 1988; $616 million Mortgage Trust III Collateralized Mortgage Obligations, Series A issued in fiscal years 1991 and 1992; $104.5 million Mortgage Trust IV Collateralized Mortgage Obligations issued in fiscal year 1999; and $114.8 million Homeownership Mortgage Revenue Bonds (GNMA-guaranteed mortgage loans) 1998 Series A and B, issued in fiscal year 1999 and 2000 Series A, issued in fiscal year 2001, by the Housing Finance Corporation. The Mortgage Trust II and the Mortgage Trust III bonds are general obligations of the Housing Finance Corporation, payable first from the proceeds of assets held in trust and then from any unencumbered funds of the Housing Finance Corporation. The Mortgage Trust IV and the Homeownership Mortgage Revenue Bonds are limited obligations of the Housing Finance Corporation, payable solely from the assets held by the trustee in funds and accounts established under the respective trust indenture.

In October 1998, the Housing Finance Corporation issued $104.5 million Mortgage Trust IV Collateralized Mortgage Obligations consisting of $37 million Class A, $30.5 million Class Z1, and $37 million Class Z2 bonds (the "Mortgage Trust IV Bonds"). The Mortgage Trust IV Bonds were issued for the primary purpose of providing moneys to the Housing Finance Corporation to redeem up to $37 million principal amount of the Mortgage Trust II bonds which were redeemed on February 1, 2001, as defined, and for general business purposes. The Class A bonds bear interest at 89 percent of LIBID, up to 9 percent payable monthly. The Class Z1 and Class Z2 bonds bear fixed interest rates of 5.90 percent and 6 percent, respectively, which will be added to their respective principal until the conversion date, as defined, or the date the principal of and interest on the Class A bonds are paid in full. Afterwards, interest on the Class Z1 and Class Z2 will be paid monthly. The Class Z2 bonds are subject to redemption, in whole, at the option of the Housing Finance Corporation, provided the aggregate outstanding principal balance of the Mortgage Trust IV Bonds is equal to or less than 10 percent of the initial principal amount of the Mortgage Trust IV Bonds.

In December 1998, the Housing Finance Corporation issued $97.1 million Homeownership Mortgage Revenue Bonds (GNMA-guaranteed mortgage loans), consisting of $93.5 million 1998 Series A (the "1998 Series A Bonds") and $3.6 million 1998 Series B (the "1998 Series B Bonds"), collectively the "Homeownership Mortgage Revenue Bonds." The Homeownership Mortgage Revenue Bonds were issued to provide funds for the acquisition of GNMA securities backed by single-family homeownership mortgage loans made to persons and families of low- and moderate-income for the acquisition of homeownership properties located in Puerto Rico. These properties are expected to consist of existing housing units and newly constructed housing units, including certain existing multifamily rental housing projects owned by the Housing Finance Corporation, included within real estate owned in the accompanying financial statements, which are being converted to condominium ownership by the Housing Finance Corporation for sale to existing tenants or other qualified buyers. The 1998 Series A Bonds bear fixed interest rates ranging from 3.80 percent to 5.20 percent payable semiannually on each June 1 and December 1. The 1998 Series B Bonds bear a fixed rate of 4.40 percent payable semiannually on each June 1 and December 1. The 1998 Series A Bonds are subject to redemption, at the option of the Housing Finance Corporation, on or after December 1, 2008 at a redemption price of: 101 percent up to November 30, 2009, 100.5 percent from December 1, 2009 to November 30, 2010, and 100 percent thereafter. The 1998 Series A Bonds maturing on December 1, 2018, 2031, and 2032 are subject to mandatory sinking fund redemption, at a price equal to the principal balance plus accrued interest to the date of redemption, commencing on June 1, 2013 and each December 1 and June 1 thereafter. The 1998 Series B Bonds maturing on June 1, 2020 are subject to mandatory sinking fund redemption, at a price equal to the principal balance plus accrued interest to the date of redemption, commencing on December 1, 2000 and each June 1 and December 1 thereafter.

In July 2000, the Housing Finance Corporation issued $17.7 million Homeownership Mortgage Revenue Bonds (GNMA – Guaranteed Mortgage Loans) 2000 Series A (the "2000 Series A Bonds"). The 2000 Series A Bonds bear a fixed rate of 5.15 percent payable semiannually on each June 1 and December 1. The 2000 Series A Bonds are subject to redemption, at the option of the Corporation, on or after December 1, 2010, at a redemption price of: 101 percent up to November 30, 2011, 100.5 percent from December 1, 2011 to November 30, 2012 and 100 percent thereafter. The 2000 Series A Bonds are also subject to mandatory sinking fund redemption, at a price equal to the principal balance plus accrued interest to the date of redemption, commencing on June 1, 2001 and December 1 and June 1 thereafter.

The Public Finance Corporation has issued approximately $2 billion of Commonwealth Appropriation Bonds (the "Bonds") maturing at various dates through 2026. The proceeds of the Bonds, except for approximately $298 million, have been used to provide the necessary funds to purchase from the Bank separate promissory notes of the Department of the Treasury of the Commonwealth, Puerto Rico Maritime Shipping Authority, Office for the Improvement of Public Schools of Puerto Rico, and the Health Facilities and Services Administration (the "Notes"). The $298 million referred to above was used to refund a portion of certain bonds issued by the Public Finance Corporation (also no-commitment debt) in fiscal years 1995 and 2000. The outstanding balance of the Bonds at June 30, 2001 and 2000 amounted to approximately $1.4 billion. The Bonds are limited obligations of the Public Finance Corporation and, except to the extent payable from bond proceeds and investment earnings thereon, will be payable solely from a pledge and assignment of amounts payable under the Notes. Principal and interest on the Notes are payable solely from Legislative appropriations to be made pursuant to acts approved by the Legislature of the Commonwealth. These acts provide that the Commonwealth shall honor the payment of principal of and interest on the Notes, and that the Director of OMB shall include in the budget of the Commonwealth submitted to the Legislature the amounts necessary to pay the principal of and interest on the Notes. The underlying promissory notes represent debt of the issuing instrumentalities detailed above (all component units of the Commonwealth), and, for purposes of the Public Finance Corporation, the bonds are considered no-commitment debt. Neither these bonds nor the Notes purchased with the proceeds therefrom are presented in the accompanying financial statements.

On June 30, 1998, the Public Finance Corporation entered into a transaction whereby it was to issue a limited-obligation Bridge Note (the "Bridge Note") and a Subordinated Note (the "Subordinated Note") to CRIM, in exchange for tax lien receivables amounting to approximately $323.9 million on properties in Puerto Rico, which CRIM was entitled to collect. This transaction was entered into pursuant to Act No. 21 of June 26, 1997, as amended. As provided by Act No. 21, these receivables would accrue interest at a rate of 15 percent, compounded monthly, commencing on October 1, 1999. The amount payable under the Bridge Note was to bear no interest and was established to be equal to the proceeds of certain bonds to be issued by the Public Finance Corporation, net of: (1) reserves to be established under the bond indenture; and (2) the cost of issuance of the bonds. The amount payable under the Subordinated Note was to bear no interest and would be equal to the tax lien receivables purchased less the amount payable under the Bridge Note and $10,000. All payments due to the CRIM and CRIM's rights to receive such payments would be subordinated in all respects to the payment in full of any and all sums required to be paid to the bondholders, and no payments would be made under the Subordinated Note until such bondholders have been paid in full and the bond indenture is terminated.

In February 1999, the Public Finance Corporation issued $228.3 million Tax Debt Collateralized Bonds, Series 1999-1 (the "Tax Debt Bonds") consisting of $192 million Class A Bonds (the "Class A Bonds") and $36.3 million Class B (the "Class B Bonds"). The Class A Bonds bear interest at 6.15 percent and mature on April 15, 2008. The Class B Bonds bear interest at 6.79 percent and mature on April 15, 2008. The Tax Debt Bonds are special and limited nonrecourse obligations of the Public Finance Corporation, payable solely from: the tax lien receivables acquired, including interest accrued; any real and personal property acquired by the Public Finance Corporation also through foreclosure or otherwise in connection with the tax lien receivables; and certain reserves established in connection with the bond indenture. At that time, the Bridge Note was established to be $207.1 million, which was simultaneously repaid to CRIM. The amount payable under the Subordinated Note was then determined to be approximately $116.8 million and, accordingly, was recorded at such amount. However, upon further analysis of the transaction during fiscal year 2001, management adjusted the subordinated obligation to CRIM to the extent that the estimated fair value of the tax lien receivables exceeded the aforementioned Bridge Note. The fair value of the tax lien receivables was estimated at approximately $228.3 million, the price at which the Tax Debt Bonds were issued. As a result, management adjusted the Public Finance Corporation's accounting records during 2001 reducing the balance of the tax liens receivables and the Subordinated Note by approximately $95.6 million, representing the difference between the face value of the tax lien receivables of $323.9 million originally recorded and their estimated fair value of $228.3 million.

