Government Development Bank for Puerto Rico

(A Component Unit of the
Commonwealth of Puerto Rico)

Basic Financial Statements and Required
Supplementary Information as of and
for the Year Ended June 30, 2009,
and Independent Auditors' Report

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors of
Government Development Bank for Puerto Rico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Government Development Bank for Puerto Rico (the "Bank"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2009, which collectively comprise the Bank's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Government Development Bank for Puerto Rico, as of June 30, 2009, and the respective changes in financial position and respective cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 5 to the financial statements, loans to the Commonwealth of Puerto Rico, its agencies and instrumentalities amounted to approximately $5,063,010,000 or 36.1% of the Bank's total assets as of June 30, 2009. These loans are expected to be collected from appropriations from, proceeds from bond issuances of, or revenues generated by the Commonwealth of Puerto Rico, its agencies and instrumentalities. The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past seven years and its credit ratings have been lowered. The collectibility of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth of Puerto Rico, its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges and/or bond issuances. Significant negative changes in these factors may have an adverse impact on the Bank's financial condition, liquidity, funding sources, and results of operations.

The management's discussion and analysis on pages 3 to 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Government Development Bank for Puerto Rico's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Deloitte & Touche LLP

November 27, 2009

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This section presents a narrative overview and analysis of the financial performance of Government Development Bank for Puerto Rico (the "Bank" or "GDB") as of and for the year ended June 30, 2009. The information presented here should be read in conjunction with the basic financial statements, including the notes thereto.

1. FINANCIAL HIGHLIGHTS

- Total assets at June 30, 2009 amounted to $14,039 million an increase of $1,723 million or 14% from the $12,316 million at June 30, 2008. Liabilities also increased to $11,588 million from $9,957 million or 16%.

- Net assets grew to $2,451 million from $2,359 million at June 30, 2008. The change in net assets of $92 million in fiscal year 2009 is composed of $146.2 million from business-type activities, and an excess of expenses and transfers over revenues of $54.2 million from governmental activities.

- The Legislature of the Commonwealth of Puerto Rico authorized a contribution to the Bank from the Puerto Rico Infrastructure Financing Authority (PRIFA). The contribution amounted to $154.2 million.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as introduction to the basic financial statements of the Bank. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Government-wide Financial Statements — The government-wide financial statements are designed to provide readers with a broad overview of the Bank's finances, in a manner similar to a private-sector business. The statement of net assets provides information on the Bank's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Bank is improving or deteriorating. The statement of activities presents information on how the Bank's net assets changed during the reporting period. Changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements — A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Bank's funds are divided in two categories: governmental funds and enterprise funds.

- *Governmental Funds* — Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of financial decisions related to the Bank's governmental activities. Both the governmental fund balance sheet and the governmental statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

- *Enterprise Funds* — Enterprise funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail. The enterprise fund financial statements of the Bank provide separate information on the business-type activities of the Bank's blended component units.

Notes to the Basic Financial Statements — The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements.

3. GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total assets and total liabilities of the Bank at June 30, 2009 amounted to $14,039 million and $11,588 million, respectively, for net assets of $2,451 million or 17.5% of total assets. Within the assets, it is the loan portfolio which shows the most significant growth of $1,222 million or 22% over fiscal year 2008 balance of $5,463 million. The proportion of loans to total assets increased to 47.6% from 44.4%. The loan portfolio was nevertheless quite active; over $2.4 billion were collected from loans to the public sector which represents 49% of its balance at June 30, 2008.

Investments of $4,374 million at June 30, 2009 show an immaterial decrease of less than 1% when compared to prior year's ending balance of $4,406 million. However, since the base of total assets grew by 14%, its percentage of total assets decreased from 35.8% to 31.2%.

The Bank issued several note series during fiscal year 2009 for a net increase of $925.6 million in this line item. These obligations partially funded the loan portfolio increase. Also, the Bank increased its funding from securities sold under agreements to repurchase by 25% over 2008 balance.

From the $2,451 million in net assets, $2,168 million or 88.5% are unrestricted, $177.8 million or 7.2 % are restricted for use in affordable housing programs, and the remaining $105 million or 4.3% are invested in capital assets, restricted for debt service, and for the mortgage loan insurance program. Governmental and business-type activities are discussed separately in the following subsections.

Governmental Activities — Total assets of governmental activities amounted to $133.8 million at June 30, 2009, before $85.2 million in net balances due to business-type activities. Total liabilities amounted to $19.7 million, for net assets of $28.9 million or 59.4% of total assets, net of balances due to business-type activities. Net assets have been broken down into the amounts restricted for debt service, $29.1 million, for affordable housing programs, $4.5 million, and the unrestricted deficit of $4.7 million, which means that the restriction on the use of available assets will not allow the Bank to satisfy its existing liabilities from those assets, and therefore that it will depend on future appropriations for the repayment of all its obligations.

Condensed financial information on assets, liabilities, and net assets of governmental activities as of June 30, 2009 and 2008 is shown below (amounts in thousands):

	June 30,			
	2009	2008	Amount	Percent
Assets:				
Restricted:				
Cash and due from banks, and deposits placed with banks	$ 28,720	$ 54,896	$ (26,176)	(47.7)%
Due from federal government		20,937	(20,937)	(100.0)%
Investments and investment contracts	99,258	118,011	(18,753)	(15.9)%
Loans receivable — net	2,062	2,520	(458)	(18.2)%
Other assets	3,763	4,045	(282)	(7.0)%
Total assets before internal balances	133,803	200,409	(66,606)	(33.2)%
Internal balances	(85,221)	(92,028)	6,807	(7.4)%
Total assets	48,582	108,381	(59,799)	(55.2)%
Liabilities:				
Accounts payable and accrued liabilities	14,896	20,322	(5,426)	(26.7)%
Notes payable:				
Due in one year		151	(151)	(100.0)%
Due in more than one year	4,811	4,811	0	0.0%
Total liabilities	19,707	25,284	(5,577)	(22.1)%
Net assets:				
Restricted for debt service	29,079	30,523	(1,444)	(4.7)%
Restricted for affordable housing programs	4,534	84,905	(80,371)	(94.7)%
Unrestricted deficit	(4,738)	(32,331)	27,593	(85.3)%
Total net assets	$ 28,875	$ 83,097	$ (54,222)	(65.3)%

Investments and investment contracts amounted to $99.3 million and account for the majority of assets held by governmental activities. These investments, together with cash and due from banks, and deposits placed with banks of $28.7 million are held to provide the funds necessary for the execution of the various affordable housing programs managed by the Puerto Rico Housing Finance Authority (the "Housing Finance Authority") and for debt service. Accrued liabilities mainly consist of subsidies payable on various housing programs.

Condensed financial information on expenses, program and general revenues, and changes in net assets of governmental activities for the years ended June 30, 2009 and 2008, is shown below (in thousands):

	Year ended June 30, 2009		
	General Government	Housing Assistance Programs	Total
Expenses	$ 4,555	$ 177,085	$ 181,640
Program revenues:			
Charges for services — financing and investment		6,616	6,616
Operating grants and contributions	-	127,411	127,411
Net expenses	$ (4,555)	$ (43,058)	(47,613)
Transfers — net			(6,609)
Change in net assets			(54,222)
Net assets — beginning of year			83,097
Net assets — end of year			$ 28,875

	Year ended June 30, 2008		
	General Government	Housing Assistance Programs	Total
Expenses	$ 5,165	$ 144,438	$ 149,603
Program revenues:			
Charges for services — financing and investment		10,228	10,228
Operating grants and contributions	-	133,012	133,012
Net expenses	$ (5,165)	$ (1,198)	(6,363)
Transfers — net			(4,235)
Change in net assets			(10,598)
Net assets — beginning of year			93,695
Net assets — end of year			$ 83,097

4. GOVERNMENTAL FUND RESULTS

Following is an analysis of the financial position and results of operations of the Bank's major governmental funds:

New Secure Housing Program — This fund is used to account for the resources available under the New Secure Housing Program to provide housing assistance benefits for specific participants that were affected by Hurricane Georges in 1998 or that live in hazard prone areas. This fund receives resources from the federal government, under a Federal Emergency Management Agency (FEMA) program, intended to provide financial resources to eligible participants for the relocation or reconstruction of their homes. The Housing Finance Authority restructured on a long-term basis its existing $50 million revolving credit facility with the Bank to complete the New Secure Housing Program by December 2009. The obligation will require debt service payments of approximately $67.6 million over a period of 20 years. The operating and administrative fund of the Housing Finance Authority will assume the debt service payments until Commonwealth appropriations are available.

No revenues from the federal government or from Commonwealth appropriations were recognized during 2009 or 2008 since FEMA discontinued reimbursing the Authority's project costs under the program until certain conditions are met. Construction costs paid during the years ended June 30, 2009 and 2008, amounted to $5.7 million and $6.1 million, respectively, which are presented as housing assistance program expenditures in the accompanying statement of revenues, expenditures, and changes in fund balance — governmental funds.

HUD Programs — This fund accounts for the U.S. Housing Act Section 8 programs administered by the Housing Finance Authority under the authorization of the U.S. Department of Housing and Urban Development (HUD).

Presently, the Housing Finance Authority operates four programs whereby low-income families receive directly or indirectly subsidies to pay for their rent. The housing vouchers program enables families to obtain rental housing in a neighborhood of their choice. The other programs are project-based subsidies whereby housing developers are given incentives to keep their properties available for certain markets. The expenditures of the HUD Programs fund increased $3 million from $116 million in 2008 to $119 million in 2009. The expenditures in the housing vouchers program of the HUD Programs fund increased $2 million because 115 additional vouchers were awarded when compared to the previous year.

The Key for Your Home Program — This fund accounts for the subsidy to low and moderate-income families with costs directly related to the purchase and rehabilitation of housing units. Total revenues during fiscal years 2009 and 2008, were $3 million and $4 million, respectively. Revenues arose principally from penalty reimbursements received from early prepayment of mortgages and interest income on deposits placed with banks. The fund had expenditures of $21 million and $13 million in 2009 and 2008, respectively. At June 30, 2009, this fund has a fund balance of $15 million. In prior years, this fund has received transfers from the Affordable Housing Mortgage Subsidy Program (AHMSP) funds. Act No. 124, the enabling legislation pursuant to which the AHMSP was created, allows for the transfer of fund surplus identified in other stages under the act to be used, among other permissible uses, to increase the Key for your Home Program fund.

AHMSP - Stages 7, 8, and 9 — The Stage 7 is a major fund and Stages 8 and 9 are nonmajor funds but management has elected to present these separately in the balance sheet and statement of revenues, expenditures and changes in fund balances to be consistent with their presentation in prior years. Following is an analysis of the operations of these funds:

These funds' operating objective is to provide funds for low-income families to be used either for the down payment on mortgages or mortgage subsidy payments. The funds receive appropriations from the Commonwealth to fund these payments.

AHMSP - Stage 7 — Expenditures exceeded revenues by $2 million for the year ended June 30, 2009. This is attributed to lower than expected Commonwealth appropriations received for the payment of the annual debt service.

AHMSP - Stage 8 — This fund had a net change in fund balance of $51,000 resulting from revenues of $867,000 less total expenditures of $816,000.

AHMSP - Stage 9 — During the year ended June 30, 2009, the fund received an appropriation from the Commonwealth in the amount of $26,092. These funds were used to repay advances from the Bank that had been used to fund subsidy payments.

Business-Type Activities

Condensed financial information on assets, liabilities, and net assets as of June 30, 2009 and 2008, is presented below (amounts in thousands):

	June 30,		Change	
	2009	2008	Amount	Percent
Assets:				
Cash and due from banks	$ 23,623	$ 81,922	$ (58,299)	(71.2)%
Federal funds sold	1,364,000	316,620	1,047,380	330.8%
Deposits placed with banks	1,086,366	1,566,118	(479,752)	(30.6)%
Investments and investment contracts	4,274,333	4,287,850	(13,517)	(0.3)%
Loans receivable — net	6,683,341	5,460,899	1,222,442	22.4%
Interest and other receivables	193,892	262,630	(68,738)	(26.2)%
Real estate available for sale	204,688	59,472	145,216	244.2%
Capital assets	17,452	27,397	(9,945)	(36.3)%
Other assets	57,657	52,678	4,979	9.5%
Internal balances	85,221	92,028	(6,807)	(7.4)%
Total assets	13,990,573	12,207,614	1,782,959	14.6%
Liabilities:				
Deposits:				
Demand	3,187,495	2,720,148	467,347	17.2%
Certificates of deposit	4,367,313	4,283,385	83,928	2.0%
Securities sold under agreements to repurchase	859,053	687,200	171,853	25.0%
Commercial paper		500	(500)	(100.0)%
Accrued interest payable	24,931	27,909	(2,978)	(10.7)%
Accounts payable, accrued liabilities, and other liabilities	86,315	94,959	(8,644)	(9.1)%
Certificates of indebtedness	11,800	11,800		
Bonds and notes payable:				
Due in one year	136,679	156,652	(19,973)	(12.7)%
Due in more than one year	2,895,180	1,949,435	945,745	48.5%
Total liabilities	11,568,766	9,931,988	1,636,778	16.5%
Net assets:				
Invested in capital assets	17,452	27,397	(9,945)	(36.3)%
Restricted for:				
Mortgage loan insurance	58,600	54,386	4,214	7.7%
Affordable housing programs	173,211	175,073	(1,862)	(1.1)%
Unrestricted	2,172,544	2,018,770	153,774	7.6%
Total net assets	$ 2,421,807	$ 2,275,626	$ 146,181	6.4%

Federal Funds Sold and Deposits Placed with Banks — The Bank incremented its federal funds sold by $1,047 million, from $316.6 million at June 30, 2008 to $1,364 million at June 30, 2009, while reducing its deposits placed with banks by 31%, from $1,566 million to $1,086 million. The Bank had reduced the federal funds during 2008 in favor of other instruments with higher returns, but as funds available exceeded the limit imposed by our policies, the federal funds sold increased particularly at year-end.

Investments and Investment Contracts — Investments and investment contracts held in business-type activities amounted to $4,274 million at June 30, 2009. This amount represents a slight decrease of $13.5 million or 0.3% when compared to the prior year balance of $4,288 million.

Similar to the government-wide basis share, the investment portfolio comprised 30.6% of the total assets of the Bank's business-type activities at June 30, 2009, down by 4.5% as compared to 35.1% at the close of fiscal year 2008. Within the investment securities portfolio, $1,693 million at June 30, 2009 and $1,653 million at June 30, 2008 were restricted or pledged as collateral or payment source for specific borrowings.

Loans Receivable — Net loans receivable increased by $1,222 million, from the $5,461 million balance at June 30, 2008 to $6,683 million at June 30, 2009. The increase arises from the Bank's basic role of providing financial support to the Commonwealth's public works, particularly in times of economic hardships, such as the prevailing circumstances in the Island and world-wide. To back the governmental efforts in improving and stimulating the Island's economy, the Bank financed the development and construction of infrastructure, housing projects and hotels. Among the new financings, there are $165 million or 13.5% of the increase that are payable with funds from the American Recovery and Reinvestment Act (ARRA).

Loans to municipalities are responsible by 14.5% of the net increase with $174 million over prior year's balance. Some of these loans were possible with the improvement of their debt margin capacity as a result of the municipal sales tax and the municipal redemption fund.

Private sector loans outstanding at June 30, 2009 and 2008 amounted to $457 million and $475 million, respectively, net of an allowance for loan losses of $73.7 million and $30.8 million, respectively. Private sector loans mainly include loan facilities for the housing and tourism sectors through some component units of the Bank. Refer to note 5 for further information on loans.

Real Estate Available for Sale — Compared to June 30, 2008, real state grew from $59.5 million to $204.7 million due to the receipt of several properties in lieu of payment of a loan whose principal balance and accrued interest receivable amounted to $144.2 million at December 30, 2008. Their original appraised value was $155.9 million. The Bank reappraised all the properties and, due to a decrease in value of $27 million, a receivable was recorded as permitted by the agreement entered into with the transferor. Presently, the Bank is dealing with the agencies involved in the transaction to obtain other properties to satisfy the deficiency in their current value, while it is already working in their disposition through the sale to either other public parties for which the properties may be appropriate for an ongoing plan or to interested private parties. See Note 7 to the basic financial statements for additional information on real estate available for sale.

Capital Assets — Capital assets, net of accumulated depreciation and amortization, amounted to $17.5 million at June 30, 2009, a decrease of $9.9 million from prior year. The decrease comes from the reclassification of a lot of land where the Bank intended to build its new headquarters; however, the project was cancelled in the current year. The property has a carrying value of $8.1 million and was reclassified to real estate available for sale. Refer to Note 8 to the basic financial statements for additional information on capital assets.

Deposits — Deposits mainly consist of interest-bearing demand deposit accounts, special government deposit accounts, and time deposits from the Commonwealth, its agencies, instrumentalities, and municipalities.

Demand deposits and certificates of deposit had a combined increase of $551 million, from $7,004 million at June 30, 2008 to $7,555 million at June 30, 2009. Deposits constitute approximately two thirds of total liabilities, 65.3% and 70.5% at June 30, 2009 and 2008, respectively.

Securities Sold under Agreement to Repurchase — Securities sold under agreements to repurchase increased by $172 million or by 25% from $687 million to $859 million at June 30, 2009. These obligations partially replaced commercial paper as a source of funding.

Other Borrowed Funds — The Bank issued several note series during fiscal year 2009, which explains the net growth of $925.8 million or $44.0% over last year's balance of $2,106 million. The Bank uses the proceeds of the obligations for general operational purposes that include, among others, the substitution of higher cost debt, increasing its investment portfolio and the funding of loans. All the notes issued during fiscal year 2009 consist of term notes maturing on various dates from February 1, 2012 to February 1, 2019, but also all have early redemption options. Interest rates range from 5.5% to 6.5%. (Refer to Note 13).

