

\$510,615,000
PUERTO RICO MUNICIPAL FINANCE AGENCY
2002 Series A Bonds

The Bonds are being issued to provide funds for the purchase by the Agency from Government Development Bank for Puerto Rico of general obligation municipal bonds and notes of various municipalities of the Commonwealth of Puerto Rico (the “Municipal Bonds”).

The Bonds will be secured by and payable from the following:

- The payment of principal and interest on the Municipal Bonds that are being pledged by the Agency under the Indenture. The Municipal Bonds are secured by *ad valorem* taxation, without limitation as to rate or amount, on all taxable property within the issuing municipalities. The good faith, credit and unlimited taxing power of each issuing municipality are pledged for the payment of its Municipal Bonds.
- The moneys in a Reserve Account created under the Indenture. The Agency’s Enabling Act provides that the Commonwealth shall annually apportion and pay to the Agency such sum as shall be necessary to maintain the Reserve Account in the required amount (as described herein). The payment of such sum by the Commonwealth is subject to appropriation by the Legislature of Puerto Rico, which appropriation is authorized but not legally required to be made.

The Bonds will have the following characteristics:

- The Bonds will be dated December 1, 2002.
- The Bonds will be registered under The Depository Trust Company’s book-entry only system. Purchasers of the Bonds will not receive definitive Bonds.
- The Bonds are subject to redemption prior to maturity as set forth herein, the earliest possible date of redemption being August 1, 2012.
- Interest on the Bonds will be payable semi-annually to maturity on the 1st days of February and August, beginning August 1, 2003.
- The inside cover page contains information concerning the maturity schedules, interest rates, and yields on the Bonds.
- The scheduled payment of principal of and interest on the Bonds maturing after August 1, 2004 (the “Insured Bonds”) when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Financial Security Assurance Inc.
- In the opinion of Bond Counsel, under existing federal laws and regulations, interest on the Bonds will be exempt from federal income taxation and the Bonds and the interest thereon will be exempt from state, Commonwealth and local income taxation. However, see “TAX EXEMPTION” beginning on page 31 of this Official Statement for alternative minimum tax consequences with respect to interest on the Bonds, a description of certain rules that the Agency and each issuer of Municipal Bonds must comply with to preserve the federal tax exemption of such interest and other tax considerations.
- It is expected that settlement for the Bonds will occur on or about December 5, 2002.

NEITHER THE CREDIT OF THE COMMONWEALTH NOR THAT OF ANY OF ITS GOVERNMENT INSTRUMENTALITIES WILL BE PLEDGED FOR THE PAYMENT OF THE BONDS. THE BONDS ARE LIMITED OBLIGATIONS OF THE AGENCY PAYABLE SOLELY FROM PRINCIPAL AND INTEREST PAYMENTS RECEIVED BY THE TRUSTEE FROM THE MUNICIPAL BONDS PLEDGED UNDER THE INDENTURE AND FROM MONEYS HELD IN THE RESERVE ACCOUNT AND OTHER FUNDS AND ACCOUNTS UNDER THE INDENTURE.

BANC OF AMERICA SECURITIES LLC

ABN AMRO FINANCIAL SERVICES, INC.

MERRILL LYNCH & CO. SALOMON SMITH BARNEY

LEHMAN BROTHERS

BEAR, STEARNS & CO. INC.

UBS PAINEWEBBER INC.

MORGAN STANLEY

GOLDMAN, SACHS & CO.

WACHOVIA BANK, NATIONAL ASSOCIATION

November 1, 2002

\$510,615,000
PUERTO RICO MUNICIPAL FINANCE AGENCY
2002 Series A Bonds

MATURITY SCHEDULE

<u>Maturity Date</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity Date</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
08/01/03	\$19,925,000	3.00%	2.00%	08/01/13	\$25,165,000*	5.00%	3.91%†
08/01/04	23,510,000	4.00%	2.10%	08/01/14	24,760,000*	5.25%	4.03%†
08/01/05	22,650,000*	4.25%	2.19%	08/01/15	28,390,000*	5.25%	4.10%†
08/01/06	25,560,000*	4.00%	2.51%	08/01/16	23,620,000*	5.25%	4.21%†
08/01/07	19,505,000*	4.00%	2.84%	08/01/17	21,440,000*	5.25%	4.31%†
08/01/08	20,760,000*	3.50%	3.18%	08/01/18	19,305,000*	5.25%	4.39%†
08/01/09	20,370,000*	3.75%	3.40%	08/01/19	17,960,000*	5.25%	4.49%†
08/01/10	21,125,000*	4.50%	3.60%	08/01/20	18,405,000*	5.25%	4.59%†
08/01/11	22,565,000*	4.50%	3.70%	08/01/21	17,095,000*	5.25%	4.69%†
08/01/12	23,600,000*	4.50%	3.80%	08/01/22	17,030,000*	4.75%	4.89%

\$77,875,000* 5.00% Term Bonds due August 1, 2027 - Yield 4.90%†

(plus accrued interest)

* Insured by Financial Security Assurance Inc.
† Yield to August 1, 2012 call date.

No dealer, broker, sales representative or other person has been authorized by the Agency or the Underwriters to give any information or make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the Agency or any Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been furnished by the Agency, the Commonwealth, the Municipalities of San Juan and Bayamón, and various other agencies of the Commonwealth, and includes information obtained from other sources which are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency, the Commonwealth or the Municipalities of San Juan and Bayamón, since the date hereof. The Underwriters have provided the following sentence and the next paragraph for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF SUCH BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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\$510,615,000
Puerto Rico Municipal Finance Agency
2002 Series A Bonds

INTRODUCTORY STATEMENT

This Official Statement of Puerto Rico Municipal Finance Agency (the “Agency”) is provided to furnish information with respect to its \$510,615,000 Puerto Rico Municipal Finance Agency 2002 Series A Bonds (the “Bonds”). The Bonds will be issued pursuant to a Trust Indenture, dated as of November 1, 2002 (the “2002 Indenture”), between the Agency and Banco Popular de Puerto Rico, as trustee (the “Trustee”).

This Official Statement includes the cover page, its appendices and the following documents, which have been filed with each nationally recognized municipal securities information repository (“NRMSIR”) and are incorporated herein by reference:

- (1) Appendix I to the Official Statement, dated July 18, 2002, of the Commonwealth of Puerto Rico General Obligation Bonds, \$460,000,000 Public Improvement Bonds of 2003, Series A, and \$95,295,000 Public Improvement Refunding Bonds, Series 2003, known as the Financial Information and Operating Data Report of the Commonwealth (the “Commonwealth Report”), prepared by Government Development Bank for Puerto Rico (“GDB”), and the Comprehensive Annual Financial Report of the Commonwealth for the fiscal year ended June 30, 2001 (the “Commonwealth Annual Financial Report”), which includes the general purpose financial statements of the Commonwealth for the fiscal year ended June 30, 2001, together with the independent auditor’s report thereon, dated January 21, 2002, of KPMG LLP, San Juan, Puerto Rico, certified public accountants. KPMG LLP did not audit the financial statements of the pension trust funds, the public university funds, and certain activities and component units separately identified in its report. Those financial statements were audited by other auditors whose reports have been furnished to KPMG LLP, whose opinion on the general purpose financial statements, insofar as it relates to the amounts included in the general purpose financial statements pertaining to such activities and component units, is based solely on the reports of the other auditors;
- (2) the Continuing Disclosure Report of the Agency for the fiscal year ended June 30, 2001, which report includes the general purpose financial statements of the Agency for the fiscal year ended June 30, 2001, together with the independent auditor’s report, dated October 19, 2001, of KPMG LLP, San Juan, Puerto Rico, certified public accountants (excluding the information in the table on municipal tax collections and Commonwealth contributions to the municipalities for fiscal years 2000 and 2001 contained in that Continuing Disclosure Report, which information has been corrected and, as corrected, appears in the table on pages 14 and 15 of this Official Statement and which information will be promptly resubmitted by the Agency to the NRMSIRs); and
- (3) the Continuing Disclosure Report of the Municipality of San Juan (“San Juan”) for the fiscal year ended June 30, 2001, which report includes the general purpose financial statements of San Juan for the fiscal year ended June 30, 2001, together with the independent auditor’s report thereon, dated September 28, 2001, of Deloitte & Touche LLP, San Juan, Puerto Rico, certified public accountants.

Any Appendix of an Official Statement of the Commonwealth or any appendix of an Official Statement of any instrumentality of the Commonwealth containing the same information as the Commonwealth Report or the Commonwealth Annual Financial Report, filed with each NRMSIR and the Municipal Securities Rulemaking Board (“MSRB”) after the date hereof and prior to the termination of any offering of the Bonds, shall be deemed to be incorporated by reference into this Official Statement and to be part of this Official Statement from the date of filing of such document. Any filing with each NRMSIR by San Juan or the Agency of a document generally containing the same information set forth in their respective Continuing Disclosure Reports, or by Bayamón of a document generally containing the same information set forth in Appendix B hereto, after the date hereof and prior to the termination of any offering of the Bonds, shall also be deemed to be incorporated by reference into this Official Statement and to be part

of this Official Statement from the date of filing of such document. Any statement contained herein or in any of the above described documents incorporated herein by reference shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Commonwealth will provide without charge to any person to whom this Official Statement is delivered, on the written or oral request of such person, a copy of any of the documents incorporated herein by reference. Requests for such documents should be directed to Director-New York Office, Government Development Bank for Puerto Rico, 140 Broadway, 38th Floor, New York, New York 10005, telephone number (212) 422-6420.

A copy of the Commonwealth Report, the Commonwealth Annual Financial Report, the Agency's Continuing Disclosure Report and the San Juan Continuing Disclosure Report may be obtained by contacting a NRMSIR. The address of each NRMSIR is set forth in "CONTINUING DISCLOSURE" below. The address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, Virginia 22314, telephone number (703) 797-6600.

THE AGENCY

The Agency, a public corporation and governmental instrumentality of the Commonwealth, was created by Act No. 29 of the Legislature of Puerto Rico, approved June 30, 1972, as amended (the "Enabling Act"), to allow the municipalities of Puerto Rico to access the capital markets so that such municipalities might finance more effectively their public improvement programs.

The Agency is authorized to issue bonds for the following purposes: (i) purchasing bonds and notes of municipalities within the Commonwealth secured by *ad valorem* taxation, without limitation of rate or amount, on all taxable property within each such municipality and issued in accordance with applicable law, (ii) making payments into the Bond Service Account, the Operating Fund or the Reserve Account (each as described herein) of any trust indenture under which bonds of the Agency are issued, (iii) funding bond anticipation notes theretofore issued by the Agency to provide funds to purchase general obligation municipal bonds and notes, and (iv) refunding any outstanding bonds of the Agency.

The Agency is located in the Minillas Government Center in San Juan, Puerto Rico. Its mailing address is P.O. Box 42001, San Juan, Puerto Rico 00940-2001, telephone (787) 722-2525.

Organization and Membership of the Agency

The Agency is governed by a Board of Directors which is composed of the President of GDB, an instrumentality and public corporation of the Commonwealth, the Commissioner of Municipal Affairs and three additional members appointed by the Governor of Puerto Rico, one of whom must be either the mayor or chief financial officer of a municipality. The Commissioner of Municipal Affairs, the President of GDB, and the municipal officer appointed by the Governor of Puerto Rico shall be members of the Board during the period of their respective incumbencies. The other two members shall be appointed for a period of five years. The President of GDB serves as the Chairman of the Board and President of the Agency.

The Board currently has one vacancy. The following individuals are the current members of the Board:

<u>Member</u>	<u>Occupation</u>
Héctor Méndez-Vázquez, <i>Chairman of the Board and President</i>	President of GDB
Bárbara Sanfiorenzo	Commissioner of Municipal Affairs
Hon. Luis Oliver	Mayor, Municipality of Lares
Enrique Umpierre	Attorney at Law

Prior Bond Issues

As of July 31, 2002, the Agency had \$893,655,000 of bonds outstanding (collectively, the “Outstanding Bonds”). The Outstanding Bonds were authorized and issued pursuant to trust indentures separate from and unrelated to the 2002 Indenture.

PLAN OF FINANCING

The Bonds

The portion of the proceeds of the Bonds deposited to the credit of the Acquisition Fund will be used by the Trustee to purchase from GDB general obligation municipal bonds and notes of various Puerto Rico municipalities. See “SOURCES OF PAYMENT FOR THE BONDS - The Municipal Bonds” and “THE 2002 INDENTURE - Acquisition Fund.”

Sources and Uses of Funds

Sources:

Principal amount of the Bonds	\$510,615,000.00
Original issue premium	24,004,294.55
Accrued interest	<u>263,989.03</u>
Total Sources	<u>\$534,883,283.58</u>

Uses:

Deposit to the Acquisition Fund	\$494,705,000.00
Deposit to the Reserve Account	23,937,783.14
Deposit to the Bond Service Account	263,989.03
Underwriting discount, bond insurance premium and legal, printing and financing expenses	<u>15,976,511.41</u>
Total Uses	<u>\$534,883,283.58</u>

The amount deposited to the credit of the Reserve Account under the 2002 Indenture from the proceeds of the Bonds will be equal to the Required Debt Service Reserve (as defined herein) and will be invested in a guaranteed investment agreement with a financial institution. See “SOURCES OF PAYMENT FOR THE BONDS - The Reserve Account.”

THE BONDS

General

The Bonds will be dated December 1, 2002. Interest on the Bonds (at the respective rates set forth on page (i) hereto of this Official Statement) will be payable semi-annually to maturity on the 1st days of February and August, beginning August 1, 2003. The Bonds are subject to redemption at the times and at the prices set forth in “Redemption” below.

Book-Entry Only System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds in the name of Cede & Co. (DTC’s partnership nominee) or such other nominee as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity and series of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issuers of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are

credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemption, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

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

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

Principal of, redemption premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' account upon DTC's receipt of funds and corresponding detail information from the Agency or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Agency or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of the Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Agency believes to be reliable, but the Agency, the Underwriters, and the Trustee take no responsibility for the accuracy thereof.

Transfers

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

Discontinuance of the Book-Entry Only System

In the event that such book-entry only system is discontinued, the following provisions will apply: principal of and redemption premium, if any, on the Bonds shall be payable in lawful money of the United States of America at

the corporate trust office of the Trustee in San Juan, Puerto Rico. Interest on the Bonds will be payable by check mailed to the respective addresses of the registered owners thereof as shown on the registration books of the Agency maintained by the Trustee as of the record date therefor (January 15 and July 15). The Bonds will be issued only as registered Bonds without coupons in denominations of \$5,000 or any integral multiple thereof. The transfer of the Bonds will be registrable and they may be exchanged at the corporate trust office of the Trustee in New York, New York, upon the payment of any taxes or other governmental charges required to be paid with respect to such transfer or exchange.

Redemption

Optional Redemption. The Bonds maturing after August 1, 2012 may be redeemed, at the option of the Agency, upon not less than 30 days' prior notice by mail to DTC or, if the book-entry system is discontinued, to the registered owners thereof from any available moneys (other than moneys deposited in the Sinking Fund in respect of an amortization requirement) either in whole or in part, as directed by the Agency, on any date not earlier than August 1, 2012, at a redemption price equal to the principal amount to be redeemed, together with accrued interest thereon, and without premium.

Mandatory Redemption. The term Bonds are subject to redemption to the extent of the respective amortization requirements therefor set forth below (less the amount applied to the purchase of any such Bonds and otherwise subject to adjustment as described below), upon not less than 30 days' prior notice by mail to DTC or, if the book-entry system is discontinued, to the registered owners thereof on August 1, 2023 and on August 1 in each year thereafter from moneys in the Redemption Account at a redemption price of par plus accrued interest to the date fixed for redemption:

Amortization Requirements for Term Bonds

<u>Year</u>	<u>Amount</u>
2023	\$18,145,000
2024	18,480,000
2025	16,820,000
2026	24,400,000
2027*	30,000

If the amount of the term Bonds of a particular maturity retired by purchase or redemption during any fiscal year exceeds the amount of the amortization requirement for such term Bonds for such fiscal year, the remaining amortization requirements for such term Bonds shall be decreased for such subsequent fiscal years and in such amounts aggregating the amount of such excess as the Agency shall determine.

Effect of Calling for Redemption. On the date so designated for redemption, notice having been given in the manner and under the conditions provided in the 2002 Indenture, the Bonds or portions of Bonds so called for redemption will become and be due and payable at the redemption price of such Bonds or portions thereof to be redeemed on such date, and, if sufficient moneys, or Government Obligations (as defined herein) the principal of and interest on which when due will provide sufficient moneys, for payment of the redemption price are held in separate accounts by the Trustee in trust for the holders of the Bonds or portions thereof to be redeemed, as provided in the 2002 Indenture, interest on the Bonds or portions thereof so called for redemption will cease to accrue, such Bonds or portions thereof will cease to be entitled to any lien or security under the 2002 Indenture, and the registered owners of such Bonds or portions thereof will have no rights in respect thereof except to receive payment of the redemption price thereof and the accrued interest and, to the extent provided in the Indenture, to receive Bonds of the same series and maturity for any unredeemed portions of the Bonds.

* Maturity

Additional Bonds

No additional bonds may be issued under the 2002 Indenture except to refund any bonds issued under the 2002 Indenture (including the Bonds). All such refunding bonds will be issued on a parity with the Bonds and will be entitled to the same benefit and security under the 2002 Indenture as the Bonds. In addition, the Agency may from time to time issue additional bonds and notes as authorized under the Enabling Act, which bonds and notes would be authorized and issued pursuant to trust indentures or authorizing resolutions separate from and unrelated to the 2002 Indenture and would be secured by Municipal Bonds other than those pledged or to be pledged, as applicable, to secure payment of the Bonds or any such refunding bonds.

SOURCES OF PAYMENT FOR THE BONDS

The Bonds are equally and ratably secured by and payable from (i) payments of principal of and interest on the Municipal Bonds held by the Trustee under the 2002 Indenture (see “The Municipal Bonds” below); and (ii) moneys in and investment income from the Sinking Fund (as defined herein) (including any moneys paid to the Agency by the Commonwealth) (see “MUNICIPAL BONDS - The Reserve Account”) and the Acquisition Fund (see “THE INDENTURE-Acquisition Fund”). Some or all of the Municipal Bonds may be released from the lien of the 2002 Indenture if certain requirements are met. See “THE INDENTURE - Release of Municipal Bonds.”

The principal amount of general obligation municipal bonds and notes issued by San Juan that are or will be included in the Municipal Bonds totals \$94,725,000 or 19.1% of the total \$494,705,000 in principal amount of Municipal Bonds to be pledged as security for the Bonds under the 2002 Indenture. For additional information on San Juan, please refer to Appendix A hereto and to the San Juan Continuing Disclosure Report, which has been incorporated by reference into this Official Statement. The principal amount of the general obligation municipal bonds and notes issued by Bayamón that are or will be included in the Municipal Bonds totals \$68,215,000 or 13.8% of the total \$494,705,000 in principal amount of Municipal Bonds to be pledged as security for the Bonds under the 2002 Indenture. For additional information on Bayamón, please refer to Appendixes B and C hereto.

The Trustee is required to collect the principal of and interest on all Municipal Bonds held by it on behalf of the Agency under the 2002 Indenture as such principal and interest become due and payable and deposit the moneys so received to the credit of the following Accounts within the Sinking Fund and to the Rebate Fund (as defined herein) created under the 2002 Indenture in the following order:

- (a) the Bond Service Account, such amount as may be required to make the total amount then in the Bond Service Account equal to the amount of interest then or to become within the next ensuing six months due and payable on all Bonds then outstanding and the amount of principal then or to become within the next ensuing twelve months due and payable on all serial Bonds then outstanding plus such additional amount applicable at the time of such deposit as shall be necessary to make the balance in the Bond Service Account immediately after each interest payment date equal to the ending balance specified in a certificate of the Agency filed with the Trustee prior to the delivery of and payment of all Bonds;
- (b) the Redemption Account, such amount as may be required to make the amount deposited in the Redemption Account in such fiscal year equal to the Amortization Requirements, if any, for such fiscal year for the term Bonds then outstanding;
- (c) the Reserve Account, such amount as may be required to make the amount then in the Reserve Account equal to the Required Debt Service Reserve; and
- (d) any balance to the Rebate Fund.

Any amounts in the Reserve Account in excess of the Required Debt Service Reserve shall be transferred to the Bond Service Account.

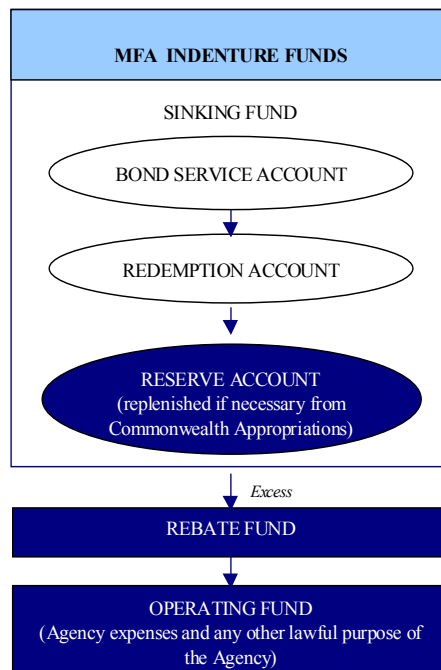
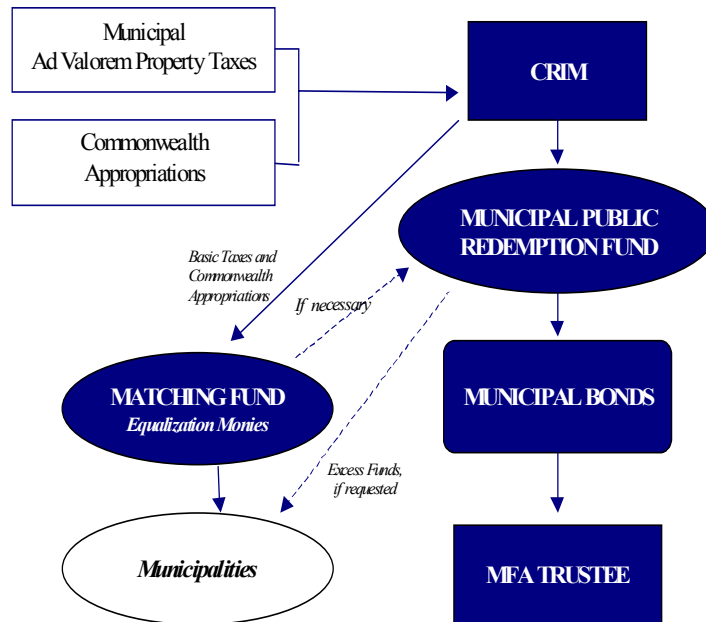
All moneys paid to the Agency by the Commonwealth pursuant to the Enabling Act for the purpose of restoring the Reserve Account to the Required Debt Service Reserve are to be paid to the Trustee for deposit to the credit of the Reserve Account.

Moneys in the Rebate Fund will be applied by the Agency to satisfy any rebate liability it may have with the United States Treasury in respect of any of the Agency's outstanding tax-exempt bonds, whether or not issued under and secured by the 2002 Indenture. Any balance in the Rebate Fund after satisfying any such rebate liability will be transferred by the Trustee to the Operating Fund as promptly as practicable. Moneys in the Rebate Fund and the Operating Fund are not part of the trust estate securing the Bonds.

Neither the credit of the Commonwealth nor that of any of its government instrumentalities will be pledged for the payment of the Bonds. The Bonds are limited obligations of the Agency payable solely from principal and interest payments under the pledged Municipal Bonds and from moneys held in the Reserve Account and other funds and accounts under the 2002 Indenture. The good faith, credit and unlimited taxing power of each issuer of Municipal Bonds (a "Municipal Issuer") will, however, be pledged to the payment of each of its Municipal Bonds that is being pledged by the Agency to secure payment of the Bonds.