During the fiscal year ended June 30, 2001, the principal amount of approximately $75.8 million of tax lien receivables was identified as defective. CRIM and the Commonwealth are obligated to replace these defects with either new tax liens or cash in their corresponding proportional share. As a result, management reclassified such amount from tax lien receivables into accounts receivable from CRIM and the Commonwealth. A portion of these accounts receivable will be repaid from amounts recoverable from the Commonwealth, which is more fully described in notes 5 and 19(e) to the accompanying combined financial statements. The remaining outstanding balance of tax lien receivables will be transferred to CRIM as a result of the approval of Act No. 146 of October 11, 2001, regarding the cancellation of sale of delinquent tax debt transaction disclosed in note 19(f) to the accompanying combined financial statements.

## (11) FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the Bank and certain component units are parties to transactions of financial instruments with off-balance sheet risk, to meet the financing needs of their customers and to reduce their own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and to purchase participations and mortgage-backed securities, standby letters of credit, 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 accompanying combined balance sheets. These off-balance sheet risks are managed and monitored in manners similar to those used for on-balance sheet risks. The Bank and certain component units' exposures to credit loss for lending commitments financial guarantees and letters of credit are represented by the contractual amount of those 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 and 2000, the off-balance sheet risks consisted of the following:

| | | 2001 | 2000 |
|---|---|---|---|
| | | (in thousands) | |
| Financial instruments whose credit risk is represented by contractual amounts: | | | |
| Financial guarantees to: | | | |
| Public sector | $ | 112,730 | 141,267 |
| Private sector | | 717,800 | 644,976 |
| Total | $ | 830,530 | 786,243 |
| Standby letters of credit: | | | |
| Public sector | $ | 134,192 | 138,249 |
| Private sector | | 23,000 | 23,715 |
| Total | $ | 157,192 | 161,964 |
| Commitments to extend credit: | | | |
| Public sector | $ | 1,704,815 | 2,549,835 |
| Private sector | | 14,930 | 100,543 |
| Total | $ | 1,719,745 | 2,650,378 |
| Commitments to purchase investments | $ | 18,310 | 10,945 |

The financial guarantees and letters of credit for 2001 and 2000 include approximately $603 million and $429 million, respectively, issued by the Tourism Fund on several private hotel and tourism development projects. During 2001, the Tourism Fund covered the debt service payments on certain projects in the amount of $15.4 million.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank and its component units, as applicable, evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include property, plant, and equipment, and income-producing commercial properties. Standby letters of credit and financial guarantees are written conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Commitments to purchase investments are agreements to acquire mortgage-backed securities at a fixed price on behalf of certain housing programs.

## (12) DERIVATIVE INSTRUMENTS

At June 30, 2001 and 2000, the Bank had outstanding interest-rate swap agreements with other financial institutions as shown below. The interest rate for variable agreements represents that effective at June 30 (in thousands):

**June 30, 2001**

| | | Receives | | Pays | | Maturity date |
|---|---|---|---|---|---|---|
| Notional amount | Floating rate indicator | Type | Rate | Type | Rate | (Mo/Day/Yr) |
| $ 50,000 | Libor | Variable | 3.5487 | Fixed | 4.72 | 07/01/06 |
| 60,000 | Libor | Variable | 3.5487 | Fixed | 4.71 | 07/01/06 |
| 60,000 | Libor | Variable | 3.5487 | Fixed | 4.71 | 07/01/06 |
| 200,000 | MFST share [1] | Variable | 11.8521 | Fixed | 4.99 | 02/28/06 |
| $ 370,000 | | | | | | |

**June 30, 2000**

| | | Receives | | Pays | | Maturity date |
|---|---|---|---|---|---|---|
| Notional amount | Floating rate indicator | Type | Rate | Type | Rate | (Mo/Day/Yr) |
| $ 890 | Libor | Variable | 6.39 | Fixed | 5.23 | 02/01/01 |
| 40,000 | MFST share [1] | Variable | 10.63 | Fixed | 5.41 | 09/13/00 |
| 14,841 | Libor | Variable | 6.28 | Fixed | 5.93 | 10/12/00 |
| $ 55,731 | | | | | | |

[1] *MSFT – Microsoft appreciation index which mirrors embedded derivative on $200 million Microsoft certificate of deposit*

The Bank and its component units are exposed to credit loss in the event of nonperformance by the other parties to the interest-rate swap agreements. However, the Bank and its component units do not anticipate nonperformance by the counterparties.

## (13) RETIREMENT SYSTEM

### *(a) Defined-Benefit Pension Plan*

The Employees' Retirement System of the Commonwealth and its instrumentalities (the "Retirement System"), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer, defined-benefit pension plan sponsored by and reported as a component unit of the Commonwealth. All regular employees of the Bank and its component units hired before January 1, 2000 and under 55 years of age at the date of employment became members of the Retirement System as a condition of their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

The Retirement System provides retirement, death, and disability benefits pursuant to legislation enacted by the Commonwealth's Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and nonoccupational disabilities. However, a member must have at least 10 years of service to receive nonoccupational disability benefits.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5 percent of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2 percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise, they will receive 75 percent of the average compensation, as defined.

Commonwealth Legislation requires employees to contribute 5.775 percent of the first $550 of their monthly gross salary and 8.275 percent for the excess over $550 of monthly gross salary. The Bank is required by the same statute to contribute 9.275 percent of each participant's gross salary.

### *(b) Defined Contribution Plan*

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other things, a defined contribution savings plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the defined-benefit pension plan, received a refund of their contributions, and were rehired on or after January 1, 2000, become members of the Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined-benefit pension plan had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined-benefit pension plan plus interest there on to the Program.

Act No. 305 requires employees to contribute 8.275 percent of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10 percent of their monthly gross salary. Employee contributions are credited to individual accounts established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semiannually.

The Bank is required by Act No. 305 to contribute 9.275 percent of each participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined-benefit pension plan.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50 percent of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in each participant's account will be paid in a lump sum to the participant's beneficiaries. Participants have the option of a lump sum or purchasing an annuity contract in case of permanent disability.

Total employee contributions to the above-mentioned plans during the years ended June 30, 2001 amounted to approximately $984,000 and $1,057,000, respectively. The Bank's contributions during the years ended June 30, 2001, 2000 and 1999 amounted to approximately $1,133,000, $1,126,000 and $1,085,000, respectively. These amounts represented 100 percent of the required contribution for the corresponding year.

Additional information on the Retirement System is provided in its stand-alone financial statements for the year ended June 30, 2001, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth and its Instrumentalities, PO Box 42003, San Juan, PR 00940-2003.

In June 2000, the board of directors of the Bank approved a resolution whereby the Bank offered an early retirement option to qualifying employees providing services at July 1, 2000, pursuant to a law approved in June 2000 and effective until January 31, 2001, as amended. The incremental costs of the early-retirement option amounted to approximately $13.4 million, included within other expenses in the accompanying combined statement of revenue, expenses and changes in fund equity for 2001. These costs consisted principally of the incremental actuarial costs of retiring earlier than under the original retirement plan, a lump-sum payment based on the salary of one year of the retiring employees, and the estimated liability to cover the costs of the medical and life insurance plans for such employees until reaching the age of 65.

## (14) Commitments and Contingencies

### *(a) Lease Commitments*

The Bank and certain of its component units lease office space principally from another component unit of the Commonwealth under noncancelable operating leases, the latest of which expires in 2004. Rent charged to operations in 2001 and 2000 amounted to approximately $1.3 million and $1.58 million, respectively.

At June 30, 2001 the minimum annual future rentals under the noncancelable leases were as follows (in thousands):

| **Year ending June 30,** | | |
|---|---|---|
| 2002 | $ | 1,646 |
| 2003 | | 1,674 |
| 2004 | | 1,703 |
| 2005 | | 860 |
| 2006 | | 750 |
| Thereafter | | 153 |
| Total | $ | 6,786 |

*(b) Puerto Rico Art Museum*

During fiscal year 1996, the board of directors of the Bank approved a resolution, which cal nate certain real estate owned by the Bank for the site of what is known as the Puerto Rico Art Museum (the "Museum"). The resolution also indicates that the Bank intends to invest an amount in refurbishing the property, including the parking facilities, which is currently estimated at $55 million. The Museum has been organized as a not-for-profit organization and has a separate board of trustees. While legal title over the property remains with the Bank, it is currently expected that the property, excluding the parking facilities, which will be operated by the Bank, will be used indefinitely by the Museum at no charge by the Bank. As a result, any amounts incurred by the Bank are charged to current operations. During 2001 and 2000, the amounts incurred in connection with this project and charged to operations was approximately $1.5 million and $19 million, respectively. Capitalized costs related to the parking facilities amounted to approximately $8.9 at June 30, 2001, and are included within other assets in the accompanying combined balance sheets.

During fiscal year 2000, the board of directors of the Bank also approved a resolution authorizing the Bank to contribute $2 million for the operating expenses of the Museum for fiscal year 2001. This contribution has been recognized as other noninterest expense within the accompanying statement of revenue, expenses and changes in fund equity for 2001.