Condensed financial information on expenses, program revenues, and changes in net assets for business-type activities for the years ended June 30, 2009 and 2008 is presented below (in thousands):

	Year ended June 30, 2009			
		Program revenues		
		Charges for services		
Activity	Expenses	Fees, commissions, and other	Financing and investment	Net revenues (expenses)
GDB Operating Fund	$ 318,792	$ 14,962	$ 332,559	$ 28,729
Housing Finance Authority	88,024	11,391	101,322	24,689
Tourism Development Fund	63,284	3,342	10,685	(49,257)
Public Finance Corporation	3,745		3,755	10
Capital Fund	67	10	(16,136)	(16,193)
Development Fund	2,929	46	383	(2,500)
Other nonmajor	136	-	8	(128)
Total	$ 476,977	$ 29,751	$ 432,576	(14,650)
Special item —Transfer from Puerto Rico Infrastructure Financing Authority				154,222
Transfers from governmental activities				6,609
Change in net assets				146,181
Net assets — beginning of year				2,275,626
Net assets — end of year				$ 2,421,807

	Year ended June 30, 2008			
		Program revenues		
		Charges for services		
Activity	Expenses	Fees, commissions, and other	Financing and investment	Net revenues (expenses)
GDB Operating Fund	$381,694	$35,759	$453,163	$ 107,228
Housing Finance Authority	92,053	10,905	97,610	16,462
Tourism Development Fund	16,159	3,408	21,377	8,626
Public Finance Corporation	7,165		7,234	69
Capital Fund	68	59	(4,835)	(4,844)
Development Fund	(5,099)	58	1,498	6,655
Other nonmajor	182	-	75	(107)
Total	$492,222	$50,189	$576,122	134,089
Special item —Early Retirement Program				(40,243)
Transfers from governmental activities				4,235
Change in net assets				98,081
Net assets — beginning of year				2,177,545
Net assets — end of year				$2,275,626

Activities presented in the statement of activities coincide with the major enterprise funds of the Bank. GDB Operating Fund generated financing and investment revenues of $332.6 million from its loan and investment portfolios, and $15 million in other charges for services. These revenues covered $318.8 million in expenses for net revenues from GDB Operating Fund of $28.7 million, surpassing the net revenues of any other activity. The contribution received from PRIFA raised the change in net assets by $154.2 million to $182.9 million.

The Housing Finance Authority activities were the second largest contributor to the change in net assets with net revenues of $24.7 million. Most major component units closed fiscal year 2009 with net losses as follows: the Tourism Development Fund, $49.3 million; Capital Fund, $16.2 million and Development Fund, $2.5 million.

Enterprise Funds — Following is a brief discussion of the most significant changes in the Bank's enterprise funds, not previously discussed. Our main focus will be on GDB Operating Fund, since separate basic financial statements are issued for each of the Bank's other major enterprise funds, which are blended component units.

GDB Operating Fund — Total assets of the GDB Operating Fund amounted to $13,010 million at June 30, 2009, compared to $10,896 million at June 30, 2008. This represents an increase of $2,114 million, which was mainly sustained by the net increase in liabilities of $1,931 million. As already discussed, the GDB Operating Fund issued debt widening its assets base and obtaining more liquidity to assist the governmental needs in times of economic distress. Loans to the public sector increased by $1,243 million and investments by $218 million. However, the accrued interest receivable decreased from $259 million at June 30, 2008 to $120 million at June 30, 2009. This represents a reduction of 53.5%. Some of the interest was collected from a local bond issue of the Sales Tax Financing Corporation. (Refer to note 5.)

Income before special items and transfers of the GDB Operating Fund experienced a significant decline from $107.2 million in fiscal year 2008 to $28.7 million in fiscal year 2009, or a reduction of $78.6 million, which represents a 73.3%. Following is a discussion of the various components of the change in net assets of the GDB Operating Fund, compared to the prior year:

(a) Interest Income, Interest Expense, and Change in Fair Value of Investments

Net investment income, the difference between investment income and interest expense, decreased $56.2 million or 49.9%, from $112.5 million in 2008 to $56.4 million in 2009. Most of the reduction results from the investment portfolio which shows a decrease of $96.8 million or 49.7% compared to prior year results. Change in fair value of investments contributed in the decline with a loss of $900,000. That is $5.1 million less than the $4.2 million gain of fiscal year 2008. Interest income from loans also decreased $18.7 million or 7.4% mainly because of lower rates, even though average balance was higher than that of 2008. Interest expense decreased $64.4 million or 18.9%.

(b) Provision for Losses on Loans, Guarantees and Letters of Credit

The experience with the public sector loan portfolio, even in periods of economic distress as the present, provides continued comfort to management in their belief that there is no need for further provisions for either the loan portfolio or for the guarantees and letters of credit.

(c) Non-interest Income

Fiscal agency fees constitute the main component of non-interest income. The activity of fiscal year 2009 was within the usual range, which is approximately from $8 million to $10 million. However, compared to the intense activity of fiscal year 2008, the $10.9 million of 2009 represents a reduction of 46%.

(d) Non-interest Expenses

Total non-interest expenses showed no significant variation; they barely increased $700,000. To help in the disposition of the various real estate properties that the Bank has in inventory, the Bank hired the services of some realtors. Consequently, the Bank adjusted the net realizable value of certain properties available for sale by the added costs of sale. The adjustment amounted to $1.2 million.

(e) *Special Item* — In January 2009, it was determined that the liquidation of various U.S. Treasury State and Local Government Securities (SLGS) used as collateral for Special Obligation Bonds issued in 2000 by PRIFA to finance various capital projects for the Puerto Rico Aqueduct and Sewer Authority would provide resources to cancel the debt as well as to make a contribution to the Bank and help the Commonwealth to cope with the projected deficit of fiscal year 2009.

Upon redemption of the SLGS and after the debt service of the 2000 Bonds, $762.6 million were received from the redemption proceeds. Of this amount, $300 million was set to capitalize the Corpus Account of PRIFA, $308.4 million was paid out to the Commonwealth's Treasury Department to close the 2009 fiscal year budget deficit, and $154.2 million was contributed to the Bank. The contribution was received during 2009, except for $53.5 million accrued as a receivable at June 30, 2009.

Housing Finance Authority — Net assets of the Authority increased $31 million from $546 million in 2008 to $577 million in 2009 as a result of decreases in total assets of $153 million and in liabilities of $184 million. The decrease in total assets is mainly due to the following:

- Investments and deposits placed with banks decreased from $1,562 million in 2008 to $1,411 million in 2009 or a $151 million decrease. This decrease was principally the result of the partial redemption of the Single Family Mortgage Revenue Bonds Portfolio X with unused proceeds of $145 million.

- Loans receivable decreased $3 million, from $206 million in 2008 to $203 million in 2009. The decrease in loans receivable was principally the result of the sale of loans amounting to $33.5 million that took place in fiscal year 2009, a significant increase when compared to loan sales of $5 million during 2008. Also, principal collected during 2009 amounted to $12.7 million. The decrease was partially offset by loan originations of approximately $41.7 million.

The decrease in total liabilities is mainly due to an early redemption of the Single Family Mortgage Revenue Bonds Portfolio X for $145 million.

However, change in net assets grew $19.4 million, from $11.9 million in 2008 to $31.3 million in 2009. Two main areas contributed to this: the net increase in fair value of investments, $13.6 million in 2009, which is $14.4 million over prior year's results, and the cost in 2008 of the early retirement program that amounted to $8.8 million.

Tourism Development Fund — Total assets decreased to $382.1 million from $393.6 million in 2008. The net reduction in assets results from an increase in liabilities of $37.8 million offset by a loss of $49 million. The Tourism Development Fund mostly finance its loan portfolio through facilities obtained from the Bank. Notes payable due to the Bank at year-end were $246.3 million for an increase of $32.3 million from June 30, 2008. The Tourism Fund originated approximately $34 million in loans to the private sector during the year ended June 30, 2009. These loans are principally collateralized by real estate property to minimize the credit risk. During fiscal year 2009, the Tourism Development Fund adjusted its allowance for possible loan losses due mainly to an impaired loan for which the current appraised value of the collateral, net of estimated selling costs, is lower than the net investment in the loan. The adjustment amounted to $47 million.

At June 30, 2009, outstanding guarantees and letters of credit of the Tourism Development Fund amounted to $117 million. Also, the exposure assessment required an increase of the allowance for possible losses on guarantees and letters of credit of $6 million.

Net assets of the Tourism Development Fund decreased $49.3 million during the year to $100.7 million at June 30, 2009 because of provision expenses that totaled $53 million. However, there were no charges or actual disbursements on guarantees and letters of credit.

Public Finance Corporation — Change in net assets decreased to $10,000 from $69,000 in fiscal year 2008. On October 21, 2008, the Sales Tax Corporation restructured certain escrow funds. The restructuring provided $158.4 million of which $80.2 million were used for the redemption of certain no commitment debt of the Public Finance Corporation. (Refer to Note 18.)

Capital Fund — The Capital Fund's total net assets decreased $16.2 million, which represents a negative variance of $11.4 million when compared to the prior year net loss of $4.8 million. The results of the Capital Fund are determined by the fluctuations of the investment market and the resulting change in fair value of investments that in 2009 decreased by approximately $16.7 million.

Development Fund — The Development Fund net loss was the result of a $2.9 million provision for possible losses on its guarantees to *The Key for Your Business Program* managed by the Economic Development Bank for Puerto Rico, a component unit of the Commonwealth. The Development Fund guarantees one third of the loans' principal plus interest and charges, up to $15 million. At June 30, 2009, the Development Fund has outstanding guarantees amounting to approximately $14.7 million.

5. CONTACTING THE BANK'S FINANCIAL MANAGEMENT

This report is designed to provide all interested with a general overview of the Bank's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Government Development Bank for Puerto Rico, P.O. Box 42001, San Juan, Puerto Rico, 00940-2001.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and due from banks	$ -	$ 5,848,209	$ 5,848,209
Federal funds sold		1,364,000,000	1,364,000,000
Deposits placed with banks		1,085,257,933	1,085,257,933
Investments and investment contracts		2,580,994,163	2,580,994,163
Loans receivable — net		6,677,450,043	6,677,450,043
Interest and other receivables		191,390,695	191,390,695
Due from other funds	(85,221,237)	85,221,237	-
Restricted assets:			
Cash and due from banks	2,358,005	17,774,624	20,132,629
Deposits placed with banks	26,362,005	1,108,433	27,470,438
Investments and investment contracts	99,257,908	1,693,338,354	1,792,596,262
Loans receivable — net	2,062,522	5,891,379	7,953,901
Interest and other receivables	2,913,776	2,500,806	5,414,582
Real estate available for sale	519,467	1,291,251	1,810,718
Other assets	329,908	7,042,204	7,372,112
Real estate available for sale		203,396,509	203,396,509
Capital assets:			
Land		2,845,005	2,845,005
Other capital assets		14,607,253	14,607,253
Other assets		50,614,763	50,614,763
Total	48,582,354	13,990,572,861	14,039,155,215
LIABILITIES:			
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:			
Demand		3,187,494,544	3,187,494,544
Certificates of deposit:			
Due within one year		4,314,663,978	4,314,663,978
Due in more than one year		52,648,946	52,648,946
Securities sold under agreements to repurchase:			
Due within one year		419,053,110	419,053,110
Due in more than one year		440,000,000	440,000,000
Accrued interest payable		22,579,090	22,579,090
Accounts payable and accrued liabilities:			
Due within one year		42,598,666	42,598,666
Due in more than one year		5,563,382	5,563,382
Allowance for losses on guarantees and letters of credit:			
Due within one year		1,747,801	1,747,801
Due in more than one year		9,623,073	9,623,073
Certificates of indebtedness — due in more than one year		11,800,000	11,800,000
Participation agreement payable		26,000,000	26,000,000
Bonds and notes payable:			
Due within one year		72,659,611	72,659,611
Due in more than one year	4,811,237	2,000,065,692	2,004,876,929
Liabilities payable from restricted assets:			
Accrued interest payable	256,832	2,352,381	2,609,213
Accounts payable and accrued liabilities — due within one year	14,638,757	594,011	15,232,768
Allowance for losses on mortgage loan insurance		188,652	188,652
Bonds and mortgage-backed certificates payable:			
Due within one year		64,019,136	64,019,136
Due in more than one year		895,114,148	895,114,148
Total liabilities	19,706,826	11,568,766,221	11,588,473,047
NET ASSETS:			
Invested in capital assets		17,452,258	17,452,258
Restricted for:			
Debt service	29,079,599		29,079,599
Affordable housing programs	4,534,090	173,211,355	177,745,445
Mortgage loan insurance		58,599,573	58,599,573
Unrestricted net assets (deficit)	(4,738,161)	2,172,543,454	2,167,805,293
TOTAL NET ASSETS	$ 28,875,528	$ 2,421,806,640	$ 2,450,682,168

See notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

		Program Revenues			Net Revenues (Expenses) and Changes in Net Assets		
	Expenses	Charges for Services — Fees, Commissions, and Others	Charges for Services — Financing and Investment	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS:							
Governmental activities:							
General government	$ 4,554,651	$ -	$ -	$ -	$ (4,554,651)	$ -	$ (4,554,651)
Housing assistance programs	177,085,398		6,616,163	127,410,875	(43,058,360)		(43,058,360)
Total governmental activities	181,640,049	-	6,616,163	127,410,875	(47,613,011)	-	(47,613,011)
Business-type activities:							
GDB Operating Fund	318,791,630	14,961,381	332,559,289			28,729,040	28,729,040
Housing Finance Authority	88,023,747	11,391,107	101,321,568			24,688,928	24,688,928
Tourism Development Fund	63,283,876	3,341,304	10,685,185			(49,257,387)	(49,257,387)
Public Finance Corporation	3,745,134		3,755,041			9,907	9,907
Capital Fund	66,597	10,411	(16,136,233)			(16,192,419)	(16,192,419)
Development Fund	2,929,410	46,257	383,524			(2,499,629)	(2,499,629)
Other nonmajor	136,611		8,154			(128,457)	(128,457)
Total business-type activities	476,977,005	29,750,460	432,576,528	-	-	(14,650,017)	(14,650,017)
Total	$658,617,054	$29,750,460	$439,192,691	$127,410,875	(47,613,011)	(14,650,017)	(62,263,028)
SPECIAL ITEM — Contribution from Puerto Rico Infrastructure Financing Authority						154,221,814	154,221,814
TRANSFERS IN (OUT) — Net					(6,609,010)	6,609,010	-
Total general revenues and transfers					(6,609,010)	160,830,824	154,221,814
CHANGE IN NET ASSETS					(54,222,021)	146,180,807	91,958,786
NET ASSETS — Beginning of year					83,097,549	2,275,625,833	2,358,723,382
NET ASSETS — End of year					$ 28,875,528	$2,421,806,640	$2,450,682,168

See notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET — GOVERNMENTAL FUNDS
AS OF JUNE 30, 2009

	Affordable Housing Mortgage Subsidy Program — Stage 7	Affordable Housing Mortgage Subsidy Program — Stage 8	Affordable Housing Mortgage Subsidy Program — Stage 9	New Secure Housing Program	The Key for Your Home Program	HUD Programs	Other Nonmajor Governmental Funds	Eliminations	Total Governmental Funds
ASSETS:									
Due from other funds	$ -	$ 31,769	$ -	$ 36,883	$ 591,748	$ -	$ 15,548,410	$(13,196,483)	$ 3,012,327
Restricted:									
Cash and due from banks		87,169				2,161,623	109,213		2,358,005
Deposits placed with banks					13,846,078		12,515,927		26,362,005
Investments and investment contracts	21,869,155	1,535,266	12,476,026				63,377,461		99,257,908
Loans receivable, net							2,062,522		2,062,522
Due from other funds		14,008,526		25,446	60,343	784,351	19,163,475		34,042,141
Interest and other receivables	86,611	7,737	2,807		138,944	2,511,356	166,321		2,913,776
Real estate available for sale							519,467		519,467
TOTAL	$ 21,955,766	$15,670,467	$12,478,833	$ 62,329	$14,637,113	$5,457,330	$113,462,796	$(13,196,483)	$170,528,151
LIABILITIES:									
Due to other funds	$ 70,832,544	$ -	$ 340,458	$ 49,673,903	$ -	$1,013,195	$ 13,612,088	$(13,196,483)	$122,275,705
Restricted — accounts payable and accrued liabilities	1,287,018	498,422	294,452	5,698,700	34,601	4,444,135	2,381,429		14,638,757
Total liabilities	72,119,562	498,422	634,910	55,372,603	34,601	5,457,330	15,993,517	(13,196,483)	136,914,462
FUND BALANCES (DEFICIT):									
Reserved for:									
Long-term loans receivable and other assets							2,581,989		2,581,989
Debt service							29,079,599		29,079,599
Unreserved — special revenue funds	(50,163,796)	15,172,045	11,843,923	(55,310,274)	14,602,512		65,807,691		1,952,101
Total fund balances (deficit)	(50,163,796)	15,172,045	11,843,923	(55,310,274)	14,602,512	-	97,469,279	-	33,613,689
TOTAL	$ 21,955,766	$15,670,467	$12,478,833	$ 62,329	$14,637,113	$5,457,330	$113,462,796	$(13,196,483)	$170,528,151

Amounts reported for governmental activities in the statement of net assets are different because:	
Total fund balance	$ 33,613,689
Deferred bond issue costs that are recorded as expenditures in governmental funds, but are capitalized in the government-wide financial statements	329,908
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds	(4,811,237)
Accrued interest payable not due and payable in the current period	(256,832)
Net assets of governmental activities	$ 28,875,528

See notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES — GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Affordable Housing Mortgage Subsidy Program — Stage 7	Affordable Housing Mortgage Subsidy Program — Stage 8	Affordable Housing Mortgage Subsidy Program — Stage 9	New Secure Housing Program	The Key for Your Home Program	HUD Programs	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:								
Commonwealth appropriations for repayment of bonds and for housing assistance programs	$ 416,858	$ -	$ 26,092	$ -	$ -	$ -	$ 1,810,481	$ 2,253,431
Intergovernmental — federal government						118,532,083		118,532,083
Interest on investments and deposits placed with banks	1,465,287	821,013	516,782	1,959	589,411		2,884,893	6,279,345
Interest income on loans							224,595	224,595
Net increase in fair value of investments		46,046					66,177	112,223
Net gain on sale of real estate available for sale							249,970	249,970
Other				497,594	1,930,969		95,920	2,524,483
Total revenues	1,882,145	867,059	542,874	499,553	2,520,380	118,532,083	5,332,036	130,176,130
EXPENDITURES:								
Current:								
General government and other	8,500	8,545				4,303,112	234,494	4,554,651
Housing assistance programs	2,047,270	807,053	811,572	5,693,643	20,745,482	114,228,971	4,403,037	148,737,028
Credit for loan losses							(87,422)	(87,422)
Debt service:								
Principal	150,768							150,768
Interest	1,593,414		12,364	1,459,906			493,199	3,558,883
Total expenditures	3,799,952	815,598	823,936	7,153,549	20,745,482	118,532,083	5,043,308	156,913,908
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,917,807)	51,461	(281,062)	(6,653,996)	(18,225,102)	-	288,728	(26,737,778)
OTHER FINANCING SOURCES (USES):								
Transfers-in							13,067,892	13,067,892
Transfers-out			(519,866)				(19,157,036)	(19,676,902)
Total other financing sources (uses)	-	-	(519,866)	-	-	-	(6,089,144)	(6,609,010)
NET CHANGE IN FUND BALANCES	(1,917,807)	51,461	(800,928)	(6,653,996)	(18,225,102)	-	(5,800,416)	(33,346,788)
FUND BALANCES (DEFICIT) — Beginning of year	(48,245,989)	15,120,584	12,644,851	(48,656,278)	32,827,614		103,269,695	66,960,477
FUND BALANCES (DEFICIT) — End of year	$ (50,163,796)	$ 15,172,045	$ 11,843,923	$ (55,310,274)	$ 14,602,512	$ -	$ 97,469,279	$ 33,613,689

See notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances — total governmental funds	$ (33,346,788)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds	150,768
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(24,860,409)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	3,850,908
Governmental funds report the effect of issuance costs when debt is first issued, whereas these costs are deferred and amortized in the statement of activities. This amount is the amortization for the year	(16,500)
Change in net assets of governmental activities	$ (54,222,021)

See notes to basic financial statements

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET — ENTERPRISE FUNDS
AS OF JUNE 30, 2009

ASSETS	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
CURRENT ASSETS:									
Cash and due from banks	$ 5,770,346	$ 7,227,598	$ 11,448,893	$ 1,359,032	$ -	$36,667,781	$2,394,833	$ (59,020,274)	$ 5,848,209
Federal funds sold	1,364,000,000								1,364,000,000
Deposits placed with banks	1,060,597,756	106,450,606	92,140,896					(173,931,325)	1,085,257,933
Investments and investment contracts	2,281,415,520		2,977,873		25,082,346				2,309,475,739
Loans receivable, net	801,029,454	4,776,000	8,780,000	2,050,855				(10,723,891)	805,912,418
Accrued interest receivable	120,307,996	1,614,970	655,371	3,730,434	112	3,041	202	(4,516,279)	121,795,847
Other current receivables	66,513,619	1,785,803	224			26,748			68,326,394
Other current assets	976,268	2,400	289,786						1,268,454
Due from governmental funds	109,840,613	12,435,092							122,275,705
Restricted:									
Cash and due from banks		17,897,272						(122,648)	17,774,624
Deposits placed with banks		365,380,400						(364,271,967)	1,108,433
Investments and investment contracts	365,539,760	184,906,901							550,446,661
Loans receivable, net		600,000							600,000
Accrued interest receivable		14,093,205						(11,598,438)	2,494,767
Other current receivables		6,039							6,039
Total current assets	6,175,991,332	717,176,286	116,293,043	7,140,321	25,082,458	36,697,570	2,395,035	(624,184,822)	6,456,591,223
NONCURRENT ASSETS:									
Restricted:									
Investments and investment contracts	576,258,797	737,029,479						(170,396,583)	1,142,891,693
Loans receivable, net		5,291,379							5,291,379
Real estate available for sale		1,291,251							1,291,251
Other assets		7,042,204							7,042,204
Investments and investment contracts	326,106,666	17,628,800	22,586,682		41,516,569	3,138,583		(139,458,876)	271,518,424
Loans receivable, net	5,675,735,320	192,023,957	243,253,205	99,000,000				(338,474,857)	5,871,537,625
Real estate available for sale	200,959,644	2,436,865							203,396,509
Capital assets:									
Land	2,845,005								2,845,005
Other capital assets	10,448,458	4,158,795							14,607,253
Other assets	41,734,759	8,880,004							50,614,763
Total noncurrent assets	6,834,088,649	975,782,734	265,839,887	99,000,000	41,516,569	3,138,583	-	(648,330,316)	7,571,036,106
TOTAL ASSETS	$13,010,079,981	$1,692,959,020	$382,132,930	$106,140,321	$66,599,027	$39,836,153	$2,395,035	$(1,272,515,138)	$14,027,627,329

See notes to basic financial statements.

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET — ENTERPRISE FUNDS
AS OF JUNE 30, 2009

LIABILITIES AND NET ASSETS	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
Current liabilities:									
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:									
Demand	$ 3,250,161,806	$ -	$ -	$ -	$ -	$ -	$ -	$ (62,667,262)	$ 3,187,494,544
Certificates of deposit	4,852,867,272							(538,203,294)	4,314,663,978
Securities sold under agreements to repurchase	419,053,110								419,053,110
Accrued interest payable	34,464,747	17,708	471,306	3,740,048				(16,114,719)	22,579,090
Accounts payable and accrued liabilities	27,869,426	9,645,093	1,424,782	81,581	42,014	4,831	6,595	3,524,344	42,598,666
Allowance for losses on guarantees and letters of credit						1,747,801			1,747,801
Due to governmental funds	34,042,141	3,012,327							37,054,468
Notes payable	72,659,611		8,400,000	2,323,891				(10,723,891)	72,659,611
Total current liabilities payable from unrestricted assets	8,691,118,113	12,675,128	10,296,088	6,145,520	42,014	1,752,632	6,595	(624,184,822)	8,097,851,268
Current liabilities payable from restricted assets:									
Accrued interest payable		2,352,381							2,352,381
Accounts payable and accrued liabilities		594,011							594,011
Bonds and mortgage-backed certificates payable		64,019,136							64,019,136
Total current liabilities	8,691,118,113	79,640,656	10,296,088	6,145,520	42,014	1,752,632	6,595	(624,184,822)	8,164,816,796

See notes to basic financial statements.

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET — ENTERPRISE FUNDS
AS OF JUNE 30, 2009

LIABILITIES AND NET ASSETS	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
Noncurrent liabilities:									
Certificates of deposits, principally from the Commonwealth of Puerto Rico and and its public entities	$ 223,045,529	$ -	$ -	$ -	$ -	$ -	$ -	$ (170,396,583)	$ 52,648,946
Certificates of indebtedness	11,800,000								11,800,000
Securities sold under agreements to repurchase	440,000,000								440,000,000
Allowance for losses on guarantees and letters of credit	1,000,000		7,281,000			1,342,073			9,623,073
Accounts payable and accrued liabilities	3,186,855						2,376,527		5,563,382
Participation agreement payable			26,000,000						26,000,000
Notes payable	2,000,065,693	1,597,005	237,877,852	98,999,999				(338,474,857)	2,000,065,692
Noncurrent liabilities payable from restricted assets:									
Allowance for losses on mortgage loan insurance		188,652							188,652
Bonds and mortgage-backed certificates payable		1,034,573,024						(139,458,876)	895,114,148
Total noncurrent liabilities	2,679,098,077	1,036,358,681	271,158,852	98,999,999	-	1,342,073	2,376,527	(648,330,316)	3,441,003,893
Total liabilities	11,370,216,190	1,115,999,337	281,454,940	105,145,519	42,014	3,094,705	2,383,122	(1,272,515,138)	11,605,820,689
NET ASSETS:									
Invested in capital assets	13,293,463	4,158,795							17,452,258
Restricted for:									
Mortgage loan insurance		58,599,573							58,599,573
Affordable housing programs		173,211,355							173,211,355
Unrestricted	1,626,570,328	340,989,960	100,677,990	994,802	66,557,013	36,741,448	11,913		2,172,543,454
Total net assets	1,639,863,791	576,959,683	100,677,990	994,802	66,557,013	36,741,448	11,913	-	2,421,806,640
TOTAL LIABILITIES AND NET ASSETS	$13,010,079,981	$1,692,959,020	$382,132,930	$106,140,321	$66,599,027	$39,836,153	$2,395,035	$(1,272,515,138)	$14,027,627,329

See notes to basic financial statements.

(Concluded)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — ENTERPRISE FUNDS FOR THE YEAR ENDED JUNE 30, 2009

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Total Enterprise Funds
OPERATING REVENUES:								
Investment income:								
Interest income on federal funds sold	$ 2,902,988	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,902,988
Interest income on deposits placed with banks	9,284,246	25,983,216	1,456,021	24,973		302,665	8,154	37,059,275
Interest and dividend income on investments and investment contract	85,829,640	48,619,811	1,670,441		584,679	320,976		137,025,547
Net increase (decrease) in fair value of investments	(938,833)	13,607,274	32,516		(16,720,912)	(240,117)		(4,260,072)
Total investment income (loss)	97,078,041	88,210,301	3,158,978	24,973	(16,136,233)	383,524	8,154	172,727,738
Interest income on loans receivable:								
Public sector	235,481,248			3,730,068				239,211,316
Private sector		13,111,267	7,526,207					20,637,474
Total interest income on loans receivable	235,481,248	13,111,267	7,526,207	3,730,068	-	-	-	259,848,790
Total investment income (loss) and interest income on loans receivable	332,559,289	101,321,568	10,685,185	3,755,041	(16,136,233)	383,524	8,154	432,576,528
Noninterest income:								
Fiscal agency fees	10,949,657	458,767						11,408,424
Commitment, guarantee and other service fees	3,707,979	6,863,885	2,961,264			46,257		13,579,385
Mortgage loan insurance premiums		3,000,213						3,000,213
Net gain on sale of real estate available for sale		483,266						483,266
Gain on sale of loans		335,030						335,030
Other income	303,745	249,946	380,040		10,411			944,142
Total noninterest income	14,961,381	11,391,107	3,341,304	-	10,411	46,257	-	29,750,460
Total operating revenues (loss)	347,520,670	112,712,675	14,026,489	3,755,041	(16,125,822)	429,781	8,154	462,326,988
OPERATING EXPENSES:								
Provision (credit) for loan losses		(540,015)	47,001,496					46,461,481
Interest expense:								
Deposits	165,773,611							165,773,611
Securities sold under agreements to repurchase	30,635,161							30,635,161
Commercial paper	21,757							21,757
Certificates of indebtedness	240,556							240,556
Bonds, notes and mortgage-backed certificates payable	79,528,858	71,146,503	9,491,977	3,740,048				163,907,386
Total interest expense	276,199,943	71,146,503	9,491,977	3,740,048	-	-	-	360,578,471

See notes to basic financial statements.

(Cotinued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Total Enterprise Funds
Noninterest expenses:								
Salaries and fringe benefits	$ 24,270,730	$ 10,586,310	$ -	$ -	$ -	$ -	$ 69,216	$ 34,926,256
Depreciation and amortization	1,801,865	1,031,371						2,833,236
Occupancy and equipment costs	4,074,422	2,188,588	110					6,263,120
Legal and professional fees	2,559,363	2,672,405	776,482	4,544	35,460	36,738	47,190	6,132,182
Office and administrative	372,036	399,401			30,168			801,605
Subsidy and trustee fees	3,870	262,684						266,554
Provision for losses on guarantees and letters of credit			6,010,948			2,892,047		8,902,995
Other	6,051,397	276,500	2,863	542	969	625	20,205	6,353,101
Total noninterest expenses	39,133,683	17,417,259	6,790,403	5,086	66,597	2,929,410	136,611	66,479,049
Total operating expenses	315,333,626	88,023,747	63,283,876	3,745,134	66,597	2,929,410	136,611	473,519,001
OPERATING INCOME (LOSS)	32,187,044	24,688,928	(49,257,387)	9,907	(16,192,419)	(2,499,629)	(128,457)	(11,192,013)
NONOPERATING EXPENSES — Contributions to Cooperative Development Investment Trust Fund and others	3,458,004							3,458,004
SPECIAL ITEM — Contribution from Puerto Rico Infrastructure Financing Authority	154,221,814							154,221,814
TRANSFERS IN		8,719,402					100,000	8,819,402
TRANSFERS OUT	(100,000)	(2,110,392)						(2,210,392)
CHANGE IN NET ASSETS	182,850,854	31,297,938	(49,257,387)	9,907	(16,192,419)	(2,499,629)	(28,457)	146,180,807
NET ASSETS — Beginning of year	1,457,012,937	545,661,745	149,935,377	984,895	82,749,432	39,241,077	40,370	2,275,625,833
NET ASSETS — End of year	$1,639,863,791	$576,959,683	$100,677,990	$ 994,802	$ 66,557,013	$36,741,448	$ 11,913	$2,421,806,640

See notes to basic financial statements.

(Concluded)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES:									
Cash received from interest on housing program loans	$	$ 12,467,615	$	$	$	$	$	$	$ 12,467,615
Cash paid for housing program loans originated		(41,672,867)							(41,672,867)
Principal collected on housing program loans		12,724,092							12,724,092
Proceeds from sales of housing program loans		33,838,068							33,838,068
Guarantee fees collected			3,439,096			46,257			3,485,353
Payment of guarantees						(645,516)			(645,516)
Cash received from other operating non-interest revenues	19,128,074	9,831,376	380,040		10,411				29,349,901
Due from/to governmental funds	11,536,197	(4,729,210)							6,806,987
Cash payments for other operating non-interest expenses	(46,304,793)	(22,339,449)	(1,456,972)	(4,056)	(34,814)	(3,646,948)	(120,673)	2,881,509	(71,026,196)
Cash received from mortgage loans insurance premium		3,000,213							3,000,213
Net cash provided by (used in) operating activitie	(15,640,522)	3,119,838	2,362,164	(4,056)	(24,403)	(4,246,207)	(120,673)	2,881,509	(11,672,350)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:									
Contributions to others	(3,458,004)								(3,458,004)
Transfers in		28,034,226					100,000		28,134,226
Transfers out	(100,000)	(22,405,220)							(22,505,220)
Net increase (decrease) in:									
Deposits	635,129,766							(83,855,908)	551,273,858
Commercial paper	(500,000)								(500,000)
Proceeds from issuance of securities sold under agreements to repurchase	4,863,313,678								4,863,313,678
Payment of securities sold under agreements to repurchase	(4,691,460,568)								(4,691,460,568)
Proceeds from issuance of bonds and notes	1,680,000,000	1,597,006	32,449,592					(34,046,598)	1,680,000,000
Repayments of bonds and notes	(559,915,000)	(215,087,160)	(106,204)	(2,612,186)				2,718,390	(775,002,160)
Payment of notes issuance costs	(14,438,967)								(14,438,967)
Escrow deposit received from the Commonwealth				93,482					93,482
Escrow payments				(15,681)					(15,681)
Contribution from Puerto Rico Infrastructure Financing Authority	100,702,498								100,702,498
Interest paid	(263,027,892)	(36,084,023)	(9,875,635)	(7,160,998)				2,973,516	(313,175,032)
Net cash provided by (used in) noncapital financing activities	1,746,245,511	(243,945,171)	22,467,753	(9,695,383)			100,000	(112,210,600)	1,402,962,110

See notes to basic financial statements.

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Purchase of capital asset	$ (370,790)	$ (642,650)	$ -	$ -	$ -	$ -	$ -	$ -	$ (1,013,440)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Net decrease (increase) in:									
Federal funds sold	(1,047,380,000)								(1,047,380,000)
Deposits placed with banks	444,402,244	(28,163,340)	(47,140,896)					110,653,301	479,751,309
Purchases of investments	(11,439,994,173)	(82,934,721)	(6,217,333)						(11,529,146,227)
Proceeds from sales and redemptions of investments	11,233,217,368	286,308,076	53,153,795					(29,049,893)	11,543,629,346
Interest and dividends received on investments	100,670,464	63,295,228	271,730	26,003	24,403	675,455	10,641	809,220	165,783,144
Interest received on other than housing program loans	350,770,681		8,115,956	6,296,390				(3,782,737)	361,400,290
Origination of other than housing program loans	(3,843,218,189)		(33,984,588)					34,046,598	(3,843,156,179)
Principal collected on other than housing program loans	2,433,263,674		1,052,229	3,476,792				(2,718,390)	2,435,074,305
Disbursements for acquisition and improvements to real estate held for sale	(16,014,280)	(478,821)							(16,493,101)
Proceeds from sale of real estate held for sale		1,811,687							1,811,687
Net change in other assets		149,884							149,884
Net cash provided by (used in) investing activities	(1,784,282,211)	239,987,993	(24,749,107)	9,799,185	24,403	675,455	10,641	109,958,099	(1,448,575,542)
NET CHANGE IN CASH AND DUE FROM BANKS	(54,048,012)	(1,479,990)	80,810	99,746		(3,570,752)	(10,032)	629,008	(58,299,222)
CASH AND DUE FROM BANKS — Beginning of year	59,818,358	26,604,860	11,368,083	1,259,286		40,238,533	2,404,865	(59,771,930)	81,922,055
CASH AND DUE FROM BANKS — End of year	$ 5,770,346	$ 25,124,870	$ 11,448,893	$ 1,359,032	$ -	$36,667,781	$2,394,833	$ (59,142,922)	$ 23,622,833
RECONCILIATION TO ENTERPRISE FUNDS BALANCE SHEET:									
Cash – unrestricted	$ 5,770,346	$ 7,227,598	$ 11,448,893	$ 1,359,032	$ -	$36,667,781	$2,394,833	$ (59,020,274)	$ 5,848,209
Cash – restricted		17,897,272						(122,648)	17,774,624
TOTAL CASH AT YEAR END	$ 5,770,346	$ 25,124,870	$ 11,448,893	$ 1,359,032	$ -	$36,667,781	$2,394,833	$ (59,142,922)	$ 23,622,833

See notes to basic financial statements.

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:									
Operating income (loss)	$ 32,187,044	$ 24,688,928	$(49,257,387)	$ 9,907	$(16,192,419)	$(2,499,629)	$(128,457)	$ -	$ (11,192,013)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:									
Investment income	(98,016,874)	(74,603,027)	(3,126,462)	(24,973)	(584,679)	(623,641)	(8,154)		(176,987,810)
Interest income on other than housing program loans	(235,481,248)		(7,526,207)	(3,730,068)					(246,737,523)
Interest expense	276,199,943	71,146,503	9,491,977	3,740,048					360,578,471
Capitalized interest on loans		(728,393)							(728,393)
Provision (credit) for loan losses		(540,015)	47,001,496						46,461,481
Provision for losses on guarantees and letters of credit			6,010,948			2,892,047			8,902,995
Payments of guarantees						(645,516)			(645,516)
Credit for losses on mortgage loan insurance		(253,000)							(253,000)
Net decrease (increase) in fair value of investments	938,833	(13,607,274)	(32,516)		16,720,912	240,117			4,260,072
Provision (credit) for losses on real estate available for sale	1,194,035	(121,898)							1,072,137
Provision for losses on other assets		88,925							88,925
Net gain on sales of housing program loans		(335,030)							(335,030)
Gain on sale of real estate available for sale		(483,266)							(483,266)
Depreciation and amortization	1,801,865	1,031,371							2,833,236
Accretion of deferred loan fees, net		(586,148)							(586,148)
Changes in operating assets and liabilities:									-
Origination of housing program loans		(41,672,867)							(41,672,867)
Collections of housing program loans		12,724,092							12,724,092
Proceeds from sale of housing program loans		33,838,068							33,838,068
Interest receivable on housing program loans		84,741							84,741
Decrease in other assets	4,166,693	2,843,716	12,969						7,023,378
Decrease (increase) in due from governmental funds	11,536,197	(4,729,209)							6,806,988
Increase (decrease) in other liabilities	(10,167,010)	(5,666,379)	(212,654)	1,030	31,783	(3,609,585)	15,938	2,881,509	(16,725,368)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (15,640,522)	$ 3,119,838	$ 2,362,164	$ (4,056)	$ (24,403)	$(4,246,207)	$(120,673)	$2,881,509	$ (11,672,350)

See notes to basic financial statements.

