NEW ISSUES – BOOK-ENTRY ONLY

In the opinion of Bond Counsel, subject to continuing compliance with certain tax covenants, interest on the Bonds is not includable in gross income for federal income tax purposes under existing statutes, regulations, rulings and court decisions. However, see *Tax Exemption* for a description of the alternative minimum tax and environmental tax on corporations and certain other federal tax consequences of ownership of the Bonds. Bond Counsel is further of the opinion that the Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation.

$415,180,000
COMMONWEALTH OF PUERTO RICO
$90,180,000 Public Improvement Refunding Bonds, Series 1995
$325,000,000 Public Improvement Bonds of 1995
(General Obligation Bonds)

Dated: April 15, 1995

Due: July 1, as shown below

The Bonds are issuable as registered bonds without coupons and will be initially registered only in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Bonds. Bonds will be available to purchasers in denominations of $5,000 and any multiple thereof only under the book-entry system maintained by DTC through brokers and dealers who are, or act through, DTC Participants. **Purchasers will not receive delivery of the Bonds. So long as any purchaser is the beneficial owner of a Bond, such purchaser must maintain an account with a broker or dealer who is, or acts through, a DTC Participant to receive payment of principal of and interest on such Bond.** See "Book-Entry Only System" under *The Bonds*. Interest on the Bonds will be payable January 1, 1996 (representing eight and one-half months' interest) and each January 1 and July 1 thereafter. Certain of the Bonds are subject to redemption prior to maturity as set forth herein, the earliest possible date of redemption being July 1, 2005.

Payment of the principal of and interest on the Bonds when due will be guaranteed by a municipal bond insurance policy issued simultaneously with the delivery of the Bonds by

MBIA

The Bonds are general obligations of the Commonwealth of Puerto Rico. The good faith, credit and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal of and interest on the Bonds. The Constitution of Puerto Rico provides that public debt of the Commonwealth, including the Bonds, constitutes a first claim on available Commonwealth revenues.

Year	Amount	Interest Rate	Price or Yield
1996	$ 1,965,000	5%	4.05%
1997	5,505,000	5	4.25
1998	5,780,000	5	4.40
1999	6,070,000	5	4.55
2000	615,000	4.70	100
2000	5,755,000	6	4.70
2001	87,880,000	5½	4.90
2001	6,100,000	4.80	4.85
2002	6,395,000	4.90	4.95
2003	6,705,000	6½	5.05
2004	$ 7,145,000	6½%	5.10%
2005	7,610,000	6½	5.15
2006	8,100,000	5.20	5.25
2007	8,525,000	5.30	5.35
2008	8,975,000	6¼	5.35
2009	9,535,000	6¼	5.40
2010	10,130,000	6¼	5.45
2011	10,765,000	6¼	5.50
2012	11,440,000	6¼	5.55
2013	12,155,000	6¼	5.57

$26,555,000 5.65% Term Bonds due July 1, 2015 — Price 100%
$118,695,000 5⅜% Term Bonds due July 1, 2022 — Yield 5.823%
$42,780,000 5¾% Term Bonds due July 1, 2024 — Yield 5.85%
(plus accrued interest)

The Bonds are offered for delivery when, as and if issued and accepted by the Underwriters, subject to the approval of legality by Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel, New York, New York, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Brown & Wood, New York, New York. It is expected that settlement for the Bonds will occur in New York, New York, on or about May 4, 1995.

LEHMAN BROTHERS — MORGAN STANLEY & CO. Incorporated — PRUDENTIAL SECURITIES Incorporated — SMITH BARNEY INC.

BEAR, STEARNS & CO. INC. — CITICORP SECURITIES, INC. — CLARK MELVIN Securities Corporation — GOLDMAN, SACHS & CO.

MERRILL LYNCH & CO. — ORIENTAL FINANCIAL SERVICES CORP. — PAINEWEBBER INCORPORATED

April 20, 1995

$415,180,000
Commonwealth of Puerto Rico

$90,180,000
Public Improvement Refunding Bonds, Series 1995

Year	Amount	Interest Rate	Price or Yield
1997	$ 535,000	5%	4.25%
1998	560,000	5	4.40
1999	590,000	5	4.55
2000	615,000	4.70	100
2001	87,880,000	5½	4.90

$325,000,000
Public Improvement Bonds of 1995

Year	Amount	Interest Rate	Price or Yield
1996	$ 1,965,000	5%	4.05%
1997	4,970,000	5	4.25
1998	5,220,000	5	4.40
1999	5,480,000	5	4.55
2000	5,755,000	6	4.70
2001	6,100,000	4.80	4.85
2002	6,395,000	4.90	4.95
2003	6,705,000	6½	5.05
2004	7,145,000	6½	5.10
2005	7,610,000	6½	5.15
2006	8,100,000	5.20	5.25
2007	8,525,000	5.30	5.35
2008	8,975,000	6¼	5.35
2009	9,535,000	6¼	5.40
2010	10,130,000	6¼	5.45
2011	10,765,000	6¼	5.50
2012	11,440,000	6¼	5.55
2013	12,155,000	6¼	5.57

$26,555,000 5.65% Term Bonds due July 1, 2015 — Price — 100%
$118,695,000 5⅝% Term Bonds due July 1, 2022 — Yield — 5.823%
$42,780,000 5¾% Term Bonds due July 1, 2024 — Yield — 5.85%

Commonwealth of Puerto Rico

Governor

PEDRO J. ROSSELLÓ

Members of the Cabinet

BALTASAR CORRADA DEL RÍO
Secretary of State

PEDRO R. PIERLUISI
Secretary of Justice

MANUEL DÍAZ SALDAÑA
Secretary of the Treasury

VICTOR FAJARDO
Secretary of Education

CÉSAR ALMODÓVAR MARCHANY
Secretary of Labor and Human Resources

CARMEN FELICIANO DE MELECIO
Secretary of Health

NEFTALÍ SOTO SANTIAGO
Secretary of Agriculture

CARLOS I. PESQUERA MORALES
Secretary of Transportation and Public Works

LUIS G. FORTUÑO BURSET
Secretary of Economic Development and Commerce

CARMEN L. RODRÍGUEZ RODRÍGUEZ
Secretary of Social Services

CARLOS VIVONI NAZARIO
Secretary of Housing

PEDRO A. GELABERT
Secretary of Natural and Environmental Resources

JOSÉ A. ALICEA
Secretary of Consumer Affairs

MARIMER OLAZAGASTI DE THON
Secretary of Recreation

ZORAIDA BUXÓ
Secretary of Corrections and Rehabilitation

PEDRO TOLEDO
Commissioner of Protection and Public Safety

Legislative Officers

ROBERTO REXACH BENÍTEZ
President, Senate

ZAIDA HERNÁNDEZ TORRES
Speaker, House of Representatives

Fiscal Officers

JORGE E. APONTE HERNÁNDEZ
Director, Office of Budget and Management

MARCOS RODRÍGUEZ-EMA
President, Government Development Bank for Puerto Rico

No dealer, broker, sales representative or other person has been authorized by the Commonwealth or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the Commonwealth or any Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been obtained from the Commonwealth and other official sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by any Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS OFFERED HEREBY AND THE COMMONWEALTH'S OUTSTANDING GENERAL OBLIGATION BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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$415,180,000

Commonwealth of Puerto Rico

$90,180,000 Public Improvement Refunding Bonds, Series 1995
$325,000,000 Public Improvement Bonds of 1995
(General Obligation Bonds)

INTRODUCTORY STATEMENT

This Official Statement of the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico"), which includes the cover page and the appendices, provides certain information in connection with the sale of $90,180,000 Commonwealth of Puerto Rico Public Improvement Refunding Bonds, Series 1995 (the "Refunding Bonds") and $325,000,000 Commonwealth of Puerto Rico Public Improvement Bonds of 1995 (the "Public Improvement Bonds" and, together with the Refunding Bonds, the "Bonds").

The Refunding Bonds are being issued under the provisions of Act No. 33 of the Legislature of Puerto Rico, approved December 7, 1942 ("Act No. 33"), and pursuant to a resolution authorizing the issuance of the Refunding Bonds (the "Refunding Bond Resolution") adopted by the Secretary of the Treasury and approved by the Acting Governor of Puerto Rico on April 20, 1995. The Public Improvement Bonds are being issued under the provisions of Act No. 46 of the Legislature of Puerto Rico, approved July 28, 1994 ("Act No. 46" and, together with Act No. 33, the "Act"), and pursuant to a resolution authorizing the issuance of the Public Improvement Bonds (the "Public Improvement Bond Resolution" and, together with the Refunding Bond Resolution, the "Bond Resolution") adopted by the Secretary of the Treasury and approved by the Acting Governor of Puerto Rico on April 20, 1995.

Under the Act, the good faith, credit and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal of and the interest on the Bonds. The Constitution of Puerto Rico provides that public debt of the Commonwealth, including the Bonds, constitutes a first claim on available Commonwealth revenues.

OVERVIEW

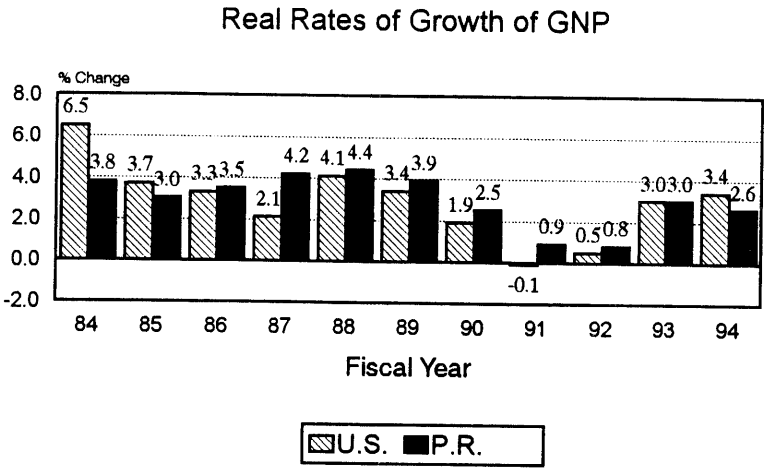
The following is a summary of certain information regarding the Commonwealth contained in *Appendix I* and does not purport to be complete. This summary is qualified in its entirety by reference to the more detailed information appearing in *Appendix I*, which should be read in its entirety.

Puerto Rico is located in the Caribbean approximately 1,600 miles southeast of New York City. Its population was, according to the United States Census Bureau, just under 3,522,000 in 1990, and, according to estimates of the Puerto Rico Planning Board, increased to 3,653,000 in fiscal 1994. Puerto Rico's constitutional status is that of an unincorporated territory of the United States and the ultimate source of power over Puerto Rico, pursuant to the Territory Clause of the Federal Constitution, is the United States Congress. The relationship between the United States and Puerto Rico is referred to herein as commonwealth status. The government of the Commonwealth exercises virtually the same control over its internal affairs as do the fifty states, with similar separation of powers among the executive, legislative and judicial branches. The official languages of Puerto Rico are Spanish and English.

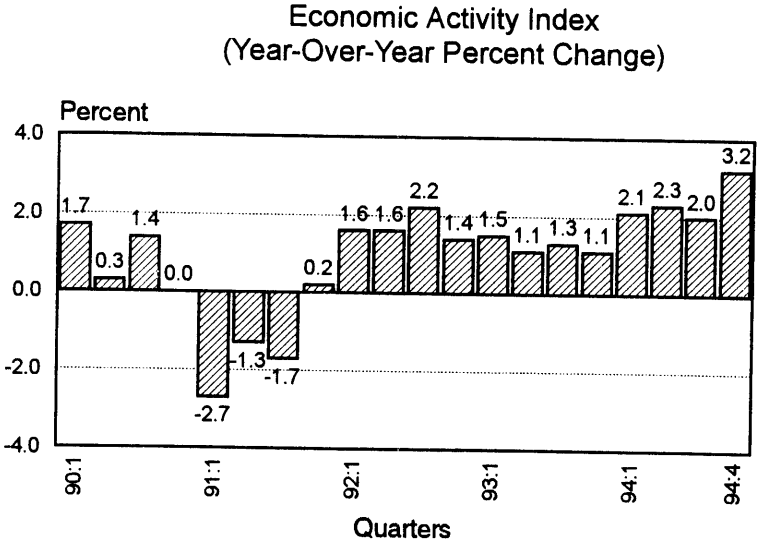
Economic Trends

Puerto Rico has experienced a wide ranging expansion since 1983 with growth in almost every sector of its economy and record levels of employment. Although the increase in real gross product slowed to 0.9% in fiscal 1991 and 0.8% in fiscal 1992, reflecting the effects of the recession in the United States economy, the growth

pattern has since continued with real gross product increases of 3.0% and 2.6% for the fiscal years 1993 and 1994, respectively, corresponding to the economic rebound in the United States. While trends in the Puerto Rico economy normally follow those in the United States, Puerto Rico did not experience a recession during fiscal 1991 as did the United States primarily because its manufacturing base is comprised of certain industries less prone to business cycle fluctuations. Other factors contributing to Puerto Rico's decade-long expansion include Commonwealth-sponsored economic development programs, the relatively stable prices of oil imports, the continued growth in the United States economy, declines in the exchange value of the United States dollar and the relatively low cost of borrowing during the period. In February 1995, employment (Household Employment Survey) increased to a record level of 1,086,000 (nonseasonally adjusted), representing the addition of 80,000 new jobs over the prior twelve months. This job increase resulted in an unemployment rate, seasonally adjusted, of 12.5% as of February 1995.



In the first seven months of fiscal 1995, the Economic Activity Index, a composite index of thirteen coincident economic indicators prepared by the Puerto Rico Planning Board, increased 2.7% compared to the same period of fiscal 1994. The Index may not necessarily change at the same percentage rate as the real gross product of Puerto Rico. However, as shown by the graph, over the last two years, the Economic Activity Index has been an accurate indicator of short-term economic trends in Puerto Rico. This increase in the Economic Activity Index suggests that economic growth will continue in fiscal 1995.



Puerto Rico has a diversified economy with the manufacturing and service sectors comprising the principal sectors. Manufacturing is the largest sector in terms of gross domestic product. In fiscal 1994, manufacturing generated $16.3 billion, or 41.5%, of gross domestic product and accounted for 16.4% of total employment; and in fiscal 1993, it generated $15.2 billion, or 41.4%, of gross domestic product and accounted for 16.8% of total employment. See "Economic Performance by Sector" under *The Economy* in *Appendix I.* Manufacturing in Puerto Rico is now more diversified than during the earlier phases of its industrial development and includes several industries less prone to business cycles. In the last two decades, industrial development has tended to be more capital intensive and more dependent on skilled labor. This gradual shift in emphasis is best exemplified by the heavy investment in the pharmaceutical, scientific instruments, computer, microprocessor, medical product and electrical product industries over the last decade. One of the factors assisting the development of the manufacturing sector has been the tax incentives offered by the federal and Commonwealth governments. The Federal Omnibus Budget Reconciliation Act of 1993 amended Internal Revenue Code Section 936 to reduce certain federal income tax incentives. See "Tax Incentives – Section 936" under *The Economy* in *Appendix I.*

The service sector, which includes hotel and related services, and which currently accounts for approximately 47.3% of total employment, accounted for $15.0 billion, or 38.2%, of Puerto Rico's gross domestic product in fiscal 1994, as compared with $14.4 billion, or 39.2%, of gross domestic product in fiscal 1993. The service sector, particularly the wholesale and retail trade and finance, insurance and real estate, has experienced significant growth partly in response to the expansion of the manufacturing sector.

Growth in construction and tourism has also contributed to increased economic activity in fiscal 1994. The growth in the construction industry has been evidenced by an increase of 5.6% in construction investment for fiscal 1994 over fiscal 1993. Tourism has grown in each fiscal year since fiscal 1985. More than 4.0 million visitors spent over $1.7 billion in Puerto Rico in fiscal 1994. San Juan has become the largest home port for cruise ships in the Caribbean and the second largest home port for cruise ships in the world. Twenty-eight U.S. and international airlines offer scheduled service to and from San Juan, and a major U.S. airline uses San Juan as a hub for its intra-Caribbean operations. This reflects the importance of Puerto Rico as a tourist destination and as a transportation hub in the Caribbean basin.

Fiscal Management

Fiscal responsibility for the Commonwealth is shared among the Department of the Treasury, the Office of Budget and Management and Government Development Bank for Puerto Rico ("Government Development Bank"). The Department of the Treasury is responsible for collecting most of the Commonwealth's revenues, overseeing preparation of its financial statements and contributing to the preparation of the budget. The Office of Budget and Management prepares the Commonwealth's budget and has the responsibility for monitoring expenditures. Government Development Bank is the fiscal agent and financial advisor to the Commonwealth and its agencies, public corporations and municipalities and coordinates the management of public finances.

The Department of the Treasury has made significant progress in establishing programs to increase its ability to account for and collect tax revenues. For example, on July 1, 1987, the Department of the Treasury completed the conversion and implementation of a new accounting and financial reporting system for the central government. This constituted a significant step in the conversion to generally accepted accounting principles. Since fiscal 1990 the complete financial statements of the Commonwealth have been audited. The financial statements for the Commonwealth for fiscal 1994 have been audited by Deloitte & Touche LLP whose report thereon is set forth in *Appendix II.* For a summary of the Commonwealth's significant accounting policies, see Note 1 to *Appendix II.* Preparation of the audited financial statements of the Commonwealth involves the collection and consolidation of audited financial statements from 44 separate reporting entities.

Debt Management

The Constitution of Puerto Rico provides a limitation on the amount of general obligation debt that can be issued. The Commonwealth's policy has been and continues to be to maintain the level of such debt within a prudent range below the constitutional limitation. See "Debt Limitation" under *The Bonds*.

Historically, the Commonwealth has maintained a fiscal policy which provides for a prudent relationship between the growth of public sector debt and the growth of the economic base required to service that debt. The Commonwealth also has sought opportunities to realize debt service savings by refunding outstanding debt with obligations bearing lower interest rates. In certain years, this policy has resulted in the rate of growth of public sector debt exceeding the rate of growth of gross product. Over fiscal years 1990 to 1994, public sector debt increased 21.4% while gross product rose 23.3%. Although the rate of increase of public sector debt exceeded the corresponding rate of increase of gross product in fiscal 1992 and 1994, these increases were principally the result of refinancings to achieve debt service savings. Short-term debt outstanding relative to total debt was 7.4% as of December 31, 1994.

PLAN OF FINANCING

The Public Improvement Bonds

The net proceeds of the Public Improvement Bonds will be deposited in the 1995 Public Improvements Fund established under Act No. 46 to carry out the capital improvement programs authorized by the Legislature in Act No. 46, including but not limited to highways and transportation facilities, aqueduct and sewer facilities, schools, housing, park and other recreation facilities and other governmental purposes, except that an amount equal to $16,250,000 will be deposited into the Extraordinary Maintenance Fund, created by virtue of Act No. 66, approved August 14, 1991, to be used for extraordinary maintenance requirements of the existing public improvements of the Commonwealth. See "Authorization" under *The Bonds*.

The Refunding Bonds

The Refunding Bonds will be issued under the provisions of Act No. 33 for the purpose of refunding $87,235,000 of the $404,385,000 aggregate principal amount of the Commonwealth Public Improvement Refunding Bonds, Series 1987 maturing July 1, 2002, which will be called for redemption on July 1, 1997 at a redemption price of 102% of the principal amount thereof plus accrued interest (the "Refunded Bonds").

The refunding will permit the Commonwealth to realize savings on its aggregate debt service requirements on its general obligation bonds. The Secretary of the Treasury will deposit the net proceeds of the Refunding Bonds and certain other available moneys with State Street Bank and Trust Company, N.A., as Escrow Agent. A portion of the net proceeds and such other available moneys will be invested in noncallable direct obligations of the United States, the principal of and interest on which, with other uninvested net proceeds, will be sufficient to pay the principal of and premium on the Refunded Bonds on the redemption date set forth above, which redemption date has been irrevocably designated by the Secretary of the Treasury in the Refunding Bond Resolution, and to pay interest accrued thereon to such date. The sufficiency of the amount so deposited, with the investment earnings thereon, to accomplish the refunding of the Refunded Bonds will be verified by Arthur Andersen & Co., the verification agent. Upon the deposit with the Escrow Agent referred to above, the Refunded Bonds will cease to be outstanding under the terms of their authorizing resolution. In the opinion of Bond Counsel, once the above deposit of cash and noncallable direct obligations of the United States has been made, all the Refunded Bonds will be deemed not to be outstanding for the purpose of applying the debt limitation under Section 2 of Article VI of the Commonwealth's Constitution.

Sources and Uses of Funds

Sources:

Principal amount of the Bonds	$415,180,000
Net original issue premium	2,701,513
Other available moneys	2,071,773
Total sources	$419,953,286

Uses:

Deposit to Escrow Fund	$ 93,389,572
Payment into the 1995 Public Improvements Fund	301,171,823
Payment into the Extraordinary Maintenance Fund	16,250,000
Underwriting discount, bond insurance premium and legal, printing, and other financing expenses	9,141,891
Total uses	$419,953,286

THE BONDS

General

The Bonds will be dated, will bear interest at such rates, payable at such times, and will mature on the dates and in the principal amounts set forth on the cover page of this Official Statement. The Public Improvement Bonds are subject to redemption at the times and at the prices set forth below in "Redemption". The Refunding Bonds are not subject to redemption prior to maturity. The Bonds are insured by MBIA Insurance Corporation.

Book-Entry Only System

The following information concerning The Depository Trust Company ("DTC"), New York, New York and DTC's book-entry system has been obtained from DTC; and neither the Commonwealth nor the Underwriters take any responsibility for the accuracy thereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered Bonds in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond of each maturity will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (the "Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC

Participant, either directly or indirectly (the "Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of a Bond (a "Beneficial Owner") will in turn be recorded in the Direct or Indirect Participants' records. Beneficial Owners will not receive written confirmations from DTC of their purchases, but Beneficial Owners are expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds will be accomplished by entries made on the books of Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive definitive Bonds representing their ownership interests in Bonds except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Commonwealth as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Commonwealth, or Banco Popular de Puerto Rico as paying agent and registrar (the "Registrar"), subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to DTC is the responsibility of the Commonwealth or the Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Commonwealth or the Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, definitive Bonds are required to be printed and delivered.

The Commonwealth may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, definitive Bonds will also be printed and delivered.

Payments and Transfers

No assurance can be given by the Commonwealth that DTC will make prompt transfer of payments to the Participants or that Participants will make prompt transfer of payments to Beneficial Owners. The Commonwealth is not responsible or liable for payment by DTC or Participants or for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC or Participants.

For every transfer and exchange of the Bonds, the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

Discontinuance of the Book-Entry Only System

In the event that such book-entry only system is discontinued, the following provisions will apply: principal of and redemption premium, if any, on the Bonds shall be payable in lawful money of the United States of America at the principal office of the Registrar in San Juan, Puerto Rico. Interest on the Bonds will be payable by check mailed to the respective addresses of the registered owners thereof as shown on the registration books of the Commonwealth maintained by the Registrar. The Bonds will be issued only as registered Bonds without coupons in denominations of $5,000 or any multiple thereof. The transfer of the Bonds will be registrable and they may be exchanged at the principal office of the Registrar in San Juan, Puerto Rico, upon the payment of any taxes or other governmental charges required to be paid with respect to such transfer or exchange.

Authorization

Section 2 of Article VI of the Constitution of the Commonwealth provides that the power of the Commonwealth to contract and to authorize the contracting of debts shall be exercised as determined by the Legislature. Pursuant to this power, the Legislature enacted the Act, which authorizes the issuance of the Bonds.

Redemption

Optional Redemption. At the option of the Secretary of the Treasury and upon at least 30 days' notice, the Public Improvement Bonds maturing on or after July 1, 2006 (except for the Public Improvement Bonds maturing on July 1 of the years 2008 through 2013 and 2015 which are not subject to optional redemption) are subject to redemption, from any moneys that may be available for that purpose (other than from moneys set aside in respect of an amortization requirement), prior to maturity, on or after July 1, 2005 as a whole or in part, on any date, as directed by the Secretary of the Treasury, at the redemption prices (expressed as a percentage of principal amount) set forth in the table below, together with accrued interest to the dates fixed for redemption:

Period During Which Redeemed	Redemption Price
July 1, 2005 through June 30, 2006	101½%
July 1, 2006 through June 30, 2007	100¾
July 1, 2007 and thereafter	100

Mandatory Redemption. The Public Improvement Bonds maturing July 1, 2015, 2022 and 2024 are subject to redemption to the extent of the respective amortization requirements therefor set forth below (less the amount applied to the purchase of any such Bonds and otherwise subject to adjustment as described below), upon at least 30 days' notice, on July 1, 2014, 2016 and 2023, respectively, and on July 1 in each year thereafter at a redemption price of par plus accrued interest to the dates fixed for redemption:

July 1	Amortization Requirements for Term Public Improvement Bonds due July 1, 2015	Amortization Requirements for Term Public Improvement Bonds due July 1, 2022	Amortization Requirements for Term Public Improvement Bonds due July 1, 2024
2014	$12,915,000		
2015	13,640,000*		
2016		$14,415,000	
2017		15,185,000	
2018		16,005,000	
2019		16,865,000	
2020		17,770,000	
2021		18,725,000	
2022		19,730,000*	
2023			$20,790,000
2024			21,990,000*
Average life (years)	19.67	24.37	28.67

* Maturity

If the amount of the term Public Improvement Bonds of a particular maturity purchased or redeemed pursuant to an amortization requirement during any fiscal year exceeds the amount of the amortization requirement for such Bonds for such fiscal year, the amortization requirements for such Bonds may be decreased for such subsequent fiscal years and in such amounts aggregating the amount of such excess as the Secretary of the Treasury shall determine.

Notice and Effect of Redemption

Any redemption of the Public Improvement Bonds, either in whole or in part, shall be made upon at least thirty (30) days' prior notice by mail to DTC or, if the book-entry only system as described above has been discontinued, by first class mail, postage prepaid, to all registered owners in the manner and under the terms and conditions provided in the Public Improvement Bond Resolution. On the date designated for redemption, notice having been given as provided in the Public Improvement Bond Resolution and moneys for payment of the principal of and redemption premium, if any, and accrued interest on the Public Improvement Bonds or portions thereof so called for redemption being held by the Registrar, interest on the Public Improvement Bonds or portions thereof so called for redemption shall cease to accrue. Subject to certain provisions of the Public Improvement Bond Resolution, Public Improvement Bonds and portions of Public Improvement Bonds which have been duly called for redemption under the provisions of the Public Improvement Bond Resolution, or with respect to which irrevocable instructions to call for redemption or to pay at maturity have been given, and for the payment of the principal of and redemption premium, if any, and the accrued interest on which sufficient moneys or investments permitted by law shall be held in separate trust for the owners of the Public Improvement Bonds or portions thereof to be paid or redeemed shall not be deemed to be outstanding under the Public Improvement Bond Resolution, and the registered owners thereof shall have no rights in respect thereof except to receive payment of the principal thereof and the redemption premium, if any, and the accrued interest thereon from said separate trust.

Each notice of redemption shall contain, among other things, the CUSIP identification number of the Public Improvement Bonds (or portions thereof) being called for redemption, the redemption date and price and the address at which such Public Improvement Bonds are to be surrendered for payment of the redemption price. Any defect in such notice or the failure so to mail any such notice to DTC in respect of, or the registered owner of, any Public

Improvement Bond will not affect the validity of the proceedings for the redemption of any other Public Improvement Bond.

If less than all the Public Improvement Bonds of any maturity are called for redemption, the particular Public Improvement Bonds so called for redemption shall be selected by the Registrar by such method as it deems fair and appropriate, except that so long as the book-entry only system shall remain in effect, in the event of any such partial redemption, DTC shall reduce the credit balances of the applicable DTC Participants in respect of the Public Improvement Bonds and such DTC Participants shall in turn select those Beneficial Owners whose ownership interests are to be extinguished by such partial redemption each by such method as DTC or such DTC Participant, as the case may be, in its sole discretion, deems fair and appropriate.

Security

Provision for Payment of Public Debt

The Act provides that the good faith, credit and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal of and interest on the bonds issued under the provisions of the Act. The Secretary of the Treasury is authorized and directed under the Act to pay the principal of and interest on the Bonds as the same become due and payable from any funds available for such purpose with the Department of the Treasury in the fiscal year in which such payment is due. The provisions contained in the Act regarding the payment of the principal of and interest on the Bonds are considered to be a continuous appropriation for the Secretary of the Treasury to make such payments, even though no specific appropriations are made for such purposes. Such payments are required to be made pursuant to the provisions of the laws of the Commonwealth that regulate the disbursement of public funds.

The Constitution of Puerto Rico provides that public debt of the Commonwealth will constitute a first claim on available Commonwealth revenues. Public debt includes general obligation bonds and notes of the Commonwealth and any payments required to be made by the Commonwealth under its guarantees of bonds and notes issued by its public instrumentalities.

The Commonwealth has allocated certain motor vehicle fuel taxes and license fees to Puerto Rico Highway and Transportation Authority (the "Highway Authority"). The amounts so allocated, however, are subject to first being applied to payment of the principal of and interest on the Commonwealth public debt, but only if and to the extent that all other available revenues of the Commonwealth are insufficient for that purpose. The Commonwealth has never applied such amounts to the payment of its public debt.

Since fiscal 1989, the Commonwealth has pledged to Puerto Rico Infrastructure Financing Authority certain federal excise taxes imposed on alcoholic beverages and tobacco products produced in Puerto Rico and sold in the United States, which taxes are first returned to the Commonwealth before being so pledged. The amounts so pledged, however, are subject to first being applied to payment of the principal of and interest on the Commonwealth public debt, but only if and to the extent that all other available revenues of the Commonwealth are insufficient for that purpose. The Commonwealth has never applied such amounts to the payment of its public debt.

The Constitution expressly empowers a holder of bonds and notes evidencing public debt to bring suit against the Secretary of the Treasury to require application of available revenues, including surplus, to the payment of principal of and interest on public debt when due.

Special Fund for General Obligation Debt Service

Act No. 83, approved August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exempt from taxation. The proceeds of said tax are credited to the Special Fund for the Amortization and Redemption of General Obligations Evidenced by Bonds

and Promissory Notes (the "Redemption Fund"), for application to the payment of general obligation bonds and notes of the Commonwealth.

Act No. 39, approved May 13, 1976, as amended ("Act No. 39"), requires the Secretary of the Treasury to transfer each month from available funds of the Commonwealth to the Redemption Fund such amounts which together with certain funds otherwise deposited therein will be equal to the sum of one-sixth of the interest to be paid in the next six months and one-twelfth of the principal to be paid or required to be amortized within the next twelve months on all bonds and notes of the Commonwealth for which its full faith and credit are pledged as the same become due and for which the guaranty of the Commonwealth has been exercised. Moneys in the Redemption Fund are held in trust by Government Development Bank. Act No. 39 provides that the obligation of the Secretary of the Treasury to make the above transfers is cumulative, and the amount of any deficiency in any month shall be added to the amount of transfers required in future months until such deficiency has been fully paid. On March 31, 1995, the amount on deposit in the Redemption Fund was $189,829,052, which was the required amount.

Act No. 39 expressly relates to direct obligations of the Commonwealth. It may also apply to the payment of Commonwealth guaranteed obligations of public corporations outstanding prior to the date of its adoption but not to the payment of bonds and other obligations of such public corporations guaranteed by the Commonwealth issued after the date of its adoption.

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to *Appendix IV* for a specimen of the Insurer's policy.

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Commonwealth to the Registrar or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Registrar or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Registrar or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the

assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Registrar payment of the insured amounts due on such Bonds, less any amount held by the Registrar for the payment of such insured amounts and legally available therefor.

The Insurer, formerly known as Municipal Bond Investors Assurance Corporation, is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has one European branch in the Republic of France.

As of December 31, 1993 the Insurer had admitted assets of $3.1 billion (audited), total liabilities of $2.1 billion (audited), and total capital and surplus of $978 million (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 1994, the Insurer had admitted assets of $3.4 billion (audited), total liabilities of $2.3 billion (audited), and total capital and surplus of $1.1 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. All information regarding the Insurer, a wholly owned subsidiary of MBIA Inc., including the financial statements of the Insurer for the year ended December 31, 1994, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10K of MBIA Inc. for the year ended December 31, 1994 is hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof. Any statement contained in a document incorporated by reference herein shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. Furthermore, copies of the Insurer's year end financial statements prepared in accordance with statutory accounting practices are available from the Insurer. The address of the Insurer is 113 King Street, Armonk, New York 10504.

Moody's Investors Service rates the claims paying ability of the Insurer "Aaa." The Bonds are rated in the highest rating category by Moody's Investors Service.

Standard & Poor's Ratings Group, a division of McGraw Hill ("Standard & Poor's"), rates the claims paying ability of the Insurer "AAA." The Bonds are rated in the highest rating category by Standard & Poor's.

The Moody's Investors Service rating of the Insurer should be evaluated independently of the Standard & Poor's rating of the Insurer. No application has been made to any other rating agency in order to obtain additional ratings on the Bonds. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revisions or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of either or both ratings may have an adverse effect on the market price of the Bonds.

Payment Record

The Commonwealth has never defaulted on the payment of principal of or interest on any of its debt.

Debt Limitation

Section 2 of Article VI of the Constitution of Puerto Rico provides that direct obligations of the Commonwealth evidenced by full faith and credit bonds or notes shall not be issued if the amount of the principal of and interest on such bonds and notes and on all such bonds and notes theretofore issued which is payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceeds 15% of the average annual revenues raised under the provisions of Commonwealth legislation and covered into the Treasury of Puerto Rico (hereinafter "internal revenues") in the two fiscal years preceding the then current fiscal year. Section 2 of Article VI does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded. Internal revenues consist principally of income taxes, property taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Commonwealth Treasury, and motor vehicle fuel taxes and license fees, which are allocated to the Highway Authority, are not included as internal revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service.

After giving effect to the issuance of the Bonds, future maximum annual debt service for the Commonwealth's outstanding general obligation debt will be $409,262,020 in the fiscal year ending June 30, 1996. See "Debt Service Requirements for Commonwealth General Obligation Bonds" under *Debt* in *Appendix I.* This amount is equal to 10.07% of $4,062,701,000 (which is equal to the average of the adjusted internal revenues for the fiscal year ended June 30, 1993 and for the fiscal year ended June 30, 1994).

Maturity Limitation

The Constitution provides that no bonds or notes of the Commonwealth shall mature later than 30 years from their date of issue, except bonds or notes for housing facilities, which shall mature in no more than 40 years.

TAX EXEMPTION

The Internal Revenue Code of 1986, as amended (the "Code"), includes requirements which the Commonwealth must continue to meet after the issuance of the Bonds in order that interest on the Bonds not be included in gross income for federal income tax purposes. The Commonwealth's failure to meet these requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to their date of issuance. The Commonwealth has covenanted in the Bond Resolution to comply, to the extent permitted by the Constitution and the laws of the Commonwealth, with the requirements of the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds. Bond Counsel is not aware of any provision of the Constitution or laws of the Commonwealth which would prevent the Commonwealth from complying with the requirements of the Code.

In the opinion of Bond Counsel, subject to continuing compliance by the Commonwealth with the tax covenant referred to above, under the provisions of the Acts of Congress now in force and under existing regulations, rulings and court decisions, interest on the Bonds is not includable in gross income for federal income tax purposes. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds will be includable in the computation of the alternative minimum tax and environmental tax on corporations imposed by the Code. Bond Counsel is further of the opinion that the Bonds and the interest thereon are exempt from state, Commonwealth and local income taxation.

Ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain

foreign corporations, certain S Corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Companies which qualify for and which have elected the benefits of Section 936 of the Code should consult their tax advisors as to whether interest on the Bonds constitutes income eligible for the credit provided by Section 936 of the Code.

Ownership of tax-exempt obligations may also result in collateral income tax consequences under Puerto Rico law to financial institutions doing business in Puerto Rico.

Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of any collateral consequences.

Discount Bonds

Under the Code, the difference between the principal amount of the Public Improvement Bonds and the initial offering price to the public (excluding bond houses and brokers) at which price a substantial amount of such Bonds, maturing July 1 of the years 2001, 2002, 2006, 2007, 2022 and 2024 (collectively the "Discount Bonds"), was sold is original issue discount. Original issue discount on the Discount Bonds represents interest which is not includable in federal gross income. A portion of such interest that accrues to the Beneficial Owner of such Discount Bonds in each year, as described below, is, however, included in the calculation for determining a corporate taxpayer's alternative minimum tax and environmental tax and the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences described above under the caption "Tax Exemption" in the year of accrual. Consequently, Beneficial Owners of Discount Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, environmental tax liability, additional distribution requirements or other collateral federal income tax consequences although the Beneficial Owner may not have received cash in such year. Original issue discount on Discount Bonds will accrue over the terms of such Bonds at a constant interest rate compounded in a manner similar to that used in computing accreted values on capital appreciation bonds. Interest not includable in federal gross income equal to the original issue discount accruing during the period a Beneficial Owner holds such Discount Bond will increase the adjusted basis in such Discount Bond by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Bond. The accrual of original issue discount and its effect on the redemption, sale or other disposition of Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. Beneficial Owners of Discount Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of interest accrued upon sale, redemption or other disposition of Discount Bonds and with respect to the state and local tax consequences of owning and disposing of Discount Bonds.

Premium Bonds

The difference between the amount payable at maturity of the Public Improvement Bonds maturing July 1 of the years 1996 through 2000, 2003 through 2005 and 2008 through 2013 and the Refunding Bonds maturing July 1 of the years 1997 through 1999 and 2001 and the tax basis of such Bonds to a purchaser (other than a purchaser who holds such Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) is "bond premium". Bond premium is amortized over the term of such Bonds for federal income tax purposes. Beneficial Owners of such Bonds are required to decrease his adjusted basis in such Bonds by the amount of amortizable bond premium attributable to each taxable year such Bonds are held. The amortizable bond premium on such Bonds attributable to a taxable year is not deductible for federal income tax purposes. Beneficial Owners of such Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premiums upon sale or other disposition of such Bonds and with respect to the state and local tax consequences of owning and disposing of such Bonds.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Bonds from the Commonwealth at an aggregate discount of $3,151,286.60 from the initial public offering prices of the Bonds set forth or derived from information set forth on the inside cover page hereof. The obligations of the Underwriters are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all the Bonds, if any Bonds are purchased. The Underwriters may offer to sell the Bonds to certain dealers and others at prices lower than the initial public offering prices, and such offering prices may be changed, from time to time, by the Underwriters.

Morgan Stanley & Co. Incorporated ("Morgan Stanley"), a managing underwriter, has entered into a written agreement with CS First Boston (Puerto Rico), Inc. ("CSFB Puerto Rico") pursuant to which CSFB Puerto Rico has agreed to cooperate in connection with Morgan Stanley's provision of underwriting and investment banking services to the Commonwealth with respect to the Bonds. Pursuant to these arrangements, the existence of which has been disclosed to the Commonwealth and Government Development Bank, CSFB Puerto Rico will be entitled to receive a portion of Morgan Stanley's actual net profits, if any, in connection with the underwriting of the Bonds. It is anticipated that this agreement will be assigned by CSFB Puerto Rico to BP Capital Markets, a subsidiary of Banco Popular de Puerto Rico, Registrar for the Bonds, prior to the delivery of the Bonds.

LEGAL MATTERS

The proposed form of opinion of Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel, New York, New York, Bond Counsel, is set forth in *Appendix III* to this Official Statement. Certain legal matters will be passed upon for the Underwriters by Brown & Wood, New York, New York.

LEGAL INVESTMENT

The Bonds will be eligible for deposit by banks in Puerto Rico to secure public funds and will be approved investments for insurance companies to qualify them to do business in Puerto Rico, as required by law.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of (a) the mathematical computations of the adequacy of the outstanding maturing amounts of and interest on the direct obligations of the United States of America plus other available moneys remaining uninvested to pay the redemption price of the Refunded Bonds on their redemption date, together with all payments of interest thereon coming due prior to such date (see "*Plan of Financing*") and (b) the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under Section 148 of the Code, will be verified by Arthur Andersen & Co., Philadelphia, Pennsylvania, independent certified public accountants.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

As required by Act No. 272 of the Legislature of Puerto Rico, approved May 15, 1945, as amended, Government Development Bank has acted as financial advisor to the Commonwealth in connection with the Bonds offered hereby. As financial advisor, Government Development Bank participated in the selection of the Underwriters of the Bonds. Certain of the Underwriters have been selected by Government Development Bank to serve from time to time as underwriters of its obligations and the obligations of the Commonwealth, its

instrumentalities and public corporations. Certain of the Underwriters or their affiliates participate in other financial transactions with Government Development Bank.

RATINGS

Moody's Investors Service and Standard & Poor's Ratings Group, a division of McGraw-Hill Inc. ("Standard & Poor's"), have given the Bonds ratings of Baa1 and A, respectively. These ratings do not reflect the MBIA Policy. Moody's Investors Service and Standard & Poor's have given the Bonds ratings of Aaa and AAA, respectively, based on the MBIA Policy. Ratings reflect only the respective views of the rating agencies and an explanation of the significance of each rating may be obtained only from the respective rating agency. See also, "The MBIA Insurance Corporation Insurance Policy" under *The Bonds.*

Such rating agencies were provided with materials relating to the Commonwealth and the Bonds and other relevant information, and no application has been made to any other rating agency for the purpose of obtaining a rating on the Bonds.

There is no assurance that such ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating agencies, if in the judgment of either or both, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market prices of the Bonds.

MISCELLANEOUS

The foregoing summaries of or references to the various acts, the Bonds, the Bond Resolution, the MBIA Policy and the summaries of or references to the various acts contained in *Appendix I,* are made subject to all the detailed provisions thereof to which reference is hereby made for further information and do not purport to be complete statements of any or all of such provisions.

Appended to and constituting a part of this Official Statement is certain information concerning the Commonwealth *(Appendix I),* the general purpose financial statements of the Commonwealth for the fiscal year ended June 30, 1994, together with the independent auditor's report thereon, dated February 3, 1995, of Deloitte & Touche LLP, San Juan, Puerto Rico, certified public accountants *(Appendix II)* the proposed forms of opinion of Bond Counsel *(Appendix III)* and the specimen insurance policy of MBIA (*Appendix IV*).