*(c) Litigation*

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

## (15) PROGRAMS SPONSORED BY THE HOUSING FINANCE CORPORATION

In connection with certain transactions of the Housing Finance Corporation more fully described in note 1, at June 30, 2001 and 2000, there were restricted assets held in trust by others, outstanding obligations, fund balances, and excess of fund revenue over expenses, net of transfers (all of which are excluded from the accompanying combined financial statements), as indicated below (unaudited):

| | | 2001 | 2000 |
|---|---|---|---|
| | | (in thousands) | |
| Restricted assets | $ | 196,432 | 226,843 |
| Restricted liabilities ("no commitment debt") | | 177,394 | 209,057 |
| Restricted fund balance | $ | 19,038 | 17,786 |
| Excess of fund expenses over revenue | $ | 1,273 | (26) |

## (16) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

For a significant portion of the Bank's and its component units' financial instruments, principally loans and deposits, fair values are not readily available, since there are no available trading markets. Accordingly, fair values can only be derived or estimated using valuation techniques, such as present-valuing estimated future cash flows using discount rates, which reflect the risk involved, and other related factors. It should be noted that minor changes in assumptions or estimation methodologies may have a material effect on the results derived therefrom.

The fair values reflected below are indicative of the interest rate environment as of June 30, 2001 and 2000, and do not take into consideration the effects of interest rate fluctuations. In different interest rate scenarios, fair-value results can differ significantly. Furthermore, actual prepayments may vary significantly from those estimated resulting in materially different fair values.

The difference between the carrying value and the estimated fair value may not be realized, since, in many of the cases, the Bank and its component units intend to hold the financial instruments until maturity, or because the financial instruments are restricted. Comparability of fair values among financial institutions is not likely, due to the wide range of permitted valuation techniques and numerous estimates that must be made in the absence of secondary market prices.

The following methods and assumptions were used by the Bank in estimating fair values of the financial instruments for which it is practicable to estimate such values:

- Short-term financial instruments, such as federal funds sold, cash and due from banks, repurchase and resale, agreements, commercial paper, accrued interest receivable and payable and accounts receivable have been valued at the carrying amounts reflected in the accompanying combined balance sheets, as these are reasonable estimates of fair value given the relatively short period of time between origination of the instruments and their expected realization.
- Financial instruments that are primarily traded in secondary markets, such as most investments, were valued using either market prices, pricing models, or quoted market prices of financial instruments with similar characteristics.
- Financial instruments that are not generally traded, such as certificates of deposit and investment contracts, and bonds issued with fixed-interest rates, were fair valued, for the most part, using the present values of estimated future cash flows at the appropriate discount rates. Bonds issued with interest rates floating within certain ranges were fair valued at their outstanding principal balance. The fair value of liabilities with no defined maturities, such as demand deposits and the subordinated note, was reported as the amounts payable upon demand.
- Loans to the public sector were valued according to the type of contractual interest rate. Loans to the public sector with interest rates floating within certain ranges were fair-valued at their outstanding principal balance. Loans to the public sector with fixed interest rates were fair-valued assuming that such loans were packaged and sold in the secondary market. The discount rates utilized were based on the rating of the Commonwealth of

Puerto Rico and the market where the instruments would be sold and were adjusted for various other factors, including issuance costs. For delinquent public sector loans, the fair value was assumed to be equal to the carrying value, as historically the Bank has collected such amounts.

- Disclosure as to the fair value of commitments to extend credit, standby letters of credit, and guarantees relating to instrumentalities of the Commonwealth is omitted, as these arrangements are with component units of the Commonwealth.
- Interest rate swaps used in asset-liability management were valued using estimated market prices, based on discounted future cash flows.
- Loans and commitments to extend credit to the private sector are mostly industrial development, tourism development, and low-cost housing development projects. For these types of loans and commitments, there is no secondary market, and the actual future cash flows may vary significantly as compared to the cash flows projected under the agreements, due to the degree of risk. Accordingly, management has opted not to disclose the fair value to these financial instruments, as such information may not be estimated with reasonable precision.

| | 2001 | | 2000 | |
|---|---|---|---|---|
| | Reported or notional amount | Fair value | Reported or notional amount | Fair value |
| | (in millions) | | | |
| Financial assets: | | | | |
| Cash and due from banks | $ 16 | 16 | 16 | 16 |
| Federal funds sold and securities purchased under agreements to resell | 1,606 | 1,606 | 782 | 782 |
| Deposits placed with banks and commercial paper | 21 | 25 | 82 | 84 |
| Investments and investment contracts | 1,620 | 1,691 | 3,200 | 3,200 |
| Loans to public sector entities and municipalities | 3,711 | 3,800 | 3,329 | 3,380 |
| Accrued interest receivable | 274 | 274 | 221 | 221 |
| Financial liabilities: | | | | |
| Demand deposits | 2,392 | 2,392 | 2,047 | 2,047 |
| Certificates of deposit | 767 | 767 | 1,500 | 1,500 |
| Certificates of indebtedness | 294 | 294 | 198 | 198 |
| Securities sold under agreements to repurchase | — | — | 20 | 20 |
| Commercial paper | 1,250 | 1,250 | 1,409 | 1,409 |
| Accrued interest payable | 37 | 37 | 60 | 60 |
| Notes and bonds payable | 1,154 | 1,256 | 1,279 | 1,310 |
| Derivative instruments: | | | | |
| Interest-rate exchange agreements | 370 | 5 | 56 | 27 |
| Equity index embedded on certificate of deposit | 200 | (47) | — | — |

## (17) RELATED-PARTY TRANSACTIONS

The Bank has related-party transactions with its component units. The balances as of June 30, 2001 and 2000 and transactions during the years then ended between the Bank and its component units were as follows:

| | | 2001 | 2000 |
|---|---|---|---|
| | | (in thousands) | |
| Interest-bearing deposits of component units at the Bank | $ | 287,870 | 230,641 |
| Securities purchased from component unit under agreements to resell | | 15,000 | 35,000 |
| Loan to component unit | | — | 16,669 |
| Investment in zero-coupon bonds issued by a component unit | | 74,254 | 68,677 |
| Accrued interest receivable from component units | | 29 | 99 |
| Accrued interest payable to component units | | 487 | 540 |
| Interest earned by Bank on transactions with component units | | 1,557 | 2,784 |
| Unrealized gain by Bank on transaction with component unit | | 5,577 | 5,172 |
| Unrealized gain by component units on transactions with the Bank | | — | 39 |
| Interest earned by component units on transactions with the Bank | | 15,613 | 2,313 |
| Management fees charged to component units | | 245 | 363 |
| Loan principal balance forgiven by the Bank to component unit | | 15,915 | 5,000 |

These transactions have been eliminated in the accompanying combined financial statements. The Bank also has significant deposit and loan transactions with other Commonwealth component units and with municipalities within the Commonwealth, as described in the accompanying combined financial statements.

## (18) SEGMENT INFORMATION

The types of services that the Bank and its component units ("CUs") provide are described in detail in note 1. Segment information for the Bank and the CUs as of June 30, 2001 and 2000 and for the years then ended is summarized below (in thousands):

| | 2001 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Bank | Housing Finance Corp. | Capital Fund | Public Finance Corp. | Tourism Fund | Other CUs | Eliminations (see note 17) | Total |
| Investment income (loss) | $ 382,079 | 86,164 | (47,569) | 8,504 | 5,468 | 1,505 | 22,747 | 413,404 |
| Interest expense | 227,488 | 55,613 | — | 13,183 | — | — | 22,747 | 273,537 |
| Net investment income (loss) | 154,591 | 30,551 | (47,569) | (4,679) | 5,468 | 1,505 | — | 139,867 |
| Credit for loan losses | — | (2,678) | — | — | — | — | — | (2,678) |
| Net investment income (loss) after (credit) provision for loan losses | 154,591 | 27,873 | (47,569) | (4,679) | 5,468 | 1,505 | — | 137,189 |
| Noninterest income | (940) | 7,534 | — | 26,279 | 7,065 | — | 1,225 | 38,713 |
| Noninterest expense | 68,715 | 6,833 | 306 | 19,381 | 11,808 | 83 | 16,160 | 90,966 |
| Net income (loss) | $ 84,936 | 28,574 | (47,875) | 2,219 | 725 | 1,422 | (14,935) | 84,936 |
| Interest-earning assets | $ 6,267,467 | 990,620 | 77,382 | 130,453 | 77,808 | 32,861 | 362,107 | 7,124,484 |
| Total assets | $ 7,170,242 | 1,019,285 | 77,384 | 239,958 | 83,563 | 32,911 | 799,747 | 7,823,596 |
| Interest-bearing liabilities | $ 5,217,170 | 748,914 | — | 206,532 | — | — | 377,317 | 5,795,299 |
| Total liabilities | 5,438,157 | 759,148 | 14 | 237,899 | 32,077 | 2,049 | 377,833 | 6,091,511 |
| Fund equity | $ 1,732,085 | 260,137 | 77,371 | 2,058 | 51,486 | 30,862 | 421,914 | 1,732,085 |