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
Noncash investing and noncapital financing activities:									
Accretion of discount and capitalized interest on investments securities	$ 11,714,992	$ 10,515,446	$3,217,199	$ -	$ 550,266	$ -	$ -	$(10,515,446)	$ 15,482,457
Capitalized interest on loans and other	4,865,672	728,393							5,594,065
Transfer of loans receivable to real estate available for sale	140,477,592	1,306,634							141,784,226
Transfer of interest receivable on loans to real estate available for sale	3,676,270								3,676,270
Transfer of land to real estate available for sale	8,125,985								8,125,985
Decrease in fair value of real estate available for sale transferred to other receivables	(27,138,472)								(27,138,472)
Real estate available for sale received in lieu of payment of an account receivable	4,675,000								4,675,000
Accretion of discount (premium) on:									
Deposits	10,515,446							(10,515,446)	
Bonds payable	(3,189,129)	34,117,049						(10,513,377)	20,414,543
Increase (decrease) in fair value of investments	938,833	13,607,274	32,516		(16,720,912)	(240,117)		(10,513,377)	(12,895,783)
Transfers—in		19,194,382							19,194,382
Transfers—out		(19,194,382)							(19,194,382)
Amortization of bond issue cost (included in interest expense)	7,408,296	1,169,338							8,577,634
Amortization of deferred loss		359,647							359,647

See notes to basic financial statements.

(Concluded)

1. REPORTING ENTITY

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

Pursuant to Act No. 82 of June 16, 2002, which amended the Bank's enabling legislation, the Bank may transfer annually to the General Fund of the Commonwealth (the "General Fund") up to 10% of its net income or $10 million, whichever is greater. Management of the Bank has defined net income as the increase in unrestricted net assets of business-type activities for a fiscal year. The Bank's board of directors approved such definition. The Bank did not make this transfer for the year ended June 30, 2009.

The Bank has the following blended component units: Puerto Rico Housing Finance Authority (the "Housing Finance Authority"), Puerto Rico Tourism Development Fund (the "Tourism Development Fund"), Puerto Rico Development Fund (the "Development Fund"), Puerto Rico Public Finance Corporation (the "Public Finance Corporation"), Government Development Bank for Puerto Rico Capital Fund (the "Capital Fund"), José M. Berrocal Finance and Economics Institute ("JMB Institute"), and Puerto Rico Higher Education Assistance Corporation (the "Education Assistance Corporation"). The balances and transactions of the component units discussed above have been blended with those of the Bank in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) because, while legally separate, they were created and can be dissolved through resolutions of the Bank's board of directors. The board of directors of each of the blended component units is substantially the same as that of the Bank. Financial statements of each major blended component unit may be obtained from the Bank.

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

The Housing Finance Authority, in conjunction with the Puerto Rico Department of Housing, is the entity responsible for certifying projects under the New Secure Housing Program (known in Spanish as "Nuevo Hogar Seguro"), with the approval of the Federal Emergency Management Agency (FEMA). This program is directed to plan, coordinate, and develop the construction of new housing as a replacement to those destroyed by Hurricane Georges in 1998, and to attend the housing needs of families living in flood zone areas.

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

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

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

The Capital Fund was created in 1992 to expand the investment options available to the Bank and to administer, separately from the Bank's general investment operations, an equity investments process through professional equity investment managers. In January 2002, the Bank's board of directors authorized an increase in the capitalization of the Capital Fund of up to 10% of the net assets of the Bank, as well as the adoption of a new investment strategy, which included the hiring of two additional portfolio managers to diversify the Capital Fund investments in the equity markets. As of June 30, 2009, management, with the consent of the Bank's board of directors, deemed convenient to defer its implementation, and in the meantime elected a passive management considering it a more cost-effective mechanism.

Other nonmajor funds include the JMB Institute and the Education Assistance Corporation. The JMB Institute was created in 2002 to complement the Bank's mission of promoting economic development by providing specialized training on the theory and practice of public finances and economics to talented young professionals in order to attract them to join the public service. The

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

To minimize its risk of loss, the Bank purchases insurance coverage for public liability, hazard, automobile, crime, and bonding as well as medical and workmen's insurance for employees. The selection of the insurer has to be approved by the Public Insurance Office of the Department of the Treasury. Insurance coverage is updated annually to account for changes in operating risk. For the last three years insurance settlements have not exceeded the amount of coverage.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Bank conform to U.S. GAAP, as applicable to governmental entities. The Bank follows Governmental Accounting Standards Board (GASB) under the hierarchy established by Statement No. 55, *The Hierarchy of Generally Accepted Principles for State and Local Governments*, in the preparation of its financial statements. In the past, the Bank followed FASB pronouncements to the extent they did not conflict with GASB pronouncements.

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

Government-Wide and Fund Financial Statements:

Government-Wide Financial Statements — The statement of net assets and the statement of activities report information on all activities of the Bank. The effect of interfund balances has been removed from the government-wide statement of net assets, except for the residual amounts due between governmental and business-type activities. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Bank's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services and interest earned on investment securities. Following is a description of the Bank's government-wide financial statements.

The statement of net assets presents the Bank's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

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

- Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include: (1) interest income on loans and investments, changes in the fair value of investments, and fees and charges to customers for services rendered or for privileges provided, and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements — Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Bank that are reported in the accompanying basic financial statements have been classified into governmental and enterprise funds.

Separate financial statements are provided for governmental funds and enterprise funds. Major individual governmental funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column, except for those governmental nonmajor funds, which management has elected to present separately in the financial statements. Fund balances at the beginning of the year are restated to reflect changes in major fund definition. In the case of enterprise funds, each individual blended component unit of the Bank with the exception of JMB Institute and Education Assistance Corporation, which have been grouped as other nonmajor funds, has been reported as a separate major fund in the fund financial statements. In the case of the Housing Finance Authority, all of its activities not classified and reported as governmental funds have been reported as an enterprise fund.

Measurement Focus, Basis of Accounting, and Financial Statements Presentation:

Government-Wide Financial Statements — The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds' Financial Statements — The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Bank considers revenues to be available if they are collected within 120 days after the end of the fiscal year. Principal revenue sources considered susceptible to accrual include federal and Commonwealth funds to be received by the New Secure Housing Program fund. Other revenues are considered to be measurable and available only when cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2009, is reported only in the government-wide financial statements.

- Interest on general long-term obligations is generally recognized when paid.

- Debt service principal expenditures and claims and judgments are recorded only when payment is due.

Governmental Funds — The following governmental activities of the Bank are classified as major governmental funds:

- Affordable Housing Mortgage Subsidy Program (Stages 7, 8 and 9) — These special revenue funds are used to account for the proceeds of specific revenue sources under Stages 7, 8 and 9 of the Affordable Housing Mortgage Subsidy Program (AHMSP) that are legally restricted for expenditures to promote the origination of mortgage loans by financial institutions in the private sector to low and moderate-income families. Under these stages, the Housing Finance Authority commits to provide subsidy for the down payment and/or the principal and interest payments on mortgage loans originated under a predetermined schedule of originations and, in the case of Stage 9, to acquire such mortgages in the form of mortgage-backed securities issued by the financial institutions. Loans originated, as well as servicing, are kept by the originating financial institution. There was no open schedule of originations under these stages as of June 30, 2009.

- New Secure Housing Program — This special revenue fund is used to account for federal and local resources directed to plan, coordinate, and develop the construction of new housing units as a replacement for those destroyed by Hurricane Georges in 1998 and to attend the housing needs of those families living in hazard prone areas.

- The Key for Your Home Program — This special revenue fund was created to provide subsidy to low and moderate-income families of costs directly related to the purchase and rehabilitation of housing units, subject to certain maximum amounts.

- HUD Programs — This special revenue fund accounts for the subsidy to low and moderate-income families for the rental of decent and safe dwellings under the U.S. Housing Act Section 8 programs.

The following governmental activities of the Bank are accounted for in other nonmajor governmental funds:

- AHMSP (Stages 2, 3 and 6) — These special revenue funds are similar to Stages 7 and 8 described above. There was no open schedule of originations under these stages as of June 30, 2009.

- AHMSP (Stages 10 and 11) — These special revenue funds are similar to Stage 9 described above. At June 30, 2009, the Housing Finance Authority had a commitment, expiring on September 1, 2009, for the acquisition of mortgage-backed securities amounting to approximately $184 million.

- AHMSP — Act No. 124 — This special revenue fund accounts for excess subsidy funds as well as accumulated net assets released periodically from arbitrage structures used to provide housing assistance.

- Special Obligation Refunding Bonds — Debt Service — This debt service fund accounts for the funds and assets transferred by the Commonwealth through legislative appropriations and by the liquidator of the former Corporación de Renovación Urbana y Vivienda (CRUV).

- Affordable Housing Mortgage Subsidy Mortgage-Backed Certificates — This special revenue fund is used to account for specific revenue sources used to provide subsidy for the mortgages underlying the mortgage-backed securities held as collateral for the mortgage-backed certificates issued in fiscal year 2007.

Enterprise Funds' Financial Statements — The financial statements of the enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses are those that result from the Bank providing the services that correspond to their principal ongoing operations. Operating revenues are generated from lending, investing, banking and fiscal agency services, and other related activities. Operating expenses include interest expense, any provision for losses on loans, advances or guarantees and all general and administrative expenses, among others. Revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Securities Purchased Under Agreements to Resell — The Bank enters into purchases of securities under agreements to resell. The amounts advanced under these agreements generally represent short-term loans and are reflected as an asset. The securities underlying these agreements are usually held by the broker or his/her agent, with whom the agreement is transacted. There were no securities purchased under agreements to resell outstanding at June 30, 2009.

Investments and Investment Contracts — Investments and investment contracts are carried at fair value, except for money market instruments and participating investment contracts with a remaining maturity at the time of purchase of one year or less, and nonparticipating investment contracts (guaranteed investment contracts), which are carried at cost; and investment positions in 2a-7 like external investment pools, which are carried at the pools' share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in net increase (decrease) in fair value of investments.

Loans Receivable and Allowance for Loan Losses — Loans in the enterprise funds are presented at the outstanding unpaid principal balance reduced by an allowance for loan losses. The accrual of interest on loans to the private sector ceases when loans become past due over six months. For loans to public sector entities, the accrual of interest ceases when management determines that all of the following characteristics are present: (a) a loan is six months past due; (b) it has no current source of repayment; (c) it is not covered by a formal commitment from the Commonwealth; and (d) it has no designated collateral or such collateral is insufficient. Once a loan is placed in nonaccrual status, all accrued interest receivable is reversed from interest income. Interest income on nonaccrual loans is thereafter recognized as income only to the extent actually collected. Nonaccrual loans are returned to an accrual status when management has adequate evidence to believe that the loans will be performing as contracted.

The allowance for loan losses is established through provisions recorded in the fund financial statements. This allowance is based on management's evaluation of the risk characteristics of the loan including such factors as the nature of individual credits outstanding, past loss experience, known and inherent risks in the portfolios, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and general economic conditions. Loan charge-offs are recorded against the allowance when management believes that the collection of the principal is unlikely. Recoveries of amounts previously charged off are credited to the respective allowance. Because of uncertainties inherent in the estimation process, management estimate of credit losses in the outstanding loans receivable portfolios and the related allowance may change in the near future.

Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a loan to be impaired when it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Interest income and cash receipts on impaired loans are accounted for predominantly in the same manner as nonaccrual loans.

Loans considered to be impaired are generally reduced to the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, by establishing a valuation allowance.

Loans to the Commonwealth of Puerto Rico, its agencies and instrumentalities amounted to approximately $5,063,010,000 or 36.1% of the Bank's total assets as of June 30, 2009. These loans are expected to be collected from appropriations from, proceeds from bond issuances of, or revenues generated by, the Commonwealth, its agencies and instrumentalities. The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past seven years and its credit ratings have been lowered. The collectibility of these loans may be affected by budgetary constraints, the fiscal situation, and the credit rating of the Commonwealth of Puerto Rico, its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges and/or bond issuances. Significant negative changes in these factors may have an adverse impact on the Bank's financial condition, liquidity, funding sources, and results of operations.

Management believes that no losses will be incurred by the Bank with respect to principal and interest on most of its loans to the public sector (including municipalities), and, as a result, no allowance for loan losses is generally established for them. For public sector loans, excluding municipalities, management bases its position in that in the past, the Director of the Office of Management and Budget of the Commonwealth ("OMB") has included in the budget of the Commonwealth, appropriations to assist certain public sector corporations, agencies, and instrumentalities in repaying their loans with the Bank. The Legislature of the Commonwealth (the "Legislature") has generally approved these appropriations, and such practice is anticipated to continue in the future. Further, in accordance with Act No. 164 of December 17, 2001, the Bank is no longer allowed to originate loans to any governmental entity for which the source of repayment consists of appropriations from the Commonwealth's general fund without first obtaining the approval of the Legislature, except for (i) loans up to an aggregate amount of $100,000,000 as long as, among other things, the Bank obtains the written approval of the Governor and the Director of OMB, (ii) loans to any financially troubled governmental entity to enable it to honor its debt obligations, and (iii) loans to the Secretary of the Treasury under legislation authorizing the Secretary to borrow funds in anticipation of tax revenues. In January 2009, Act. No. 4 increased the aggregate amount of loans for which the source of repayment consists of appropriations from the

Commonwealth's general fund and require written approval by the Governor and the Director of OMB from $100,000,000 to $200,000,000 until June 30, 2011.

In addition, on May 13, 2006, the Legislature enacted Act No. 91 that established the *Dedicated Sales Tax Fund,* known as FIA by the acronym of its Spanish name (the "FIA Fund"). Act No. 91 provides that the first one percent of the Commonwealth's share of the sales and consumption tax ("Pledged Sales Tax") will be used to repay certain obligations of the Commonwealth that were outstanding at June 30, 2006, payable to the Bank and the Public Finance Corporation, generally referred to as extra-constitutional debt, including approximately $2.8 billion of loans due by the Commonwealth and certain of its instrumentalities to the Bank.

Act No. 91 was amended by Act No. 291, enacted on December 26, 2006, and by Act No. 56 enacted on July 6, 2007, to create the Puerto Rico Sales Tax Financing Corporation (the "Sales Tax Corporation") as an independent governmental instrumentality that will own and hold the FIA Fund for the purpose of financing the payment, retirement or defeasance of the extra-constitutional debt. Pursuant to Act No. 91, as amended, the Sales Tax Corporation issued Bonds Series A and B on July 31, 2007 (the "Sales Tax Corporation Bonds") for the payment and retirement of a portion of the extra-constitutional debt outstanding at June 30, 2006. From the proceeds of the Sales Tax Corporation Bonds, the Bank received $1.7 billion on July 31, 2007 in partial payment of the outstanding extra- constitutional debt. The Sales Tax Corporation Bonds and any additional bonds issued by the Sales Tax Corporation will be payable from and secured by the Pledged Sales Tax.

In January 2009, Act No. 91 was amended by Act No. 1 ("Act No. 1") to increase the Pledged Sales Tax to 2% of the Commonwealth's share of the sales and consumption tax. Furthermore, Act No. 1 amended Act No. 91 to allow the use of the proceeds of future bond issuances by the Sales Tax Corporation to (i) pay the Bank the $1,000 million Tax Receivables Anticipation Bonds issued by the Commonwealth during the first semester of fiscal year 2009 to cover a portion of the fiscal year 2009 deficit, (ii) pay principal and/or interest of loans granted by the Bank to the Commonwealth payable from future Commonwealth general obligation bonds and any debt of the Commonwealth outstanding as of December 31, 2008 that did not have source of repayment or was payable from budgetary appropriations, (iii) pay a portion of accounts payable to suppliers of the Commonwealth, (iv) pay or finance Commonwealth's operating expenses of fiscal years 2009, 2010 and 2011, (v) pay or finance the Commonwealth's operating expenses of fiscal year 2012 to the extent included in the annual budget of the Commonwealth, (vi) fund the Puerto Rico Economic Stimulus Fund created by Article 5 of Act No. 1, (vii) nourish the Puerto Rico Commonwealth Emergency Fund to cover expenditures resulting from catastrophic events, and (viii) fund the Economic Cooperation and Public Employees Alternative Fund.

Finally, Act No. 7 of March 9, 2009 amended Act No. 91 to increase the Pledged Sales Tax by an additional 0.75% or to 2.75%, which represents 50% of the Commonwealth's share of the sales and consumption tax. The increase will be effective in fiscal year 2010.

Also, loans granted to finance capital improvement programs of certain public entities are generally repaid from the proceeds of future bond issuances of these public entities or the Commonwealth. The public corporations and the Commonwealth have never defaulted on their respective bonds. Although management of the Bank believes that no additional losses of principal and interest will be incurred by the Bank with respect to loans outstanding to the public sector at June 30, 2009, there can be no assurance that the Director of the OMB will include amounts for loan repayments in the Commonwealth budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to the Bank by public sector entities requiring such support, or that future proceeds from bond issuances by the Sales Tax Corporation will be sufficient to cover the outstanding amount of extra-constitutional debt at June 30, 2009. Also, the participation of certain public entities in the bond issuance market has been delayed waiting for the credit rating of the issuer to improve or for more favorable market conditions. Because of the relationship among the Bank, the public sector entities, the Director of the OMB, and the Legislature, the timing and amount of any financial assistance and bond proceeds to be provided to certain entities in repaying their loans cannot be reasonably estimated by the Bank, accordingly, no allowance has been established in the case of public sector loans for any shortfall between the present value of the expected future cash flows and the recorded investment in the loans.