PRINCIPAL SOURCE OF PAYMENT FOR MUNICIPAL BONDS

The following diagrams demonstrate the principal source of payment for the Municipal Bonds of each Municipal Issuer and how payments on the Municipal Bonds are allocated to the above mentioned funds and accounts.



The Municipal Bonds

General. As required by the 2002 Indenture and the Enabling Act, the Municipal Bonds are general obligation bonds or notes of a Municipal Issuer secured by *ad valorem* taxation, without limitation as to rate or amount, on all taxable property within the boundaries of the applicable Municipal Issuer. The good faith, credit and unlimited taxing power of each Municipal Issuer are pledged to the payment of its Municipal Bonds. The Municipal Bonds have been issued pursuant to Act No. 64 of the Legislature of Puerto Rico, approved July 3, 1996, as amended (“Act No. 64”), which revised and incorporated into a single statute the provisions of Act No. 7 of October 28, 1954, and of several other laws relating to municipal finance and municipal taxes and made certain changes to such provisions to, among other things, expedite and streamline the procedures for the issuance of municipal obligations, including general obligation municipal bonds and notes.

Limitations on Ability of Municipalities to Issue General Obligation Debt. GDB is required by Act No. 64 to give its prior approval to all proposed issues of general obligation bonds and notes by the municipalities of Puerto Rico. Prior to approving any proposed issue of general obligation debt, GDB is required to verify that the municipality has Available Legal Margin and Payment Capacity (as such terms are defined below) to incur such additional general obligation debt.

As provided by the Commonwealth Constitution, the Legislature of Puerto Rico has fixed a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. The principal amount outstanding of any such bonds and notes may not exceed 10% of the aggregate assessed valuation of the taxable property within such municipality (the “Legal Margin,” and the amount by which such municipality’s Legal Margin exceeds a municipality’s outstanding general obligation debt, the “Available Legal Margin”). Act No. 64 provides that in calculating the Available Legal Margin of a municipality, the amount of outstanding general obligation bonds and notes of such municipality is reduced by the amount of the excess, if any, of the funds deposited in such municipality’s Redemption Fund (as defined herein) with GDB over the amount of accrued but unpaid interest on such general obligation debt. For a discussion of the operation of the Redemption Fund see “Redemption Fund Deposits and Application” below.

Act No. 64 also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such municipality must have sufficient “payment capacity.” Act No. 64 provides that a municipality has sufficient “payment capacity” to incur additional general obligation debt if the deposits in such municipality’s Redemption Fund and the annual amounts collected with respect to such municipality’s Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the municipality’s outstanding general obligation debt and the additional proposed general obligation debt (“Payment Capacity”).

Special Additional Tax. The principal source of payment for municipal general obligation bonds and notes is a special additional property tax (the “Special Additional Tax”), which as provided by Act No. 83 of August 30, 1991 as amended (“Act No. 83”), may be imposed by a municipality without limitation as to rate or amount. Under Act No. 64, each municipality is required to levy the Special Additional Tax in such amounts as shall be required for the payment of its outstanding general obligation municipal bonds and notes. The current Special Additional Tax rates for municipalities vary from 0.50% to 1.75% of applicable assessed valuation in the case of both real and personal property. The Special Additional Tax is collected on behalf of the municipalities by the Municipal Revenues Collection Center, an independent municipal entity (“CRIM”). The Commonwealth has not conducted a real property reassessment since 1958. Therefore, all real property taxes collected by CRIM, including the Special Additional Tax, are based on the assessed valuation of real property in fiscal year 1957-58. The Special Additional Tax is available for the payment of debt service on general obligation debt of the municipalities, except for any Special Additional Tax collected on the real and personal property of the privatized Puerto Rico Telephone Company (“PRTC”) for those municipalities that elect not to deposit such PRTC property taxes in their Redemption Funds pursuant to Act No. 95 of the Legislature of Puerto Rico, approved June 24, 1998 (“Act No. 95”), and except that moneys in the Redemption Fund in excess of the next 12 months’ debt service on a municipality’s general obligation debt must be returned to such municipality, at its request, and is available first for the payment of such municipality’s statutory debts, and then, for any other obligation or activity that has a legitimate municipal purpose, see *Redemption Fund Deposits and Application* below. Pursuant to Act No. 95,

which amended Act No. 83, each municipality has the option of either: (i) depositing the amounts collected by CRIM relating to the Special Additional Tax on the real and personal property of PRTC in that municipality's Redemption Fund; or (ii) using such amounts collected by CRIM for any other lawful purpose such as the payment of the municipality's operating expenses.

Redemption Fund Deposits and Application. CRIM is required to deposit into each municipality's Redemption Fund with GDB the amounts collected with respect to such municipality's Special Additional Tax (including the annual appropriations from the Commonwealth's General Fund to compensate each municipality for the exemption from the Special Additional Tax portion of the \$15,000 Real Property Exemption (as defined below) and the \$50,000 Personal Property Exemption (as defined below)) and any additional amount derived from such municipality's Basic Tax (as defined below) and other available revenues to the extent necessary to pay principal of and interest on all general obligation indebtedness of such municipality. It has never been necessary to transfer into any municipality's Redemption Fund moneys derived from such municipality's Basic Tax.

Act No. 64, as amended by Act No. 44 of the Legislature of Puerto Rico, approved June 13, 2001 ("Act No. 44"), provides that the Special Additional Tax and other amounts deposited in a municipality's Redemption Fund are to be utilized first for the payment of the principal of and premium, if any, and interest on its general obligation bonds and notes. To the extent that such funds exceed the amount necessary to cover twelve months' debt service on such municipality's then outstanding general obligation indebtedness, as determined by GDB, Act No. 64 requires GDB to disburse the excess to the municipality, at its request, once during each fiscal year.

Municipal Revenues. Revenues of the municipalities of Puerto Rico are principally derived from *ad valorem* property taxes and Commonwealth contributions.

Act No. 83 authorizes municipalities to impose the following property taxes: (i) the Special Additional Tax, without limitation as to rate or amount, which as mentioned above is available primarily for the payment of a municipality's general obligation debt; and (ii) a basic property tax to fund operating expenses up to a maximum amount of 6% of the assessed valuation on all real property within such municipality and up to a maximum amount of 4% of the assessed valuation on all personal property within such municipality (collectively, the "Basic Tax"). Act No. 83 also continued in effect a special property tax imposed by the Commonwealth of 1.03% of the assessed valuation of all real and personal property within the Commonwealth (other than exempted property) (the "Special Tax") for the exclusive purpose of servicing the Commonwealth's general obligation debt. A portion of the Basic Tax levied by a municipality may be transferred to other municipalities by virtue of the operation of the Matching Fund (as defined herein). See "Matching Fund and Equalization Moneys" below.

The current Basic Tax rates for municipalities vary from 6% to 8% of the assessed valuation in the case of real property, and from 4% to 6% of the assessed valuation in the case of personal property. In the aggregate, current property tax rates (including the Special Additional Tax and the Basic Tax) for the municipalities vary from 6.75% to 9.75% of the assessed valuation in the case of real property, and from 5.75% to 7.75% of the assessed valuation in the case of personal property. Interest is charged on delinquent taxes at the rate of 10%, with a penalty of up to 10% of the tax owed in the case of real property and up to 15% of the tax owed (or up to 40% if the delinquency also involves failure to file the required tax return) in the case of personal property.

As mentioned above, under Act No. 64, each municipality is required to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. Principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds also constitute a first lien on the municipality's Basic Tax. Accordingly, the municipality's Basic Tax would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax, together with moneys on deposit in the municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation municipal bonds and notes.

Act No. 83 provides for an exemption from the Special Additional Tax and Basic Tax on the first \$15,000 of assessed valuation of primary personal residences of individuals (the "\$15,000 Real Property Exemption") and an exemption from personal property taxes on the first \$50,000 of assessed valuation of property owned by businesses that have gross revenues of less than \$150,000 per annum (the "\$50,000 Personal Property Exemption"). Recognizing the importance of the real and personal property tax for the fiscal requirements of the municipalities, the Commonwealth makes annual appropriations to the municipalities from its General Fund as compensation for the amount of the revenues foregone owing to these exemptions. However, under Act No. 83 appropriations from the Commonwealth will not be provided to cover any amount of property taxes which any municipality elects to forgive for primary personal residences registered for the first time after January 1, 1992, and personal property of certain businesses registered for the first time after July 1, 1991.

Act No. 83 and Act No. 80 of August 30, 1991, as amended ("Act No. 80"), also provide for the following Commonwealth contributions to the municipalities: (i) 2.30% of the net internal revenues of the Commonwealth's General Fund for fiscal year 2002-2003 (to be increased to 2.40% for fiscal year 2003-2004 and to 2.50% for fiscal year 2004-2005 and thereafter); (ii) 35% of the annual net revenues derived from the operation of the additional lottery system created by Act No. 10, approved by the Legislature of Puerto Rico, on May 24, 1989, as amended (the amounts in clauses (i) and (ii), the "Designated Commonwealth Contributions"); (iii) an annual amount from the Commonwealth's General Fund to compensate the municipalities for the \$15,000 Real Property Exemption and the \$50,000 Personal Property Exemption; and (iv) an annual amount from the Commonwealth's General Fund to compensate the municipalities for the exemption of 0.20% of the assessed valuation of all taxable property within the municipalities (the amounts in clauses (i) through (iv), with the exception of the annual contributions from the Commonwealth with respect to the compensation to the municipalities for the Special Additional Tax portion of the \$15,000 Real Property Exemption and the \$50,000 Personal Property Exemption, are defined as the "Commonwealth Contributions").

The municipal revenues described above are collected or received by CRIM on behalf of the levying municipality and are deposited by CRIM into the Redemption Fund and the Matching Fund, with the exception of the Special Tax which is deposited into the Commonwealth's debt redemption fund.

Matching Fund and Equalization Moneys. Act No. 80 also established the Municipal Matching Fund (the "Matching Fund") into which CRIM is required to deposit with GDB the total amount collected on account of Basic Taxes and the Commonwealth Contributions. Certain moneys in the Matching Fund (the "Equalization Moneys") are available to CRIM in order to guaranty that each municipality will receive revenues in an amount at least equivalent to that received from Equalization Moneys in the previous fiscal year. The Equalization Moneys are made up of: (i) the Designated Commonwealth Contributions; and (ii) a portion of the Basic Tax equal to 1% of the assessed value of personal property and 3% of the assessed value of real property collected by each municipality (the "Designated Basic Tax").

All Equalization Moneys are allocated to the municipalities as follows: first, as may be required so that each municipality receives at least the same amount of aggregate revenues received during the previous fiscal year on account of Equalization Moneys, using first the Designated Commonwealth Contributions, and then, to the extent necessary, the Designated Basic Tax (it has never been necessary to use the Designated Basic Tax to perform such equalization); second, Designated Basic Taxes remaining in the Equalization Moneys are allocated to the municipalities in proportion to the amount by which revenues from their Basic Taxes in such fiscal year exceed their revenues from Basic Taxes in the previous fiscal year; and third, to all municipalities based on certain economic and demographic criteria specified in Act No. 80. The remaining Matching Fund moneys are returned to the municipalities whose Basic Tax levies gave rise to such remaining moneys, and are used, with their other revenues, to meet operating expenses.

CRIM. Prior to July 1, 1993, the Secretary of the Treasury collected all municipal taxes upon real and personal property (which includes intangible property) in each municipality. Since July 1, 1993, and pursuant to Act No. 80, CRIM has undertaken all of the Secretary of the Treasury's responsibilities relating to the collection and distribution of such taxes. CRIM is responsible for the appraisal, assessment, notice of imposition, and collection of all municipal property taxes. All property taxes collected by CRIM are deposited at GDB, which acts as fiscal agent to the Commonwealth and its municipalities.

CRIM is governed by a board (the “CRIM Board”) composed of the President of GDB, the Commissioner of Municipal Affairs and seven mayors of municipalities of the Commonwealth. The mayors elected as members of the CRIM Board hold office for a term of four years (and not more than two consecutive terms) and until their successors have been appointed. The Executive Director of CRIM is Norman E. Foy, Esq., and CRIM’s principal offices are located at 1130 Muñoz Rivera Avenue, First Floor, San Juan, Puerto Rico 00919. In addition, CRIM operates nine regional centers located in the municipalities of Aguadilla, Arecibo, Bayamón, Caguas, Carolina, Humacao, Mayagüez, Ponce, and San Juan.

Real property is assessed by CRIM and personal property is self-assessed. The current gross assessed valuation figures for real property and personal property taxes for all municipalities are approximately \$10.3 billion and \$10.2 billion, respectively. These assessment values have not been adjusted to reflect the various applicable real property and personal property exemptions, such as those described under *Municipal Revenues* above and other exemptions granted under Commonwealth tax incentives laws. As mentioned above, no real property reassessment has been made in the Commonwealth since 1958. All real property taxes are assessed on the basis of the replacement cost of the related real property in fiscal year 1957-58 values, regardless of when such property was constructed.

CRIM prepares revenue estimates for the next fiscal year based on the last available liquidated revenues and collection experience, and reviews such revenue estimates on a quarterly basis. CRIM advances Basic Tax revenues to each municipality on a monthly basis for the payment of that municipality’s operating expenses. During the four fiscal years ended June 30, 2000, CRIM overestimated revenues. As a result, CRIM advanced to the municipalities approximately \$166 million more than it should have. Included in this amount was approximately \$138 million from Special Additional Taxes which were to be deposited in the Redemption Fund. Pursuant to Act No. 42 of the Legislature of Puerto Rico, approved January 26, 2000, as amended (“Act No. 42”), the amounts owed by the municipalities to CRIM on account of this excess advance (the “Act No. 42 Debt”) were repaid in fiscal year 2001 with the necessary funds being provided under a line of credit from GDB. Act No. 42 authorizes CRIM to deduct from the Basic Tax revenue disbursements to each municipality which received part of said excess advances, the proportional amount attributable to each such municipality to cover the repayment of such debt. Act No. 42 provides that CRIM’s annual tax revenue estimates may not exceed the actual tax revenues received in the previous fiscal year by more than 5% and that CRIM must submit quarterly reports to the Puerto Rico Legislature and GDB detailing tax revenues and disbursements to each municipality. In addition, Act No. 42 requires an independent audit at the end of each fiscal year to verify that the amounts transferred by CRIM are, among other things, in accordance with the formula established in CRIM’s enabling legislation. Furthermore, CRIM is monitoring on a quarterly basis the collections and advances to the municipalities. If collections for the current year are less than the amount advanced to a municipality, CRIM must notify that municipality and, if the CRIM Board approves, adjust the estimate. The municipalities are required by Act No. 42 to adjust their budgets based on the results of the audit.

Since 1999 CRIM has been undertaking a Property Tax Review, Appraisal and Collection Plan involving a strategic alliance between CRIM, participating municipalities and the private sector. The program is aimed at: (i) assessing all new construction projects and improvements to existing properties to include them in the tax rolls; (ii) investigating the incorrect use of the \$15,000 Real Property Exemption by targeting areas where properties are generally rented for business and residential use; and (iii) improving collection efforts in the area of personal property taxes. CRIM expects that after full implementation of the program, which involves approximately fifty of the Commonwealth’s seventy-eight municipalities, it will collect approximately \$80 million annually in additional real and personal property taxes.

MUNICIPAL TAX COLLECTIONS AND COMMONWEALTH CONTRIBUTIONS

The following table shows for each Municipal Issuer (i) the amount of property taxes collected from municipal taxpayers (excluding the Special Additional Tax) and (ii) the amount of funds contributed by the Commonwealth to each Municipal Issuer for each of the fiscal years indicated below:

Municipality	<i>Fiscal Year Ended June 30,</i>								
	2000			2001			2002 <i>(preliminary, subject to final audit)</i>		
	From Commonwealth Appropriations	From Municipal Taxpayers	Total	From Commonwealth Appropriations	From Municipal Taxpayers	Total	From Commonwealth Appropriations	From Municipal Taxpayers	Total
Adjuntas	\$ 3,682,931	\$ 592,939	\$ 4,275,871	\$ 3,555,376	\$ 612,081	\$ 4,167,458	\$ 3,832,731	\$ 632,717	\$ 4,465,449
Aguada	2,899,822	1,854,630	4,754,452	3,617,863	1,955,970	5,573,833	3,841,478	2,058,466	5,899,944
Aguadilla	2,439,557	6,133,910	8,573,467	3,659,025	6,682,061	10,341,086	3,773,909	7,367,960	11,141,869
Aguas Buenas	3,733,979	963,663	4,697,641	3,772,458	955,697	4,728,155	4,055,054	986,981	5,042,035
Aibonito	3,080,022	1,171,607	4,251,629	3,245,950	1,286,469	4,532,419	3,469,054	1,286,845	4,755,899
Añasco	2,320,077	1,670,045	3,990,122	2,911,561	1,737,826	4,649,387	3,053,624	1,939,027	4,992,651
Arecibo	3,223,310	7,121,041	10,344,351	3,422,027	9,775,441	13,197,468	4,693,662	8,553,278	13,246,941
Arroyo	3,102,849	1,220,223	4,323,072	3,480,265	731,381	4,211,645	3,273,198	754,767	4,027,965
Barceloneta	852,981	4,255,203	5,108,184	1,306,729	4,297,007	5,603,736	1,436,166	5,041,008	6,477,174
Barranquitas	4,211,132	925,887	5,137,019	3,951,826	1,036,384	4,988,210	4,407,299	1,024,852	5,432,150
Bayamón	14,011,260	33,949,200	47,960,460	15,312,859	33,246,562	48,559,421	15,738,259	39,291,717	55,029,976
Cabo Rojo	2,360,084	3,827,685	6,187,769	3,058,833	3,997,282	7,056,115	2,869,967	4,152,119	7,022,086
Caguas	7,501,053	20,119,132	27,620,186	8,138,329	24,064,642	32,202,970	9,035,194	27,828,322	36,863,516
Camuy	3,645,302	1,108,921	4,754,223	3,626,057	1,348,137	4,974,194	3,927,860	1,488,237	5,416,097
Canóvanas	2,423,386	2,760,229	5,183,615	3,302,884	2,601,384	5,904,269	3,408,475	2,395,192	5,803,667
Carolina	12,950,749	33,557,093	46,507,843	13,623,724	35,332,648	48,956,373	14,300,141	38,753,653	53,053,793
Cataño	1,140,169	12,700,664	13,840,834	2,597,849	12,839,246	15,437,095	3,959,629	12,586,242	16,545,871
Cayey	1,615,777	5,134,260	6,750,036	2,012,122	5,016,812	7,028,934	2,507,530	7,267,923	9,775,453
Ceiba	3,215,210	521,781	3,736,991	3,289,162	679,726	3,968,887	3,594,460	805,269	4,399,730
Ciales	3,269,767	622,765	3,892,532	3,143,435	686,819	3,830,254	3,288,943	667,973	3,956,916
Cidra	1,497,181	3,228,060	4,725,240	2,398,904	3,297,708	5,696,613	2,407,244	3,243,740	5,650,984
Coamo	4,091,966	1,062,588	5,154,554	3,736,666	1,326,769	5,063,435	3,923,927	1,458,128	5,382,055
Comerio	5,255,272	392,449	5,647,721	4,400,921	479,645	4,880,566	4,920,820	511,917	5,432,737
Corozal	3,997,249	1,259,837	5,257,086	3,971,844	1,230,836	5,202,679	4,264,007	1,264,283	5,528,290
Culebra	1,205,895	179,121	1,385,016	1,559,570	210,108	1,769,679	1,720,979	231,649	1,952,628
Dorado	1,403,953	4,396,928	5,800,881	1,597,394	5,146,034	6,743,427	2,470,407	5,954,076	8,424,483
Fajardo	2,397,297	5,194,696	7,591,993	2,509,144	6,242,996	8,752,140	3,635,000	6,277,348	9,912,348
Florida	2,747,678	331,130	3,078,808	3,145,396	463,534	3,608,930	3,484,851	432,966	3,917,816
Guánica	3,465,015	602,288	4,067,303	3,362,468	723,730	4,086,198	3,730,365	749,968	4,480,333
Guayama	1,509,478	4,599,268	6,108,747	2,275,370	4,171,711	6,447,081	2,361,254	5,546,970	7,908,223
Guayanilla	2,370,958	1,066,609	3,437,567	2,876,277	1,110,737	3,987,014	3,072,785	1,090,700	4,163,485
Guaynabo	6,579,422	31,303,375	37,882,797	7,186,487	33,490,786	40,677,274	7,618,230	40,198,863	47,817,092
Gurabo	2,279,790	2,378,721	4,658,511	2,915,057	2,600,663	5,515,719	2,898,801	2,694,189	5,592,990
Hatillo	1,461,866	3,476,307	4,938,173	2,147,911	3,929,549	6,077,460	2,399,747	3,794,280	6,194,027
Hormigueros	1,314,772	2,125,039	3,439,811	2,218,898	1,852,600	4,071,498	2,353,116	2,061,504	4,414,620
Humacao	2,329,182	7,406,094	9,735,276	2,599,163	8,175,813	10,774,977	3,388,742	8,846,121	12,234,863
Isabela	2,721,088	2,453,226	5,174,314	3,215,689	2,815,705	6,031,394	3,472,471	2,792,288	6,264,759
Jayuya	3,000,466	663,509	3,663,975	3,126,924	793,792	3,920,716	3,380,434	804,872	4,185,306
Juana Díaz	3,264,895	1,943,191	5,208,086	3,619,023	2,423,522	6,042,545	3,896,550	2,248,710	6,145,260
Juncos	2,720,827	1,693,604	4,414,432	3,208,392	2,387,637	5,596,029	3,241,477	2,267,811	5,509,288
Lajas	2,828,100	1,153,089	3,981,189	3,033,814	1,408,427	4,442,241	3,318,929	1,362,634	4,681,563
Lares	4,738,885	943,827	5,682,712	4,052,680	1,071,027	5,123,707	4,328,761	973,062	5,301,823
Las Marías	2,786,817	255,395	3,042,211	3,196,355	306,462	3,502,817	3,552,643	355,527	3,908,170
Las Piedras	1,529,525	2,488,560	4,018,085	2,174,030	2,827,526	5,001,556	2,335,172	3,506,163	5,841,335