| | 2000 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Bank | Housing Finance Corp. | Capital fund | Public Finance Corp. | Tourism Fund | Other CUs | Eliminations (see note 17) | Total |
| Investment income (loss) | $ 373,122 | 64,363 | 8,841 | 6,567 | 4,192 | (23) | 31,108 | 425,954 |
| Interest expense | 234,439 | 61,089 | — | 13,753 | — | — | 31,108 | 278,173 |
| Net investment income (loss) | 138,683 | 3,274 | 8,841 | (7,186) | 4,192 | (23) | — | 147,781 |
| Provision (credit) for loan losses | (5,334) | 2,901 | — | — | | — | — | (2,433) |
| Net investment income (loss) after (credit) provision for loan losses | 144,017 | 373 | 8,841 | (7,186) | 4,192 | (23) | — | 150,214 |
| Noninterest income | 18,520 | 5,274 | — | 17,525 | 4,419 | — | 8,239 | 37,499 |
| Noninterest expense | 60,037 | 5,415 | 663 | 11,489 | 12,881 | 91 | 5,363 | 85,213 |
| Net income (loss) | $ 102,500 | 232 | 8,178 | (1,150) | (4,270) | (114) | 2,876 | 102,500 |
| Interest-earning assets | $ 6,493,099 | 986,370 | 3,088 | 38,756 | 80,888 | 19,065 | 345,513 | 7,275,753 |
| Total assets | $ 7,401,681 | 1,031,976 | 317,139 | 362,841 | 87,364 | 31,568 | 980,082 | 8,252,487 |
| Interest-bearing liabilities | $ 5,671,711 | 750,247 | — | 213,103 | — | — | 68,677 | 6,566,384 |
| Total liabilities | $ 5,754,532 | 800,413 | 287 | 363,001 | 36,603 | 2,128 | 351,626 | 6,605,338 |
| Fund equity | $ 1,647,149 | 231,563 | 316,852 | (160) | 50,761 | 29,440 | 628,456 | 1,647,149 |

Other segment information not provided in the detail above is deemed by management not to be relevant or significant.

## (19) SUBSEQUENT EVENTS

### (a) *Housing Finance Corporation 2001 Home Mortgage Revenue Bonds*

On August 1, 2001, the Housing Finance Corporation issued $125,075,000 Home Mortgage Revenue Bonds (Mortgage-Backed Securities) consisting of $22,520,000 "2001 Series A Bonds," $75 million "2001 Series B Bonds," $4,555,000 "2001 Series C Bonds" and $25 million "Home Mortgages Revenue Notes, Series 1" (collectively the "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 Association, 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 Bonds and Notes are limited obligations of the Housing Finance Corporation. The principal of and redemption premium, if any, and interest on the 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 he trustee, certain investments and proceeds of the Bonds and Notes.

### (b) *Amendments to Program "Nuevo Hogar Seguro"*

Act No. 92 of August 4, 2001 amended Acts 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 those destroyed by Hurricane Georges in 1998 and to attend the housing needs of those families living in areas subject to floods.

*(c) Restructuring of Housing Finance Corporation and Puerto Rico Housing Bank*

Act No. 103 of August 11, 2001, as amended, known as the Law of the Puerto Rico Housing Finance Authority (the "Authority"), redenominates the Housing Finance Corporation as the Puerto Rico Housing Finance Authority, and dissolves the Puerto Rico Housing Bank (the "Housing Bank") by transferring all its assets and liabilities to the 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 Housing Bank, 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 the Bank.

*(d) Terrorists 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. These attacks were truly unprecedented in magnitude of devastation and loss, both in term of lives lost and financial loss. These events were, of course, widely publicized and have had very significant immediate effects on airline travel. The tourism sector in Puerto Rico has experienced very significant reductions in occupancies. Management is presently unable to estimate the effects, if any, these events will have in the long-term occupancy of hotels in Puerto Rico, and the consequences, if any, in the Tourism Fund's need to fund future amounts related to its financial guarantees (note 11).

*(e) Debt Restructuring*

Act No. 164 of December 17, 2001 authorized certain government agencies and public corporations to refinance approximately $2.5 billion of their outstanding obligations with the Bank over a period not exceeding 30 years, and for such obligations to be repaid with annual Commonwealth appropriations not to exceed $225 million. The initial payment of principal and interest amounting to $217 million for these obligations in process of being restructured was received on November 29, 2001.

*(f) Cancellation of Sale of Delinquent Tax Debt Transaction*

Act. No. 146 of October 11, 2001, authorized CRIM to obtain financing, through a line of credit from the Bank, for the advance repayment of the outstanding balance of the Tax Debt Bonds described in note 10 to the accompanying combined financial statements. With this act, the sale and subsequent securitization of delinquent tax liens transaction would be effectively canceled. The source of repayment of this line of credit will come from the assignment by the consenting municipalities of their corresponding share to the increase of .48 percent in the municipal subsidy from the General Fund of the Commonwealth, which was approved by Act. No. 99 of August 10, 2001. The increase in the municipal subsidy from 2.02 percent to 2.50 percent became effective on fiscal year 2001. The repayment schedule of the line of credit will begin with interest payments for the first five years, at the end of which time the balance will be restructured into equal principal an interests installments over a period of 25 years. Collections ultimately realized by CRIM from defective tax liens will be applied to the principal of the line of credit. Any resulting deficiency in the servicing of this credit will be covered with the operational funds of the municipalities.

| ASSETS | | Government Development Bank | Housing Finance Corporation | Education Assistance Corporation | Public Finance Corporation |
|---|---|---|---|---|---|
| Cash and due from banks | $ | 12,312 | 14,258 | 2,038 | 1,220 |
| Federal funds sold and | | | | | |
| securities purchased under agreements to resell | | 1,620,540 | — | — | — |
| Deposits placed with banks | | — | 70,099 | — | 867 |
| Investments and investment contracts | | 915,889 | 782,327 | — | 31,502 |
| Loans and other receivables, net: | | | | | |
| Public sector entities and municipalities | | | | | |
| of the Commonwealth of Puerto Rico | | 3,710,506 | — | — | — |
| Private sector and other, net | | 20,532 | 123,936 | — | — |
| Total loans and other receivables, net | | 3,731,038 | 123,936 | — | — |
| Accrued interest receivable: | | | | | |
| Investments and money market instruments | | 5,243 | 4,544 | 6 | 385 |
| Loans to public sector entities and | | | | | |
| municipalities of the Commonwealth of | | | | | |
| Puerto Rico | | 258,173 | — | — | — |
| Loans to the private sector | | 317 | 721 | — | — |
| Total accrued interest receivable | | 263,733 | 5,265 | 6 | 385 |
| Investment in component units | | 421,914 | — | — | — |
| Tax lien receivables | | — | — | — | 96,864 |
| Account receivable from CRIM and | | | | | |
| the Commonwealth of Puerto Rico | | 132,777 | — | — | 75,817 |
| Real estate owned | | 21,929 | 7,913 | — | — |
| Other assets | | 50,110 | 15,487 | — | 33,303 |
| Total | $ | 7,170,242 | 1,019,285 | 2,044 | 239,958 |

June 30, 2001 (in thousands)

| Development Fund | Capital Fund | Tourism Fund | Total | Eliminations | Total |
|---|---|---|---|---|---|
| 15,961 | — | 15,489 | 61,278 | 45,627 | 15,651 |
| — | — | — | 1,620,540 | 15,000 | 1,605,540 |
| — | — | 39,838 | 110,804 | 89,838 | 20,966 |
| 14,862 | 77,382 | 22,481 | 1,844,443 | 223,954 | 1,620,489 |
| — | — | — | 3,710,506 | — | 3,710,506 |
| — | — | — | 144,468 | — | 144,468 |
| — | — | — | 3,854,974 | — | 3,854,974 |
| 44 | 2 | 494 | 10,718 | 516 | 10,202 |
| — | — | — | 258,173 | — | 258,173 |
| — | — | — | 1,038 | — | 1,038 |
| 44 | 2 | 494 | 269,929 | 516 | 269,413 |
| — | — | — | 421,914 | 421,914 | — |
| — | — | — | 96,864 | — | 96,864 |
| — | — | — | 208,594 | — | 208,594 |
| — | — | 4,843 | 34,685 | — | 34,685 |
| — | — | 418 | 99,318 | 2,898 | 96,420 |
| 30,867 | 77,384 | 83,563 | 8,623,343 | 799,747 | 7,823,596 |

| LIABILITIES AND CAPITAL | Government Development Bank | Housing Finance Corporation | Education Assistance Corporation | Public Finance Corporation |
|---|---|---|---|---|
| Deposits, principally from the Commonwealth of Puerto Rico and its public entities: | | | | |
| Demand | $ 2,392,064 | — | — | — |
| Certificates of deposit | 766,590 | — | — | — |
| Deposits of component units | 287,870 | — | — | — |
| Total deposits | 3,446,524 | — | — | — |
| Certificates of indebtedness | 253,216 | — | — | — |
| Securities sold under agreements to repurchase | — | 15,000 | — | — |
| Commercial paper | 1,250,430 | — | — | — |
| Other liabilities: | | | | |
| Accrued interest payable | 25,541 | 1,615 | — | 2,726 |
| Allowance for possible losses on guarantees and letters of credit | 15,759 | — | — | — |
| Miscellaneous | 179,687 | 8,619 | 2,044 | 7,400 |
| Total other liabilities | 220,987 | 10,234 | 2,044 | 10,126 |
| Other borrowed funds: | | | | |
| Notes payable | — | — | — | 21,241 |
| Bonds payable, net | 267,000 | 733,914 | — | 206,532 |
| Total other borrowed funds | 267,000 | 733,914 | — | 227,773 |
| Total liabilities | 5,438,157 | 759,148 | 2,044 | 237,899 |
| Capital: | | | | |
| Contributed capital | 20,500 | — | — | — |
| Retained earnings – designated as permanent capital | 1,304,500 | — | — | — |
| Retained earnings – undesignated | 407,085 | 260,137 | — | 2,059 |
| Total capital | 1,732,085 | 260,137 | — | 2,059 |
| Total | $ 7,170,242 | 1,019,285 | 2,044 | 239,958 |