Loans to municipalities amounting to approximately $482.8 million at June 30, 2009 are collateralized by a pledge of a portion of property tax assessments of each municipality. These loans include bonds and notes issued by Puerto Rico municipalities which are acquired by the Bank as bridge financing until such financings can be packaged and securitized. Subsequently, from time to time, the Bank sells, at par, a selection of these bonds and notes to Puerto Rico Municipal Finance Agency ("MFA"), a component unit of the Commonwealth organized to create a capital market to assist municipalities in financing their public improvements programs. These loans, when sold, are pledged to secure the debt service payments for the bonds issued by MFA. In addition, Act. No. 80, enacted on July 29, 2007, provides that a portion of the municipal sales tax will be deposited in special accounts with the Bank for the purpose of granting loans to municipalities. The funds available in such accounts increase the borrowing capacity of the corresponding municipality. As of June 30, 2009, loans to municipalities repayable from these accounts amounted to approximately $401.3 million.

Loans recorded in the governmental funds are presented at the outstanding unpaid principal balance reduced by an allowance for loan losses. A reserve for long-term loans receivable and other assets is recorded within fund balance representing amounts not expected to be collected within the next fiscal year.

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

When a guarantee or letter of credit is honored, the Bank recognizes any disbursement as a nonperforming loan; therefore, no interest is accrued on the principal. After a specific analysis of the provision requirements, the related allowance included in the allowance for guarantees and letters of credit is reclassified to the allowance for loan losses. Any deficiency in the estimated allowance requirement is recorded as an additional provision to the allowance for loan losses.

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

Pursuant to the legislation under which the Tourism Development Fund was created, the Executive Director of the Tourism Development Fund is required to certify each year to the Director of the OMB the amount, if any, that is necessary to reimburse the Tourism Development Fund for disbursements made in the previous year, in connection with obligations guaranteed in excess of fees and charges collected on such guarantees ("net disbursements"). On November 17, 2009, the legislature of the Commonwealth approved a bill, subject to the Governor's signature, to amend the legislation which created the Tourism Development Fund to modify the definition of net disbursements to include disbursements made by the Tourism Development Fund for (i) loans to third parties, (ii) the acquisition of loan participations, and (iii) the acceleration of maturities of loans, notes, bonds or other type of debt guaranteed by the Tourism Development Fund. In addition, the bill provides that disbursements shall not be deemed made in the year in which the disbursement occurs but shall be deemed made in the year in which the Executive Director of the Tourism Development Fund determines that a loss was incurred with respect to a loan, note, bond or debt (such determination being referred to as a "realized loss"). The Director of the OMB has to include the amount subject to reimbursement in the General Budget of the Commonwealth for the following fiscal year for the Legislature's consideration and approval. The Legislature is not obligated to authorize such appropriations. As of June 30, 2009 there were no outstanding claims for reimbursements.

Debt Issue Costs — Debt issue costs are deferred and amortized, as a component of interest expense, over the term of the related debt using the effective interest method, or a systematic and rational method that approximates the interest method. Issuance costs of bonds accounted for in the governmental funds are recorded as expenditures when paid.

Real Estate Available for Sale — Real estate available for sale comprises properties acquired in lieu of payment and through foreclosure proceedings. It also includes loans that are treated as if the underlying collateral had been foreclosed because the Bank has taken possession of the collateral, even though legal foreclosure or repossession proceedings have not taken place. Those properties are carried at the lower of cost or fair value, which is established by a third party professional assessment or based upon an appraisal, minus estimated costs to sell. At the time of acquisition of properties in full or in partial satisfaction of loans, any excess of the loan balance over the fair value of the properties minus estimated costs to sell is charged against the allowance for loan losses. Subsequent declines in the value of real estate available for sale are charged to expenditure/expense. Gain or loss on sale related to real estate available for sale is included within revenues in the accompanying statement of revenues, expenditures and changes in fund balances and within noninterest income in the accompanying statement of revenues, expenses, and changes in net assets.

Allowance for Losses on Mortgage Loan Insurance — The allowance for losses on mortgage loan insurance is based on management's evaluation of potential losses on insurance claims after considering economic conditions, fair value of related property and other pertinent factors. Such amount is, in the opinion of management, adequate to cover estimated future normal mortgage loan insurance losses. Actual losses for mortgage loan insurance are charged and recoveries, if any, are credited to the allowance for losses on mortgage loan insurance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the outstanding mortgage loans insurance portfolio and the related allowance may change in the near future.

Capital Assets — Capital assets, which include premises and equipment, are stated at cost less accumulated depreciation and amortization, and are reported in the business-type activities column in the government-wide financial statements. Capital assets are defined by the Bank as assets that have a cost of $500 or more at the date of acquisition and have an expected useful life of three or more years. Depreciation is charged to operations and included within other noninterest expense, and is computed on the straight-line basis over the estimated useful lives of the depreciable assets. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Costs of maintenance and repairs which do not improve or extend the lives of the respective assets are charged to expense as incurred.

Estimated useful lives are as follows:

Building	40 years
Leasehold improvements	Lesser of 10 years or lease term
Information systems	3–5 years
Office furniture and equipment	5 years
Vehicles	5 years

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

Compensated Absences — The employees of the Bank are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of 72 and 90 days, respectively. In the event of employee resignation, an employee is reimbursed for accumulated vacation and sick leave days up to the maximum allowed. The enterprise fund financial statements and the government-wide financial statements present the cost of accumulated vacation and sick leave as a liability. There are no employees paid by governmental funds.

Deferred Revenues — Deferred revenues at the governmental fund level arise when potential revenues do not meet the available criterion for recognition in the current period. Available is defined as due at June 30 and expected to be collected within 120 days thereafter to pay obligations due at June 30. Deferred revenues at the government-wide level arise only when the Bank receives resources before it has a legal claim to them.

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

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

Certain other collateralized obligations of the Housing Finance Authority are included in the accompanying basic financial statements either because they represent general obligations of the Housing Finance Authority or it maintains effective control over the assets transferred as collateral.

From time to time, the Public Finance Corporation issues bonds, the proceeds of which are used to purchase from the GDB Operating Fund promissory notes of the Commonwealth, and of certain of its instrumentalities, and public corporations. The bonds are limited obligations of the Public Finance Corporation and, except to the extent payable from bond proceeds and investments thereon, are payable solely from the pledge and assignment of amounts due on the notes. Principal and interest on the notes are payable solely from legislative appropriations to be made pursuant to acts approved by the Legislature. The underlying notes represent debt of the issuing instrumentalities. The bonds are considered no-commitment debt, and therefore neither the bonds nor the notes purchased with the proceeds therefrom are presented in the accompanying basic financial statements.

Governmental Funds — Reservations of Fund Balance — The governmental fund financial statements present reservations of fund balance for portions of fund balances that are legally segregated for a specific future use or are not available for other future spending.

Loan Origination Costs and Commitment Fees — GASB No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires that loan origination and commitment fees and direct origination costs be amortized over the contractual life of the related loan. The Bank generally recognizes commitment fees as income when collected and the related loan origination costs as expense when incurred. In the opinion of management, the difference between the two methods does not have a significant effect on the Bank's financial position and changes in financial position.

Transfers of Receivables — Transfers of receivables are accounted and reported as a sale if the Bank's continuing involvement with those receivable is effectively terminated. This approach distinguishes transfers of receivables that are sales from transfers that are collateralized borrowings.

The Bank's continuing involvement is considered to be effectively terminated if all of the following criteria are met: (i) the transferee's ability to subsequently sell or pledge the receivables is not significantly limited by constraints imposed by the Bank, either in the transfer agreement or through other means, (ii) the Bank does not have the option or ability to unilaterally substitute for or reacquire specific accounts from among the receivables transferred, except in certain limited circumstances, (iii) the sale agreement is not cancelable by either party, including cancellation through payment of a lump sum or transfer of other assets or rights, and (iv) the receivables and the cash resulting from their collection have been isolated from the Bank.

The Bank services loans for investors and receives servicing fees generally based on stipulated percentages of the outstanding principal balance of such loans. Loan servicing fees, late charges, and other miscellaneous fees are recognized as revenues as the related mortgage payments are collected, net of fees due to any third-party servicers. No servicing asset is recognized since fees are considered adequate compensation.

Derivative Instruments and Hedging Activities — On the date a derivative contract is entered into, the Bank designates the derivative as either a hedge of the fair value of a recognized asset or liability (fair value hedge), or a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge).

For all fair value hedging relationships, the Bank formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as fair value to specific assets and liabilities on the balance sheet. The Bank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value hedge are reflected in the statement of revenues, expenses, and changes in net assets, together with changes in the fair value of the related hedged item.

The Bank discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value of the hedged item, the derivative expires or is sold, terminated, or exercised, or management determines that designation of the derivative as a hedging instrument is no longer appropriate. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the Bank continues to carry the derivative on the balance sheet at its fair value and no longer adjusts the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability.

For cash flow hedges, in which derivatives hedge the variability of cash flows related to floating rate assets or liabilities, the accounting treatment depends on the effectiveness of the hedge. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, the changes in the derivatives' fair value are reported in the statement of revenues, expenses, and changes in net assets. The Bank records on the balance sheet or statement of net assets, the fair value of derivatives intended to hedge the variability of cash flows to be received or paid related to a recognized assets or liability.

Derivative-like instruments embedded in contracts that meet certain criteria are separated from their host contract and carried at their fair value, while the host contract is accounted for based on GAAP applicable to instruments of that type that do not contain embedded derivative instruments. When the Bank enters into a derivative instrument for the purpose of managing its exposure on another freestanding or embedded derivative instrument, the derivative is recorded at its fair value on the balance sheet or statement of net assets and recognizes any changes in fair value in the statement of revenues, expenses, and changes in net assets or statement of activities.

At June 30, 2009, there were no derivative instruments outstanding.

Future Adoption of Accounting Pronouncements — The GASB has issued the following Statements:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for financial statements for periods beginning after June 15, 2009.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for periods beginning after June 15, 2009.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for periods beginning after June 15, 2010.

Adoption of these statements is not expected to have a material impact on the Bank's basic financial statements.

3. CASH AND DUE FROM BANKS, FEDERAL FUNDS SOLD, AND DEPOSITS PLACED WITH BANKS

The table presented below discloses the level of custodial credit risk assumed by the Bank at June 30, 2009. Custodial credit risk is the risk that in the event of a financial institution failure, the Bank's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. The Bank does not have a formal policy for custodial credit risk for cash accounts opened with commercial banks outside Puerto Rico. These accounts are opened only with well-capitalized financial institutions.

The Bank' policies for deposits placed with banks and federal funds sold establish maximum exposure limits for each institution based on the institution's capital, financial condition and credit rating assigned by nationally recognized rating agencies. Deposits placed with banks of approximately $1,113 million mature within one year. Federal funds sold mature overnight and no collateral is required. As of June 30, 2009, $2,496,047,009 of the depository bank balance of $2,498,573,433 was uninsured and uncollateralized as follows:

	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Cash and due from banks	$ 25,980,838	$ 21,845,062	$ 19,318,638
Deposits placed with banks	1,112,728,371	1,112,728,371	1,112,728,371
Federal funds sold	1,364,000,000	1,364,000,000	1,364,000,000
Total	$2,502,709,209	$2,498,573,433	$2,496,047,009

Reconciliation to the government-wide statement of net assets:

Unrestricted:	
Cash and due from banks	$ 5,848,209
Federal funds sold	1,364,000,000
Deposits placed with banks	1,085,257,933
Total unrestricted	2,455,106,142
Restricted:	
Cash and due from banks	20,132,629
Deposits placed with banks	27,470,438
Total restricted	47,603,067
Total	$2,502,709,209

4. INVESTMENTS

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

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

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

The Bank's investment policies provide that investment transactions shall be entered into only with counterparties that are rated BBB+/A-1 or better by Standard & Poor's or equivalent rating by Fitch Ratings or Moody's Investors Service, depending on the type and maturity of the investment and the counterparty to the transaction. Any exceptions must be approved by the Bank's board of directors. The investment policies also provide that purchases and sales of investment securities shall be made using the delivery vs. payment procedures.

The Bank's investment policies also provide that the Asset Liability Management Committee (ALCO) is responsible for implementing and monitoring the Bank's interest rate risk policies and strategies. The ALCO meets on a monthly basis to coordinate and monitor the interest rate risk management of interest sensitive assets and interest sensitive liabilities, including matching of their anticipated level and maturities, consistent with the Bank's liquidity, capital adequacy, risk and profitability goals set by the Bank's board of directors and management.

The following table summarizes the type and maturities of investments held by the Bank at June 30, 2009. Investments by type in any one issuer representing 5% or more of total investments of either the Bank or its blended component units have been separately disclosed. Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment Type	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
U.S. Treasury bills	$ 27,721,558	$ -	$ -	$ -	$ 27,721,558
U.S. Treasury notes					
U.S. sponsored agencies notes:					
Federal Home Loan Bank ("FHLB")	454,689,760	61,794,310			516,484,070
Federal Home Loan Mortgage Corporation ("FHLMC")		15,002,550			15,002,550
Federal National Mortgage Association ("FNMA")		25,187,500		1,218,343	26,405,843
Federal Farm Credit Bank ("FFCB")	15,000,000	102,894,035			117,894,035
Mortgage and asset-backed securities:					
Government National Mortgage Association ("GNMA")		3,304,156	1,989,929	501,082,464	506,376,549
FNMA		1,575,662	917,097	144,549,314	147,042,073
FHLMC	4,574		15,524,223	139,417,452	154,946,249
Other		3,061,215			3,061,215
Corporate debt:					
Popular, Inc.		98,750,000			98,750,000
Morgan Stanley	24,751,250				24,751,250
General Electric		5,937,014			5,937,014
Other		5,997,720			5,997,720
External investment pools — fixed-income securities	2,366,344,568				2,366,344,568
Nonparticipating investment contracts:					
CDC Funding				23,209,010	23,209,010
American International Group				170,396,583	170,396,583
Other			17,628,800	68,673,682	86,302,482
U.S. municipal notes				24,125,000	24,125,000
Commonwealth agency bonds		3,530,000		4,015,238	7,545,238
Total investments	$2,888,511,710	$327,034,162	$36,060,049	$1,076,687,086	4,328,293,007
External investment pools — equity securities:					
Russell 1000 Growth Common Trust Fund					30,972,238
Global Opportunities Capital Appreciation Fund					10,544,331
Preferred Stock-Grupo Hima San Pablo					3,138,583
Other					642,266
Total					$4,373,590,425
Reconciliation to the government-wide statement of net assets:					
Unrestricted investments and investment contracts					$2,580,994,163
Restricted investments and investment contracts					1,792,596,262
Total					$4,373,590,425

Investments in fixed-income external investment pools had an average maturity of less than 60 days; accordingly, they were presented as investments with maturity of less than one year. These investments include $150,056,167 invested with the Puerto Rico Government Investment Trust Fund, a government-sponsored pool, which is administered by the Bank. This pool is subject to regulatory oversight by the Commissioner of Financial Institutions of Puerto Rico. The fair value of the pool is the same as the value of the pool shares.

At June 30, 2009, $98,750,000 of the Bank's investment in corporate debt maturing over one year bears a variable interest rate resetting quarterly at 100% of an interest rate index plus a spread. Also, at June 30, 2009, approximately 67% of the Bank's investments in mortgage and asset-backed securities were held by trustees in connection with bonds issued by the Housing Finance Authority, the terms of which generally provide for early redemption of the bonds if the securities are early repaid.

All of the Bank's investments in U.S. Treasury securities and mortgage-backed securities guaranteed by GNMA carry the explicit guarantee of the U.S. government. The credit quality ratings for investments in debt securities, excluding U.S. Treasury securities and mortgage-backed securities guaranteed by GNMA, at June 30, 2009 are as follows:

Securities Type	Credit Risk Rating AAA to A-	BBB+	BBB-	Total
U.S. sponsored agencies notes:				
FHLB	$ 516,484,070	$ -	$ -	$ 516,484,070
FHLMC	15,002,550			15,002,550
FNMA	26,405,843			26,405,843
FFCB	117,894,035			117,894,035
Mortgage and asset-backed securities:				
FNMA	147,042,073			147,042,073
FHLMC	154,926,997	19,252		154,946,249
Other	3,061,215			3,061,215
Corporate debt	36,685,984		98,750,000	135,435,984
External investment pools — fixed-income securities	2,366,344,568			2,366,344,568
Nonparticipating investment contracts	266,352,966	13,555,109		279,908,075
US municipal notes	24,125,000			24,125,000
Commonwealth agency bonds	4,015,238	3,530,000		7,545,238
Total	$3,678,340,539	$ 17,104,361	$98,750,000	$3,794,194,900

The credit quality ratings of nonparticipating investment contracts are based on the credit quality ratings at June 30, 2009 of the counterparties with whom these contracts are entered into. The credit quality ratings of the counterparties should follow the ratings required by the investment policies of the Bank.

As of June 30, 2009, the Bank had pledged investments and investment contracts to secure the following:

Payment of principal and interest on obligations issued by a blended component unit	$959,133,284
Securities sold under agreements to repurchase	859,053,110
Certificates of indebtedness	11,800,000

5. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans at June 30, 2009 consist of the outstanding balance of credit facilities granted to the following (in thousands):

	Governmental Activities	Enterprise funds GDB Operating Fund (1)	Tourism Development Fund	Housing Finance Authority	Public Finance Corporation	Total
Public corporations and agencies	$ -	$4,961,959	$ -	$ -	$101,051	$5,063,010
Municipalities		1,174,982				1,174,982
Allowance for loan losses		(9,550)				(9,550)
Total loans to public sector	-	6,127,391	-	-	101,051	6,228,442
Private sector	2,592	439	304,457	223,174		530,662
Allowance for loan losses	(529)	(264)	(52,424)	(20,483)		(73,700)
Total loans to private sector	2,063	175	252,033	202,691	-	456,962
Balance — end of year	$2,063	$6,127,566	$252,033	$202,691	$101,051	$6,685,404

(1) Excluding loans to component units

Reconciliation to the government-wide statement of net assets:	
Unrestricted loans receivable — net	$6,677,450
Restricted loans receivable — net:	
Governmental activities	2,063
Business-type activities	5,891
Total	$6,685,404

Public sector loans amounting to approximately $1,422 million as of June 30, 2009 were delinquent by 90 days or more or had matured, including approximately $89 million of loans classified as non-accrual. Interest income that would have been recorded if non-accrual loans had been accruing in accordance with their original terms was approximately $2.0 million in 2009. Interest collected on these loans during the year ended June 30, 2009 amounted to approximately $933 thousand.