The information set forth in this Official Statement, except for information pertaining to DTC and MBIA, was supplied by certain officials of the Commonwealth or certain of its agencies or instrumentalities, in their respective official capacities, or was obtained from publications of the Commonwealth or certain of its agencies or instrumentalities, and is included in this Official Statement on the authority of such officials or the authority of such publications as public official documents. The information pertaining to DTC was supplied by DTC, and the information pertaining to MBIA was supplied by MBIA.

The Commonwealth will provide, when available, copies of annual audited financial statements and other pertinent credit information relevant to the Commonwealth's outstanding securities, including the Commonwealth's Comprehensive Annual Financial Report, if one is prepared, to one or more major information providers in the state and local government securities market and to any bondholder who requests the same in writing to Government Development Bank for Puerto Rico, 140 Broadway, New York, New York 10005. In addition, appropriate periodic credit information necessary for maintaining the ratings on the Bonds will be provided by the Commonwealth to the rating agencies rating the Bonds.

This Official Statement will be filed with one or more nationally recognized municipal securities information repositories.

COMMONWEALTH OF PUERTO RICO

By: /s/ Manuel Díaz Saldaña
Secretary of the Treasury

COMMONWEALTH OF PUERTO RICO

Geography and Population

Puerto Rico, the fourth largest of the Caribbean islands, is located approximately 1,600 miles southeast of New York, New York and 1,000 miles east-southeast of Miami, Florida. It is approximately 100 miles long and 35 miles wide.

According to the United States Census Bureau, the population of Puerto Rico was approximately 3,522,000 in 1990 compared to 3,196,520 in 1980. As of 1990, the population of San Juan, the island's capital and largest city, was approximately 437,000.

Relationship with the United States

Puerto Rico was discovered by Columbus in 1493, and the island was conquered and settled by the Spaniards shortly thereafter. It remained a Spanish possession for four centuries. Although the culture of Puerto Rico is primarily Hispanic, a considerable intermingling of Hispanic and United States cultures has occurred.

Puerto Rico came under United States sovereignty by the Treaty of Paris, signed on December 10, 1898, terminating the Spanish-American War. Puerto Ricans have been citizens of the United States since 1917. In July 1950, after a lengthy period of evolution toward greater self-government for Puerto Rico, the Congress of the United States enacted Public Law 600, which provided that those sections of existing law which defined the political, economic and fiscal relationship between Puerto Rico and the United States should remain in full force. It also authorized Puerto Rico to draft and approve its own Constitution. The Constitution was drafted by a popularly elected constitutional convention, approved in a special referendum by the people of Puerto Rico, amended and ratified by the United States Congress and subsequently approved by the President, becoming effective on July 25, 1952. Puerto Rico's constitutional status is that of an unincorporated territory of the United States and the ultimate source of power over Puerto Rico, pursuant to the Territories Clause of the Federal Constitution, is the United States Congress. The relationship between the United States and Puerto Rico is referred to herein as commonwealth status.

The official languages of Puerto Rico are Spanish and English. The Commonwealth exercises virtually the same control over its internal affairs as do the fifty states; however, it differs from the states in its relationship with the federal government. The people of Puerto Rico are citizens of the United States but do not vote in national elections. They are represented in Congress by a Resident Commissioner who has a voice in the House of Representatives and limited voting powers. Most federal taxes, except those such as social security taxes, are not levied in Puerto Rico. No federal income tax is collected from Commonwealth residents on ordinary income earned from sources in Puerto Rico, except for certain federal employees who are subject to taxes on their salaries. Federal excise taxes on shipments of alcoholic beverages from Puerto Rico at $11.30 per gallon through October 1, 1998 and thereafter at $10.50 per gallon and on shipments of tobacco products from Puerto Rico to the mainland are returned to the Commonwealth Treasury.

Governmental Structure

The Commonwealth's Constitution provides for the separation of powers of the executive, legislative and judicial branches of government. The Governor is elected every four years. The bicameral Legislature consists of a Senate and a House of Representatives and is elected for four-year terms. The highest court within the local judicial branch is the Supreme Court of Puerto Rico. Decisions of the Supreme Court of Puerto Rico may be appealed to the Supreme Court of the United States in the same manner and under the same terms and conditions that decisions may be appealed from state courts. Puerto Rico has a District Court of the United States for the District of Puerto Rico. Decisions of this court may be appealed to the United States Court of Appeals for the First Circuit and to the Supreme Court of the United States.

Governmental responsibilities assumed by the Commonwealth are similar in nature to those of the various state governments but more extensive in scope. The Commonwealth assumes responsibility for local police and fire protection, education, public health and welfare programs and economic development.

Pedro J. Rosselló was sworn in as Governor of Puerto Rico on January 2, 1993. He obtained a medical degree from Yale University in 1970, after completing his undergraduate studies at Notre Dame University in 1966, and specialized in General and Pediatric Surgery at Harvard University. In 1985 he was appointed Director of San Juan's Health Department, a position which he held for three years. As a member of the New Progressive Party, he was the party's candidate for Resident Commissioner to the United States Congress in 1988. In 1991 he was elected President of the New Progressive Party.

Manuel Díaz Saldaña, Secretary of the Treasury, took office in January 1993. He is a certified public accountant and a graduate of the University of Puerto Rico where he obtained a bachelor's degree in Business Administration and Accounting. Prior to his appointment, he worked for nineteen years as an accountant and auditor for various accounting firms.

Jorge E. Aponte Hernández, Director of the Office of Budget and Management, took office in January 1993. He is a certified public accountant and a graduate of the University of Puerto Rico, where he obtained a bachelor's degree in Business Administration and Accounting. Prior to his appointment, he worked for 20 years as an accountant and auditor for various accounting firms.

Marcos Rodríguez-Ema, President of Government Development Bank, took office in January 1993. He obtained a Bachelor of Science degree (Cum Laude) in foreign service and a law degree from Georgetown University. Prior to his appointment, he worked for five years as a lawyer in a San Juan law firm and for six years as an investment banker for two major securities firms.

Political Trends

For many years there have been two major views in Puerto Rico with respect to the island's relationship to the United States, one favoring statehood, represented by the New Progressive Party, and the other essentially favoring the existing commonwealth status, represented by the Popular Democratic Party. The following table shows the percentages of the total vote received by the gubernatorial candidates of the various parties in the last five elections by voter preference with respect to statehood, commonwealth status and independence. While the electoral choices of Puerto Rico's voters are not made solely on the basis of preferences regarding the island's relationship with the United States, candidates who support a continuing relationship between Puerto Rico and the United States have dominated elections for many years.

	1976	1980	1984	1988	1992
New Progressive Party	48.3%	47.3%	45.5%	45.8%	49.9%
Popular Democratic Party	45.3	47.0	48.5	48.7	45.9
Puerto Rico Independence Party	6.4	5.4	3.9	5.4	4.2
Others	--	0.3	2.1	0.1	--

The 1992 election saw control of the executive and legislative branches pass to the New Progressive Party. The composition of the Senate and House by the several political parties is as follows:

	Senate	House
New Progressive Party	21	36
Popular Democratic Party	7	16
Puerto Rico Independence Party	1	1
	29	53

The next general election (gubernatorial, municipal and legislative) in Puerto Rico will be held in November 1996. Voter participation in the Commonwealth has been substantially higher than in the rest of the United States, averaging 85% since 1972.

THE ECONOMY

General

The Commonwealth has established policies and programs directed at the development of manufacturing and the expansion and modernization of the island's infrastructure. The investment of mainland United States, foreign and local funds in new factories has been stimulated by selective tax exemption, development loans, and other financial and tax incentives. Infrastructure expansion and modernization have been to a large extent financed by bonds and notes issued by the Commonwealth, its public corporations and municipalities. Economic progress has been aided by significant increases in the levels of education and occupational skills of the island's population.

The economy of Puerto Rico is closely integrated with that of the mainland United States. During fiscal 1994 approximately 87% of Puerto Rico's exports went to the United States mainland, which was also the source of approximately 67% of Puerto Rico's imports. In fiscal 1994, Puerto Rico experienced a $4.3 billion positive adjusted merchandise trade balance.

The economy of Puerto Rico is dominated by the manufacturing and service sectors. The manufacturing sector has experienced a basic change over the years as a result of increased emphasis on higher wage, high technology industries such as pharmaceuticals, electronics, computers, microprocessors, professional and scientific instruments, and certain high technology machinery and equipment. The service sector, including finance, insurance and real estate, wholesale and retail trade, and hotel and related services, also plays a major role in the economy. It ranks second only to manufacturing in contribution to the gross domestic product and leads all sectors in providing employment. In recent years, the service sector has experienced significant growth in response to the expansion of the manufacturing sector.

Gross product in fiscal 1990 was $21.6 billion ($19.1 billion in 1987 prices), and gross product in fiscal 1994 was $26.6 billion ($20.5 billion in 1987 prices). This represents an increase in gross product of 23.3% from fiscal 1990 to 1994 (7.4% in 1987 prices).

Since fiscal 1985, personal income, both aggregate and per capita, has increased consistently each fiscal year. In fiscal 1994, aggregate personal income was $25.7 billion ($21.6 billion in 1987 prices) and personal income per capita was $7,047 ($5,902 in 1987 prices).

Personal income includes transfer payments to individuals in Puerto Rico under various social programs. Total federal payments to Puerto Rico, which include transfers to Commonwealth government entities and expenditures of federal agencies in Puerto Rico, in addition to federal transfer payments to individuals, are lower on a per capita basis in Puerto Rico than in any state. Transfer payments to individuals in fiscal 1994 were $5.7 billion, of which $3.9 billion, or 68.9%, represent entitlements to individuals who had previously performed services or made contributions under programs such as Social Security, Veterans' Benefits and Medicare.

A discussion of highlights of the economy for the periods covering fiscal 1990 through fiscal 1994, and fiscal 1995 follows.

Fiscal 1990 to 1994

Puerto Rico's more than decade-long economic expansion continued throughout the five-year period from fiscal 1990 through fiscal 1994. Almost every sector of the economy was affected and record levels of employment were achieved. While trends in the Puerto Rico economy usually follow those in the United States, Puerto Rico did not experience a recession as did the United States in fiscal 1991, primarily because of low oil prices, low interest rates, and its strong manufacturing base which has a large component of non-cyclical industries. Other factors behind this expansion included Commonwealth-sponsored economic development programs, the relatively stable prices of oil imports, periodic declines in the exchange value of the United States dollar, the level of federal transfers and the relatively low cost of borrowing during the period.

Average employment increased from 963,000 in fiscal 1990 to 1,011,000 in fiscal 1994. Average unemployment increased, however, from 14.2% in fiscal 1990 to 16.0% in fiscal 1994.

The following table shows the gross product for the five fiscal years ended June 30, 1994.

Commonwealth of Puerto Rico
Gross Product

	Fiscal Year Ended June 30				
	1990	1991	1992	1993	1994(p)
Gross product -- $ millions	$21,619	$22,809	$23,696	$25,234	$26,647
Real gross product -- $ million (1987 prices)	19,093	19,260	19,409	19,995	20,514
Annual percentage increase in real gross product (1987 prices)	2.5%	0.9%	0.8%	3.0%	2.6%
U.S. annual percentage increase in real gross product (1987 prices)(1)	1.9%	(0.1%)	0.5%	3.0%	3.4%

(p) Preliminary.
(1) Restated to correspond to the Commonwealth's fiscal year ending June 30.

Sources: Planning Board and Data Resources Inc.

Fiscal 1995

The Planning Board's Economic Activity Index, a composite index of thirteen economic indicators, increased 2.7% for the first seven months of fiscal 1995 compared to the same period of fiscal 1994, which period showed an increase of 1.3% over the same period of fiscal 1993. The thirteen economic indicators are: total employment, manufacturing employment, manufacturing payroll, electric energy consumption, external trade, tourist hotel registrations, retail sales, excise taxes, electric energy production, new housing unit permits, hours worked, cement production, and new motor vehicle registrations. The Index may not necessarily change at the same percentage rate as the gross product of Puerto Rico.

According to the Labor Department's Household Employment Survey, during the first eight months of fiscal 1995, total employment (seasonally adjusted) increased 4.2% over the same period in fiscal 1994. Total employment averaged 1,050,900 in the eight months of fiscal 1995 compared to 1,008,800 in the same period in fiscal 1994. This increase, coupled with a generally declining participation rate, caused the unemployment rate for the first eight months of fiscal 1995 (seasonally adjusted) to decrease from 16.6% to 13.9%

The Planning Board's most recent Gross Product forecast for fiscal 1995 and fiscal 1996, made in February 1995, shows increases of 2.9% and 2.7%, respectively. Whether actual growth in the Puerto Rico economy in fiscal 1996 will continue depends on several factors, including the state of the United States economy and the relative stability in the price of oil imports, increases in visitors to the island and in exports, the exchange value of the U.S. dollar, the level of federal transfers and the cost of borrowing.

Economic Development Program

The present administration envisions major economic reforms and has developed a new economic development model to be implemented during the next few years. This program is structured on the premise that the private sector will be the primary vehicle for economic development and growth. It promotes changing the role of the government from one of being a provider of most basic services to serving as a facilitator for private sector initiatives and will encourage private sector investment by reducing regulatory restraints imposed by government.

The program contemplates the development of initiatives that will foster private investment in sectors that are served more efficiently and effectively by private enterprise. The program also contemplates a general revision of the tax system to expand the tax base, reduce top personal and corporate tax rates and simplify a highly complex system. On October 31, 1994 legislation was enacted which provides for comprehensive revisions to Puerto Rico's income tax system. See "Major Sources of General Fund Revenues" under *Commonwealth Taxes, Other Revenues and Expenditures*.

Another important goal for the new program is to reduce the size of the government's direct contribution to gross domestic product. This would be realized through a reduction in government consumption and an increase in government investment in order to improve and expand Puerto Rico's infrastructure to facilitate private sector development and growth.

The new economic plan is designed to identify and promote those economic areas in which Puerto Rico can compete more effectively in the global markets. Tourism has been targeted as a top priority because of its potential for job creation and for an increased contribution to the gross product stemming from Puerto Rico's natural competitive advantages.

In February 1994, as part of the government's health reform program to facilitate the provision of private services, a pilot health insurance program was started in the Fajardo region of the island to provide residents with comprehensive health insurance coverage. The program has since expanded to include the Guayama and Arecibo regions as well. In conjunction with this program, the operations of certain public health facilities are being

privatized. The administration's goal is to provide universal health insurance for qualifying Puerto Rico residents. The total cost of this program will be dependent on the areas included within the program, the number of participants receiving coverage and the date coverage commences.

In addition, the government is negotiating the sale of certain governmental assets and the transferring to private parties of certain governmental operations. On March 3, 1995, the government completed the sale of the assets of the Maritime Shipping Authority to a private purchaser. In addition, other privatization transactions are being pursued, including the private operations of certain correctional facilities. See "Other Public Corporations" under *Public Corporations* for a discussion of certain of these actions.

Employment and Unemployment

The number of persons employed in Puerto Rico during fiscal 1994 averaged 1,011,000. Unemployment, although at historically relatively low levels, remains above the average for the United States. The following table presents annual statistics of employment and unemployment from fiscal 1990 through fiscal 1994 and monthly statistics for July 1994 through February 1995.

Commonwealth of Puerto Rico

Employment and Unemployment

Fiscal Year Ended June 30	Labor Force(1)	Employed(1)	Unemployed(1)	Unemployment Rate (2)
		(Annual Average)		
1990	1,126	963	160	14.2%
1991	1,152	977	175	15.2
1992	1,170	977	193	16.5
1993	1,201	999	202	16.8
1994	1,203	1,011	192	16.0
Fiscal 1995		(Seasonally Adjusted)		
July	1,220	1,045	175	14.3
August	1,232	1,061	171	13.9
September	1,195	1,026	169	14.1
October	1,189	1,015	174	14.6
November	1,207	1,033	174	14.4
December	1,206	1,042	164	13.6
January	1,243	1,077	166	13.4
February	1,265	1,108	158	12.5

(1) Thousands of persons age 16 years and over.
(2) Unemployed as percentage of labor force.

Source: Department of Labor and Human Resources -- Household Survey.

Economic Performance by Sector

Puerto Rico has a diversified economy. During the fiscal years 1990-1994, the manufacturing and service sectors generated the largest portion of gross domestic product. Three sectors of the economy provide the most employment: manufacturing, services and government.

The following table presents annual statistics of gross domestic product by sector and gross product for the five fiscal years ended June 30, 1994.

Commonwealth of Puerto Rico

Gross Domestic Product by Sector and Gross Product

(in millions at current prices)

	Fiscal Year Ended June 30				
	1990	1991	1992	1993	1994(p)
Manufacturing	$12,126	$12,661	$14,183	$15,239	$16,309
Services(1)	11,318	12,142	12,817	13,685	14,603
Government(2)	3,337	3,522	3,672	3,881	4,071
Transportation, communication and public utilities	2,468	2,671	2,828	2,992	3,089
Agriculture, forestry and fisheries	434	449	420	408	411
Construction(3)	720	770	798	836	850
Hotels and related services	321	320	351	377	408
Statistical discrepancy	(121)	(248)	(439)	(570)	(476)
Total gross domestic product(4)	30,604	32,287	34,630	36,847	39,265
Less: net payments abroad	8,985	9,478	10,934	11,613	12,618
Total gross product(4)	$21,619	$22,809	$23,696	$25,234	$26,647

(p) Preliminary.
(1) Includes wholesale and retail trade; finance, insurance and real estate; and other services; excludes services in hotels.
(2) Includes the Commonwealth, its municipalities and the federal government; excludes the public corporations.
(3) Includes mining.
(4) Totals may not add due to rounding.

Source: Planning Board.

The following table presents annual statistics of average employment by sector for the five fiscal years ended June 30, 1994.

Commonwealth of Puerto Rico

Average Employment by Sector

(thousands of persons age 16 and over)

	Fiscal Year Ended June 30				
	1990	1991	1992	1993	1994(p)
Manufacturing	168	164	164	168	166
Services(1)	421	448	449	467	478
Government(2)	222	217	219	217	224
Transportation, communication and public utilities	60	58	55	54	55
Construction(3)	56	55	56	59	54
Agriculture, forestry and fisheries	36	35	34	34	34
Total(4)	963	977	977	999	1,011

(p) Preliminary.
(1) Includes wholesale and retail trade; finance, insurance and real estate; services in hotels; and other services.
(2) Includes the Commonwealth, its municipalities and federal government; excludes the public corporations.
(3) Includes mining.
(4) Totals may not add due to rounding.

Source: Department of Labor and Human Resources -- Household Survey.

Manufacturing

Manufacturing is the largest sector in the economy of Puerto Rico in terms of gross domestic product. In fiscal 1994, the Planning Board estimates that manufacturing generated $16.3 billion, or 41.5% of gross domestic product. The manufacturing sector employed 150,262 workers as of March 1994 (as reported in the Department of Labor and Human Resources -- Census of Manufacturing). Most of the island's manufacturing output is shipped to the mainland United States, which is also the principal source of semifinished manufactured articles on which further manufacturing operations are performed in Puerto Rico. The United States minimum wage laws are generally applicable in Puerto Rico. As of December 1994, the average hourly manufacturing wage rate in Puerto Rico was approximately 60% of the average mainland United States rate.

Manufacturing in Puerto Rico is now more diversified than during the earlier phases of the industrial development program. In the last two decades, industrial development has tended to be more capital intensive and more dependent on skilled labor. This gradual shift in emphasis is best exemplified by the heavy investment in the pharmaceuticals, scientific instruments, computers, microprocessors, medical products, and electrical products industries over the last decade. The following table sets forth gross domestic product by manufacturing industry for the five fiscal years ended June 30, 1994.

Commonwealth of Puerto Rico

Gross Domestic Product by Manufacturing Industry

(in millions at current prices)

	Fiscal Year Ended June 30				
	1990	1991	1992	1993	1994(p)
Pharmaceuticals	$4,990	$5,763	$6,460	$7,236	$8,017
Machinery and metal products	3,205	2,804	2,935	3,218	3,259
Food products	1,791	2,032	2,413	2,404	2,588
Apparel	486	491	536	536	524
Other(1)	1,655	1,572	1,840	1,844	1,921
Total gross domestic product of manufacturing sector(2)	$12,126	$12,661	$14,183	$15,239	$16,309

(p) Preliminary.
(1) Includes petroleum products; petrochemicals and other chemical products; tobacco products; stone, clay and glass products; textiles; and others.
(2) Totals may not add due to rounding.

Source: Planning Board.

The following table sets forth manufacturing employment by industry group as of March for the last five years and as of February 1995.

Commonwealth of Puerto Rico

Manufacturing Employment by Industry Group

(persons age 16 years and over)

Industry Group	As of March 1990	1991	1992	1993	1994	As of February 1995
Apparel and related products	31,238	29,841	30,875	29,018	25,213	25,837
Food and related products	23,385	20,059	20,928	20,608	20,471	20,613
Electrical machinery, equipment and supplies	20,567	19,361	17,923	17,721	19,676	22,174
Chemicals and related products	22,659	23,130	24,015	26,141	27,174	27,197
Professional and scientific instruments	14,798	16,341	15,838	16,437	15,495	15,182
Machinery, except electrical and transportation equipment	5,347	4,562	4,452	4,241	4,262	3,999
Petroleum refining and related industries; rubber and miscellaneous plastic products	6,708	6,296	5,763	5,294	5,593	5,541
Leather and leather products	6,284	5,904	6,057	7,196	7,260	7,089
Paper and related products; printing, publishing and related industries	5,768	6,056	5,991	5,944	6,118	6,570
Metal products	5,187	5,078	4,768	4,632	4,648	4,558
Stone, clay and glass products	5,136	4,808	4,755	4,410	4,716	4,682
Lumber and wood products; furniture and fixtures	3,425	2,787	2,953	2,937	2,927	2,946
Textile mill products	3,679	3,596	3,860	3,876	3,503	3,435
Tobacco products	1,089	917	935	850	763	764
Miscellaneous manufacturing industries	3,214	2,698	2,347	2,221	2,443	2,416
Total	158,484	151,434	151,460	151,526	150,262	153,003

Sources: Department of Labor and Human Resources -- Census of Manufacturing, except for February 1995 statistics which were derived from the "Monthly Survey on Employment, Hours and Earnings."

Leading United States and Foreign Companies With Manufacturing Operations In Puerto Rico

Employment 2,500 and over	Product
Abbott Laboratories, Inc.	Pharmaceuticals
Baxter International	Pharmaceuticals
General Electric Co.	Electrical
H. J. Heinz Co.	Food
Johnson and Johnson	Pharmaceuticals
Motorola Inc.	Electronic Components
Sara Lee Corp.	Apparel
Employment 1,500 to 2,499	
Bristol Myers Squibb	Pharmaceuticals
Dexter Shoe	Footwear
Eaton Corp.Electrical	Electrical Instruments
Intel	Computers
P.L. Industries, Inc.	Apparel
Schering-Plough Corp.	Pharmaceuticals
UniGroup	Food
Warner-Lambert Co.	Pharmaceuticals
Employment 1,000 to 1,499	
American Cyanamid Co.	Pharmaceuticals and Medical Instruments
American Home Products	Pharmaceuticals
Dooney & Bourke	Leather
Eli Lilly and Co..	Pharmaceuticals
General Instruments Corp.	Communications
Marion Merell Dow	Pharmaceuticals
McGaw Inc.	Medical Instruments
Merck & Co.	Chemicals
Propper International	Apparel
Sensormatic Electronics	Electronic
Timberland Company (The)	Leather
U.S. Surgical	Scientific Instruments
Westinghouse Electric Co.	Electrical Instruments
Employment 500 to 999	
ARA Holding Group	Apparel
Avon Products Inc.	Costume Jewelry
Becton-Dickinson & Co.	Scientific Instruments
Conagra	Food
Dero Industries	Canvas
DSC Communication Corp.	Electronic
DuPont (E.I.) de Nemours	Chemicals
Haflund Nycomed Corp.	Pharmaceuticals
Hampshire Designers Group	Textiles
Her Majesty	Apparel
Hewlett-Packard	Computers
Hoffman-La Roche	Pharmaceuticals
Hubbell Incorporated	Electrical Instruments
Insilco Corporation	Office Equipment
J. Baker	Footwear
MacAndrews & Forbes Holdings	Tobacco Products
Maidenform	Apparel
Medtronics	Surgical and Medical Instruments
Employment 500 to 999	**Product**
Miss Alma Inc.	Apparel
Monsanto	Pharmaceuticals
Morse Shoe	Footwear
NCC Industries	Apparel
Owens Illinois	Glass and Plastics
Pall Corp.	Filters
Penn-State Coats & Aprons	Apparel
Pfizer	Pharmaceuticals
Phillips Van-Heusen	Apparel and Footwear
RJR Nabisco	Food and Cigarettes
Sea Board Corp.	Food
Storage Technology	Electronic
Upjohn Co.	Pharmaceuticals
Wolverine World Wide	Footwear
Employment 300 to 499	
Allergan	Pharmaceuticals
Amity Leather Products	Leather
Borden Inc.	Food
Carnival Creations	Apparel
Coca-Cola	Food
Check-point Systems Inc.	Electronic
Eagle Work Clothes	Apparel
Eastern Canvas Products	Leather
Echlin Mfg.	Motor Vehicles Parts
Emerson Electric	Electronic and Scientific Instruments
Farley Industries	Footwear
Filtertek Inc.	Filters
G.T.E. Products	Electrical Instruments
Garment Corp. of America	Apparel
Goya Foods	Food
Granada Sales	Apparel
Harvard Industries	Motor Vehicle
Isla Verde Investment	Apparel
Matsushita Electric	Electrical
Millipore	Scientific Instruments
Minnetonka Moccasin	Footwear
Mitsubishi Corp.	Food
Nestle S.A.	Pharmaceuticals
Nypro	Plastics
PepsiCo	Food
Phillips Petroleum Co.	Petroleum Products
Procter & Gamble Co.	Pharmaceuticals
R.E. Phelon & Co.	Electronics
Standard Motor Products	Motor Vehicles Parts
Sun Co.	Oil Refining
Sundstrand Corp.	Electrical Instruments
Thomas & Betts	Electrical Instruments
Unifirst Corp.	Work Garment
Unilever PLC	Consumers & Medicals
Wheaton Industries	Plastics Products
Zeneca Group PLC	Pharmaceuticals

Source: Economic Development Administration, Office of Economic Research (as of February 1995).

Services

Puerto Rico has experienced significant growth in the services sector in terms of both income and employment over the past decade, showing a favorable trend as compared with certain other industrialized economies. During the period between 1990 and 1994, the gross domestic product in the services sector increased at an annual average rate of 4.7%. Employment in this sector (including finance, insurance, real estate, wholesale and retail trade and other services) increased at an annual average rate of 3.2% during the same period. The development of the services sector in the local economy has shown a strong interaction among the following important sectors: manufacturing, tourism, construction and agriculture. The services sector in Puerto Rico has a diversified base.

The high degree of knowledge, skills, and expertise in professional and technical services available in Puerto Rico places Puerto Rico in a favorable competitive position with respect to Latin America and other trading countries throughout the world. A major element in the economic program of the present administration is the further development of the local services sector which has the capacity to increase its export potential and to generate more income and jobs during the coming years.

The service sector ranks second to manufacturing in its contribution to gross domestic product, and it is the sector with the greatest employment. In fiscal 1994, services generated $15.0 billion of gross domestic product, or 38.2% of the total. Service employment grew from 421,000 in fiscal 1990 to 478,000 in fiscal 1994, a cumulative increase of 13.5%, which increase more than doubled the 5.0% cumulative growth in total employment over the same period. Wholesale and retail trade and finance, insurance and real estate have experienced significant growth in the fiscal 1990 to 1994 period, as measured by gross domestic product. Gross domestic product in the wholesale and retail trade increased from $4.7 billion in fiscal 1990 to $5.7 billion in fiscal 1994. In finance, insurance and real estate, gross domestic product increased from $3.9 billion in fiscal 1990 to $5.1 billion in fiscal 1994. There are 22 commercial banks and trust companies currently operating in Puerto Rico of which two are U.S. major money center banks, two are other foreign banks and eighteen are local banks and trust companies. Total assets of these institutions as of December 31, 1994 were $36.3 billion. In addition, two federal thrift institutions operate on the island and nine major investment banks maintain operations in Puerto Rico. The following tables set forth gross domestic product and service sector employment for the five fiscal years ended June 30, 1994.

Commonwealth of Puerto Rico

Gross Domestic Product by Service Industry

(in millions at current prices)

	Fiscal Year Ended June 30				
	1990	1991	1992	1993	1994(p)
Wholesale and retail trade	$4,728	$4,832	$4,990	$5,344	$5,676
Finance, insurance and real estate . . .	3,896	4,308	4,596	4,791	5,085
Hotels	321	320	351	377	408
Other services	2,694	3,002	3,231	3,550	3,842
Total(1)	$11,639	$12,461	$13,168	$14,062	$15,010

(p) Preliminary.
(1) Totals may not add due to rounding.

Source: Planning Board.

Commonwealth of Puerto Rico

Average Employment by Service Sector

(thousands of persons age 16 and over)

	Fiscal Year Ended June 30				
	1990	1991	1992	1993	1994(p)
Wholesale and retail trade	185	195	193	201	201
Finance, insurance and real estate	32	32	32	32	33
Other services(1)	206	221	224	234	244
Total	423	448	449	467	478

(p) Preliminary
(1) Including hotels and related services.

Source: Department of Labor and Human Resources -- Household Survey.

Government

The government sector of the Commonwealth plays an important role in the economy of the island. In fiscal 1994 government accounted for $4.1 billion of Puerto Rico's gross domestic product, or 10.4% of the total. Government is also a significant employer, providing jobs for 224,000 workers, or 22.2% of total employment in fiscal 1994. The government sector employment does not include data relating to certain public corporations which are included in other sectors. These public corporations include such significant employers as the Electric Power Authority, the Telephone Authority and the Aqueduct and Sewer Authority.

Tourism

Total visitors' expenditures accounted for 6.5% of the island's gross product in fiscal 1994. Visitors' expenditures and the number of visitors have grown consistently since 1985, reaching $1.7 billion and more than 4.0 million, respectively, in fiscal 1994. Since fiscal 1987 a number of major hotels have undergone substantial renovation and 2,334 new rooms have been added with the opening of several major hotels. Several international hotel corporations have recently made or are expected to make substantial capital investments to develop additional tourist facilities. The government has developed an economic package that encourages private development in tourism projects. The average number of hotel rooms available for February 1995 was 8,303.

San Juan has become the largest home port for cruise ships in the Caribbean and the second largest home port for cruise ships in the world. The following table presents data relating to visitors to Puerto Rico and tourist expenditures for the five fiscal years ended June 30, 1994.

Commonwealth of Puerto Rico

Tourism Data

Fiscal Year Ended June 30	Number of Visitors: Tourist Hotel(1)	Cruise Ship	Other(2)	Total	Total Visitors' Expenditures (in millions)
1990	659,013	866,090	1,900,734	3,425,837	$1,366
1991	650,115	891,348	1,962,876	3,504,339	1,436
1992	653,545	1,063,370	2,003,083	3,719,998	1,520
1993	688,509	1,014,490	2,165,959	3,868,958	1,628
1994(p)	721,427	980,220	2,320,948	4,022,595	1,737

(p) Preliminary.
(1) Includes tourists in guest houses.
(2) Including visitors in homes of relatives, friends and in hotel apartments.

Sources: Puerto Rico Tourism Company and the Planning Board.

During the first eight months of fiscal 1995, the number of persons registered in tourist hotels totaled 699,900, a 6.7% increase over the same period of fiscal 1994. The average of the occupancy rate in tourist hotels was 71.4% in the first eight months of fiscal 1995. The average number of rooms rented in tourist hotels increased 5.4% in the first eight months of fiscal 1995 compared with the same period in fiscal 1994.

Hotel operations are eligible for certain tax incentives under Commonwealth law. See "Tax Incentives" below.

Transportation

Thirty-four shipping lines offer regular ocean freight service to eighty United States and foreign ports. San Juan is the island's leading seaport, but there are also seaport facilities at other locations on the island including Arecibo, Culebra, Fajardo, Guayama, Guayanilla, Mayaguez, Ponce, Vieques and Yabucoa.

The San Juan Luis Muñoz Marín International Airport is currently served by 28 United States and international airlines. At present, there is daily direct service between San Juan and New York, Chicago, Dallas, Los Angeles, Miami, Atlanta, Boston and numerous other United States cities. There is also regularly scheduled service between Puerto Rico and other Caribbean islands and major Latin American and European cities. A major United States airline uses San Juan as a hub for its intra-Caribbean service. Several smaller airports serve intra-island traffic.

The island's major cities are connected by a modern highway system which, as of December 31, 1994, totaled approximately 4,600 miles.

Agriculture

The Commonwealth has traditionally supported the agricultural sector. In 1985, the Department of Agriculture initiated a program to promote and develop agricultural potential. The efforts of the Department of Agriculture and related agencies are being directed to increase and improve local agricultural production, increase efficiency and quality of produce and stimulate import substitution where economically feasible. In the last few years, non-traditional crops and livestock products have contributed a higher percentage of the sector's income.

The Commonwealth supports agricultural activities through incentives, subsidies and technical and support services, in addition to income tax exemptions for qualified income derived by bona fide farmers. Act No. 106, approved July 10, 1986, extended the exemption period from 10 to 15 years. The exemption from taxation during the entire 15-year period is set at 90%.

Construction

The construction industry has experienced substantial real growth since fiscal 1987. In fiscal 1994, the investment in construction rose to a record $3.0 billion, an increase of 5.6%, as compared to $2.8 billion for fiscal 1993. The construction sector experienced a 7.2% increase in total value of construction permits and an increase of 4.7% in local cement consumption for fiscal 1994 when compared to fiscal 1993. During the first eight months of fiscal 1995, the total value of construction permits increased 34.4% and local cement consumption increased 5.8%, in comparison with the same period in fiscal 1994. Construction employment decreased to 54,000 in fiscal 1994 from 59,000 in fiscal 1993. During the first eight months of fiscal 1995, the average employment in the construction sector was 57,290, an increase of 3.6% in comparison with the same period in fiscal 1994.

Higher Education

During the past four decades, Puerto Rico has made significant advances in the field of education, particularly at the college and graduate school level. The transformation of Puerto Rico during the 1950's and 1960's from an agricultural economy to an industrial economy brought about an increased demand for education at all levels. Since 1970, the manufacturing sector has attracted more high technology industries in Puerto Rico. This has resulted in an increased demand for workers having a higher level of education in general and, in particular, greater expertise in various technical fields. During the same time period, enrollments in institutions of higher learning rose very rapidly. This trend is due not only to growth in the college-age population, but also to the increasing proportion of college attendance by the college-age population.

The University of Puerto Rico, the only public university in the Commonwealth, includes eleven campuses located throughout the island. Total enrollment of the University was approximately 55,800 as of August 1994. The Commonwealth is legally obligated to annually appropriate to the University an amount equal to 9.33% of the average of the annual revenues from internal sources in each of the two fiscal years immediately preceding the current fiscal year.

The following table presents comparative trend data for Puerto Rico and the United States with respect to college age population and percentage of such population attending institutions of higher learning.

Trend in College Enrollment

Academic Year	Puerto Rico			Mainland United States		
	Population 18-24 Years of Age	Higher Education Enrollment	Percent(1)	Population 18-24 Years of Age	Higher Education Enrollment	Percent(1)
1970	341,448	57,338	16.8%	23,989,000	8,580,887	35.8%
1980	397,839	130,105	32.7	30,093,000	12,096,895	40.2
1990	417,636	156,147	37.4	26,140,000	13,213,000	50.5

(1) Number of persons of all ages enrolled in institutions of higher education as percent of population 18-24 years of age.

Sources: Planning Board, U.S. Bureau of the Census, U.S. National Center for Education Statistics and Council on Higher Education of Puerto Rico.

The table demonstrates that higher education enrollment in Puerto Rico has continued to increase despite slower growth in the college-age population.

In addition to the University of Puerto Rico, there are six other public and 37 private institutions of higher education located in Puerto Rico. Such institutions have current enrollments of approximately 100,000 students and provide programs of study in liberal arts, education, business, natural sciences, technology, secretarial and computer sciences, nursing, medicine and law. Degrees are offered by these institutions at the associate, bachelor's, master's and doctoral levels.

Tax Incentives

Much of the development of the manufacturing sector in Puerto Rico can be attributed to various federal and Commonwealth tax incentives, most notably Section 936 of the Internal Revenue Code, as amended (the "Code"), and the Commonwealth's Industrial Incentives Program.

Section 936

Under Section 936 of the Code, United States corporations that meet certain requirements and elect its application ("Section 936 Corporations") are entitled to credit against their United States corporate income tax the portion of such tax attributable to (i) income derived from the active conduct of a trade or business within Puerto Rico ("active business income") or from the sale or exchange of substantially all assets used in the active conduct of such trade or business and (ii) qualified possession source investment income ("passive income").

To qualify under Section 936 in any given taxable year a corporation must derive (i) for the three-year period immediately preceding the end of such taxable year 80% or more of its gross income from sources within Puerto Rico and (ii) for taxable years beginning after December 31, 1986, 75% or more of its gross income from the active conduct of a trade or business in Puerto Rico.

A Section 936 Corporation may elect to compute its active business income eligible for the Section 936 credit under one of three formulas: (A) a cost sharing formula, whereby it is allowed to claim all profits attributable to manufacturing intangibles and other functions carried out in Puerto Rico, provided it contributes to the research

and development expenses of its affiliated group or pays certain royalties; (B) a profit split formula, whereby it is allowed to claim 50% of the net income of its affiliated group from the sale of products manufactured in Puerto Rico; or (C) a cost plus formula, whereby it is allowed to claim a reasonable profit on the manufacturing costs incurred in Puerto Rico. To be eligible for the first two formulas, the Section 936 Corporation must have a significant business presence for purposes of the Section 936 rules.

Pursuant to amendments to the Code adopted in August of 1993, and effective for taxable years commencing after 1993, two alternative limitations apply to the Section 936 credit against active business income and sale of assets income previously described. The first option limits the credit against such income to 40% of the credit allowable previous to the amendments of 1993, with a five year phase-in period starting at 60% of the current allowable credit. The second option limits the allowable credit against such income to the sum of (i) 60% of qualified compensation paid to employees as defined in the Code, which includes wages up to 85% of the maximum earnings subject to the OASDI portion of Social Security taxes ($61,200 for 1995) plus an allowance for fringe benefits of 15% of qualified wages, (ii) a specified percentage of depreciation deductions ranging between 15% and 65%, based on the class life of the property claimed by Section 936 Corporation for tangible property located in Puerto Rico and used in its trade or business and (iii) a portion of Puerto Rico income taxes paid by the Section 936 Corporation, up to a 9% effective tax rate (but only if the Section 936 Corporation does not elect the profit-split method for allocating income from intangible property).

At present, it is difficult to forecast what the short and long term effects of the new limitations to the Section 936 credit will be on the economy of Puerto Rico. However, preliminary econometric studies by the Planning Board and private-sector economists on the effects of such limitations on the Puerto Rico economy, assuming no enhancements to the existing Industrial Incentives Program (described below), project only a slight reduction in average annual real growth rates. The effect of the performance of the United States economy on the performance of the Puerto Rico economy as described under "*The Economy* -- General" will be greater than the effect thereon of changes in the Section 936 credit. These studies and estimates by Government Development Bank also suggest that particular industry groups will be affected differently. Manufacturers of pharmaceuticals and beverages may suffer a larger reduction in tax benefits relative to other industry groups due to their relatively higher profit margins, but the effective federal tax rate for those Section 936 Corporations most adversely affected by these amendments is expected to be, on the average, half or less than half of the general federal corporate income tax rate. In addition, the above limitations are not expected to reduce the tax credit currently enjoyed by certain labor-intensive, lower profit-margin industries, which represent approximately 40% of the total employment by Section 936 Corporations in Puerto Rico.

Industrial Incentives Program

Since 1948 Puerto Rico has had various industrial incentives laws designed to stimulate industrial investment in the island. Under these laws, companies engaged in manufacturing and certain other designated activities (such as hotel operations) were eligible to receive full or partial exemption from income, property and certain local taxes.

On January 24, 1987, the Governor of Puerto Rico signed into law the most recent industrial incentives law, Act No. 8 of January 24, 1987, known as the Puerto Rico Tax Incentives Act (the "1987 Act"). The tax exemption benefits provided by the 1987 Act are generally more favorable than those provided by its predecessor, the Industrial Incentives Act of 1978 (the "1978 Act"). The activities eligible for exemption under the 1987 Act include manufacturing, certain designated services for markets outside Puerto Rico, the production of energy from local renewable sources for consumption in Puerto Rico, and laboratories for scientific and industrial research.

The 1987 Act provides a fixed 90% exemption from income and property taxes and a 60% exemption from municipal license taxes during a 10, 15, 20 or 25 year period, depending on the zone where the operations are located. This initial exemption period may be extended for an additional 10 years at lower exemption rates. The

1987 Act also provides a special deduction equal to 15% of the production payroll for companies whose net income from operations is less than $20,000 per production job. This special benefit is designed to attract and maintain labor intensive operations in Puerto Rico. The passive income from certain qualified investments in Puerto Rico and the instruments evidencing such investments are fully exempt from income tax. In addition, companies making such investments for fixed periods of not less than five years are eligible to reduce the tollgate tax imposed on dividend and liquidating distributions from a maximum rate of 10% to 5%, depending on the amount and term of the investment.

This bottom limit of 5% was approved in a recent amendment (December 1993) of the 1987 Act (the "1993 amendments"). The 1993 amendments also impose a new 5% estimated tax on annual industrial development income, subject to reduction in the event certain long-term qualified investments with such income are made. The Department of Treasury is collecting an additional amount annually as a result of the implementation of the bottom limit. As a result of the 1993 amendments, the Department of the Treasury has increased its ability to predict tax revenues from corporations with greater accuracy. The 1993 amendments also contain an option to pay a flat 14% tax on annual industrial development income, which would allow eligible companies to repatriate profits free of tollgate taxes. Under this option, if a company invests 25% or 50% of its profits in qualified industrial development investments, the 14% rate drops to 11% or 9%, respectively.

The 1987 Act imposes a special surtax on sales volume designed to raise revenues to fund a special government program of scientific and technical research for the development of new products and industrial processes and the creation of special training programs for the chronically unemployed.

The 1987 Act applies to newly established operations as well as to existing operations that elect to convert their tax exemption grants to the provisions of the 1987 Act. Companies with existing operations that elect not to convert remain subject to the provisions of the 1978 Act or any of the predecessor industrial incentives laws.