See accompanying independent auditors' report.

June 30, 2001(in thousands)

| Development Fund | Capital Fund | Tourism Fund | Total | Eliminations | Total |
|---|---|---|---|---|---|
| — | — | — | 2,392,064 | — | 2,392,064 |
| — | — | — | 766,590 | — | 766,590 |
| — | — | — | 287,870 | 287,870 | — |
| — | — | — | 3,446,524 | 287,870 | 3,158,654 |
| — | — | — | 253,216 | — | 253,216 |
| — | — | — | 15,000 | 15,000 | — |
| — | — | — | 1,250,430 | — | 1,250,430 |
| — | — | — | 29,882 | 516 | 29,366 |
| — | — | 31,000 | 46,759 | — | 46,759 |
| 5 | 14 | 1,077 | 198,846 | — | 198,846 |
| 5 | 14 | 32,077 | 275,487 | 516 | 274,971 |
| — | — | — | 21,241 | — | 21,241 |
| — | — | — | 1,207,446 | 74,447 | 1,132,999 |
| — | — | — | 1,228,687 | 74,447 | 1,154,240 |
| 5 | 14 | 32,077 | 6,469,344 | 377,833 | 6,091,511 |
| 19,000 | 77,370 | 50,000 | 166,870 | 146,370 | 20,500 |
| — | — | — | 1,304,500 | — | 1,304,500 |
| 11,862 | — | 1,486 | 682,629 | 275,544 | 407,085 |
| 30,862 | 77,370 | 51,486 | 2,153,999 | 421,914 | 1,732,085 |
| 30,867 | 77,384 | 83,563 | 8,623,343 | 799,747 | 7,823,596 |

| ASSETS | | Government Development Bank | Housing Finance Corporation | Education Assistance Corporation | Public Finance Corporation |
|---|---|---|---|---|---|
| Cash and due from banks | $ | 14,157 | 16,090 | 2,115 | 1,172 |
| Federal funds sold and securities purchased under agreements to resell | | 817,104 | — | — | — |
| Deposits placed with banks | | 61,021 | 58,128 | — | 834 |
| Investments and investment contracts | | 2,200,355 | 777,158 | — | 36,750 |
| Loans and other receivables, net: | | | | | |
| Public sector entities and municipalities of the Commonwealth of Puerto Rico | | 3,345,711 | — | — | — |
| Private sector and other, net | | 68,908 | 134,994 | — | 14,351 |
| Total loans and other receivables, net | | 3,414,619 | 134,994 | — | 14,351 |
| Accrued interest receivable: | | | | | |
| Investments and money market instruments | | 34,103 | 4,691 | 10 | 860 |
| Loans to public sector entities and municipalities of the Commonwealth of Puerto Rico | | 179,891 | — | — | — |
| Loans to the private sector | | 365 | 968 | — | — |
| Total accrued interest receivable | | 214,359 | 5,659 | 10 | 860 |
| Investment in component units | | 628,456 | — | — | — |
| Tax lien receivables | | — | — | — | 285,898 |
| Real estate owned | | 22,706 | 22,403 | — | — |
| Other assets | | 28,904 | 17,544 | — | 22,976 |
| Total | $ | 7,401,681 | 1,031,976 | 2,125 | 362,841 |

June 30, 2000 (in thousands)

| Development Fund | Capital Fund | Tourism Fund | Total | Eliminations | Total |
|---|---|---|---|---|---|
| 16,950 | — | 6,821 | 57,305 | 40,853 | 16,452 |
| — | — | — | 817,104 | 35,000 | 782,104 |
| — | — | 7,838 | 127,821 | 45,338 | 82,483 |
| 12,360 | 314,391 | 66,229 | 3,407,243 | 207,653 | 3,199,590 |
| — | — | — | 3,345,711 | 16,669 | 3,329,042 |
| — | — | — | 218,253 | — | 218,253 |
| — | — | — | 3,563,964 | 16,669 | 3,547,295 |
| 86 | 99 | 924 | 40,773 | 639 | 40,134 |
| — | — | — | 179,891 | — | 179,891 |
| — | — | — | 1,333 | — | 1,333 |
| 86 | 99 | 924 | 221,997 | 639 | 221,358 |
| — | — | — | 628,456 | 628,456 | — |
| — | — | — | 285,898 | — | 285,898 |
| — | — | 4,843 | 49,952 | — | 49,952 |
| 47 | 2,649 | 709 | 72,829 | 5,474 | 67,355 |
| 29,443 | 317,139 | 87,364 | 9,232,569 | 980,082 | 8,252,487 |

| LIABILITIES AND FUND EQUITY (DEFICIT) | | Government Development Bank | Housing Finance Corporation | Education Assistance Corporation | Public Finance Corporation |
|---|---|---|---|---|---|
| Deposits, principally from the Commonwealth of Puerto Rico and its public entities: | | | | | |
| Demand | $ | 2,047,353 | — | — | — |
| Certificates of deposit | | 1,500,154 | — | — | — |
| Deposits of component units | | 230,641 | — | — | — |
| Total deposits | | 3,778,148 | — | — | — |
| Certificates of indebtedness | | 197,881 | — | — | — |
| Securities sold under agreements to repurchase | | 19,850 | 35,000 | — | — |
| Commercial paper | | 1,408,832 | — | — | — |
| Other liabilities: | | | | | |
| Accrued interest payable | | 55,868 | 2,316 | — | 2,813 |
| Allowance for possible losses on guarantees and letters of credit | | 3,061 | — | — | — |
| Miscellaneous | | 23,892 | 12,850 | 2,125 | 13,638 |
| Total other liabilities | | 82,821 | 15,166 | 2,125 | 16,451 |
| Other borrowed funds: | | | | | |
| Notes payable | | — | — | — | 133,447 |
| Bonds payable, net | | 267,000 | 750,247 | — | 213,103 |
| Total other borrowed funds | | 267,000 | 750,247 | — | 346,550 |
| Total liabilities | | 5,754,532 | 800,413 | 2,125 | 363,001 |
| Capital: | | | | | |
| Contributed capital | | 20,500 | — | — | — |
| Retained earnings – designated as permanent capital | | 1,626,649 | 231,563 | — | (160) |
| Total capital | | 1,647,149 | 231,563 | — | (160) |
| Total | $ | 7,401,681 | 1,031,976 | 2,125 | 362,841 |

See accompanying independent auditors' report.