At June 30, 2009, loans to public corporations and agencies of the Commonwealth amounting to approximately $5,063,010,000 were repayable from the following sources (in thousands):

Repayment source	Amount
FIA Fund	$1,064,251
Proceeds from future issuance of Commonwealth's general obligation bonds	1,303,936
Other — including future legislative appropriations and proceeds from future bond issuances from public entities other than the Commonwealth	2,694,823
Total	$5,063,010

Since one of the Bank's principal functions is to provide financing to the Commonwealth and its instrumentalities, the Bank's loan portfolio includes loans to various departments and agencies of the Commonwealth, to various public corporations, and to municipalities, which represent a significant portion of the Bank's assets. Loans to the Commonwealth and its agencies typically include working capital lines of credit payable from short-term tax and revenue anticipation notes issued by the

Commonwealth, interim financing of capital improvements payable from Commonwealth general obligation bonds, and in recent years loans to finance the Commonwealth's budget deficit, which loans are payable from uncollected taxes and from annual appropriations made by the legislature of Puerto Rico. Loans to the public sector, excluding municipalities, amounted to approximately \$5.1 billion or 36.1% of the Bank's government-wide total assets at June 30, 2009.

Many of the public sector loans are payable from legislative appropriations from, or future tax revenues of, the Commonwealth. Accordingly, the payment of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth. Significant negative changes in these factors may have an adverse impact on the Bank's financial condition. During fiscal years 2003 to 2008, the Commonwealth's recurring expenditures exceeded its recurring revenues. These shortfalls were partially covered with loans from the Bank and other non-recurring revenues. In addition, the Commonwealth has preliminary estimated that it expenditures will exceed its revenues for fiscal year 2009. Also, the approved Commonwealth's budget for fiscal year 2010 shows an excess of expenditures over revenues of approximately \$1 billion. During fiscal years 2003, 2004, 2005, 2006 and 2008, the Bank granted loans to the Commonwealth for \$250 million, \$233 million, \$550 million, \$741 million, and \$190 million, respectively, to cover part of the Commonwealth's deficit. As of June 30, 2009 the outstanding principal amount of loans granted to finance the Commonwealth's budget deficit was \$240 million.

In addition, due mainly to the Commonwealth's financial situation, in May 2005, Moody's Investors Service ("Moody's") and Standards & Poor's Rating Services ("S&P") each announced downgrades to the Commonwealth's credit ratings. Moody's and S&P lowered the rating on the Commonwealth's appropriation debt to "Baa3" and "BBB-," respectively. On February 24, 2006, Moody's placed the Commonwealth's rating on Watchlist with negative implications. On March 22, 2006, S&P placed the Commonwealth's rating on CreditWatch with negative implications. On May 8, 2006, Moody's further downgraded the Commonwealth's appropriation debt rating from Baa3 to Ba1 and kept the ratings on Watchlist. On July 20, 2006, S&P confirmed its BBB- rating on the Commonwealth appropriation debt, and removed the rating from CreditWatch with negative implications. S&P's rating outlook, however, remained negative. On July 21, 2006, Moody's confirmed its Ba1 rating on the Commonwealth's appropriation debt and removed the rating from Watchlist with negative implications. On November 6, 2007, Moody's changed the rating outlook of the Commonwealth from negative to stable. At June 30, 2009, the Commonwealth's credit rating was BBB- and Baa3 by S&P & Moody's, respectively with a stable outlook on the Commonwealth's general obligation debt.

In an effort to address the Commonwealth's structural budget imbalance, the legislature enacted Act No. 117 of July 4, 2006 ("Act No. 117"), which amended the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a general sales and consumption tax of 5.5% (the "Sales Tax") to be imposed by the Commonwealth. Act No. 117 also eliminated the 5% general excise tax imposed on imported goods and the 3.6% general excise tax on goods manufactured in Puerto Rico, and provides certain income tax reductions to taxpayers. The Sales Tax was effective on November 15, 2006. Act No. 117 also imposed other measures to address the structural budget imbalance, such as fiscal reform, government reorganization plan, and special income tax rates to certain transactions occurring during the first semester of fiscal year 2007.

The Legislature enacted on May 13, 2006 Act No. 91, which created the Imperative Interest Fund (the "IIF"), as a separate fund to be administered by the Department of the Treasury of the Commonwealth and GDB. The IIF will generate revenues from collections of the first one percent of the Sales Tax. Such revenues shall be used for, among other, paying, refinancing or restructuring the extra-constitutional debt of the Commonwealth that was outstanding at June 30, 2006. Public sector loans to the Commonwealth, its agencies and instrumentalities that do not have the full faith and credit of the Commonwealth are considered extra-constitutional debt. As of June 30, 2009, approximately $1.1 billion of public sector loans are considered extra-constitutional.

Act No. 91 was amended by Act No. 291, enacted on December 26, 2006, and by Act No. 56, enacted on July 6, 2007, to create the Puerto Rico Sales Tax Financing Corporation (the "Sales Tax Corporation") as an independent governmental instrumentality that will own and hold the IIF Fund for the purpose of financing the payment, retirement or defeasance of the extra-constitutional debt. Pursuant to Act No. 91 ownership of the IIF, renamed as the Dedicated Sales Tax Fund (the "Sales Tax Fund"), was transferred to the Sales Tax Corporation.

On July 31, 2007, the Sales Tax Corporation issued $2,668 million 2007 Series A bonds, and $1,333 million 2007 Series B bonds for, among other, the payment and retirement of a portion of the extra-constitutional debt owed to the Bank and the Public Finance Corporation, which was outstanding as of June 30, 2006. The Bank received $1.7 billion in partial payment of its public sector loans considered extra-constitutional debt.

In January 2009, Act No. 91 was amended by Act No. 1 ("Act No. 1") to increase the Pledged Sales Tax to 2% of the Commonwealth's share of the sales and consumption tax. Furthermore, Act No. 1 amended Act No. 91 to allow the use of the proceeds of future bond issuances by the Sales Tax Corporation to (i) pay the Bank the $1,000 million Tax Receivables Anticipation Bonds issued by the Commonwealth during the first semester of fiscal year 2009 to cover a portion of the fiscal year 2009 deficit, (ii) pay principal and/or interest of loans granted by the Bank to the Commonwealth payable from future Commonwealth general obligation bonds and any debt of the Commonwealth outstanding as of December 31, 2008 that did not have source of repayment or was payable from budgetary appropriations, (iii) pay a portion of accounts payable to suppliers of the Commonwealth, (iv) pay or finance Commonwealth's operating expenses of fiscal years 2009, 2010 and 2011, (v) pay or finance the Commonwealth's operating expenses of fiscal year 2012 to the extent included in the annual budget of the Commonwealth, (vi) fund the Puerto Rico Economic Stimulus Fund created by Article 5 of Act No. 1, (vii) nourish the Puerto Rico Commonwealth Emergency Fund to cover expenditures resulting from catastrophic events, and (viii) fund the Economic Cooperation and Public Employees Alternative Fund.

Finally, Act No. 7 of March 9, 2009 amended Act No. 91 to increase the Pledged Sales Tax by an additional 0.75% or to 2.75%, which represents 50% of the Commonwealth's share of the sales and consumption tax. This increase will be effective in fiscal year 2010. In addition, Act. No. 7 created an integrated plan for the Commonwealth's fiscal stabilization that includes: (i) operating expense-reduction measures, including various workforce reduction initiatives and a temporary freeze of salary increases and other economic benefits included in certain laws and collective bargaining agreements; (ii) tax revenue enforcement measures; (iii) a combination of permanent and temporary tax increases, and (iv) other financial measures, including the increase of the Pledged Sales Tax.

In June 2009, the Sales Tax Corporation issued $5.2 billion Tax Revenue Bonds, Series 2009 A, B and C whose proceeds were applied to various uses as stated in Act No. 91, as amended, including among other, the payment to the Bank of the $1,000 million Tax Receivable Anticipation Bonds issued by the Commonwealth and the payment of $201.8 million of accrued interest of loans owed by the Commonwealth and certain of its agencies to the Bank.

Although the Commonwealth is using its best efforts to maximize revenues and reduce expenditures, there can be no assurance that its future revenues will be greater than its expenditures.

Based on previous experience and recent developments, management of the Bank believes that the carrying amount of the loans to the public sector will be collected (including interest at the contracted rate), and that accordingly, no additional allowance for losses for loans to the public sector is needed at June 30, 2009.

During 2009, the Bank and a municipality entered into a restructuring agreement whereby the Bank restructured a disputed loan of $11.9 million, that had been fully reserved in 2008, and granted a new loan for $9.6 million with a fixed interest rate of 4.50% and maturing on July 1, 2016. The restructured loan is repayable from the municipality sales tax. At June 30, 2009, management determined that the restructured loan should be fully reserved until the borrower meets the revised terms for at least one year after the restructuring.

Also during 2009, the Bank entered into an agreement with an agency of the Commonwealth whereby the Bank received several properties with appraised values (based on appraisals made near the transaction date) of $155.9 million in lieu of payment of a loan whose principal balance and accrued interest receivable amounted to $144.2 million at December 30, 2008. Management of the Bank obtained recent appraisals of the properties close to June 30, 2009, which resulted in a decrease in the appraised values of certain of such properties, net of estimated selling costs, of approximately $27 million, which was recorded as a reduction of the carrying value of the properties (included within real estate available for sale in the accompanying statement of net assets) and a receivable from the Commonwealth (included within other assets in the accompanying statement of net assets). The interagency agreement provides that the agency of the Commonwealth shall transfer to the Bank additional properties to cover any deficiency in the properties values during a period of five years. Management of the Bank is of the opinion that it will receive properties to cover the unrealized deficiency before the established period and, accordingly, believes that no valuation allowance on the receivable from the Commonwealth is needed at June 30, 2009.

Loans to the private sector include the outstanding principal balance of credit facilities granted by the Bank to private enterprises in Puerto Rico, the activities of which are deemed to further the economic development of Puerto Rico. They also include the outstanding principal balance of mortgage loans granted to low and moderate-income families for the acquisition of single-family housing units and to developers of low and moderate-income multifamily housing units in Puerto Rico, and direct loans to tourism projects. These credit facilities, net of allowance for loan losses, amounted to approximately $457 million at June 30, 2009 of which approximately $205 million are mortgage loans for low and moderate-income housing units and approximately $252 million are for tourism projects.

Private sector loans classified as non-accrual amounted to approximately $171.5 million at June 30, 2009. Interest income that would have been recorded if these loans had been performing in accordance with their original terms was approximately $4.9 million in 2009. No interest was collected on these loans for the year ended June 30, 2009.

The following is a summary of private sector loans of the enterprise funds considered to be impaired as of June 30, 2009, and the related interest income for the year then ended (in thousands):

	Enterprise funds			
	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Total
Recorded investment in impaired loans:				
Not requiring an allowance for loan losses	$175	$ -	$ -	$ 175
Requiring an allowance for loan losses	264	46,244	125,000	171,508
Total recorded investment in impaired loans	$439	$46,244	$125,000	$171,683
Related allowance for loan losses	$264	$ 7,627	$ 52,424	$ 60,315
Average recorded investment in impaired loans	450	50,428	10,417	61,295
Interest income recognized on impaired loans	-	-	-	-

The following is a summary of the activity in the allowance for loan losses for the year ended June 30, 2009 (in thousands):

		Enterprise Funds			
	Governmental Activities	GDB Operating Fund	Tourism Development Fund	Housing Finance Authority	Total
Balance — beginning of year	$ 613	$12,124	$ 5,423	$24,481	$42,641
Provision (credit) for loan losses	(87)		47,001	(540)	46,374
Net recoveries (charge-offs)	3	(2,310)	-	(3,458)	(5,765)
Balance — end of year	$ 529	$ 9,814	$52,424	$20,483	$83,250

During the year ended June 30, 2009, the Housing Finance Authority sold approximately $33.5 million of single family mortgage loans receivable. The net proceeds from the sale of these loans amounted to approximately $34.0 million, including $156,000 of accrued interest. The net gain on the sale of these loans was approximately $335,000.

6. DUE FROM FEDERAL GOVERNMENT

Under the New Secure Housing Program (the "Program"), the Housing Finance Authority is responsible for administering the Program, including contracting, supervising and paying the designers, inspectors, and legal services needed for the Program. The Authority also provides all the funding for the Program through a $67 million non-revolving line of credit with the Bank. The Department of Housing is responsible for land acquisitions, auctioning projects, awarding construction contracts, qualifying participants, and selling housing units to eligible participants.

Under the terms of the grant, the construction of, and relocation of participants, into new secure housing facilities was to be completed by December 31, 2007. In addition, FEMA would reimburse 75% of the allowable costs of the Program. Funds collected under the Program since its inception amounted to approximately $113 million and are subject to compliance audits under OMB Circular A-133 and federal granting agencies audits.

In April 2007, FEMA discontinued reimbursing the Housing Finance Authority's allowable costs based on the Program's noncompliance with the scheduled dates for construction activities and case management. The Department of Housing requested a one-year extension up to December 31, 2008, and although original request was denied, FEMA granted such request in 2007.

On June 6, 2008, the Department of Housing requested an additional one-year extension up to December 31, 2009, for the completion of the construction and relocation of participants into new secure housing facilities. On July 1, 2008, FEMA denied the additional one-year extension. The Department of Housing requested through the Governor's Authorized Representative (GAR) on September 19, 2008, a reconsideration of FEMA's decision not to grant the extension. On December 23, 2008, FEMA granted a one year extension up to December 31, 2009.

Significant progress has been made to date in the construction activities and in the case management of the Program. Notwithstanding, there is still uncertainty about the compliance with the scheduled date of completion. Based on this and the fact that no reimbursements have been received from FEMA since April 2007, management has decided to establish an allowance for the $24.8 million due from the federal government.

7. REAL ESTATE AVAILABLE FOR SALE

Real estate available for sale at June 30, 2009, consisted of the following:

		Enterprise Funds		
	Governmental Activities	GDB Operating Fund	Housing Finance Authority	Total
Residential (1–4 units)	$ 192,941	$ -	$3,834,144	$ 4,027,085
Commercial	6,764,607	202,153,679		208,918,286
Valuation allowance	(6,438,081)	(1,194,035)	(106,028)	(7,738,144)
Total real estate held for sale	$ 519,467	$200,959,644	$3,728,116	$205,207,227

Reconciliation to the government-wide statement of net assets:

Unrestricted real estate available for sale	$203,396,509
Restricted real estate available for sale	1,810,718
Total	$205,207,227

The following is a summary of the activity in the valuation allowance for the year ended June 30, 2009:

	Governmental Activities	GDB Operating Fund	Housing Finance Authority	Total
Balance — beginning of year	$ 20,105,732	$ -	$ 431,943	$ 20,537,675
Provision (credit) for possible losses	77,652	1,194,035	(121,898)	1,149,789
Write-offs	(13,745,303)	-	(204,017)	(13,949,320)
Balance — end of year	$ 6,438,081	$1,194,035	$ 106,028	$ 7,738,144

During 2009, the Bank entered into an agreement with an agency of the Commonwealth whereby the Bank received several properties with appraised values (based on appraisals made near the transaction date) of $155.9 million in lieu of payment of a loan whose principal balance and accrued interest receivable amounted to $144.2 million at December 30, 2008. Management of the Bank obtained recent appraisals of the properties close to June 30, 2009, which resulted in a decrease in the appraised values of certain of such properties net of estimated selling costs, of approximately $27 million, which was recorded as a reduction of the carrying value of the properties (included within real state available for sale in the accompanying statement of net assets) and a receivable from the Commonwealth (included within other assets in the accompanying statement of net assets). The interagency agreement provides that the agency of the Commonwealth shall transfer to the Bank additional properties to cover any deficiency in the properties values during a period of five years. Management of the Bank is of the opinion that it will receive properties to cover the unrealized deficiency before the established period and, accordingly, believes that no valuation allowance on the receivable from the Commonwealth is needed at June 30, 2009.

8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions/ Reclassifications	Ending Balance
Capital assets not being depreciated — land	$10,970,990	$ -	$(8,125,985)	$ 2,845,005
Capital assets being depreciated:				
Building	8,988,048			8,988,048
Leasehold improvements	3,994,861	40,249	(17,144)	4,017,966
Information systems	3,322,143	541,823	(655,439)	3,208,527
Office furniture and equipment	2,851,922	201,280	(330,925)	2,722,277
Software	3,798,777	178,630	(503,762)	3,473,645
Vehicles	207,915	51,458	(36,248)	223,125
Total capital assets being depreciated	23,163,666	1,013,440	(1,543,518)	22,633,588
Less accumulated depreciation and amortization for:				
Building	(1,685,258)	(224,701)		(1,909,959)
Leasehold improvements	(1,005,286)	(370,178)	17,144	(1,358,320)
Information systems	(1,562,381)	(785,200)	656,637	(1,690,944)
Office furniture and equipment	(1,471,793)	(484,546)	330,925	(1,625,414)
Software	(830,430)	(940,795)	503,762	(1,267,463)
Vehicles	(182,667)	(27,816)	36,248	(174,235)
Total accumulated depreciation and amortization	(6,737,815)	(2,833,236)	1,544,716	(8,026,335)
Total capital assets being depreciated — net	16,425,851	(1,819,796)	1,198	14,607,253
Total capital assets — net	$27,396,841	$(1,819,796)	$(8,124,787)	$17,452,258

9. DEPOSITS

Deposits consist predominantly of interest-bearing demand accounts, special government deposit accounts, and time deposits from the Commonwealth, its agencies, instrumentalities, and municipalities. Interest expense on these deposits amounted to approximately $154.6 million in 2009.

10. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

Carrying amount at June 30, 2009	$ 859,053,110
Maximum amount outstanding at any month-end	1,176,712,579
Average amount outstanding during the year	848,085,991
Weighted average interest rate for the year	3.49%
Weighted average interest rate at year-end	3.05%

The following summarizes the activity of securities sold under agreements to repurchase for the year ended June 30, 2009:

	Beginning Balance	Issuances	Maturities	Ending Balance
GDB Operating Fund	$ 687,200,000	$4,863,313,678	$4,691,460,568	$ 859,053,110

All sales of investments under agreements to repurchase are for fixed terms. In investing the proceeds of securities sold under agreements to repurchase, the Bank's policy is for the term to maturity of investments to be on or before the maturity of the related repurchase agreements. At June 30, 2009, approximately $419 million of securities sold under agreements to repurchase mature within one year and $440 million mature during fiscal year 2011.