Fiscal Year Ended June 30,

Municipality	2000			2001			2002 (preliminary, subject to final audit)		
	From Commonwealth Appropriations	From Municipal Taxpayers	Total	From Commonwealth Appropriations	From Municipal Taxpayers	Total	From Commonwealth Appropriations	From Municipal Taxpayers	Total
Loíza	\$ 5,644,939	\$ 500,296	\$ 6,145,235	\$ 4,408,089	\$ 747,918	\$ 5,156,007	\$ 4,896,081	\$ 793,686	\$ 5,689,767
Luquillo	1,811,767	1,672,195	3,483,963	2,275,886	2,188,296	4,464,183	2,390,007	2,148,437	4,538,444
Manatí	1,951,189	5,666,980	7,618,169	2,958,981	5,191,852	8,150,833	2,699,599	5,216,121	7,915,720
Maricao	2,327,411	334,174	2,661,585	2,660,957	424,893	3,085,851	2,790,475	441,813	3,232,288
Maunabo	4,132,389	271,574	4,403,963	3,722,799	287,912	4,010,711	4,122,872	267,107	4,389,980
Mayagüez	3,938,494	15,395,475	19,333,969	4,350,856	17,417,469	21,768,325	4,802,555	18,276,081	23,078,636
Moca	3,244,961	1,192,165	4,437,126	3,497,499	1,348,721	4,846,220	3,744,211	1,469,915	5,214,126
Morovis	5,176,495	536,777	5,713,272	4,126,978	719,532	4,846,511	4,561,986	718,009	5,279,995
Naguabo	3,189,216	791,393	3,980,609	3,264,112	960,691	4,224,803	3,446,067	1,081,261	4,527,328
Naranjito	4,718,390	757,427	5,475,817	4,174,737	760,180	4,934,917	4,482,771	692,050	5,174,821
Orocovis	4,974,045	460,689	5,434,734	4,358,143	516,042	4,874,185	4,861,812	599,556	5,461,369
Patillas	3,606,465	692,949	4,299,414	3,501,353	735,338	4,236,691	3,657,536	721,602	4,379,139
Peñuelas	2,270,586	1,584,735	3,855,321	2,853,201	1,916,837	4,770,037	2,901,132	2,094,582	4,995,714
Ponce	7,104,662	23,831,888	30,936,551	8,265,000	23,071,824	31,336,823	8,839,425	23,168,673	32,008,098
Quebradillas	3,031,246	889,393	3,920,639	3,306,764	1,022,907	4,329,671	3,567,306	1,184,434	4,751,740
Rincón	2,440,267	790,642	3,230,909	2,951,078	958,256	3,909,335	3,232,304	1,160,576	4,392,880
Río Grande	3,207,589	2,743,360	5,950,949	3,388,790	3,806,410	7,195,200	3,414,824	4,376,156	7,790,980
Sabana Grande	3,034,998	1,116,960	4,151,958	3,306,202	1,215,378	4,521,580	3,611,031	1,148,998	4,760,029
Salinas	3,547,710	1,177,671	4,725,381	3,468,293	1,473,247	4,941,540	3,539,835	1,508,698	5,048,533
San Germán	2,426,758	2,718,503	5,145,261	3,095,437	2,910,390	6,005,827	3,230,510	3,626,314	6,856,824
San Juan	24,303,591	109,445,577	133,749,168	26,808,712	109,698,978	136,507,690	27,629,064	114,881,072	142,510,136
San Lorenzo	4,105,861	1,451,880	5,557,741	3,952,046	1,584,239	5,536,285	4,184,533	1,962,845	6,147,378
San Sebastián	3,071,061	2,235,119	5,306,180	3,356,058	2,716,888	6,072,946	3,636,259	2,744,099	6,380,357
Santa Isabel	2,358,388	861,215	3,219,603	2,676,819	1,098,819	3,775,637	2,615,513	941,382	3,556,894
Toa Alta	3,788,430	1,659,610	5,448,040	3,936,705	1,873,331	5,810,036	4,295,035	2,212,696	6,507,732
Toa Baja	4,865,692	12,295,128	17,160,819	6,064,468	9,816,714	15,881,182	6,644,332	9,887,186	16,531,518
Trujillo Alto	3,564,715	4,268,860	7,833,575	4,917,754	4,859,608	9,777,363	4,847,482	5,661,873	10,509,355
Utuado	4,069,167	1,272,123	5,341,290	4,150,879	1,373,118	5,523,998	4,369,154	1,488,835	5,857,989
Vega Alta	2,068,123	2,337,058	4,405,180	2,660,325	2,982,030	5,642,356	3,028,155	3,571,809	6,599,965
Vega Baja	3,598,324	3,555,186	7,153,509	4,277,423	4,497,994	8,775,418	4,341,764	5,261,752	9,603,516
Vieques	2,332,107	449,994	2,782,101	2,747,687	505,294	3,252,981	2,903,712	512,324	3,416,035
Villalba	4,645,095	632,007	5,277,102	4,164,936	673,259	4,838,195	4,601,789	691,278	5,293,067
Yabucoa	3,061,191	1,534,864	4,596,055	3,287,698	1,846,468	5,134,167	3,572,457	2,304,572	5,877,029
Yauco	2,535,102	2,433,374	4,968,476	3,105,634	2,844,818	5,950,452	3,302,027	3,344,556	6,646,583
TOTAL	\$289,323,420	\$428,365,030	\$717,688,451	\$315,599,010	\$451,416,546	\$767,015,556	\$339,406,959	\$489,710,668	\$829,117,627
% of Total Revenues	40.3%	59.7%	100.0%	41.1%	58.9%	100.0%	40.9%	59.1%	100.0%

Source: CRIM

SPECIAL ADDITIONAL TAX COLLECTIONS

The following table presents for each Municipal Issuer the Special Additional Tax Collections and debt service coverage ratio analysis based on collections and fund balances listed below for fiscal year ended June 30, 2002.

Fiscal Year Ended June 30, 2002 (P)

Municipality	A Special Add'l Tax Collections (P)	B Municipality's Redemption Fund (P)	C Matching Fund (P)	D = (B+C+E) Available for the PMNT of G.O. Debt	E Debt Service PMNTs on G.O. Debt	Debt Service Coverage Ratio based on	
						F = D/E Available for the PMNT of G.O. Debt	G = (B+E)/E Redemption Fund
Adjuntas	\$ 191,615	\$ 224,022	\$ 4,623,833	\$ 5,021,580	\$ 173,725	28.91	2.29
Aguada	666,794	1,052,359	6,695,728	8,440,378	692,291	12.19	2.52
Aguadilla	2,483,013	5,035,982	13,785,932	21,908,026	3,086,112	7.10	2.63
Aguas Buenas	318,256	686,834	5,320,494	6,432,030	424,702	15.14	2.62
Aibonito	468,347	1,222,675	5,524,650	7,311,168	563,844	12.97	3.17
Añasco	532,916	1,406,155	5,626,379	7,544,759	512,225	14.73	3.75
Arecibo	2,866,773	4,919,545	16,116,562	23,695,991	2,659,884	8.91	2.85
Arroyo	258,389	742,252	4,662,204	5,801,322	396,865	14.62	2.87
Barceloneta	1,731,241	1,892,220	8,722,589	12,098,220	1,483,411	8.16	2.28
Barranquitas	267,684	1,410,065	5,653,654	7,380,083	316,364	23.33	5.46
Bayamon	14,796,700	23,341,073	70,253,388	108,225,982	14,631,521	7.40	2.60
Cabo Rojo	1,403,805	3,384,369	9,084,065	14,078,007	1,609,574	8.75	3.10
Caguas	10,467,986	17,521,236	46,237,169	72,393,650	8,635,245	8.38	3.03
Camuy	346,844	484,030	5,664,784	6,474,215	325,401	19.90	2.49
Canóvanas	899,662	1,900,662	7,777,008	10,734,380	1,056,711	10.16	2.80
Carolina	14,937,806	38,134,793	69,134,485	121,988,250	14,718,972	8.29	3.59
Cataño	4,079,140	17,781,398	23,729,101	45,720,342	4,209,843	10.86	5.22
Cayey	2,944,929	5,567,381	12,578,208	20,359,165	2,213,575	9.20	3.52
Ceiba	245,967	511,376	4,458,781	5,238,137	267,980	19.55	2.91
Ciales	205,707	261,735	4,325,823	4,739,719	152,160	31.15	2.72
Cidra	942,265	2,201,466	7,343,213	11,022,353	1,477,674	7.46	2.49
Coamo	482,761	1,095,756	6,067,283	7,696,741	533,701	14.42	3.05
Comerio	102,295	305,644	5,327,946	5,728,146	94,556	60.58	4.23
Corozal	302,130	1,249,621	6,027,835	7,465,013	187,556	39.80	7.66
Culebra	50,044	131,235	1,926,457	2,096,528	38,836	53.98	4.38
Dorado	1,822,970	4,148,102	9,785,304	15,970,874	2,037,468	7.84	3.04
Fajardo	1,992,912	2,975,468	11,568,915	16,193,689	1,649,306	9.82	2.80
Florida	110,036	171,435	3,962,493	4,242,805	108,877	38.97	2.57
Guánica	206,619	409,935	4,647,468	5,286,960	229,557	23.03	2.79
Guayama	2,088,715	3,896,928	10,803,730	16,573,053	1,872,395	8.85	3.08
Guayanilla	460,515	770,551	5,104,823	6,177,681	302,306	20.44	3.55
Guaynabo	13,806,369	24,153,091	63,131,265	98,296,211	11,011,855	8.93	3.19
Gurabo	538,696	1,648,940	6,019,781	8,212,316	543,594	15.11	4.03
Hatillo	1,219,547	1,971,212	8,253,555	11,336,512	1,111,745	10.20	2.77
Hormigueros	675,711	771,523	5,397,183	6,757,321	588,616	11.48	2.31
Humacao	2,785,566	4,726,769	15,228,758	22,859,932	2,904,405	7.87	2.63
Isabela	882,758	2,187,405	7,606,826	10,895,034	1,100,803	9.90	2.99
Jayuya	235,146	518,951	4,383,742	5,267,479	364,786	14.44	2.42
Juana Diaz	948,729	2,024,748	7,239,094	10,360,813	1,096,972	9.44	2.85
Juncos	817,211	1,228,850	7,234,761	9,086,431	622,820	14.59	2.97
Lajas	335,457	1,152,421	5,054,834	6,662,457	455,201	14.64	3.53
Lares	306,967	475,168	5,710,819	6,641,673	455,686	14.58	2.04
Las Marías	99,121	232,059	3,838,626	4,175,743	105,058	39.75	3.21

Fiscal Year Ended June 30, 2002 (P)

Municipality	A Special Add'l Tax Collections (P)	B Municipality's Redemption Fund (P)	C Matching Fund (P)	D = (B+C+E) Available for the PMNT of G.O. Debt	E Debt Service PMNTs on G.O. Debt	Debt Service Coverage Ratio based on	
						F = D/E Available for the PMNT of G.O. Debt	G = (B+E)/E Redemption Fund
Las Piedras	\$ 1,036,515	\$ 2,104,925	\$ 6,491,896	\$ 9,818,146	\$ 1,221,324	8.04	2.72
Loiza	246,379	1,470,618	5,738,762	7,443,101	233,721	31.85	7.29
Luquillo	486,746	1,732,454	4,996,804	7,140,478	411,220	17.36	5.21
Manatí	1,731,801	4,507,395	10,969,291	17,612,530	2,135,844	8.25	3.11
Maricao	75,238	218,143	3,301,943	3,630,242	110,155	32.96	2.98
Maunabo	55,845	193,222	4,300,647	4,566,806	72,936	62.61	3.65
Mayagüez	5,488,976	15,602,545	30,097,865	51,070,603	5,370,194	9.51	3.91
Moca	414,211	502,691	5,750,206	6,482,456	229,560	28.24	3.19
Morovis	213,090	386,579	5,354,877	5,955,649	214,194	27.80	2.80
Naguabo	299,652	1,072,266	4,841,889	6,343,427	429,272	14.78	3.50
Naranjito	219,531	830,412	5,688,099	6,777,344	258,833	26.18	4.21
Orocovis	135,247	635,861	5,475,581	6,290,117	178,676	35.20	4.56
Patillas	246,467	945,597	4,734,081	5,823,646	143,969	40.45	7.57
Peñuelas	783,749	1,402,848	6,260,041	8,565,698	902,808	9.49	2.55
Ponce	8,340,835	15,944,834	44,581,545	70,128,225	9,601,846	7.30	2.66
Quebradillas	316,977	637,763	5,067,228	6,109,104	404,112	15.12	2.58
Rincón	352,060	673,494	4,591,714	5,650,240	385,031	14.67	2.75
Rio Grande	1,566,215	6,201,368	9,492,185	16,332,786	639,233	25.55	10.70
Sabana Grande	321,981	1,011,082	5,084,657	6,556,610	460,871	14.23	3.19
Salinas	524,873	977,894	5,994,869	7,339,052	366,290	20.04	3.67
San German	1,097,136	2,990,656	7,668,962	12,040,671	1,381,053	8.72	3.17
San Juan	38,375,887	68,158,494	199,314,928	312,447,669	44,974,248	6.95	2.52
San Lorenzo	755,855	1,162,730	6,921,924	8,563,508	478,854	17.88	3.43
San Sebastian	806,718	2,003,000	7,158,259	10,086,029	924,771	10.91	3.17
Santa Isabel	356,079	813,012	4,395,053	5,694,806	486,742	11.70	2.67
Toa Alta	969,199	2,797,569	7,393,711	11,421,296	1,230,016	9.29	3.27
Toa Baja	4,914,736	6,451,599	22,791,578	34,285,322	5,042,146	6.80	2.28
Trujillo Alto	2,004,493	5,781,045	12,433,188	19,909,912	1,695,680	11.74	4.41
Utua	377,912	1,316,296	6,282,309	8,009,438	410,832	19.50	4.20
Vega Alta	1,232,327	2,443,859	7,958,276	11,220,363	818,228	13.71	3.99
Vega Baja	2,212,977	3,873,044	11,581,956	17,681,751	2,226,751	7.94	2.74
Vieques	108,408	309,061	3,543,555	3,960,082	107,465	36.85	3.88
Villalba	245,975	528,426	5,497,634	6,218,578	192,518	32.30	3.74
Yabucoa	578,977	455,625	6,144,239	7,329,331	729,468	10.05	1.62
Yauco	1,063,021	2,494,831	7,963,811	11,317,559	858,917	13.18	3.90
TOTAL	\$169,282,204	\$344,558,678	\$1,037,503,108	\$1,554,413,742	\$172,351,955	9.02	3.00

(P) Preliminary, subject to final audit.

- (1) Funds on deposit or to be deposited in the Redemption Fund for fiscal year ended June 30, 2002 after (i) the remittance by CRIM of the Special Additional Taxes collected in connection with fiscal year 2002 and (ii) the payment of general obligation debt due in January 1 and July 1, 2002.
- (2) Funds deposited in the Matching Fund during fiscal year ended June 30, 2002.
- (3) Represents the sum of funds available in the Redemption Fund and Matching Fund during fiscal year 2002 for the payment of general obligation debt of the municipalities.
- (4) Represents debt service payments due on each municipality's general obligation debt on January 1, and July 1, 2002.
- (5) Debt service coverage ratio based on the amount of funds available in the Redemption Fund and the Matching Fund during fiscal year 2002 for the payment of general obligation debt of each municipality.
- (6) Debt service coverage ratio based on the amount of funds available in the Redemption Fund during fiscal year 2002 for the payment of general obligation debt of each municipality.

Source: CRIM and GDB

THE MUNICIPAL BONDS

The following table shows the Municipal Bonds that will be purchased from GDB with the proceeds from the issuance and sale of the Bonds. The Municipal Bonds listed below may include more than one issue of a Municipal Issuer.

Municipality	Principal Amount	Number of Municipal Bonds	Final Maturity of July 1,	% of Total
Aguadilla	\$15,780,000	9	2025	3.19%
Aguas Buenas	475,000	1	2006	0.10
Aibonito	1,635,000	4	2026	0.33
Añasco	765,000	1	2014	0.15
Arecibo	12,900,000	3	2026	2.61
Arroyo	1,390,000	1	2026	0.28
Barceloneta	1,420,000	1	2013	0.29
Barranquitas	2,410,000	3	2026	0.49
Bayamón	68,215,000	10	2025	13.79
Cabo Rojo	6,315,000	3	2026	1.28
Caguas	24,215,000	6	2026	4.89
Camuy	400,000	1	2008	0.08
Canóvanas	5,425,000	1	2026	1.10
Carolina	46,185,000	2	2020	9.34
Cataño	18,240,000	2	2019	3.69
Cayey	8,485,000	20	2026	1.72
Ceiba	1,215,000	5	2026	0.25
Ciales	700,000	1	2008	0.14
Cidra	7,895,000	5	2025	1.60
Coamo	3,455,000	4	2027	0.70
Corozal	1,290,000	1	2026	0.26
Culebra	210,000	2	2009	0.04
Dorado	5,630,000	7	2026	1.14
Florida	305,000	2	2006	0.06
Guánica	520,000	1	2026	0.11
Guayama	8,725,000	4	2024	1.76
Guayanilla	870,000	2	2023	0.18
Guaynabo	30,350,000	5	2027	6.13
Gurabo	1,570,000	3	2026	0.32
Hatillo	2,745,000	2	2025	0.55
Hormigueros	1,255,000	3	2025	0.25
Humacao	1,725,000	1	2008	0.35
Isabela	1,910,000	3	2010	0.39
Jayuya	495,000	2	2008	0.10
Juana Díaz	2,065,000	4	2026	0.42
Juncos	3,105,000	3	2026	0.63
Lajas	1,480,000	2	2020	0.30
Lares	785,000	2	2026	0.16
Las Marías	485,000	2	2020	0.10
Las Piedras	3,595,000	3	2025	0.73
Loiza	1,925,000	2	2023	0.39

Municipality	Principal Amount	Number of Municipal Bonds	Final Maturity of July 1,	% of Total
Luquillo	\$ 595,000	2	2014	0.12%
Manatí	6,455,000	9	2026	1.30
Maricao	175,000	1	2006	0.04
Maunabo	385,000	1	2008	0.08
Mayagüez	9,800,000	6	2024	1.98
Morovis	670,000	1	2023	0.14
Naguabo	520,000	3	2006	0.11
Naranjito	420,000	1	2008	0.08
Orocovis	470,000	2	2009	0.10
Patillas	3,120,000	3	2026	0.63
Peñuelas	3,440,000	2	2018	0.70
Ponce	31,305,000	2	2025	6.33
Quebradillas	1,345,000	2	2026	0.27
Rincón	2,290,000	3	2026	0.46
Río Grande	2,290,000	2	2016	0.46
Sabana Grande	1,205,000	4	2020	0.24
Salinas	340,000	1	2007	0.07
San Germán	3,960,000	4	2026	0.80
San Juan	94,725,000	5	2026	19.15
San Lorenzo	250,000	1	2004	0.05
San Sebastián	1,780,000	2	2026	0.36
Santa Isabel	515,000	3	2011	0.10
Toa Alta	3,565,000	3	2016	0.72
Toa Baja	9,710,000	6	2025	1.96
Trujillo Alto	3,935,000	1	2026	0.80
Utua	1,885,000	2	2016	0.38
Vega Alta	1,805,000	5	2024	0.36
Vega Baja	5,130,000	4	2027	1.04
Vieques	650,000	1	2026	0.13
Villalba	645,000	3	2025	0.13
Yauco	2,765,000	2	2026	0.56
TOTAL	<u>\$494,705,000</u>	<u>226</u>		<u>100.00%</u>

Source: GDB

Additional Tests and Covenants Relating to the Municipal Issuers

In connection with the issuance of the Bonds, GDB and CRIM will enter into an agreement that will provide, among other things, as follows:

Additional general obligation bonds or notes of any municipality in Puerto Rico (a “Proposed Issue”) will be approved by GDB only if the following two tests are satisfied: (i) for each fiscal year that the current outstanding general obligation debt of said municipality and the Proposed Issue will be outstanding, the balance of the moneys in the municipality’s Redemption Fund as of the beginning of each such fiscal year plus the estimated Special Additional Tax collections for such fiscal year is not less than the sum of the principal and interest due on the municipality’s current outstanding general obligation debt and the Proposed Issue for the corresponding fiscal year; and (ii) as of June 30 of the fiscal year preceding the fiscal year in which the Proposed Issue will be issued, the ratio of the sum of the beginning balance of the municipality’s Redemption Fund for such preceding fiscal year and the municipality’s actual Special Additional Tax collections, actual Basic Tax collection, and Commonwealth Contributions for such preceding fiscal year to maximum annual debt service on all outstanding general obligation debt of the municipality (including the Proposed Issue) is not less than two times. For purposes of test (i) above, “estimated Special Additional Tax collections” for any fiscal year shall equal the average of the collections of the Special Additional Tax for the two fiscal years preceding the fiscal year in which the Proposed Issue is to be issued.

GDB will undertake the following monitoring tests: (i) as of the end of each fiscal year (currently June 30) for each municipality which has not issued general obligation debt during the twelve months ended on such June 30, GDB will determine the ratio of the sum of the beginning balance of the municipality’s Redemption Fund for such fiscal year and the municipality’s actual Special Additional Tax collections, actual Basic Tax collections and Commonwealth Contributions for such fiscal year to maximum debt service on such municipality’s general obligation debt; and (ii) not later than three months prior to any interest or principal payment date on general obligation debt of any municipality, it will determine the balance in the Redemption Fund for such municipality.

GDB will also undertake that: (i) in the event the ratio calculated in clause (i) of the preceding paragraph or clause (ii) of the second preceding paragraph is less than two times, it will immediately notify Moody’s Investors Service (as defined below), Standard & Poor’s Ratings Service (as defined below) and the Trustee, and (ii) in the event that the determination in clause (ii) of the preceding paragraph shows that the balance in a municipality’s Redemption Fund will not be sufficient to pay the principal of and interest on general obligation debt on the next interest or principal payment date, GDB will immediately notify CRIM and the Trustee in writing of such deficiency, and request CRIM, as provided in Act No. 64, to transfer to GDB any available moneys from Basic Taxes (which are subject to a first lien to cover general obligation debt of municipalities) and other available and unencumbered moneys in the Matching Fund sufficient to cover said deficiency. CRIM will covenant that it will make such transfer not later than five business days prior to the applicable interest or principal payment date.

The Reserve Account

The Agency will cause to be deposited in the Reserve Account under the 2002 Indenture from the proceeds of the Bonds an amount equal to the sum of (i) 50% of the maximum principal and interest payments requirement for any fiscal year on the Bonds and (ii) 50% of the maximum aggregate annual earnings for any fiscal year on the amount in clause (i) above based on the assumption that said amount in clause (i) is invested in Investment Obligations (as defined herein) in accordance with the provisions of the United States Internal Revenue Code of 1986, as amended (the “Code”), that bear interest at a rate per annum equal to the yield determined in accordance with the provisions of the Code. The Agency is required to maintain in the Reserve Account an amount equal to the sum of: (i) the higher of (a) 50% of the maximum principal and interest payments requirement for any fiscal year on all bonds then outstanding under the 2002 Indenture and (b) the largest amount of the maximum principal and interest payments requirement for any fiscal year on the Municipal Bonds of any Municipal Issuer; and (ii) 50% of the annual earnings for such fiscal year on the larger of the amounts in clauses (a) and (b) above based on the assumption that said amount in clause (a) or (b) is invested in Investment Obligations and such Investment Obligations are allocated by the Agency among the various Series of Bonds then outstanding in accordance with the provisions of the Code and as so allocated, bear interest at a rate per annum equal

to the yield (determined in accordance with the provisions of the Code) on the corresponding Series of Bonds (the "Required Debt Service Reserve").

Moneys in the Reserve Account shall be applied first to the payment of interest on the Bonds and maturing principal of all serial Bonds whenever moneys in the Bond Service Account are insufficient for such purpose, and then for the purpose of making the required deposits to the Redemption Account established thereunder whenever moneys received by the Trustee from the payments of principal of and interest on the Municipal Bonds are insufficient for such purpose. Whenever moneys in the Reserve Account exceed the Required Debt Service Reserve, such excess shall be transferred to the Bond Service Account.

The Enabling Act provides that, in order to assure the maintenance of the Reserve Account in an amount equal to the Required Debt Service Reserve, there shall be annually apportioned and paid to the Agency by the Commonwealth for deposit in the Reserve Account such sum, if any, as shall be certified by the President of the Agency to the Secretary of the Treasury of the Commonwealth as necessary to restore the Reserve Account to the amount of the Required Debt Service Reserve. The President of the Agency shall in each year, on or before December 1, deliver to the Secretary of the Treasury his certificate stating the sum, if any, required to restore the Reserve Account to the Required Debt Service Reserve, and the sum so certified shall be apportioned and paid to the Agency from any available or uncommitted funds in the General Fund of the Treasury during the then current fiscal year of the Commonwealth without further action by the Legislature. If there are no such available funds, the Secretary of the Treasury shall request the amount so certified from the Director of the Office of Management and Budget of the Commonwealth, who shall include it in the General Budget of the Commonwealth for the coming fiscal year. The payment of such amount is subject to appropriation by the Legislature, which appropriation is authorized but not legally required to be made.

BOND INSURANCE

Bond Insurance Policy

The following information (together with the specimen policy contained in Appendix E to this Official Statement) has been supplied by Financial Security Assurance Inc. ("Financial Security") for inclusion in this Official Statement. No representation is made by the Agency as to the accuracy or completeness of this information.