June 30, 2000 (in thousands)

| Development Fund | Capital Fund | Tourism Fund | Total | Eliminations | Total |
|---|---|---|---|---|---|
| — | — | — | 2,047,353 | — | 2,047,353 |
| — | — | — | 1,500,154 | — | 1,500,154 |
| — | — | — | 230,641 | (230,641) | — |
| — | — | — | 3,778,148 | (230,641) | 3,547,507 |
| — | — | — | 197,881 | — | 197,881 |
| — | — | — | 54,850 | (35,000) | 19,850 |
| — | — | — | 1,408,832 | — | 1,408,832 |
| — | — | — | 60,997 | (639) | 60,358 |
| — | — | 35,078 | 38,139 | — | 38,139 |
| 3 | 287 | 1,525 | 54,320 | — | 54,320 |
| 3 | 287 | 36,603 | 153,456 | (639) | 152,817 |
| — | — | — | 133,447 | (16,669) | 116,778 |
| — | — | — | 1,230,350 | (68,677) | 1,161,673 |
| — | — | — | 1,363,797 | (85,346) | 1,278,451 |
| 3 | 287 | 36,603 | 6,956,964 | (351,626) | 6,605,338 |
| 19,000 | 108,625 | 50,000 | 198,125 | (177,625) | 20,500 |
| 10,440 | 208,227 | 761 | 2,077,480 | (450,831) | 1,626,649 |
| 29,440 | 316,852 | 50,761 | 2,275,605 | (628,456) | 1,647,149 |
| 29,443 | 317,139 | 87,364 | 9,232,569 | (980,082) | 8,252,487 |

| | Government Development Bank | Housing Finance Corporation | Public Finance Corporation |
|---|---|---|---|
| Investment income: | | | |
| Interest income on federal funds sold and securities purchased under agreements to resell | $ 38,030 | — | — |
| Interest income on deposits placed with banks and commercial paper | 5,019 | 5,386 | 53 |
| Interest and dividend income on investments and investment contracts and tax lien receivables | 65,055 | 56,041 | 8,451 |
| Net increase (decrease) in fair value of investments | 26,472 | 16,255 | — |
| Total | 134,576 | 77,682 | 8,504 |
| Interest income on loans receivable: | | | |
| Public sector entities and municipalities of the Commonwealth of Puerto Rico | 242,823 | — | — |
| Private sector | 4,680 | 8,482 | — |
| Total | 247,503 | 8,482 | — |
| Total investment income | 382,079 | 86,164 | 8,504 |
| Interest expense: | | | |
| Deposits | 160,687 | — | — |
| Certificates of indebtedness | 9,560 | — | — |
| Federal funds purchased and securities sold under agreements to repurchase | 5,504 | 1,557 | — |
| Commercial paper | 42,843 | — | — |
| Other borrowed funds | 8,894 | 54,056 | 13,183 |
| Total interest expense | 227,488 | 55,613 | 13,183 |
| Net investment income | 154,591 | 30,551 | (4,679) |
| (Provision) credit for loan losses | — | (2,678) | — |
| Net investment income (loss) after provision (credit) for loan losses | 154,591 | 27,873 | (4,679) |
| Noninterest income: | | | |
| Income from component units | (14,935) | — | — |
| Fiscal agency fees | 5,971 | — | — |
| Commitment, service and administrative fees | 5,934 | 4,673 | — |
| Income from sponsored housing programs | — | — | — |
| Other | 2,090 | 2,861 | 26,279 |
| Total noninterest income | (940) | 7,534 | 26,279 |
| Noninterest expense: | | | |
| Salaries and fringe benefits | 17,313 | 3,433 | — |
| Occupancy and equipment costs | 5,936 | 798 | — |
| Professional fees | 10,445 | 1,219 | 5,621 |
| Provision for loss on real property taxes receivable | — | — | 12,746 |
| Provision (credit) for losses on guarantees and letters of credit | 12,698 | — | — |
| Other | 22,323 | 1,383 | 1,014 |
| Total noninterest expense | 68,715 | 6,833 | 19,381 |
| Net income | 84,936 | 28,574 | 2,219 |
| Fund equity (deficit) at beginning of year | 1,647,149 | 231,563 | (160) |
| Retained earnings and capital distributions to the Government Development Bank | — | — | — |
| Fund equity (deficit) at end of year | $ 1,732,085 | 260,137 | 2,059 |

See accompanying independent auditors' report.

# COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND EQUITY INFORMATION

Year ended June 30, 2001 (in thousands)

| Development Fund | Capital Fund | Tourism Fund | Total | Eliminations | Total |
|---|---|---|---|---|---|
| — | — | — | 38,030 | 1,557 | 36,473 |
| 824 | — | 1,254 | 12,536 | 5,913 | 6,623 |
| — | 2,366 | 3,108 | 135,021 | 9,700 | 125,321 |
| 681 | (49,935) | 1,106 | (5,421) | 5,577 | (10,998) |
| 1,505 | (47,569) | 5,468 | 180,166 | 22,747 | 157,419 |
| — | — | — | 242,823 | — | 242,823 |
| — | — | — | 13,162 | — | 13,162 |
| — | — | — | 255,985 | — | 255,985 |
| 1,505 | (47,569) | 5,468 | 436,151 | 22,747 | 413,404 |
| — | — | — | 160,687 | 15,613 | 145,074 |
| — | — | — | 9,560 | — | 9,560 |
| — | — | — | 7,061 | 1,557 | 5,504 |
| — | — | — | 42,843 | — | 42,843 |
| — | — | — | 76,133 | 5,577 | 70,556 |
| — | — | — | 296,284 | 22,747 | 273,537 |
| 1,505 | (47,569) | 5,468 | 139,867 | — | 139,867 |
| — | — | — | (2,678) | — | (2,678) |
| 1,505 | (47,569) | 5,468 | 137,189 | — | 137,189 |
| — | — | — | (14,935) | (14,935) | — |
| — | — | — | 5,971 | — | 5,971 |
| — | — | 7,065 | 17,672 | 245 | 17,427 |
| — | — | — | — | — | — |
| — | — | — | 31,230 | 15,915 | 15,315 |
| — | — | 7,065 | 39,938 | 1,225 | 38,713 |
| — | — | 1 | 20,747 | — | 20,747 |
| — | — | — | 6,734 | — | 6,734 |
| 7 | 306 | 356 | 17,954 | — | 17,954 |
| — | — | — | 12,746 | 12,746 | — |
| — | — | 11,354 | 24,052 | — | 24,052 |
| 76 | — | 97 | 24,893 | 3,414 | 21,479 |
| 83 | 306 | 11,808 | 107,126 | 16,160 | 90,966 |
| 1,422 | (47,875) | 725 | 70,001 | (14,935) | 84,936 |
| 29,440 | 316,852 | 50,761 | 2,275,605 | 628,456 | 1,647,149 |
| — | (191,607) | — | (191,607) | (191,607) | — |
| 30,862 | 77,370 | 51,486 | 2,153,999 | 421,914 | 1,732,085 |

| | Government Development Bank | Housing Finance Corporation | Public Finance Corporation |
|---|---|---|---|
| Investment income: | | | |
| Interest income on federal funds sold and securities purchased under agreements to resell | $ 33,092 | — | 1 |
| Interest income on deposits placed with banks and commercial paper | 8,793 | 4,797 | 98 |
| Interest and dividend income on investments and investment contracts and tax lien receivables | 94,530 | 61,290 | 6,468 |
| Net increase (decrease) in fair value of investments | 7,282 | (11,813) | — |
| Total | 143,697 | 54,274 | 6,567 |
| Interest income on loans receivable: | | | |
| Public sector entities and municipalities of the Commonwealth of Puerto Rico | 223,590 | — | — |
| Private sector | 5,835 | 10,089 | — |
| Total | 229,425 | 10,089 | — |
| Total investment income | 373,122 | 64,363 | 6,567 |
| Interest expense: | | | |
| Deposits | 162,259 | — | — |
| Certificates of indebtedness | 10,490 | — | — |
| Federal funds purchased and securities sold under agreements to repurchase | 1,695 | 2,784 | — |
| Commercial paper | 48,982 | — | — |
| Other borrowed funds | 11,013 | 58,305 | 13,753 |
| Total interest expense | 234,439 | 61,089 | 13,753 |
| Net investment income | 138,683 | 3,274 | (7,186) |
| (Provision) credit for loan losses | 5,334 | (2,901) | — |
| Net investment income (loss) after provision (credit) for loan losses | 144,017 | 373 | (7,186) |
| Noninterest income: | | | |
| Income from component units | 2,876 | — | — |
| Fiscal agency fees | 3,593 | — | — |
| Commitment, service and administrative fees | 7,151 | 5,011 | — |
| Income from sponsored housing programs | 122 | — | — |
| Other | 4,900 | 141 | 17,525 |
| Total noninterest income | 18,642 | 5,152 | 17,525 |
| Noninterest expense: | | | |
| Salaries and fringe benefits | 17,663 | 2,536 | — |
| Occupancy and equipment costs | 4,667 | 752 | — |
| Professional fees | 14,767 | 865 | 5,395 |
| Provision for loss on real property taxes receivable | — | — | 5,000 |
| Provision (credit) for losses on guarantees and letters of credit | (12,000) | — | — |
| Construction of Puerto Rico Art Museum | 19,057 | — | — |
| Other | 15,883 | 1,262 | 1,094 |
| Total noninterest expense | 60,037 | 5,415 | 11,489 |
| Net income (loss) | 102,622 | 110 | (1,150) |
| Fund equity at beginning of year | 1,544,649 | 231,331 | 990 |
| Fund equity (deficit) at end of year | $ 1,647,271 | 231,441 | (160) |

See accompanying independent auditors' report.