11. COMMERCIAL PAPER

The Bank issued commercial paper in the U.S. taxable and tax-exempt commercial paper markets, in the Eurodollar commercial paper market, and to corporations that have grants of tax exemption under the Commonwealth's industrial incentives laws. Commercial paper represented unsecured obligations of the Bank.

The following information corresponds to commercial paper:

Carrying amount at June 30, 2009	$ -
Maximum amount outstanding at any month-end	500,000
Average amount outstanding during the year	421,917
Weighted average interest rate for the year	195.00%
Weighted average interest rate at year-end	- %

The following summarizes the commercial paper activity for fiscal year 2009:

	Beginning Balance	Issuances	Maturities	Ending Balance	Due Within One Year
GDB Operating Fund	$ 500,000	$ 1,500,000	$2,000,000	$ -	$ -

12. CERTIFICATES OF INDEBTEDNESS

Certificates of indebtedness consist of time deposits from corporations that have grants of tax exemptions under the Commonwealth's industrial incentives laws. The following summarizes the certificates of indebtedness activity for the year ended June 30, 2009:

	Beginning Balance	Issuances	Maturities	Ending Balance	Due Within One Year
GDB Operating Fund	$ 11,800,000	$ -	$ -	$ 11,800,000	$ -

At June 30, 2009, certificates of indebtedness amounting to approximately $7.5 million contractually mature during the fiscal year ending June 30, 2011 and approximately $4.3 million contractually mature during the fiscal year ending June 30, 2012.

13. BONDS, NOTES, AND MORTGAGE-BACKED CERTIFICATES PAYABLE, AND OTHER LIABILITIES

The activity of bonds payable and other borrowed funds for the year ended June 30, 2009 is as follows:

	Beginning Balance	Debt Issued	Debt Paid	Reductions	Ending Balance	Due Within One Year
Governmental activities — commonwealth appropriation bonds and notes:						
Note payable — AHMSP Stage 7	$ 4,962,005	$ -	$ -	$ (150,768)	$ 4,811,237	$ -

	Beginning Balance	Issuances — Net	Reductions	Ending Balance	Due within One Year
Business-type activities:					
GDB Operating Fund:					
Adjustable Refunding Bonds	$ 267,000,000	$ -	$(267,000,000)	$ -	$ -
Senior Notes 2006 Series B	594,020,000		(92,915,000)	501,105,000	72,450,000
Senior Notes 2006 Series C	81,960,000			81,960,000	
Senior Notes 2008 Series A		944,533,000	(200,000,000)	744,533,000	
Senior Notes 2008 Series B		285,467,000		285,467,000	
Senior Notes 2009 Series A		250,000,000		250,000,000	
Senior Notes 2009 Series B		200,000,000		200,000,000	
Add unamortized premium — net	12,849,433		(3,189,129)	9,660,304	209,611
Total GDB Operating Fund	955,829,433	1,680,000,000	(563,104,129)	2,072,725,304	72,659,611
Housing Finance Authority:					
Mortgage Trust III	990,663,874		(43,270,000)	947,393,874	43,060,000
Revenue bonds and mortgage-backed certificates:					
Single Family Mortgage Revenue Bonds, Portfolio IX	124,450,000		(5,160,000)	119,290,000	2,350,000
Single Family Mortgage Revenue Bonds, Portfolio X	224,595,000		(144,565,000)	80,030,000	1,285,000
Single family Mortgage Revenue Bonds, Portfolio XI	200,000,000			200,000,000	3,020,000
Homeownership Mortgage Revenue Bonds 2000	56,235,000		(3,815,000)	52,420,000	1,130,000
Homeownership Mortgage Revenue Bonds 2001	60,975,000		(5,365,000)	55,610,000	1,295,000
Homeownership Mortgage Revenue Bonds 2003	28,080,000		(2,360,000)	25,720,000	615,000
Mortgage-Backed Certificates 2006 Series A	142,633,975		(10,552,160)	132,081,815	11,264,136
Total revenue bonds and mortgage-backed certificates	836,968,975	-	(171,817,160)	665,151,815	20,959,136
Subtotal	1,827,632,849		(215,087,160)	1,612,545,689	64,019,136
Notes payable to GDB		1,597,006		1,597,006	
Plus unamortized premium	600,856		(49,162)	551,694	
Less unaccreted discount and deferred loss on refundings	549,031,082		(34,525,858)	514,505,224	
Total Housing Finance Authority	1,279,202,623	1,597,006	(180,610,464)	1,100,189,165	64,019,136
Tourism Development Fund:					
Participation agreement payable	26,000,000			26,000,000	
Notes payable to GDB	213,934,464	32,449,592	(106,204)	246,277,852	8,400,000
Total Tourism Development Fund	239,934,464	32,449,592	(106,204)	272,277,852	8,400,000
Public Finance Corporation — note payable to GDB	103,936,077		(2,612,187)	101,323,890	2,323,891
Total	2,578,902,597	1,714,046,598	(746,432,984)	3,546,516,211	147,402,638
Less intrafund eliminations	(446,816,040)	(34,046,598)	(7,794,986)	(488,657,624)	(10,723,891)
Total business-type activities	$2,132,086,557	$1,680,000,000	$(754,227,970)	$3,057,858,587	$136,678,747

The annual debt service requirements to maturity, including principal and interest, for long-term debt, (excluding notes payable by component units to the Bank) as of June 30, 2009, are as follows:

Year Ending June 30,	GDB Operating Fund Business-Type Activities Principal	GDB Operating Fund Business-Type Activities Interest
2010	$ 72,450,000	$ 113,468,275
2011	63,295,000	110,112,796
2012	878,065,000	92,863,504
2013	66,205,000	69,882,921
2014	414,285,000	57,859,921
2015–2019	568,765,000	150,514,867
Total	$2,063,065,000	$ 594,702,284

Year Ending June 30,	Housing Finance Authority			
	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2010	$ -	$ 256,831	$ 64,019,136	$ 33,931,424
2011		256,831	62,081,192	33,121,749
2012		256,831	62,165,354	32,182,523
2013		256,831	61,633,154	31,302,906
2014	95,757	217,922	57,880,850	30,358,105
2015–2019	524,890	1,012,614	273,109,288	136,829,612
2020–2024	449,503	781,392	180,328,484	108,912,131
2025–2029	1,584,006	614,649	633,888,231	77,521,138
2030–2034	2,157,081	83,555	137,125,000	40,939,711
2035–2039			73,815,000	12,325,286
2040–2044			6,500,000	147,604
Total	$4,811,237	$3,737,456	$ 1,612,545,689	$ 537,572,189

Year Ending June 30,	Tourism Development Fund Business-Type Activities Principal	Tourism Development Fund Business-Type Activities Interest
2010	$ -	$ 1,977,083
2011		1,977,083
2012		1,982,500
2013		1,977,083
2014		1,977,083
2015–2019	26,000,000	7,913,750
Total	$26,000,000	$ 17,804,582

Governmental Activities — Bonds and notes payable by governmental activities consist of the following:

Description and Maturity Date	Interest Rate	Amount Outstanding
Note payable Affordable Housing Mortgage Subsidy Program Stage 7 — due on July 1, 2009 each July thereafter to July 1, 2031	4.10%–5.25%	$4,811,237

Note Payable to Puerto Rico Public Finance Corporation — On December 27, 2001, the Housing Finance Authority entered into a loan agreement (the "Note") with the GDB Operating Fund to refinance the Affordable Housing Mortgage Subsidy Program Stage 7 note payable (the "Old Note") of the Housing Bank, as authorized by Act No. 164 of December 17, 2001. The Public Finance Corporation acquired and restructured the Note through the issuance of its Commonwealth appropriations bonds ("PFC Bonds"). The PFC Bonds were issued under a trust indenture whereby the Public Finance Corporation pledged and sold the Note, along with other notes under Act No. 164, to certain trustees and created a first lien on the revenues of the notes sold. The notes payable to the Public Finance Corporation were originally composed of a loan granted by the Bank, which, pursuant to Act No. 164 of December 17, 2001, the Public Finance Corporation acquired and restructured through the issuance of Commonwealth appropriation bonds. These bonds were issued under trust indenture agreements whereby the Public Finance Corporation pledged the notes to certain trustees and created a first lien on the pledged revenue (consisting of annual Commonwealth appropriations earmarked to repay these notes) for the benefit of the bondholders.

During June 2004, the Public Finance Corporation advance refunded a portion of certain of its outstanding Commonwealth appropriation bonds issued in 2001 under Act No. 164 of December 17, 2001. The Housing Finance Authority recognizes a mirror effect of this advance refunding by the Public Finance Corporation in its own notes payable in proportion to the portion of the Housing Finance Authority's notes payable included in the Public Finance Corporation refunding. The aggregate debt service requirements of the refunding and unrefunded notes will be funded with annual appropriations from the Commonwealth.

The Note's outstanding balance at June 30, 2009 was $4,811,237 and matures on July 1, 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the Public Finance Corporation Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by Public Finance Corporation on the PFC Bonds serviced by the Note to the aggregate amount paid by Public Finance Corporation on all the PFC Bonds issued by Public Finance Corporation under Act No. 164.

Business-Type Activities — Bonds, notes and mortgage-backed certificates payable of business-type activities consist of the following:

Description and Maturity Date	Interest Rate	Amount Outstanding
GDB Senior Notes :		
Series 2006 B — December 1 until December 1, 2017	4.125%-5.00%	$ 508,460,904
Series 2006 C — January 1, 2015	5.25	84,264,400
Series 2008 A — Each February 1 from 2012 to 2019	5.50–6.50	744,533,000
Series 2008 B — Each February 1 from 2012 to 2019	5.50–6.50	285,467,000
Series 2009 A — Each February 1 from 2012 to 2019	5.50–6.50	250,000,000
Series 2009 B — Each February 1 from 2012 to 2019	5.50–6.50	200,000,000
Mortgage Trust III:		
Each July 1 and January 1 until July 1, 2011	Zero Coupon	62,439,937
Each July 1 and January 1 until January 1, 2021 January 1, 2026	Zero Coupon	245,102,596
Single Family Mortgage Revenue Bonds — Portfolio IX		
Each December 1 and June 1 until December 1, 2012	3.85-5.60	119,290,000
Single Family Mortgage Revenue Bonds — Portfolio X		
Each December 1 and June 1 until December 1, 2037	4.15–5.65	80,030,000
Single Family Mortgage Revenue Bonds — Portfolio XI		
Each December 1 and June 1 until December 1, 2039	2.60–5.45	200,000,000
Mortgage-Backed Certificates, 2006 Series A		
June 29, 2026 through August 29, 2030	2.955–6.56	118,520,750
Homeownership Mortgage Revenue Bonds 2000 Series —		
Each June 1 and December 1 until December 1, 2032	4.25–5.20	52,420,000
Homeownership Mortgage Revenue Bonds 2001 Series:		
Each December 1 until December 1, 2012	4.35–4.70	5,540,000
June 1, 2013 and each December 1 and June 1 thereafter to December 1, 2033	4.45–5.50	50,070,000
Homeownership Mortgage Revenue Bonds 2003 Series:		
Each December 1 until December 1, 2013	3.2–4.00	3,285,000
June 1, 2013 and each December 1 and June 1 thereafter to December 1, 2033	4.375–4.875	22,435,000
Total		$ 3,031,858,587

Adjustable Refunding Bonds — On August 1, 2008, the Bank repurchased the $267 million outstanding balance of its adjustable refunding bonds as a result of significant increases in the interest rate of these auction rate bonds. The Bank expects to reissue these bonds at a fixed rate during fiscal year 2010.

GDB Senior Notes 2008, Series A — On December 30, 2008, the Bank issued $944,533,000 of Senior Notes, 2008 Series A, (the "2008 Series A Notes"). The 2008 Series A Notes consist of term notes maturing on various dates from February 1, 2012 to February 1, 2019 and carrying fixed interest rates ranging from 5.50% to 6.50%. The 2008 Series A Notes are subject to redemption prior to maturity at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium, on February 1, 2010 and on a monthly basis thereafter on each interest payment date, subject to at least 30 days prior notice.

GDB Senior Notes 2008, Series B — On January 8, 2009, the Bank issued $285,467,000 of Senior Notes, 2008 Series B, (the "2008 Series B Notes"). The 2008 Series B Notes consist of term notes maturing on various dates from February 1, 2012 to February 1, 2019 and carrying fixed interest rates ranging from 5.50% to 6.50%. The 2008 Series B Notes are subject to redemption prior to maturity at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium, on February 1, 2010 and on a monthly basis thereafter on each interest payment date, subject to at least 30 days prior notice.

GDB Senior Notes 2009, Series A — On January 29, 2009, the Bank issued $250,000,000 of Senior Notes, 2009 Series A, (the "2009 Series A Notes"). The 2009 Series A Notes consist of term notes maturing on various dates from February 1, 2012 to February 1, 2019 and carrying fixed interest rates ranging from 5.50% to 6.50%. The 2009 Series A Notes are subject to redemption prior to maturity at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium, on February 1, 2010 and on a monthly basis thereafter on each interest payment date, subject to at least 30 days prior notice.

GDB Senior Notes 2009, Series B — On June 30, 2009, the Bank issued the $200,000,000 of Senior Notes, 2009 Series B, (the "2009 Series B Notes"). The 2009 Series B Notes consist of term notes maturing on various date from February 1, 2012 to February 1, 2019 and carrying fixed interest rates ranging from 5.50% to 6.50%. The 2009 Series B Notes are subject to redemption prior to maturity at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium, on February 1, 2010 and on a monthly basis thereafter on each interest payment date, subject to at least 30 days prior notice.

The Housing Finance Authority has refunded/in-substance defeased certain bonds by placing internally generated moneys or the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded or in-substance defeased bonds. Accordingly, the trust account assets and the related refunded/defeased bonds are not included in the Housing Finance Authority's financial statements. During 2009, $51 million of bonds that were considered defeased were repaid. At June 30, 2009, there are no bonds outstanding that are considered defeased.

Participation Agreement Payable — On April 10, 2006, the Tourism Development Fund entered into a debt restructuring agreement with Hotel Dorado, S.E. (the "Hotel") whereby the Tourism Development Fund, as guarantor of the Hotel's AFICA bonds, accelerated the AFICA bonds payment in exchange for a note receivable of $26 million (the "Note") from the Hotel. In addition, on April 10, 2006, the Tourism Development Fund entered into a participation agreement with a financial institution whereby the Tourism Development Fund transferred a 100% participation (the "Participation") in the Note.

The Participation is subject to recourse and the Tourism Development Fund is obligated to purchase the loan from the financial institution upon the occurrence and during the continuance of an event of default under the participation agreement. The participation agreement also stipulates that the financial institution cannot sell, pledge, transfer, assign or dispose of the Participation without the Tourism Development Fund's consent. Accordingly, the Tourism Development Fund has recorded the Note as part of loans receivable and has recorded a participation agreement payable (i.e. a collateralized borrowing) in the accompanying balance sheet — enterprise funds.

The Note bears interest at a fixed rate of 7.5%, which is payable on a quarterly basis, and originally matured on April 9, 2009. In August 2008, The Tourism Development Fund agreed to extend the maturity to July 1, 2018 and approved a conditional-commitment to provide a guarantee for a permanent loan to be provided by the financial institution upon completion of the construction of some amenities and subject to compliance with certain conditions. The outstanding principal balance of the Note and the corresponding participation agreement payable amounted to $26 million as of June 30, 2009.

The activity for noncurrent accounts payable and accrued liabilities during the year ended June 30, 2009 follows:

Balance — beginning of period	$ 4,816,117
Additions	3,184,310
Reductions	(2,437,045)
Balance — end of period	$ 5,563,382

The activity for compensated absences, included within accounts payable and accrued liabilities, during the year ended June 30, 2009 follows:

	Beginning Balance	Provision	Reductions	Ending Balance	Due Within One Year
Vacation	$2,449,919	$2,445,605	$2,330,888	$2,564,636	$1,718,306
Sickness	2,438,283	1,448,994	1,227,590	2,659,687	319,162
Total	$4,888,202	$3,894,599	$3,558,478	$5,224,323	$2,037,468

Compensated absences are available to be liquidated by the employees during the year.

14. RESTRICTED NET ASSETS — MORTGAGE LOAN INSURANCE FUND

The Housing Finance Authority is required by law to maintain an allowance for losses on insured mortgage loans, which is computed as a percentage of the outstanding principal balance of the insured mortgage loans. Losses incurred upon the foreclosure and subsequent gains or losses on the disposal of properties are credited/charged to the allowance for losses on mortgage loan insurance. At June 30, 2009, the Housing Finance Authority had restricted net assets for such purposes of approximately $58.6 million.

15. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Bank is party to transactions involving financial instruments with off-balance-sheet risk, to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. These instruments involve, to varying degrees, elements of credit risk in excess of amounts recognized in the accompanying statement of net assets and fund balance sheets. These off-balance-sheet risks are managed and monitored in manners similar to those used for on-balance-sheet risks. The Bank's exposures to credit loss for lending commitments, financial guarantees, and letters of credit are represented by the contractual amount of those transactions.

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

At June 30, 2009, the off-balance-sheet risks consisted of the following (in thousands):

Financial instruments whose credit risk is represented by contractual amounts:	
Financial guarantees:	
Public sector	$ 79,242
Private sector	22,638
Total	$ 101,880
Standby letters of credit:	
Public sector	$ 632,683
Private sector	109,090
Total	$ 741,773
Commitments to extend credit — Public sector	$2,253,718

Following is the activity of the allowance for losses on guarantees and letters of credit for the year ended June 30, 2009:

	Beginning Balance	Provision	Payments	Ending Balance	Due Within One Year
GDB Operating Fund	$ 1,000,000	$ -	$ -	$ 1,000,000	$ -
Tourism Development Fund	1,270,052	6,010,948		7,281,000	
Development Fund	843,343	2,892,047	(645,516)	3,089,874	1,747,801
Total	$ 3,113,395	$ 8,902,995	$ (645,516)	$ 11,370,874	$ 1,747,801

16. RETIREMENT SYSTEM

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

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

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

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

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

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

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

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

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

Total employee contributions for the defined benefit pension plan and the defined contribution plan during the year ended June 30, 2009 amounted to approximately $904,000 and $1,087,000 respectively. The Bank's contributions during the years ended June 30, 2009, 2008, and 2007 amounted to approximately $1,946,000, $1,982,000, and $1,787,000, respectively. These amounts represented 100% of the required contribution for the corresponding year. Individual information for each option is not available since the allocation is performed by the Retirement System itself.