Concurrently with the issuance of the Bonds, Financial Security will issue its Municipal Bond Insurance Policy for the Bonds maturing after August 1, 2004 (the "Insured Bonds"). Such policy (the "Policy") guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the specimen Policy included as Appendix E to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At June 30, 2002, Financial Security's total policyholders' surplus and contingency reserves were approximately \$1,710,044,000 and its total unearned premium reserve was approximately \$898,579,000 in accordance with statutory accounting principles. At June 30, 2002, Financial Security's total shareholders' equity was approximately \$1,817,013,000 and its total net unearned premium reserve was approximately \$744,499,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc., 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Agency the information presented under this caption for inclusion in the Official Statement.

DEBT SERVICE REQUIREMENTS FOR THE BONDS

The following table presents debt service requirements for the Bonds. Debt service requirements for each fiscal year, as shown in the following table, include principal and interest due on August 1 and February 1 of such fiscal year.

Debt Service Requirements

Fiscal year Ending June 30	Principal	Interest	Total Debt Service on the Bonds
2003	-	-	-
2004	\$19,925,000.00	\$27,419,972.92	\$47,344,972.92
2005	23,510,000.00	22,691,062.50	46,201,062.50
2006	22,650,000.00	21,739,550.00	44,389,550.00
2007	25,560,000.00	20,747,037.50	46,307,037.50
2008	19,505,000.00	19,845,737.50	39,350,737.50
2009	20,760,000.00	19,092,337.50	39,852,337.50
2010	20,370,000.00	18,347,100.00	38,717,100.00
2011	21,125,000.00	17,489,850.00	38,614,850.00
2012	22,565,000.00	16,506,825.00	39,071,825.00
2013	23,600,000.00	15,468,112.50	39,068,112.50
2014	25,165,000.00	14,307,987.50	39,472,987.50
2015	24,760,000.00	13,028,912.50	37,788,912.50
2016	28,390,000.00	11,633,725.00	40,023,725.00
2017	23,620,000.00	10,268,462.50	33,888,462.50
2018	21,440,000.00	9,085,637.50	30,525,637.50
2019	19,305,000.00	8,016,081.25	27,321,081.25
2020	17,960,000.00	7,037,875.00	24,997,875.00
2021	18,405,000.00	6,083,293.75	24,488,293.75
2022	17,095,000.00	5,151,418.75	22,246,418.75
2023	17,030,000.00	4,298,212.50	21,328,212.50
2024	18,145,000.00	3,440,125.00	21,585,125.00
2025	18,480,000.00	2,524,500.00	21,004,500.00
2026	16,820,000.00	1,642,000.00	18,462,000.00
2027	24,400,000.00	611,500.00	25,011,500.00
2028	<u>30,000.00</u>	<u>750.00</u>	<u>30,750.00</u>
Total	<u>\$510,615,000.00</u>	<u>\$296,478,066.67</u>	<u>\$807,093,066.67</u>

**RECENT EVENTS RELATING TO THE COMMONWEALTH OF PUERTO RICO
AND THE MUNICIPALITIES OF SAN JUAN AND BAYAMÓN FOR FISCAL YEARS 2002 AND 2003**

Commonwealth of Puerto Rico

Preliminary Revenues and Expenditures for Fiscal Year 2002. For the fiscal year ended June 30, 2002, preliminary General Fund revenues were \$7.50 billion, which is \$540 million or 7.8% higher than General Fund revenues during fiscal year 2001, and \$37 million higher than originally budgeted revenues for this period. Preliminary revenues for fiscal year 2002 included \$6.90 billion of recurring revenues and \$472 million of non-recurring revenues, including the liquidation of certain reserves which were no longer required, the sale of certain receivables due from various municipalities to GDB, the collection of past due receivables from other governmental entities, and a one-time payment from a taxpayer with respect to a disallowed deduction. Preliminary revenues for fiscal year 2002 also included \$129 million of taxes already collected in prior periods but not previously applied against outstanding tax receivables.

Expenditures for fiscal year 2002 are estimated to be \$7.64 billion, which is \$140 million or 1.9% higher than the \$7.50 billion revised budget for the fiscal year, which revised budget is based on preliminary General Fund revenues for the fiscal year. The principal reasons for the higher expenditures are (i) health costs that are estimated to be approximately \$152 million higher than the amount in the revised budget (mostly as a result of health reform costs); (ii) payroll and other costs of education that are estimated to be approximately \$77 million higher than the amount in the revised budget; and (iii) public safety costs that are estimated to be approximately \$47 million higher than the amount in the revised budget. Lower estimated expenditures in other areas of approximately \$139 million partially offset the higher health, education and public safety expenditures. The Commonwealth expects to cover these additional expenditures with \$120 million of reserve funds from the Commonwealth's Budgetary Fund and with \$20 million of unused funds from certain agencies that have operating surpluses.

Approved Budget for Fiscal Year 2003. The approved budget for fiscal year 2003 (which commenced on July 1, 2002) includes General Fund expenditures of \$7.84 billion, which is \$373 million or 5.0% higher than the \$7.47 billion originally budgeted for fiscal year 2002. The major changes in General Fund expenditures from the amount originally budgeted in fiscal year 2002 are the following: (i) an increase of \$122 million or 5.3% in education costs; (ii) an increase of \$119 million or 9.2% in public safety and protection costs; (iii) an increase of \$88 million or 7.4% in health costs; (iv) an increase of \$32 million or 45.8% in special pension contributions costs; (v) an increase of \$16 million or 4.1% in welfare costs; (vi) a decrease of \$14 million or 1.8% in general government expenses; and (vii) an increase of \$11 million or 3.1% in contributions to the municipalities.

General Fund revenues for fiscal year 2003 are projected to be \$7.84 billion. The major changes from the preliminary revenues of \$7.50 billion for fiscal year 2002 are expected to be: (i) a projected increase in individual income taxes of \$371 million; (ii) a projected increase in corporate income taxes of \$218 million; (iii) a projected increase in Commonwealth excise taxes of \$328 million; and (iv) a projected decrease in miscellaneous non-tax revenues of \$549 million (which is principally the result of the \$472 million of non-recurring revenues in fiscal year 2002).

For July 2002, the only month of fiscal year 2003 for which the Treasury Department has revenue information available, General Fund revenues were \$488 million, which is \$40 million or 8.9% higher than General Fund revenues during July 2001, and \$7 million or 1.4% higher than budgeted revenues for this period.

The projected General Fund revenues for fiscal year 2003 assume a 6.8% nominal, 2.7% real growth in gross national product, and additional revenues of \$596 million from recently enacted legislative measures. Projected revenues do not take into consideration the result of a lawsuit filed by one of the eight air cargo carriers that service Puerto Rico. In the lawsuit, this air cargo carrier seeks to prevent the Treasury Department from implementing a local regulation that precludes the carrier from delivering goods brought into the island prior to obtaining from the consignee evidence of the payment of the excise tax on such goods. The United States District Court for the District of Puerto Rico entered a permanent injunction in favor of the carrier. The Secretary of the Treasury appealed and moved for a stay pending the appeal. On July 18, 2002, the United States Court of Appeals granted the Secretary's motion and ordered the stay of the injunction while expediting the appeal. A hearing was held on September 6, 2002. The total amount of excise taxes

collected annually in recent years by the eight air cargo carriers that service Puerto Rico has been approximately \$53 million.

Contracts with Health Reform Insurance Companies. The Government has entered into new contracts with the insurance companies providing coverage to health reform beneficiaries, which are for three-year terms commencing on July 1, 2002. Under the new contracts, and based on certain assumptions relating to the number of beneficiaries and other matters, the cost of the health insurance program for fiscal year 2003 is expected to exceed the amount in the budget for such fiscal year by approximately \$75 million. However, the Commonwealth expects to reduce the insurance cost through audits of the health reform lists of eligible beneficiaries and from rebates on medications from pharmaceutical companies. The budgeted amount includes all funds expected to be deposited in the newly created Health Reform Stabilization Fund, which will be funded from certain excise taxes that were recently raised. The insurance cost for fiscal years 2004 and 2005 will be negotiated with the insurance companies before the commencement of each such fiscal year.

Special Communities Perpetual Trust. On August 19, 2002, the Governor proposed and introduced legislation for the creation of a Special Communities Perpetual Trust of \$1 billion to serve primarily the housing and basic infrastructure needs of 686 needy communities throughout the Commonwealth. The corpus of this Trust is proposed to be constituted from a \$500 million grant from GDB and \$500 million from the Commonwealth. The proposed financing plan of the Commonwealth's contribution is under consideration by the Legislature.

Municipality of San Juan

Preliminary (unaudited) Revenues and Expenditures for Fiscal Year 2002. San Juan's preliminary revenues from all sources (including federal aid) for fiscal year 2002 were \$465 million. Preliminary expenditures (including capital expenditures) for the same period were \$545 million, which represents a deficiency of \$80 million. Other financing sources, including a \$19.7 million excess in San Juan's Redemption Fund at GDB, a \$7.0 million non-recurrent reimbursement from CRIM, and the issuance of long-term debt for capital projects in the amount of \$67.4 million, together with a total funds balance of \$101.6 million at the beginning of the 2002 fiscal year, enabled San Juan to cover this deficiency. San Juan ended fiscal year 2002 with a preliminary total funds balance of \$97.3 million.

Approved Budget for Fiscal Year 2003. San Juan's approved budget for fiscal year 2003 is \$592.3 million, which includes \$330.7 million in General Fund expenditures, \$196.4 million in federal funds expenditures, \$65.2 million in expenditures from other sources, an aggregate \$47 million increase over fiscal year 2002 expenditures. Property and municipal license taxes make up 70.3% of General Fund revenues budgeted for fiscal year 2003. The approved budget represents an increase of 6.6% when compared with the approved budget for fiscal year 2002 and includes allocations of \$219.3 million for payroll related costs, \$252.6 million for non-payroll related costs, and \$111.0 million for capital projects. Approximately, 71% of the budgeted revenues is expected to be used to provide necessary services in areas such as health, economic development, infrastructure, urban planning and development, environmental protection, family, public order, security, recreation and sports. The remaining 29% of budgeted revenues is expected to be used for general purposes, including utility and administrative services provided to the municipal government.

Municipality of Bayamón

Preliminary (unaudited) Revenues and Expenditures for Fiscal Year 2002. Bayamón's preliminary revenues from all sources (including federal aid) for fiscal year 2002 were \$230.8 million. Preliminary expenditures for the same period (including capital expenditures) were \$231 million, which represents a deficiency of \$0.2 million. Other financing sources, including the issuance of long-term debt for capital projects in the amount of \$22.3 million are included in the preliminary revenues of fiscal year 2002. Bayamón ended fiscal year 2002 with a preliminary total funds balance of \$88.6 million.

Approved Budget for Fiscal Year 2003. Bayamón's approved budget for fiscal year 2003 is \$177.1 million, which includes \$88.5 million in General Fund expenditures, \$45.3 million in federal funds expenditures, 43.2 million in expenditures from other sources, an aggregate \$5.1 million increase over fiscal year 2002 expenditures. Property and

municipal license taxes make up 75.9% of General Fund revenues budgeted for fiscal year 2003. The approved budget represents an increase of 3.0% when compared with the approved budget for fiscal year 2002.

THE 2002 INDENTURE

The following is a summary of certain provisions of the 2002 Indenture. References in this summary to Bonds include the Bonds to which the Official Statement relates and any bonds issued under the 2002 Indenture to refund as described below outstanding bonds previously issued under the 2002 Indenture. This summary does not purport to be complete, and reference is made to the 2002 Indenture for its complete terms. See "MISCELLANEOUS." Certain provisions summarized below may be modified for the benefit of Financial Security in consideration of its issuance of the Policy.

Funds and Accounts

A special fund is created under the 2002 Indenture to be held by the Trustee and designated "Puerto Rico Municipal Finance Agency Series 2002 Bonds Interest and Sinking Fund" (the "Sinking Fund"). The Sinking Fund is composed of three separate accounts: the Bond Service Account, the Redemption Account and the Reserve Account. The Trustee is required to deposit moneys received from payments on the Municipal Bonds in such accounts as described above under "SOURCES OF PAYMENT FOR THE BONDS."

Moneys in the Bond Service Account will be applied to the payment of the interest on all the outstanding Bonds and the principal of all serial Bonds.

Moneys in the Redemption Account will be applied to the purchase or redemption of all term Bonds, including the retirement of term Bonds to the extent of the Amortization Requirements under the 2002 Indenture.

The Agency will cause to be deposited, from the proceeds of the Bonds, to the credit of the Reserve Account, an amount equal to the Required Debt Service Reserve. Thereafter, the Agency will cause to be deposited to the credit of the Reserve Account to the extent of any deficiency therein (i) all moneys paid to the Agency pursuant to the Enabling Act for the purpose of restoring the Reserve Account to the required amount (see "SOURCES OF PAYMENT FOR THE BONDS - The Reserve Account" above) and (ii) any other moneys which may be made available to the Agency for the purposes of the Reserve Account from any other source. Moneys in the Reserve Account will be applied first to the payment of interest on the Bonds and maturing principal of the serial Bonds whenever and to the extent moneys in the Bond Service Account are insufficient for such purpose, and then for the purpose of making the required deposits to the Redemption Account whenever and to the extent moneys received by the Trustee from the payments of principal of and interest on the Municipal Bonds are insufficient for such purpose. The Agency may at any time deliver to the Trustee for deposit to the credit of the Reserve Account, in lieu of cash or Investment Obligations (as defined below), a qualifying insurance policy or a letter of credit, the issuer of whose policy or letter of credit results in the rating of municipal obligations secured by such policy or letter of credit, at the time of deposit in the Reserve Account, in any of the three highest rating categories (without regard to any gradations within any such category) by both Moody's Investors Service and Standard & Poor's Ratings Service as provided in the 2002 Indenture.

Another special fund is created under the 2002 Indenture to be held by the Trustee and designated "Puerto Rico Municipal Finance Agency Series 2002 Bonds Rebate Fund" (the "Rebate Fund"). Moneys in the Rebate Fund shall be held by the Trustee in trust and paid from time to time to the United States Treasury to the extent required to satisfy the Agency's rebate liability in respect of any of its tax exempt bonds (whether or not issued under the 2002 Indenture) and will not be subject to any lien or charge in favor of the holders of the Bonds. Any balance remaining in the Rebate Fund after the making of each such payment by the Trustee shall be transferred by the Trustee from the Rebate Fund to the Operating Fund as promptly as practicable.

An additional special fund is created under the 2002 Indenture to be held by the Trustee and designated "Puerto Rico Municipal Finance Agency Series 2002 Bonds Operating Fund" (the "Operating Fund"). Moneys held for the credit

of the Operating Fund may be used for the payment of the fees and expenses of the Trustee, administrative expenses of the Agency and GDB in relation to its monitoring of the Agency and the Municipal Bonds, the fees, expenses and other obligations of the Agency in respect of any credit facility held in the Reserve Account, and financing costs incurred with respect to the Bonds and for such other lawful purposes of the Agency as the President of the Agency shall direct.

Acquisition Fund

The proceeds of the Bonds remaining after the required deposit to the Reserve Account and after the payment of financing expenses will be deposited in the Acquisition Fund. The Trustee shall apply moneys in the Acquisition Fund to acquire the Municipal Bonds from GDB only upon proper requisition by the Agency. Moneys in the Acquisition Fund may also be used to pay maturing principal of and interest on the Bonds (whether at maturity or by redemption) whenever moneys in the Sinking Fund are insufficient for such purpose.

Release of Municipal Bonds

The Agency may (with Financial Security's consent) direct the Trustee to release from the lien and charge under the 2002 Indenture all or any of the Municipal Bonds then held by the Trustee in trust thereunder provided that the following requirements have been met:

(1) The following shall have been filed with the Trustee:

(a) a certificate signed by the President of the Agency setting forth (i) the name of each Municipal Issuer whose Municipal Bonds are to be released and a brief description of such Municipal Bonds containing, among other things, the dated date, the aggregate principal amount, the maturity date or dates and the interest rate or rates corresponding thereto; (ii) for each fiscal year after the fiscal year in which such release is to occur the sum of moneys to be received by the Trustee in such fiscal year from the payments of principal of and interest on the Municipal Bonds to be held by the Trustee after said release and any other available moneys under the 2002 Indenture; and (iii) the amount of the principal and interest requirements for each such fiscal year on account of all Bonds then outstanding under the 2002 Indenture; and

(b) an opinion of bond counsel to the Agency, in form and substance satisfactory to the Trustee, to the effect that such release will not cause interest on the Bonds then outstanding under the 2002 Indenture to be includable in the gross income of the recipients thereof for federal income tax purposes to the extent that such interest was not so includable on the respective dates of issuance of said Bonds; and

(2) in each fiscal year after the fiscal year in which such release is to occur the amount shown in item (iii) of the certificate mentioned in clause (1)(a) above shall not be greater than the amount shown in item (ii) of said certificate.

Investment of Funds

Any moneys in the Bond Service Account, the Redemption Account, the Reserve Account, the Acquisition Fund, the Rebate Fund, and the Operating Fund will as nearly as may be practicable (except as provided in the 2002 Indenture with respect to defeasance and with respect to Bonds issued thereunder to refund any outstanding Bonds), be invested and reinvested by the Trustee, at the direction of the Agency in Investment Obligations listed in clauses (i), (ii), (iii), (iv), (ix), and (xi) below or any other Investment Obligations listed below permitted in writing by Moody's Investors Service and Standard & Poor's Rating Service (the eligible provider of any investment agreement listed in said clause (ix) being limited to those whose unsecured long-term debt obligations are rated in the highest rating category by Moody's Investors Service and Standard & Poor's Rating Service or which investment agreement is collateralized at all times in a manner sufficient to result in such agreement being rated in the highest such rating category by such rating services), which mature, or which are subject to redemption at the option of the holder thereof, not later than the respective dates when the moneys held for the credit of such Funds and Accounts will be required for the purposes intended. Investment Obligations so purchased with moneys in any Account or Fund will be deemed at all times to be part of such Account or Fund, and the interest accrued thereon and any profit or loss resulting from such investment will

be credited to or charged against such Account or Fund. In addition, as part of the conditions under which Financial Security is issuing its Policy for the Insured Bonds, the investment of such moneys in certain of the following obligations will require the prior consent of Financial Security.

“Investment Obligations” for purposes of the 2002 Indenture include:

(i) direct obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States Government;

(ii) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, any of the following agencies or instrumentalities of the United States Government: Banks for Cooperatives, Federal Farm Credit Banks, Federal Home Loan Banks, Export-Import Bank of the United States, Federal Financing Bank, Government National Mortgage Association, Federal National Mortgage Association, Farmer’s Home Administration, Federal Home Loan Mortgage Corporation, and Federal Housing Administration;

(iii) obligations issued or unconditionally guaranteed as to principal and interest by any agency or instrumentality controlled or supervised by and acting as an instrumentality of the United States Government pursuant to authority granted by the Congress (the obligations referred to in clauses (i) through (iii) and receipts evidencing the ownership of payments of principal of or interest on any such obligations being called “Government Obligations”);

(iv) time deposits, certificates of deposit or similar arrangements with, or banker’s acceptances issued by, any bank, banking association or trust company, including the Trustee, which is a member of the Federal Deposit Insurance Corporation having a combined capital and surplus aggregating not less than \$150,000,000 and reported deposits of not less than \$250,000,000.

(v) repurchase agreements with banks mentioned in (iv) above or with primary government dealers having a capital and surplus in excess of \$150,000,000 with respect to any of the securities mentioned in (i), (ii) and (iii) above, provided such securities are on deposit with the Trustee and such agreements are structured as sale-purchase agreements rather than secured loans;

(vi) obligations issued by the Commonwealth or any state or territory of the United States, which are rated in one of the three highest rating categories (without regard to any gradations within such categories) by both Moody’s Investors Service and Standard & Poor’s Ratings Service;

(vii) municipal obligations, the payment of the principal of and the interest on which is insured, which are rated in one of the three highest rating categories (without regard to any gradations within such categories) by both Moody’s Investors Service and Standard & Poor’s Ratings Service;

(viii) commercial paper rated, or backed by a letter of credit or line of credit the provider of which is rated, in the highest rating category (without regard to any gradations within such category) by both Moody’s Investors Service and Standard & Poor’s Ratings Service;

(ix) an agreement for the investment of moneys entered into by the Trustee with the Federal National Mortgage Association or any bank, trust company or national banking association or a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended, or any government securities dealer, insurance company or other financial institution whose unsecured obligations or uncollateralized long-term debt obligations, or of such institution’s parent or holding company, are rated in one of the three highest rating categories (without regard to any gradations within such categories) by both Moody’s Investors Service and Standard & Poor’s Rating Service or which has issued a letter of credit, contract or agreement in support of debt obligations which at all times shall be so rated, or (B) collateralized at all times by such obligations as are described in clauses (i) through (iii) above, having a market value at least equal to the principal amount of such agreement, as to which collateral the Trustee has a perfected first priority security interest and which collateral is held by the Trustee or its agent, free and clear of claims by third parties;

(x) units of beneficial interest in any non-arbitrage investment program pools created by GDB or any of its subsidiaries or affiliates;

(xi) certain highly rated taxable or tax-exempt money-market funds;

(xii) any other obligations permitted under the laws of the Commonwealth which are rated in any of the three highest rating categories (without regard to any gradations within such category) by both Moody's Investors Service and Standard & Poor's Ratings Service; and

(xiii) any securities otherwise permitted as eligible collateral under Act No. 69 of the Legislature of Puerto Rico, approved August 14, 1991, as amended.

Refunding Bonds

The Agency may issue Bonds under the 2002 Indenture for the purpose of providing funds, together with any other available funds, to pay at or redeem prior to their maturity or maturities all or (with Financial Security's consent) any part of the Bonds outstanding under the 2002 Indenture, including the payment of any redemption premium thereon, the interest thereon to the date fixed for their payment or redemption and any expenses incurred in connection with such refunding.

The Trustee shall not authenticate and deliver such refunding Bonds unless it receives evidence that, among other things, the payments to be received by the Trustee in each fiscal year on the Municipal Bonds, together with any available moneys specified for such purpose by the Agency, will be at least equal to the principal and interest requirements in such fiscal year for all Bonds outstanding under the 2002 Indenture.

Enforcement of Municipal Bonds

The Agency has agreed to take any and all actions available to it under the laws of the Commonwealth to assure that payment of the principal of and interest on the Municipal Bonds held by the Trustee will be timely paid, and that if payment of such principal and interest is not made when the same become due and payable, the Agency has agreed to take any and all actions available to it under the laws of the Commonwealth to enforce such payment.

Additional Indebtedness

The Agency has agreed not to incur any additional indebtedness secured by a lien on the Municipal Bonds and payments in respect thereof or which indebtedness will be payable from the Sinking Fund or the Acquisition Fund; provided, however, that additional series of refunding bonds may be issued from time to time as permitted under "THE 2002 INDENTURE - Refunding Bonds" on a parity with the Bonds.

Accounting

The Agency has covenanted that it will keep accurate records and accounts of the moneys collected and of the application of such moneys. Such records and accounts will be open at all reasonable times to the inspection of the Bondholders and their agents and representatives.

The Agency has further covenanted that promptly after the close of each fiscal year an audit of its books and accounts for such fiscal year will be made by an independent firm of certified public accountants of recognized ability and standing to be chosen by the Agency.

Events of Default; Remedies

The 2002 Indenture provides for each of the following events to be declared as an "event of default" under the 2002 Indenture:

(a) payment of principal of and redemption premium, if any, or any installment of interest on the Bonds was not made when the same became due and payable (whether at maturity or upon redemption), or

(b) there was a failure to retire Bonds by purchase or redemption in any fiscal year in a principal amount at least equal to the applicable amortization requirement under the 2002 Indenture for such fiscal year, or

(c) the amount on deposit to the credit of the Reserve Account was less than the Required Debt Service Reserve, and the President of the Agency failed or refused to comply with the provisions of the Enabling Act which require him to certify the amount of such deficiency to the Secretary of the Treasury, or the Commonwealth failed to apportion and pay to the Agency for deposit in the Reserve Account such amount as certified by the President of the Agency pursuant to such provisions of the Enabling Act, or

(d) the Agency was, for any reason, rendered incapable of fulfilling its obligations under the 2002 Indenture, or

(e) the Agency defaulted in the due and punctual performance of any other of its covenants, conditions, agreements and provisions contained in the Bonds or the 2002 Indenture to be performed and such default continued for thirty (30) days after written notice to the Agency by the holders of not less than 10% in aggregate principal amount of the Bonds then outstanding.