Year ended June 30, 2000 (in thousands)

| Development Fund | Capital Fund | Tourism Fund | Total | Eliminations | Total |
|---|---|---|---|---|---|
| — | — | — | 33,093 | 2,784 | 30,309 |
| 943 | 2,603 | 786 | 18,020 | 7,433 | 10,587 |
| — | 2,695 | 3,781 | 168,764 | 15,680 | 153,084 |
| (966) | 3,543 | (375) | (2,329) | 5,211 | (7,540) |
| (23) | 8,841 | 4,192 | 217,548 | 31,108 | 186,440 |
| — | — | — | 223,590 | — | 223,590 |
| — | — | — | 15,924 | — | 15,924 |
| — | — | — | 239,514 | — | 239,514 |
| (23) | 8,841 | 4,192 | 457,062 | 31,108 | 425,954 |
| — | — | — | 162,259 | 23,113 | 139,146 |
| — | — | — | 10,490 | — | 10,490 |
| — | — | — | 4,479 | 2,784 | 1,695 |
| — | — | — | 48,982 | — | 48,982 |
| — | — | — | 83,071 | 5,211 | 77,860 |
| — | — | — | 309,281 | 31,108 | 278,173 |
| (23) | 8,841 | 4,192 | 147,781 | — | 147,781 |
| — | — | — | 2,433 | — | 2,433 |
| (23) | 8,841 | 4,192 | 150,214 | — | 150,214 |
| — | — | — | 2,876 | 2,876 | — |
| — | — | — | 3,593 | — | 3,593 |
| — | — | 4,397 | 16,559 | 363 | 16,196 |
| — | — | — | 122 | — | 122 |
| — | — | 22 | 22,588 | 5,000 | 17,588 |
| — | — | 4,419 | 45,738 | 8,239 | 37,499 |
| — | — | 181 | 20,380 | — | 20,380 |
| 1 | — | 2 | 5,422 | — | 5,422 |
| 6 | 663 | 78 | 21,774 | — | 21,774 |
| — | — | — | 5,000 | — | 5,000 |
| — | — | 9,387 | (2,613) | — | (2,613) |
| — | — | — | 19,057 | — | 19,057 |
| 84 | — | 3,233 | 21,556 | 5,363 | 16,193 |
| 91 | 663 | 12,881 | 90,576 | 5,363 | 85,213 |
| (114) | 8,178 | (4,270) | 105,376 | 2,876 | 102,500 |
| 29,554 | 308,674 | 55,031 | 2,170,229 | 625,580 | 1,544,649 |
| 29,440 | 316,852 | 50,761 | 2,275,605 | 628,456 | 1,647,149 |

| | Government Development Bank | Housing Finance Corporation | Education Assistance Corporation | Public Finance Corporation |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Net income | $ 84,936 | 28,574 | — | 2,219 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | |
| Provision for loan losses | — | 2,678 | — | — |
| Net decrease (increase) in fair value of investments | (26,472) | (16,255) | — | — |
| Gains on sale of real estate owned | (1,041) | (2,781) | — | — |
| Net unrealized loss on derivatives | 712 | — | — | — |
| Loss (gain) on forgiveness of debt | 15,915 | — | — | (15,915) |
| Other - recovery of forgiveness of debt | (15,915) | — | — | — |
| Provision for loss on real property taxes receivable | — | — | — | 12,746 |
| Provision for losses on guarantees and letters of credit | 12,698 | — | — | — |
| Provision for losses on other assets | 1,526 | — | — | — |
| Disbursements for obligations guaranteed | — | — | — | — |
| Depreciation and amortization | 2,715 | 263 | — | — |
| Income from component units | 14,935 | — | — | — |
| Interest income, excluding low-income housing loans | (355,607) | (61,427) | — | (8,504) |
| Interest expense | 228,200 | 55,613 | — | 13,183 |
| Changes in operating assets and liabilities: | | | | |
| Decrease (increase) in: | | | | |
| Accrued interest receivable on low-income housing loans | — | 247 | — | — |
| Other assets | (22,416) | 1,528 | — | (10,417) |
| Increase (decrease) in other liabilities | (8,360) | (4,740) | (77) | (6,238) |
| Net cash provided by (used in) operating activities | (68,174) | 3,700 | (77) | (12,926) |
| Cash flows from investing activities: | | | | |
| Interest and dividends collected | 293,424 | 55,369 | — | 8,979 |
| Net decrease (increase) in: | | | | |
| Federal funds sold and securities purchased under agreements to resell | (803,436) | — | — | — |
| Deposits placed with banks and commercial paper | 61,039 | (11,971) | — | (33) |
| Proceeds from: | | | | |
| Redemptions of investments | 5,130,832 | 167,842 | — | 166,228 |
| Sales of investments | 96,912 | — | — | — |
| Sales and other real estate owned transactions | 1,818 | 20,828 | — | — |
| Purchases of investments | (3,905,429) | (151,072) | — | (160,980) |
| Principal collected on loans (excluding low-income housing loans) to: | | | | |
| Public sector entities and municipalities of the Commonwealth of Puerto Rico | 2,164,410 | — | — | — |
| Private sector | 52,634 | — | — | — |
| Tax lien receivables | — | — | — | 19,285 |
| Loans (excluding low-income housing loans) to: | | | | |
| Public entities and municipalities of the Commonwealth of Puerto Rico | (2,544,630) | — | — | — |
| Private sector | (3,334) | — | — | — |
| Low-income housing loans originated | — | (13,147) | — | — |
| Repayment of low-income housing loans | — | 22,359 | — | — |
| Retained earnings and capital distributions to Government Development Bank | 191,607 | — | — | — |
| Net cash provided by (used in) investing activities | $ 735,847 | 90,208 | — | 33,479 |

Year ended June 30, 2001 (in thousands)

| Development Fund | Capital Fund | Tourism Fund | Total | Eliminations | Total |
|---:|---:|---:|---:|---:|---:|
| 1,422 | (47,875) | 725 | 70,001 | (14,935) | 84,936 |
| — | — | — | 2,678 | — | 2,678 |
| (681) | 49,935 | (1,106) | 5,421 | (5,577) | 10,998 |
| — | — | — | (3,822) | — | (3,822) |
| — | — | — | 712 | — | 712 |
| — | — | — | — | — | — |
| — | — | — | (15,915) | (12,746) | (3,169) |
| — | — | — | 12,746 | 12,746 | — |
| — | — | 11,354 | 24,052 | — | 24,052 |
| 47 | — | — | 1,573 | — | 1,573 |
| — | — | (15,432) | (15,432) | — | (15,432) |
| — | — | — | 2,978 | — | 2,978 |
| — | — | — | 14,935 | 14,935 | — |
| (824) | (2,366) | (4,362) | (433,090) | (17,170) | (415,920) |
| — | — | — | 296,996 | 22,747 | 274,249 |
| — | — | — | 247 | — | 247 |
| — | 2,649 | 291 | (28,365) | 2,576 | (30,941) |
| 2 | (273) | (448) | (20,134) | — | (20,134) |
| (34) | 2,070 | (8,978) | (84,419) | 2,576 | (86,995) |
| 866 | 2,463 | 4,604 | 365,705 | 11,803 | 353,902 |
| — | — | — | (803,436) | 20,000 | (823,436) |
| — | — | (32,000) | 17,035 | (44,500) | 61,535 |
| — | 252,638 | 45,042 | 5,762,582 | 83,007 | 5,679,575 |
| 1,520 | 230,358 | — | 328,790 | — | 328,790 |
| — | — | — | 22,646 | — | 22,646 |
| (3,341) | (295,922) | — | (4,516,744) | (88,240) | (4,428,504) |
| — | — | — | 2,164,410 | 754 | 2,163,656 |
| — | — | — | 52,634 | — | 52,634 |
| — | — | — | 19,285 | — | 19,285 |
| — | — | — | (2,544,630) | — | (2,544,630) |
| — | — | — | (3,334) | — | (3,334) |
| — | — | — | (13,147) | — | (13,147) |
| — | — | — | 22,359 | — | 22,359 |
| — | (191,607) | — | — | — | — |
| (955) | (2,070) | 17,646 | 874,155 | (17,176) | 891,331 |

| | Government Development Bank | Housing Finance Corporation | Education Assistance Corporation | Public Finance Corporation |
|---|---|---|---|---|
| Net cash provided by (used in) investing activities | $ 735,847 | 90,208 | — | 33,479 |
| Cash flows from noncapital financing activities: | | | | |
| Interest paid | (244,485) | (13,644) | — | (13,180) |
| Payment of bond issue costs | — | (157) | — | — |
| Net increase (decrease) in: | | | | |
| Deposits | (340,076) | — | — | — |
| Certificates of indebtedness | 96,219 | — | — | — |
| Securities sold under agreements to repurchase | (19,850) | (20,000) | — | — |
| Commercial paper | (161,326) | — | — | — |
| Proceeds from issuance of notes and bonds payable | — | 17,720 | — | — |
| Matured notes and bonds payable | — | (76,300) | — | (7,325) |
| Net cash used in noncapital financing activities | (669,518) | (92,381) | — | (20,505) |
| Net cash used in capital and related financing activities – capital expenditures for real estate owned | — | (3,359) | — | — |
| Net (decrease) increase in cash and due from banks | (1,845) | (1,832) | (77) | 48 |
| Cash and due from banks at beginning of year | 14,157 | 16,090 | 2,115 | 1,172 |
| Cash and due from banks at end of year | $ 12,312 | 14,258 | 2,038 | 1,220 |

See accompanying independent auditors' report.