Since 1983 hotel operations have been covered by a special incentives law, the Tourism Incentives Act of 1983, which provides exemptions from income, property and municipal license taxes for a period of 10 years. The income tax exemption rates vary depending on the zone where the business is located. In 1993, legislation was enacted providing for an additional set of tax incentives for new hotel development projects. This legislation also provides exemptions from income, property and municipal license taxes for a period of up to 10 years. In addition, it provides certain tax credits for qualifying investments in such projects. Upon meeting certain prescribed conditions, businesses exempted under the 1983 special incentives law may elect instead to be covered by the 1993 law.

Caribbean Basin Initiative

In August, 1983, the President of the United States signed into law the Caribbean Basin Economic Recovery Act. The Tax Reform Act of 1986 amended Section 936 to allow Puerto Rico financial institutions, including Government Development Bank and Puerto Rico Economic Development Bank, to invest funds representing earnings accumulated under Section 936, in active business assets or development projects in a qualified Caribbean Basin country. Such investments must be in accordance with a specific authorization from the Commissioner of Financial Institutions pursuant to regulations issued by the Secretary of the Treasury. As of December 1994, 167 projects under the Puerto Rico Caribbean Development Program have been promoted in fourteen Caribbean Basin countries, representing 36,115 jobs and over $1,989 million in loan commitments, of which $1,217 million of Section 936 funds have been disbursed.

The Caribbean Basin Projects Financing Authority ("CARIFA") was created in 1989 with the power to issue revenue bonds, thus providing private entities with lower cost financing for eligible projects in the Caribbean region. As of March 25, 1995, CARIFA has financed eleven projects in seven Caribbean countries for a total investment of over $676 million.

North American Free Trade Agreement

The United States, Canada and Mexico have entered into the North American Free Trade Agreement ("NAFTA"), which agreement is designed to eliminate restrictions on trade and investment flows among the three countries. KPMG Peat Marwick conducted a study in 1992 of the potential economic impact of NAFTA on the economy of Puerto Rico for Government Development Bank and concluded that, once NAFTA is fully implemented, certain of the Commonwealth's industries, including those that are lower salaried and labor intensive, may face increased competition from Mexico, while Puerto Rico's favorable investment environment, highly skilled work force, infrastructure development and tax structure (mainly Section 936) would tend to create expanded trade opportunities for Puerto Rico in such areas as pharmaceuticals and high technology manufacturing. KPMG Peat Marwick updated the analysis of the original study to incorporate the changes to Section 936 discussed above and concluded that the reductions in after-tax rates of return resulting from such changes do not eliminate Puerto Rico's competitive advantage in certain key industries over Mexico. The after-tax rate of return advantages are maintained in pharmaceuticals, electronics and scientific instruments. In addition, said changes have no significant effect on the other major industries analyzed in the original study (canned tuna, textiles, apparel and footwear).

DEBT

Public Sector Debt

Public sector debt comprises bonds and notes of the Commonwealth and its municipalities and public corporations ("notes" as used in this Section is intended to refer to certain types of non-bond debt regardless of maturity), subject to the exclusions described in the following paragraph. Direct debt of the Commonwealth is supported by Commonwealth taxes. Debt of municipalities, other than bond anticipation notes, is supported by real and personal property taxes and municipal license taxes. Debt of public corporations, other than bond anticipation notes, is generally supported by the revenues of such corporations from charges for services or products. *See Public Corporations.* However, certain debt of public corporations is supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or taxes.

The following table presents a summary of public sector debt as of December 31, 1994. Excluded from this table is debt not primarily payable from either Commonwealth or local taxes, or Commonwealth appropriations or public corporation charges for services or products. Also excluded from the following table is debt the inclusion of which would reflect double counting, including, but not limited to, $483,459,219 of bonds issued by Municipal Finance Agency to finance its purchase of bonds of Commonwealth municipalities; and $1,550,778,000 of obligations of Government Development Bank issued to purchase certain Commonwealth public sector debt and for other purposes, of which $267,000,000 are guaranteed by the Commonwealth.

Commonwealth of Puerto Rico

Public Sector Debt

(in thousands)

	December 31, 1994
Commonwealth direct debt(1)	$ 3,774,552
Municipal debt	691,802
Public corporations debt:	
Commonwealth guaranteed debt(2)	523,221
Debt supported by Commonwealth appropriations or taxes(3)	4,207,470
Other non-guaranteed debt	5,907,477
Total public corporations debt	10,638,168
Total public sector debt	$15,104,522

(1) Includes $30,000,000 Special Promissory Notes and $190,738,360 in a loan from Government Development Bank to the Department of Treasury to settle certain property tax claims of the municipalities.

(2) Excludes $1,152,579,000 of Public Buildings Authority bonds and notes which are primarily payable from Commonwealth appropriations. Includes bonds issued by Housing Bank and Finance Agency and Aqueduct and Sewer Authority and commercial paper issued by Maritime Shipping Authority the payment in full for which commercial paper was provided for by Government Development Bank in late February 1995.

(3) Represents, among others, bonds and notes issued by Aqueduct and Sewer Authority, Highway and Transportation Authority, Public Buildings Authority, Sugar Corporation, Infrastructure Financing Authority, Economic Development Bank (and its affiliate, the Agriculture and Commercial Development Corporation), Health Facilities and Services Administration and Housing Bank and Finance Agency, including the bonds issued by the former Urban Renewal and Housing Corporation. Does not include the expected issuance in April 1995 of $75,000,000 Housing Bank and Finance Agency Affordable Housing Mortgage Subsidy Program, Single Family Mortgage Revenue Bonds, Portfolio I. See "Other Public Corporations" under *Public Corporations*. Effective in January 1995, $163,471,556 of certain indebtedness of the Housing Bank and Finance Agency (originally issued by Urban Renewal and Housing Corporation) was transferred to the Commonwealth by virtue of Act No. 134 of the Legislature of Puerto Rico, approved December 13, 1994 ("Act No. 134 of 1994"). Had this transfer been reflected in the above table, the effect would have been to increase Commonwealth direct debt and reduce debt supported by Commonwealth appropriations or taxes by this amount.

Source: Government Development Bank.

No deductions have been made in the above table for debt service funds and debt service reserve funds. The table above and the amounts shown throughout this section as representing outstanding debt include outstanding capital appreciation bonds at their respective original principal amounts and do not include any accretion thereon.

Debt Service Requirements for Commonwealth General Obligation Bonds

The following table presents debt service requirements for outstanding general obligation bonds. Debt service requirements for each fiscal year, as shown in the following table, include principal and interest due on July 1 of the next fiscal year.

Commonwealth of Puerto Rico

Debt Service Requirements*

(in thousands)

Fiscal Year Ending June 30	Outstanding(1) Principal	Outstanding(1) Interest	Outstanding(1) Total	Bonds Offered Hereby Principal	Bonds Offered Hereby Interest	Bonds Offered Hereby Total	Total
1995	$186,470	$96,437(2)	$282,907	--	--	--	$282,907
1996	196,615	182,433	379,048	$1,965	$28,249	$30,214	409,262
1997	196,790	176,912	373,702	5,505	23,227	28,732	402,434
1998	197,191	168,807	365,998	5,780	22,952	28,732	394,730
1999	186,316	162,291	348,607	6,070	22,663	28,733	377,339
2000	177,385	146,802	324,187	6,370	22,359	28,729	352,917
2001	91,486	136,092	227,579	93,980	21,985	115,965	343,544
2002	178,034	132,683	310,717	6,395	16,859	23,254	333,970
2003	106,879	201,563	308,441	6,705	16,545	23,250	331,692
2004	108,980	198,244	307,224	7,145	16,110	23,255	330,478
2005	182,782	120,881	303,663	7,610	15,645	23,255	326,918
2006	142,763	135,988	278,751	8,100	15,151	23,251	302,001
2007	114,689	143,332	258,021	8,525	14,729	23,254	281,275
2008	90,058	106,209	196,267	8,975	14,278	23,253	219,520
2009	93,835	84,168	178,003	9,535	13,717	23,252	201,254
2010	101,060	76,444	177,503	10,130	13,121	23,251	200,754
2011	105,962	71,050	177,012	10,765	12,488	23,253	200,265
2012	111,850	58,161	170,011	11,440	11,815	23,255	193,266
2013	99,670	52,673	152,343	12,155	11,100	23,255	175,597
2014	85,940	45,734	131,674	12,915	10,340	23,255	154,929
2015	90,935	40,930	131,865	13,640	9,610	23,250	155,115
2016	95,270	36,521	131,791	14,415	8,840	23,255	155,045
2017	101,600	30,373	131,973	15,185	8,065	23,250	155,223
2018	106,985	24,885	131,870	16,005	7,249	23,254	155,124
2019	92,420	18,525	110,945	16,865	6,388	23,253	134,198
2020	98,685	13,394	112,079	17,770	5,482	23,252	135,331
2021	61,170	7,657	68,827	18,725	4,527	23,252	92,079
2022	42,690	4,100	46,790	19,730	3,520	23,250	70,040
2023	22,070	1,435	23,505	20,790	2,460	23,250	46,754
2024	--	--	--	21,990	1,264	23,254	23,254
Total	$3,466,579	$2,674,721	$6,141,300	$415,180	$380,737	$795,917	$6,937,217

* Totals may not add due to rounding.

(1) Does not include debt service requirements for the Refunded Bonds.

(2) Reduced by January 1, 1995 interest payment.

Sources: Government Development Bank and Department of the Treasury.

Commonwealth Guaranteed Debt

Annual debt service on outstanding Commonwealth guaranteed bonds issued by Urban Renewal and Housing Corporation and assumed in fiscal year 1992 by Housing Bank and Finance Agency is $13,253,548 in the fiscal year ending September 30, 1995, which constitutes the maximum annual debt service on such bonds. The final maturity of such bonds is October 1, 2001. As of December 31, 1994, $74,775,000 of Commonwealth guaranteed bonds of Housing Bank and Finance Agency were outstanding. Annual debt service on Commonwealth guaranteed bonds of Public Buildings Authority is $104,490,000 in fiscal year ending June 30, 1995 with the final maturity on July 1, 2021. As of December 31, 1994, $1,152,579,000 of Commonwealth guaranteed bonds of Public Buildings Authority were outstanding.

No payments under the Commonwealth guaranty have been required to date for bonds of Housing Bank and Finance Agency or Public Buildings Authority.

As of December 31, 1994, $267,000,000 of Commonwealth guaranteed obligations of Government Development Bank were outstanding. No payments under the Commonwealth guaranty have been required for any obligations of Government Development Bank to date.

The Farm Credit Corporation ("Farm Credit"), created pursuant to Act No. 68, approved June 8, 1960, as amended, assumed responsibility in 1971 for the administration of the Farm Credit Security Fund (the "Security Fund") from the Department of Agriculture. The Security Fund has guaranteed, under the good faith and credit of the Commonwealth, certain loans made by financial institutions and Farm Credit to farmers. The Security Fund is authorized to guarantee loans of which approximately $17,944,000 has been committed as of September 30, 1994. As of September 30, 1994, approximately $3,660,000 was available in the Security Fund to cover loan payment defaults by farmers. The Commercial and Agricultural Credit and Development Corporation has been created to provide, among other things, loans to the commercial and agricultural sectors. The functions of Farm Credit and the administration of the Security Fund have been transferred to the new public corporation, which is an affiliate of Economic Development Bank. Simultaneously with the creation of the new corporation, the amount of guarantees was limited to the outstanding loans which carry such guaranty. A joint resolution adopted by the Legislature on August 19, 1990 appropriates $8,000,000 per year beginning fiscal 1993 for five years to provide funds for the Security Fund. The proceeds of these appropriations will be used to pay a $40,000,000 loan made to the Security Fund by Government Development Bank which is being used to cover payment on loans guaranteed by the Security Fund.

Effective July 28, 1994, the Commonwealth has guaranteed certain outstanding revenue bonds of the Aqueduct and Sewer Authority in the aggregate principal amount of $388,000,000. No payments under the Commonwealth guaranty have been required for such revenue bonds.

Trends of Public Sector Debt

Historically, the Commonwealth has maintained a fiscal policy which provides for a prudent relationship between the growth of public sector debt and the growth of the economic base required to service that debt. The Commonwealth also sought opportunities to realize debt service savings by refunding outstanding debt with obligations bearing lower interest rates. In certain years, this policy has had the effect of increasing the rate of growth of public sector debt above that of gross product. Over fiscal years 1990 to 1994, public sector debt increased 21.4% while gross product rose 23.3%. Although the rate of increase of public sector debt exceeded the corresponding rate of increase of gross product in fiscal 1992 and 1994, these increases were principally the result of refinancings to achieve debt service savings. Short term debt outstanding relative to total debt was 7.4% as of December 31, 1994.

The following table shows the trends in gross product (in current dollars) and public sector debt for the five fiscal years ended June 30, 1994 and for the six month period ended December 31, 1994.

Commonwealth of Puerto Rico

Public Sector Debt and Gross Product

(dollars in millions)

	Public Sector Debt					Gross Product[1]	
June 30	Long Term	Short Term[2]	Short Term as % of Total	Total	Rate of Increase	Amount	Rate of Increase
1990	$11,492	$1,073[3]	8.5%	$12,565	7.9%	$21,619	8.3%
1991	12,041	784[3]	6.1	12,825	2.1	22,809	5.5
1992	13,108	713	5.2	13,821	7.8	23,696	3.9
1993	13,257	985[3]	6.9	14,242	3.0	25,234	6.5
1994	14,077	1,181[3]	7.7	15,258	7.1	26,647	5.6
December 31, 1994	13,991[4]	1,113	7.4	15,104	(1.0)	N/A	N/A

(1) In current dollars.

(2) Obligations with a maturity of three years or less are considered short-term debt.

(3) Does not include the tax and revenue anticipation notes which were outstanding at the close of the indicated fiscal years because sufficient funds had been set aside for the payment of such notes in full prior to the end of said fiscal years.

(4) Does not include the expected issuance in April 1995 of $75,000,000 Housing Bank and Finance Agency Affordable Housing Mortgage Subsidy Program, Single Family Mortgage Revenue Bonds, Portfolio I.

Source: Government Development Bank.

The following table shows the trend of public sector debt by major category for the five fiscal years ended June 30, 1994, and for the six month period ended December 31, 1994.

Commonwealth of Puerto Rico
Public Sector Debt by Major Category
(in millions)

	Commonwealth(1)			Municipalities			Public Corporations(2)					
June 30	Long Term	Short Term(3)	Total*	Long Term	Short Term(3)	Total*	Long Term	Short Term(3)	Total*	Total Long Term	Total Short Term(3)	Grand Total*
1990	$2,861	$335(4)	$3,196	$366	$24	$390	$8,265	$714	$8,979	$11,492	$1,073	$12,565
1991	3,260	54(4)	3,314	386	30	416	8,395	700	9,095	12,041	784	12,825
1992	3,402	--	3,402	460	39	499	9,246	675	9,921	13,108	713	13,821
1993	3,483	120(4)(5)	3,603	497	39	536	9,276	826	10,102	13,257	985	14,242
1994	3,713	120(4)(5)	3,833	571	47	618	9,792	1,014	10,807	14,076	1,181	15,258
Dec. 31, 1994 . .	3,745	30(5)	3,775	646	45	691	9,600(6)	1,038	10,638(7)	13,991	1,113	15,104

(1) General obligation and other direct debt.
(2) Includes Commonwealth guaranteed debt.
(3) Obligations with a maturity of three years or less are considered short-term debt.
(4) Does not include the tax and revenue anticipation notes which were outstanding at the close of the indicated fiscal years because sufficient funds had been set aside for the payment of such notes in full prior to the end of said fiscal years.
(5) Special Promissory Notes.
(6) Effective in January 1995, $163,471,556 of certain indebtedness of Housing Bank and Finance Agency (originally issued by Urban Renewal and Housing Corporation) was transferred to the Commonwealth by virtue of Act No. 134 of 1994. Had this transfer been reflected in the above table the effect would have been to increase Commonwealth Long Term Debt and reduce Public Corporation's Long Term Debt by this amount.
(7) Does not include the expected issuance in April 1995 of $75,000,000 Housing Bank and Finance Agency Affordable Housing Mortgage Subsidy Program, Single Family Mortgage Revenue Bonds, Portfolio I.

* Totals may not add due to rounding.

Source: Government Development Bank.

PUBLIC CORPORATIONS

In Puerto Rico, many governmental or quasi-governmental functions are performed by public corporations. These are governmental entities of the Commonwealth created by the Legislature but with varying degrees of independence from the central government. Public corporations are generally created to perform a single function or a limited number of related functions. Most public corporations obtain revenues from charges for services or products, but many are subsidized to some extent by the central government. Most public corporations are governed by boards appointed by the Governor with the advice and consent of the Senate, but some public corporations are subsidiaries of departments of the central government. Capital improvements of most of the larger public corporations are financed by revenue bonds under trust agreements or bond resolutions or notes under loan agreements. The following table presents the outstanding bonds and notes of certain of the public corporations as of December 31, 1994 ("notes" as used in this Section is intended to refer principally to certain types of non-bonded debt regardless of maturity). Debt of certain other public corporations is excluded from this table because such debt is payable primarily from the Federal government or is payable from sources other than Commonwealth appropriations or taxes or revenues of public corporations derived from services or products, such as industrial development bonds. Also excluded from this table is the debt of certain public corporations the inclusion of which would reflect double counting. More detailed information about the major public corporations is presented in following sections.

Outstanding Debt

December 31, 1994

	Bonds			Notes			Total Bonds and Notes		
	With Guaranty	Without Guaranty	Total	With Guaranty	Without Guaranty	Total	With Guaranty	Without Guaranty	Total
				(in thousands)					
Agricultural Services Administration	$0	$0	$0	$0	$56,828	$56,828	$0	$56,828	$56,828
Aqueduct and Sewer Authority(1)	388,446	55,343	443,789(2)	0	307,407	307,407	388,446	362,750	751,196
Commercial and Agricultural Credit and Development Corporation	0	0	0	0	65,354	65,354	0	65,354	65,354
Electric Power Authority(1)	0	3,016,162	3,016,162	0	135,000	135,000	0	3,151,162	3,151,162
Health Facilities and Services Administration	0	0	0	0	298,815	298,815	0	298,815	298,815(3)
Highway and Transportation Authority	0	1,657,410	1,657,410	0	0	0	0	1,657,410	1,657,410
Housing Bank	74,775	669,237	744,012	0	0	0	74,775	669,237	744,012(3)
Industrial Development Company(1)	0	169,859	169,859	0	21,467	21,467	0	191,326	191,326
Infrastructure Financing Authority	0	262,960	262,960	0	0	0	0	262,960	262,960(4)
Maritime Shipping Authority(5)	0	0	0	60,000	213,153	273,153	60,000	213,153	273,153(6)
Office for the Improvement of Public Schools	0	0	0	0	102,325	102,325	0	102,325	102,325
Ports Authority	0	138,990	138,990	0	80,196	80,196	0	219,186	219,186
Public Buildings Authority(1)	1,152,579	0	1,152,579	0	89,000	89,000	1,152,579	89,000	1,241,579(4)
Sugar Corporation	0	0	0	0	17,717	17,717	0	17,717	17,717(4)
Telephone Authority	0	1,006,437	1,006,437	0	14,660	14,660	0	1,021,097	1,021,097
University of Puerto Rico	0	183,514	183,514	0	70,613	70,613	0	254,127	254,127
Others	0	16,268	16,268	0	313,653	313,653	0	329,921	329,921
Total	$1,615,800	$7,176,180	$8,791,980	$60,000	$1,786,188	$1,846,188	$1,675,800(7)	$8,962,368	$10,638,168

(1) Does not include accretion of interest from the respective issuance dates on capital appreciation bonds as follows: Aqueduct and Sewer Authority $10,431,335 as of December 31, 1994; Electric Power Authority $62,674,000 as of December 31, 1994; Industrial Development Company $4,349,869 as of December 31, 1994; and Public Buildings Authority $24,107,991 as of December 31, 1994.

(2) Principal of and interest on $69,868,839 of this debt is reimbursed from Commonwealth appropriations.

(3) Payable primarily from Commonwealth appropriations. Effective in January 1995, $163,471,556 of certain indebtedness of Housing Bank and Finance Agency (originally issued by Urban Renewal and Housing Corporation) was transferred to the Commonwealth. Had this transfer been reflected in the above table, the effect would have been to reduce Housing Bank Bonds Without Guaranty by this amount. Does not include the expected issuance in April 1995 of $75,000,000 Housing Bank and Finance Agency Affordable Housing Mortgage Subsidy Program, Single Family Mortgage Revenue Bonds, Portfolio I.

(footnotes continued on next page)

(4) Payable primarily from Commonwealth appropriations.

(5) On March 3, 1995, the assets of the Authority were transferred to a private purchaser which also assumed certain of the Authority's liabilities. The outstanding debt was refinanced by Government Development Bank, but it remains an obligation of the Authority. Such debt is now payable solely from Commonwealth appropriations.

(6) Includes $1,189,000 of capitalized lease obligations.

(7) Authorization for Commonwealth guarantees of debt as of December 31, 1994 was $3,543,000,000. Excludes $17,944,000 of loans from lending institutions to farmers guaranteed by Farm Credit Security Fund as of December 31, 1994.

Source: Government Development Bank.

No deductions have been made in the above table for debt service funds and debt service reserve funds.

Government Development Bank for Puerto Rico

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

As of December 31, 1994, $1,490,724,000 of bonds and notes of Government Development Bank were outstanding. Government Development Bank has loaned $2,055,801,000 to Commonwealth public corporations and municipalities. Act No. 12, approved May 9, 1975, as amended, provides that the payment of principal of and interest on specified notes and other obligations of Government Development Bank, not exceeding $550,000,000, may be guaranteed by the Commonwealth, of which $267,000,000 were outstanding as of December 31, 1994.

Government Development Bank has the following principal subsidiaries:

Higher Education Assistance Corporation was established in May 1981 for the purpose of guaranteeing loans made to post-secondary school students under Federal insurance programs. The operations of this Corporation were transferred to the Great Lakes Higher Education Corporation, a guarantee agency based in Wisconsin, and the Corporation is in the process of liquidation.

Housing Finance Corporation was created in November 1977 for the purposes of providing needed rental housing units and stimulating the construction industry under federally subsidized programs. The Corporation has issued tax-exempt revenue bonds and notes to finance the construction of housing units approved for federal rental subsidies, which bonds and notes are limited obligations of the Corporation payable solely from revenues collected in respect of such housing units. The Federal Housing Administration has insured mortgages on certain of the housing units. As of December 31, 1994, $1,512,342,309 of bonds were outstanding.

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

Development Fund was created in 1977 to provide an alternate source of financing to private enterprises in Puerto Rico that have difficulties in obtaining financing from traditional sources. The Development Fund may also guarantee obligations of these enterprises and invest in their equity securities.

Capital Fund was created in November 1993 for trading in debt obligations and publicly traded shares of domestic and foreign corporations.

Public Finance Corporation was established in December 1984 for the purpose of providing the agencies and instrumentalities of the Commonwealth with alternate means of meeting their financing requirements.

A description of certain other subsidiaries and affiliates of Government Development Bank is provided in "Other Public Corporations."

Other Public Corporations

Aqueduct and Sewer Authority owns and operates a system of public water supply and sanitary sewer facilities. Capital expenditures are financed by revenues of the system, debt issuances, and federal and Commonwealth grants. Debt service on revenue bonds is payable from net revenues of the system after payment of current expenses. As of December 31, 1994, the Authority had bonds outstanding in the amount of $443,789,000 (not including accretion

of interest from the respective issuance dates on capital appreciation bonds) and notes outstanding in the amount of $307,407,000.

Facilities and operations of the Authority's system are subject to regulation under numerous federal and Commonwealth environmental laws, including the federal Clean Water Act administered by the United States Environmental Protection Agency ("EPA"). The Authority has embarked on an extensive capital improvement program for the six-year period ending June 30, 2000 that is estimated to cost approximately $1.7 billion. A portion of the capital improvement program is designed to enable the Authority to comply with a series of consent orders agreed to between the Authority and EPA.

A report prepared for the Governor of the Commonwealth calls for substantially greater investments in infrastructure and a major overhaul of the Authority's operations to maintain the viability of the existing system and to finance its expansion to new users. It is contemplated that funds for these capital improvements will be provided through a combination of bond issues, legislative appropriations and federal grants.

The Authority expects to report net operating losses of approximately $67 million in fiscal 1994 and over $60 million in fiscal 1995. Based upon current projections, the Authority expects that it may not be in compliance for fiscal 1995 with its rate covenant with bondholders. The expected net operating losses are the result of continuing financial and operating difficulties that the Authority has experienced in recent years. In response to these difficulties and to the report mentioned above, in July 1994, the Governor signed legislation designed to enhance the Authority's credit position in the capital markets by providing a Commonwealth guaranty of the Authority's outstanding indebtedness of approximately $388 million (which previously had been sold in public markets) and a guaranty of any indebtedness that may be issued to refinance this debt, and further providing for annual Commonwealth appropriations to the Authority to pay a portion of the principal and interest on the Authority's indebtedness and/or to defray a portion of the Authority's operating and maintenance expenses as follows: $20 million for fiscal year 1995, $25 million for fiscal year 1996, $30 million for fiscal year 1997 and $35 million for fiscal year 1998. In the event the Authority continues to require financial assistance after 1998, the legislation contemplates future direct contributions by the Commonwealth to the Authority of up to $35 million annually. The Authority is currently evaluating entering into one or more management arrangements with private companies.

Recently, the Authority has also experienced difficulties in distributing water to the northeast portion of the island, including the San Juan metropolitan area, as a result of a drought. The Authority has implemented measures to address this situation, including water rationing in the affected areas. The ultimate financial impact of the drought on the Authority's revenues and expenditures cannot be determined at this time, but, except for an approximately 10% decrease in anticipated revenues for fiscal 1995, the Authority does not believe the drought will have a further material adverse effect on the Authority's finances.

Economic Development Bank was created in July 1985 to engage primarily in granting small direct loans, providing loan guarantees to private enterprises and making equity investments in such enterprises. Its initial capital was provided by a transfer of loans in the principal amount of $15,000,000 previously administered by a now inactive subsidiary of Government Development Bank. As of December 31, 1994, the Economic Development Bank had outstanding $24,000,000 principal amount of Capital Notes payable from Commonwealth appropriations.

Electric Power Authority owns and operates the island's electric system. Capital improvements are financed primarily by borrowed funds, supplemented by internally generated funds. The Authority's bonded debt consists of Electric Revenue Bonds and Power Revenue Bonds. Electric Revenue Bonds are secured by a prior lien on net revenues of the electric system. Power Revenue Bonds are payable from such net revenues after provision for debt service and reserve requirements for Electric Revenue Bonds. As of December 31, 1994, the Electric Power Authority had $3,016,162,000 in bonds outstanding (not including accretion of interest from the respective issuance dates on capital appreciation bonds).

Health Facilities and Services Administration ("AFASS") was created by Act No. 26, approved on November 13, 1975, as amended, with the objectives of planning, evaluation and development of health services, alleviation of environmental contamination, operation of public hospitals and other health facilities, prevention and treatment of mental illness, administration of family planning programs and maternal and child care activities. The operations of AFASS are funded substantially by appropriations from the Commonwealth. AFASS' outstanding indebtedness to GDB as of December 31, 1994 was $298,815,000. In addition, GDB has authorized a line of credit for $200 million to be used by AFASS to pay operational expenses related to health care reform programs in the Commonwealth. As of March 31, 1995, $30 million had been drawn on this line of credit.

Highway and Transportation Authority is responsible for highway construction in Puerto Rico. Such construction is financed by debt (interim notes and revenue bonds), revenues of the Authority, and federal and Commonwealth grants. Debt service on the Authority's revenue bonds constitutes a first lien on its gross revenues, which consist of all the proceeds of the gasoline tax, one-half of the proceeds of the tax on gas oil or diesel oil, highway toll revenues and the gross receipts of $15.00 per vehicle per year from certain motor vehicle license fees. Such revenues (except for toll revenues) may be applied first to the payment of debt service on general obligation bonds and notes of the Commonwealth and payments required to be made by the Commonwealth under its guarantees of bonds and notes to the extent that no other revenues are available for such purpose. The Commonwealth has never applied such revenues for such payment. As of December 31, 1994, the Highway and Transportation Authority had $1,657,410,000 in bonds outstanding.

The Authority is a party to a concession agreement under which a private company designed, constructed and currently is operating a toll bridge spanning the San José Lagoon as an alternate route to Luis Muñoz Marin International Airport. The toll bridge was financed with special facility revenue bonds of the Authority payable by the private company principally from toll revenues. The concession is for a term of 35 years, subject to earlier termination or extension. The bridge opened for traffic in February 1994. In certain circumstances as described in the agreement, including where toll revenues are insufficient to generate certain rates of return to the private operator, the private company may require the Authority, among other things, to assume the private company's obligations with respect to the special facility revenue bonds. Certain of those circumstances, including low toll revenues, exist at this time but the Authority does not currently anticipate that the private company will exercise its remedy against the Authority.

The Authority is exploring the possibility of undertaking other transactions to privatize the construction and operation of additional traffic facilities.

Housing Bank and Finance Agency is engaged in insuring mortgages and servicing mortgages originated by Urban Renewal and Housing Corporation and issues bonds and notes to provide interim and permanent financing for low-income housing projects and single-family home ownership programs. The Agency obtains funds from legislative appropriations, sales of mortgages, mortgage repayments and other sources.

As of December 31, 1994, the Agency had outstanding $744,012,000 of bonds (of which $74,755,000, originally issued by the Urban Renewal and Housing Corporation, are guaranteed by the Commonwealth) issued to pay obligations of the Commonwealth under law, otherwise payable from Commonwealth appropriations, to fund certain payments of the Commonwealth under its mortgage subsidy program for low and moderate income families, to guaranty certain insurance obligations of the Agency under certain programs and to refund bonds originally issued by Urban Renewal and Housing Corporation to carry out activities related to the provision of low-cost housing for moderate income families, federally aided public housing for low income families, and urban renewal, housing and related activities. These bonds are payable principally from appropriations in substantially the amount that the Commonwealth would otherwise have been obligated to appropriate for such purposes. Effective in January 1995, $163,471,556 of certain indebtedness of Housing Bank and Finance Agency (originally issued by Urban Renewal and Housing Corporation) was transferred to the Commonwealth by virtue of Act No. 134 of 1994.

Industrial Development Company participates in the Commonwealth-sponsored economic development program by providing physical facilities, general assistance, and special incentive grants to manufacturers. The Company has issued interim notes and revenue bonds to finance factories and other facilities. Rentals derived from the leasing of specified facilities of the Company are pledged to the payment of the Company's revenue bonds. As of December 31, 1994, the Company had $169,859,000 in bonds outstanding (not including accretion of interest from the respective issuance dates on capital appreciation bonds). On March 23, 1994, the hotel properties were sold to the Tourism Company in order to facilitate the further sale to the private sector.

Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority was created in June 1977. The Authority has issued revenue bonds to finance industrial, pollution control, medical and educational facilities in Puerto Rico for the use of private companies, non-profit entities or government agencies. The bonds are payable solely from payments to be made to the Authority by such private companies, non-profit entities or government agencies and do not constitute a debt of the Commonwealth or any of its other public corporations or municipalities. As of December 31, 1994, $3,648,095,151 of the Authority's bonds had been issued, of which $2,458,399,195 were outstanding.

Infrastructure Financing Authority was created in June 1988 for the purpose of providing financial, administrative, consulting, technical, advisory and other types of assistance to other public corporations and governmental instrumentalities of the Commonwealth authorized to develop infrastructure facilities and to establish alternate means for financing infrastructure facilities. The legislation establishes a Puerto Rico Infrastructure Fund funded in the amount of $30 million during fiscal 1989 and $40 million for the following 29 fiscal years with the first proceeds of federal excise taxes imposed on rum and other articles produced in Puerto Rico and sold in the United States which are transferred to the Commonwealth pursuant to the Internal Revenue Code of 1986, as amended. In November 1988 the Authority issued $327,740,000 of Special Tax Revenue Bonds, Series 1988A to refund in advance certain outstanding revenue bonds and other debt of the Aqueduct and Sewer Authority. As of December 31, 1994, $262,960,000 of such bonds were outstanding. The Authority's Special Tax Revenue Bonds, Series 1988A are secured by a pledge of a portion of such federal excise taxes, subject to the rights of the owners of the Commonwealth's general obligation bonds and notes and certain other obligations guaranteed by the Commonwealth.

Maritime Shipping Authority commenced operations in 1974 upon the acquisition of three shipping lines serving Puerto Rico and the United States mainland. The Authority acquired vessels and other equipment financed by the issuance of notes on a secured basis to the previous owners. As of the date of the sale of the Authority's assets referred to below, the Authority carried approximately 30% of the total cargo shipped between Puerto Rico and the United States mainland.

From the commencement of operations through January 1, 1995, the Authority had incurred an accumulated deficit of $267,943,000.

As of December 31, 1994, the debt of the Authority (consisting primarily of operating deficits but also including certain capitalized lease obligations) amounted to approximately $273,200,000 of which approximately $175,300,000 was owed to Government Development Bank. Government Development Bank has also guaranteed approximately $28,637,500 of such debt. In addition, as of December 31, 1994, the Commonwealth has guaranteed commercial paper of the Authority aggregating $60,000,000. In late February 1995, payment in full of the outstanding commercial paper was provided for by Government Development Bank.

On March 3, 1995 the assets and operations of the Authority were sold to a private purchaser. In connection with the Legislature's approval of the transaction, the Legislature also approved a plan for the repayment and amortization of the debt previously incurred by the Authority occasioned by its prior years' operating deficits. The repayment plan contemplates Commonwealth appropriations of up to a maximum of $310 million over a period that

is expected not to exceed 30 years, subject to annual appropriation of the Legislature. All of this debt is now held by Government Development Bank.

Municipal Finance Agency was created in 1972 as a municipal "bond bank" for Puerto Rico. The Agency is authorized to issue bonds to purchase general obligation bonds and notes of Puerto Rico municipalities and to fund a debt service reserve. Debt service on the Agency's bonds is payable from debt service payments on municipal bonds held by the Agency and from the reserve, including investment income thereon. The Commonwealth has agreed to pay such amounts to the reserve as may be necessary to maintain it at its required level, subject to appropriation by the Legislature, which appropriation is not legally required to be made. To date no such payments have been required.

Ports Authority owns and operates the major airport and seaport facilities in the Commonwealth. The Authority derives revenues from a variety of sources, including charges on airplane fuel sales, air terminal space rentals, landing fees, wharfage, dockage and harbor fees and rentals for the lease of seaport equipment and property. The Authority has a $73.3 million line of credit from Government Development Bank for capital improvements, of which approximately $58.5 million was outstanding as of December 31, 1994. The Authority has had total net operating losses of over $70 million during the past two years and as a result, has not been in compliance with its rate covenant with bondholders. The Authority is implementing a plan to restructure its operations which, among other things, encompasses revisions to its capital improvement program and to the rate charges for the use of its facilities, measures to increase collections from certain users of its facilities and proposals to improve the efficiency of its operations.

Public Buildings Authority is authorized to construct, purchase or lease office, school, health and social welfare facilities for lease to Commonwealth departments, public corporations and instrumentalities. Bonds that have been issued by the Authority to finance such facilities (through retirement of interim notes or otherwise) are payable from lease payments, which are largely derived from Commonwealth appropriations, and are further secured by the Commonwealth's guaranty. The Authority is authorized by Act No. 17 of 1968, as amended, to have outstanding at any one time up to $1,500,000,000 of bonds guaranteed by the Commonwealth. As of December 31, 1994, $1,152,579,000 of such bonds of the Authority were outstanding (not including accretion of interest from the respective issuance dates on capital appreciation bonds).

The Authority is undertaking a program to construct additional correctional facilities (the operations of certain of which are expected to be operated by private companies) to be completed by the end of fiscal 1996 at an estimated cost of $121,285,783. The program is expected to be financed through bond proceeds.

The Commonwealth is a defendant in a lawsuit in United States federal court charging, among other things, that the constitutional rights of correctional system inmates have been violated because of severe overcrowding in the Commonwealth's correctional systems. Fines to assure compliance with minimum space standards have in the past been assessed against the Commonwealth. Most of these fines have been earmarked for improving the conditions of inmates but not for construction of additional correctional facilities to alleviate prison overcrowding. In April 1995, the district court judge overseeing the above lawsuit imposed an additional series of fines against the Commonwealth for noncompliance with the minimum space standards which fines may exceed $30 million. These fines are required to be paid to the United States Treasury and also may not be used to construct additional facilities. The fines are payable during the current fiscal year. The Commonwealth can give no assurance that additional fines will not be levied in connection with the above lawsuit.

Sugar Corporation was created in 1973 to consolidate ownership and management of the Commonwealth's interests in Puerto Rico's sugar industry. Sugar Corporation owns or leases and operates virtually all the sugar production facilities on the island. Sugar Corporation buys all cane grown by private growers, processes the cane, and sells the crude and refined sugar and molasses.

Puerto Rico's sugar industry has for many years been a deficit operation. From July 1974 to December 31, 1994, the Corporation's cash deficit totaled approximately $981,335,000. The Corporation's objective is to maintain sugar production at 40,000 tons of sugar per year for local consumption only.

It is expected that appropriations of up to $30,000,000 per year will be made to cover future annual operating deficits. In order to insure that the annual cash deficit will not exceed $30,000,000, Sugar Corporation is required to present quarterly reports to the Legislature and implement cutbacks if necessary. On December 31, 1994, the total debt of the Corporation was $17,717,000.

Negotiations have begun to sell the operations of the Corporation to a private buyer.

Telephone Authority, in July 1974, purchased Puerto Rico Telephone Company from International Telephone and Telegraph Corporation. The Company operates the principal telephone system in Puerto Rico. The Telephone Authority acquired the assets of the Puerto Rico Communications Authority on May 30, 1990. Capital improvements at present are financed by internally generated funds, although in the past they were also financed with revenue bonds. The Authority's revenue bonds are payable from net revenues, which consist primarily of moneys received after payment of the Company's operating expenses. As of December 31, 1994, the Authority had $1,021,097,000 of bonds and other obligations outstanding, none of which was supported by the guaranty of the Commonwealth.

University of Puerto Rico, with approximately 55,800 students, is by far the largest institution of higher education on the island. Commonwealth appropriations are the principal source of University revenues, but additional revenues are derived from tuition, student fees, auxiliary enterprises, interest income, Federal grants and other sources. University capital improvements have been financed mainly by revenue bonds of which $183,514,000 were outstanding as of December 31, 1994. Revenue bonds are general obligations of the University (which has no taxing power) secured by tuition, student fees, and various other revenue sources.

Public corporations in addition to those mentioned above have issued debt in the aggregate amount of $530,428,000 as of December 31, 1994. Debt service on $52,417,000 of such outstanding debt is being paid from Commonwealth appropriations. However, the Commonwealth is not obligated to make any such appropriations. Additional appropriations are made by the Commonwealth to enable certain of such corporations to pay their operating expenses.

INSURANCE MATTERS

Commonwealth-owned property is insured through policies obtained by the Secretary of the Treasury and through self-insurance, except for property owned by the Electric Power Authority, the Aqueduct and Sewer Authority and the Telephone Authority, which are insured through arrangements and policies obtained by the respective Authorities. Personal injury awards against the Commonwealth are limited by law to $150,000 per occurrence.

RETIREMENT SYSTEMS

Public employees of the Commonwealth and its instrumentalities are covered by five retirement systems: the Employees Retirement System of the Government of Puerto Rico and its Instrumentalities (the "Employees Retirement System"), the Annuity and Pension System for the Teachers of Puerto Rico (the "Teachers Retirement System"), the Commonwealth of Puerto Rico Judiciary Retirement System (the "Judiciary Retirement System"), the Retirement System of the University of Puerto Rico (the "University Retirement System"), and the Employees Retirement System of Puerto Rico Electric Power Authority (the "Electric Power Authority Retirement System").

The University Retirement System and the Electric Power Authority Retirement System apply, respectively, to employees of the University of Puerto Rico and Puerto Rico Electric Power Authority. The Commonwealth is not required to contribute directly to those two systems, but a large proportion of University revenues are derived from central government appropriations.

The Teachers Retirement System covers public school teachers, the Judiciary Retirement System covers judges, and the Employees Retirement System covers all other employees of the Commonwealth and its municipalities and instrumentalities. As of June 30, 1994, the total number of active members of the three systems was as follows: Employees Retirement System, 151,935; Teachers Retirement System, 48,734 and Judiciary Retirement System, 248. These three systems are financed by contributions by the employers (the Commonwealth, public corporations or municipalities), employees, and investment income. The Commonwealth is responsible for approximately 66% of total employer contributions to the Employees Retirement System and 100% and 99% of total employer contributions to the Judiciary and Teachers Retirement Systems, respectively. Retirement and related benefits provided by the systems and required contributions to the systems by employees are determined by statute. Required contributions to the systems by employers are determined by statute with respect to the Teachers Retirement System and, with respect to the Employees and Judiciary Retirement Systems, by the Administrator of the Systems. In fiscal 1995, the Commonwealth has budgeted approximately $128,000,000 as its contribution to the Employees Retirement System, $3,004,000 as the contribution to the Judiciary Retirement System and $73,461,000 as its contribution to the Teachers Retirement System.

The most recent actuarial valuation of the Employees Retirement System and Judiciary Retirement System was submitted by a firm of independent consulting actuaries as of June 1994. As of June 30, 1994, the total pension benefit obligation for the Employees Retirement System and Judiciary Retirement System was $5,542,000,000 and $58,900,000, respectively. The unfunded pension benefit obligation of the Employees Retirement System and Judiciary Retirement System for the same period was $4,588,374,000 and $23,293,000, respectively. The actuarial valuation was done in accordance with the "Projected Unit Credit" method. An investment return of 8.5% per year, a salary increase of 5% per year and a post-retirement benefit increase for the Employee Retirement System of 3% every third year were assumed. This benefit increase was provided by the Legislature of Puerto Rico, on May 10, 1992, by Act No. 10. The first 3% increase was granted to retirees who have been receiving their annuities for three or more years as of that date. Subsequent increases will depend upon the explicit approval of the System's Board of Trustees and the Legislature, based on a favorable recommendation from the System's independent consulting actuary and given a minimum of 24 months of benefit payment reserves.