Upon the happening and the continuance of any event of default under the 2002 Indenture, the Trustee may, and upon the request of the holders of 25% in aggregate principal amount of the Bonds then outstanding must, proceed to protect and enforce its rights and the rights of the Bondholders by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in the 2002 Indenture or in aid or execution of any power granted in the 2002 Indenture or for the enforcement of any proper legal or equitable remedy, as the Trustee deems most effectual to protect and enforce such rights.

No holder of any of the Bonds has any right to institute any suit, action or proceeding in equity or at law on any Bond or for the execution of any trust under the 2002 Indenture or for any other remedy under the 2002 Indenture unless such holder has given to the Trustee written notice of such event of default on account of which suit, action or proceeding is to be instituted and unless also the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding have made written request of the Trustee after the right to exercise such power or right of action accrued, and have afforded the Trustee a reasonable opportunity either to proceed to exercise such powers or to institute such suit, action or proceeding, and unless, also, there has been offered to the Trustee reasonable security and indemnity against the cost and liabilities to be incurred therein or thereby, and the Trustee refused or neglected to comply with such request within a reasonable time. The 2002 Indenture provides, however, that notwithstanding any other provision therein, the owner of any Bond has the absolute and unconditional right to receive payment of the principal of and the premium, if any, and the interest on such Bond when due and to institute suit for the enforcement of any such payment, and such right may not be impaired without the consent of such owner.

Defeasance

Any outstanding Bond will be deemed to have been paid within the meaning of the 2002 Indenture when the whole amount of the principal of and interest on such Bond has been paid or duly provided for and the conditions set forth in clause (c) below have been satisfied or when, among other things, (a) such Bond has been duly called for redemption or irrevocable instructions to call such Bond for redemption have been given to the Trustee, (b) there have been deposited with the Trustee either moneys in an amount which will be sufficient, or Government Obligations, which do not contain provisions permitting redemption at the option of the issuer, the principal of and interest on which when due, and without reinvestment, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee available therefor, will be sufficient, to pay when due the principal of and premium, if any, and interest due and to become due on such Bond on or prior to the redemption date thereof, and (c) in the event such Bond does not mature and is not to be redeemed within the next succeeding 60 days, the Agency has given the Trustee irrevocable

instructions to give, as soon as practicable, a notice to the holder of such Bond stating that the deposit of moneys or Government Obligations described above has been made with the Trustee and that such Bond is deemed to have been paid in accordance with the 2002 Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of and premium, if any, and interest on such Bond.

Supplemental Indentures

The Agency and the Trustee, without the consent of the holders of the Bonds, may enter into supplemental indentures to (i) cure any ambiguity, correct or supplement any provision in the 2002 Indenture which may be inconsistent with any other provision in the 2002 Indenture, or to make any other provisions with respect to matters or questions arising under the 2002 Indenture which shall not be inconsistent with the provisions of the 2002 Indenture; (ii) grant or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Bondholders or the Trustee; (iii) add to the conditions, limitations and restrictions on the issuance of Bonds under the provisions of the 2002 Indenture, other conditions, limitations and restrictions thereafter to be observed; or (iv) add to the covenants and agreements of the Agency in the 2002 Indenture other covenants and agreements thereafter to be observed by the Agency, or to surrender any right or power conferred upon the Agency in the 2002 Indenture.

All other supplemental indentures require the written consent of the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding; provided, however, that no such supplement shall permit (a) an extension of the time for payment of the principal of or interest on any Bond, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of funds other than the lien and pledge created by the 2002 Indenture, or (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplement or any waiver under the 2002 Indenture.

Notwithstanding the foregoing, all amendments or supplements to the 2002 Indenture which adversely affect Financial Security's interest shall not become effective until Financial Security shall have consented thereto.

Concerning the Bonds Insurer

For purposes of giving notice, making a request, granting consent and giving directions under the 2002 Indenture, Financial Security shall be deemed to be the sole owner of the Insured Bonds.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Bonds from the Agency at an aggregate discount of \$3,821,630.93 from the initial public offering prices of the Bonds set forth or derived from information set forth on page (i) hereof. The obligations of the Underwriters are subject to certain conditions precedent, and under a Purchase Contract with the Agency, the Underwriters will be obligated to purchase all the Bonds, if any Bonds are purchased. The Purchase Contract provides for indemnification of the Underwriters by the Agency, to the extent permitted by law, against certain civil liabilities. The Underwriters may offer to sell the Bonds to certain dealers and others at prices lower than the initial public offering prices (or at yields greater than such yields), and such offering prices (or yields) may be changed, from time to time, by the Underwriters.

Banc of America Securities LLC ("Banc of America Securities"), the senior managing underwriter, has entered into a consulting services agreement with Oriental Financial Services Corp. ("Oriental Financial Services") pursuant to which Oriental Financial Services has agreed to assist Banc of America Securities in the provision of underwriting and investment banking services to the Agency with respect to the Bonds. Pursuant to this agreement, the existence of which has been disclosed to the Agency and GDB, Oriental Financial Services will be entitled to receive a portion of Banc of America Securities' actual net profits, if any, in connection with the underwriting of the Bonds. Comparable agreements have been entered into and disclosed to the Agency and GDB by Lehman Brothers Inc. and Santander

Securities Corporation; Morgan Stanley and Popular Securities, Inc.; Bear, Stearns & Co., Inc. and BBVA Capital Markets of Puerto Rico, Inc.; Goldman, Sachs & Co. and FirstBank Puerto Rico; ABN AMRO Financial Services, Inc. and Prudential Securities Incorporated; and Wachovia Bank, National Association and Doral Securities, Inc.

TAX EXEMPTION

The United States Internal Revenue Code of 1986, as amended (the “Code”), includes requirements regarding the use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the Treasury of the United States, which the Agency and each Municipal Issuer must continue to meet after the issuance of the Bonds in order that interest on the Bonds is not included in gross income for federal income tax purposes. The failure to meet these requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes, retroactive to their date of issuance. The Agency and each Municipal Issuer have covenanted to comply, to the extent permitted by the Constitution and the laws of the Commonwealth, with the requirements of the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds. Bond Counsel is not aware of any provision of the Constitution or laws of the Commonwealth, which would prevent the Agency and/or any Municipal Issuer from complying with the requirements of the Code.

In the opinion of Bond Counsel, subject to continuing compliance by the Agency and each Municipal Issuer with the tax covenant referred to above, under the provisions of the Acts of Congress now in force and under existing regulations, rulings and court decisions, interest on the Bonds will not be includable in gross income for federal income tax purposes. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds will be includable in the computation of the alternative minimum tax on corporations imposed by the Code. No opinion is rendered by Bond Counsel on the effect of any action taken or not taken after the date of its opinion without its approval (except for such action or omission to act as otherwise provided for in the documents pertaining to the Bonds) or in reliance upon the advice of counsel other than such firm on the exclusion from gross income of the interest on the Bonds for federal income tax purposes. Bond Counsel is further of the opinion that, under the provisions of the Acts of Congress now in force, the Bonds and the interest thereon are exempt from state, Commonwealth and local income taxation.

Ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations, certain corporations with excess passive income, individual recipients of Social Security or Railroad Retirements benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, and taxpayers who may be eligible for the earned income tax credit. Ownership of tax-exempt obligations may also result in collateral income tax consequences under Puerto Rico law to financial institutions doing business in Puerto Rico. Prospective purchasers of the Bonds should consult their tax advisors as to applicability and impact of any collateral consequences.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status of the Bonds. Legislative or regulatory actions and proposals may also affect the economic value of tax exemption or the market prices of the Bonds.

Discount Bonds

The excess, if any, of the amount payable at maturity of any maturity of the Bonds over the issue price thereof constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of any maturity of the Bonds with original issue discount (a “Discount Bond”) will be excluded from gross income for federal income tax purposes to the same extent as interest on the Bonds. In general, the issue price of a maturity of the Bonds is the first price at which a substantial amount of Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and the amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. A purchaser’s adjusted basis in a Discount Bond will be increased by the amount of such

accruing discount for purposes of determining taxable gain or loss on the sale, redemption or other disposition of such Discount Bond for federal income tax purposes.

A portion of the original issue discount that accrues in each year to an owner of a Discount Bond that is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed herein. Consequently, an owner of a Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The accrual of original issue discount and its effect on the redemption, sale or other disposition of any maturity of a Discount Bond that is not purchased in the initial offering at the first price at which a substantial amount of Discount Bonds of that maturity is sold to the public may be determined according to rules that differ from those described above. An owner of a Discount Bond should consult his tax advisor with respect to the determination for federal income tax purposes of the amount of original issue discount with respect to such Discount Bond and with respect to state, Commonwealth and local tax consequences of owning and disposing of such Discount Bond.

Premium Bonds

The excess, if any, of the tax basis of a Bond to a purchaser (other than a purchaser who holds such Bond as inventory, stock in trade, or for sale to customers in the ordinary course of business) who purchases such Bond as part of the initial offering and at the initial offering price as set forth on the inside cover page over the amount payable at maturity of such Bond is "Bond Premium." Bond Premium is amortized over the term of such Bond for federal income tax purposes (or in the case of a bond with Bond Premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on a basis of a call date that results in the lowest yield on such bond). No deduction is allowed for such amortization of Bond Premium; however, United States Treasury regulations provide that Bond Premium is treated as an offset to qualified stated interest received on the Bond. An owner of such Bond is required to decrease his adjusted basis in such Bond by the amount of amortizable Bond Premium attributable to each taxable year such Bond is held. An owner of such Bond should consult his tax advisor with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon sale, redemption or other disposition of such Bond and with respect to the state, Commonwealth and local tax consequences of owning and disposing of such Bond.

LEGAL MATTERS

The authorization and issuance of the Bonds are subject to the approval of legality by Sidley Austin Brown & Wood LLP, New York, New York, Bond Counsel, whose proposed form of opinion is set forth in Appendix D hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, McConnell Valdés, San Juan, Puerto Rico.

LEGAL INVESTMENT

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

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

As required by Act No. 272 of the Legislature of Puerto Rico, approved May 15, 1945, as amended, GDB has acted as financial advisor to the Agency in connection with the Bonds offered hereby. As financial advisor, GDB

participated in the selection of the Underwriters of the Bonds. Certain of the Underwriters have been selected by GDB to serve from time to time as underwriters of its obligations and the obligations of the Commonwealth, its instrumentalities and public corporations. Certain of the Underwriters or their affiliates participate in other financial transactions with GDB.

RATINGS

Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and Moody's Investors Service ("Moody's") have given the Bonds ratings of BBB+ and Baa1, respectively. These ratings do not reflect the issuance of the Policy for the Insured Bonds. S&P and Moody's are expected to give the Insured Bonds ratings of AAA and Aaa, respectively. Such ratings reflect only the respective views of such organizations and the explanation of the significance of such ratings may be obtained only from the rating agency furnishing the same. There is no assurance that such ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgment of either or both, circumstances so warrant. Any such downward revision or withdrawal of such rating or ratings may have an adverse effect on the market prices of the Bonds.

CONTINUING DISCLOSURE

In accordance with the requirements of Rule 15c2-12, as amended (the "Rule"), promulgated by the Securities and Exchange Commission (the "SEC"):

(a) the Commonwealth has covenanted for the benefit of the Beneficial Owners of the Bonds (generally, the tax owners of the Bonds): (i) to file, within 305 days after the end of each fiscal year of the Commonwealth, commencing with the fiscal year ending June 30, 2002, annual financial statements, prepared in accordance with U.S. generally accepted accounting principles, and operating data generally consistent with the Commonwealth Report and the Commonwealth Annual Financial Report, which have been both incorporated by reference herein, with each NRMSIR and with any Commonwealth state information depository ("SID"), and (ii) to file, in a timely manner, with each NRMSIR or with the MSRB, and with any Commonwealth SID, notice of a failure by the Commonwealth to provide the financial statements and operating data described in clause (i) on or before the date specified above;

(b) San Juan has covenanted for the benefit of the Beneficial Owners of the Bonds: (i) to file, within 305 days after the end of each fiscal year of San Juan, commencing with the fiscal year ended June 30, 2002, annual financial statements prepared in accordance with U.S. generally accepted accounting principles and operating data generally containing the information set forth in the San Juan Continuing Disclosure Report, which has been incorporated by reference herein, and the other information included in Appendix A to this Official Statement, with each NRMSIR and with any Commonwealth SID, and (ii) to file, in a timely manner, with each NRMSIR or with the MSRB, and with any Commonwealth SID, notice of a failure by San Juan to provide the financial statements and operating data described in clause (i) on or before the date specified above;

(c) Bayamón has covenanted for the benefit of the Beneficial Owners of the Bonds and (i) to file, within 305 days after the end of each fiscal year of Bayamón, commencing with the fiscal year ended June 30, 2002, annual financial statements prepared in accordance with U.S. generally accepted accounting principles and operating data generally containing the information set forth in Appendix B to this Official Statement with each NRMSIR and with any Commonwealth SID, and (ii) to file, in a timely manner, with each NRMSIR or with the MSRB, and with any Commonwealth SID, notice of a failure by Bayamón to provide the financial statements and operating data described in clause (i) on or before the date specified above; and

(d) the Agency has covenanted for the benefit of the Beneficial Owners of the Bonds:

(i) to file, within 305 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2002, with each NRMSIR and with any Commonwealth SID, a report setting forth with respect to such fiscal year the following information: (1) the amount of all deposits to the credit of, and the amount of the withdrawals from, each fund or account created under the provisions of the 2002 Indenture; (2) a brief description of the bonds issued, paid, purchased or redeemed under the 2002 Indenture during such fiscal year and the outstanding principal amount of the bonds under the 2002 Indenture; (3) a brief description of the Municipal Bonds held by the Trustee under the 2002 Indenture and the outstanding principal amount of the Municipal Bonds so held; and (4) a balance sheet as of the end of such fiscal year for each fund or account created under the provisions of the 2002 Indenture, which balance sheet shall set forth the amount held for the credit of each such fund or account at the end of such fiscal year;

(ii) to file, within 305 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2002, with each NRMSIR and with any Commonwealth SID, a report updating the information contained in the tables found on pages 14 through 17 of this Official Statement;

(iii) to file with each NRMSIR and with any Commonwealth SID, within 305 days after the end of each fiscal year commencing with the fiscal year ending June 30, 2002, in the event that at the end of any such fiscal year Municipal Bonds issued by any one Municipal Issuer (other than San Juan and Bayamón) come to represent ten percent (10%) or more of the aggregate outstanding principal amount of the Municipal Bonds under the 2002 Indenture, annual financial statements for such Municipal Issuer, prepared in accordance with U.S. generally accepted accounting principles, for the most recently ended fiscal year of such Municipal Issuer and each fiscal year thereafter until such time that at the end of any such fiscal year Municipal Bonds issued by such Municipal Issuer come to represent less than ten percent (10%) of the aggregate outstanding principal amount of the Municipal Bonds under the 2002 Indenture;

(iv) to file, in a timely manner, with each NRMSIR or with the MSRB, and with any Commonwealth SID, notice of a failure by the Agency to provide any of the information required in clauses (i), (ii) or (iii) on or before the date specified above; and

(v) to file, in a timely manner, with each NRMSIR or with the MSRB, and with any Commonwealth SID, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- a. principal and interest payment delinquencies;
- b. non-payment related defaults;
- c. unscheduled draws on debt service reserves reflecting financial difficulties;
- d. unscheduled draws on credit enhancements reflecting financial difficulties;
- e. substitution of credit or liquidity providers, or their failure to perform;
- f. adverse opinions or events affecting the tax exempt status of the Bonds;
- g. modifications to rights of the holders (including Beneficial Owners) of the Bonds;
- h. Bond calls;
- i. defeasances;
- j. release, substitution, or sale of property securing repayment of the Bonds; and
- k. rating changes.

With respect to the following events:

Events d. and e. The Agency does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Bonds, unless the Agency applies for or participates in obtaining the enhancement.

Event f. For information on the tax status of the Bonds, see "TAX EXEMPTION."

Event h. The Agency does not undertake to provide the above-described event notice of a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if the terms, dates and amounts of redemption are set forth in detail in this Official Statement under "The Bonds-Redemption," the only open issue is which Bonds will be redeemed in the case of a partial redemption, notice of redemption is given to the

Bondholders as required under the terms of the Bonds and the 2002 Indenture, and public notice of redemption is given pursuant to Securities Exchange Act of 1934 Release No. 34-23856 of the SEC, even if the originally scheduled amounts are reduced by prior optional redemptions or bond purchases.

As of the date of this official statement, there was no Commonwealth SID, and the name and address of each NRMSIR is: Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, New Jersey 08558; Standard & Poor's J.J. Kenny Repository, 55 Water Street, 45th Floor, New York, New York 10041; FT Interactive Data, Attn.: NRMSIR, 100 William Street, New York, New York 10038; and DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024.

The Commonwealth expects to provide the information described in (a)(i) above by delivering the first bond official statement of the Commonwealth or of any instrumentality of the Commonwealth that includes its financial statements for the preceding fiscal year and operating data generally containing the information set forth in the Commonwealth Report or, if no official statement is issued by the 305-day deadline, by delivering such report and the Commonwealth Annual Financial Report by such deadline.

The Agency may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above if, in the judgment of the Agency, such other events are material and with respect to the Bonds, but the Agency does not undertake to provide any such notice of the occurrence of any material event except those listed above.

The Commonwealth, San Juan, Bayamón and the Agency acknowledge that their undertakings described above are intended to be for the benefit of the Beneficial Owners of the Bonds, and shall be enforceable by any such Beneficial Owner, provided that the right to enforce the provisions of their respective undertakings shall be limited to a right to obtain specific performance of such provisions.

No Beneficial Owner may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the foregoing covenants (the "Covenants") or for any remedy for breach thereof, unless such Beneficial Owner shall have filed with the Commonwealth, San Juan, Bayamón or the Agency, as applicable, written notice of any request to cure such breach, and the Commonwealth, San Juan, Bayamón or the Agency, as the case may be, shall have refused to comply within a reasonable time. All proceedings shall be instituted only in a Commonwealth court located in the Municipality of San Juan, for the equal benefit of all Beneficial Owners of the outstanding Bonds benefitted by the Covenants, and no remedy shall be sought or granted other than specific performance of the Covenant at issue. Moreover, Proceedings filed by Beneficial Owners against the Commonwealth are subject to the sovereign immunity provisions of Section 2 of Act No. 104, approved June 19, 1955, as amended (32 L.P.R.A. §§ 3077 and 3077a), which governs the scope of legal actions against the Commonwealth, and provides certain notice provisions, the failure to comply with which may further limit any recovery.

The Covenants may only be amended if:

(1) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Commonwealth, San Juan or the Agency, as the case may be, or type of business conducted; the Covenants, as amended, would have complied with the requirements of the Rule at the time of award of the Bonds, after taking into account any amendments or change in circumstances; and the amendment does not materially impair the interest of Beneficial Owners, as determined by parties unaffiliated with the Commonwealth, San Juan, Bayamón or the Agency, as the case may be; or

(2) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the adoption of such Rule, ceases to be in effect for any reason, and the Commonwealth, San Juan, Bayamón or the Agency, as the case may be, elects that the Covenants shall be deemed amended accordingly.

The Commonwealth, San Juan, Bayamón and the Agency have further agreed that the annual financial information containing any amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

Any assertion of beneficial ownership must be filed, with full documentary support, as part of the written request described above.

These Covenants have been made in order to assist the Underwriters in complying with the Rule.

MISCELLANEOUS

The foregoing references to and summaries of certain provisions of the 2002 Indenture, the various acts and the Bonds do not purport to be complete statements of any or all of such provisions and are made subject to all the detailed provisions thereof, to which reference is hereby made for further information. Copies of the foregoing documents are available from GDB, upon written request directed to: Government Development Bank for Puerto Rico, 140 Broadway, 38th floor, New York, New York 10005, Attention: Director-New York Office or Government Development Bank for Puerto Rico, P.O. Box 42001, San Juan, Puerto Rico 00940-2001, Attention: Public and Private Finance Director. Appended to and constituting a part of this Official Statement are certain information on San Juan (Appendix A), Bayamón (Appendix B), Bayamón's general purpose financial statements for the fiscal year ended June 30, 2001, together with the auditor's report thereon, dated November 2, 2001, of Ortiz, Rodríguez, Rivera & Co., San Juan, Puerto Rico, certified public accountants (Appendix C), the proposed form of opinion of Sidley Austin Brown & Wood LLP, Bond Counsel (Appendix D) and the specimen Policy provided by Financial Security (Appendix E). The information set forth in, or incorporated by reference into, this Official Statement, except for information pertaining to DTC and Financial Security, was supplied by certain officials of the Agency, CRIM, San Juan, Bayamón, the Commonwealth or certain of the Commonwealth's other agencies or instrumentalities, in their respective official capacities, or was obtained from publications of the Commonwealth, San Juan or Bayamón, or the Commonwealth's other agencies or instrumentalities, and is included in this Official Statement on the authority of such officials or the authority of such publications as public official documents. The information pertaining to DTC was supplied by DTC, and the information pertaining to Financial Security was supplied by Financial Security.

This Official Statement will be filed with each NRMSIR and with the MSRB.

This Official Statement has been duly authorized, executed and delivered by the Agency.

PUERTO RICO MUNICIPAL FINANCE AGENCY

By: /s/ Héctor Méndez-Vázquez
Chairman of the Board and President

THE MUNICIPALITY OF SAN JUAN

General

The Municipality of San Juan (“San Juan”), founded in 1521, is the capital city of the Commonwealth of Puerto Rico (the “Commonwealth” or “Puerto Rico”) and is the largest of the seventy-eight municipalities of Puerto Rico in terms of population. San Juan’s boundaries encompass an area of approximately 47.8 square miles, and according to the 2000 Census of the U.S. Census Bureau the population of San Juan was 434,374. San Juan is bounded on the North by the Atlantic Ocean and San Juan Bay, on the South by the Municipalities of Caguas and Trujillo Alto, on the East, by the Municipalities of Carolina and Trujillo Alto, and on the West by the Municipality of Guaynabo.

Form of Government and Services Offered by San Juan

San Juan’s municipal government consists of its Mayor and a seventeen-member Municipal Legislature, all of which are elected by the residents of San Juan every four years. The Mayor is responsible, among other matters, for: (i) establishing and carrying out the policies and the ordinances of the Municipal Legislature, (ii) overseeing the day-to-day operations of the municipal government, and (iii) appointing the heads of the various municipal departments. The Municipal Legislature is responsible, among other matters, for (i) adopting municipal ordinances and resolutions, (ii) adopting the budget for each fiscal year, and (iii) approving the appointment by the Mayor of the heads of the various municipal departments.

San Juan provides a full range of services to its residents including, among others, the following: (i) public health facilities including the Municipal Hospital and nine diagnostic and treatment centers; (ii) public safety; (iii) street and road maintenance; (iv) human services for children, the elderly and the homeless; (v) parks, recreational facilities, and cultural programs and facilities; (vi) garbage and solid waste collection and disposal; (vii) business licenses; (viii) building inspection and code enforcement; and (ix) economic development and tourism.

Population, Income and Employment

According to figures published by the U.S. Census Bureau, San Juan has maintained a lower than average population growth compared to that of Puerto Rico for the period from 1970 to 2000. The table below shows the total population numbers and population percentage changes of San Juan and Puerto Rico for the period from 1970 to 2000.

POPULATION

Year	San Juan	Total % Change	Puerto Rico	Total Change
1970	463,242	---	2,712,033	---
1980	434,849	(6.1%)	3,196,520	17.9%
1990	437,745	0.7%	3,522,037	10.2%
2000	434,374	(0.8%)	3,808,610	8.1%

Source: U.S. Census Bureau

The average family income of families in San Juan has been one of the highest of any of the municipalities of Puerto Rico, and during the period from 1970 to 1990 the growth rate for average family income in San Juan was comparable to that of Puerto Rico as a whole. The table below shows average family income figures of San Juan and Puerto Rico for the period from 1970 to 2000.