Year ended June 30, 2001 (in thousands)

| Development Fund | Capital Fund | Tourism Fund | Total | Eliminations | Total |
|---|---|---|---|---|---|
| (955) | (2,070) | 17,646 | 874,155 | (17,176) | 891,331 |
| — | — | — | (271,309) | (11,802) | (259,507) |
| — | — | — | (157) | — | (157) |
| — | — | — | (340,076) | 51,738 | (391,814) |
| — | — | — | 96,219 | — | 96,219 |
| — | — | — | (39,850) | (20,000) | (19,850) |
| — | — | — | (161,326) | — | (161,326) |
| — | — | — | 17,720 | — | 17,720 |
| — | — | — | (83,625) | (562) | (83,063) |
| — | — | — | (782,404) | 19,374 | (801,778) |
| — | — | — | (3,359) | — | (3,359) |
| (989) | — | 8,668 | 3,973 | 4,774 | (801) |
| 16,950 | — | 6,821 | 57,305 | 40,853 | 16,452 |
| 15,961 | — | 15,489 | 61,278 | 45,627 | 15,651 |

| | Government Development Bank | Housing Finance Corporation | Education Assistance Corporation | Public Finance Corporation |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Net income | $ 102,500 | 232 | — | (1,150) |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | |
| Net decrease (increase) in fair value of investments | (7,282) | 11,813 | — | — |
| Gains on sale of real estate owned | (1,310) | — | — | — |
| Loss (gain) on forgiveness of debt | 5,000 | — | — | (5,000) |
| Provision (credit) for loan losses | (5,334) | 2,901 | — | — |
| Provision for loss on real property taxes receivable | — | — | — | 5,000 |
| Provision (credit) for losses on guarantees and letters of credit | (12,000) | — | — | — |
| Provision for losses on other assets | — | — | — | — |
| Disbursements for obligations guaranteed | — | — | — | — |
| Depreciation and amortization | 1,402 | 279 | — | — |
| Income from component units | (2,878) | — | — | — |
| Interest income, excluding low-income housing loans | (365,837) | (66,088) | — | (6,567) |
| Interest expense | 234,439 | 61,089 | — | 13,753 |
| Changes in operating assets and liabilities: | | | | |
| Decrease (increase) in: | | | | |
| Accrued interest receivable on low-income housing loans | — | (144) | — | — |
| Other assets | (11,635) | (2,824) | — | (12,361) |
| Increase (decrease) in other liabilities | 1,587 | (997) | 104 | 762 |
| Net cash provided by (used in) operating activities | (61,348) | 6,261 | 104 | (5,563) |
| Cash flows from investing activities: | | | | |
| Interest and dividends collected | 220,582 | 52,514 | — | 5,914 |
| Net decrease (increase) in: | | | | |
| Federal funds sold and securities purchased under agreements to resell | (196,068) | — | — | — |
| Deposits placed with banks and commercial paper | 121,890 | (3,049) | — | (803) |
| Proceeds from: | | | | |
| Redemptions of investments | 3,847,651 | 262,134 | — | 109,090 |
| Sales of investments | 443,286 | — | — | — |
| Sales and other real estate owned transactions | 6,125 | 8,121 | — | — |
| Sales of loans | 540,533 | — | — | — |
| Purchases of investments | (3,995,522) | (147,023) | — | (112,253) |
| Purchase of loan | — | — | — | — |
| Principal collected on loans (excluding low-income housing loans) to: | | | | |
| Public sector entities and municipalities of the Commonwealth of Puerto Rico | 1,166,990 | — | — | — |
| Private sector | 31,717 | — | — | 2,520 |
| Tax lien receivables | — | — | — | 22,860 |
| Loans (excluding low-income housing loans) originated to: | | | | |
| Public sector entities and municipalities of the Commonwealth of Puerto Rico | (1,911,197) | — | — | — |
| Private sector | (21,327) | — | — | — |
| Low-income housing loans originated | — | (22,080) | — | — |
| Repayment of low-income housing loans | — | 31,326 | — | — |
| Net cash provided by (used in) investing activities | $ 254,660 | 181,943 | — | 27,328 |

Year ended June 30, 2000 (in thousands)

| Development Fund | Capital Fund | Tourism Fund | Total | Eliminations | Total |
|---|---|---|---|---|---|
| (114) | 8,178 | (4,270) | 105,376 | 2,876 | 102,500 |
| 966 | (3,543) | 375 | 2,329 | (5,211) | 7,540 |
| — | — | — | (1,310) | — | (1,310) |
| — | — | — | — | — | — |
| — | — | — | (2,433) | — | (2,433) |
| — | — | — | 5,000 | — | 5,000 |
| — | — | 9,387 | (2,613) | — | (2,613) |
| — | — | 3,000 | 3,000 | — | 3,000 |
| — | — | — | — | — | — |
| 47 | — | 2 | 1,730 | — | 1,730 |
| — | — | — | (2,878) | (2,878) | — |
| (943) | (5,298) | (4,567) | (449,300) | (25,897) | (423,403) |
| — | — | — | 309,281 | 31,108 | 278,173 |
| — | — | — | (144) | — | (144) |
| — | (1,878) | (706) | (29,404) | (3,051) | (26,353) |
| 2 | (724) | 899 | 1,633 | — | 1,633 |
| (42) | (3,265) | 4,120 | (59,733) | (3,053) | (56,680) |
| 927 | 5,339 | 4,444 | 289,720 | 15,310 | 274,410 |
| — | — | — | (196,068) | 14,000 | (210,068) |
| — | 35,033 | — | 153,071 | 32,534 | 120,537 |
| — | 285,841 | 19,276 | 4,523,992 | 165,721 | 4,358,271 |
| — | — | — | 443,286 | — | 443,286 |
| — | — | — | 14,246 | — | 14,246 |
| — | — | — | 540,533 | 7,843 | 532,690 |
| (2,447) | (322,948) | (24,820) | (4,605,013) | — | (4,605,013) |
| — | — | (7,843) | (7,843) | (7,843) | — |
| — | — | — | 1,166,990 | 202 | 1,166,788 |
| — | — | — | 34,237 | — | 34,237 |
| — | — | — | 22,860 | — | 22,860 |
| — | — | — | (1,911,197) | — | (1,911,197) |
| — | — | — | (21,327) | — | (21,327) |
| — | — | — | (22,080) | — | (22,080) |
| — | — | — | 31,326 | — | 31,326 |
| (1,520) | 3,265 | (8,943) | 456,733 | 227,767 | 228,966 |

| | Government Development Bank | Housing Finance Corporation | Education Assistance Corporation | Public Finance Corporation |
|---|---|---|---|---|
| Net cash provided by (used in) investing activities | 254,660 | 181,943 | — | 27,328 |
| Cash flows from noncapital financing activities: | | | | |
| Interest paid | (210,966) | (28,556) | — | (13,852) |
| Net increase (decrease) in: | | | | |
| Deposits | (316,120) | — | — | — |
| Certificates of indebtedness | (24,500) | — | — | — |
| Securities sold under agreements to repurchase | (57,344) | (14,000) | — | — |
| Commercial paper | 498,943 | — | — | — |
| Proceeds from issuance of notes and bonds payable | — | — | — | — |
| Payment of bond issue costs | — | — | — | — |
| Matured notes and bonds payable | (87,008) | (330,410) | — | (7,724) |
| Net cash provided by (used in) noncapital financing activities | (196,995) | (372,966) | — | (21,576) |
| Net cash used in capital and related financing activities– capital expenditures for real estate owned | — | (6,279) | — | — |
| Net change in cash and due from banks | (3,683) | (191,041) | 104 | 189 |
| Cash and due from banks at beginning of year | 17,840 | 207,131 | 2,011 | 983 |
| Cash and due from banks at end of year | $ 14,157 | 16,090 | 2,115 | 1,172 |

See accompanying independent auditors' report.

# COMBINING STATEMENT OF CASH FLOWS INFORMATION

Year ended June 30, 2000 (in thousands)

| Development Fund | Capital Fund | Tourism Fund | Total | Eliminations | Total |
|---:|---:|---:|---:|---:|---:|
| (1,520) | 3,265 | (8,943) | 456,733 | 227,767 | 228,966 |
| — | — | — | (253,374) | (15,294) | (238,080) |
| — | — | — | (316,120) | (203,792) | (112,328) |
| — | — | — | (24,500) | — | (24,500) |
| — | — | — | (71,344) | (14,000) | (57,344) |
| — | — | — | 498,943 | — | 498,943 |
| — | — | — | — | — | — |
| — | — | — | — | — | — |
| — | — | — | (425,142) | (2,245) | (422,897) |
| — | — | — | (591,537) | (235,331) | (356,206) |
| — | — | — | (6,279) | — | (6,279) |
| (1,562) | — | (4,823) | (200,816) | (10,617) | (190,199) |
| 18,512 | — | 11,644 | 258,121 | 51,470 | 206,651 |
| 16,950 | — | 6,821 | 57,305 | 40,853 | 16,452 |