The Legislature of Puerto Rico, on February 1, 1990, enacted Act No. 1 which is directed at ensuring the solvency of the Employees Retirement System for the next fifty years. Among other provisions, the legislation increases the level of contribution to the System and limits benefits for new employees by increasing the length of time for the vesting of certain benefits and reducing the level of benefits in the case of early retirement. The legislation also reduces the level of occupational injury and death benefits received by new employees.

The most recent actuarial valuation of the Teachers Retirement System was submitted by a firm of independent consulting actuaries in March 1994. As of June 30, 1992 the total pension benefit obligation of the system was $2,407,007,700, assets amounted to $1,104,050,500 and the resulting unfunded pension benefit obligation was $1,302,957,200.

It is recognized that it will be necessary to strengthen the finances of the Teachers Retirement System in order to assure that combined contributions and investment income continue to exceed benefit payments, avoiding the possible future drawdown of assets.

The following table presents in summary form income and expenses of the retirement systems for the fiscal years ended June 30, 1993 and 1994 and estimates for the fiscal year ended June 30, 1995.

Retirement Systems
Income and Expenses
(in thousands)

	Employees Retirement System	Judiciary Retirement System	Teachers Retirement System
Fiscal Year Ended June 30, 1993	Actual	Actual	Actual
Income:			
Employers contributions	$188,923	$2,910	$60,901
Employee contributions	139,881	1,220	49,906
Investment income	91,629	4,279	106,061
Total	$420,433	$8,409	$216,868
Expenses:			
Benefit payments	$318,972	$4,666	$129,825
Administrative and other expenses	15,867	172	8,178
Total	$334,839	$4,838	$138,003
Net Income	$ 85,594	$3,571	$78,865
Fiscal Year Ended June 30, 1994	Actual	Actual	Preliminary
Income:			
Employers contributions	$203,747	$2,996	$62,771
Employee contributions	150,121	1,280	51,705
Investment income	24,533	175	90,896
Total	$378,401	$4,451	$205,372
Expenses:			
Benefit payments	$350,259	$4,946	$134,946
Administrative and other expenses	17,585	534	10,385
Total	$367,844	$5,480	$145,331
Net Income	$ 10,557	$(1,029)	$ 60,041
Fiscal Year Ended June 30, 1995	Estimated	Estimated	Estimated
Income:			
Employers contributions	$216,141	$3,249	$63,007
Employee contributions	156,225	1,369	55,169
Investment income	68,065	3,025	89,947
Total	$440,431	$7,643	$208,123
Expenses:			
Benefit payments	$372,849	$5,301	$134,946
Administrative and other expenses	21,345	563	13,343
Total	$394,194	$5,864	$148,289
Net Income	$ 46,237	$1,779	$59,834

Sources: Employees Retirement System, Judiciary Retirement System and Teachers Retirement System.

SUMMARY OF COMMONWEALTH FINANCIAL STATEMENTS

Since fiscal 1990 the complete financial statements of the Commonwealth have been audited. For fiscal 1994, such financial statements were audited by Deloitte & Touche LLP, whose report thereon is set forth in *Appendix II.* For a summary of the Commonwealth's significant accounting policies, see Note 1 to *Appendix II.* Preparation of the audited financial statements of the Commonwealth involves the collection and consolidation of audited financial statements from 44 separate reporting entities.

Reference is made to *Appendix II* for the General Purpose Financial Statements of the Commonwealth for the fiscal year ended June 30, 1994.

COMMONWEALTH TAXES, OTHER REVENUES AND EXPENDITURES

The Secretary of the Treasury has custody of the funds of the Central Government of the Commonwealth and is responsible for the disbursement and investment of and accounting for such funds. Central government funds are grouped into three major categories or "types" of funds, as follows: (i) Governmental Fund Types, which include the General, Special Revenue, Debt Service (also referred to herein as Redemption), and Capital Project Funds; (ii) Proprietary Fund Types, which include the Enterprise and Internal Service Funds; and (iii) Fiduciary Fund Types, which include the Trust and Agency Funds. These funds do not include funds of the municipalities, because the municipalities are governmental entities with independent treasuries. The Special Revenue Fund was incorporated into the General Fund commencing in fiscal 1993.

The General Fund is the primary operating fund of the Commonwealth. General Fund revenues are broadly based and include revenues raised internally as well as those from non-Commonwealth sources. Internal revenues consist principally of income taxes and excise taxes. Revenues from non-Commonwealth sources are derived from federal excise taxes and customs duties returned to the Commonwealth. The primary expenditures of the Commonwealth through the General Fund are for grants and subsidies and personal and other services.

Summary and Management Discussion of General Fund Results

The following table presents the Commonwealth revenues and expenditures of the General Fund on a cash basis for fiscal 1990 through fiscal 1994 and budget projections for 1995. Insofar as the information relates to fiscal 1995, it is based on estimates provided by the Secretary of the Treasury as of March 14, 1995. The information for fiscal 1990 through fiscal 1994 is based on actual year end or month end results. General Fund revenues, expenditures and transfers as presented in the table differ from the General Fund revenues, expenditures and transfers as presented in the financial statements included in *Appendix II,* as the latter statements reflect an expanded General Fund entity in accordance with generally accepted accounting principles.

Commonwealth of Puerto Rico
General Fund Revenues, Expenditures, and Changes in Cash Balance
(in thousands)

	Fiscal Year					
	1990	1991	1992	1993	1994	1995(1)
Beginning cash balance	$173,943	$112,251	$105,475	$(62,359)	$(116,501)	$309,055
Revenues from internal sources:						
Income taxes:						
Individuals	1,025,084	1,123,733	1,122,335	1,241,924	1,409,824	1,610,000
Corporations	836,337	931,912	1,019,468	975,134	1,107,265	1,103,000
Partnerships	2,119	4,001	1,167	1,165	1,802	1,000
Withheld from non-residents	53,510	48,312	62,066	50,531	73,626	68,000
Tollgate taxes	100,201	176,851	98,502	98,771	224,356	191,000
Interest	16,819	15,060	8,505	6,076	5,293	5,000
Dividends	26,429	25,644	23,588	27,678	33,968	26,000
Total income taxes	2,060,499	2,325,513	2,335,631	2,401,279	2,856,134	3,004,000
Commonwealth excise taxes:						
Alcoholic beverages	222,184	219,055	216,890	215,035	220,882	236,000
Cigarettes	113,809	104,454	102,400	106,740	115,453	122,000
Motor vehicles	178,888	172,272	178,329	217,012	275,654	318,000
Other excise taxes	446,904	432,941	460,702	528,748	588,411	632,000
Total Commonwealth excise taxes	961,785	928,722	958,321	1,067,535	1,200,400	1,308,000
Property taxes	109,227	132,360	15,003	12,877	4,568	0
Inheritance and gift taxes	820	1,421	1,148	1,072	934	1,000
Licenses	42,618	39,483	46,842	48,251	49,084	50,000
Other:						
Lottery	74,416	68,327	60,597	70,821	62,348	61,000
Electronic Lottery	0	0	59,091	56,284	52,193	54,000
Miscellaneous non-tax revenues	95,796	92,984	96,437	109,713	131,909	135,000
Total other	170,212	161,311	216,125	236,818	246,450	250,000
Total revenues from internal sources	3,345,161	3,588,810	3,573,070	3,767,832	4,357,570	4,613,000
Revenues from non-Commonwealth sources:						
Federal excise taxes	213,714	198,787	195,028	167,732	185,285	185,000
Customs	89,249	94,384	93,038	89,741	122,477	135,000
Total revenues from non-Commonwealth sources	302,963	293,171	288,066	257,473	307,762	320,000
Sub-total revenues	3,648,124	3,881,981	3,861,136	4,025,305	4,665,332	4,933,000
Proceeds from special funds	93,236	72,956	53,983	37,286	56,527	0
Total revenues	3,741,360	3,954,937	3,915,119	4,062,591	4,721,859	4,933,000
Other income	140,614	391,872	440,667	553,954	562,354	271,790
Less tax refunds -- previous years	0	0	(7,503)	(12,784)	(4,285)	(12,550)
Total revenues -- net	3,881,974	4,346,809	4,348,283	4,603,761	5,279,928	5,192,240
Transfers to debt service fund(2)	(244,806)	(273,859)	(283,236)	(298,358)	(284,346)	(331,195)
Revenues from 1992 tax amnesty	0	0	189,877	0	0	0
Other non-revenue sources	161,000 (3)	30,000 (4)	0	0	0	0
Note proceeds(5)	650,391	400,236	0	401,917	700,000	0
Repayment of notes(6)	(664,202)	(408,120)	0	(413,788)	(717,850)	0
Adjusted revenues	3,784,357	4,095,066	4,254,924	4,293,532	4,977,732	4,861,045
Expenditures:						
Grants and subsidies	1,234,333	1,197,664	1,217,157	1,156,498	1,251,879	1,256,977
Personal services	1,295,561	1,332,459	1,405,472	1,418,697	1,559,152	2,231,138
Other services	371,745	348,237	448,239	453,658	492,653	663,589
Materials and supplies	64,886	60,118	67,474	59,741	64,945	103,239
Equipment purchased	32,949	26,834	31,152	43,939	41,885	55,039
Capital outlays	31,888	50,490	41,235	13,850	40,646	56,595
Other debt service	70,455	194,275	146,304	86,183	87,750	0
Transfers to agencies	479,773	501,205	543,444	523,826	565,696	525,129
Other expenditures	264,459	390,560	522,281	591,282	447,570	81,700
Total expenditures	3,846,049	4,101,842	4,422,758	4,347,674	4,552,176	4,973,406
Adjusted revenues less expenditures	(61,692)	(6,776)	(167,834)	(54,142)	425,556	(112,361)
Ending cash balance	$112,251	$105,475	$(62,359)	$(116,501)	$309,055	$196,694

(footnotes appear on following page)

(1) Budget, as adopted.
(2) Consists of amounts to pay principal and interest on general obligation bonds and notes of the Commonwealth. Does not include amounts deposited directly to the debt service fund from non-General Fund revenues.
(3) Consists of the sale of assets of the Communications Authority to the Telephone Authority and the release of certain reserves of the Public Buildings Authority.
(4) Consists of moneys received by the Commonwealth from the reoffering of certain notes of the Sugar Corporation.
(5) Consists of proceeds from Commonwealth tax and revenue anticipation notes issued in each such fiscal year. In addition, fiscal 1990 includes $100,000,000 in proceeds under a line of credit provided by Government Development Bank.
(6) Consists of repayment of Commonwealth tax and revenue anticipation notes in each such fiscal year and in fiscal 1990 of a $100,000,000 line of credit provided by Government Development Bank.

Source: Department of Treasury.

Estimated Fiscal 1995 Compared to Fiscal 1994

As of March 14, 1995, General Fund estimated total revenues for fiscal 1995 are forecast at $4,933 million, an increase of $268 million (5.7%) over fiscal 1994. Major projected changes are: income taxes, excise taxes and customs are expected to increase by $148 million, $108 million and $12.5 million, respectively.

Total projected expenditures for fiscal 1995 are estimated to increase by $421 million. The ending cash balance for the General Fund for fiscal 1995 is estimated to be reduced by $112.3 million.

Fiscal 1994 Compared to Fiscal 1993

General Fund total revenues for fiscal 1994 were $4,665 million, an increase of $640 million (15.9%) over fiscal 1993. Major changes were the following: total income taxes, excise taxes, federal excise taxes and customs increased by $454.9 million, $132.9 million, $17.5 million and $32.7 million, respectively.

Total expenditures for fiscal 1994 increased by $204.5 million (4.7%) when compared to fiscal 1993. The ending cash balance for the General Fund for fiscal 1994 increased by $425.6 million as compared to fiscal 1993.

Fiscal 1993 Compared to Fiscal 1992

General Fund total revenues for fiscal 1993 were $4,025 million, an increase of $164.2 million (4.25%) over fiscal 1992. Major changes were the following: total income taxes and excise taxes increased by $65.6 million and $109.2 million, respectively, and federal excise taxes decreased by $27.3 million.

Beginning in fiscal 1992, municipal property taxes were no longer included as revenue of the General Fund. This revenue source was transferred to the municipalities pursuant to Act No. 80.

In general terms, the revenue increase for fiscal 1993 was tied to the economic expansion projected for fiscal 1993. The economy of the Commonwealth of Puerto Rico grew at a real rate of 3.1% for fiscal 1993.

Total expenditures for fiscal 1993 decreased to $4,347.7 million, a 1.7% decrease, when compared to fiscal 1992. The ending cash balance for the General Fund for fiscal 1993 decreased by $54.1 million as compared with fiscal 1992.

Fiscal 1992 Compared to Fiscal 1991

Total revenues for fiscal 1992 were 0.5% below fiscal 1991. This was due to the transfer of municipal property taxes to the municipalities under Act No. 80. Although this was partly offset by minor increases in income taxes, excise taxes and licenses, there were slight decreases in revenues from customs duties and federal excise taxes. The ending cash balance for the General Fund for fiscal 1992 decreased by $167.8 million as compared with fiscal 1991.

Total expenditures for fiscal 1992 were $4,422.8 million, compared with $4,101.8 million for fiscal 1991, a 7.8% increase. This increase resulted from a $73 million increase in personal services due to salary increases granted to government employees and increases in public pension contributions and a $131.7 million increase in other expenditures primarily due to certain accounting adjustments.

Fiscal 1991 Compared to Fiscal 1990

For fiscal 1991 total revenues rose by $233.8 million to a level of $3,882 million, a 6.4% increase while total expenditures increased $4,101.8 million from $3,846 million, a 6.7% increase. The ending cash balance of the General Fund for fiscal 1991 decreased by approximately $6.8 million as compared with fiscal 1990. The major components of the changes in revenues and expenditures for fiscal 1991 are set forth below.

Total income tax receipts for fiscal 1991 exceeded fiscal 1990 receipts by over $265 million. This increase in total income tax receipts was due in large measure to the growth in the taxpayer base.

Commonwealth excise taxes for fiscal 1991 were lower than fiscal 1990 collections by $33.0 million as a result of a decrease in cigarette, motor vehicle and the five per cent general tax collections.

Non-Commonwealth revenues for fiscal 1991 reflect a reduction of $9.8 million when compared to fiscal 1990. This reduction was due to the $1.00 per barrel increase in federal excise tax (which is not returned to Puerto Rico). In addition, states approved legislation making 21 the minimum age for the consumption of liquor which affected consumption of alcoholic beverages and in turn, revenues for this item.

The increase in expenditures resulted from an $18.6 million increase in capital outlays, a $123.8 million increase in other debt service due to a loan from Government Development Bank and a $126.1 million increase in other expenditures primarily due to an increase in advances to municipalities.

Major Sources of General Fund Revenues

Income Taxes

The Commonwealth's Internal Revenue Code of 1994 (the "1994 Internal Revenue Code"), adopted on October 31, 1994, imposes a tax on the income of individual residents of Puerto Rico, trusts, estates, and domestic and foreign (if engaged in a trade or business in Puerto Rico) corporations and partnerships. The 1994 Internal Revenue Code represented a major revision to the existing income tax structure. The purpose of the 1994 Internal Revenue Code is to establish a more equitable tax structure that lowers tax rates and simplifies and enhances compliance.

Individuals. Resident individuals are subject to tax on their taxable income from all sources. Prior to the 1994 Internal Revenue Code, the five tax bracket rates for individuals ranged from 9% to 36%. The 1994 Internal Revenue Code maintains five tax brackets but reduces tax rates to 8%, 12%, 18%, 31% and 33%. However, blended rates are applicable for 1995 to give effect to these rate reductions after June 30, 1995. Dividend income from Puerto Rico sources, previously taxed at the rate of 20%, is now taxed at a rate of 10%. Gains realized from the sale or exchange of a capital asset, if held for more than 6 months, are taxed at a rate of 20%.

Interest income in excess of $2,000 on deposits with Puerto Rico financial institutions is taxed at a rate of 17%; the first $2,000 of interest income is exempt from taxation. In addition, certain deductions and exclusions were expanded. These changes are effective for taxable years commencing after June 30, 1995.

Corporations and Partnerships. Puerto Rico corporations and partnerships are subject to tax on income from whatever source; foreign corporations and partnerships that are engaged in a trade or business in Puerto Rico are subject to tax on their income from Puerto Rico sources and on income from sources outside Puerto Rico that is effectively connected with the conduct of a trade or business in Puerto Rico. Unless a corporation or partnership qualifies for partial exemption from corporate income and other taxes under the industrial incentives program (see "Tax Incentives" under *The Economy*), it is subject to tax at graduated rates.

The 1994 Internal Revenue Code maintains the six income tax brackets for corporations and partnerships, with a reduction in tax rates being effective July 1, 1995. The 1994 Internal Revenue Code provides for the highest rate applicable to taxable income in excess of $275,000 to be 39%, a 3% reduction from prior law. Certain corporations and partnerships covered by the tax incentives act will continue to be subject to a maximum tax rate of 45% on their taxable income. Corporations and partnerships covered by the Puerto Rico Tourism Incentives Acts will be subject to a maximum tax rate of 42% on their taxable income. The 1994 Internal Revenue Code maintains the alternative minimum tax at 22%.

The 1994 Internal Revenue Code maintains the branch profits tax applicable to resident foreign corporations. The tax is, however, reduced to 10% (from 25%) of an annual dividend equivalent amount, and it applies without regard to the Puerto Rico source of income rules.

Interest from Puerto Rico sources paid to non-resident corporate recipients generally are no longer subject to any withholding tax. The basic tax on dividends paid to foreign corporate shareholders of Section 936 Corporations is 10% but is subject to reduction with respect to dividends paid from profits invested in certain eligible instruments for specified periods of time. Gains realized from the sale or exchange of a capital asset, if held for more than six months, is taxed at a maximum rate of 25%. Payments in excess of $1,000 made by the Government of Puerto Rico and persons engaged in a trade or business in consideration of the receipt of services are now subject to a 7% withholding tax.

Excise Taxes

Puerto Rico imposes a tax on articles and commodities that are imported into or manufactured in Puerto Rico for consumption in Puerto Rico and a tax on certain transactions, such as hotel occupancy, public shows, and horse racing. The excise tax on certain articles and commodities, such as cigarettes and petroleum products, is based upon the quantity of goods imported. The excise tax on motor vehicles is based on the suggested retail prices. The Excise Tax Act imposes a tax at an effective rate of 6.6% of the F.O.B. factory price for imported goods and 3.6% of the sales price of goods manufactured in Puerto Rico, except sugar, cement, cigarettes, motor vehicles and certain petroleum products which are taxed at different rates. The Excise Tax Act contains no exemption applicable to goods to be used by the government, except for motor vehicles and construction equipment. Exemptions apply to certain articles, such as food and medicines, and to articles designated for certain users.

Other Taxes and Revenues

Motor vehicle license plate and registration fees comprise the major portion of license tax receipts.

Non-tax revenues consist principally of lottery proceeds, documentary stamps, permits, fees and forfeits, proceeds of land sales and receipts from certain public corporations in lieu of taxes.

Revenues from non-Commonwealth sources include customs duties collected in Puerto Rico and excise taxes on shipments of alcoholic beverages from the island to the mainland United States. The customs duties and excise taxes on shipments are imposed and collected by the United States and returned to the Commonwealth.

Property Taxes

Personal property, which accounts for approximately 37% of total assessed valuation of taxable property, is self-assessed. Real property taxes are currently assessed at 1958 values. No real property reassessment has been made since 1958, and construction taking place after that year has been assessed on the basis of what the value of the property would have been in 1958. Accordingly, the overall assessed valuation of real property for taxation purposes is substantially lower than the actual market value. Also, an exemption on the first $15,000 of assessed valuation in owner-occupied residences is available.

On August 30, 1991, legislation was adopted in the Commonwealth providing a municipal reform program which involves the creation of the Municipal Revenues Collection Center to collect property taxes. The program transfers the previous functions of the Department of the Treasury with respect to real and personal property tax assessment, notification, determination and collection to the Municipal Revenues Collection Center, as of July 1, 1993. As a result of this transfer of functions the level of property tax collections has increased. Special provisions have been made so that $1.03 per $100 of property tax collections continues to be deposited in the Redemption Fund.

Commonwealth of Puerto Rico

Assessed Valuations and Real and Personal Property Taxes
(Commonwealth and Municipalities Combined)
(in thousands)

Fiscal Year Ended June 30	Assessed Valuations(1)	Taxes Levied	Collections of Current Year	Collections of Previous Years	Total
1990	$10,810,982	$350,700	$272,370	$36,912	$309,282
1991	11,359,276	374,834	275,603	76,015	351,618
1992	11,209,804	368,209	276,185	22,234	298,419
1993	11,337,421	378,750	267,220	21,579	288,799
1994	11,735,626	443,448	329,058	32,654	361,711

(1) Valuation set as of January 1 of preceding fiscal year.

Source: Municipal Revenues Collection Center.

Collections of Income and Excise Taxes

The Department of the Treasury has continued its program for improving tax collections which began in fiscal 1986. The program has consisted, in part, of taking the initiative in sponsoring and implementing tax reform, particularly in the areas of excise taxes and income taxes, in order to decrease the incidences of nonpayment of taxes and to expand the taxpayer base. The program has also included (a) improving the methods by which delinquent taxpayers are identified, primarily through the use of computer analyses, (b) computerizing the processing of tax returns, and (c) identifying and eliminating taxpayer abuses of the existing tax laws.

Transfers to General Obligation Debt Service Fund

These consist of transfers from the General Fund to the Debt Service Fund for the amortization of the principal of and interest on general obligation bonds and notes of the Commonwealth.

Components of General Fund Expenditures

Grants and Subsidies

This category includes grants and contributions to municipalities, public corporations with independent treasuries and contributions to charitable institutions. It also includes items for or included in court awards, damage awards for personal injury or property damage as well as payment of taxes and payment in lieu of taxes.

Personal Services

This category includes compensation paid for personal services rendered to the Commonwealth and its public instrumentalities by individuals or firms in the form of salaries, wages, per diems, fees, commissions or other forms of compensation.

Other Services

This category includes the payment of services other than the services referred to above, including advertising, printing, communication services, legal expenses, utility services, building and equipment rental and maintenance expenses, insurance premiums and miscellaneous services.

Materials and Supplies

This category includes all articles which ordinarily have short life and durability, lose their characteristic identity in the process of use, have only nominal value ($25 or less), or are not otherwise chargeable as equipment.

Equipment Purchases

The category includes items which have three special characteristics which distinguish them from materials; durability, long useful life and high unit cost. In addition, these items are subject to centralized inventory control as fixed assets.

Capital Outlays

This category includes the acquisition of land and interests in land, the construction of buildings, roads and bridges, and other structures, as well as permanent improvements and additions.

Other Debt Service

Includes payments for the amortization of the principal of and interest on non-general obligation special promissory notes to be paid from collections of past due taxes and, if necessary, from Commonwealth appropriations received in and after fiscal 1990 and payments on notes to Government Development Bank to be paid from the balance in the General Fund.

Transfers to Agencies

Includes repayment of loans and advances to other funds, certain refunds, advances from other funds and other receipts, repayment of advances from other funds, grants and contributions to other funds under the custody of the Secretary of the Treasury and other items. The major portion of grants and contributions in recent fiscal years consists of transfers to the Health Facilities and Services Administration and advances to the municipalities.

Federal Grants

The Commonwealth receives federal grants under numerous programs. The following table presents revenues from federal grants by broad program areas which are accounted in the central accounting system of the Treasury Department.

Commonwealth of Puerto Rico

Federal Grants

(in thousands)

	Fiscal Year Ending June 30					
	1991	1992	1993	1994	1995(p)	1996(1)
Education	$373,975	$437,695	$479,345	$423,986	$497,738	$513,330
Social Services	1,130,542	1,204,697	1,255,024	1,232,719	1,351,396	1,466,387
Health(2)	26,104	24,048	23,218	26,921	37,093	231,062
Labor and Human Resources	44,744	45,341	39,687	37,501	37,282	36,166
Public Works and Transportation	47,122	55,991	56,589	62,559	65,992	65,420
Crime	8,658	8,114	7,507	4,403	6,213	21,320
Housing(3)	12,636	38,786	39,875	44,326	51,974	50,317
Drug	20,957	19,845	20,643	18,343	22,587	19,327
Emergency Assistance	35,356	14,166	0	0	0	0
Other	30,415	32,336	35,747	31,360	36,537	45,672
Total	$1,730,509	$1,881,019	$1,957,635	$1,882,118	$2,106,812	$2,449,001

(p) Preliminary.
(1) Estimated.
(2) Amounts of federal grants to the Health Facilities and Services Administration, which is a public corporation, are not included in the Health area. For fiscal 1993, 1994 and 1995, federal funds to this agency will equal $353.8, $357.8 and $163.3 million, respectively.
(3) Amounts do not include grants to the Public Housing Administration.

COMMONWEALTH BUDGET

Office of Budget and Management

The fundamental objective of the Office of Budget and Management ("OBM") is to improve and strengthen the relationship between policy formulation and budgetary and fiscal management. The law creating OBM also strengthened budgetary controls and created an Operational Audit Division with the primary function of evaluating government operations and programs.

The annual budget includes the public corporations as well as the Commonwealth government, however, the following describes only the Commonwealth budget.

Budgetary Process

The fiscal year of the Commonwealth begins on July 1. The Governor is constitutionally required to submit to the Legislature an annual budget of capital improvements and operating expenses of the Commonwealth for the ensuing fiscal year. The annual budget is prepared by OBM, working with the Planning Board, the Department of the Treasury, and other government offices and agencies. Section 7 of Article VI of the Constitution provides that "The appropriations made for any fiscal year shall not exceed the total revenues, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided by law."

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

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

Financial Control and Adjustment Procedures

Revenue estimates for budgetary purposes are prepared by the Department of the Treasury, except for estimates of federal grants, which are prepared by OBM and various departments and other recipients of such grants. Revenue and federal grant estimates are under continuous review and, if necessary, are revised at least quarterly during the fiscal year. Fiscal control over expenditures is exercised severally by the Governor, through the Director of OBM, and the Secretary of the Treasury. Quarterly reviews and expenditure cut-off procedures are designed to prevent expenditures in excess of appropriations.

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

A Budgetary Fund was created by Act No. 147, approved by the Legislature of Puerto Rico on June 18, 1980 (the "Budgetary Fund Act"). The Budgetary Fund is used to cover the appropriations approved in any fiscal year in which the revenues available for such fiscal year are insufficient, to honor the public debt and to provide for unforeseen circumstances in the provision of public services. The Budgetary Fund Act was amended in 1994 to provide for annual legislative appropriations from the General Fund to be deposited in the Budgetary Fund in an amount not less than one third of one percent (.33%) of the total budgeted appropriations in the budget joint resolution. The maximum balance of the Budgetary Fund shall not exceed six percent (6%) of the total appropriations in the budget joint resolution for any fiscal year.

Appropriations

Appropriations in the Central Government Budget of the Commonwealth consist of the following:

(i) General Fund appropriations for recurring ordinary operating expenses of the Central Government and for contributions to public corporations, municipalities, and private organizations. Such appropriations are made by a single annual law known as the Joint Resolution of the General Budget.

(ii) General Fund appropriations for special operating expenses and for capital expenditures. Such appropriations are authorized by separate laws for one or more years for special programs or activities, which may be permanent or transitory.

(iii) Disbursements of Special Funds for operating purposes and for capital improvements. For the most part, such disbursements do not require annual legislative authorization, because they are authorized by previous legislation or by the United States Congress. Federal grants constitute the major part of the resources of the Special Funds.

(iv) Bond Fund appropriations for capital expenditures financed by bonds. Such expenditures may occur in one or more years.

In Puerto Rico, the Central Government has many functions which in the 50 states are the responsibility of local government, such as providing public education and police and fire protection. The Central Government also makes large annual grants to the University of Puerto Rico and to the municipalities. See "Property Taxes" under *Commonwealth Taxes, Other Revenues and Expenditures.* In the summaries of the budgets of the Central Government presented below, grants to the University of Puerto Rico are included in current expenses for education and debt service on general obligation bonds is included in current expenses for debt service. Debt service on Sugar Corporation notes paid by the Commonwealth is included in current expenses for economic development, and debt service on Urban Renewal and Housing Corporation bonds and notes and on Housing Bank and Finance Agency mortgage subsidy bonds paid by the Commonwealth is included in current expenses for housing.

Approximately 23.5% of the General Fund is committed, including debt service on direct debt of the Commonwealth and on the debt of the Sugar Corporation, municipal subsidies, grants to the University of Puerto Rico, and rental payments to Public Buildings Authority, among others.

Fiscal 1995 Budget

The following table presents a summary of the budget for the Commonwealth for the fiscal year ending June 30, 1995.

COMMONWEALTH OF PUERTO RICO
Summary of Central Government Annual Budget
Fiscal Year Ending June 30, 1995
(in thousands)

	General Fund	Bond Fund	Special Funds	Total
Resources:				
Revenues from internal sources:				
Property taxes	$0	$0	$65,000	$65,000
Personal income taxes	1,610,000	0	0	1,610,000
Retained non-resident income taxes	68,000	0	0	68,000
Corporation income taxes	1,103,000	0	0	1,103,000
Partnership income taxes	1,000	0	0	1,000
Tollgate taxes	191,000	0	0	191,000
Interest subject to 17% withholding tax	5,000	0	0	5,000
Dividends subject to 20% withholding tax	26,000	0	0	26,000
Inheritance and gift taxes	1,000	0	0	1,000
Excise taxes:				
Alcoholic beverages	236,000	0	0	236,000
Motor vehicles and accessories	318,000	0	200	318,200
Cigarettes	122,000	0	0	122,000
Special excise tax on certain petroleum products	167,000	0	0	167,000
General Excise of 5%	373,000	0	0	373,000
Other	92,000	0	57,300	149,300
Licenses	50,000	0	0	50,000
Miscellaneous non-tax revenues:				
Contributions from lottery fund	61,000	0	0	61,000
Electronic lottery	54,000	0	0	54,000
Registration and document certification fees	94,000	0	0	94,000
Other	41,000	0	129,504	170,504
Total revenues from internal sources	4,613,000	0	252,004	4,865,004
Revenues from non-Commonwealth sources:				
Federal excise taxes on off-shore shipments	185,000	0	13,000	198,000
Federal grants	0	0	2,905,837(a)	2,905,837
Customs	135,000	0	0	135,000
Total revenues from non-Commonwealth sources	320,000	0	2,918,837	3,238,837
Total revenues	4,933,000	0	3,170,841	8,103,841
Other:				
Other income from:				
Surplus from prior year appropriations and encumbrances	37,960	0	0	37,960
Miscellaneous Income	46,610	0	0	46,610
Total other income	84,570	0	0	84,570
Payment in lieu of taxes PRTA	35,055	0	0	35,055
Reimbursement of Capital Fund (FEPEG)	14,000	0	0	14,000
Balance from previous year	253,426	0	556,087	809,513
Bonds authorized	0	325,000	0	325,000
Total other sources	387,051	325,000	556,087	1,268,138
Total resources	$5,320,051	$325,000	$3,726,928	$9,371,979

(table continued on next page)

	General Fund	Bond Fund	Special Funds	Total
Appropriations:				
Current expenses:				
Reserve for appropriation and contingencies	$0	$0	$0	$0
Reserve to reimburse the General Fund	30,000	0	0	30,000
General government	607,163	0	21,942	629,105
Education	1,578,552	0	619,316	2,197,868
Health	688,110	0	458,424	1,146,534
Welfare	310,907	0	1,752,724	2,063,631
Economic development	379,897	0	49,604	429,501
Public safety and protection	822,243	0	44,595	866,838
Transportation and communications	90,283	0	6,852	97,135
Housing	116,397	0	128,605	245,002
Contributions to municipalities	250,898	0	1,916	252,814
Special pension contributions	19,320	0	0	19,320
Debt service	331,195	0	656,000	396,195
Total appropriations -- current expenses	5,224,965	0	3,148,978	8,373,943
Capital improvements	0	325,000	170,298	495,298
Total appropriations	5,224,965	325,000	3,319,276	8,869,241
Year-end balance	95,086	0	407,652	502,738
Total appropriations and year-end balance	$5,320,051	$325,000	$3,726,928	$9,371,979

(a) Do not include grants received by agencies whose accounting systems are not centralized in the Department of the Treasury.

Sources: Department of the Treasury resources and Office of Budget and Management as to appropriations, as reported on March 13, 1995.

In the fiscal 1995 budget proposal revenues and other resources of all budgetary funds total $8,237,466,000 excluding balances from the previous fiscal year and general obligation bonds authorized. The estimated net increase in General Fund revenues in fiscal 1995 are accounted for by personal income taxes (up $199,394,000), motor vehicles and accessories (up $42,346,000), general excise of 5% (up $26,985,000), alcoholic beverages (up $15,118,000), special excise tax on certain petroleum products (up $14,089,000), customs (up $12,523,000), other revenues (up $3,997,000), retained non-resident income tax (down $5,626,000), corporation income taxes (down $7,983,000), and tollgate taxes (down $33,356,000).

Current expenses and capital improvements other than those financed by bonds, of all budgetary funds total $8,544,241,000, an increase of $1,031,762,000 from fiscal 1994. The major changes in General Fund expenditures by program in fiscal 1995 are: education (up $145,936,000), general government (up $127,843,000), public safety and protection (up $106,000,000), debt service (up $63,512,000), welfare (up $56,837,000), health (up $39,556,000), economic development (up $27,081,000), housing (up $26,102,000) contributions to municipalities (up $16,595,000), transportation and communications (up $4,980,000) and special pension contributions (up $1,483,000).

The general obligation bond authorization for the fiscal 1995 budget is $325,000,000.

Fiscal 1996 Budget

The following table presents a summary of the budget for the Commonwealth for the fiscal year ending June 30, 1996 as proposed by the Governor and currently under consideration by the Legislature.

COMMONWEALTH OF PUERTO RICO
Summary of Central Government Annual Budget
Fiscal Year Ending June 30, 1996
(in thousands)

	General Fund	Bond Fund	Special Funds	Total
Resources:				
Revenues from internal sources:				
Property taxes	$0	$0	$65,000	$65,000
Personal income taxes	1,509,000	0	0	1,509,000
Retained non-resident income taxes	35,000	0	0	35,000
Corporation income taxes	1,012,000	0	0	1,012,000
Partnership income taxes	1,000	0	0	1,000
Tollgate taxes	160,000	0	0	160,000
Interest subject to 17% withholding tax	5,000	0	0	5,000
Dividends subject to 20% withholding tax	14,000	0	0	14,000
Inheritance and gift taxes	1,000	0	0	1,000
Excise taxes:				
Alcoholic beverages	267,000	0	0	267,000
Motor vehicles and accessories	345,000	0	200	345,200
Cigarettes	127,000	0	0	127,000
Special excise tax on certain petroleum products	178,000	0	0	178,000
General Excise of 5%	406,000	0	0	406,000
Other	98,000	0	59,200	157,200
Licenses	51,000	0	0	51,000
Miscellaneous non-tax revenues:				
Contributions from lottery fund	61,000	0	0	61,000
Electronic lottery	54,000	0	0	54,000
Registration and document certification fees	99,000	0	0	99,000
Other	43,000	0	139,630	182,630
Total revenues from internal sources	4,466,000	0	264,030	4,730,030
Revenues from non-Commonwealth sources:				
Federal excise taxes on off-shore shipments	189,000	0	13,000	202,000
Federal grants	0	0	2,945,414(a)	2,945,414
Customs	120,000	0	0	120,000
Total revenues from non-Commonwealth sources	309,000	0	2,958,414	3,267,414
Total revenues	4,775,000	0	3,222,444	7,997,444
Other:				
Other income from:				
Surplus from prior year appropriations and encumbrances	14,500	0	0	14,500
Miscellaneous income	67,889	0	0	67,889
Total other income	82,389	0	0	82,389
Payment in lieu of taxes PRTA	25,000	0	0	25,000
Reimbursement of Capital Fund (FEPEG)	0	0	0	0
Balance from previous year	95,085	0	407,652	502,737
Bonds authorized	0	350,000	0	350,000
Total other sources	202,474	350,000	407,652	960,126
Total resources	$4,977,474	$350,000	$3,630,096	$8,957,570

(table continued on next page)

	General Fund	Bond Fund	Special Funds	Total
Appropriations:				
Current expenses:				
Reserve for appropriation and contingencies	$0	$0	$0	$0
Reserve to reimburse the General Fund	30,000	0	0	30,000
General government	480,962	0	20,667	501,629
Education	1,634,752	0	666,303	2,301,055
Health	673,234	0	424,610	1,097,844
Welfare	307,120	0	1,756,563	2,063,683
Economic development	287,783	0	49,316	337,099
Public safety and protection	821,539	0	65,352	886,891
Transportation and communications	81,708	0	4,487	86,195
Housing	58,032	0	125,653	183,685
Contributions to municipalities	234,891	0	1,896	236,787
Special pension contributions	22,638	0	0	22,638
Debt service	344,638	0	65,000	409,638
Total appropriations -- current expenses	4,977,297	0	3,179,847	8,157,144
Capital improvements	0	350,000	173,092	523,092
Total appropriations	4,977,297	350,000	3,352,939	8,680,236
Year-end balance	177	0	277,157	277,334
Total appropriations and year-end balance	$4,977,474	$350,000	$3,630,096	$8,957,570

(a) Do not include grants received by agencies whose accounting systems are not centralized in the Department of the Treasury.

Sources: Department of the Treasury resources and Office of Budget and Management as to appropriations, as reported on March 13, 1995.

In the fiscal 1996 budget proposal revenues and other resources of all budgetary funds total $8,104,833,000 excluding balances from the previous fiscal year and general obligation bonds authorized. The estimated net decreases in General Fund revenues in fiscal 1996 are accounted for by general excise of 5% (up $33,000,000), alcoholic beverages (up $31,000,000), motor vehicles and accessories (up $27,000,000), special excise tax on certain petroleum products (up $11,000,000) and tollgate taxes (down $31,000,000), retained non-resident income tax (down $33,000,000), corporation income taxes (down $91,000,000), personal income taxes (down $101,000,000) and other revenues (down $4,000,000). Virtually all of these decreases result from the effect of the 1994 ITA.

Current expenses and capital improvements other than those financed by bonds, of all budgetary funds total $8,330,236,000, a decrease of $214,005,000 from fiscal 1995. The major changes in General Fund expenditures by program in fiscal 1995 are: education (up $56,200,000), debt service (up $13,443,000), special pension contributions (up $3,318,000), public safety and protection (down $704,000), welfare (down $3,787,000), transportation and communications (down $8,575,000), health (down $14,876,000), contributions to municipalities (down $16,007,000), housing (down $58,365,000), economic development (down $92,114,000) and general government (down $126,201,000).

The general obligation bond authorization for the fiscal 1996 budget is $350,000,000.

Differences between Budget and General Purpose Financial Statements

Revenues and expenditures, as reported by the Department of the Treasury in its General Purpose Financial Statements, may differ substantially from resources and appropriations in the annual budget for a number of reasons, including the following:

(i) The budgetary accounts are on a cash basis, while the financial statements prepared by the Department of the Treasury include accruals and other adjustments as required by government accounting standards.

(ii) Expenditures for current purposes in a particular fiscal year may include amounts appropriated for earlier periods but not previously expended and, conversely, may exclude amounts appropriated for such fiscal year but not expended until later periods.

(iii) Bonds are authorized by the Commonwealth in accordance with a four-year capital improvement program. Since bond sales are determined by bond market conditions and other factors, the amount of bonds sold in any year does not necessarily equal the amount of bonds authorized in the budget for that year. Expenditures for capital improvements are financed by advances from the General Fund to the Capital Projects Fund, which are later reimbursed from proceeds of bond or note sales.

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Deloitte & Touche LLP

COMMONWEALTH OF PUERTO RICO

General Purpose Financial Statements
Year Ended June 30, 1994
and Independent Auditors' Report

Deloitte Touche
Tohmatsu
International

COMMONWEALTH OF PUERTO RICO

GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 1994
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INDEPENDENT AUDITORS' REPORT

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

(1) We have audited the accompanying general purpose financial statements of the Commonwealth of Puerto Rico (the Commonwealth) as of June 30, 1994, and for the year then ended, as listed in the foregoing table of contents. These general purpose financial statements present financial information in various fund types and discrete presentations which are considered independent fiscal entities. These general purpose financial statements are the responsibility of the management of the Commonwealth. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. The financial statements of the University of Puerto Rico, included as a public university funds component unit, and of the following other component units were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Puerto Rico and the following components units, is based solely on the reports of the other auditors:

- Puerto Rico Highway and Transportation Authority, a blended component unit, which represents the following indicated percentages of total assets and total revenues, respectively, of the debt service funds (38% and 76%), the capital projects funds (43% and 99%), and the enterprise funds (1% and 1%); of total assets of the general fixed assets account group (1%); and of total liabilities of the long-term debt account group (23%).

- Puerto Rico Land Administration, an internal service fund, which represents 2% and 3% of the total assets and total revenues, respectively, of the internal service funds.

- Entities identified in Note 2, which are presented as component units - other represent 64% and 54%, respectively, of the total assets and total revenues of the component units - other.

(2) Except as discussed in paragraphs three and four below, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the reports of other auditors, provide a reasonable basis for our opinion.

(3) We were not engaged to audit the following funds included in the general purpose financial statements and reports of other auditors on the separate financial statements of such funds have not been provided to us because the audits have not been completed:

- Health Facilities and Services Administration of Puerto Rico, which represents 66% and 14% of total assets and total revenues of the enterprise funds.
- Annuity and Pension System of the Teachers of Puerto Rico, which represents 56% and 35% of the assets and revenues in the pension trust funds.
- State Unemployment Insurance Fund which represents 92% and 96% of the total assets and total revenues of the expendable trust fund.
- Puerto Rico Aqueduct and Sewer Authority which represent 21% and 8% of total assets and total revenues, of the component units - other.

(4) We were unable to audit the general fixed assets account group because of the absence of significant accounting records.

(5) Because of the limitations described in the third and fourth paragraphs, the scope of our audit was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the following for the year ended June 30, 1994:

- Enterprise Funds
- Pension Trust Funds
- Expendable Trust Fund
- General Fixed Assets Account Group
- Component Units - Other

(6) The general purpose financial statements referred to above do not include financial activities of the Office for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation, because management believes the amounts needed to prepare the appropriate financial statements are not readily determinable. In our opinion, the Office of the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation should be presented discretely in the general purpose financial statements as a component unit on the liquidation basis of accounting in order to conform with generally accepted accounting principles.