AVERAGE FAMILY INCOME

Census	San Juan	Total % Increase	Puerto Rico	Total Increase
1970	\$6,464	---	\$4,411	---
1980	\$11,608	79.6%	\$8,271	87.5%
1990	\$20,481	76.4%	\$14,866	79.7%
2000	\$37,078	81.0%	\$26,569	78.7%

Source: Puerto Rico Planning Board Census

San Juan has one of the lowest unemployment rates of any of the municipalities in Puerto Rico. The tables below provide comparable average employment figures for San Juan and Puerto Rico for 2000 and 2001, and for the five-month period ended May 31, 2002.

SAN JUAN

Year	Labor Force	Employed	Unemployed	Percentage Unemployment
2000	167,500	156,300	11,200	6.6%
2001	164,900	153,200	11,700	7.0%
2002	172,160	159,820	12,340	7.1%

Source: Puerto Rico Department of Labor and Human Resources

PUERTO RICO

Year	Labor Force	Employed	Unemployed	Percentage Unemployment
2000	1,306,000	1,174,000	132,000	10.1%
2001	1,297,000	1,150,000	147,000	11.3%
2002	1,353,400	1,186,600	166,800	12.3%

Source: Puerto Rico Department of Labor and Human Resources

Education

Elementary and secondary education in San Juan is provided by the public school system of the Commonwealth's Department of Education and various private schools. There are currently 128 public schools in San Juan.

Protection

San Juan is served by a Municipal Police Department and by the Police Department of the Commonwealth. The Municipal Police Department operates out of 12 police stations, of which two are mobile police stations, which are staffed by approximately 964 municipal police officers and supervisory personnel. The Commonwealth Police Department in conjunction with the Municipal Police Department closely coordinates crime prevention and law enforcement activities within San Juan.

San Juan also has a Municipal Management and Administration of Emergencies and Disasters Office, which works in conjunction with the Commonwealth Civil Defense Agency in implementing emergency management programs and the handling of emergencies involving life and/or property within San Juan.

The Fire Department of the Commonwealth provides service to San Juan through truck and ladder companies located in San Juan and in adjoining municipalities.

Health

The San Juan Health Department provides primary, secondary and tertiary health services to the residents of San Juan at the Municipal Hospital and nine health centers located throughout the municipality. It also operates a skilled nursing facility as well as a home care unit for patients with chronic or disabling conditions. The San Juan Health Department is responsible for establishing and developing strategies and programs designed to promote health, prevent diseases, promote early detection and diagnosis of health problems, promote adequate treatment of health problems and rehabilitation services.

San Juan is included in the Commonwealth's Health Reform program. The Commonwealth's Health Reform program consists of providing comprehensive health insurance coverage for qualifying low income residents of Puerto Rico through a managed care system. Under the Health Reform program, the Government of Puerto Rico selects, through a bidding system, one private health insurance company in each of several designated regions of Puerto Rico and pays such insurance company the insurance premiums for each eligible beneficiary within such region. The municipalities pay the Government of Puerto Rico an amount mandated by law, to cover part of the insurance premium paid by the Government of Puerto Rico for its citizens. San Juan participates in this program not only as a health provider, through its facilities, but also as an Independent Provider Association (IPA) sharing with insurers the health insurance risk.

Utilities

Electricity is supplied to businesses and residents of San Juan by Puerto Rico Electric Power Authority. Water and sewage services are provided to businesses and residents of San Juan by Puerto Rico Aqueduct and Sewer Authority, which is managed and operated by Ondeo Puerto Rico, Inc., an affiliate of Ondeo Suez.

Recreation and Parks

Through its Recreation and Sports Department and its Urban Department, San Juan administers and maintains, among other things, approximately 2 track-and-field facilities, 9 baseball and softball parks, 49 basketball and volleyball courts, 17 tennis courts, 2 multi-sport complexes, 23 parks, 4 community centers and 6 recreation centers.

Cultural

Through its Cultural Department, San Juan develops and promotes a variety of cultural activities and projects that contribute to the development in all sectors of the population of San Juan of an appreciation for, among other things, the following: (i) history of San Juan and Puerto Rico, (ii) the arts, (iii) literature, (iv) cinema, (v) folklore and (vi) other cultural areas.

Environmental Control and Public Works

San Juan's Environmental and Public Works Department is responsible for coordinating, among other things, garbage collection, cleaning and maintenance of municipal parks, streets, canals, streams, flood pumps and roads and other services relating to the construction, renovation and maintenance of the municipality's infrastructure.

On June 29, 1999, San Juan entered into an agreement with Waste Management de Puerto Rico, Inc. ("Waste Management"), a subsidiary of Waste Management Inc. (the "Waste Agreement"), for the design, construction and operation of a solid waste transfer facility at San Juan's existing landfill. The Waste Agreement

has a term of seven years and, as amended on July 1, 2002, involves an initial semiannual cost to San Juan of approximately \$4.3 million. San Juan's existing landfill closed in December 2000, and the solid waste transfer facility was completed in November 2000. The Waste Agreement also includes the shipment and final disposal by Waste Management solid waste at Waste Management's landfill located in the Municipality of Humacao or another site to be agreed upon by the parties, at a price of \$33 per ton. The cost of the design and construction of the waste transfer facility was financed by the Solid Waste Authority of Puerto Rico.

Summary of Results of Operation

Fiscal Year 2002

The following tables present a schedule of preliminary Revenues and Expenditures of San Juan's Governmental Funds (the General, 55.56 Million Bond Issue, Debt Service and Other Governmental Funds) for the fiscal year ended June 30, 2002. The tables are based on schedules following the Governmental Accounting Standard Board's Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments ("GASB 34"). This fiscal year is the first in which San Juan adopts GASB 34. In previous fiscal years, San Juan reported its financial position and results of operations on the basis of funds types (the General Fund, Special Revenue Fund, Debt Service Fund, Capital Project Fund and Enterprise Fund) which are different from the GASB 34-required funds.

Municipality of San Juan General Governmental
Revenues by Source
(In Thousands)
Fiscal year ended June 30 (Unaudited)

	<u>2002</u>
Property Taxes	\$182,031
Municipal License Taxes	94,623
License, Permits and other local taxes	5,456
Federal Grants	108,003
Charges for Services	39,968
Fines and forfeitures	3,650
Interest	8,477
Intergovernmental	20,931
Other	<u>2,051</u>
Total*	<u>\$465,190</u>

Expenditures by Function
(In Thousands)
Fiscal Year ended June 30 (Unaudited)

	<u>2002</u>
General Government	\$69,303
Public Safety	34,984
Public Works	48,968
Culture and Recreation	9,865
Urban Development	42,830
Health & Welfare	208,505
Education	7,790
Economic Development	29,317
Miscellaneous	---
Capital Outlays	48,485
Debt Service	<u>44,974</u>
Total*	<u>\$545,022</u>

Source: Municipality of San Juan

* Totals may not add up due to rounding.

Preliminary Revenues and Expenditures for Fiscal Year 2002 Compared to Fiscal Year 2001. Comparable revenue line items between the preliminary unaudited fiscal year 2002 results and the fiscal year 2001 results show an increase of \$13.3 million in property taxes from \$168.7 million to \$182.0 million; an increase of \$5.6 million in municipal license taxes from \$89 million to \$94.6 million; a decrease of \$4.5 million in interest income from cash investments at banks and from San Juan's Redemption Fund at GDB; and an increase of \$15.6 million in charges for services from \$24.3 million to \$39.9 million. The increases in property and municipal license taxes are due in part to aggressive collection efforts. The increase in charges for services are mainly due to the improvement in the collection of health-related services rendered by the Municipality.

Comparable expenditure line items between the preliminary unaudited fiscal year 2002 results and the fiscal year 2001 results show a decrease of \$21.8 million in general government expenditures as a result of a significant reduction in utility expenses and a non-recurrent employee early retirement expense incurred in fiscal year 2001; an increase of \$12 million in economic development costs associated with non-recurrent activities, such as the 2002 Miss Universe pageant held in San Juan; and a decrease of \$61.5 million in capital outlays.

Fiscal Years 2001 and 2000

The following tables present a schedule of Revenues and Expenditures of San Juan's pre-GASB 34 Governmental Funds (General, Special Revenue, Debt Service and Capital Project Funds) for the fiscal years ended June 30, 2001 and June 30, 2000. These tables do not include the Enterprise Fund, a proprietary type fund in which operations of San Juan's Health Department were presented. Operating transfers from San Juan's General Fund subsidize the operations of the Health Department. The operating transfers from San Juan's General Fund to subsidize the operations of San Juan's Health Department totaled \$91.1 million in fiscal year 2000 and \$100.0 million in fiscal year 2001.

Municipality of San Juan General Governmental
Revenues by Source
(In Thousands)
Fiscal year ended June 30

	<u>2000</u>	<u>2001</u>
Property Taxes	\$181,053	\$168,677
Municipal License Taxes	77,869	88,962
License, Permits and other taxes local	1,989	1,530
Federal Grants	115,836	107,507
Charges for Services	7,968	8,890
Fines and forfeitures	3,063	4,662
Interest	18,131	13,021
Intergovernmental	16,104	17,843
Other	<u>10,488</u>	<u>3,841</u>
Total*	<u>\$432,501</u>	<u>\$414,933</u>

Expenditures by Function
(In Thousands)
Fiscal Year ended June 30

	<u>2000</u>	<u>2001</u>
General Government	\$81,794	\$91,086
Public Safety	25,435	33,157
Public Works	50,237	42,445
Culture and Recreation	12,621	9,840
Urban Development	55,391	46,094
Health & Welfare	68,489	111,145
Education	7,437	6,930
Economic Development	9,785	17,315
Miscellaneous	4,814	---
Capital Outlays	155,367	110,036
Debt Service	<u>38,228</u>	<u>39,636</u>
Total*	<u>\$509,598</u>	<u>\$507,684</u>

* Totals may not add up due to rounding
Source: Municipality of San Juan

Fiscal Year 2001 Compared to Fiscal Year 2000. Total revenues (excluding the Enterprise Fund) for fiscal year 2001 were \$414.9 million, a decrease of \$17.6 million or 4.1% from fiscal year 2000. The major changes were: a decrease of \$12.4 million in property taxes; an increase of \$11.1 million in municipal license taxes; a decrease of \$8.3 million in federal grants; and a decrease of \$6.6 million in miscellaneous or unclassified revenues from sources such as parking meters and art museums.

Total expenditures (excluding the Enterprise Fund) for fiscal year 2001 were \$507.7 million, a decrease of \$1.9 million or 0.4% from fiscal year 2000. The major changes were: an increase of \$9.3 million in general government expenditures; a decrease of \$7.8 million in public works; an increase of \$42.7 million in welfare

costs as a result of certain expenditures associated with the Commonwealth's Health Reform; and a decrease of \$45.3 million in capital outlays.

Sources of Revenue

The principal sources of revenue for San Juan, as is the case with the other municipalities of Puerto Rico, are ad valorem property taxes, municipal license taxes, service charges and federal grants.

The current Special Additional Tax rate is 1.47% in the case of both real and personal property. Such rate was increased from 0.43% to the current rate during 1997. San Juan's current property tax rates (including the Special Additional Tax and the Basic Tax) are 8.25% in the case of real property and 6.25% in the case of personal property.

San Juan imposes a volume of business or municipal license tax pursuant to Act No. 113 of July 10, 1974, as amended ("Act No. 113"), on all business entities that operate within San Juan and that are not exempt from the tax pursuant to the Commonwealth's tax incentives laws. The municipal license taxes are collected directly by San Juan. The municipal license tax is applied to gross revenues, as defined in Act No. 113, computed at the rate of 1.35% for financial institutions, 0.27% for non-financial entities with gross revenues under \$1,000,000 and 0.35% for non-financial entities with gross revenues in excess of \$1,000,000. San Juan is also the beneficiary of various contributions that are made by the Commonwealth to all of the municipalities. See "SOURCES OF PAYMENT FOR THE BONDS - The Municipal Bonds" for a general description of these Commonwealth contributions.

San Juan is also the beneficiary of various contributions that are made by the Commonwealth to all of the municipalities. See "SOURCES OF PAYMENT FOR THE BONDS - The Municipal Bonds" for a general description of these Commonwealth contributions.

Federal agency contributions are an important additional source of revenues for San Juan. San Juan receives assistance from the federal government in the form of grants or entitlements. The most important federal grants and entitlements received by San Juan are under programs operated by the U.S. Department of Health and Human Services, U.S. Department of Housing and Urban Development, U.S. Department of Education, U.S. Department of Labor, U.S. Department of Agriculture, U.S. Department of Justice and U.S. Department of Transportation. In addition, San Juan receives payments in lieu of taxes from Puerto Rico Electric Power Authority.

Budgeting Process

The Mayor is responsible for preparing and submitting a draft balanced general budget resolution to the San Juan Municipal Legislature no later than May 15 of each year. The draft budget resolution must include a budget message and a financing plan, as required by law. The budget message must include a summary of the principal budget aspects and justification for the principal budget requests. The financial plan must provide, among other things, a summary of municipal expenditures by categories such as salaries, wages, materials, services and permanent works for the upcoming fiscal year, a detailed estimate of resources to cover expenditures, a comparative statement of proposed appropriations and information with respect to each program and its objectives.

The Mayor is obligated to include in the draft general budget resolution, and in order of priority, the following items:

- (1) interest and amortization payments on public municipal debt;
- (2) other statutory obligations or expenses;
- (3) payment of judgments;
- (4) amounts necessary to cover any prior year deficit;

- (5) amounts required to be paid by the municipality under established contractual commitments;
- (6) expenses and obligations required to be included by law; and
- (7) other operating expenses.

The Municipal Legislature may amend the budget resolution, but it may not eliminate or reduce the items set forth in items 1 through 5 above. The Municipal Legislature is required to approve and submit the budget to the Mayor no later than June 13 of each year, and the Mayor has six days to approve it or return it to the Municipal Legislature for amendments.

San Juan’s annual budget is prepared in accordance with the budgetary basis of accounting, which is not in accordance with the accounting principles generally accepted in the United States of America (“GAAP”). For budgetary purposes, encumbrance accounting is used. The encumbrances (*i.e.*, purchase orders and contracts, among others) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. For budgetary purposes, the operations of the Enterprise Fund, excluding depreciation, are included in the General Fund. For GAAP purposes, these operations were transferred to the Enterprise Fund through an operational transfer for the years ended June 30, 2000 and 2001 and, therefore, no adjustment is necessary to compare the budgetary basis and GAAP with respect to the Enterprise Fund transactions. The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

Described in the table below are the projected revenues and expenditures in the original budget for San Juan’s General Fund only for fiscal years 2002 and 2003 approved by the San Juan Municipal Assembly, together with the actual unaudited preliminary results for fiscal year 2002.

Revenues	<u>Budget*</u> <u>2001-02</u>	<u>Actual</u> <u>2001-02(P)</u>	<u>Budget*</u> <u>2002-03</u>
Property Taxes	\$133,571,574	\$138,470,435	\$135,609,427
Municipal License Taxes	94,000,000	94,000,000	97,000,000
Licenses, Permits and other local taxes	1,590,000	4,282,000	12,335,000
Charges for Services	31,863,800	46,393,166	30,312,500
Fines and forfeitures	3,545,000	3,855,000	4,267,000
Interest	12,500,000	5,771,642	6,000,000
Intergovernmental-local	20,353,206	20,903,206	20,025,223
Other	14,947,650	10,933,650	25,150,850
Transfers from other funds	-	19,728,997	
Total	<u>\$312,371,230</u>	<u>344,338,096</u>	<u>\$330,700,000</u>

	<u>Budget*</u> <u>2001-02</u>	<u>Actual</u> <u>2001-02(P)</u>	<u>Budget*</u> <u>2002-03</u>
<u>Expenditures</u>			
General Government	\$81,044,969	\$74,519,676	\$128,358,821
Public Safety	29,327,262	29,468,401	31,000,000
Public Works & Environmental Control	40,910,353	51,265,479	42,700,000
Cultural and Recreation	8,039,513	8,940,843	7,800,000
Welfare	136,706,952	158,114,109	102,547,486
Urban Development	4,473,271	4,718,296	5,421,720
Education	4,834,446	4,862,310	4,871,973
Economic Development	7,034,464	12,448,982	8,000,000
Total	<u>\$312,371,230</u>	<u>344,338,096</u>	<u>\$330,700,000</u>

* Not prepared in conformity with GASB 34.

(P) Unaudited preliminary

Source: Municipality of San Juan

General Obligation Debt and Sources for Debt Service

The Puerto Rico Legislature has fixed a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt - The Municipal Bonds" for a general description of such limitations.

Based on the current total net assessed valuation of real and personal property in San Juan provided by the Municipal Revenues Collection Center ("CRIM") of approximately \$3.623 billion, the Legal Margin of San Juan as of August 4, 2002, was \$362.3 million. San Juan's Available Legal Margin as of August 4, 2002, was calculated by Government Development Bank for Puerto Rico ("GDB") to equal \$14.0 million after subtracting from the Legal Margin the amount of \$373.94 million in outstanding general obligation debt as of July 1, 2002, and adding to the Legal Margin the excess amount in its Redemption Fund of \$25.7 million as of June 30, 2002.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such municipality must have sufficient "payment capacity." Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

San Juan is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by San Juan constitute a first lien on San Juan's Basic Tax revenues. Accordingly, San Juan's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by San Juan, together with moneys on deposit in San Juan's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of San Juan.

THE MUNICIPALITY OF BAYAMÓN

General

The Municipality of Bayamón (“Bayamón”), founded as a town in 1792, is the second largest of the seventy-eight municipalities of Puerto Rico in terms of population. Bayamón’s boundaries encompass an area of approximately 44 square miles, and according to the most recent estimates of the U.S. Census Bureau the population of Bayamón was approximately 224,044 at April 1, 2000. Bayamón is bounded on the North by the municipalities of Toa Baja, Cataño, and Guaynabo, on the South by the municipalities of Comerío and Aguas Buenas, on the East by the municipality of Guaynabo, and on the West by the municipalities of Toa Alta and Naranjito.

Form of Government and Services Offered by Bayamón

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Legislature, which has 16 members. The Mayor and the Municipal Legislature are elected every four years in general elections.

The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services.

Population, Income and Employment

According to figures published by the U.S. Census Bureau, Bayamón has maintained a higher than average population growth compared to that of Puerto Rico for the period from 1970 to 2000. The table below shows the total population numbers and population percentage changes of Bayamón and Puerto Rico for the period from 1970 to 2000.

POPULATION

Year	Bayamón	Total % Change	Puerto Rico	Total % Change
1970	156,192	---	2,712,033	---
1980	196,206	25.6%	3,196,520	17.9%
1990	220,262	12.3%	3,522,037	10.2%
2000	224,044	1.7%	3,808,610	8.1%

Source: U.S. Census Bureau

The average family income of families in Bayamón has been one of the highest of any of the municipalities of Puerto Rico, and during the period from 1970 to 2000 the growth rate for average family income in Bayamón was comparable to that of Puerto Rico. The table below shows average family income figures of Bayamón and Puerto Rico for the period from 1970 to 2000.

AVERAGE FAMILY INCOME

Census	Bayamón	Total % Increase	Puerto Rico	Total % Increase
1970	\$5,677	---	\$4,411	---
1980	\$10,229	80.2%	\$8,271	87.5%
1990	\$18,211	78.0%	\$14,866	79.7%
2000	\$30,233	66.0%	\$26,569	78.7%

Source: Puerto Rico Planning Board

Bayamón has one of the lowest unemployment rates of any of the municipalities in Puerto Rico. The tables below provide comparable average employment figures for Bayamón and Puerto Rico for 2000 and 2001, and for the five-month period ended May 31, 2002.

BAYAMÓN

Year	Labor Force	Employed	Unemployed	Percentage Unemployed
2000	89,900	84,500	5,400	6.0%
2001	88,800	82,800	6,000	6.8%
2002	92,660	85,840	6,800	7.3%

Source: Puerto Rico Department of Labor and Human Resources

PUERTO RICO

Year	Labor Force	Employed	Unemployed	Percentage Unemployed
2000	1,306,000	1,174,000	132,000	10.1%
2001	1,297,000	1,150,000	147,000	11.4%
2002	1,353,400	1,186,600	167,000	12.3%

Source: Puerto Rico Department of Labor and Human Resources

Education

Elementary and secondary education in Bayamón is provided by the public school system of the Commonwealth's Department of Education and various private schools. There are currently 54 public schools in Bayamón.

Protection

Bayamón is served by a Municipal Police Department and by the Police Department of the Commonwealth. The Municipal Police Department operates out of 3 police stations, which are staffed by approximately 113 municipal police officers and supervisory personnel. The Commonwealth force assigned to Bayamón consists of 1,800 active members manning 6 police stations and 1 mobile station. The Commonwealth Police Department in conjunction with the Municipal Police Department closely coordinates crime prevention and law enforcement activities within Bayamón.

Bayamón also has a Municipal Civil Defense Department which works in conjunction with the Commonwealth Civil Defense Agency in implementing emergency management programs and the handling of emergencies involving life and/or property within Bayamón.

The Fire Department of the Commonwealth provides service to Bayamón through truck and ladder companies located in Bayamón and in adjoining municipalities.

Health

Health and related services are provided by (i) the Epidemiology Center, (ii) the Bayamón Health Center (a Municipal Corporation), and (iii) D.I.P.H.O.M. (Department of Pre-Hospitalization and Disaster Medicine).

All of them provide primary, secondary and tertiary health services to the residents of Bayamón. The Epidemiology Center provides services to drug users and hepatitis and HIV patients. The Bayamón Health Center operates an emergency room, similar in the operational aspect, to that of a private hospital. D.I.P.H.O.M. provides services in case of emergencies and disasters and, in addition, provides patient transportation. The Municipality also operates two diagnostic and treatment centers.

Bayamón is included in the Commonwealth's health reform program. This program consists of providing comprehensive health insurance coverage for qualifying (generally low income) residents of Puerto Rico. Under the health reform program, the Government of Puerto Rico selects, through a bidding system, one private health insurance company in each of several designated regions of Puerto Rico and pays such insurance company the insurance premiums for each eligible beneficiary within such region. Bayamón pays a negotiated amount to the Government of Puerto Rico to cover part of the insurance premium paid by the Government of Puerto Rico for its residents.

Utilities

Electricity is supplied to businesses and residents of Bayamón by Puerto Rico Electric Power Authority. Water and sewage services are provided to businesses and residents of Bayamón by Puerto Rico Aqueduct and Sewer Authority, which is managed and operated by Ondeo Puerto Rico, Inc., an affiliate of Ondeo Suez.

Recreation and Parks

Through its Recreation and Sports Department and its Urban Department, Bayamón presently administers and maintains, among other things, approximately 238 basketball courts, 181 parks, 54 baseball and softball fields, 49 tennis courts, 34 jogging tracks, 26 recreational lots, 22 community centers, 17 rest areas, 15 volleyball courts, 8 handball courts, 3 gymnasiums, 2 swimming pools, 1 boxing gymnasium, 1 soccer field, 1 equestrian park, and 1 skating rink.

Cultural

Through its Cultural Department, Bayamón develops and promotes a variety of cultural activities and projects that contribute to the development in all sectors of the population of Bayamón of an appreciation for, among other things, the following: (i) history of Bayamón and Puerto Rico, (ii) the arts, (iii) literature, (iv) folklore and (v) other cultural areas.

Environmental Control and Public Works

Bayamón's Environmental and Public Works Department is responsible for coordinating, among other things, garbage collection, cleaning and maintenance of municipal parks, streets, canals, streams, flood pumps and roads and other services relating to the construction, renovation and maintenance of the municipality's infrastructure.