Additional information on the Retirement System is provided in its stand alone financial statements for the year ended June 30, 2009, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its instrumentalities. P.O. Box 42004, San Juan PR 00940-2004.

17. COMMITMENTS AND CONTINGENCIES

Lease Commitments — The Bank leases office and storage space from the governmental and private sector. Principally, office space is leased under a short-term operating lease agreement that renews automatically every year, if it is not canceled by any of the parties before the beginning of each year. The storage space agreement expires in 2011.

The Housing Finance Authority entered into a 30 year lease agreement with the Puerto Rico Department of Housing (PRDH) to rent office space expiring in 2037. During the term of the lease, the Housing Finance Authority will pay an annual rent of $1.5 million. The agreed upon rent includes parking spaces, maintenance and security services in common areas. PRDH will be responsible for the payment of utilities in exchange for an additional payment of $350,000 payable in a lump sum on or before August 31st of each year.

Rent charged to operations in fiscal year 2009 amounted to approximately $2.9 million. At June 30, 2009, the minimum annual future rentals under noncancelable leases are approximately as follows:

Year Ending June 30,	Amount
2010	$ 2,263,000
2011	2,278,000
2012	1,850,000
2013	1,850,000
2014	1,850,000
Thereafter	42,550,000
Total	$52,641,000

Cooperative Development Investment Fund — On August 18, 2002, the Legislature approved Law No. 198, which creates the Cooperative Development Investment Fund. The purpose of this fund is to promote the development of cooperative entities. This fund will be capitalized through contributions to be provided by the Bank up to $25 million to be matched by cooperative entities. As of June 30, 2009, the Bank has contributed $15.6 million to the Cooperative Development Investment Fund, $985,000 million of which were contributed during the year ended June 30, 2009.

Other Risks Related to Mortgage Loans Servicing and Insurance Activities — Certain loan portfolios of the Housing Finance Authority are administered by private servicers who are required to maintain an error and omissions insurance policy. The Housing Finance Authority has a program to manage the risk of loss on its mortgage loan lending and insurance activities.

Loan Guarantees — The Development Fund has entered into an agreement (the "Agreement") with Economic Development Bank for Puerto Rico (EDB) whereby the Development Fund would guarantee a portion of loans granted by EDB under a government program named The Key for Your Business (the "Program"). Under the Agreement, the Development Fund would assign $10 million of its capital for the program. The Development Fund guarantees one-third of the outstanding principal balance of each loan plus accrued interest and certain other charges. On August 28, 2008, the Development Fund and EDB amended the Agreement to increase from $10 million to $15 million the Development Fund's capital designated for the program. The Development Fund charges one percent of the loan amount as guarantee fee and no loan can exceed $50,000. At June 30, 2009, outstanding guarantees amounted to approximately $14,747,000, and the allowance for losses on guarantees amounted to approximately $3.1 million.

Custodial Activities of Enterprise Funds — At June 30, 2009, the Housing Finance Authority was custodian of approximately $192,000 in restricted funds of CRUV. As of June 30, 2009, such funds are deposited with the Bank. These funds are not owned by the Housing Finance Authority's enterprise funds and thus are not reflected in the accompanying basic financial statements.

Loan Sales and Securitization Activities — On July 13, 1992, the Housing Bank entered into an agreement to securitize approximately $20.7 million of mortgage loans into a FNMA certificate. The Housing Finance Authority agreed to repurchase, at a price of par plus accrued interest, each and every mortgage loan backing up such security certificate that become delinquent for 120 days or more. As of June 30, 2009, the aggregate outstanding principal balance of the loans pooled into the FNMA certificate amounted to approximately $643,000.

Mortgage Loan Servicing Activities — The Housing Finance Authority acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2009, the principal balance of the mortgage loans serviced for others is approximately as follows:

Popular Mortgage, Inc.	$ 128,000
R-G Mortgage, Inc.	1,548,000
CRUV or its successor without guaranteed mortgage loan payments	49,000
Total	$ 1,725,000

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

18. NO-COMMITMENT DEBT AND PROGRAMS SPONSORED BY THE HOUSING FINANCE AUTHORITY

The Public Finance Corporation has issued approximately $5.9 billion of Commonwealth appropriation bonds (the "Bonds") maturing at various dates through 2032. The proceeds of the Bonds, except for approximately $1.7 billion, were used to provide the necessary funds to purchase from the Bank separate promissory notes of the Department of the Treasury of the Commonwealth, and certain of its instrumentalities and public corporations (the "Promissory Notes"). The $1.7 billion referred to above were used to refund a portion of certain bonds issued by the Public Finance Corporation (also no-commitment debt) between fiscal years 1995 and 2005. The outstanding balance of the Bonds at June 30, 2009 amounted to approximately $1.6 billion.

The Bonds are limited obligations of the Public Finance Corporation and, except to the extent payable from bond proceeds and investment earnings thereon, will be payable solely from a pledge and assignment of amounts due under the Promissory Notes. Principal and interest on the Promissory Notes are payable solely from legislative appropriations to be made pursuant to acts approved by the Legislature of the Commonwealth. These acts provide that the Commonwealth shall honor the payment of principal and interest on the Promissory Notes, and that the Director of the OMB shall include in the budget of the Commonwealth submitted to the Legislature the amounts necessary to pay the principal and interest on the Notes. The underlying Promissory Notes represent debt of the issuing instrumentalities (all part of the Commonwealth or its component units), and, for purposes of the Public Finance Corporation, the Bonds are considered no-commitment debt. Neither the Bonds nor the Notes purchased with the proceeds therefrom are presented in the accompanying basic financial statements.

During fiscal years 2008 and 2009, the Sales Tax Corporation issued several bonds whose net proceeds were used, among other, for the payment and retirement of a portion of the extra-constitutional debt owed to the Bank and to the Public Finance Corporation. In total, the outstanding balance of the Bonds has been reduced by approximately $2.4 billion.

Certain bonds of the Housing Finance Authority are considered no-commitment debt as more fully described in Note 2. At June 30, 2009, there were restricted assets held in trust by others, outstanding obligations, fund balances, and excess of fund expenses over revenues, net of transfers (all of which are excluded from the accompanying basic financial statements), as indicated below (unaudited):

Restricted assets	$9,222,065
Restricted liabilities (no-commitment debt)	8,013,477
Restricted fund balance	$ 1,208,588
Excess of fund expenses over revenues	$ 160,346

In December 2003, the Housing Finance Authority issued $663 million in Capital Fund Program Bonds Series 2003 to lend the proceeds thereof to the Public Housing Administration (PHA), a governmental instrumentality of the Commonwealth. PHA utilized such funds for improvements to various public housing projects in the Commonwealth. The Capital Fund Program Bonds Series 2003 are limited obligations of the Housing Finance Authority, which will be paid solely from an annual allocation of public housing capital funds when received from the U.S. Department of Housing and Urban Development and other funds available under the bonds indenture. Accordingly, these bonds are considered no-commitment debt and are not presented in the accompanying basic financial statements. The outstanding balance of these bonds amounted to $572 million at June 30, 2009.

On August 1, 2008, the Housing Finance Authority issued the Capital Fund Modernization Program Subordinate Bonds amounting to $384,475,000 and the Housing Revenue Bonds amounting to $100,000,000. The proceeds from the issuance were mainly used to finance a loan to a limited liability company (the "LLC") and pay the costs of issuance. The $384,475,000 bonds are limited obligations of the Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by the U.S. Department of Housing and Urban Development, with an outstanding balance of $368,620,000 at June 30, 2009. The $100,000,000 bonds are also limited obligations of the Housing Finance Authority, payable from amounts deposited in escrow accounts with a trustee and the proceeds of a loan to be made by the Housing Finance Authority to the LLC using moneys received as a grant from the Department of Housing of Puerto Rico. Payment of principal, of the Housing Revenue Bonds is also secured by an irrevocable standby letter of credit issued by the Bank. These bonds are considered no-commitment debt and, accordingly, are excluded, along with the related assets held in trust, from the Housing Finance Authority's financial statements.

In addition, the Housing Finance Authority, as a public agency is authorized to administer the U.S. Housing Act Section 8 Programs in Puerto Rico. The revenues and expenses of such federal financial assistance are accounted for as a major governmental fund under HUD Programs. Revenues and expenditures related to the administration of the U.S. Housing Act Section 8 Programs amounted to $118,532,083 for the year ended June 30, 2009. This amount includes $4,303,112 of administrative fees for services performed as contract administrator, which are reimbursed by the U.S. Department of Housing and Urban Development.

19. CONTRIBUTION FROM PUERTO RICO INFRASTRUCTURE FINANCE AUTHORITY

On January 14, 2009, the Legislature of the Commonwealth enacted Act No. 3 to, among other, authorize the Puerto Rico Infrastructure Financing Authority to sell securities deposited at a corpus account, the proceeds of which would be used, among other, to make a contribution to the Bank. Approximately, $154.2 million were contributed by the Puerto Rico Infrastructure Financing Authority to the Bank during fiscal year 2009.

20. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair values reflected below are indicative of the interest rate environment as of June 30, 2009, and do not take into consideration the effects of interest rate fluctuations. In different interest rate scenarios, fair value results can differ significantly. Furthermore, actual prepayments may vary significantly from those estimated resulting in materially different fair values.

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

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

- Short-term financial instruments, such as cash and due from banks, federal funds sold, deposits placed with banks, certificates of deposit, repurchase agreements, and accrued interest receivable and payable have been valued at the carrying amounts reflected in the statement of net assets, as these are reasonable estimates of fair value given the relatively short period of time between origination of the instruments and their expected realization.

- Financial instruments that are primarily traded in secondary markets, such as most investments, were valued using either quoted market prices or quotations received from independent brokers/dealers.

- Financial instruments that are not generally traded, such as long-term deposits placed with banks, investment contracts, certificates of deposit, repurchase agreements, certificates of indebtedness, and bonds and notes issued with fixed interest rates, were fair valued using the present values of estimated future cash flows at the appropriate discount rates. Bonds and other borrowings issued with interest rates floating within certain ranges were fair valued at their outstanding principal balance. The fair value of liabilities with no defined maturities, such as demand deposits, was reported as the amounts payable upon demand.

- Loans to the public sector were valued according to the type of contractual interest rate. Loans to the public sector with interest rates floating within certain ranges were fair valued at their outstanding principal balance. Loans to the public sector with fixed interest rates were fair valued assuming that such loans were packaged and sold in the secondary market. The discount rates utilized were based on the rating of the Commonwealth and the market where the instruments would be sold. For delinquent public sector loans, the fair value was assumed to be equal to the carrying value, as historically the Bank has collected such amounts.

- Loans, participation agreement payable, and commitments to extend credit, financial guarantees and standby letters of credit to the private sector are mostly industrial development, tourism development, and low-cost housing development projects. For these types of loans and commitments, there is no secondary market, and the actual future cash flows may vary significantly as compared to the cash flows projected under the agreements, due to the degree of risk. Accordingly, management has opted not to disclose the fair value of these financial instruments, as such information may not be estimated with reasonable precision.

- Disclosure of the fair value of commitments to extend credit, standby letters of credit, and financial guarantees relating to instrumentalities of the Commonwealth is omitted, as these arrangements are with component units of the Commonwealth.

The following table presents the carrying amounts and estimated fair values of the Bank's financial instruments at June 30, 2009:

	Reported Amount	Fair Value
	(In millions)	
Financial assets:		
Cash and due from banks	$ 26	$ 26
Federal funds sold	1,364	1,364
Deposits placed with banks	1,113	1,113
Investments and investment contracts	4,374	4,299
Loans receivable to public sector	6,228	6,208
Accrued interest receivable and other receivables	127	127
Financial liabilities:		
Demand deposits	3,187	3,187
Certificates of deposit	4,367	4,368
Certificates of indebtedness	12	12
Securities sold under agreements to repurchase	859	830
Accounts payable and accrued liabilities	63	63
Accrued interest payable	25	25
Bonds, notes and participation agreement payable	3,063	3,081

21. INTERFUND BALANCES AND TRANSFERS

The following table is a summary of the interfund balances as of June 30, 2009 between governmental funds and enterprise funds:

Receivable by	Payable by	Purpose	Amount
Governmental fund:	Enterprise fund:		
New Secure Housing Program	GDB Operating Fund	Demand deposits and accrued interest	$ 25,446
HUD Programs	GDB Operating Fund	Demand deposits and accrued interest	784,351
Other nonmajor funds (AHMSP Act No. 124)	GDB Operating Fund	Investment agreements and accrued interest	590,218
Other nonmajor funds (AHMSP Act No. 124)	GDB Operating Fund	Certificates of deposit and accrued interest	14,140,236
Other nonmajor funds (AHMSP Act No. 124)	GDB Operating Fund	Demand deposits and accrued interest	18,328
AHMSP-Stage 8	GDB Operating Fund	Investment agreements and accrued interest	14,008,526
Other nonmajor funds (Special Obligation Refunding Bonds-Debt Service)	GDB Operating Fund	Certificates of deposit and accrued interest	4,359,728
Other nonmajor funds (Special Obligation Refunding Bonds-Debt Service)	GDB Operating Fund	Demand deposits and accrued interest	54,965
The Key for your Home Program	GDB Operating Fund	Demand deposits and accrued interest	60,343
Subtotal and balance carried forward			$ 34,042,141

(Continued)

Receivable by	Payable by	Purpose	Amount
Balance brought forward			$ 34,042,141
Governmental fund:	Enterprise fund:		
New Secure Housing Program	Housing Finance Authority	Reimbursement of expenditures	36,883
Other Nonmajor Funds (Special Obligation Refunding Refunding Bonds-Debt Service)	Housing Finance Authority	Reimbursement of loan originations	2,383,696
The Key for Your Home Program	Housing Finance Authority	Advances	591,748
Subtotal			3,012,327
Total			37,054,468
Enterprise fund:	Governmental fund:		
GDB Operating Fund	New Secure Housing Program	Loans payable and accrued interest	(43,515,774)
GDB Operating Fund	AHMSP-Stage 7	Loan payable and accrued interest	(52,404,062)
GDB Operating Fund	Other nonmajor funds (AHMSP-Stage 10)	Loans payable and accrued interest	(13,580,319)
GDB Operating Fund	AHMSP-Stage 9	Loans payable and accrued interest	(340,458)
Housing Finance Authority	AHMSP- Stage 7	Reimbursement of expenditures	(5,263,768)
Housing Finance Authority	New Secure Housing Program	Reimbursement of expenditures	(6,158,129)
Housing Finance Authority	HUD Programs	Reimbursement of expenditures	(1,013,195)
Total			(122,275,705)
Total internal balances — net			$ (85,221,237)

(Continued)

Receivable by	Payable by	Purpose	Amount
Governmental fund:	Governmental fund:		
Other nonmajor funds (Special Obligation Refunding Bonds-Debt Service)	AHMSP - Stage 7	Advances	$ 13,164,714
AHMSP- Stage 8	Other nonmajor funds (AHMSP-Mortgage-Backed Certificates 2006)	Reimbursement of expenditures	31,769
Total balance among governmental funds eliminated			$ 13,196,483
Enterprise funds:	Enterprise funds:		
Housing Finance Authority	GDB Operating Fund	Demand deposits and accrued interest	$ 7,273,044
Development Fund	GDB Operating Fund	Demand deposits and accrued interest	36,669,677
Tourism Development Fund	GDB Operating Fund	Demand deposits and accrued interest	11,449,848
Public Finance Corporation	GDB Operating Fund	Demand deposits and accrued interest	1,359,399
Other Nonmajor (Education Assistance Corporation)	GDB Operating Fund	Demand deposits and accrued interest	2,376,527
Other Nonmajor (JMB Institute)	GDB Operating Fund	Demand deposits and accrued interest	18,508
Housing Finance Authority	GDB Operating Fund	Certificates of deposit and accrued interest	458,077,778
Tourism Development Fund	GDB Operating Fund	Certificates of deposit and accrued interest	92,169,590
Housing Finance Authority	GDB Operating Fund	Guaranteed investment contracts and accrued interest	170,396,583
GDB Operating Fund	Housing Finance Authority	Bonds payable	139,458,876
GDB Operating Fund	Tourism Development Fund	Loans receivable and accrued interest	246,586,657
GDB Operating Fund	Public Finance Corporation	Loans receivable and accrued interest	105,063,938
GDB Operating Fund	Housing Finance Authority	Loan receivable and accrued interest	1,614,713
Total balance among enterprise funds eliminated			$ 1,272,515,138

(Concluded)

The following table is a summary of interfund transfers for the year ended June 30, 2009:

Transfer Out	Transfer In	Transfer for	Amount
Governmental Funds: Other Nonmajor Funds (AHMSP-Stage 10)	Governmental Funds: Other nonmajor funds	Release of excess funds	$ 10,957,500
Enterprise Funds: Housing Finance Authority	Governmental Funds: Other Nonmajor Funds (AHMSP Mortgage Backed Certificates)	Subsidy payments	2,110,392
Governmental Funds: AHMSP Stage 9	Enterprise Funds: Housing Finance Authority	Debt services payments	519,866
Other Nonmajor Funds (AHMSP-Stage 10)	Housing Finance Authority	Debt services payments	498,669
Other Nonmajor Funds (AHMSP- Stage 10)	Housing Finance Authority	Debt services payments	7,700,867
Enterprise Funds: GDB Operating Fund	Enterprise Funds: Other Nonmajor Funds (J.M.B. Institute)	Contribution	100,000

22. FUND BALANCE DEFICIT

The following governmental funds reflect a deficit at June 30, 2009: AHMSP Stage 7, AHMSP Stage 10, and New Secure Housing Program for the amount of $50.2 million, $7.5 million and $55.3 million, respectively. The deficit of the AHMSP Stage 7 and AHMSP Stage 10 is due to the amounts borrowed by the Housing Finance Authority from the Bank that were used to provide housing subsidies. The deficit of the New Secure Housing Program is due to FEMA discontinued reimbursement of the Authority's allowable costs. The Housing Finance Authority expects to cover these deficits through contributions from the Commonwealth and through the liquidation and transfer of net assets of the Special Obligations Returning Bonds – Debt Service fund (see Note 23).

23. SUBSEQUENT EVENTS

On August 21, 2009, the Board of Directors of the Housing Finance Authority authorized to liquidate the Special Obligations Refunding Bonds - Debt Service fund and transfer its net assets to the AHMSP Stage 7 fund. The Authority will use the proceeds to partially repay the amounts due to the Bank.

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