(7) As discussed in Note 15 to the general purpose financial statements, the Commonwealth accounts for certain pension costs on a pay-as-you-go basis. In our opinion, generally accepted accounting principles require that pension costs be accounted for based on actuarially determined computations. The information needed to quantify the effects of this departure from generally accepted accounting principles on the general purpose financial statements is not reasonably determinable as the required actuarial computations for the Employees Retirement System of the Government of Puerto Rico and Its Instrumentalities, the Puerto Rico Judiciary Retirement System and the Annuity and Pension System of the Teachers of Puerto Rico have not been prepared. Also, as discussed in Note 15 to the general purpose financial statements, the Commonwealth did not obtain an actuarial valuation for the Annuity and Pension System of the Teachers of Puerto Rico as of June 30, 1994. In our opinion, generally accepted accounting principles requires disclosure of actuarial information based on recent actuarial valuations.

(8) In our opinion, based on our audit and on the reports of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary, had pension costs been actuarially determined and the required pension disclosure been made as discussed in the seventh paragraph, the financial statements of the General Fund, Debt Service Funds, Capital Projects Funds, Internal Service Funds, Agency Funds, General Long-Term Debt Account Group and Public University Funds present fairly, in all material respects, the financial position of those fund types and account group as of June 30, 1994 and the results of operations of the fund types and the cash flows of the Internal Service Funds for the year then ended in conformity with generally accepted accounting principles.

(9) As discussed in Note 12 to the general purpose financial statements, the beginning fund balance as of July 1, 1993 of the public university funds and component units - other were restated for the effect of the adoption of Statement on Government Accounting Standards No 16, ***Accounting for Compensated Absences.***

(10) As discussed in Note 12 to the general purpose financial statements, the beginning fund balances/retained earnings (deficit) as of July 1, 1993 of the general fund, the enterprise funds, pension trust funds, public university funds, and component units - other were restated.

(11) As discussed in Note 14 to the general purpose financial statements, the Commonwealth and various component units are the defendants in a lawsuit alleging violation of civil rights. Preliminary hearings and discovery proceedings are in progress and the ultimate liability cannot be presently determined. Accordingly, no provision for any loss that may result upon resolution of this matter has been made in the accompanying general purpose financial statements.

(12) As discussed in Notes 14 and 17 to the general purpose financial statements, the Commonwealth approved the liquidation of the Puerto Rico Urban Renewal and Housing Corporation (PRURHC), through the Office for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation. The Commonwealth may be contingently responsible for the settlement of any liabilities that are not satisfied by the liquidation of PRURHC's assets.

(13) As discussed in Note 18 to the general purpose financial statements, the Commonwealth sold the operations of the Puerto Rico Maritime Shipping Authority (PRMSA), a discretely presented component unit. As part of the sale agreement, the Commonwealth assumed certain liabilities from PRMSA.

Deloitte & Touche LLP

February 3, 1995
(March 3, 1995 as to Note 18)

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COMMONWEALTH OF PUERTO RICO

COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 1994 (Expressed In Thousands)

ASSETS AND OTHER DEBITS	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals	Component Units		Totals
	General	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets (Unaudited)	General Long-Term Debt	Primary Government (Memorandum Only)	Public University Funds	Other	Reporting Entity (Memorandum Only)
Assets:												
Cash, cash equivalents and investments	$ 116,482	$ 314,813	$ 193,368	$ 33,819	$ 3,588,828	$ 1,860,992	$	$	$ 6,108,302	$ 294,479	$ 1,174,804	$ 7,577,585
Cash, cash equivalents and investments in governmental banks	498,036	271,862	308,757	21,708	151,849	1,066,727			2,318,939		958,596	3,277,535
Receivables, net:												
Taxes	76,793					54,789			131,582			131,582
Intergovernmental	3,822		13,677						17,499		13,460	30,959
Accounts	14,665	9,686		52,919	26,985	27,296			131,551	3,343	841,738	976,632
Loans and advances	948		25,543		233,916	526,780			787,187	102,987	134,082	1,024,256
Accrued interest	5,657	4,350	1,770		86,035	11,748			109,560	2,568	14,074	126,202
Other	4,455			33,205	12,916	10,661			61,237	8,822	21,060	91,119
Due from:												
Other funds	20,396		1,961	19,283	36,246	14,089			91,975			91,975
Primary government										32,000	215,546	247,546
Component units	45,601				12,367				57,968	32,276	2,414	92,658
Other governmental entities	17,430								17,430			17,430
Advances to:												
Other funds					539,429				539,429			539,429
Component units					1,037,482				1,037,482			1,037,482
Other governmental entities	54,881				212,043				266,924			266,924
Inventories				27,640	138,670				166,310	4,321	336,761	507,392
Restricted assets	837,484			109,814	1,728,470				2,675,768	64,957	1,680,647	4,421,372
Fixed assets, net				157,698	1,038,455	22,279	2,403,581		3,622,013	496,971	8,828,890	12,947,874
Other assets	17		973	105	105,441	16,839			123,375	383	150,014	273,772
Other Debits:												
Amount available in debt service funds								186,867	186,867		340,728	527,595
Amount to be provided for retirement of bonds and notes payable								5,508,740	5,508,740		73,756	5,582,496
Amount to be provided for payment of due to other funds, accrued compensated absences, and other long-term liabilities								1,505,125	1,505,125		10,585	1,515,710
TOTAL ASSETS AND OTHER DEBITS	$ 1,696,667	$ 600,711	$ 546,049	$ 456,191	$ 8,949,132	$ 3,612,200	$ 2,403,581	$ 7,200,732	$ 25,465,263	$ 1,043,107	$ 14,797,155	$ 41,305,525

See notes to general purpose financial statements.

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 1994 (Expressed in Thousands)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals	Component Units		Totals
LIABILITIES, FUND EQUITY (DEFICIT) AND OTHER CREDITS	General	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets (Unaudited)	General Long-Term Debt	Primary Government (Memorandum Only)	Public University Funds	Other	Reporting Entity (Memorandum Only)
Liabilities:												
Accounts payable and accrued liabilities	$ 289,216	$ 280	$ 40,697	$207,772	$ 98,060	$ 326,621	$	$	$ 962,646	$ 110,566	$ 2,161,240	$ 3,234,452
Tax refunds payable	104,948								104,948			104,948
Deposits					3,718,236	16,227			3,734,463		474,657	4,209,120
Due to:												
Other funds	32,475	8,980	36,246	7,168		7,106			91,975			91,975
Primary government											45,601	45,601
Component units				73,297	742			142,403	216,442		40,700	257,142
Other governmental entities								190,788	190,788		278	191,066
Advances from:												
Primary government										58,982	875,829	934,811
Other funds				326,245				213,184	539,429			539,429
Securities sold under agreement to repurchase					200,276	21,202			221,478		449,812	671,290
Interest payable	15,922	137,087		26,100	78,221				257,330		132,644	389,974
Deferred revenues	757			15,586		15,963			32,306		43,673	75,979
Lottery prizes payable				110,627					110,627			110,627
Notes payable	704,746				1,239,777			120,000	2,064,523	542	360,548	2,425,613
Bonds payable		267,005			2,493,160			5,575,607	8,335,772	174,046	5,463,385	13,973,203
Accrued compensated absences	4,413		8,778	61,709	13,224	671		658,216	747,011		275,117	1,022,128
Other liabilities	29,586	492	19,348	92,588		51,705			193,719	14,033	8,241	215,993
Other long-term liabilities				1,725				300,534	302,259		143,048	445,307
Total liabilities	1,182,063	413,844	105,069	922,817	7,841,696	439,495		7,200,732	18,105,716	358,169	10,474,773	28,938,658
Fund Equity (Deficit) and Other Credits:												
Investment in general fixed assets							2,403,581		2,403,581	264,100	218,706	2,886,387
Contributed capital				6,322	1,009,235				1,015,557		3,296,915	4,312,472
Retained earnings (deficit)				(472,948)	98,201				(374,747)		660,182	285,435
Fund balances (deficit):												
Reserved for:												
Encumbrances	29,864		1,019			2,499			33,382	21,979	4,629	59,990
Debt service	223,665	186,867							410,532	24,074	452	435,058
Employees retirement						2,220,637			2,220,637	344,778		2,565,415
Unemployment benefits						871,459			871,459			871,459
Advances and other specified purposes	45,601		25,507			15,111			86,219	23,750	39,300	149,269
Unreserved	215,474		414,454			62,999			692,927	6,257	102,198	801,382
Total fund equity (deficit) and other credits	514,604	186,867	440,980	(466,626)	1,107,436	3,172,705	2,403,581		7,359,547	684,938	4,322,382	12,366,867
TOTAL LIABILITIES, FUND EQUITY (DEFICIT) AND OTHER CREDITS	$1,696,667	$600,711	$546,049	$456,191	$8,949,132	$3,612,200	$2,403,581	$7,200,732	$25,465,263	$1,043,107	$14,797,155	$41,305,525

See notes to general purpose financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT) - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS YEAR ENDED JUNE 30, 1994 (Expressed in Thousands)

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Debt Service	Capital Projects	Expendable Trust (Unaudited)	
REVENUES:					
Taxes:					
Income	$ 2,876,542	$	$	$	$ 2,876,542
Excise	1,426,728	163,042		55	1,589,825
Unemployment				199,109	199,109
Other	53,521				53,521
Charges for services	144,429	92,171	9	3,793	240,402
Intergovernmental	2,209,445	63,509	55,473	97,270	2,425,697
Other	123,374	12,894	7,959	53,914	198,141
Total revenues	6,834,039	331,616	63,441	354,141	7,583,237
EXPENDITURES:					
Current:					
General government	341,066			29	341,095
Public safety	798,367			41	798,408
Health	192,118			2,310	194,428
Public housing and welfare	1,524,344			360,447	1,884,791
Education	1,511,610				1,511,610
Economic development	235,915			9	235,924
Intergovernmental	184,261				184,261
Capital outlay	49,168		500,184	7,439	556,791
Debt service:					
Principal	35,055	282,506		157	317,718
Interest and other	27,321	320,939		980	349,240
Total expenditures	4,899,225	603,445	500,184	371,412	6,374,266
Excess (deficiency) of revenues over (under) expenditures	1,934,814	(271,829)	(436,743)	(17,271)	1,208,971
OTHER FINANCING SOURCES (USES):					
Proceeds from long-term debt issues		734,927	713,412		1,448,339
Proceeds of refunding bonds		967,891			967,891
Operating transfers-in from other funds	224,407	407,066	130,357		761,830
Other sources	176,907	3,669	38,465	16,816	235,857
Operating transfers-out to other funds	(1,066,021)	(132,494)	(77,125)		(1,275,640)
Operating transfers-out to component units	(721,816)		(53,700)		(775,516)
Payment of refunded bond escrow agent		(1,689,579)			(1,689,579)
Other uses	(14,057)		(51,733)	(15,010)	(80,800)
Total other financing sources (uses)	(1,400,580)	291,480	699,676	1,806	(407,618)
Excess (deficiency) of revenues and other financing sources over (under)expenditures and other financing uses	534,234	19,651	262,933	(15,465)	801,353
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR (as restated)	(19,630)	167,216	178,047	967,533	1,293,166
FUND BALANCES AT END OF YEAR	$ 514,604	$ 186,867	$ 440,980	$ 952,068	$ 2,094,519

See notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO

COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - STATUTORY BASIS - GENERAL, DEBT SERVICE, AND CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 1994 (Expressed in Thousands)

	General Fund			Debt Service Fund			Capital Projects Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:									
Income taxes	$ 2,900,000	$ 2,856,169	$ (43,831)	$	$	$	$	$	$
Intergovernmental taxes	622	4,573	3,951	64,821	55,366	(9,455)			
Excise taxes	1,345,055	1,378,212	33,157		10,809	10,809			
Other taxes	50,835	53,182	2,347						
Charges for services	93,563	98,052	4,489						
Intergovernmental	114,000	122,491	8,491						
Other	196,718	197,332	614		6,975	6,975			
Total revenues	4,700,793	4,710,011	9,218	64,821	73,150	8,329			
EXPENDITURES:									
Current:									
General government	316,080	314,211	1,869						
Public safety	760,668	760,512	156						
Health	70,375	70,252	123						
Public housing and welfare	162,325	161,461	864						
Education	1,037,465	1,037,152	313						
Economic development	265,228	265,178	50						
Intergovernmental	231,968	231,760	208				224,213	83,778	140,435
Capital outlay									
Debt service:				224,655	224,691	(36)			
Principal				220,544	213,381	7,163			
Interest and other				445,199	438,072	7,127	224,213	83,778	140,435
Total expenditures	2,844,109	2,840,526	3,583						
Excess (deficiency) of revenues over (under) expenditures	1,856,684	1,869,485	12,801	(380,378)	(364,922)	15,456	(224,213)	(83,778)	140,435
OTHER FINANCING SOURCES (USES):							305,000	305,812	812
Proceeds from long-term debt issues					967,891	967,891			
Proceeds of refunding bonds					(959,296)	(959,296)			
Payment of refunded bond escrow agent									
Operating transfers-in from other funds	110,500	105,855	(4,645)	380,378	359,545	(20,833)			
Other sources					3,150	3,150			
Operating transfers-out to other funds	(921,932)	(921,932)			(10,387)	(10,387)	(27,087)	(27,087)	
Operating transfers-out to component units	(721,816)	(721,816)					(53,700)	(53,700)	
Total other financing sources (uses)	(1,533,248)	(1,537,893)	(4,645)	380,378	360,903	(19,475)	224,213	225,025	812
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	$ 323,436	$ 331,592	$ 8,156	$ -	$ (4,019)	$ (4,019)	$ -	$ 141,247	$ 141,247

See notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS (DEFICIT)/FUND BALANCES - ALL PROPRIETARY FUND TYPES, PENSION TRUST FUNDS AND SIMILAR DISCRETELY PRESENTED COMPONENT UNITS
YEAR ENDED JUNE 30, 1994 (Expressed in Thousands)

	Proprietary Fund Types		Fiduciary Fund Types	Totals Primary Government (Memorandum Only)	Other Discretely Presented Component Units	Totals Reporting Entity (Memorandum Only)
	Enterprise	Internal Service	Pension Trust			
OPERATING REVENUES:						
Charges for services	$ 787,112	$ 202,341	$	$ 989,453	$ 3,708,739	$ 4,698,192
Financing income		112,796		112,796	4,388	117,184
Investment earnings		263,059	112,857	375,916	67,977	443,893
Contributions to retirement systems			472,620	472,620		472,620
Other	9,544	598	2,748	12,890	38,264	51,154
Total operating revenues	796,656	578,794	588,225	1,963,675	3,819,368	5,783,043
OPERATING EXPENSES:						
Cost of services	1,445,974	126,158	28,504	1,600,636	2,907,180	4,507,816
Retirement benefits			490,149	490,149		490,149
Interest		337,996		337,996	57,464	395,460
Depreciation and amortization	12,532	22,830		35,362	469,979	505,341
Other		7,961		7,961	4,317	12,278
Total operating expenses	1,458,506	494,945	518,653	2,472,104	3,438,940	5,911,044
OPERATING INCOME (LOSS)	(661,850)	83,849	69,572	(508,429)	380,428	(128,001)
NON-OPERATING REVENUES (EXPENSES):						
Intergovernmental	179,108			179,108	8,835	187,943
Interest income	2,481	9,064		11,545	107,266	118,811
Interest expense	(37,050)	(406)		(37,456)	(359,963)	(397,419)
Other, net		45,310		45,310	(263,240)	(217,930)
Total non-operating revenues (expenses)	144,539	53,968		198,507	(507,102)	(308,595)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(517,311)	137,817	69,572	(309,922)	(126,674)	(436,596)
OPERATING TRANSFERS:						
From:						
Other funds	425,669	479		426,148		426,148
Primary government					66,309	66,309
Other component units					9,500	9,500
OPERATING TRANSFERS, net	425,669	479		426,148	75,809	501,957
NET INCOME (LOSS)	(91,642)	138,296	69,572	116,226	(50,865)	65,361
EXCESS OF REVENUES OVER EXPENDITURES FROM GOVERNMENTAL OPERATIONS					39,798	39,798
RETAINED EARNINGS (DEFICIT)/ FUND BALANCE AT BEGINNING OF YEAR (as restated)	(381,973)	43,840	2,151,065	1,812,932	991,749	2,804,681
CONTRIBUTIONS					1,364	1,364
DEPRECIATION ON FIXED ASSETS ACQUIRED THROUGH CAPITAL CONTRIBUTION	667			667	42,120	42,787
TRANSFERS FROM CONTRIBUTED CAPITAL		41,065		41,065		41,065
TRANSFERS TO CONTRIBUTED CAPITAL		(125,000)		(125,000)		(125,000)
RETAINED EARNINGS (DEFICIT)/ FUND BALANCE AT END OF YEAR	$ (472,948)	$ 98,201	$ 2,220,637	$1,845,890	$ 1,024,166	$ 2,870,056

See notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO

COMBINED STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES AND SIMILAR DISCRETELY PRESENTED COMPONENT UNITS
YEAR ENDED JUNE 30, 1994 (Expressed In Thousands)

	Proprietary Fund Types		Totals Primary Government (Memorandum Only)	Other Discretely Presented Component Units	Totals Reporting Entity (Memorandum Only)
	Enterprise	Internal Service			
CASH FLOWS FROM OPERATING ACTIVITIES:					
Operating income (loss)	$ (661,850)	$ 83,849	$ (578,001)	$ 400,656	$ (177,345)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	12,532	22,830	35,362	473,398	508,760
Provision for uncollectible accounts		18,298	18,298	88,182	106,480
Amortization of debt discount		7,857	7,857	3,516	11,373
Net loss (gain) on disposition of fixed assets	2		2	(3,931)	(3,929)
Net loss (gain) on sale of investments and fixed assets		3,355	3,355	(5,323)	(1,968)
Contribution of in lieu of taxes				(219,769)	(219,769)
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating loss		(78,094)	(78,094)	(7,805)	(85,899)
Other		7,563	7,563	(75,553)	(67,990)
Change in assets and liabilities:					
Increase in:					
Receivables, net	(23,899)	(8,528)	(32,427)	(95,200)	(127,627)
Due from other funds	(34,569)		(34,569)		(34,569)
Due from component units				(59)	(59)
Inventories	(5,697)		(5,697)	(8,338)	(14,035)
Other assets	(71)		(71)	(8,860)	(8,931)
Accounts payable and accrued liabilities	110,240		110,240	77,550	187,790
Deposits		412	412	4,120	4,532
Interest payable		422	422		422
Accrued compensated absences				40,639	40,639
Deferred revenues	5,728		5,728	7,849	13,577
Other liabilities	39,134		39,134		39,134
Other long-term liabilities				9,966	9,966
Decrease in:					
Due from other funds				3,762	3,762
Inventories		2,080	2,080		2,080
Other assets		5,306	5,306		5,306
Accounts payable and accrued liabilities		(3,689)	(3,689)		(3,689)
Due to other funds	(8,763)		(8,763)	(20,525)	(29,288)
Interest payable				(1,834)	(1,834)
Other liabilities				(1,160)	(1,160)
Accrued compensated absences	(3,658)		(3,658)		(3,658)
Total adjustments	90,979	(22,188)	68,791	260,625	329,416
Net cash provided by (used in) operating activities, (carried forward)	$ (570,871)	$ 61,661	$ (509,210)	$ 661,281	$ 152,071

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES AND SIMILAR DISCRETELY PRESENTED COMPONENT UNITS YEAR ENDED JUNE 30, 1994 (Expressed in Thousands)

	Proprietary Fund Types		Totals Primary Government (Memorandum Only)	Other Discretely Presented Component Units	Totals Reporting Entity (Memorandum Only)
	Enterprise	Internal Service			
Net cash provided by (used in) operating activities, (brought forward)	$ (570,871)	$ 61,661	$ (509,210)	$ 661,281	$ 152,071
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Proceeds from notes and loans		601,354	601,354	207,892	809,246
Principal paid on notes and loans		(848,568)	(848,568)	(276,688)	(1,125,256)
Interest paid on notes and loans		(231,753)	(231,753)	(87,071)	(318,824)
Operating grants received	190,859		190,859	31,536	222,395
Operating transfers-in from other funds	576,082	479	576,561	176,974	753,535
Operating transfers-out to other funds	(150,413)	(12,988)	(163,401)	(92,652)	(256,053)
Capital contributions				7,978	7,978
Net cash provided by (used in) noncapital financing activities	616,528	(491,476)	125,052	(32,031)	93,021
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(14,896)	(68,856)	(83,752)	(934,006)	(1,017,758)
Proceeds from issuance of bonds and notes		92,299	92,299	1,676,060	1,768,359
Principal paid on bonds and notes	(4,481)	(38,317)	(42,798)	(1,353,350)	(1,396,148)
Interest paid on bonds and notes	(26,100)		(26,100)	(288,639)	(314,739)
Proceeds from sale of equipment				54,685	54,685
Capital contributions		550	550	122,334	122,884
Net cash used in capital and related financing activities	(45,477)	(14,324)	(59,801)	(722,916)	(782,717)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investment securities	(31,544)	(6,016,035)	(6,047,579)	(3,972,821)	(10,020,400)
Proceeds from sales and maturities of investments and securities		6,240,626	6,240,626	3,540,720	9,781,346
Interest and dividends on investments	2,482	272,456	274,938	328,551	603,489
Net cash provided by (used in) investing activities	(29,062)	497,047	467,985	(103,550)	364,435
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(28,882)	52,908	24,026	(197,216)	(173,190)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	79,027	134,170	213,197	570,457	783,654
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 50,145	$ 187,078	$ 237,223	$ 373,241	$ 610,464

See notes to general purpose financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

COMBINED STATEMENT OF CHANGES IN FUND BALANCES (DEFICIT) - PUBLIC UNIVERSITY FUNDS
YEAR ENDED JUNE 30, 1994 (Expressed in Thousands)

	Current Funds				Plant Funds				
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant	Retirement System
REVENUES AND OTHER ADDITIONS:									
Unrestricted current fund revenues	$ 417,241	$	$	$	$	$	$	$	$
Commonwealth of Puerto Rico appropriations, grants and contracts		69,750			57				
Federal grants and contracts		101,690	143	350	64		310		
Private gifts, grants and contracts		6,785			78				
Investment income		126			35		1,412		2,713
Interest on loans receivable			183						
Contributions to retirement system									47,284
Expended for plant facilities								18,278	
Retirement of indebtedness								6,459	
Other		19,270	60		168	26			150
Total revenues and other additions	417,241	197,621	386	350	402	26	1,722	24,737	50,147
EXPENDITURES AND OTHER DEDUCTIONS:									
Educational and general expenditures	373,014	208,223							
Auxiliary enterprises expenditures	8,260								
Refunded to grantors		304	1						
Loan cancellations and assignments			38						
Administrative and collection costs			37						2,431
Retirement benefits									46,239
Expended for plant facilities					2,227	6		1,380	
Retirement of indebtedness							6,459		
Interest on indebtedness							12,102		
Disposal of plant facilities								9,448	
Other							7	968	
Total expenditures and other deductions	381,274	208,527	76		2,227	6	18,568	11,796	48,670
TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS):									
Mandatory:									
Principal and interest	(19,871)						19,871		
Restricted current fund matching grants	(3,169)	3,169							
Other transfers:									
Unrestricted current funds	(10,849)	9,699			1,150				
Restricted current fund		(364)			364				
Plant funds					4	(4)			
Total transfers	(33,889)	12,504			1,518	(4)	19,871		
NET INCREASE (DECREASE) FOR THE YEAR	2,078	1,598	310	350	(307)	16	3,025	12,941	1,477
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR - (As Restated)	16,384	25,205	6,156	1,170	(1,559)	585	21,048	251,159	343,302
FUND BALANCES (DEFICIT) AT END OF YEAR	$ 18,462	$ 26,803	$ 6,466	$ 1,520	$ (1,866)	$ 601	$ 24,073	$ 264,100	$ 344,779

See notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO

COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES - PUBLIC UNIVERSITY FUNDS

YEAR ENDED JUNE 30, 1994 (Expressed in Thousands)

	Unrestricted	Restricted	Total
REVENUES:			
Tuition and fees	$ 49,185	$ 4,131	$ 53,316
Commonwealth of Puerto Rico appropriations, grants and contracts	355,880	69,750	425,630
Federal grants and contracts		109,123	109,123
Private gifts, grants and contracts		6,785	6,785
Sales and services of educational departments	1,537	3,166	4,703
Sales and services of auxiliary enterprises	5,500	206	5,706
Investment income	1,739	126	1,865
Other sources	3,400	11,767	15,167
Total current revenues	417,241	205,054	622,295
EXPENDITURES AND MANDATORY TRANSFERS:			
Educational and general:			
Instruction	152,181	14,108	166,289
Research	5,167	51,416	56,583
Public service	1,299	40,486	41,785
Academic support	52,166	2,934	55,100
Student services	21,810	1,231	23,041
Institutional support	76,759	1,641	78,400
Operation and maintenance of plant	58,527	848	59,375
Scholarships and fellowships	1,068	81,989	83,057
Hospitals		9,061	9,061
Independent operations	487	604	1,091
Other	3,550	3,905	7,455
Educational and general expenditures	373,014	208,223	581,237
Mandatory transfers for:			
Principal and interest	19,871		19,871
Restricted current fund matching grants	3,169	(3,169)	
Total educational, general and mandatory transfers	396,054	205,054	601,108
Auxiliary enterprises - expenditures	8,260		8,260
Total expenditures and mandatory transfers	404,314	205,054	609,368
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):			
Excess (deficit) of restricted receipts over transfers to revenues		(7,433)	(7,433)
Refunded to grantors		(304)	(304)
Nonmandatory transfers	(10,849)	9,335	(1,514)
Total other transfers and additions (deductions)	(10,849)	1,598	(9,251)
NET INCREASE IN FUND BALANCE	$ 2,078	$ 1,598	$ 3,676

See notes to general purpose financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. The Financial Reporting Entity

Except where noted, the accompanying general purpose financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting. In addition, GAAP requires that the Commonwealth's proprietary activities apply GAAP as it is applied by similar business activities in the private sector. As a result, the financial statements of certain component units follow the specialized reporting practices for financial institutions and hospitals, as prescribed by the GASB and other authoritative sources, including pronouncements of the Financial Accounting Standards Board (FASB). The financial statements of the University of Puerto Rico have been prepared following the accounting and financial reporting guidance recognized by the American Institute of Certified Public Accountants, Industry Audit Guide, ***Audits of Colleges and Universities***, as amended.

Except as discussed in Note 2, the accompanying general purpose financial statements, as required by GAAP, include all departments, agencies and governmental entities whose funds are under the custody and control of the Secretary of Treasury, and the Commonwealth's component units by Act No. 230 of July 23, 1974, as amended, known as ***Commonwealth of Puerto Rico Accounting Law***. The component units discussed below are included as part of the Commonwealth's reporting entity because they are financially accountable to the Commonwealth pursuant with GASB Statement No. 14, ***The Financial Reporting Entity***.

B. Component Units

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

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

1. **Blended Component Units:**

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

Government Development Bank for Puerto Rico and Subsidiaries (GDB)

The Government Development Bank for Puerto Rico and Subsidiaries are governed by a seven-member board appointed by the Governor with the consent of the Senate. The Secretary of Treasury is the Chairman. It is a legally separate entity defined by the Constitution and its activities are blended within the primary government because GDB acts as the financial advisor and fiscal agent for the Commonwealth and its public corporations in connection with the issuance of bonds and notes and it also makes loans and advances funds to public corporations.

Public Buildings Authority (PBA)

The Public Buildings Authority is governed by a five-member board appointed by the Governor with the consent of the Senate. It is a legally separate entity, whose activities are blended within the primary government because it exists to construct, purchase or lease office, school, health, jails, and social welfare facilities for lease to the Commonwealth's departments, component units and instrumentalities. Bonds issued by PBA to finance such facilities are payable from lease collections, which are largely derived from Commonwealth appropriations and are generally secured by the Commonwealth's guaranty.

Puerto Rico Infrastructure Financing Authority (PRIFA)

The Puerto Rico Infrastructure Financing Authority board is comprised of the same board members as the Government Development Bank for Puerto Rico. Its operations are to provide financial, administrative, consulting, technical, advisory and other types of assistance to other component units and governmental instrumentalities of the Commonwealth which are authorized to develop infrastructure facilities and to establish alternate means of financing them.

Puerto Rico Land Administration (PRLA)

The Puerto Rico Land Administration is governed by an eleven-member board comprised by the Governor, who serves as Chairman, the Secretary of Treasury, the Secretary of Agriculture, the Secretary of Transportation and Public Works, the Secretary of Housing, the Economic Development Administrator, the President of the Planning Board, and four other members appointed by the Governor with the consent of the Senate. It is a legally separate entity whose activities are blended within the primary government because PRLA acquires, through negotiation or expropriation, parcels of land, on behalf of government instrumentalities.

Puerto Rico Highway and Transportation Authority (PRHTA)

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

Complete financial statements of the blended component units can be obtained directly by contacting their respective administrative office or the Secretary of the Treasury of the Commonwealth.

Administrative offices:

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

PR Infrastructure Financing Authority
PO Box 42001
San Juan, PR 00940-2001

PR Highway and Transportation Authority
PO Box 42007
San Juan, PR 00940-2007

Public Buildings Authority
PO Box 41029 Minillas Station
San Juan, PR 00940

Puerto Rico Land Administration
PO Box 363767
San Juan, PR 00936-3767

2. **Discretely Presented Component Units:**

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

Public University Funds

University of Puerto Rico (UPR)

The University of Puerto Rico is governed by a thirteen-member Board of Trustees of which ten are appointed by the Governor and confirmed by the Senate, one full-time student and two term professors. The original members appointed by the Governor are for terms from four to eight years. Upon expiration of their terms, the new members will be appointed for a period of six years. The terms for the student and professors are one year. The UPR is the largest institution of higher education in Puerto Rico.

University of Puerto Rico Retirement System (UPRRS)

The University of Puerto Rico Retirement System is the administrator of the retirement system for the employees of the University of Puerto Rico. It is governed by the Council of Higher Education of the University.

Component Units - Other

Puerto Rico Electric Power Authority (PREPA)

The Puerto Rico Electric Power Authority board is composed of nine members. Seven members are appointed by the Governor with the consent of the Senate, and the remaining two members by the Puerto Rico Consumer Affairs Department. PREPA is responsible for conserving, developing and utilizing the power resources of Puerto Rico and owns and operates the Commonwealth's electric system. PREPA's powers include, among others, the ability to issue bonds for any of its corporate purposes and is required, under the terms of a 1947 Indenture and a 1974 Agreement, to determine and collect reasonable rates for electric service in order to produce revenues sufficient to cover all operating and financing obligations.

Puerto Rico Aqueduct and Sewer Authority (PRASA)

The Puerto Rico Aqueduct and Sewer Authority board is composed of seven members. Five members are appointed by the Governor with the consent of the Senate, and the remaining two members by the Puerto Rico Consumer Affairs Department. PRASA owns and operates the system of public water supply and sanitary sewer facilities. PRASA has broad powers, including, among others, to borrow money and issue revenue bonds for any of its corporate purposes. PRASA is required, under the terms of its Trust Agreements, to determine and collect reasonable rates for water services to produce revenues sufficient to cover all operating and financing obligations. PRASA's capital is generated by non-reimbursable legislative appropriations from the Commonwealth, grants from various agencies of the Federal government, donations in-kind or other operating transfers in cash from various governmental agencies and instrumentalities of the Commonwealth, other customers of PRASA, and internally generated funds. As discussed in Note 17, subsequent to June 30, 1994 the Commonwealth guaranteed the payment of bonds payable of approximately $388 million.

Puerto Rico Telephone Authority, Subsidiaries and Affiliate (PRTA)

The Puerto Rico Telephone Authority, Subsidiaries and Affiliate are governed by a five-member board appointed by the Governor with the consent of the Senate. PRTA is responsible for acquiring, developing and operating telephone, radio, cable or other communication systems. PRTA is obliged, as defined in certain Trust Agreement, to determine and collect reasonable rates for the use of its communication facilities in order to produce revenues sufficient to cover all operating and financing obligations. During 1993, PRTA announced that the Puerto Rico Telephone Company, its affiliate, will be reorganizing its operations by merging with a subsidiary of PRTA, the Puerto Rico Communications Corporation. At the date of such planned reorganization, May 4, 1994, the subsidiary's operations were merged with the operations of the Puerto Rico Telephone Company (the surviving entity).

State Insurance Fund Corporation (SIFC)

The State Insurance Fund Corporation board is composed of five members appointed by the Governor with the consent of the Senate. SIFC provides worker's compensation and disability insurance to public and private employees who suffer accidents during the course, or as a consequence of functions which are inherent to their work.

Puerto Rico Housing Bank and Finance Agency (PRHBFA)

The Puerto Rico Housing Bank and Finance Agency is governed by the Secretary of Housing who is appointed by the Governor with the consent of the Senate. PRHBFA is engaged in insuring mortgages and servicing mortgages originated by the former Puerto Rico Urban Renewal and Housing Corporation which ceased operations effective August 9, 1991. PRHBFA issues bonds and notes to provide interim and permanent financing for low-income housing projects and single-family home ownership programs. PRHBFA obtains funds from legislative appropriations, sale of mortgages, collection of mortgage repayments, and other sources.

Economic Development Bank for Puerto Rico (EDB)

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

Puerto Rico Industrial Development Company (PRIDCO)

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

Puerto Rico Ports Authority (PRPA)

The Puerto Rico Ports Authority is governed by a five-member board consisting of the Secretary of Transportation and Public Works, as the Chairman, the Secretary of Commerce, the Economic Development Administrator, the Director of the Tourism Administration and one private citizen appointed by the Governor with the consent of the Senate. The purpose of PRPA is to administer all ports and aviation transportation facilities of the Commonwealth and to render other related services. As of June 30, 1994, PRPA was not in compliance with certain provisions of its trust indenture. As discussed in Note 14, effective September 1, 1994 and January 1, 1995 PRPA raised its dockage and landing fees, respectively.

Puerto Rico Municipal Finance Agency (PRMFA)

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

Puerto Rico Maritime Shipping Authority (PRMSA)

The Puerto Rico Maritime Shipping Authority board is composed of seven members appointed by the Governor with the consent of the Senate. PRMSA is responsible for establishing and maintaining an economical maritime transportation system between Puerto Rico and abroad. PRMSA acquired vessels and other equipment financed by the issuance of notes on a secured basis to previous owners. As discussed in Note 18, subsequent to June 30, 1994, the Commonwealth sold PRMSA to private investors.

Sugar Corporation of Puerto Rico (SCPR)

The Sugar Corporation of Puerto Rico is administered by the Governing Board of the Puerto Rico Land Authority consisting of the Secretary of Agriculture as Chairman, and four other members appointed by the Governor with the consent of the Senate. SCPR was created to consolidate ownership and management of the Commonwealth's interests in Puerto Rico's sugar industry. SCPR owns or leases and operates the majority of all the sugar production facilities in Puerto Rico. SCPR buys all the cane grown by private growers, processes the cane, and sells the raw and refined sugar and molasses. The Commonwealth is presently evaluating the sale of SCPR to private investors.

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

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

Caribbean Basin Projects Financing Authority (CBPFA)

The Caribbean Basin Projects Financing Authority board is composed of five members consisting of the Economic Development Administrator, the President of the Government Development Bank for Puerto Rico, the President of the Economic Development Bank for Puerto Rico and two private citizens appointed by the Governor with the consent of the Senate. CBPFA is authorized to issue revenue bonds and to loan the proceeds thereof to finance the projects for the development of the Caribbean Basin countries that are authorized to receive investments of funds under the provisions of Section 936 (d)(4) of the US Internal Revenue Code.

Automobile Accident Compensation Administration (AACA)

The Automobile Accident Compensation Administration board is composed of one member of the Cabinet of the Governor and four members appointed by the Governor with the consent of the Senate. AACA operates a system of compulsory insurance coverage for all the registered automobiles and compensates for injuries arising from automobile accidents.

Puerto Rico Metropolitan Bus Authority (PRMBA)

The Puerto Rico Metropolitan Bus Authority is composed of a nine-member board appointed by the Governor with the consent of the Senate. The PRMBA provides public land transportation to passengers within the San Juan Metropolitan Area. This service is principally financed by Commonwealth and Federal government appropriations, and passenger fares.

Puerto Rico Public Broadcasting Corporation (PRPBC)

The Puerto Rico Public Broadcasting Corporation is an unconsolidated subsidiary of the Puerto Rico Telephone Authority. The board is composed of four members of the public sector and five private citizens on behalf of the public interest, appointed by the Governor with the consent of the Senate. PRPBC was created with the purpose of integrating, developing and operating the radio, television and electronic communication facilities that belong to the Commonwealth.

Solid Waste Authority of Puerto Rico (SWAPR)

The Solid Waste Authority of Puerto Rico board is composed of eleven members appointed by the Governor with the consent of the Senate. SWAPR provides alternatives in the processing of solid waste and encourages recycling, reuse and recovery of resources from waste.

Tourism Company of Puerto Rico (TCPR)

The Tourism Company of Puerto Rico board consists of seven members, of whom the Economic Development Administrator is the Chairman, and the remaining members are the Public Recreation and Parks Administrator, the Chairman of the Planning Board, the Secretary of Transportation and Public Works, and three members appointed by the Governor with the consent of the Senate. TCPR is in charge of the development of the tourism industry of the Commonwealth.

Agricultural Development Administration (ADA)

The Agricultural Development Administration is governed by the Secretary of Agriculture who is appointed by the Governor with the consent of the Senate. The purpose of ADA is to provide incentives and subsidies to farmers.

Commercial and Agricultural Credit and Development Corporation (CACDC)

The Commercial and Agricultural Credit and Development Corporation board is composed of the members of the Economic Development Bank for Puerto Rico board of directors. CACDC has as its purpose the promotion of the development of the productivity, competitiveness and profits of commercial, manufacturing, services and agro-industrial enterprises, including, without limitation, agriculture, livestock, fishing industries, aquatic and marine resources, as well as forestry and terrestrial. Such purpose is to be met by providing financing through diverse credit mechanisms and granting loans to commercial entities, and entities related to agriculture in general.

Employment and Training Enterprises Corporation (ETEC)

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

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

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

Institutional Trust of the National Guard of Puerto Rico (ITNGPR)

The Institutional Trust of the National Guard of Puerto Rico is administered by a seven-member board comprised of the General Assistant of Puerto Rico, the President of the Government Development Bank for Puerto Rico, the Secretary of Justice and four members of the Puerto Rico National Guard appointed by the Governor with the consent of the Senate. ITNGPR has as its purpose to provide life insurance benefits to the active members of the Puerto Rico National Guard, provide economic assistance for the members of the Puerto Rico National Guard and their families and to provide retirement benefits.

Musical Arts Corporation and Subsidiaries (MAC)

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

Corporation of Stocks and Deposits Insurance for the Savings and Loans Cooperatives (CSDISLC)

The Corporation of Stocks and Deposits Insurance for the Savings and Loans Cooperatives is governed by an eleven-member board composed of the Commissioner of Financial Institutions of Puerto Rico, the Inspector of Cooperatives of Puerto Rico, the Administrator of Cooperative Development Administration, a representative of the Puerto Rico Treasury Department, a representative of the Government Development Bank for Puerto Rico, five citizens in the name of the cooperative movement, and one private citizen. CSDISLC has the responsibility of providing to all the cooperatives, and the Federation of Cooperatives of Puerto Rico, insurance coverage over the stocks and deposits, for monitoring the financial condition of the insured cooperatives, and of uninsured cooperatives when requested by the Commissioner of Financial Institutions of Puerto Rico.

Agricultural Services Administration (ASA)

The Agricultural Services Administration is governed by the Secretary of Agriculture who is appointed by the Governor with the consent of the Senate. The purpose of ASA is to provide a wide variety of services to the agricultural sector.

Puerto Rico Health Insurance Administration (PRHIA)

The Puerto Rico Health Insurance Administration board is composed of the Secretary of Health, the Secretary of Treasury, the Commissioner of Insurance and four additional members appointed by the Governor, with the consent of Senate. PRHIA was created for the purpose of implementing, administering and negotiating a health insurance system, through contracts with insurance underwriters, to provide quality medical and hospital care to qualified individuals.

Fine Arts Center Corporation (FACC)

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

Land Authority of Puerto Rico (LAPR)

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

Right to Employment Administration

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

Farm Insurance Corporation of Puerto Rico (FICPR)

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

Puerto Rico Medical Services Administration

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

Trust for the Development, Operation and Conservation of National Parks of Puerto Rico

The Trust for the Development, Operation and Conservation of National Parks of Puerto Rico board is composed of the President of the Recreational Development Company of Puerto Rico, and four representatives from the state government, the private sector, the advisory council and the trustees, all of which are appointed by the Governor with the consent of the Senate. The Trust has the obligation to develop, operate and provide maintenance to the national parks of Puerto Rico.

Puerto Rico and Caribbean Cardiovascular Center Corporation (PRCCCC)

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

Recreational Development Company of Puerto Rico

The Recreational Development Company of Puerto Rico is in charge for developing a program for the construction and operation of recreational facilities which shall contribute to the physical and mental development of the communities, family welfare and improvement of the quality of life.