Summary of Results of Operation

The following tables present a schedule of Revenues and Expenditures of Bayamón's Government Funds (including the General, Special Revenue, Debt Service and Capital Projects Funds) for the three fiscal years in the periods ended June 30, 2002, June 30, 2001 and June 30, 2000. The figures for fiscal year 2002 are based on preliminary (unaudited) results. None of the tables included in this Appendix B are presented in conformity with GASB 34.

Municipality of Bayamón General Governmental **Revenues by Source** **(In Thousands)** **Fiscal Year ended June 30**

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Property Taxes	\$ 54,366	\$ 57,193	\$ 62,771
Municipal License Taxes	21,423	24,023	25,632
License and Permits	1,849	3,359	3,583
Charges for Service and rents	2,676	2,606	545
Inter-governmental revenues:			
Federal grants/contributions	40,746	37,289	47,262
State contributions	14,040	18,484	18,523
Interest, Fines and Penalties	4,754	4,070	3,037
Other Revenues	<u>19,282</u>	<u>20,249</u>	<u>13,188</u>
Total*	<u>\$159,136</u>	<u>\$167,273</u>	<u>\$174,542</u>
Other Financing Sources			
Advances of Property Taxes	39,488	30,623	33,949
Loan Proceeds	<u>23,365</u>	<u>37,530</u>	<u>22,300</u>
	<u>\$221,999</u>	<u>\$235,328</u>	<u>\$230,790</u>

Expenditures by Function
(In Thousands)
Fiscal Year ended June 30

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Municipal Council	\$ 263	\$ 286	\$ 335
Offices:			
Mayor	3,006	2,797	2,307
Personnel	6,119	4,834	5,487
Planning & Budget	248	220	253
Departments:			
Civil Defense	1,838	3,599	924
Culture	1,629	767	1,072
Education	8,808	8,850	2,602
Finance	26,447	32,246	25,506
Health & Welfare	4,374	1,393	44,960
Public Works	58,550	51,475	24,812
Recreation	1,988	2,970	4,074
Public Safety			4,251
Capital Project	20,804	41,052	33,188
Collection of Property Taxes:			
Applied to Advances	39,488	30,523	33,949
General Government	20,685	30,451	31,321
Secretary	418	441	576
Debt Services:			
Principal Retirement	6,276	7,350	8,155
Interest Payments	<u>6,585</u>	<u>6,721</u>	<u>7,236</u>
Total*	<u>\$207,526</u>	<u>\$225,975</u>	<u>\$231,008</u>

Source: Municipality of Bayamón

* Totals may not add due to rounding

Sources of Revenue

The principal sources of revenue for Bayamón, as is the case with the other municipalities of Puerto Rico, are *ad valorem* property taxes, municipal license taxes, contributions by the Commonwealth government and federal grants.

The current Special Additional Tax rate is 1.48% in the case of both real and personal property. The current Basic Tax rates are 6.00% in the case of real property and 4.00% in the case of personal property. There are no current plans on the part of Bayamón to increase these property tax rates. See "SOURCES OF PAYMENT FOR THE BONDS - The Municipal Bonds" for a general description of these property taxes.

Bayamón imposes a volume of business or municipal license tax pursuant to Act No. 82 of August 30, 1991, as amended ("Act No. 82"), on all business entities that operate within Bayamón and that are not exempt from the tax pursuant to the Commonwealth's tax incentives laws. The municipal license taxes are collected directly by Bayamón. The municipal license tax is applied to gross revenues, as defined in Act No. 82, computed at the rate of 1.5% for financial institutions and savings and loans associations, and 0.5% for non-financial entities. There are no current plans on the part of Bayamón to increase these license tax rates.

Bayamón is also the beneficiary of various contributions that are made by the Commonwealth to all of the municipalities. See “SOURCES OF PAYMENT FOR THE BONDS - The Municipal Bonds” for a general description of these Commonwealth contributions.

Federal and other Commonwealth agency contributions are an important additional source of revenues for Bayamón. These significant inter-governmental revenue sources consist of contributions received from certain public and quasi-public corporations of the Commonwealth of Puerto Rico, such as Puerto Rico Aqueduct and Sewer Authority, Puerto Rico Electric Power Authority, and Puerto Rico Telephone Company. Furthermore, Bayamón receives assistance from the federal government in the form of grants or entitlements. The most important federal grants and entitlements received by Bayamón are under programs operated by the U.S. Department of Health and Human Services, the U.S. Department of Housing and Urban Development, and the U.S. Department of Labor.

Budgeting Process

The Mayor is responsible for preparing and submitting a draft balanced general budget resolution to the Bayamón Municipal Legislature no later than May 31 of each year. The draft budget resolution must by law include a budget message and a financing plan, as required by law. The budget message must include a summary of the principal budget aspects and justification for the principal budget requests. The financial plan must provide, among other things, a summary of municipal expenditures by categories such as salaries, wages, materials, services and permanent works for the upcoming fiscal year, a detailed estimate of resources to cover expenditures, a comparative statement of proposed appropriations and information with respect to each program and its objectives.

The Mayor is obligated to include in the draft general budget resolution, and in order of priority, the following items:

- (1) interest and amortization payments on public municipal debt;
- (2) other statutory obligations or expenses;
- (3) payment of judgments;
- (4) amounts necessary to cover any prior year deficit;
- (5) amounts required to be paid by the municipality under established contractual commitments;
- (6) expenses and obligations required to be included by law; and
- (7) other operating expenses.

The Municipal Legislature may amend the budget resolution, but it may not eliminate or reduce the items set forth in items (1) through (5) above. The Municipal Legislature is required to approve and submit the budget to the Mayor no later than June 13 of each year, and the Mayor has six days to approve it or return it to the Municipal Legislature for amendments.

Bayamón’s annual budget is prepared in accordance with the budgetary basis of accounting, which is not in accordance with generally accepted accounting principles (“GAAP”). For budgetary purposes, encumbrance accounting is used. The encumbrances (*i.e.*, purchase orders and contracts, among others) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

Described in the tables below are the projected revenues and expenditures in the original budget for Bayamón’s General Fund for fiscal years 2002 and 2003 approved by the Municipal Legislature, together with the preliminary unaudited results for fiscal year 2002.

<u>Revenues</u>	<u>Budget 2001-02</u>	<u>Actual 2001-02</u>	<u>Budget 2002-03</u>
Property Taxes	\$42,540,334	\$45,138,563	\$42,170,161
Municipal License Taxes	24,000,000	25,632,064	25,000,000
Licenses and Permits	1,525,000	3,583,124	2,175,000
Charges for Services and Rents	1,290,000	545,391	3,235,000
Inter-governmental revenues:			
State Contributions	11,885,545	11,918,310	8,250,975
Interest, Fines and Penalties	3,150,000	2,835,357	3,155,000
Other revenues	<u>2,050,000</u>	<u>2,974,247</u>	<u>4,516,095</u>
Total	<u>\$86,440,879</u>	<u>\$92,627,056</u>	<u>\$88,502,231</u>
 <u>Expenditures</u>			
Municipal Council	\$ 353,896	\$ 334,812	\$ 368,106
Offices:			
Mayor	1,953,964	2,308,695	904,188
Personnel	4,543,089	5,487,006	6,347,064
Planning & Budget	3,570,881	253,247	375,506
Departments:			
Civil Defense	1,210,874	924,229	3,446,080
Culture	933,557	1,071,806	1,450,217
Education	2,716,804	2,602,212	2,759,414
Finance	29,577,296	25,505,694	31,239,947
Health	728,599	425,833	---
Public Works	15,642,758	18,284,545	17,768,767
Recreation	3,065,519	4,073,864	3,523,595
Public Safety	3,900,121	4,250,981	---
Welfare	542,543	448,773	---
Secretary	433,705	575,585	528,151
General Government	<u>17,267,273</u>	<u>23,454,554</u>	<u>19,791,196</u>
Total	<u>\$86,440,879</u>	<u>\$90,001,835</u>	<u>\$88,502,231</u>

Source: Municipality of Bayamón

General Obligation Debt and Sources for Debt Service

The Puerto Rico Legislature has fixed a limitation for the issuance of general obligation Municipal Bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See “*Limitations on Ability of Municipalities to Issue General Obligation Debt - The Municipal Bonds*” for a general description of such limitations.

Based on the current total net assessed valuation of real and personal property in Bayamón provided by CRIM of approximately \$1.28 billion, the Legal Margin of Bayamón as of August 4, 2002, was \$128.0 million. Bayamón’s Available Legal Margin as of August 4, 2002, was calculated by GDB to equal \$9.035 million after subtracting from the Legal Margin the amount of \$122.76 million in outstanding general obligation debt as of July 1, 2002, and adding to the Legal Margin the excess amount in its Redemption Fund of \$3.795 million as of June 30, 2002.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such municipality must have sufficient “payment capacity.” Act No. 64 provides that a municipality has sufficient “payment capacity” to incur additional general obligation debt if the deposits in such municipality’s Redemption Fund and the annual amounts collected with respect to such municipality’s Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the

municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

Bayamón is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation Municipal Bonds and notes. In addition, principal of and interest on all general obligation Municipal Bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by Bayamón constitute a first lien on Bayamón's Basic Tax revenues. See "Municipal Revenues - The Municipal Bonds." Accordingly, Bayamón's Basic Tax revenues would be available to make debt service payments on general obligation Municipal Bonds and notes to the extent that the Special Additional Tax levied by Bayamón, together with moneys on deposit in Bayamón's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of Bayamón.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN**

**COMBINED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2001**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
COMBINED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Honorable Mayor and
Municipal Council
Municipality of Bayamón
Bayamón, Puerto Rico

We have audited the accompanying general purpose financial statements of the Municipality of Bayamón, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality of Bayamón' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 10, the Municipality of Bayamón has not maintained complete and adequate records relating to the fixed assets of the General Fixed Assets Account Group. Accordingly, we were unable to satisfy ourself as to the fixed asset balance or such all group amounting to \$142,986,961.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to general fixed assets balances, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Bayamón as of June 30, 2001, and the results of its operations for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

San Juan, Puerto Rico
November 2, 2001

The stamp 1762069 was affixed
to the original of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

<u>Assets</u>	Governmental Fund Types				Fiduciary Fund Type	Account Groups		Total
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency Fund	General Fixed Asset	General Long Term Debt	Memorandum
Cash in bank (Note 3)	\$10,258,398	\$ 4,480,256	\$ -	\$13,213,629	\$ 1,442,712	\$ -	\$ -	\$ 29,394,995
Cash with fiscal agent (Note 3)		82,315	16,730,852	31,440,376				48,253,543
Investments (Note 4)	37,500,000	300,000		2,240,368				40,040,368
Accounts receivables:								
Property taxes	4,985,002							4,985,002
Notes and interest receivable (Note 7)		367,797						367,797
Municipal license taxes (Note 5)	209,190							209,190
Rents	16,622							16,622
Interests	492,418							492,418
Due from other agencies (Note 8)	8,627,756	5,732,380						14,360,136
Due from other funds (Note 9)	606,209	4,800						611,009
Others		746,850	20,000					766,850
Inventories (Note 2)	374,119							374,119
Property and equipment (Note 10)						142,986,961		142,986,961
Amount available in debt service fund (Note 3)							16,730,852	16,730,852
Amount to be provided for retirement of general long-term debt (Note 14)							122,068,200	122,068,200
Amount to be provided for payment of accrued vacations (Note 12)							10,390,905	10,390,905
Total assets	\$63,069,714	\$ 11,714,398	\$16,750,852	\$46,894,373	\$ 1,442,712	\$ 142,986,961	\$149,189,957	\$ 432,048,967

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2001**

Liabilities and Fund Equity	Governmental Fund Types				Fiduciary Fund Type	Account Groups		Total
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency Fund	General Fixed Asset	General Long Term Debt	Memorandum
Liabilities								
Account payable and accrued liabilities	\$ 9,395,439	\$ 9,080,965	\$ -	\$ 2,070,554	\$ 840,912			\$ 21,387,870
Due to other funds (Note 9)	4,800	606,209						611,009
Due to other agencies (Note 11)	9,288,140							9,288,140
Deferred revenues (Note 5)	17,735,123	1,408,653						19,143,776
Deposits and bonds					601,800			601,800
Accrued vacations (Note 12)							10,390,905	10,390,905
General long-term debts (Note 14)							138,799,052	138,799,052
Total liabilities	36,423,502	11,095,827	-	2,070,554	1,442,712	-	149,189,957	200,222,552
Commitments and Contingencies (Notes 17 to 18)								
Fund Equity (Note 19)								
Investment in general fixed assets						142,986,961		142,986,961
Fund balance								
Reserved for encumbrances	3,478,694							3,478,694
Reserved for inventories	374,119							374,119
Reserved for long-term receivable (Note 7)		341,910						341,910
Reserved for general long-term debt service			16,750,852					16,750,852
Undesignated surplus	22,793,399	276,661		44,823,819				67,893,879
Total fund equity	26,646,212	618,571	16,750,852	44,823,819		142,986,961	-	231,826,415
Total liabilities and fund equity	\$63,069,714	\$11,714,398	\$16,750,852	\$46,894,373	\$1,442,712	\$142,986,961	\$149,189,957	\$432,048,967

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND EQUITY-ALL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
REVENUES					
Property taxes (Note 15)	\$ 44,148,212	\$ -	\$ 13,044,457	\$ -	\$ 57,192,669
Municipal license taxes (Note 5)	24,023,031				24,023,031
Licenses and permits	3,358,962				3,358,962
Charges for service and rents	2,606,491				2,606,491
Inter-governmental revenues (Note 6) :					
Federal grants and contributions		37,288,582			37,288,582
State contributions	8,637,876	75,508		9,770,804	18,484,188
Interest, fines, and penalties	3,436,842	21,495	612,231		4,070,568
Other revenues	20,231,905			16,849	20,248,754
Total revenues	<u>106,443,319</u>	<u>37,385,585</u>	<u>13,656,688</u>	<u>9,787,653</u>	<u>167,273,245</u>
EXPENDITURES					
Municipal council	285,901				285,901
Offices:					
Mayor	2,796,848				2,796,848
Personnel	4,833,901				4,833,901
Planning & budget	219,831				219,831
Departments:					
Civil Defense	3,599,292				3,599,292
Culture	767,277				767,277
Education	2,362,694	6,487,357			8,850,051
Finance	32,246,387				32,246,387
Health	-	10,814			10,814
Public Works	20,173,763	31,301,682			51,475,445
Recreation	2,970,124				2,970,124
Capital project	-			41,051,794	41,051,794
Collection of property taxes applied to advances (Note 15)	30,523,186				30,523,186
General Government	30,450,579				30,450,579

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND EQUITY-ALL FUND TYPES (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
Secretary	\$ 441,248	\$ -	\$ -	\$ -	441,248
Welfare		1,381,701			1,381,701
Debt services:					
Principal retirement (Note 14)			7,349,536		7,349,536
Interest payments (Note 14)			6,720,515		6,720,515
Total expenditures	<u>131,671,031</u>	<u>39,181,554</u>	<u>14,070,051</u>	<u>41,051,794</u>	<u>225,974,430</u>
Excess of expenditures over revenues	<u>(25,227,712)</u>	<u>(1,795,969)</u>	<u>(413,363)</u>	<u>(31,264,141)</u>	<u>(58,701,185)</u>
OTHER FINANCING SOURCES (USES)					
Advances of property taxes (Note 15)	30,523,186				30,523,186
Loan proceeds				37,530,000	37,530,000
Operating transfer-in	4,479,356	1,097,712	1,950,324	123,769	7,651,161
Operating transfer-out	<u>(2,950,022)</u>	<u>(218,326)</u>	<u>(627,287)</u>	<u>(3,855,526)</u>	<u>(7,651,161)</u>
Total other financing sources (uses)	<u>32,052,520</u>	<u>879,386</u>	<u>1,323,037</u>	<u>33,798,243</u>	<u>68,053,186</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	6,824,808	(916,583)	909,674	2,534,102	9,352,001
FUND BALANCE AT BEGINNING OF YEAR	<u>19,821,404</u>	<u>1,535,154</u>	<u>15,841,178</u>	<u>42,289,717</u>	<u>79,487,453</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 26,646,212</u></u>	<u><u>\$ 618,571</u></u>	<u><u>\$ 16,750,852</u></u>	<u><u>\$ 44,823,819</u></u>	<u><u>\$ 88,839,454</u></u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
COMBINED STATEMENT OF REVENUES, EXPENDITURES, BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund			Debt Service Fund		
	Budget Amended	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable Memorandum
REVENUES (Notes 2 and 20)						
Property taxes	\$ 39,114,320	\$ 40,666,307	\$ 1,551,987	\$ 13,796,075	\$ 13,044,457	\$ (751,618)
Municipal license taxes	23,766,833	24,023,031	256,198			
Licenses and permits	2,992,591	3,358,962	366,371			
Charges for service and rents	2,405,613	2,606,491	200,878			
Inter-governmental revenues:						
State contributions	6,477,238	8,637,876	2,160,638			
Interest, fines, and penalties	3,969,347	4,064,129	94,782		612,231	612,231
Other revenues	4,062,272	6,093,777	2,031,505			
Total revenues	<u>82,788,214</u>	<u>89,450,573</u>	<u>6,662,359</u>	<u>13,796,075</u>	<u>13,656,688</u>	<u>(139,387)</u>
EXPENDITURES (Notes 2 and 20)						
Municipal council	318,685	296,037	22,648			
Offices:						
Mayor	3,077,260	2,857,386	219,874			
Personnel	5,447,198	5,033,666	413,532			
Planning & budget	325,407	219,831	105,576			

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
COMBINED STATEMENT OF REVENUES, EXPENDITURES, BUDGET AND ACTUAL (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund			Debt Service Fund		
	Budget Amended	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable Memorandum
Departments:						
Civil Defense	\$ 3,841,887	\$ 3,692,542	\$ 149,345	\$ -	\$ -	\$ -
Culture	898,050	799,465	98,585			
Education	2,486,807	2,370,398	116,409			
Finance	34,025,455	34,476,912	(451,457)			
Health	-	-	-			
Public Works	21,896,603	21,612,388	284,215			
Recreation	3,328,200	3,139,499	188,701			
Welfare	-	-	-			
Secretary	503,271	461,221	42,050			
General Government	16,939,391	15,858,490	1,080,901			
Debt service; principal and interest payment				13,796,075	12,747,014	1,049,061
Total expenditures	<u>93,088,214</u>	<u>90,817,835</u>	<u>2,270,379</u>	<u>13,796,075</u>	<u>12,747,014</u>	<u>1,049,061</u>
Excess of revenues over expenditures	<u>(10,300,000)</u>	<u>(1,367,262)</u>	<u>8,932,738</u>	<u>-</u>	<u>909,674</u>	<u>909,674</u>
OTHER FINANCING SOURCES						
Reprogramming funds	<u>10,300,000</u>	<u>10,300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Excess of revenues over expenditures and other financing sources	<u>\$ -</u>	<u>\$ 8,932,738</u>	<u>\$ 8,932,738</u>	<u>\$ -</u>	<u>\$ 909,674</u>	<u>\$ 909,674</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. ORGANIZATION

The Municipality of Bayamón, Puerto Rico (Municipality) was incorporated in 1509. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal personality, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 16 members. The members of these branches are elected every four years in the Puerto Rico general elections.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Municipality are in accordance with the generally accepted accounting principles applicable to government entities. The Governmental Accounting Standards Board (GASB), is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The following is a summary of the more significant policies:

a. Fund Accounting

The accounts of the Municipality are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

The various funds are grouped in the financial statements into four fund types and other fund category, as follows:

1) Governmental Funds

a) General Funds

The General funds are the general operating funds of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund.

b) Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

c) Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

d) Capital Project Funds

Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, Special Assessments Funds and Agency Funds).

2) Fiduciary Funds:

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the Municipality in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

3) Account Groups:

Account groups are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debt. The following are the Municipality's account groups:

a) General Fixed Assets Account Group

This group of accounts is established to account for all fixed assets of the Municipality.

b) General Long-term Debt Account Group

This group of accounts is established to account for all long-term debts of the Municipality.

4) Budgetary Control:

The Mayor submits and the Municipal Assembly approves, an annual budget for each fiscal year beginning July 1 as well as any amendment thereon. Appropriations in the Municipality budget consist of the following:

a) General Fund appropriations for recurrent and ordinary functions of the Municipality.

b) Appropriations of Special Funds for specific purposes and for capital improvements are, for the most part, authorized by separate laws and do not require annual legislative budget authorization because they are continuing appropriations.

b. Basis of Accounting

Governmental revenues and expenditures are recognized using the modified accrual basis. Revenues are recognized in the accounting period in which they become both measurable and available to be used to pay recorded liabilities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Expenditures are recognized in the accounting period in which the final liability is incurred, measurable, except for unmatured interest on general long-term debt, which is recognized when due. Agency fund assets and liabilities are accounted for on modified accrual basis.

To accrue the inter-governmental revenues, the legal and contractual requirements of individual programs are used as a guide. Essentially, there are two types of revenues. In one, the resources must be used in the specific projects and purposes before the revenues are recognized by the Municipality. Therefore, revenues are recognized based on recorded expenditures and submitted to the granting agencies for reimbursements. In the other revenues, resources are unrestricted as to purpose of expenditures and are usually revocable only for failure to comply with prescribed compliance requirements.

Licenses, fees, permits, fines and other revenues are recognized when received.

Interest income is recognized and accrued in the accounting period in which they are earned.

c. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances accounting (under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at a year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

d. Total Column (Memorandum Only)

The amounts presented under this column represent the aggregate amount of the different types of funds and account groups. The totals under this column were not obtained from eliminations or consolidations, accordingly, they do not present consolidated information.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

e. Insurance

The Municipality has insurance coverage for their public facilities and certain officials are covered by a fidelity bond. The Secretary of Treasury is the person authorized to negotiate the insurance coverage of the Municipality.

f. Investments

Investments amounts are stated at cost or amortized cost. Interest income is recognized in the accounting period in which they are earned.

g. Inventories

The General and Special Revenue Fund purchase office and printing supplies, gasoline, oil and other items. The cost of current purchases are recorded as expenditures and inventory is recorded at cost in the general purpose financial statements based on end year balances and presented as a reserve.

h. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates consist of the contribution received from the Electric Power Authority of Puerto Rico and the Municipal Revenue Collection Center (CRIM) caused by the delay of the notification of the real revenues and expenditures to be presented in the financial statements of the agencies mentioned above. Actual results could differ from those estimates.

i. Reporting Entity

In evaluating the Municipality as a reporting entity, management has addressed all potential component units which may or may not fall within the Municipality's oversight and control and, as such, be included within the Municipality's financial statements. The basic criteria for including a component unit within the

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

Municipality's reporting entity is the exercise of oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

Manifestations of Oversight Responsibility

- Selection of Governing Authority
- Designation of Management
- Ability to Influence Operations Significantly

Accountability for Fiscal Matters

- Budgetary Authority
- Surplus/Deficit
- Responsibility for Debt
- Fiscal Management
- Revenue Characteristics

Factors other than oversight which may significantly influence the entity relationship are:

- Scope of Public Service**
- Special Financing Relationships**

The relative importance of each criteria is evaluated in light of specific circumstances in order to determine which component units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the Municipality of Bayamón indicate that the reporting entity consists of all funds and accounts groups included in the combined balance sheet, therefore no organizations, activities or functions were excluded from the reporting entity.

**COMMONWEALTH OF PUERTO RICO
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NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

3. CASH AND SHORT-TERM INVESTMENTS

a. Cash in Bank and Concentration Risk

The amounts reflected as cash in the balance sheet represents the individual funds' equity in pooled cash balance. Short-term investments consist of certificates of deposit.

The Municipality maintains its cash accounts in four (4) banks located in Puerto Rico. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The excess is covered by collateral provided by bonds and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

b. Cash with Fiscal Agents

An additional special tax of 1.48% of the assessed value of all real and personal properties are levied by the Municipality. The proceeds of said tax are required to be credited to the Debt Service Fund for payment of General Obligation Bonds and Notes of the Municipality. The property taxes are collected by the Municipal Revenues Collection Center as agent for the Municipality and are retained by the Government Development Bank for debt service purposes. At June 30, 2001, the balance of cash retained by the Government Development Bank amounted to \$16,730,852.