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

Administrative offices:

PR Electric Power Authority
PO Box 364267
San Juan, PR 00936-4267

Economic Development Bank for PR
PO Box 195009
San Juan, PR 00919-5009

Puerto Rico Ports Authority
PO Box 2829
San Juan, PR 00936-2829

Puerto Rico Telephone Authority
PO Box 360998
San Juan, PR 00936-0998

PR Aqueduct and Sewer Authority
PO Box 7066 Barrio Obrero Station
San Juan, PR 00916

PR Maritime Shipping Authority
PO Box 71105
San Juan, PR 00936-8005

Sugar Corporation of PR
PO Box 9477
San Juan, PR 00908

PR Industrial Development Co.
PO Box 362350
San Juan, PR 00936-2350

State Insurance Fund Corporation
PO Box 365028
San Juan, PR 00936-2350

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

Automobile Accident
Compensation Administration
PO Box 364847
San Juan, PR 00936-4847

Puerto Rico Public
Broadcasting Corporation
PO Box 190909
San Juan, PR 00919-0909

Tourism Company of Puerto Rico
PO Box 4435
Old San Juan Station
San Juan, PR 00902-4435

Caribbean Basin Projects
Financing Authority
PO Box 3271
San Juan, PR 00904

Commercial and Agricultural
Credit and Development Corp.
PO Box 364943
San Juan, PR 00936-4943

Institutional Trust of the
National Guard of PR
PO Box 3786
San Juan, PR 00904

Industries for the Blind,
Mentally Retarded and Other
Disabled Persons of PR
PO Box 13382
San Juan, PR 00908

Musical Arts Corporation and Subsidiaries
PO Box 41227 Minillas Station
San Juan, PR 00940

Agricultural Services Administration
603 Hipodromo Avenue
PO Box 9200

PR Housing Bank and Finance Agency
PO Box 190345
San Juan, PR 00919-0345

Corporation of Stocks and Deposits
Insurance for the Savings and Loans
Cooperatives
PO Box 195449
San Juan, PR 00919-5449

PR Metropolitan Bus Authority
PO Box 195349
San Juan, PR 00919-5349

Solid Waste Authority of PR
PO Box 40285
San Juan, PR 00940

PR Municipal Finance Agency
PO Box 42001
San Juan, PR 00940-2001

Agricultural Development
Administration
PO Box 9200
San Juan, PR 00908-0200

Employment and Training
Enterprises Corporation
PO Box 366505
San Juan, PR 00936-0200

Recreational Development Company
of Puerto Rico
PO Box 2089
San Juan PR 00902-2081

University of Puerto Rico
Retirement System
PO Box 21769
University Station
San Juan, PR 00931

University of Puerto Rico
PO Box 364984
San Juan, PR 00936-4984

Puerto Rico Health Insurance
Administration
PO Box 4264

Land Authority of Puerto Rico
PO Box 9745
San Juan, PR 00908

Puerto Rico Medical Services Administration
PO Box 2129
San Juan, PR 00922

Farm Insurance Corporation of Puerto Rico
PO Box 9200
Santurce, PR 00908

Fine Arts Center Corporation
PO Box 41287 Minillas Station
Santurce, PR 00940

Right to Employment Administration
PO Box 364452
San Juan, PR 00936

Puerto Rico and Caribbean
Cardiovascular Center Corporation
PO Box 366528
San Juan, PR 00936

Trust for the Development, Operation
and Conservation of National Parks
PO Box 363332
San Juan, PR 00936-3332

All the financial statements of the discretely presented component units have a year end of June 30, 1994 except for Puerto Rico Telephone Authority, Puerto Rico Public Broadcasting Corporation and Sugar Corporation of Puerto Rico which have a year end of December 31, 1993.

C. Basis of Presentation

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

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

1. **Governmental Fund Types:**

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

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

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

Capital Projects Funds - Capital projects funds are used to account for the financial resources used for acquisition or construction of major capital facilities not being financed by proprietary fund types, nonexpendable trust funds, public university funds and component units - other.

2. **Proprietary Fund Types:**

Proprietary funds are used to account for activities that are similar to those found in the private sector where net income and capital maintenance are measured. The following are the Commonwealth's proprietary fund types:

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

Internal Service Funds - Internal service funds are used to account for goods or services provided by blended component units or agencies to other blended or discretely presented component units, departments or agencies on a cost-reimbursement basis.

3. **Fiduciary Fund Types:**

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

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

Pension Trust Funds - are used to account for the assets, liabilities and fund equities held in trust for the public employees retirement systems. They account for assets of which the principal may not be spent for general government purposes.

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

4. **Account Groups:**

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

General Fixed Assets Account Group - This account group is used to account for general fixed assets of the Commonwealth, which exclude the fixed assets held by the proprietary funds, nonexpendable trust funds, public university funds, and component units - other.

General Long-Term Debt Account Group - This account group is used to account for long-term obligations of the Commonwealth including bonds, appropriations and revenue bonds and notes payable, obligations under lease/purchase agreements, and other long-term liabilities excluding the liabilities of proprietary funds, nonexpendable trust funds, public university funds, and component units - other.

5. **Public University Funds:**

The public university funds are used to account for the activities of the University of Puerto Rico and the University of Puerto Rico Retirement System. Accordingly, the public university funds are an aggregate of the following funds required by the American Institute of Certified Public Accountants, Industry Audit Guide-***Audits of Colleges and Universities***, as amended: current funds - restricted and unrestricted; loan funds; endowment and similar funds; plant funds; and agency funds; and the activities of the retirement system.

6. **Component Units - Other:**

The financial activities of the Commonwealth's discretely presented component units (excluding public university funds) are reported in this column. The financial statements of other component units are presented in accordance with the appropriate accounting methods as discussed below.

D. Basis of Accounting

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

The modified accrual basis of accounting is followed by governmental fund types, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period. Tax revenues, net of estimated overpayments (refunds), are recorded by the Commonwealth as taxpayers earn income (income and unemployment), as sales are made (consumption and use taxes) and as cash is received (miscellaneous taxes). Significant taxes that are susceptible to accrual recorded as receivables and revenues at June 30 if collected subsequent to June 30 as described on next page.

Income taxes	120 days
Unemployment taxes	60 days
Excise taxes, including federal excise taxes reimbursed to the Commonwealth	30 days

In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. For the majority of grants, monies must be expended by the Commonwealth on the specific purpose or project before any amounts will be reimbursed. Revenues are, therefore, recognized as expenditures are incurred. For the other revenues, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria is met.

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

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

The accrual basis of accounting is used by proprietary fund types and pension trust funds. Under the accrual basis, revenue is recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The accrual basis is also used by the public university funds, except that depreciation of fixed assets is not required to be recorded and that pension contributions are not recorded in accordance with generally accepted accounting principles. The Commonwealth has elected not to follow Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989 for its proprietary fund types, as allowed by Statement 20 of the Governmental Accounting Standards Board, ***Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting***. Certain discretely presented component units have early adopted Statement 20 and have disclosed their election in their separately issued financial statements.

The component units - other follow generally accepted accounting principles as issued by the Governmental Accounting Standards Board (GASB), and the Financial Accounting Standards Board (FASB) as applicable to each component unit based on the nature of their operations.

E. Statutory (Budgetary) Accounting

The Commonwealth's budget is adopted in accordance with a statutory basis of accounting which is not in accordance with GAAP. Revenues are generally recognized when cash is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred. Amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year end.

Expenditures generally are recorded when the related cash disbursement occurs. At year end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, provided that the goods or services have been received by June 30. Available appropriations and encumbrances lapse three years after the end of the fiscal year. Amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

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

F. Cash, Cash Equivalents and Short Term-Investments

The Commonwealth follows the practice of pooling cash and cash equivalents. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest bearing accounts with the Government Development Bank for Puerto Rico, an internal service fund. Because all cash is pooled, an individual fund may have a cash deficit. In these instances, the fund with the cash deficit will borrow from another fund. These interfund borrowings are reported as "Due from other funds" and "Due to other funds" on the combined balance sheet. Interest earned on pooled cash is allocated to the general fund.

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

Cash and short-term investments, and cash equivalents of the public university funds and the component units - other are maintained in separate bank accounts, from those of the primary government, in their own names. Cash equivalents include investments with original maturities of ninety days or less.

Short-term investments are stated at cost or amortized cost.

The cash and cash equivalents at end of year on the combined statement of cash flows - all proprietary fund types and similar discretely presented component units do not agree with the combined balance sheet amounts because in the latter the amounts also include investments that do not qualify as cash equivalents as established by Governmental Accounting Standards Board Statement No. 9, ***Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.***

In addition, the operating income (loss) in the combined statement of cash flows - all proprietary fund types and similar discretely presented component units do not agree with the operating income (loss) in the combined statement of revenues, expenses and changes in retained earnings (deficit)/fund balances - all proprietary fund types, pension trust funds and similar discretely presented component units because the Commonwealth did not include the statement of cash flows of a component unit as disclosed in Note 2A.

G. Investments

As described in Note 4, investments include US Government and agency obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, and corporate debt and equity obligations. Investments are reported at cost or amortized cost, as appropriate, except for investments in the mutual funds, equity obligations, individually allocated annuities and the deferred compensation funds (included in the pension trust funds) that are reported at market value.

H. Receivables

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

The loan funds of the public university funds are stated net of uncollectible amounts.

The accounts receivable from nongovernmental customers of the component units - other are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the primary government and other component units that arise for service charges do not have allowances for uncollectible accounts, and are separately reported in the general purpose financial statements as "due from primary government", or "due from component units".

I. Inventories

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

Inventories in the public university funds and in the component units - other are valued at the lower of cost or market using first-in-first-out method.

J. Restricted Assets

Restricted assets in the general fund include amounts set aside for the payment of principal and interest on tax revenue anticipation notes and special promissory notes. Restricted assets in the proprietary fund types include amounts set aside for the payment of bonds, construction funds, lottery prizes and other long-term obligations. Restricted assets in the public university funds and in the component units - other column are set aside primarily for the payment of bonds, notes, construction funds, and other specific purposes. See Note 7.

K. Fixed Assets

For governmental fund types, general fixed asset acquisitions are recorded as expenditures in the acquiring fund and capitalized in the general fixed assets account group in the year purchased. General fixed assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value at the time of donation. The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Public domain general fixed assets (infrastructure) consisting of roads, bridges, streets, sidewalks, drainage systems and lighting systems are not capitalized as these assets are immovable and of value only to the government.

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

Buildings	25 - 50 years
Building improvements	10 - 20 years
Equipment, furniture, fixtures and vehicles	3 - 10 years

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

The fixed assets of the component units - other were recorded in accordance with the applicable Governmental Accounting Standards Board and Financial Accounting Standards Board statements. Depreciation has been recorded when required by these standards based on the types of assets, use, and estimated useful lives of the respective assets and on the nature of each of the component unit's operations.

L. Tax Refunds Payable

During the calendar year, the Commonwealth collects individual income taxes through withholdings and payments from taxpayers. At June 30, the Commonwealth estimates the amount owed to taxpayers for overpayments during the first half of the calendar year. These estimated amounts are recorded as tax refunds payable and as a reduction of tax revenues.

M. Long-Term Debt

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

N. Reservations of Fund Balance

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

Encumbrances - Represent future expenditures under purchase orders and other commitments. These committed amounts generally will become liabilities in future periods as the goods are received.

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

Employees Retirement - Represents the public employees retirement systems net assets available to finance future benefit obligations.

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

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

O. Bond Premiums, Discounts and Issuance Cost

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance cost, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges. Public university funds and component units - other follow appropriate statements issued by the Governmental Accounting Standards Board and the Financial Accounting Standards Board.

P. Postemployment Benefits

In addition to the pension benefits described in Note 15, the Commonwealth provides postemployment health care benefits and a Christmas bonus for its retired employees in accordance with local law. Substantially all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. Health care benefits are provided through insurance companies whose premiums are paid by the retiree and by the Commonwealth for a fixed amount of $40 per month for each retiree. During the year ended June 30, 1994, the cost of providing health care benefits amounted to approximately $24.9 million. The Christmas bonus paid to the retired employees during the year ended June 30, 1994 was $150 per retiree and the total amount was approximately $10.6 million. These benefits are recorded as expenditures when paid. The plan covers approximately 70,000 retirees.

Q. Compensated Absences

The vacation policy of the Commonwealth generally provides for the accumulation of 2.5 days per month, except for the teachers who accrue 4 days per month. Vacation time accumulated is fully vested to the employees from the first day of work. Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid sick leave at the current rate, if the employee has at least ten years of service with the Commonwealth.

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

The Commonwealth adopted the provisions of Governmental Accounting Standards Board Statement No. 16, ***Accounting for Compensated Absences***. This Statement requires the recognition of liabilities for vacation and sick leave in the governmental funds to the extent the liability has been funded and there are current financial resources for its payment. However, since the Commonwealth's governmental funds pay this liability on a pay-as-you-go basis, there were no significant changes in the provisions for current liabilities within the governmental funds to pay for accrued vacations and vested sick leave.

Certain component units have adopted the provisions of Statement on Government Accounting Standards No. 16, ***Accounting for Compensated Absences***, in the current year. The effect of the adoption of this Statement has been properly reflected in their individual financial statements.

R. Interfund and Intra-Entity Transactions

The Commonwealth has the following types of transactions among funds:

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

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

Intra-Entity Transactions - These are transactions between the primary government and its component units; and among the component units. Transfers between the primary government and its blended component units are reported as interfund transfers. Similarly, receivables and payables between the primary government and its blended component units are reported as amounts due to and due from other funds, except for long-term balances which are shown as advances to and from other funds. Balances and transfers between the primary government and discretely presented component units (and among those component units) are reported separately.

S. Lottery Revenues and Prizes

The revenues, expenses and prizes awarded by the Lottery of Puerto Rico, and the Additional Lottery System, are reported within the enterprise funds and are recognized as drawings are held. Monies collected prior to June 30 for tickets related to drawings to be conducted subsequent to June 30 are reported as deferred revenues. Unpaid prizes awarded as of June 30 are reported as a fund liability. For certain prizes payable in installments, the Commonwealth purchases annuities through the Government Development Bank for Puerto Rico, an internal service fund, which are reported as restricted assets and lottery prizes payable in the enterprise funds.

T. Public University Funds

Financial activities of the University of Puerto Rico (the University) and the University of Puerto Rico Retirement System (the System) are reported in the public university funds.

The University's funds are presented in accordance with the American Institute of Certified Public Accountants, Industry Audit Guide-***Audits of Colleges and Universities***, as amended. Such funds are discretely presented in a separate column in the general purpose financial statements. The public university funds represent the combination of the following funds of the University:

Current Funds - Account for resources that may be used for any purpose in carrying out the primary objectives of the University.

Loan Funds - Account for resources available for loans to students, faculty, or staff of the University.

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

Plant Funds - Account for transactions involving physical properties of the University. The investment in plant accounts for funds that the University has expended and thus has invested for property and any related outstanding debt.

Agency Funds - Account for resources held by the University as custodian or agent for others.

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

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

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

Public university funds use the consumption method of recording inventories.

The financial activities of the System include the net assets available for plan benefits to participants. Certain reclassifications have been made to the separately issued financial statements to conform the financial statement presentation of the Commonwealth.

U. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following statements which the Commonwealth, or its component units, have not yet adopted and which require adoption subsequent to June 30, 1994.

1. Primary Government:

Statement No.		Adoption required in fiscal year
21	Accounting for Escheat Property	1995
22	Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds	1995
23	Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities	1995
24	Accounting and Financial Reporting for Certain Grants and Other Financial Assistance	1996
25	Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans	1997
26	Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans	1997
27	Accounting for Pensions by State and Local Governmental Employers	1998

2. **Component Units:**

Statement No.		Adoption required in fiscal year
19	Governmental College and University Omnibus Statement	1995
20	Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting	1995
23	Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities	1995
24	Accounting and Financial Reporting for Certain Grants and Other Financial Assistance	1996
25	Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans	1997
26	Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans	1997
27	Accounting for Pensions by State and Local Governmental Employers	1998

The impact of these statements has not yet been determined.

V. Risk Financing

The Commonwealth purchases commercial insurance to cover for casualty, theft, tort claims and other losses. The current insurance policies have not been canceled or terminated. For workers' compensation, the Commonwealth has a discretely presented component unit, the State Insurance Fund Corporation, which provides workers' compensation to both, public and private employees.

W. Reclassifications

The presentation of the separately issued financial statements of certain component units included within the enterprise funds, internal service funds, expendable trust funds, pension trust funds, public university funds and discretely presented component units column have been reclassified to conform to the accounting classifications used by the Commonwealth.

X. Totals Columns (Memorandum Only)

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

2. COMPONENT UNITS

The Commonwealth follows the provisions of Governmental Accounting Standards Board Statement No. 14, ***The Financial Reporting Entity***. The general purpose financial statements include the financial activities or specified financial statements of the following discretely presented component units that were audited by other auditors.

Agricultural Development Administration
Agricultural Services Administration (balance sheet and statement of operations only)
Automobile Accident Compensation Administration
Commercial and Agricultural Credit and Development Corporation
Economic Development Bank for Puerto Rico
Employment and Training Enterprises Corporation
Farm Insurance Corporation of Puerto Rico
Fine Arts Center Corporation
Industries for the Blind, Mentally Retarded and Other Disabled Persons of Puerto Rico
Institutional Trust of the National Guard of Puerto Rico
Land Authority of Puerto Rico
Musical Arts Corporation and Subsidiaries
Puerto Rico and Caribbean Cardiovascular Center Corporation
Puerto Rico Electric Power Authority
Puerto Rico Housing Bank and Finance Agency
Puerto Rico Industrial Development Company
Puerto Rico Medical Services Administration
Puerto Rico Metropolitan Bus Authority
Puerto Rico Public Broadcasting Corporation
Recreational Development Company of Puerto Rico
Right to Employment Administration
Solid Waste Authority of Puerto Rico
Sugar Corporation of Puerto Rico
Tourism Company of Puerto Rico
Trust for the Development, Operation and Conservation of National Parks
University of Puerto Rico

Condensed financial statements of discretely presented component units are as follows (expressed in thousands):

Balance Sheet	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority (Unaudited)	Puerto Rico Telephone Authority	State Insurance Fund Corporation	Puerto Rico Housing Bank and Finance Agency	Economic Development Bank for Puerto Rico	Puerto Rico Industrial Development Company	Puerto Rico Ports Authority	Puerto Rico Municipal Finance Agency	Other Entities	Total Other Component Units
Assets and Other Debits											
Current assets	$ 1,198,494	$ 225,356	$ 615,575	$ 943,893	$ 371,110	$ 696,303	$ 85,344	$ 83,437	$ 291,526	$ 814,198	$ 5,325,236
Due from:											
Primary government	110,403									105,143	215,546
Other component units										2,414	2,414
Fixed assets, net	2,608,077	2,894,304	1,587,284	12,605	1,332	1,190	504,741	449,849		769,508	8,828,890
Amount to be provided for the retirement of bonds and notes payable					400,495					13,989	414,484
Amount to be provided for payment of accrued compensated absences and other long-term debt										10,585	10,585
Total	$ 3,916,974	$ 3,119,660	$ 2,202,859	$ 956,498	$ 772,937	$ 697,493	$ 590,085	$ 533,286	$ 291,526	$ 1,715,837	$ 14,797,155
Liabilities											
Current liabilities	$ 570,638	$ 308,450	$ 372,729	$ 910,863	$ 168,638	$ 601,517	$ 26,119	$ 85,838	$ 8,673	$ 634,967	$ 3,688,432
Due to:											
Primary government										45,601	45,601
Other component units										40,700	40,700
Other governmental entities										278	278
Advances from:											
Primary government	30,000	280,827			13,420		14,454	47,076		490,052	875,829
Notes payable	110,000		18,850			24,000	15,666			192,032	360,548
Bonds payable	2,906,566	445,375	1,013,489		487,395		201,546	137,493	270,889	632	5,463,385
Total liabilities	3,617,204	1,034,652	1,405,068	910,863	669,453	625,517	257,785	270,407	279,562	1,404,262	10,474,773
Fund equity (deficit)	299,770	2,085,008	797,791	45,635	103,484	71,976	332,300	262,879	11,964	311,575	4,322,382
Total	$ 3,916,974	$ 3,119,660	$ 2,202,859	$ 956,498	$ 772,937	$ 697,493	$ 590,085	$ 533,286	$ 291,526	$ 1,715,837	$ 14,797,155

Statement of Operations	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority (Unaudited)	Puerto Rico Telephone Authority	State Insurance Fund Corporation	Puerto Rico Housing Bank and Finance Agency	Economic Development Bank for Puerto Rico	Puerto Rico Industrial Development Company	Puerto Rico Ports Authority	Puerto Rico Municipal Finance Agency	Other Entities	Total Other Component Units
Operating revenues	$ 1,349,605	$ 297,547	$ 905,352	$ 356,343	$ 19,231	$ 35,664	$ 51,782	$ 92,612	$ 18,863	$ 692,369	$ 3,819,368
Operating expenses	1,077,417	306,943	636,507	355,609	13,544	37,858	36,409	128,694	17,445	828,514	3,438,940
Operating income (loss)	272,188	(9,396)	268,845	734	5,687	(2,194)	15,373	(36,082)	1,418	(136,145)	380,428
Non-operating revenues (expenses)	(253,895)	(32,487)	(178,483)	32,875	(5,391)	3,466	(22,607)	(207)	(449)	(49,924)	(507,102)
Income (loss) before operating transfers	18,293	(41,883)	90,362	33,609	296	1,272	(7,234)	(36,289)	969	(186,069)	(126,674)
Operating transfers from (to):											
Primary government				(14,904)						81,213	66,309
Component units										9,500	9,500
Operating transfers, net				(14,904)						90,713	75,809
Net income (loss)	18,293	(41,883)	90,362	18,705	296	1,272	(7,234)	(36,289)	969	(95,356)	(50,865)
Excess of revenues over (under) expenditures from governmental operations					20,282					19,516	39,798
Retained earnings (deficit) fund balance beginning of year	188,288	390,688	707,931	39,824	81,556	17,720	38,395	(16,988)	14,236	(437,806)	1,023,844
Restatement	(27,525)		(7,070)							1,077	(33,518)
Other adjustments			1,606				1,091	17,681	(3,241)	(15,714)	1,423
As restated	160,763	390,688	702,467	39,824	81,556	17,720	39,486	693	10,995	(452,443)	991,749
Contributions					1,350					14	1,364
Depreciation on fixed assets acquired through contributed capital		38,392								3,728	42,120
Retained earnings (deficit)/ fund balance end of year	$ 179,056	$ 387,197	$ 792,829	$ 58,529	$ 103,484	$ 18,992	$ 32,252	$ (35,596)	$ 11,964	$ (524,541)	$ 1,024,166

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

	University of Puerto Rico	Retirement System	Eliminations	Total
ASSETS AND OTHER DEBITS				
Current assets	$126,424	$365,309	$(9,873)	$ 481,860
Due from primary government	32,000			32,000
Due from other component units	32,276			32,276
Fixed assets - net	496,788	183		496,971
Total Assets and Other Debits	$687,488	$365,492	$(9,873)	$1,043,107
LIABILITIES AND FUND EQUITY				
Current liabilities	$ 99,725	$ 20,714	$(9,873)	$ 110,566
Advances from primary government	58,982			58,982
Notes payable	542			542
Bonds payable	174,046			174,046
Other long term liabilities	14,033			14,033
Total Liabilities	347,328	20,714	(9,873)	358,169
Fund Equity	340,160	344,778		684,938
Total Liabilities and Fund Equity	$687,488	$365,492	$(9,873)	$1,043,107

The Commonwealth has not been able to include the audited financial activities of certain entities (or certain specific financial statements) as required by generally accepted accounting principles. The entities for which audited financial activities have not been included in the corresponding columns are as follows:

A. The general purpose financial statements do not include the financial statements of the Office for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation, nor the statement of cash flows of the Agricultural Services Administration.

B. The general purpose financial statements include unaudited financial activities of the following entities because their activities are being audited by other auditors who have not yet concluded and reported on the entities:

Enterprise Funds

Health Facilities and Services Administration of Puerto Rico - This entity's unaudited financial information represent 66% of total assets and 14% of total operating revenues of the enterprise funds.

Trust and Agency Funds

Annuity and Pension System for the Teachers of Puerto Rico
State Unemployment Insurance Fund

The above entities unaudited financial information represent 60% and 57% of the total assets and total operating revenues, respectively, of the trust and agency funds.

Component Units - Other

Puerto Rico Aqueduct and Sewer Authority - which represents 21% and 8% of total assets and total operating revenues of the component units - other.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

Commonwealth law requires that a balanced budget be approved by the Legislature. The Governor presents an annual budget to the Legislature which includes estimates of revenues, expenditures and other financing sources and uses anticipated during the coming fiscal year.

Before signing the appropriation act, the Governor may veto any specific item, subject to legislative override. Further changes to the budget established in the annual appropriation account may be made via supplemental appropriation or other legislative acts. These also must be approved by the Legislature and signed by the Governor and are subject to the line item veto.

The appropriated budget is prepared by fund, function and department. Commonwealth's department heads may transfer appropriations within a department. The legal level of budgetary control is the department level.

Encumbrance accounting is employed in governmental funds. For budgetary purposes, the encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse three years after the end of such fiscal year or at the date prescribed by the Secretary of the Treasury. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, the Legislature may direct that certain revenues be retained and made available for spending within a specific appropriation account.

Generally, expenditures may not exceed the level of spending authorized for an individual appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

Appropriations are enacted for the general fund, debt service funds and capital projects funds. For these funds, a Combined Statement of Revenues and Expenditures - Budget and Actual - Statutory Basis - General, Debt Service, and Capital Projects funds is included.

The Commonwealth's Treasury Department and the Office of Management and Budget have the responsibility to ensure that budgetary spending control is maintained on an individual appropriation account basis. Budgetary control is exercised through the Commonwealth Integrated Financial Accounting System (CIFAS). CIFAS ensures that encumbrances or expenditures are not processed if they exceed the appropriation account's total available spending authorization, which is considered its budget.

B. Budget/GAAP Reconciliation

The following schedule reconciles the amounts on the Combined Statement of Revenues and Expenditures - Budget and Actual - Statutory Basis - to the amounts on the Combined Statement of Revenues and Expenditures for the General, Debt Service, and Capital Projects funds (expressed in thousands):

	General	Debt Service	Capital Projects
Excess (deficiency) of revenues and other sources over expenditures and other uses - statutory basis	$331,592	$ (4,019)	$141,247
Entity differences:			
Excess (deficiency) of revenues and other sources over expenditures and other uses for:			
Non-budgeted funds	207,385		7,636
Inclusion of blended component units		19,695	111,788
Timing differences:			
Adjustment to encumbrances	40,918		5,607
Adjustment to notes payable		5,000	
Adjustment to interest payable		(6,630)	
Sub total carried forward	$579,895	$ 14,046	$266,278

	General	Debt Service	Capital Projects
Subtotal from prior page	$579,895	$ 14,046	$266,278
Basis of accounting differences:			
Net increase in taxes receivable	3,386		
Net increase (decrease) in other receivables and other assets	(200)	5,105	
Net (increase) decrease in accounts payable and other liabilities	(48,847)	500	(3,345)
Excess of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	$ 534,234	$19,651	$262,933

C. Deficit Fund Equity

The following component units reflect a deficit fund equity at June 30, 1994 (expressed in thousands):

Enterprise Fund:

Health Facilities and Services Administration of Puerto Rico (Unaudited)	$480,255

Public University Funds:

Unexpended plant funds	$ 1,866

Component Units - Other:

Puerto Rico Maritime Shipping Authority	$263,331
Puerto Rico Land Authority	55,826
Corporation of Stocks and Deposits Insurance for the Savings and Loan Cooperatives	12,235
Employment and Training Enterprises Corp.	5,280
Agricultural Development Administration	1,761
Musical Arts Corporation and Subsidiaries	1,418
Industries for the Blind, Mentally Retarded, and Other Disabled Persons of Puerto Rico	138

Except for the Puerto Rico Maritime Shipping Authority, the Commonwealth and these entities are designing plans that will either increase revenues or decrease expenditures in order for them to cover these deficits.

For the Puerto Rico Maritime Shipping Authority, the Commonwealth sold the operations of this entity to a group of private investors by means of a public bid. The sole term include, among other things, that the Commonwealth will assume the repayment responsibility of approximately $300 million in debt. See Note 18.

4. DEPOSITS AND INVESTMENTS

Under Commonwealth statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury, or an agent, in the Commonwealth's name. In addition, the Commonwealth maintains deposits with the Government Development Bank for Puerto Rico, an internal service fund, the Economic Development Bank for Puerto Rico, a discretely presented component unit, and the United States Government (for unemployment insurance).

Cash, cash equivalents and investments of the primary government at June 30, 1994 consist of (expressed in thousands):

Primary Government

	Unrestricted	Included in Restricted Assets	Total
Cash and cash equivalents	$ 2,474,325	$ 453,834	$ 2,928,159
Investments	4,147,468	2,210,487	6,357,955
Total	6,621,793	2,664,321	9,286,114

Primary Government-Unaudited

Cash and cash equivalents	864,499	11,447	875,946
Investments	940,949	-	940,949
Total - Unaudited	1,805,448	11,447	1,816,895
Total - primary government	$ 8,427,241	$ 2,675,768	$ 11,103,009

Unaudited information of cash, cash equivalents and investments corresponds to the Annuity and Pension System for the Teachers of Puerto Rico, included as part of the pension trust funds, the State Unemployment Insurance Fund, included as part of the expendable trust fund, and of the Health Facilities and Services Administration of Puerto Rico included in the enterprise funds.

The carrying amount of deposits of the primary government at June 30, 1994 consists of (expressed in thousands):

	Primary Government	Primary Government (Unaudited)	Primary Government Total
Carrying amount of deposits in commercial banks	$1,256,471	$ 37,166	$1,293,637
Carrying amount of deposits in US Government	-	697,535	697,535
Carrying amount of deposits in governmental banks	1,671,688	141,245	1,812,933
Total carrying amount of deposits	$2,928,159	$ 875,946	$3,804,105
Bank balance of deposits in commercial banks	$1,189,399	$ 47,626	$1,237,025
Amount of deposits insured or collateralized	366,255	30,333	396,588
Amount of deposits uninsured or uncollateralized	$ 823,144	$ 17,293	$ 840,437

The amount of the bank balance of deposits in commercial banks uninsured or uncollateralized at June 30, 1994 shown above, mainly correspond to the Government Development Bank for Puerto Rico (GDB), an internal service fund, and the Puerto Rico Infrastructure Financing Authority, a blended component unit.

The approximately $698 million on deposit with the US Government represents unemployment insurance taxes collected from employers which are transferred to the Federal Unemployment Insurance Trust Fund in the US Treasury.

Deposits in governmental banks represent the balance of interest and noninterest bearing accounts in GDB and the Economic Development Bank for Puerto Rico (EDB), amounting to approximately $1,783 million and $30 million, respectively. The deposit liability at GDB and EDB is substantially related to deposits from other component units and of the Commonwealth. Such deposit liability is not in agreement with governmental cash balances shown because of reconciling items such as outstanding checks, and deposits in transit.

The bank balance of GDB's deposits at June 30, 1994 is broken down as follows (expressed in millions):

Primary government	$ 1,721
Public university funds	19
Other discretely presented components units	934
Total reporting entity	2,674
Municipalities and omitted component unit	401
Other non-governmental entities	138
Total deposits per GDB	$ 3,213

No collateral is maintained for cash accounts in GDB and EDB at June 30, 1994. Collateral is maintained for certain checking accounts of the Secretary of the Treasury in GDB. At June 30, 1994, securities of the primary government with a carrying value of approximately $216.8 million were pledged as collateral for these accounts.

Pursuant to statutory authority, the Secretary of the Treasury may invest in obligations of the Commonwealth, obligations of the United States, or in pools of obligations of the municipalities of Puerto Rico. The component units and the retirement systems may invest in those securities authorized by the legal provisions set forth in their organic acts such as stocks, corporate bonds, obligations of the United States, mortgage loans and others. The Commonwealth's investments are categorized to provide an indication of the level of risk assumed by the Commonwealth at year end. Risk categories are described as follows:

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

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

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

Investments at June 30, 1994 of the primary government are as follows (expressed in thousands):

	Primary Government	Primary Government (Unaudited)	Total
Unrestricted	$ 4,147,468	$ 940,949	$ 5,088,417
Restricted	2,210,487	-	2,210,487
Total	$ 6,357,955	$ 940,949	$ 7,298,904

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

Primary Government

	Category 1	Category 2	Category 3	Carrying Amount	Market Value
Unrestricted					
US Government and agencies securities	$2,261,961	$	$	$2,261,961	$2,250,534
Mortgage-backed securities	636,319			636,319	631,367
Stocks	313,906		3,250	317,156	356,589
Corporate bonds	280,026			280,026	274,895
Repurchase agreements	20,150		117,707	137,857	137,857
Trading securities	87,552			87,552	87,552
Commonwealth securities	3,640			3,640	2,860
Short-term investments	536			536	536
	$3,604,090		$120,957	3,725,047	3,742,190
Mortgage loans				10,103	10,103
Total - unrestricted				$3,735,150	$3,752,293

Primary Government...continued

	Category 1	Category 2	Category 3	Carrying Amount	Market Value
Unrestricted	$3,604,090	$ -	$120,957	$3,735,150	$3,752,293
Restricted					
US Government and agencies securities	$1,084,348	$178,784		$1,263,132	$1,271,885
Mortgage-backed securities		385,472		385,472	390,074
Commercial paper		19,976		19,976	19,976
Repurchase agreements			17,014	17,014	17,014
Corporate bonds	6,484			6,484	6,484
	1,090,832	584,232	17,014	1,692,078	1,705,433
Annuity contracts				98,367	98,367
Fixed rate contracts				801,436	831,943
Total - restricted				2,591,881	2,635,743
Total	$4,694,922	$584,232	$137,971	$6,327,031	$6,388,036

Unrestricted investments of the primary government include approximately $562 million of investments of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities, and the Puerto Rico Judiciary Retirement System. Such investments have been presented in the combined financial statements at their market values which as of June 30, 1994 approximate to $597 million.

Unrestricted investments with a carrying amount of approximately $399 million have been presented in the combined financial statements at their market value of approximately $395 million. Such investments correspond to the Government Development Bank for Puerto Rico, an internal service fund.

Restricted investments of the primary government include approximately $381 million of Puerto Rico Highway and Transportation Authority, a blended component unit. Such investments have been presented in the combined financial statements as cash and investments in the capital projects and debt service funds.

Primary Government - Unaudited

	Carrying Amount	Market Value
Unrestricted		
Stocks	$ 407,605	$ 500,700
US Government and agencies securities	341,477	319,290
Corporate bonds	130,728	108,784
Short-term investments	40,387	39,711
Mortgage-backed securities	30,647	31,876
Sub-total	950,844	1,000,361
Discounts, net of premiums	9,895	-
Total unrestricted - unaudited	$ 940,949	$1,000,361

The carrying amount of investments included as unaudited corresponds to the Annuity and Pension System for the Teachers of Puerto Rico, included as part of the pension trust funds.

Public University Funds

Cash, cash equivalents and investments of the public university funds at June 30, 1994 consist of (expressed in thousands):

	Unrestricted	Restricted	Total
Cash and cash equivalents	$ 30,622	$ 1,626	$ 32,248
Investments	263,857	1,464	265,321
Total	$294,479	$ 3,090	$297,569

The carrying amount of deposits of the public university funds at June 30, 1994 consist of (expressed in thousands):

Carrying amount of deposits in commercial banks	$ 3,968
Carrying amount of deposits in governmental banks	28,280
Total carrying amount of deposits	$ 32,248
Bank balance of deposits in commercial banks fully insured or collateralized	$ 25,057

Short-term investments and investments of the public university funds are as follows (expressed in thousands):

	Carrying Amount	Market Value
Unrestricted		
Stocks	$ 81,748	$ 95,816
US Government and agencies securities	95,595	94,544
Corporate bonds	27,659	27,689
Short-term investments	17,201	17,201
Foreign and municipal bonds	16,457	17,020
Mortgage loans	5,759	5,529
Mortgage-backed securities	5,282	4,963
Others	1,182	1,182
Total unrestricted	$250,883	$ 263,944

Unrestricted investments of the public university funds include approximately $226 million in investments at the University of Puerto Rico Retirement System. Such investments have been presented in the combined financial statements at their market value, which as of June 30, 1994 amount to approximately $239 million. Unrestricted investments are classified as Category 1.

Restricted investments included in the public university funds have a carrying amount of approximately $1.5 million, which approximates market, and are classified as Category 1.

Component Units - Other

Cash, cash equivalents and investments of the component units - other at June 30, 1994 consist of (expressed in thousands):

	Unrestricted	Restricted	Total
Cash and cash equivalents	$1,104,785	$ 861,944	$1,966,729
Investments	1,028,615	818,703	1,847,318
Total	$2,133,400	$1,680,647	$3,814,047

The above amounts include approximately $20.3 million of unrestricted cash, approximately $48.4 million of restricted cash, and approximately $34.7 million of restricted investments that belong to the Puerto Rico Aqueduct and Sewer Authority, an unaudited entity.

The carrying amount of the component units - other at June 30, 1994 consist of (expressed in thousands):

Carrying amount of deposits in commercial banks	$ 989,098
Carrying amount of deposits in governmental banks	977,631
Total carrying amount of deposits	$1,966,729

At June 30, 1994, the bank balance of deposits with governmental banks amount to approximately $983 million. Such balance was uninsured and uncollateralized.

Bank balance of deposits in commercial banks	$ 983,080
Amount of deposits insured or collateralized	753,855
Amount of deposits uninsured or uncollateralized	$ 229,225

The above include the following unaudited amounts that belong to the Puerto Rico Aqueduct and Sewer Authority: approximately $62.3 and $6.4 million of carrying amount in commercial and governmental banks, respectively; approximately $63.5 of bank balance of deposits in commercial banks, of which approximately $27.2 million are uninsured and uncollateralized.

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

	Category 1	Category 2	Carrying Amount	Market Value
Unrestricted				
US Government and agencies securities	$ 381,312	$ -	$ 381,312	$ 368,186
Repurchase agreements	330,732	-	330,732	330,882
Mortgage-backed securities	105,142	10,666	115,808	114,075
Stocks	6,205	83,818	90,023	96,691
Commercial paper	31,374	4,982	36,356	34,129
Corporate bonds		33,470	33,470	33,132
Other	50,625	-	50,625	45,820
	905,390	132,936	1,038,326	1,022,915
Mortgage loans			2,245	2,245
Real estate			937	937
Total - unrestricted			1,041,508	1,026,097
Restricted				
US Government and agencies securities	456,496	2,104	458,600	442,404
Commonwealth securities	207,220	-	207,220	207,220
Repurchase agreements	842	71,500	72,342	72,261
Mortgage-backed securities	3,854	7,412	11,266	11,266
	668,412	81,016	749,428	733,151
Fixed rate contracts			69,276	69,276
Total - restricted			818,704	802,427
Total	$1,573,802	$ 213,952	$ 1,860,212	$1,828,524

Unrestricted investments with a carrying amount of approximately $201 million have been presented in the component units - other column at their market value of approximately $188 million. Such investments correspond to the State Insurance Fund Corporation.

The restricted amounts include approximately $34.7 million that belong to the Puerto Rico Aqueduct and Sewer Authority, an unaudited entity, and which are included as Category 1 in US Government and agencies securities.

5. RECEIVABLES

Taxes receivable at June 30, 1994 are as follows (expressed in thousands):

	General Fund	Trust and Agency Funds (Unaudited)
Income	$ 46,216	$ -
Excise	28,972	
Other	1,605	
Unemployment		54,789
Total	$ 76,793	$ 54,789

On July 1, 1992, the functions of levying and collections of property taxes were transferred to the Municipal Revenues Collection Center, a separate legal entity that is not a component unit of the Commonwealth. The real and personal property tax is levied each July 1 and May 15, respectively, on the assessed values as of the prior January 1, for all properties located in Puerto Rico. Assessed values of real property are established at the estimated current value existing in the year 1957, and of personal property at the current value at the date of the assessment. From the assessed value, 1.03% of real and personal property tax collections belongs to the Commonwealth and is recorded in the debt service funds because it is restricted for the payment of general obligation bonds and notes.

The Commonwealth grants exoneration over real and personal property tax on the first $15,000 of the assessed value of residential units occupied by the owner, and on the first $50,000 in personal property of business enterprises if the taxpayer does not exceed $150,000 in sales volume. The amount paid by the Commonwealth to the municipalities through the Municipal Revenues Collection Center for this exoneration during the year ended June 30, 1994 was approximately $121.3 million and was recorded as intergovernmental expenditures in the general fund.

6. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 1994 are summarized as follows (expressed in thousands):

	Primary Government	Public University Funds	Component Units - Other
Due from:			
Other funds	$ 91,975	$ -	$ -
Primary government		32,000	215,546
Component units - other	57,968	32,276	2,414
Total	$149,943	$64,276	$217,960
Due to:			
Other funds	$ 91,975	$ -	$ -
Primary government			45,601
Component units - other	184,442		8,424
Public university funds	32,000		32,276
Total	$308,417	$ -	$ 86,301

The amounts due to/from within the primary government include approximately $19 million pertaining to the Health Facilities and Services Administration of Puerto Rico, an unaudited entity within the enterprise funds.

The difference between due to/from is mainly due to:

a. The Puerto Rico Land Administration, an internal service fund, reported a receivable from the Office for the Liquidation of the Accounts of the Puerto Rico Urban Renewal Housing Corporation (the Office) for approximately $12,367,000, which is an omitted component unit.

b. Several differences reported by the blended and discretely presented component units in their separately issued financial statements.

c. Reconciling items between component units with different fiscal years.

The amount of advances to and from the different funds are summarized as follows (expressed in thousands):

	Primary Government	Public University Funds	Component Units - Other
Advances to:			
Other funds	$ 539,429	$ -	$ -
Component units - other	978,500		
Public university funds	58,982		
Total	$1,576,911	$	$
Advances from:			
Other funds	$ 539,429	$ -	$ -
Primary government		58,982	875,829
Total	$ 539,429	$ 58,982	$ 875,829

The amount advanced to/from includes approximately $ 326 million pertaining to the Health Facilities and Services Administration of Puerto Rico, an unaudited entity within the enterprise funds of the primary government. Also, the difference between the advances to / from component units - other is because the primary government has an advance to an omitted component unit of approximately $102.7 million.

Operating Transfers

Operating transfers-out of the general fund for the year ended June 30, 1994 include the annual appropriation to the University of Puerto Rico, included within the public university funds, amounting to approximately $356 million and the annual appropriation to the debt service funds amounting to approximately $351 million. In addition, the general and capital projects funds made operating transfers of approximately $802 million ($542 million to the Health Facilities and Services Administration of Puerto Rico, an enterprise fund) and $54 million, respectively, to subsidize the operations of and provide capital contributions to certain component units and executive agencies recorded primarily within the primary government and discretely presented component units.

These amounts differ from operating transfers from other funds due to the exclusion of one component unit for which the financial statements as of June 30, 1994, are not available, or the inclusion of financial statements of certain component units with different fiscal years end and/or certain operating transfers reported as contributed capital.