The bonds issued by the Municipality are administrated by the Government Development Bank with a method of escrow system. At June 30, 2001, the balance of cash retained by the Government Development Bank available for the acquisition of real property and the construction of special revenues and capital projects amounted to \$31,552,691.

4. INVESTMENTS

The amounts reflected as investments in the balance sheet represents certificates of deposit that the maturity date exceeds ninety (90) days.

COMMONWEALTH OF PUERTO RICO
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The Municipality maintains its investments in four (4) banks located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

5. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2001. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Bayamón, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. The rates of municipal license in the Municipality of Bayamón, are as follows:

Financing institution	=	1.0%
Other organizations	=	.5%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year \$17,735,123, corresponding to the next fiscal year municipal license.

6. INTER-GOVERNMENTAL REVENUES

Intergovernmental revenue sources consist of contributions received from certain quasi-public corporations of the Government of Puerto Rico, such as the Water and Sewer Authority, the Electric Power Authority, Puerto Rico Telephone Company and from certain federal agencies, such as U.S. Department of H.U.D., U.S. Department of Health and Human Services and U.S. Department of Labor.

**COMMONWEALTH OF PUERTO RICO
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7. NOTES AND INTEREST RECEIVABLE

Represents loan agreements between the Municipality of Bayamón and various institutions, under the Urban Development Action Grant (UDAG) Program. Under the agreements, the Municipality lent funds to assist in financing the cost of construction of buildings and facilities.

8. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

	<u>Special Revenue Fund</u>	<u>General Fund</u>	<u>Total</u>
Department of Labor-School to Work	\$ 203,471	\$ -	\$ 203,471
HUD - Emergency Shelter	99,740	-	99,740
HHS - Head Start	52,352	-	52,352
Authority of Electric Energy	-	8,627,756	8,627,756
HUD - CDBG Program	2,681,539	-	2,681,539
HHS - HOME Program	191,760	-	191,760
HUD - Section 8	34,698	-	34,698
HUD - Ryan White	630,146	-	630,146
HUD - UDAG	1,427,851	-	1,427,851
Iniciativa HUD	117,758	-	117,758
Department of Labor - WIA	<u>293,065</u>	<u>-</u>	<u>293,065</u>
	<u>\$5,732,380</u>	<u>\$8,627,756</u>	<u>\$14,360,136</u>

9. DUE FROM (TO) OTHER FUNDS

Represents the amount due between funds. At the end of the fiscal period, the unpaid or unsettled amounts of these types of inter-fund transactions are reported as inter-fund receivables (due-from) and inter-fund payable (due-to) balances.

**COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

The due from and due to other fund balances as of June 30, 2001, are as follows:

	<u>Due from Other Fund</u>	<u>Due to Other Fund</u>
General Fund		
Special Revenue Fund	\$606,209	\$ 4,800
Special Revenue Fund		
General Fund	<u>4,800</u>	<u>606,209</u>
	<u>\$611,009</u>	<u>\$611,009</u>

10. GENERAL FIXED ASSETS

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures of the various governmental funds and capitalized at cost, or, if donated, at their estimated fair market value at time of contribution in general fixed assets accounts group. Maintenance, repairs and minor renewals are expended as incurred. Asset dispositions and retirements are informed monthly to the Department of Treasury and written-off after authorization of that department. Depreciation is not provided on general fixed assets. Public domain or infrastructure, such as roads, streets, gutter, curbs, sidewalks, and drainage, are not recorded in this group of accounts. The Municipality has not maintained adequate records for its Fixed Assets, and management was not able to make an assertion as to the completeness of the General Fixed Assets Account Group. However, the Finance Department at present is in the process of updating these records in order to maintain a proper system in its future.

The Municipality's management has estimated its real property and other fixed assets as follows:

Real property	\$ 99,460,199
Vehicles, equipment, and furniture	25,222,960
Construction in progress	<u>18,303,802</u>
Total general fixed assets	<u>\$142,986,961</u>

**COMMONWEALTH OF PUERTO RICO
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NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

11. DUE TO OTHER AGENCIES

The balance of this account represents the following:

	<u>General Fund</u>
Electric Power Authority	\$8,290,632
General Services Administration	24,964
Water and Sewer Authority	249,411
Retirement System Administration	134,722
Puerto Rico Telephone Company	<u>588,411</u>
	<u>\$9,288,140</u>

12. ACCRUED VACATIONS

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

13. RETIREMENT PLAN

a. Plan Description

The Employee's Retirement System of the General Government of Puerto Rico and its Instrumentalities (ESR) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The System was created under the ACT 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

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ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirements systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

The Systems provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service of members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

**COMMONWEALTH OF PUERTO RICO
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b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2001 was \$1,559,842. The Municipality's payroll for employees covered by ESR was \$16,817,700. The Municipality total payroll for all employees was \$37,955,607.

c. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Information on funding progress for the three last years is presented below:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net assets available for benefits as a percentage of total pension benefit obligation	N/A	N/A	N/A
Unfunded pension benefit obligation as a percentage of annual covered payroll	N/A	N/A	N/A
Employer contributions (not actuarial determined) as a percentage of annual covered payroll	9%	9%	9%

N/A = Not available

Trend information prior to 1999 is not available

For a ten-year trend information, refer to the separately issued financial statements of the Employee's Retirement System as of and for the year ended June 30, 2001.

**COMMONWEALTH OF PUERTO RICO
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14. GENERAL LONG-TERM DEBTS

The following is a summary of the general long-term debt transactions for the year ended June 30, 2001:

Balance July 1, 2000	\$108,618,588
Current additions	37,530,000
Current repayment	(<u>7,349,536</u>)
Balance June 30, 2001	<u>\$138,799,052</u>

The general long-term debts as of June 30, 2001 are as follows:

Bonds

\$21,425,000 series of 1992, payable in annual installments of \$755,000 to \$2,380,000 until July 1, 2006, interest at 8.50%.	\$11,745,000
\$863,000 series of 1982, payable in annual installments of \$15,000 to \$55,000 until July 1, 2007, interest at 5%.	320,000
\$895,000 series of 1995, payable in annual installments of \$35,000 to \$95,000 until July 1, 2007, interests from 5% to 7.506%.	560,000
\$3,110,000 series of 1986, payable in annual installments of \$205,000 to \$210,000 until July 1, 2001, interest at 8.20%.	210,000
\$980,000 series of 1987, payable in annual installments of \$25,000 to \$110,000, until July 1, 2002; interest at 8.20%.	210,000
\$1,440,000 series of 1987, payable in annual installments of \$45,000 to \$165,000, until July 1, 2002; interest at 8.20%.	315,000
\$7,135,000 series of 1994-95, payable in annual installments of \$165,000 to \$715,000 until July 1, 2014, interest from 6.44% to 8.50%.	6,170,000

**COMMONWEALTH OF PUERTO RICO
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\$13,260,000 series of 1995, payable in annual installments of \$545,000 to \$1,490,000 until July 1, 2007, interest from 5% to 7.506%.	\$ 8,375,000
\$17,850,000 series of 1994, payable in annual installments of \$240,000 to \$1,550,000 until July 1, 2009, interest from 6.5% to 8.0%.	16,060,000
\$2,760,000 series of 1994, payable in annual installments of \$95,000 to \$300,000 until July 1, 2009, interest from 6.5% to 7.706%.	2,015,000
\$15,000,000 Municipal Revenues Bonds 1995 Series A and Series B. During the first two years the Municipality has a moratorium. The annual installment of Series A are \$500,000 to \$1,000,000, until June 30, 2005, interest from 6.90% to 8.50%. Series B an installment of \$7,500,000 on June 30, 2012, interest at 6.25%.	11,500,000
\$605,000 series of 1997-98, payable in annual installments of \$135,000 to \$170,000 until July 1, 2001, interest from 6.69% to 8.00%.	170,000
\$2,595 series of 1998-99, payable in annual installments of \$35,000 to \$225,000 until July 1, 2023, interest at 8%.	2,520,000
\$16,535,000 General Obligation Bonds. (Ordinance number 61, series 97-98).	15,105,000
\$17,275,000 General Obligation Bonds, series of 1998-99, payable in annual installments of \$590,000 to \$1,760,000 until July 1, 2015, interest at 7.5%.	16,685,000
\$1,210,000 series of 1998-99, payable in annual installments of \$205,000 to \$280,000 until 2004, interest fluctuating from 7.08% to 7.5%.	1,005,000

**COMMONWEALTH OF PUERTO RICO
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\$135,000 series of 1999-2000, payable in annual installments of \$25,000 to \$30,000 until 2004, interest at 7.5%.	\$ 110,000
\$1,700,000 series of 1999-2000, payable in annual installments from \$290,000 to \$390,000 until 2004, interest from 7.08% to 7.5%.	1,410,000
\$3,045,000 series of 1999-2000, payable in annual installments of \$525,000 to \$700,000 until July 1, 2004, interest fluctuating from 7.08% to 7.5%.	2,520,000
\$22,820,000 series of 2000-01, payable in annual installments of \$750,000 to \$2,385,000 until July 1, 2016, interest fluctuating from 5.88% to 8%.	22,820,000
\$2,765,000 series of 2000-01, payable in annual installments of \$40,000 to \$240,000 until July 1, 2025, interest fluctuating from 6.13% to 8%.	2,765,000
\$11,945,000 series of 2000-01, payable in annual installments of \$165,000 to \$1,040,000 until July 1, 2025, interest fluctuating from 6.13% to 8%.	<u>11,945,000</u> <u>134,535,000</u>

Notes Payable

\$4,520,000 note payable in annual installments of \$75,000 to \$485,000 until July 1, 2007, interest at 9%.	<u>2,590,000</u>
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Other Debts

\$314,128 final liquidation notified by the Municipal Revenue Collection Center (CRIM), year 1997-98, payable in monthly installments of \$7,999 until 2002, no interests.	163,608
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**COMMONWEALTH OF PUERTO RICO
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\$1,510,444 final liquidation notified by the Municipal Revenue Collection Center (CRIM), year 1998-99.	\$ <u>1,510,444</u>
	<u>1,674,052</u>
	<u>\$138,799,052</u>

The annual requirement for the amortization of general long-term at June 30, 2001, are as follows:

2002	\$ 8,979,810
2003	9,184,810
2004	9,539,810
2005	10,194,810
2006	8,384,812
2007-2011	31,700,000
2012-2016	42,240,000
2017-2021	12,445,000
2022-2026	<u>6,130,000</u>
	<u>\$138,799,052</u>

As described in Note 3, the Municipality levies an annual special tax of 1.48% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the Government Development Bank.

15. PROPERTY TAXES

The Municipal Revenues Collection Center of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the Municipal Revenues Collection Center by May 15 of each year. The tax on real property is assessed by the Municipal Revenues Collection Center. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of year 1957. The tax on personal property must be paid in full together with the

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return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 8.31% for real property and 6.31% for personal property. The composition is as follows:

	Real	Personal
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.48%	1.48%
Discounts made by state to tax payer	< <u>.20%</u> >	< <u>.20%</u> >
	<u>8.31%</u>	<u>6.31%</u>

The “Additional special property tax - municipal” is restricted for debt service and retained by the Government Development Bank for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the Municipal Revenues Collection Center and reported to the Municipality.

The “Additional special property tax - state” is collected by the Municipal Revenue Collection Center for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the Municipal Revenues Collection Center.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

The Municipal Revenues Collection Center advances to the Municipality an estimated amount of the basic property tax levied on nonexempt property for each fiscal year. Advances are repaid through actual collections from the taxpayers. The Municipal

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Revenues Collection Center periodically informs the Municipality of the amounts collected and applied to outstanding advances. The basic property tax advanced by the Municipal Revenues Collection Center (nonexempt) is recorded as other financing sources in the Municipality's General Fund and as an obligation in the General Fund. To the extent that such taxes are collected and informed by the Municipal Revenues Collection Center, they are recorded in the General Fund as revenue and as due from the Municipal Revenues Collection Center. During the fiscal year ended June 30, 2001, transactions regarding property tax advances were as follows:

Due to the Municipal Revenues Collection Center June 30, 2000	\$ 1,503,097
Adjustment	48,890
Current year advances	(43,670,585)
Collection of property taxes	<u>47,103,600</u>
Due from the Municipal Revenues Collection Center, June 30, 2001	<u>\$ 4,985,002</u>

16. LEASES

Leasing Arrangement with the Municipality as Lessor:

- d. The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2001 was approximately \$1,631,210.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods not longer than one year.

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17. CONTINGENCIES

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.
- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

18. COMMITMENTS

The Municipality of Bayamón had several outstanding or planned construction projects as of June 30, 2001. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amount to \$7,237,593.

19. FUND EQUITY (RESERVES AND DESIGNATIONS)

a. Reserve for Inventories

This amount represents the portion of fund balances that are not available for expenditures as the Municipality anticipated, utilizing the current balance in inventories within the next accounting cycle.

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b. Reserve for Encumbrances

This reserve represents the portion of purchase order and contracts awarded for which goods or services have not yet been received at June 30, 2001.

c. Reserve for Long-Term Portion of Notes Receivable

As mentioned in Note 6, the Municipality loaned various amounts to various institutions under the UDAG Program. A reserve has been established for the amount of the loan principal which is due for more than one year. This long-term portion represents fund balance that is not available to meet current expenditures.

20. BUDGETARY COMPARISONS

As described in Note 2, the statement of revenues and expenditures budget and actual was prepared in accordance with the budgetary basis. This method is not in accordance in some aspects with generally accepted accounting principles.

The principal difference between budgetary basis and generally accepted accounting principles, are as follows:

- a. The encumbrances are recorded as expenditures in the budgetary basis instead of as a reserve of the fund balance.
- b. The advances of property taxes are recorded as revenues in the budgetary basis instead as other financing sources, as required by generally accepted accounting principles.
- c. Under generally accepted accounting principles, the collection of property taxes through Municipal Revenue Collection Center is recorded as revenue and at the same time, such amount is recorded as expenditure and applied to previously advanced taxes when they are notified to the Municipality. In the budgetary basis, said revenues are recorded as revenues when the advances are received.
- d. Under generally accepted accounting principles, the principal and interests' payment of \$1,950,324 is recorded as expenditures in the Debt Service Fund. In the budgetary basis, only the expenditures related to general and special obligation bonds referred in note 14.

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The necessary adjustments to reconcile the revenues and expenditures of the General Fund at the end of the year from the generally accepted accounting principles to budgetary basis, are as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Generally accepted accounting principle basis	\$106,443,319	\$131,671,031
Plus current year encumbrances recorded as expenditures on the budgetary basis	-	3,478,694
Less prior year encumbrances & results recorded as expenditures on the GAAP basis	-	(1,891,574)
Plus advances of property taxes recorded as revenue on the budgetary basis	30,523,186	-
Less collection of property taxes (not exonerated), recorded previously as revenue by the Municipality when received and deducted from the advances payable to the Treasury Department	(34,005,091)	(30,523,186)
Plus transfer in-out	4,479,356	2,950,022
Less other funds not recorded on budgetary basis	(17,990,197)	(14,867,152)
Budgetary basis	<u>\$89,450,573</u>	<u>\$90,817,835</u>

**COMMONWEALTH OF PUERTO RICO
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The necessary adjustments to reconcile the revenues and expenditures of the Debt Service Fund of the year from the generally accepted accounting principles to budgetary basis are as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Generally accepted accounting basis	\$13,656,688	\$14,070,051
Add: Transfer out to General Fund	-	627,287
Less: Transfer in from General Fund	<u> -</u>	(<u>1,950,324</u>)
Budgetary basis	<u>\$13,819,701</u>	<u>\$12,747,014</u>

The Municipality budget is amended by the majority vote of the Municipal Assembly. Said amendments are included in the budgetary basis.

21. SUBSEQUENT EVENTS

The New Governmental Financial Reporting Model

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved the issuance of the long-awaited statement on the financial reporting model project. GASB No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," makes dramatic changes to the way state and local governments report their finances to the public. Issuance of the statement is the culmination of an extended due process period, including the issuance of a preliminary view document and exposure draft and conducting public hearings and focus groups.

Under the new reporting model, general purpose governments must present the following basic financial statements and required supplementary information (RSI) to be in accordance with generally accepted accounting principles:

- a. Management's discussion and analysis.
- b. Government-wide financial statements.
- c. Fund financial statements.
- d. Notes to the financial statements.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

- e. RSI, including budgetary comparison schedules, infrastructure condition data, and other data required by previous GASB pronouncements, if applicable.

The Statement will first be effective for governments with annual revenues exceeding \$100 million for fiscal years beginning after June 15, 2001; for those with revenues of \$10 million to \$100 million, years beginning after June 15, 2002; and for those with revenues of less than \$10 million, years beginning after June 15, 2003.

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December __, 2002

PUERTO RICO MUNICIPAL FINANCE AGENCY
 San Juan, Puerto Rico

Gentlemen:

We have examined Act No. 29 of the Legislature of Puerto Rico, approved June 30, 1972, as amended (the “Act”), creating Puerto Rico Municipal Finance Agency (the “Agency”), a body corporate and politic constituting a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the “Commonwealth”).

We have also examined certified copies of the proceedings of the Board of Directors of the Agency authorizing the execution and delivery of a Trust Indenture, dated as of November 1, 2002 (the “Trust Indenture”), by and between the Agency and Banco Popular de Puerto Rico, trustee (the “Trustee”), and other proofs submitted relative to the authorization, issuance and sale of the following described bonds (the “2002 Series A Bonds”)

\$510,615,000

PUERTO RICO MUNICIPAL FINANCE AGENCY

2002 SERIES A BONDS
Dated: December 1, 2002.

Maturing in such principal amounts and subject to redemption, all as set forth in the Trust Indenture, and bearing interest at the rates set forth in the resolution of the Agency awarding the Bonds.

The proceeds of the 2002 Series A Bonds are to be used to acquire municipal bonds of various municipalities of the Commonwealth and to make a deposit to the Reserve Account established under the Trust Indenture in an amount equal to the Required Debt Service Reserve (as defined in the Trust Indenture).

Pursuant to the Trust Indenture, the Agency is authorized to issue additional series of bonds from time to time upon the terms and conditions set forth therein, and any such bonds will be on a parity with the 2002 Series A Bonds and all other

bonds issued under the Trust Indenture (all such additional series of bonds together with the 2002 Series A Bonds being herein collectively called the “Bonds”).

The principal of and the interest on the 2002 Series A Bonds and all other bonds issued by the Agency under the Trust Indenture are payable from payments of principal of and interest on the municipal bonds purchased and held by and pledged to the Trustee and other funds of the Agency available therefor, as provided in the Trust Indenture.

We have also examined one of the 2002 Series A Bonds as executed and authenticated.

From such examination we are of the opinion that:

1. The Act is valid.
2. Said proceedings have been validly and legally taken.
3. As authorized by the Act and by said proceedings, the Trust Indenture has been duly executed and delivered and contains reasonable and sufficient covenants and provisions in accordance with law with respect to the payments of principal of and interest on the municipal bonds purchased by the Trustee, the conservation and application of all funds, the safeguarding of moneys on hand or on deposit and the rights and remedies of the Trustee and the holders of the Bonds.
4. The 2002 Series A Bonds have been duly authorized and issued, among other things, to provide funds for the purchase of municipal bonds and to make a deposit to the Reserve Account.
5. The 2002 Series A Bonds are valid and binding obligations of the Agency, payable from funds of the Agency, including, but without limitation, (i) payments of principal of and interest on municipal bonds purchased by the Trustee, (ii) moneys in and investment income on the Reserve Account and the Acquisition Fund established under the Trust Indenture held by the Trustee, (iii) the proceeds of the sale of any such municipal bonds and (iv) any moneys appropriated or transferred to the Agency by the Commonwealth pursuant to the Act. The Trust Indenture provides for the creation of a special fund designated “Puerto Rico Municipal Finance Agency Series 2002 Interest and Sinking Fund” (herein called the “Sinking Fund”) and for the payment into said special fund of a sufficient amount of the payments of principal of and interest on municipal bonds purchased by the Trustee on behalf of the Agency and moneys available in the Reserve Account in the Sinking Fund to pay the principal of and interest on all Bonds issued under the Trust Indenture as the same become due and payable, which fund is pledged to and charged with the payment of the principal of and interest on all Bonds issued under the Trust Indenture.
6. The 2002 Series A Bonds, together with all other bonds issued by the Agency under the Trust Indenture, are additionally secured by a pledge and assignment of all municipal bonds

purchased by the Trustee pursuant to the Trust Indenture and all payments of principal and interest made in respect of any municipal bonds so purchased.

7. The Agency in the Trust Indenture has validly covenanted and will be legally obligated diligently to enforce and take all reasonable steps, actions and proceedings for the enforcement of the terms, covenants and conditions of all municipal bonds purchased by the Trustee on behalf of the Agency, including the prompt collection, and the giving of notice to the Secretary of the Treasury of the Commonwealth (the “Secretary”) of any failure or default of any municipality in the payment, of the principal of and the interest on such municipal bonds.

8. The Agency is authorized and under the Trust Indenture has covenanted to cause to be made by its President and delivered to the Secretary annually, on or before December 1, his certificate as provided for by the Act, stating the sum, if any, required to restore the Reserve Account to an amount equal to the Required Debt Service Reserve. The sum or sums so certified are required to be apportioned and paid to the Agency from any available or uncommitted funds in the General Fund of the Commonwealth during the then current fiscal year of the Commonwealth. Such apportionment does not require legislative action. If there are no such available or uncommitted funds, the Secretary is required to request the amount so certified from the Director of the Office of Management and Budget, who shall include it in the General Budget of the Commonwealth for the next fiscal year. The Legislature of Puerto Rico is authorized but not legally required to appropriate such sum.

9. The Bonds do not constitute a debt of the Commonwealth or of any of its municipalities or other political subdivisions, other than the Agency, and neither the Commonwealth nor any of such municipalities or other political subdivisions, other than the Agency, shall be liable thereon. The good faith, credit and unlimited taxing power of each municipality are, however, pledged to the payment of its municipal bonds which secure the Bonds.

10. Under the provisions of the Acts of Congress now in force (i) and under existing regulations, rulings and court decisions, subject to compliance with the covenant referred to below and requirements of the Internal Revenue Code of 1986, as amended (the “Code”), regarding use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the Treasury of the United States, if required, interest on the 2002 Series A Bonds is not includable in gross income for federal income tax purposes, and (ii) the 2002 Series A Bonds and the interest thereon are exempt from state, Commonwealth and local income taxation.

Interest on the 2002 Series A Bonds is not an item of tax preference for the purpose of the alternative minimum tax imposed on individuals and corporations. Such interest is, however, includable in the computation of the alternative minimum tax on corporations imposed by the Code. The Code contains other provisions that could result in tax consequences, upon which we express no opinion, as a result of (a) ownership of the 2002 Series A Bonds or (b) the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax) of interest that is not included in gross income. No opinion is rendered on the effect of any action taken or not taken after the date hereof without our approval (except for such action or omission to act as is otherwise provided for in the documents pertaining to the Bonds)

or in reliance upon the advice of counsel other than us on the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

The Agency and the issuers of the municipal bonds purchased and held by the Trustee have covenanted to comply with the requirements of the Code, to the extent permitted by the Constitution and laws of the Commonwealth, so that interest on the 2002 Series A Bonds will remain exempt from federal income taxes to which it is not subject on the date of issuance of the 2002 Series A Bonds. We are not aware of any provision of the Constitution or laws of the Commonwealth which would prevent the Agency and said issuers from complying with the requirements of the Code.

Respectfully submitted,

[To be signed "Sidley Austin Brown & Wood LLP"]



**FINANCIAL
SECURITY
ASSURANCE®**

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER:

BONDS:

Policy No.: -M

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 pm (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or teletyped notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security, and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)