7. RESTRICTED ASSETS

Restricted assets of the primary government is comprised of the following cash, cash equivalents and investments (expressed in thousands):

Primary Government

General Fund	
Cash and cash equivalents for the payment of:	
Special promissory notes	$ 119,634
Tax revenue anticipation notes	104,031
Total cash and cash equivalents	223,665
Investments for the payment of tax revenue anticipation notes	613,819
Total restricted assets in the general fund	837,484
Internal Service Funds	
Cash and cash equivalents for the payment of:	
Construction funds	35,530
Bond sinking fund, redemption and reserve accounts	7,352
Long-term debt	187,287
Total cash and cash equivalents	230,169
Investments for the payment of:	
Construction funds	3,982
Bond sinking fund, redemption and reserve accounts	70,841
Long-term debt	1,423,478
Total investments	1,498,301
Total restricted assets in the internal service funds	1,728,470
Enterprise Funds	
Investments for the payment of lottery prizes	98,367
Cash and cash equivalents for the payment of bond sinking fund (unaudited):	11,447
Total restricted assets in the enterprise funds	109,814
Total restricted assets of the primary government	$2,675,768

Public University Funds

Restricted assets of public university funds include cash and cash equivalents, investments and receivables as follows: (expressed in thousands):

Pediatric Hospital operations	$47,605
Federal grants and contracts	14,110
Other	3,242
Total	$64,957

Component Units - Other

Restricted assets of the component units - other are as follows (expressed in thousands):

Cash and Cash Equivalents

Debt service and sinking fund requirements	$ 329,860
Construction funds	201,894
Funds under section 936 of the US Internal Revenue Code	140,670
Renewal and replacement funds	92,545
Death and disability funds	65,311
Purchase of assets	14,210
Revenue funds	6,412
Other	11,042
Total cash and cash equivalents	861,944

Investments

Debt service and sinking fund requirements	747,553
Construction funds	50,451
Funds under section 936 of the US Internal Revenue Code	9,986
Renewal and replacement funds	9,711
Other	1,002
Total investments	818,703
Total restricted assets of component units - other	$1,680,647

The above amounts include unaudited information of the Puerto Rico Aqueduct and Sewer Authority of approximately $48.4 million in cash and cash equivalents as follows: approximately $36.7 million for debt service and sinking fund requirements, and $11.7 million for construction funds. In addition, restricted investments for debt service requirements include unaudited information for approximately $34.7 million.

8. FIXED ASSETS

Primary Government (Unaudited):

Activity in the general fixed assets account group for the fiscal year ended June 30, 1994, was as follows (expressed in thousands):

	Balance July 1, 1993	Additions	Retirements	Balance June 30, 1994
Land	$ 115,860	$ 105	$ 1,339	$ 114,626
Buildings	452,263	46,695	786	498,172
Equipment	838,814	297,643	38,712	1,097,745
Construction in progress	481,517	105,440	-	586,957
Other assets	105,951	166	36	106,081
Total	$1,994,405	$450,049	$40,873	$2,403,581

Fixed assets for the proprietary and fiduciary fund types as of June 30, 1994, were as follows (expressed in thousands):

	Enterprise Funds	Internal Service Funds	Fiduciary Funds
Land	$	$ 56,712	$ 2,918
Buildings	182,262	1,206,856	8,994
Equipment	98,362	4,460	10,257
Construction in progress		135,654	342
Other	11,315	229	5,946
Total	291,939	1,403,911	28,457
Less Accumulated depreciation	(134,241)	(365,456)	(6,178)
Fixed assets, net	$ 157,698	$1,038,455	$22,279

Enterprise funds include unaudited information of fixed assets amounting to approximately $147.5 million, or 93.6%, of the enterprise funds' fixed assets related to the Health Facilities and Services Administration of Puerto Rico. Fiduciary funds include unaudited information of fixed assets amounting to approximately $14.8 million, or 66%, of the fiduciary funds' fixed assets related to the Annuity and Pension System for the Teachers of Puerto Rico, and to the State Unemployment Insurance Fund.

Discretely Presented Component Units:

	Public University Funds	Component Units - Other
Land	$ 18,139	$ 409,401
Buildings and improvements	262,299	7,402,522
Equipment	172,506	3,182,121
Construction in progress	46,020	1,351,422
Other assets	-	475,021
Total	498,964	12,820,487
Less accumulated depreciation and amortization	(1,993)	(3,991,597)
Fixed assets - net	$496,971	$8,828,890

The component units - other fixed asset includes the following information that belongs to the Puerto Rico Aqueduct and Sewer Authority, which are unaudited (expressed in thousands):

Land	$ 16,457
Buildings and improvements	3,085,856
Construction in progress	367,584
Other assets	39,735
Total	3,509,632
Less accumulated depreciation and amortization	(615,328)
Fixed assets - net	$2,894,304

9. OBLIGATIONS UNDER LEASE/PURCHASE ARRANGEMENTS

The Commonwealth is obligated under capital leases with third parties that expire through 2018 for buildings and equipment used by certain Commonwealth departments. At June 30, 1994, the capitalized cost of the buildings and equipment amounted to approximately $23.8 million and is included in the general fixed assets account group. The present value of future minimum capital lease payments as of June 30, 1994, included in other long-term liabilities in the general long-term debt account group is as follows (expressed in thousands):

Year Ending June 30,	Amount
1995	$ 3,484
1996	3,502
1997	3,520
1998	2,924
1999	2,815
Thereafter	40,691
Total minimum lease payments	56,936
Less: amount representing interest	34,579
Present value of minimum lease payments	$ 22,357

The Commonwealth is also committed under numerous operating leases, excluding those with the Public Buildings Authority, covering real property and equipment. Rental expenditures within the general fund for the year ended June 30, 1994, under such operating leases were approximately $132.3 million. Management believes that the summary of the future minimum rental commitments under noncancelable real property and equipment leases with terms exceeding one year is not significant.

10. NOTES PAYABLE

Notes payable in the general fund includes $700 million of tax revenues anticipation notes due on July 29, 1994 and approximately $4.7 million owed by the Commonwealth General Services Administration. The proceeds of the tax revenues anticipation notes were used to cover a temporary cash deficiency resulting from the timing difference between the time tax collections are received and the payment of current expenditures.

11. LONG-TERM DEBT

Governmental Funds Operations

Summary of General Long-Term Debt

The following schedule shows the changes in the general long-term debt account group for the year ended June 30, 1994 (expressed in thousands):

	Balance at July 1, 1993	Debt Issued	Debt paid and defeased	Other Net Increases (Decreases)	Balance at June 30, 1994
Bonds payable	$4,891,447	$2,424,820	$1,757,910	$ 17,250	$ 5,575,607
Notes payable	195,000		75,000		120,000
Due to component units	161,277		18,874		142,403
Advances from other funds	235,384		22,200		213,184
Due to other governmental entities	140,000			50,788	190,788
Compensated absences	465,477			192,739	658,216
Other long-term liabilities	377,127			(76,593)	300,534
Total	$6,465,712	$2,424,820	$1,873,984	$ 184,184	$ 7,200,732

The debt paid and defeased includes approximately $876.7 million of defeased general obligation bonds during the year ended June 30, 1994.

A. Debt Limitation

The Constitution authorizes the contracting of debts as determined by the Legislature. Nevertheless, the Constitution provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit and taxing power of the Commonwealth, shall not be issued if the amount of the principal of, and interest on, such bonds and notes and on all such bonds and notes issued thereafter which is payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenues raised under the provisions of Commonwealth legislation and conveyed into the Treasury (hereinafter "internal revenues") in two fiscal years preceding the then current fiscal year. Section 2, Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded. Internal revenues consist principally of income taxes, property taxes (collected through June 30, 1992) and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages, tobacco products and customs duties, which are collected by the United States Government and returned to the Commonwealth, and motor vehicle fuel taxes and license fees, which are allocated to the Puerto Rico Highway and Transportation Authority, a blended component unit, are not included as revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service. The Commonwealth has never defaulted on the payment of principal or interest on any of its general long-term debt obligations.

Future maximum annual debt service for the Commonwealth's general obligation debt outstanding as of June 30, 1994 is approximately $390 million. This amount represents 10.17% of the average internal revenues of approximately $3,835 million for the years ended on June 30, 1993 and June 30, 1992.

B. Bonds Payable

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

Law No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exempt from taxation. The levy is performed by the Municipal Revenues Collection Center (MRCC), a municipal corporation. MRCC is required to remit the 1.03% of property tax collected to the Commonwealth to be used by the Commonwealth's debt service funds for payment of debt service on general obligations and notes of the Commonwealth.

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

Bonds payable outstanding at June 30, 1994 are as follows (expressed in thousands):

	General Obligation	Revenue Bonds	Total
Term bonds payable through 2023; interest payable semiannually at rates varying from 3% to 9%	$ 1,618,060	$ 959,265	$ 2,577,325
Serial bonds payable through 2011; interest payable semiannually at rates varying from 3.75% to 7.8%	1,360,320	974,525	2,334,845
Capital appreciation bonds payable through 2011; no interest rate, yield ranging from 7% to 7.8%. Net of unaccreted discount of $275 million	244,057		244,057
Bond payment obligation payable through 2008; interest payable at rates varying from 3.5% to 5.5%	33,450		33,450
Bond payment obligation payable through 2009; interest payable at rates varying from 3.5% to 5.5%	44,240		44,240
Bond payment obligation payable through 2010; interest payable at rates varying from 1.5% to 5.5%	48,220		48,220
Deferred interest bonds payable through 2002; interest payable semiannually at 8%	50,000		50,000
Auction rate notes payable from 2007 through 2008; interest payable in arrears from 2007 through 2008 at rates varying from 2.65% to 11.564%	26,700		26,700
Auction rate notes payable from 2015 through 2020; interest payable in arrears from 2015 through 2020 at rates varying from 2.65% to 11.662%	94,900		94,900
Yield curve notes payable from 2007 through 2008; no interest rate, yield of 8.914%	26,700		26,700
Yield curve notes payable from 2015 through 2020; no interest rate, yield of 9.012%	94,900		94,900
Total	3,641,547	1,933,790	5,575,337
Savings Bonds	270		270
Total bonds payable	$ 3,641,817	$1,933,790	$ 5,575,607

On July 15, 1993, the Puerto Rico Highway and Transportation Authority (PRHTA), a blended component unit, issued approximately $1.2 billion in revenue bonds, of which approximately $410.3 million were new and approximately $751.3 million were refunding bonds. The new funds will be used to finance or refinance a portion of the costs of various projects under the PRHTA's current Priorities Construction Program.

The refunding bonds were issued to advance refund all the outstanding bonds amounting to approximately $637.7 million. From the refunding bonds, approximately $723.9 million were deposited, together with other available monies, into an irrevocable escrow fund with the fiscal agent under the bond resolution.

The refunding will permit the PRHTA to realize annual savings on its debt service requirements on outstanding bonds. The total cash flow savings amount to approximately $72 million and the net economic gain from such refunding amounts to approximately $32 million.

From the serial revenue bonds payable, approximately $276.4 million of bonds issued by the Puerto Rico Infrastructure Financing Authority (PRIFA), a blended component unit, are payable solely from, and secured by, a pledge of federal excise taxes and other monies deposited to the credit of a sinking fund established pursuant to a trust agreement.

Beginning with the fiscal year ended June 30, 1990, and in each of the following twenty-eight fiscal years, the first $40 million of federal excise taxes received by the Commonwealth will be transferred to PRIFA for deposit to PRIFA's infrastructure fund (Infrastructure Fund). The maximum principal and interest requirements on these revenue bonds in any fiscal year is approximately $37 million. Federal excise taxes consist of taxes received by the Commonwealth from the United States in connection with rum and other articles subject to federal excise tax produced in Puerto Rico and sold in the United States. Rum is the only article currently produced in Puerto Rico subject to federal excise tax, the proceeds of which are required to be transferred back to the Commonwealth.

The federal excise taxes securing the bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient to deposit $40 million into the Infrastructure Fund, PRIFA shall request, and the Commonwealth shall include in the budget for the corresponding fiscal year, the appropriation needed to cover such insufficiency. The Legislature, however, is not legally obligated to make the necessary appropriation to cover such insufficiency.

During the year ended June 30, 1994, the following changes occurred in the bonds payable (expressed in thousands):

	Outstanding July 1, 1993	Issued	Discount Accretion (Redeemed)	Outstanding June 30, 1994
Term bonds	$ 2,846,150	$1,120,290	$ (1,389,115)	$ 2,577,325
Serial bonds	1,574,984	1,128,620	(368,759)	2,334,845
Capital appreciation bonds	226,807		17,250	244,057
Bond payment obligations		125,910		125,910
Auction rate notes	121,600			121,600
Yield curve notes	121,600			121,600
Deferred interest bonds		50,000		50,000
Savings bonds	306		(36)	270
Total	$ 4,891,447	$2,424,820	$ (1,740,660)	$ 5,575,607

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

Year Ending June 30	Principal	Interest	Total
1995	$ 240,410	$ 316,345	$ 556,755
1996	255,545	298,512	554,057
1997	260,150	289,677	549,827
1998	258,211	278,094	536,305
1999	250,241	268,045	518,286
Thereafter	4,223,047	3,134,907	7,357,954
Total	5,487,604	$4,585,580	$10,073,184
Plus accreted discount	87,733		
Total	$5,575,337		

C. Notes Payable

The Commonwealth issued $210 million in special promissory notes on June 29, 1989 of which $120 million remain outstanding as of June 30, 1994. These notes are payable from the revenues received from taxes levied, due and to be collected by the Commonwealth and revenues segregated pursuant to joint resolution Number 3 approved on October 16, 1985. Such resolution was enacted to reimburse to the general fund advances made to certain entities in previous fiscal years. These notes bear interest at rates from 82.5% to 85% of the applicable London Interbank Bid Quotation Rate (LIBID), but not to exceed 12% per annum. Interest is payable quarterly.

The general fund includes restricted assets of approximately $120 million in interest bearing accounts which guarantee payment of the special promissory notes (see Note 7). Debt service requirements for the principal of these notes are as follows (expressed in thousands):

Year Ending June 30	Amount
1995	$ 90,000
1996	30,000
Total	$ 120,000

D. Due to Component Units

The amounts due to component units include the following (expressed in thousands):

Puerto Rico Electric Power Authority	$ 110,403
University of Puerto Rico	32,000
Total	$ 142,403

The amount due to the Puerto Rico Electric Power Authority (PREPA), a discretely presented component unit, consists of the following (expressed in thousands):

Fuel adjustment subsidy	$ 88,601
Rural irrigation system cost reimbursement	21,802
Total	$ 110,403

On October 29, 1991, the Commonwealth entered into an agreement with PREPA for the payment of the outstanding fuel adjustment subsidy as of June 30, 1991. Under this agreement, the Commonwealth will pay the outstanding balance over a fifteen-year period in installments of approximately $6 million per year, without interest. On August 29, 1994 and September 6, 1994, the Commonwealth made payments amounting to approximately $12.7 million for fiscal years 1994 and 1995.

The rural irrigation system cost reimbursement debt is repaid by the Commonwealth by offsetting certain contributions in lieu of taxes that PREPA must remit to the Commonwealth. The yearly amortization will vary depending on the electric gross sales for the year. The amortized amount for the year ended June 30, 1994 was approximately $4.9 million.

The Commonwealth agreed to pay the University of Puerto Rico $46 million for certain taxes imposed and collected under Act No. 2 of October 8, 1987 related to the sale of crude oil that should have been included in the annual revenues used to determine the appropriation to the University of Puerto Rico. The Commonwealth paid $14 million during the year ended June 30, 1994, and will pay two installments of $16 million each for the years ending June 30, 1995 and 1996, respectively.

E. Advances from Other funds

The advances from other funds at June 30, 1994, consist of loans owed by the Commonwealth to the Government Development Bank for Puerto Rico (GDB), an internal service fund, for the following purposes (expressed in thousands):

Public schools infrastructure improvement loan	$ 102,324
Disaster assistance loan	93,860
Law 89 loan	17,000
Total	$ 213,184

The public schools infrastructure improvement loan was taken to provide additional funds for major repairs and improvements of the public schools in Puerto Rico. This activity is administered by the Office for the Improvement of the Public Schools of Puerto Rico. The loan will be paid by the Commonwealth using the contributions in lieu of taxes that the Commonwealth will collect from the Puerto Rico Telephone Authority, a discretely presented component unit, of at least $20 million per year.

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

Year Ending June 30,	Principal	Interest	Total
1995	$ 11,299	$ 8,701	$ 20,000
1996	12,259	7,741	20,000
1997	13,301	6,699	20,000
1998	14,431	5,569	20,000
1999	15,658	4,342	20,000
Thereafter	35,376	4,624	40,000
Total	$102,324	$ 37,676	$ 140,000

The disaster assistance loan consists of the amount owed to GDB of approximately $93.9 million to repay a debt for such amount to the Federal Emergency Management Agency, which covered the Commonwealth's share for the relief grants for the residents of Puerto Rico as a result of Hurricane Hugo. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30,	Principal	Interest	Total
1995	$ 7,462	$ 4,693	$ 12,155
1996	7,835	4,320	12,155
1997	8,227	3,928	12,155
1998	8,638	3,517	12,155
1999	9,070	3,085	12,155
Thereafter	52,628	8,150	60,778
Total	$ 93,860	$ 27,693	$ 121,553

Law 89, which was enacted to provide future appropriations for liquidating back-pay owed to teachers and other employees, authorized the Commonwealth to take a loan of $17 million from GDB to pay a portion of the back pay owed to the teachers and other employees. This Law establishes that any employee that had not received a salary raise in five years, the sixth year there is an obligation to provide a pay raise. The loan will be paid during fiscal year 1994-95.

F. Due to Other Governmental Entities

The amounts due to other governmental entities include the following (expressed in thousands):

Municipalities of Puerto Rico	$180,000
Federal Emergency Management Agency	10,788
Total	$190,788

During August, 1994, the Commonwealth reached an agreement to pay to the municipalities of Puerto Rico approximately $180 million to cover the Commonwealth's debt for property tax collected, and the exonerated property tax reimbursements which were in arrears as of June 30, 1993. The Commonwealth financed this amount by taking a line of credit from the Government Development Bank for Puerto Rico, an internal service fund.

The Federal Emergency Management Agency approved two loans to the Commonwealth for a total of approximately $14.5 million. The proceeds of said loans were used to cover the non-federal share of the Individual and Family Grant Program related to floods occurred in January, 1992. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
1995	$ 7,192	$1,074	$ 8,266
1996	3,596	214	3,810
Total	$10,788	$1,288	$12,076

G. Compensated Absences

General long-term debt includes approximately $346 million of accrued sick leave benefits, and approximately $312 million of accrued vacation benefits, representing the Commonwealth's commitment to fund such costs from future operations.

H. Other Long-Term Liabilities

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

Provisions for legal claims and judgments	$242,585
Provision for federal cost disallowances	33,287
Obligations under capital lease	22,357
Other	2,305
Total	$300,534

I. Advance Refunding and Defeased Bonds

The Commonwealth advance refunded certain general obligation bonds through the issuance of $958,240,000 of general obligation public improvements refunding bonds during the year ended June 30, 1994. The net proceeds of approximately $967.9 million (which includes a premium from the sale of the bonds) were used to purchase US Government securities which were deposited in an irrevocable trust fund with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefore have been removed from the general long-term debt account group. As a result of these advance refunding, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately $79.6 million over the next 28 years and obtained an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately $45 million. At June 30, 1994 approximately $843 million of the bonds refunded remain outstanding and are considered defeased.

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the general long-term debt account group. At June 30, 1994 approximately $668.3 million of bonds outstanding from advance refunding in prior years are considered defeased.

J. Internal Service Funds Operations

Revenue Bonds - Revenue bonds are those bonds that are paid out from resources pledged in the internal service funds. These revenue bonds do not constitute a liability or debt of the Commonwealth. Revenue bonds outstanding at June 30, 1994, are as follows (expressed in thousands):

	Final Maturity Year	Interest Rate	Balance
Government Development Bank for PR	2021	6.8%-10.0%	$1,304,095
Public Buildings Authority	2021	5.5%-8.87%	1,189,065
Total			$2,493,160

Future amounts required to pay principal and interest on internal service funds revenue bonds at June 30, 1994, are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
1995	$ 39,420	$ 68,247	$ 107,667
1996	271,765	62,725	334,490
1997	108,505	60,130	168,635
1998	44,220	59,043	103,263
1999	45,795	57,275	103,070
Thereafter	2,012,440	659,237	2,671,677
	2,522,145	966,657	3,488,802
Discount	(28,985)		(28,985)
Total	$ 2,493,160	$ 966,657	$ 3,459,817

Notes Payable - internal service funds notes payable consists of promissory notes, mortgages and revenue notes.

Notes payable outstanding at June 30, 1994, are as follows (expressed in thousands):

	Final Maturity Date	Interest Rate	Balance
Government Development Bank for PR	1998	7.25%-7.5%*	$1,234,777
Puerto Rico Land Administration	1996	6.05%-7.20%	5,000
Total			$1,239,777

* Certain notes have variable interests based on the London Interbank Bid Quotation Rate.

Notes payable of the Government Development Bank for PR include approximately $1.1 billion in commercial paper.

Future fixed amounts required to pay principal and interest on internal service funds notes payable at June 30, 1994, are as follows (expressed in thousands):

Year Ending June 30,	Principal	Interest	Total
1995	$1,192,677	$ 329	$1,193,006
1996	34,000	156	34,156
1997	3,600		3,600
1998	9,500		9,500
Total	$1,239,777	$ 485	$1,240,262

K. Discretely Presented Component Units

Public University Funds

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

Revenue bonds outstanding at June 30, 1994, were approximately $174 million with interest rates varying from 2.75% to 8% and a final maturity date of 2013.

Future amounts required to pay principal and interest on University System Revenue Bonds at June 30, 1994, are as follows (expressed in thousands):

Year Ending June 30,	Principal	Interest	Total
1995	$ 6,924	$ 11,674	$ 18,598
1996	7,395	11,205	18,600
1997	7,821	10,776	18,597
1998	8,287	10,311	18,598
1999	8,793	9,809	18,602
Thereafter	144,294	73,242	217,536
Discounts	(9,468)		(9,468)
Total	$ 174,046	$ 127,017	$ 301,063

The agreements underlying the above bonds payable provide for various covenants.

Notes payable for approximately $542,000 in the current restricted funds represent a promissory note due to a commercial bank payable in semiannual installments of principal and interest of approximately $182,000.

Notes payable in the loan funds represent advances made by the US Department of Education for granting long-term student loans. Payment of these notes is to be made in twenty years from the collections of student loans granted. The unremitted collected amounts bear interest ranging from 5-1/8% to 7-1/4%.

Component Units - Other

Bonds and notes payable are those liabilities that are paid out of resources pledged in the other component units. These revenue bonds do not constitute a liability or debt of the Commonwealth. Bonds payable and notes payable outstanding at June 30, 1994, are as follows (expressed in thousands):

	Final Maturity Date	Interest Rates	Balance
Bonds Payable:			
Puerto Rico Electric Power Authority	2023	2% - 9.5%	$ 2,906,566
Puerto Rico Telephone Authority	2022	3.4% - 9.875%	1,013,489
Puerto Rico Housing Bank and Finance Agency	2006	2.7% - 7.5%	487,395
Puerto Rico Aqueduct and Sewer Authority (Unaudited)	2029	5% - 8.8%	445,375
Puerto Rico Municipal Finance Agency	2008	3.75% - 9.25%	270,889
Puerto Rico Industrial Development Company	2016	3.88% - 8.27%	201,546
Puerto Rico Ports Authority	2021	5% - 7.3%	137,493
Recreational Development Company of Puerto Rico	1997	4% - 5.4%	632
Total bonds payable			$ 5,463,385
Notes Payable:			
Puerto Rico Electric Power Authority	1997	2.54% - 3.33%	$ 110,000
Puerto Rico Maritime Shipping Authority	1995	4.01% - 4.77%	95,067
Agricultural Services Administration	1995	5%	43,237
Economic Development Bank for Puerto Rico	1996	Variable	24,000
Puerto Rico Telephone Authority	1999	Variable	18,850
Commercial and Agricultural Credit and Development Corporation	Not fixed	Variable	18,744
PR Industrial Development Company	2004	5% - 10%	15,666
Sugar Corporation of Puerto Rico	Not fixed	Variable	14,783
Automobile Accident Compensation Administration	1999	5.92% - 6.32%	14,324
Tourism Company of Puerto Rico	2002	4% - 8.35%	5,185
Corporation of Stocks and Deposit Insurance for the Savings and Loans Cooperatives	2003	N/A	692
Total notes payable			$ 360,548

Fixed maturities required to pay principal and interest on other component units bonds payable and notes payable with fixed maturities at June 30, 1994, were as follows (expressed in thousands):

	Principal	Interest	Total
Bonds Payable			
1995	$ 295,571	$ 305,103	$ 600,674
1996	219,342	294,590	513,932
1997	232,977	283,985	516,962
1998	251,623	271,013	522,636
1999	252,480	257,922	510,402
Thereafter	4,451,851	2,699,231	7,151,082
	5,703,844	4,111,844	9,815,688
Discounts	(240,459)		(240,459)
Total	$5,463,385	$4,111,844	$ 9,575,229
Notes Payable			
1995	$ 131,788	$ 6,608	$ 138,396
1996	95,461	3,955	99,416
1997	69,281	1,555	70,836
1998	13,036	1,150	14,186
1999	7,597	724	8,321
Thereafter	9,858	591	10,449
Total	$ 327,021	$ 14,583	$ 341,604

The following is the unaudited information that belongs to the Puerto Rico Aqueduct and Sewer Authority that is included in the previous schedule of bonds payable:

	Principal	Interest	Total
Bonds Payable			
1995	$ 9,757	$ 31,980	$ 41,737
1996	10,391	31,305	41,696
1997	11,142	30,505	41,647
1998	11,894	29,754	41,648
1999	12,722	28,876	41,598
Thereafter	396,285	436,330	832,615
	452,191	588,750	1,040,941
Discounts	(6,815)		(6,815)
Total	$ 445,376	$ 588,750	$ 1,034,126

12. RESTATEMENTS

The following table details the restatements and other adjustment to fund balances/retained earnings (deficit) for the general fund, enterprise funds, pension trust funds, public university funds, and component units - other (expressed in thousands):

	General	Enterprise	Pension Trust	Public University	Component Units - Other
Beginning fund balances/retained earnings (deficit), as previously reported	$(47,420)	$(380,952)	$2,092,599	$ 703,902	$1,023,844
Restatements to:					
Present effect of adoption of accounting pronouncements				(40,452)	(27,525)
Correct presentation of the Lotteries	(4,131)	4,131			
Reclassifications from contributed capital					25,781
Include financial statements of funds / component units previously excluded	31,921				(14,678)
Correct errors in prior years' presentation		(5,152)	58,466		
Other adjustments					(15,673)
Beginning fund balances/retained earning (deficit), as restated	$(19,630)	$(381,973)	$2,151,065	$663,450	$ 991,749

The restatement to correct the presentation of the Lotteries of approximately $4.1 million in the general fund and enterprise funds arises because the Commonwealth changed its reporting policies regarding the Lottery of Puerto Rico and of the Additional Lottery effective July 1, 1993. The operations of the Lotteries were previously reported in the general fund. However, management believes that its reporting within the enterprise funds reflects more accurately the operations of the Lotteries in accordance with generally accepted accounting principles. In addition, the general fund was also restated for approximately $32 million to include the fund balance of Office for the Improvements of the Public Schools, which was previously excluded.

In addition to the restatement related to the presentation of the Lotteries mentioned in the previous paragraph, the restatements in the enterprise funds include a correction of errors in prior years of approximately $5.1 million relating to adjustments of the accounts payable of the Puerto Rico Health Facilities and Services Administration, an unaudited enterprise fund.

The restatement in the pension trust funds of approximately $58.5 million is related to the effect of correcting the cummulative effect of the net appreciation of investments, interest income, benefits paid and other expenses recognized in previous years' financial statements of the Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities, the Judiciary Retirement System, and the Annuity and Pension System for the Teachers of Puerto Rico.

The restatement in the public university funds is related to the adoption of Governmental Accounting Standards Board Statement No. 16, ***Accounting for Compensated Absences***.

The restatement in the component units - other column include approximately $27.5 million to reflect the adoption of Governmental Accounting Standards Board Statement No. 16, ***Accounting for Compensated Absences*** by the Puerto Rico Electric Power Authority. In addition, it includes a reclassification from contributed capital to retained earnings of approximately $25.8 million relating to conforming the presentation of the results of operations of the ferry system to the presentation made in prior year.

The restatement in the component unit - other of approximately $14.7 million is related to the effect of including financial statements for the Recreational Development Company of Puerto Rico and of the Agricultural Services Administration. These entities were omitted in the previous year.

13. GUARANTEED AND APPROPRIATION DEBT

Guaranteed Debt

The Commonwealth may provide guarantees for the repayment of certain borrowings of components units to carry out designated projects. At June 30, 1994, the following component unit debts are guaranteed by the Commonwealth (expressed in thousands):

	Maximum Guarantee	Outstanding Balance
Public Buildings Authority	$ 1,500,000	$ 1,191,999
Government Development Bank for Puerto Rico	550,000	267,000
Puerto Rico Housing Bank and Finance Agency	325,000	83,410
Puerto Rico Maritime Shipping Authority	60,000	60,000
Total	$ 2,435,000	$ 1,602,409

The Farm Credit Guarantee Fund, administered by the Commercial and Agricultural Credit and Development Corporation of Puerto Rico, an other discretely presented component unit, has guaranteed, under the full faith, credit and taxing power of the Commonwealth, certain loans made by private institutions, by the former component unit Farm Credit Corporation and the Guarantee Loan Fund for Eligible Businesses. This fund guarantees loans for approximately $19 million as of June 30, 1994.

The Puerto Rico Housing Bank and Finance Agency insures mortgages granted to low and moderate income families through its mortgage loan insurance program. The Commonwealth guarantees up to $75 million of such mortgage loans. As of June 30, 1994, the mortgage loan insurance program was insuring loans aggregating $261.4 million and had not issued any debenture bonds. Currently, the Commonwealth has not been called to make any direct payments pursuant to the above guarantees.

The Commonwealth has guaranteed the payments of rentals of its departments, agencies and component units to the Puerto Rico Public Buildings Authority (PBA), an internal service fund, under various lease agreements executed pursuant to the law that created PBA. Such rental payments include the amounts required by PBA for the payment of principal and interest on the guaranteed debt as authorized by law. The rental commitment to cover principal and interest on the guaranteed debt as of June 30, 1994 for the next five years and thereafter follows (expressed in thousands):

Year Ending June 30,	Principal	Interest
1995	$ 39,420	$ 68,356
1996	41,765	62,725
1997	40,605	60,130
1998	40,620	59,043
1999	45,795	57,275
Thereafter	1,005,629	659,237
Total	$1,213,834	$ 966,766

Appropriation Debt

The following represents the outstanding balances of debt payable by appropriations as set forth in enacted legislation of the Commonwealth at June 30, 1994 (expressed in thousands):

Enterprise Funds:	
Health Facilities and Services Administration of Puerto Rico (Unaudited)	$ 326,245
General Long-Term Debt Account Group:	
Importing and Distribution Corporation	$ 2,028
Cooperative Development Company	1,400
Public Housing Administration	941
Total	$ 4,369
Component Units - Other:	
Puerto Rico Housing Bank and Finance Agency	$583,537
Sugar Corporation of Puerto Rico	108,932
Agricultural and Commercial Credit and Development Corporation	24,000
Economic Development Bank for Puerto Rico	24,000
Puerto Rico Metropolitan Bus Authority	16,909
Office for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation	13,943
Puerto Rico Industrial Development Company	7,650
Tourism Company of Puerto Rico	6,796
Agricultural Services Administration	2,785
Puerto Rico Aqueduct and Sewer Authority (Unaudited)	2,522
Puerto Rico and Caribbean Cardiovascular Center Corporation	1,542
Fine Arts Center Corporation	122
Total	$792,738

14. COMMITMENTS AND CONTINGENCIES

Primary Government

The Commonwealth is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Commonwealth only for causes of actions set forth in said Act to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Commonwealth may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no maximum amount on the payment of such judgment.

With respect to pending and threatened litigation, excluding the litigation mentioned in the following two paragraphs, the Commonwealth has reported liabilities of approximately $108.8 million for awarded and anticipated unfavorable judgments. This amount was included as other long-term liabilities in the general long-term debt account group and represents the amount estimated as a probable liability or a liability with a fixed or expected due date which will require future available financial resources for its payment. Management believes that the ultimate liability in excess of amounts provided would not be significant.

The Commonwealth and various component units are defendants in a lawsuit alleging violations of individuals' civil rights. Preliminary hearings and discovery proceedings are in progress. The amounts claimed exceed $50 billion; however, the ultimate liability cannot be presently determined. It is the opinion of management that the plaintiff's damage claim is excessive and exaggerated. No provisions for any liability that may result upon adjudication of this lawsuit has been recognized in the general purpose financial statements.

In 1979, various inmates under the custody of the Administration of Corrections of the Commonwealth filed a complaint in the United States District Court for the District of Puerto Rico (the Court) alleging that the conditions of confinement violated their rights under the United States and the Commonwealth's Constitution. In 1980, the Court rendered an order requiring that the Commonwealth provide a fixed living space per inmate. The Court has imposed daily fines on the Commonwealth because of its noncompliance with the order amounting to approximately $133.7 million through June 30, 1994 which is recorded as other long-term liabilities in the general long-term debt account group. In December, 1991, a stipulation was entered into between the inmates and the Commonwealth. Based on such stipulation fines were paid through November 7, 1991; thereafter they were to be calculated only, but would be permanently discharged if the Commonwealth complied with the terms of the stipulation. The fines paid by the Commonwealth are being maintained in a fund by the federal government and may be available to the Commonwealth for authorized projects related to confinement. The stipulation authorizes the Court to release a portion of fine funds to finance certain costs for two projects related to confinement. The Commonwealth has filed two motions requesting a discharge of these fines. The first motion was opposed by the plaintiffs' counsel and the Court ordered hearings commencing in June 1993 to solve this matter. In addition, the Court ordered the federal government to cease and permanently discharge any fines assessed or calculated following January 2, 1993. However, a federal monitor for this case decided that the Commonwealth recently failed to comply with certain requirements of the stipulation. Therefore, during fiscal year 1993-94, the Commonwealth has been assessed further penalties. Currently the Commonwealth is designing plans to comply with the stipulations, which include the construction and opening of three new penitentiaries.

During February, 1994, the Commonwealth obtained the approval from the Government Development Bank for Puerto Rico (GDB), an internal service fund, for a $200 million revolving credit line to be used by the Health Facilities and Services Administration of Puerto Rico, an enterprise fund. Any unpaid amount as of June 30, 1997 is expected to be repaid from annual appropriations of the Commonwealth based on recommendations of the Puerto Rico Office of Management and Budget.

The Commonwealth's escheated bank accounts regulations require from the financial institutions doing business in Puerto Rico the remittance to the Commonwealth of all deposit accounts under their custody that have remained inactive for a period of five years. The Commonwealth is responsible for reimbursing any claims received from the owners of those accounts for a period of 10 years from the date of receipt from the financial institution. The balance of unclaimed escheated bank account as of June 30, 1994 is approximately $28.2 million. The Commonwealth has not recorded any liability for future claims because trend information for claims paid is not readily available.

The Commonwealth's minimum annual payments related to unpaid awards for the Additional Lottery, an enterprise fund, during the next five years amounts to approximately $9.6 million from 1995 through 1999 inclusive, and $122 million thereafter. Imputed interest amounts to approximately $71.9 million at June 30, 1994.

The Government Development Bank for Puerto Rico (GDB), an internal service fund, entered into various interest rate swaps during 1994. These interest rate swaps are hedging investments in mortgage-backed securities. Interest rate swaps involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amounts. Entering into interest rate agreements involves the risk of dealing with counterparties and their ability to meet the terms of the contracts and the interest rate risk associated with unmatched positions. Notional principal amounts often are used to express the volume of these transactions, but the amounts potentially subject to credit risk are much smaller. The notional principal amount of interest rate swap contracts outstanding at June 30, 1994 was approximately $34.9 million where GDB is the fixed rate payer and the counterparties are the floating rate payer using Libor rate. Settlements are made monthly.

The provision for losses on letters of credit and guarantees relating to the Tourism Fund, which is part of the Government Development Bank for Puerto Rico, an internal service fund, is charged to income to the extent that losses are not recoverable from the Commonwealth. The Executive Director of the Tourism Fund shall certify each year to the Director of the Office of Management and Budget of the Commonwealth the amount, if any, that is necessary to reimburse the Tourism Fund for disbursements made during the previous year in excess of its earnings to cover the payment of principal and interest on obligations guaranteed by the Tourism Fund. The Director of the Office of Management and Budget shall include the amount required to be reimbursed to the Tourism Fund in the general budget of the Commonwealth for the following fiscal year for the Legislature's consideration and approval.

In March 1992, the Puerto Rico Highway and Transportation Authority (PRHTA), a blended component unit, issued Special Facility Revenue Bonds amounting to approximately $117 million for facilitating the construction of a toll bridge which spans the San José Lagoon between the municipalities of San Juan and Carolina. PRHTA entered into a Concession Agreement with a private entity for the operation and maintenance of the bridge. The initial term of this agreement is 35 years. Under certain circumstances, the Concession Agreement may be terminated and PRHTA is then to assume all the obligations of the principal and interest on the Bonds which, pursuant to the Loan Agreement, will be paid from the proceeds of the use and operation of the toll bridge. At June 30, 1994, the outstanding balance of the debt, including interest, and the sinking fund balances are $120.1 and $13.3 million, respectively.

The Commonwealth receives financial assistance from the federal government in the form of grants and entitlements. Non-cash federal financial assistance programs received by the Commonwealth amounted to approximately $17 million. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under the Single Audit Act of 1984 all of which are performed at the individual agency level. Disallowances as a result of these audits may become liabilities of the Commonwealth. At June 30, 1994, based on an evaluation of pending disallowances, the Commonwealth has recorded approximately $33 million as other long-term liabilities in the general long-term debt account group for this purpose. The United States Congress is studying several cost-reduction measures to balance the federal budget deficit. As part of this process, the Congress is considering reductions to the federal financial assistance programs in which the Commonwealth, together with the States, participates. Management of the Commonwealth believes that the future outcome of any changes in federal financial assistance programs does not have a material effect on the general purpose financial statements.

The Puerto Rico Highway and Transportation Authority's construction commitments as of June 30, 1994 amounted to approximately $256 million.

The Public Buildings Authority's construction commitments as of June 30, 1994 amounted to $131 million.

Public University Funds

The University of Puerto Rico (UPR) capital construction program for educational facilities for the fiscal year ending on June 30, 1995 amounts to approximately $60 million. This program is intended to be permanently financed substantially with a future bond issuance.

UPR participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of the Single Audit Act of 1984 or to compliance audit by grantor agencies. Although these programs have been audited through June 30, 1994 under the Single Audit Act of 1984 and through various dates by grantor agencies, the resolution of certain previously identified questioned costs has not occurred. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although, UPR's management expects such amounts, if any, to be immaterial.

Component Units - Other

Puerto Rico Electric Power Authority (PREPA)

The Puerto Rico Electric Power Authority (PREPA) is a party to several lawsuits incidental to its business, some involving substantial amounts. In those instances that the management of PREPA and legal counsel believe that the outcome of the litigation will be unfavorable to PREPA, a provision has been made to cover the estimated liability. Management of PREPA, based on discussion with legal counsel, believes that any ultimate liability, if any, will not have a material effect on PREPA's financial position.

Retained earnings at June 30, 1994 include approximately $74.7 million which have been appropriated principally to provide a reserve for damaged or destroyed property of the electric system not fully covered by insurance as required by the 1947 Bond Indenture. Funds set aside for self insurance purposes are deposited in the General Reserve Fund held by the trustee.

Facilities and operations of PREPA are subject to regulations under numerous Federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, and the National Pollutant Discharge Elimination System (NPDES). In February 1992, the Environmental Protection Agency (EPA) performed an inspection of various facilities of PREPA and noted deficiencies in air opacity; water quality; spill prevention control and countermeasures; and underground storage tanks. During 1993 the EPA, the Federal Department of Justice (DOJ) and PREPA were involved in negotiations to pursue a comprehensive settlement of the case and assure future compliance with applicable regulatory provisions. Among other things, the settlement proposal considers investment in capital improvement and Supplemental Environmental Projects (SEPs) estimated at approximately $81 million during the five fiscal years ending June 30, 1998. Also, PREPA agreed to use fuel oil not exceeding a sulfur content of 1.5%, a vanadium content of 150 PPM and aspheltenes content of 8% at the generating plants with an additional annual fuel oil cost of approximately $54 million.

On October 27, 1993, DOJ and EPA filed a complaint in the United States District Court for the District of Puerto Rico based upon the above violations notified to PREPA during 1992. At June 30, 1994, it is not possible to estimate the ultimate liability to PREPA for civil penalties. However, management will continue settlement negotiations and based on discussions with legal counsel, believes that ultimate liability, if any, will not have a material effect on the PREPA's financial position.

The Authority has construction commitments for approximately $132.4 million.

Puerto Rico Aqueduct and Sewer Authority (PRASA) (Unaudited)

PRASA is a defendant or co-defendant in various claims for damages and lawsuits for approximately $102 million. Most of the cases are pending trial or final judgment. Management of PRASA and legal counsel are of the opinion that any liability that may result from such claims and lawsuits would not have a material adverse effect on PRASA's financial position as of June 30, 1994.

On September 24, 1990, a contractor filed a lawsuit against PRASA in the United States District Court of Puerto Rico alleging breach of contract and seeking specific performance of certain contractual obligations, collection of monies allegedly due and payable, damages, costs and attorney's fees of approximately $48 million. PRASA has recorded the amounts it believes are payable to the contractor. However, PRASA has a counter claim against the contractor for approximately $39 million. Outside legal counsel has stated that it is not possible at this time to render an opinion as to the likely outcome of these claims or to reasonably estimate the amount of loss, if any. Management of PRASA is vigorously contesting this litigation and is of the opinion that any liability that may result would not have a material adverse effect on PRASA's financial position.

Puerto Rico Telephone Authority, Subsidiaries and Affiliate (PRTA)

The consolidated construction program for the year 1994 amounts to approximately $276 million.

In September 1993, the National Exchange Carrier Association (NECA) informed PRTA that they would not accept the inclusion of the additional in-lieu-of taxes payment corresponding to 1992, for interstate settlement purpose unless the Company obtains approval from the Federal Communications Commission (FCC). On November 30, 1993, the Company submitted a request for ruling by the FCC on the issue. If the FCC does not approve the inclusion of the additional payment in-lieu-of taxes, a settlement adjustment will be required to the PRTA financial statements amounting to approximately $32 million. As of the date of the December 31, 1993 PRTA's financial statements, no decision has been issued by the FCC.

PRTA has entered into an interest rate swap agreement to reduce the impact of changes in interest rates on its variable interest rate subordinated notes. The interest rate swap agreement requires PRTA to pay a fixed rate while receiving amounts at a variable rate based on LIBOR, settled every six months, on notional principal amounts ranging from a high of $11.3 million up to February 15, 1995, to a low of $1.3 million from February 15, 1999 to August 15, 1999, dates of maturity of the notes and the swap agreement. As a result of this agreement, the effective rate on the variable interest rate subordinated notes of $14.7 million was 6.77% for the year ended December 31, 1993. The obligations of the other party in the agreement have been guaranteed by its parent company. PRTA is exposed to credit loss in the event of nonperformance by the other party to the interest rate swap agreement. However, PRTA does not anticipate nonperformance by the counterparty.

PRTA is organized under the laws of the state of Delaware, USA. As such, PRTA is subject to United States federal income taxes. The United States Internal Revenue Code Section 936 allows certain income tax benefits to United States corporations deriving substantially all of their income from sources within possessions of the United States, including Puerto Rico. PRTA has exercised the corresponding election to claim these benefits and has complied with the requirements of the United States Internal Revenue Code; accordingly, liability for US federal income taxes, if any, would arise only on income from sources outside Puerto Rico. Income tax relief from this exemption approximated $80 million for year ended December 31, 1993.

Effective January 1, 1993, PRTA adopted Statement of Financial Accounting Standards (SFAS) No. 109, ***Accounting for Income Taxes,*** under which deferred taxes are based on the asset and liability method. The implementation of SFAS 109 had no significant impact on PRTA's results of operations for fiscal year 1993 or prior years.

On August 10, 1993, the President of the United States signed into law The Omnibus Budget Reconciliation Act of 1993 (the Act). The Act enacts significant tax changes including a provision that the Section 936 credit allowed to a possession corporation for a taxable year against US tax on its business income would be computed as under present laws, but would be subject to one of two alternative limitations. The choice of which alternative limitation to apply would be made by the PRTA. The anticipated effect of this provision, which is effective for fiscal years commencing after December 31, 1993, has not been determined.

Puerto Rico Industrial Development Company (PRIDCO)

PRIDCO is party to various claims and lawsuits relating, among other matters, to the Federal Environmental Protection Agency and the Environmental Quality Board of the Commonwealth. These claims and lawsuits include various environmental issues where PRIDCO may be held liable under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) and other federal legislation including the Clean Water Act and the National Pollutants Discharge Elimination (NPDES). CERCLA establishes procedures and standards for responding to releases of hazardous substances, pollutions and contaminants.

Under CERCLA and its regulations, liability for the clean-up costs from damage to natural resources and any health assessment or health effects may be imposed on the present and past owner or operator of a facility from which there was a release of hazardous substances in addition to any person who arranged for disposal or treatment of hazardous substances at a site from which there was a release.

Puerto Rico Ports Authority (PRPA)

At June 30, 1994, PRPA was not in compliance with the provision of attaining net revenues at a minimum of 125% of the maximum aggregate principal and interest requirement. PRPA's management communicated this situation to its transportation consultants and is in the process of implementing a cost reduction program as required by the trust indenture agreement and recommended by the transportation consultants. In addition, effective September 1, 1994, PRPA increased the rates and fees for the maritime operations and on January 1, 1995 increased airplane landing fees.

Commercial and Agricultural Credit and Development Corporation

The Corporation is the defendant in various lawsuits assumed from the former Commercial Development Company (the Company) for alleged negligence, brought by insurance companies in connection with a fire at Mercado Central Phase I in March 1981. These lawsuits involve various defendants and a series of cross claims and counter claims instituted against the Company for approximately $32 million including legal fees and interest. Management of the Corporation, after consultation with legal counsel, recorded a provision in the Corporation's financial statements for the estimated liability that could result from these legal cases.

Automobile Accident Compensation Administration (AACA)

As of June 30, 1994, the Automobile Accident Compensation Administration is defendant in a lawsuit filed by a professional services firm for alleged unpaid additional work related to a professional contract. The suit asks for damages totaling approximately $10.6 million. AACA's management and its legal advisor believe the suit is without merit and are vigorously defending its position.

Land Authority of Puerto Rico (LAPR)

LAPR owns agricultural lands, mills and refinery which are operated by its subsidiary, the Sugar Corporation of Puerto Rico, a discretely presented component unit. These assets and the related debt incurred in their acquisition are recorded in the books of the subsidiary which has assumed responsibility for payment of principal and interest on the loans, as well as all other expenses incidental to ownership, including property taxes and repairs and maintenance. LAPR is contingently liable to third parties for loans which are secured by properties transferred to the Sugar Corporation of Puerto Rico and guaranteed by the Commonwealth.

LAPR is a defendant under a claim brought by a group of pineapple growers amounting to approximately $43 million. LAPR is in the process of litigating these actions, but the ultimate outcome cannot be presently determined due to the stage of proceedings. Accordingly, no provisions for any liability that may result upon a final resolution of these actions has been made in the financial statements of LAPR.

The Pineapple Program has incurred substantial losses in recent years. The Commonwealth is negotiating with private investors the sale of the Pineapple Program. The effect, if any, that the sale of the program may have on the LAPR's financial statements has not been determined.

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

AFICA has sold, since inception, revenue bonds aggregating approximately $3,432 million, of which $2,637 million remain outstanding as of June 30, 1994. The revenue bonds do not constitute a debt or a pledge of the good faith and credit of AFICA or the Commonwealth or any political subdivision thereof (non-commitment debt). However, the Government Development Bank for Puerto Rico (GDB), an internal service fund, and one of its subsidiaries have issued a letter of credit and a guarantee totaling $140 million in connection with two tourism related revenue bond issuances.

Caribbean Basin Projects Financing Authority (CBPFA)

Since inception and up to June 30, 1994, CBPFA has sold revenue bonds aggregating approximately $522 million all of which were outstanding at June 30, 1994. Pursuant to the loan agreements covering the issuances of these bonds, the proceeds from the sales were borrowed from CBPFA by corporations and partnerships operating in qualified Caribbean Basin countries. The revenue bonds are special and limited obligations of the CBPFA and, except to the extent payable from bond proceeds and investments thereof, will be payable solely from and secured by a pledge and assignment of the amounts payable under the loan agreements between the CBPFA and the borrowers. Furthermore, payment of the principal and interest on the revenue bonds is unconditionally guaranteed by the borrowers, their parent companies and/or letters of credit from major United States banks or United States branches of international banks. The revenue bonds do not constitute a debt or a pledge of the good faith and credit of CBPFA or the Commonwealth or any political subdivision thereof (non-commitment debt).

Corporation of Stocks and Deposit Insurance for the Savings and Loans Cooperatives (CSDISLC)

CSDISLC is a defendant in a case where the plaintiffs claim $10 million in damages allegedly suffered due to the imposition by CSDISLC of a special premium and request that the special premium be deemed illegal and therefore eliminated. Management, based on advice from legal counsel, believes that CSDISLC will be able to successfully defend this case. However, the amount of approximately $5.3 million regarding the special premium assessed to the insured cooperatives has been recorded as deferred revenue in CSDISLC's balance sheet until a final determination is reached by the Superior Court of Puerto Rico.

CSDISLC and the insured cooperatives hold certain cash and cash equivalents and investments in equity in the Cooperative Bank. The Cooperative Bank incurred an operating loss of approximately $14 million in 1993 and had a stockholders' deficiency of approximately $7.4 million at December 31, 1993, according to its latest audited financial statements. The financial condition of CSDISLC and the insured cooperatives could be adversely affected if the Cooperative Bank is not able to continue as a going concern because these entities could potentially be unable to recover the carrying value of their deposits and investments in the Cooperative Bank. In June, 1994, the Legislative Assembly authorized the

Commonwealth to guarantee the payment of debt securities to be issued by the Cooperative Bank, up to a maximum of $10 million. This guarantee became effective in the amount of $8.3 million when an additional investment in common stock for the same amount was made by the Cooperative Bank's stockholders. This guarantee will be in effect for a period of 10 years. Management is of the opinion that the ultimate effect resulting from this condition will not have a material effect on CSDISLC's financial condition.

Under the terms of certain merger agreements for troubled cooperatives, CSDISLC has agreed to repurchase certain assets. At June 30, 1994, the loan portfolios sold subject to recourse had a remaining unpaid principal balance of approximately $30.3 million, which is the amount of potential risk associated with these particular loans. Certain loans are collateralized and the recourse provisions range for periods of 1 to 3 years. CSDISLC has established a loss reserve to cover this exposure.

15. RETIREMENT SYSTEMS

The Commonwealth has three contributory defined benefit pension plans:

- Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (ERS),
- Puerto Rico Judiciary Retirement System (JRS), and
- Annuity and Pension System for the Teachers of Puerto Rico (TRS).

The audited financial statements for ERS and JRS, as well as the unaudited financial statement for TRS, are presented in the fiduciary funds. Each system is independent. Assets may not be transferred from one system to another or used for any purpose other than to benefit each system's participants. In addition, the University of Puerto Rico Retirement System audited financial statements are included in the public university funds.

The pension plans engaged from time to time in securities lending transactions as authorized by local laws and regulations. Credit risk is controlled and monitored by the securities brokers and dealers contracted by the pension plans.

Plan Descriptions

A. Employees' Retirement System of the Government of PR and Its Instrumentalities (ERS)

The Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth. The System was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

Employees include those in the following categories:

- Police of Puerto Rico
- Justices of the Peace of Puerto Rico
- Members and employees of the Legislature
- Officers and employees of the Government of Puerto Rico, most components units and municipalities
- Members of the Employees Association of the Commonwealth of Puerto Rico
- Irregular employees fulfilling the requirements of a regular employee

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

The System provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case will the annuity be less than $200 per month.

Participants who have completed at least thirty years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first $550 of their monthly gross salary and 8.275% for the salary in excess of $550. The Commonwealth contributions are 9.275% of gross salary. Contributions requirements are established by law. Total employee and employer contributions during the year ended June 30, 1994 amounts to approximately $150 million and approximately $191 million, respectively. Total payroll covered for the year was approximately $1.9 billion.

Act number 1 dated February 16, 1990, made certain amendments applicable to new participants joining the System effective on April 1, 1990. Changes mainly consisted of an increase of the retirement age to 65 years, the elimination of the Merit Annuity and a reduction of the percentage for disability and death benefits.

B. Puerto Rico Judiciary Retirement System (JRS)

The Puerto Rico Judiciary Retirement System (JRS) is a single-employer defined benefit plan which is administered by the ERS. The System was created under Act 12, approved on October 19, 1954. The membership includes all individuals holding a position as Justice of the Supreme Court, Judge of the Superior Court or the District Court or Municipal Judges of the Commonwealth of Puerto Rico. The System provides retirement as well as death and disability benefits.

Participants are entitled to a retirement pension if they have reached the age of 60 and have at least 10 years of creditable service. The retirement pension of any participant shall be equal to 25% of final average salary during the last three years of creditable service plus 25/72 of one percent of the said average salary during the last three years for each month of creditable service in excess of 10 year of service. Effective July 28, 1993, percentages increased to 5% for credited service in excess of 10 years. The retirement pension shall not exceed 75% of the final average salary for the last three years.

All participants are required to make contributions to the plan equal to 8% of gross salary. The Commonwealth must contribute 20% of the applicable payroll. For the year ended June 30, 1994, judges made contributions, amounting to approximately $1.3 million. The amount contributed by the Commonwealth was approximately $3 million. Payroll covered for the year was approximately $12.6 million. Contribution requirements are established by law. Benefits vest after 10 years of credited service.

C. Annuity and Pension System for the Teachers of Puerto Rico (TRS)

The Annuity and Pension System for the Teachers of Puerto Rico (TRS) is a cost-sharing multiple-employer plan which was created under Act 218 approved on May 6, 1951.

TRS provides retirement benefits to all teachers of the Department of Education of the Commonwealth, those holding positions in the Retirement Board, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education, teachers who work in the Teachers' Association of Puerto Rico, and those who practice in private institutions accredited by the Department of Education.

The Plan provides retirement, death and disability benefits. Members are eligible for retirement benefits upon:

(a) completion of 30 years of credited service, or

(b) attainment of age 52 and completion of 25 years of credited service or

(c) attainment of age 60 and completion of 10 years of credited service.

The amount of the annuity shall be computed based on the teacher's final average salary, which is the highest salary over three years. The minimum service annuity is $300 per month and the maximum is 75% of final average salary. Benefits vest after ten years of plan participation.

Participants must have at least five years of creditable service to be eligible for a non-occupational disability pension.

The disability retirement annuity is 1.8% of final average salary times years of credited service, but not less than the amount payable as a service retirement annuity.

A member should contribute to the plan with 7% of it's total salary. The Commonwealth matches the member's contribution at a rate of 8.5% of total salary. For the year ended June 30, 1994, the unaudited employees and employer's contributions amounted to $51.7 and $62.8 million respectively. Total payroll covered for the year was approximately $781 million.

Funding Status and Progress

The pension benefit obligation is a standardized disclosure measure of the present value of defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users access funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons with other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plans.

The following table presents the date of the most recent actuarial valuation used to determine the pension benefit obligation and significant assumptions used in the actuarial valuation:

	ERS	JRS	TRS
Date of latest actuarial valuation	June 30, 1994	June 30, 1994	June 30, 1992
Significant assumptions:			
Investment rate of return per year	8.5%	8.5%	8%
Salary increases due to inflation, merit and longevity	5%	5%	6%
Mortality rates table	GA'51	GA'51	GA'83

The standardized measure of the unfunded pension benefit obligation as of June 30, 1994 for the ERS, JRS and TRS is as follows (expressed in thousands):

	ERS	JRS	TRS (Unaudited)
Pension benefit obligation:			
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$2,888,000	$ 37,000	$1,146,022
Current employees:			
Accumulated employee contributions, including allocated investment income	1,128,000	8,600	1,520,353
Employer-financed vested	1,428,000	11,100	441,825
Employer-financed nonvested	98,000	2,200	209,755
Total pension benefit obligation	$5,542,000	$58,900	$3,317,955

	ERS	JRS	TRS (Unaudited)
Total pension benefit obligation	$5,542,000	$58,900	$3,317,955
Net assets available for benefits, at market for ERS and JRS, and at cost for TRS	953,626	35,607	1,231,402
Unfunded pension benefit obligation	$4,588,374	$ 23,293	$2,086,553

The membership at June 30, 1994 of ERS, JRS and TRS consisted of:

	ERS	JRS	TRS (Unaudited)
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits	57,556	211	13,365
Active employees	151,935	248	48,734
Total members	209,491	459	62,099

The distribution of active employees between vested and nonvested is not readily available.

Contributions Made and Actuarial Computation

Contributions in 1994 and prior years were made based on percentages established by the law. Such percentages have not been based on actuarial studies. An actuarial computation of the annual contribution applicable to the Commonwealth as of June 30, 1994 have not been prepared. Accordingly, the amounts by which the actual contributions are under the required actuarial contribution are not known.

Trend Information

Historical trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. An analysis of funding progress for the three latest available years is presented below:

	ERS	JRS	TRS (Unaudited)
Net assets available for benefits as a percentage of total pension benefit obligation:			
June 30, 1994	17%	60%	N/A
June 30, 1993	18%	64%	N/A
June 30, 1992	18%	61%	37%
Unfunded pension benefit obligation as a percentage of annual covered payroll:			
June 30, 1994	245%	185%	N/A
June 30, 1993	230%	158%	N/A
June 30, 1992	236%	158%	267%

	ERS	JRS	TRS (Unaudited)
Employer contributions (not actuarially determined) as a percentage of annual covered payroll:			
June 30, 1994	10%	24%	N/A
June 30, 1993	10%	22%	N/A
June 30, 1992	10%	19%	8.5%

N/A = Not Available

For a ten-year trend information, refer to the separately issued financial statements of ERS and JRS. The information for TRS is unaudited and the ten year trend information is not readily available.

On May 21 and September 4, 1992, the Legislature approved through Acts No. 10 and 62, respectively, a 3% increase in the annual pension benefit paid by the ERS and TRS, respectively. This increase was applied retroactively to January 1992 and will be in effect for the next three years. Subsequently, the annual pension benefit may be increased upon favorable recommendation by the Systems' actuaries and Board of Trustees.

The Commonwealth did not obtain an actuarial update for the TRS as required by GASB Statement 5, ***Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers.***

D. University of Puerto Rico Retirement System - Plan Description

The University of Puerto Rico (the University) contributes to the University of Puerto Rico Retirement System (the System), a single-employer defined benefit public employee retirement system that acts as a common investment and administrative agent for the University. The System is the administrator of the plan created under Act No. 135, approved on May 7, 1942, and became effective on January 1, 1945. The University's payroll for employees covered by the System for the year ended June 30, 1994 was approximately $233 million.

All full-time employees and employees contracted for a period of 9 months by the University are eligible to participate in the System. Benefits vest after 10 years of service. University employees who retire at or after age 58 with 10 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 15% of their average compensation for the highest 36 months. Maximum benefits equal to 75% of average compensation generally require 30 years of service and attainment of age 55. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by law.

University employees are required to contribute 4% to 8% of their annual salary to the System. The University is required to contribute 14% of applicable payroll.

Certain amendments have been made to the System's plan for which the actuaries are suggesting increasing the University's contributions to 15% and 16% for years ending June 30, 1995 and 1996, respectively, and the increase in pension benefits of 3% increase the maximum annual compensation, and in the Christmas bonus. These changes have resulted in a significant increase of the pension benefit obligation.

Funding Status and Progress

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1993. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5% a year compounded annually, (c) mortality rates based on UP-1984 Group Annuity Mortality Table. The information as of June 30, 1994 was prepared by the actuaries by projecting the results of the actuarial valuation performed by them as of June 30, 1993.

Total unfunded pension benefit obligation applicable to the University's employees at June 30, 1994 follows (expressed in thousands):

Pension benefit obligation:	
Retirees, beneficiaries, and terminated employees not yet receiving benefits	$ 352,200
Current employees:	
Accumulated employee contributions including allocated investment earnings	127,563
Employer-financed vested	237,145
Employer-financed non-vested	54,181
Total pension benefit obligation	771,089
Net assets available for benefits, at market value	344,778
Unfunded pension benefit obligation	$ 426,311

Actuarially Determined Contribution Requirements and Contributions Made

The System's funding policy requires actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. However, the contributions are made on a predetermined basis instead of the actuarially determined basis.

The actuarial valuation as of June 30, 1994 revealed an actuarially accrued liability of approximately $771 million and an unfunded accrued liability of approximately $426 million. During the year the University contributed approximately $35.2 million to its retirement plan and recognized such amount as expenditure. The required contribution was approximately $38.5 million. The difference of approximately $3.3 million has not been accrued in the public university funds as required by generally accepted accounting principles. If such amount had been accrued together with prior years cumulative unfunded amount, the expenditures and accrued liabilities in the public university funds would have increased and the fund balance decreased by approximately $170 million.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. For the year ended June 30, 1994 assets were sufficient to fund 44.7% of the pension benefit obligation. Unfunded pension benefit obligation represented 182.8% of the annual payroll for employees covered by the System. Showing unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. For a five-year historical trend, refer to the separately issued System's financial statements.

An analysis of funding progress for the three latest years is presented below:

	June 30 1994	1993	1992
Net assets available for benefits as a percentage of total pension benefit obligation	44.7%	46.2%	46.2%
Unfunded pension benefit obligation as a percentage of annual covered payroll	182.8%	180.1%	162.1%
Employer contributions (not actuarially determined) as a percentage of annual covered payroll	14.6%	14.6%	13.4%

16. SEGMENT INFORMATION - Proprietary Funds

The proprietary funds are composed of the following entities which generally follow the accrual basis of accounting:

Enterprise Funds

Health Facilities and Services Administration of Puerto Rico (HFSA) (Unaudited)

Health Facilities and Services Administration of Puerto Rico (HFSA) was created as an executive agency in 1975 to lease and operate hospitals and other health facilities and to provide for the improvement, alteration or repair of such facilities. HFSA is authorized to borrow money and issue notes or other obligations for the purpose of financing the costs of improvements and providing health services to the general public. Patients, admitted to an institution under the jurisdiction of HFSA who are indigent, receive hospital and medical services free of charge; otherwise, payments for services rendered are required.

Advances from other funds mainly consist of a loan for approximately $326 million from the Government Development Bank for Puerto Rico (GDB), an internal service fund, to refinance an existing loan, provide additional resources for the purchase of equipment and rehabilitation of certain public hospitals, and to provide resources for the payment of outstanding debts. The loan is payable in semiannual installments commencing on July 1, 1993 and bears interest at 8%.

Lottery of Puerto Rico

The Lottery of Puerto Rico (the Lottery) was created under Law No. 465 of May of 1947. The Lottery is an operational unit of the Commonwealth of Puerto Rico Treasury Department and is engaged in the sale of tickets to authorized agents throughout the Commonwealth. It was created to help those authorized agents with an additional source of revenues and to supplement revenues for the general fund of the Commonwealth. The revenues obtained by the Lottery from the sale of tickets are distributed pursuant to the approved budget to cover the payment of prizes and general and administrative expenses. The excess of revenues over prizes and expenses must be transferred to the general fund of the Commonwealth.

The Additional Lottery System

The Additional Lottery System was created by Law No. 10 of May 24, 1989, as amended, and commenced operations on June 1, 1990. The Additional Lottery is an operational unit of the Commonwealth of Puerto Rico Treasury Department. Presently, two games (Pick 3 and Lotto) with several betting alternatives are offered by the Additional Lottery. Also, Law No. 10 requires the Additional Lottery to remit the excess of revenues over expenses to the Commonwealth. Deficits are not allowed to be offset against the excess of revenues over expenses. Remittances are earmarked as follows: 5% of the excess of revenues over expenses (net revenues) to a Contingency fund, 35% of remaining balance to the Municipal Autonomy fund, and the rest to the Commonwealth. All prize winners have 180 days to claim their prizes. After 180 days unclaimed prizes are transferred to the Commonwealth; during 1994, such transfers approximated $5 million.

Puerto Rico Highway and Transportation Authority (Enterprise fund only)

The Puerto Rico Highway and Transportation Authority (PRHTA) is a blended component unit of the Commonwealth, created by Act No. 74 of June 23, 1965, as amended, to provide roads and other transportation facilities for the planning, promotion and feasibility of mass transportation systems. The powers normally exercised by a Board of Directors are vested with the Commonwealth's Secretary of the Department of Transportation and Public Works (DTPW). PRHTA is exempt from the payment of any taxes on its revenues and properties.

Segment information for the enterprise funds is as follows (expressed in thousands):

	HFSA (Unaudited)	Lottery of PR	Additional Lottery	PRHTA
Operating revenues	$ 111,317	$457,968	$224,737	$ 2,634
Depreciation and amortization	11,843		22	667
Operating income (loss)	(812,908)	65,923	87,666	(2,531)
Non-Operating revenues, net:				
Operating transfers-in (out)	718,757	(62,747)	(87,666)	1,864
Net income (loss)	(94,151)	3,176	-0-	(677)
Current capital contribution				677
Property, plant and equipment:				
Additions and adjustments	14,639	209	48	361,536
Deletions and adjustments				3,494
Total assets	302,666	37,602	109,601	6,322
Total equity (deficit)	(480,255)	8,672	(1,365)	6,322

Internal Service Funds

Government Development Bank for Puerto Rico and Subsidiaries

Government Development Bank for Puerto Rico and Subsidiaries (GDB) was created as a public corporation in 1948 to act as fiscal agent for the Commonwealth and its components units and to make loans to components units and private enterprises which will further the economic development of Puerto Rico.

Public Buildings Authority

Public Buildings Authority (PBA) was created as a public corporation in 1958 to design and construct office buildings, courts, schools, health facilities, warehouses and related facilities for lease to the Commonwealth or any of its departments, agencies, instrumentalities, components units or to the municipalities of Puerto Rico and to finance and construct schools, healthcare, jails, and social welfare facilities. The annual rent for each building leased is computed based on the amounts needed by PBA for: (1) principal, interest and other amortization requirements of the notes and bonds issued to finance the buildings; (2) operating and maintenance expenses of the buildings, including a reasonable proportional share of PBA's administrative expenses, excluding depreciation; (3) cost of equipment replacement and other noncurrent operating and maintenance costs; and (4) reserve for such purposes. Rentals for operating and maintenance expenses, together with equipment replacement, are subject to escalation to permit PBA to recover costs in these areas.

Puerto Rico Land Administration

The Puerto Rico Land Administration (PRLA) was created to promote the welfare of the community through efforts and programs designed for the efficient utilization of the land in Puerto Rico. Among its programs, PRLA acquires, through negotiation or expropriation, parcels of land on behalf of government instrumentalities, for future development or for reserve.

Segment information for the internal service funds is as follows (expressed in thousands):

	Government Development Bank for Puerto Rico	Public Buildings Authority	Puerto Rico Land Administration
Operating revenues	$388,173	$ 175,373	$15,248
Depreciation and amortization	2,637	18,984	1,209
Operating income	72,382	6,566	4,901
Non-operating income	37,747	15,975	246
Operating transfers-in		479	
Net income	110,129	23,020	5,147
Transfers to contributed capital	(125,000)		
Transfers from contributed capital		41,065	
Property, plant and equipment:			
Additions and adjustments		67,707	1,149
Retirements and adjustments		8,779	
Total assets	7,451,208	1,372,356	214,715
Bonds and other long-term liabilities:			
Payable from operating revenues	2,538,872	1,189,065	5,000
Total equity	956,045	14,256	137,135

Intra-fund loans from GDB to PBA and PRLA for approximately $89 million were eliminated for financial reporting purposes in the combined balance sheet.

17. SUBSEQUENT EVENTS

Primary Government

On October 31, 1994, the Commonwealth enacted Law No. 120, ***Puerto Rico Internal Revenue Code of 1994*** (the Code). The Code's main purpose is to compile, in a single volume, all laws and regulations governing the Commonwealth's internal revenues. As part of this change, the Commonwealth approved the ***Income Tax Reform of 1994*** (the Reform), included as Subtitle A of the Code, which substantially revises the Puerto Rico income tax regulations including, among others, the reduction of income tax rate to certain taxable income brackets, and modifications of certain deductions in the tax returns for the calendar year ending December 31, 1995. The Commonwealth estimates a reduction of income tax revenues in the general fund of approximately $347 million for fiscal year 1995-96.

The Commonwealth has preliminary approved and intends to issue $325 million of 1995 Public Improvements Bonds in May, 1995. The net proceeds of the issuance will be substantially used to finance the construction of public structure.

On July 20, 1994, the Board of Trustees of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), authorized the issuance of Collateralized Promissory Notes (the Notes) to generate additional funds to carry out the investment objectives and to improve the investment portfolio. The Notes cannot exceed, in an aggregate principal amount, $200 million outstanding at any time, and a term to maturity up to 90 days so that at the end of each quarter the outstanding balance equals zero. The Notes will be secured by a pledge on ERS's securities. The Government Development Bank for Puerto Rico (GDB), an internal service fund, will act as ERS's agent for selling the Notes, effecting the pledge on the securities, securing them, investing their proceeds and acting as custodian of the securities purchased with the proceeds. GDB will issue and sell the Notes through brokers and record the transfer of and make payments of principal and interest on the Notes, all under such terms and conditions, and at such interest rates and prices, as GDB shall consider to be in the best interest of ERS. In connection with such issuance, GDB will pay a commission from the proceeds of the Notes to these brokers, in an amount to be determined. On December 14, 1994, the Board of Trustees changed the maximum principal amount from $200 million to $400 million. In addition, on December 14, 1994, the Board of Trustees approved the sale of the portfolio of the FNMA Guaranteed Mortgage Pass-Through securities acquired during March 1994. The net proceeds will be invested in short-term and liquid securities. GDB will also act as sales agent and will manage the investment portfolio.

On July 28, 1994, the Commonwealth approved the appropriation of $110 million from the following four fiscal years' budget to aid the Puerto Rico Aqueduct and Sewer Authority, a discretely presented component unit, in its capital improvements program, and to subsidize its operations. On the same date, the Commonwealth enacted Law No. 45 providing guarantees for the payment of the principal and interest of the outstanding bonds payable by the Puerto Rico Aqueduct and Sewer Authority, as of July 28, 1994, which approximates $388 million, as well as any refunding bonds or other obligations issued subsequently.

On August 11, 1994, the Government Development Bank for Puerto Rico (GDB), an internal service fund, approved a loan for the Commonwealth for approximately $284.4 million to repay property taxes owed to the municipalities of Puerto Rico.

On August 12, 1994, the Commonwealth enacted a law authorizing the Secretary of the Treasury to take a loan of $25 million from the Government Development Bank for Puerto Rico (GDB), an internal service fund, to comply with the requirements of Law 89, of July 12, 1979, *Uniform Compensation Law*, to pay certain back-pay to the employees of the Puerto Rico Department of Education.

On October 24, 1994, the Commonwealth, through GDB, approved a loan for the Puerto Rico Industrial Development Company for $16 million, which will be due on September 30, 1995. The source of payment will be from legislative appropriations for fiscal year 1995-96.

On December 13, 1994 the Commonwealth enacted Law No. 134 to transfer all public housing buildings (with an unaudited book value of approximately $1,369 million) from the liquidated Puerto Rico Urban Renewal and Housing Corporation, (a liquidated component unit), to the Puerto Rico Public Housing Administration, which is part of the primary government. As part of the transfer, the Commonwealth will assume liabilities for approximately $238 million in bonds outstanding. In addition, the Commonwealth waived approximately $123 million on advances made by the Commonwealth to the now liquidated entity, in compensation for the transfer of the buildings.

The Commonwealth has preliminarily approved the appropriation of approximately $4.7 million from available resources for the Puerto Rico Ports Authority (PRPA), a discretely presented component unit, to improve its financial condition. In addition, on December 23, 1994, the Government Development Bank for Puerto Rico, an internal service fund, approved a $20 million loan to PRPA for the payment of certain liabilities. PRPA shall repay this loan in semestral installments for six years, except for $5 million that shall be appropriated by the Commonwealth during fiscal year 1994-95.

Effective July 1, 1994, Puerto Rico Land Administration transferred the Río Camuy Cave Park's assets, as well as the rights, obligations and personnel, to the Trust for the Development, Operation and Conservation of National Parks. The transfer is at no cost. This transfer will result in a reduction of capital of approximately $8.6 million. Under the agreement, the Administration will contribute, if necessary, up to $400,000, in quarterly installments of $100,000, to cover the Park's losses in fiscal 1994-1995. Provision has been made in the financial statements of the Puerto Rico Land Administration for the expected contributions.

Component Units - Other

Puerto Rico Aqueduct and Sewer Authority (PRASA) (Unaudited)

On July 28, 1994, the Legislature signed Law No. 45 (the Law) and Joint Resolution No. 298 (Joint Resolution) through which the Commonwealth guarantees the principal, premium and interest payments to the bondholders of all outstanding bonds issued by PRASA at the effective date of this law (approximately $388 million) and of all future bond issued or any other obligations incurred by PRASA to refinance all outstanding bonds covered by the guarantee. According to the Law, if PRASA's funds are not available for bond payments of principal, premium and interest, the Commonwealth will provide such funds to cover all required payments.

Also, PRASA will receive, through the Joint Resolution, a subsidy from the Commonwealth of $20 million, $25 million, $30 million and $35 million for fiscal years ending 1995, 1996, 1997 and 1998 respectively, to contribute with PRASA's financial and operational restructuration.

Sugar Corporation of Puerto Rico (SCPR)

In February 1995, the Commonwealth began the process of selling through competitive bids, the Sugar Corporation of Puerto Rico to a group of private investors for approximately $24 million. After the sale, the Commonwealth will continue indefinitely subsidizing the SCPR with annual appropriations of at least $5 million. The Commonwealth will also guarantee loans made to tenant farmers for approximately $15 million and make annual payments of $564,000 through 1997 to amortize an existing loan.

Puerto Rico Housing Bank and Finance Agency (PRHBFA)

In July, 1994, PRHBFA issued $125 million in Affordable Housing Mortgage Subsidy Program Collateralized Mortgage Revenue Bonds to provide funds for a program under which PRHBFA will purchase FNMA certificates backed by pools of mortgage loans to be made by participating lending institutions to low and moderate income families to finance the purchase of qualified singled family residential housing in Puerto Rico.

In September, 1994, PRHBFA issued Loan Insurance Claim Refunding Bonds to provide funds for the advance refunding of approximately $80.9 million of outstanding Loan Insurance Claim Bonds; and Subsidy Prepayment Refunding Bonds to provide advance refunding of approximately $301 million of Subsidy Prepayment Bonds. The Loan Insurance Claim Bonds were issued for providing funds for the payment of certain insurance obligations of PRHBFA guaranteed by the Commonwealth related to interim construction loans. The Subsidy Prepayment Bonds were issued for the purpose of providing funds for the prepayment of certain home mortgage subsidy obligations of the Department of Housing of the Commonwealth to benefit low and moderate income families in Puerto Rico. The proceeds from the Refunding Bonds were used to purchase and deposit in escrow certain US Government securities to provide debt service payments until the maturity of the refunded bonds. The principal and interest of the Loan Insurance Claim Refunding Bonds and the Subsidy Prepayment Refunding Bonds are payable from and secured by all amounts appropriated by the Legislature of the Commonwealth for payment of the bonds principal and interest and paid by the Secretary of the Treasury for such purpose and a pledge and assignment of all rights, title and interest of the PRHBFA in and to all monies and securities in the funds and accounts established under the Loan Insurance Claims Bond Indenture.

Right to Employment Administration (REA)

Beginning on July 1, 1994, REA had a reduction of Job Training Partnerchip Act (JTPA) funds of approximately $54 million. REA will receive only JTPA funds for the Program Titles III, II-A 5% and II-A 3%. The funds previously provided to REA will be used directly by the municipal consortiums who now will administer such programs.

Office for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation

On December 13, 1994, the Commonwealth approved Act No. 134, which authorized the transfer of the low income housing projects constructed by PRURHC with the Federally - Assisted Low Income Housing Program (Tittle III) to the Puerto Rico Public Housing Administration, the actual administrator of the Title III Program; and the General Obligation Bonds Payable to the Puerto Rico Treasury Department. According to the act, the value of assets and liabilities transferred was established approximately $1.4 billion and $238 million, respectively.

Commercial and Agricultural Credit and Development Corporation

During fiscal year 1993-1994, the Corporation initiated a restructuring plan to reduce costs and increase operating efficiency. As part of such plan, management decided to eliminate the Corporation's financing activities, effective September 30, 1994. The restructuring will include the closing of the regional offices, and employee terminations and relocations. As of June 30, 1994, management provided for the estimated costs of the restructuring through a charge to income amounting to approximately $2.2 million. The reserve considers the costs of lease cancellations, severance and other employee benefits approved by the Corporation's Board of Directors.

Agricultural Services Administration; and the Agricultural Development Administration

In accordance to a Reorganization Plan, Law No. 5 was enacted by the Governor in order to reorganize the Department of Agriculture. The plan creates the *Agricultural Services and Development Administration* and transfer to this structure the power and legal functions of the Agricultural Services Administration and the Agricultural Development Administration. Also the personnel, property and funds will be transferred to the new organization. Law No. 5 is effective on July 1, 1994 and reorganization begins with the transfers mentioned above. Also, the Department of Agriculture will be responsible to coordinate, plan, supervise and evaluate all efforts, programs and public entities to develop the plan created at maximum.

18. SALE OF THE PUERTO RICO MARITIME SHIPPING AUTHORITY (PRMSA)

On March 3, 1995, the Commonwealth sold the assets and operations of the Puerto Rico Maritime Shipping Authority (PRMSA) to a group of private investors.

As part of the agreement, the Commonwealth assumed debt of approximately $300 million and the Government Development Bank for Puerto Rico, (GDB), an internal service fund, is committed to purchase from third parties approximately $100 million of loans owed by PRMSA. Also, GDB may provide a liquidity facility for certain contingencies of PRMSA. The Commonwealth enacted a law that provides that the Commonwealth's general fund will appropriate funds from its future budgets to repay GDB for all the payments made for PRMSA's debt and the liquidity facility.

APPENDIX III

[FORM OF OPINIONS OF BOND COUNSEL]

[Letterhead]

May , 1995

Hon. Manuel Díaz Saldaña
Secretary of the Treasury of Puerto Rico
San Juan, Puerto Rico

Dear Sir:

We have examined Act No. 33 of the Legislature of Puerto Rico, approved December 7, 1942 (the "Act"), and certified copies of the legal proceedings, including a resolution adopted by the Secretary of the Treasury of the Commonwealth of Puerto Rico and approved by the Acting Governor of the Commonwealth of Puerto Rico (the "Resolution"), and other proofs submitted relative to the issuance and sale of the following described bonds (the "Bonds"):

$90,180,000
COMMONWEALTH OF PUERTO RICO
PUBLIC IMPROVEMENT REFUNDING BONDS, SERIES 1995
(General Obligation Bonds)
Dated: April 15, 1995

Maturing on July 1 of the years and in such principal amounts, subject to redemption and bearing interest at the rates, all as set forth in the Resolution. The Bonds are issuable as registered Bonds without coupons in the manner and in accordance with the terms and conditions of the Resolution.

We have also examined one of the Bonds as executed and authenticated.

From such examination we are of the opinion that:

1. The Act is valid.

2. Said proceedings have been validly and legally taken.

3. The Act and said proceedings and proofs show lawful authority for the issuance and sale of the Bonds, and the Bonds constitute valid and binding general obligations of the Commonwealth of Puerto Rico for the payment of the principal of and the interest on which the good faith, credit and taxing power of the Commonwealth of Puerto Rico are pledged.

4. Under the provisions of the Acts of Congress now in force and under existing regulations, rulings and court decisions, (i) subject to compliance with the covenant referred to below and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the Resolution regarding the use, expenditure and investment of Bond proceeds and the timely payment of certain investment earnings to the Treasury of the United States, if required, interest on the Bonds is not includable in gross income for federal income tax purposes; and (ii) the Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation.

Interest on the Bonds is not an item of tax preference for the purpose of computing the alternative minimum tax on individuals and corporations imposed by the Code. Such interest will, however, be includable in determining adjusted current earnings for purposes of the computation of the alternative minimum tax and the environmental tax on corporations imposed by the Code. The Code contains other provisions that could result in tax consequences, upon which we express no opinion, as a result of (a) ownership of Bonds or (b) the inclusion in certain computations (including, without limitation, those related to the corporate alternate minimum tax and environmental tax) of interest that is excluded from gross income.

The Commonwealth of Puerto Rico has covenanted to comply with the requirements of the Code, to the extent permitted by the Constitution and laws of the Commonwealth of Puerto Rico, so that interest on the Bonds will remain exempt from federal income taxes to which it is not subject on the date of issuance of the Bonds. We are not aware of any provisions of the Constitution or laws of the Commonwealth of Puerto Rico which would prevent the Commonwealth of Puerto Rico from complying with the requirements of the Code.

Respectfully submitted,

[To be signed "Greenberg,
Traurig, Hoffman, Lipoff,
Rosen & Quentel"]

[Letterhead]

May , 1995

Hon. Manuel Díaz Saldaña
Secretary of the Treasury of Puerto Rico
San Juan, Puerto Rico

Dear Sir:

We have examined Act No. 46 of the Legislature of Puerto Rico, approved July 28, 1994 (the "Act"), and certified copies of the legal proceedings, including a resolution adopted by the Secretary of the Treasury of the Commonwealth of Puerto Rico and approved by the Acting Governor of the Commonwealth of Puerto Rico (the "Resolution"), and other proofs submitted relative to the issuance and sale of the following described bonds (the "Bonds"):

$325,000,000
COMMONWEALTH OF PUERTO RICO
PUBLIC IMPROVEMENT BONDS OF 1995
(General Obligation Bonds)
Dated: April 15, 1995

Maturing on July 1 of the years and in such principal amounts, subject to redemption and bearing interest at the rates, all as set forth in the Resolution. The Bonds are issuable as registered Bonds without coupons in the manner and in accordance with the terms and conditions of the Resolution.

We have also examined one of the Bonds as executed and authenticated.

From such examination we are of the opinion that:

1. The Act is valid.

2. Said proceedings have been validly and legally taken.

3. The Act and said proceedings and proofs show lawful authority for the issuance and sale of the Bonds, and the Bonds constitute valid and binding general obligations of the Commonwealth of Puerto Rico for the payment of the principal of and the interest on which the good faith, credit and taxing power of the Commonwealth of Puerto Rico are pledged.

4. Under the provisions of the Acts of Congress now in force and under existing regulations, rulings and court decisions, (i) subject to compliance with the covenant referred to below and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the Resolution regarding the use, expenditure and investment of Bond proceeds and the timely payment of certain investment earnings to the Treasury of the United States, if required, interest on the Bonds is not includable in gross income for federal income tax purposes; and (ii) the Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation.

Interest on the Bonds is not an item of tax preference for the purpose of computing the alternative minimum tax on individuals and corporations imposed by the Code. Such interest will, however, be includable in determining adjusted current earnings for purposes of the computation of the alternative minimum tax and the environmental tax on corporations imposed by the Code. The Code contains other provisions that could result in tax consequences, upon which we express no opinion, as a result of (a) ownership of Bonds or (b) the inclusion in certain computations

(including, without limitation, those related to the corporate alternate minimum tax and environmental tax) of interest that is excluded from gross income.

The Commonwealth of Puerto Rico has covenanted to comply with the requirements of the Code, to the extent permitted by the Constitution and laws of the Commonwealth of Puerto Rico, so that interest on the Bonds will remain exempt from federal income taxes to which it is not subject on the date of issuance of the Bonds. We are not aware of any provisions of the Constitution or laws of the Commonwealth of Puerto Rico which would prevent the Commonwealth of Puerto Rico from complying with the requirements of the Code.

Respectfully submitted,

[To be signed "Greenberg,
Traurig, Hoffman, Lipoff,
Rosen & Quentel"]

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this day of

COUNTERSIGNED:

MBIA Insurance Corporation

_____
Resident Licensed Agent

_____
President

_____
City, State

Attest: _____
Assistant Secretary

SPECIMEN

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4/95