



*Secretaría*

**MANUEL A. TORRES NIEVES**

SECRETARIO DEL SENADO

- Ver al dorso
- Para su información
- Notas
- Para mantenerle al día
- Expediente
- Dar Cuenta
- Registrar y Procesar

*Senado*  
DE PUERTO RICO

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## REFERIDO A:

### COMISIONES PERMANENTES

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- Hacienda
- Gobierno
- Seguridad Pública y Judicatura
- Salud
- Educación y Asuntos de la Familia
- Desarrollo Económico y Planificación
- Urbanismo e Infraestructura
- Jurídico Penal
- Jurídico Civil
- Agricultura
- Recursos Naturales y Ambientales
- Comercio y Cooperativismo
- Turismo y Cultura
- Trabajo, Asuntos del Veterano y Recursos Humanos
- Bienestar Social
- Asuntos Municipales
- Recreación y Deportes
- Banca, Asuntos del Consumidor y Corporaciones Públicas
- Desarrollo de la Región del Oeste de la Montaña
- Asuntos de la Mujer
- Asuntos Internos
- Reglas y Calendario
- Asuntos Federales
- Ética

### COMISIONES ESPECIALES

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- Puerto de las Américas
- Derecho de Autodeterminación del Pueblo de Puerto Rico
- Sobre Reforma Gubernamental

### COMISIONES CONJUNTAS

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- Informes Especiales del Contralor
- Donativos Legislativos de Puerto Rico
- Internado Córdova-Fernós
- Internado Pilar Barbosa
- Internado Ramos Comas
- Código Penal
- Revisión y Reforma del Código Civil



*[Handwritten initials]*  
Iniciales

*Oficina del Presidente*

Katherine Erazo  
CHIEF OF STAFF

Fecha 1 abril 2011

Referido a Manuel Torres

- Para su información
- Evaluar y recomendar
- Para trabajar y contestar directamente
- Dar cuenta al cuerpo
- Para otorgar contrato
- Para nombramiento
- Autorizado

# SOLICITUD DE SERVICIO DE MENSAJERIA

por: Contabilidad Fecha 3/30/2011

**BANCO GUBERNAMENTAL DE FOMENTO  
PARA PUERTO RICO**

Thomas Rivera Schatz, Presidente

mento o Agencia Senado de PR

l Física El Capitolio

tos o Artículos:

Financieros a 6/30/2010 MFA y GOFINA **FPC**

iones al Mensajero:  Recogido  Entrega  Acusé de Recibo

RECIBIDO  
SENADO  
THOMAS RIVERA SCHATZ  
MAR 16 2011

o por: Emmy Fecha \_\_\_\_\_ Hora \_\_\_\_\_

**PARA USO DE LA SECCION DE CORREO INTERNO**

itud Servicio \_\_\_\_\_ Hora \_\_\_\_\_ Mensajero Asignado \_\_\_\_\_

ensajero [Signature] Firma del Supervisor \_\_\_\_\_

11271

RECIBIDO SECRETARIA  
GOBIERNO P.R.

2011 JUN 28 11:56

# Special Communities Perpetual Trust

(A Component Unit of the Commonwealth  
of Puerto Rico)

Basic Financial Statements and Required  
Supplementary Information as of and  
for the Year Ended June 30, 2010, and  
Independent Auditors' Report

**SPECIAL COMMUNITIES PERPETUAL TRUST**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Special Communities Perpetual Trust

We have audited the accompanying financial statements of the governmental activities and each major fund of the Special Communities Perpetual Trust (the "Trust"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2010, which collectively comprise the Trust's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The Trust recognizes expenditures for public works and housing assistance in the period the services are rendered after receiving notification of approved invoices from the government entities that contracted third parties to perform these services (Puerto Rico Department of Transportation and Public Works and Puerto Rico Department of Housing). There may be cases where there is a significant lag between the time the services are rendered and the time when the Trust is notified of the pending invoices. Any such cases are accounted for in subsequent fiscal year(s) upon notification. In our opinion, accounting principles generally accepted in the United States of America require that expenditures and related liabilities be recorded in the period when services are rendered and the liability is incurred.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary as a result of the matter discussed in the preceding paragraph, such financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Special Communities Perpetual Trust as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Trust's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.



March 25, 2011

Stamp No. 2574877  
affixed to original.

# **SPECIAL COMMUNITIES PERPETUAL TRUST**

**(A Component Unit of the Commonwealth of Puerto Rico)**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2010**

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As management of Special Communities Perpetual Trust (the "Trust"), we offer readers of the Trust's financial statements this narrative overview and analysis of the Trust's financial performance during the fiscal year ended June 30, 2010. Please read it in conjunction with the Trust's basic financial statements including the notes thereto, which follow this section.

### **1. Financial Highlights:**

- Total assets and total liabilities of the Trust at June 30, 2010 amounted to approximately \$203.7 million and \$429.2 million, respectively, for a net deficit of \$225.4 million.
- Expenditures for housing totaled \$55.9 million.
- Expenditures for public works totaled \$10.8 million.
- Mortgage loans amounting to \$150 thousand were granted to participants of the housing program.
- Interest owed through June 30, 2010 on the line of credit, amounting to \$25.1 million, was repaid with a contribution from the Commonwealth of Puerto Rico (the "Commonwealth").

### **2. Overview of the Financial Statements:**

The management's discussion and analysis are intended to serve as an introduction to the Trust's basic financial statements. The Trust's basic financial statements comprise three components: a) government-wide financial statements, b) fund financial statements, and c) notes to the financial statements.

#### **Government-wide financial statements:**

Provide information about the Trust's overall financial position and results of operations. These statements, which are presented on an accrual basis of accounting, consist of the statement of net assets (deficit) and the statement of activities.

#### **Statement of net assets (deficit):**

The statement of net assets (deficit) is designed to display the financial position of the Trust. Governmental Accounting Standards Board ("GASB") Concepts Statement No. 1, *Objectives of Financial Reporting*, requires providing the information needed to:

- Assess the financial position and condition of the government.
- Determine whether the government's overall financial position improved or deteriorated as a result of the current year operations.
- Assess the level of services that can be provided by the government and its ability to meet obligations as they become due.

- Understand the extent to which the government has invested in capital assets.
- Disclose legal or contractual restrictions on resources.

**Statement of activities:**

- Provides information about whether current year revenues were sufficient to cover the cost of current year services.
- Provides information about how the governmental entity financed its activities.
- Assists users in evaluating the operating results of the governmental entity for the year.
- Provides information necessary to determine whether the entity's financial position improved or deteriorated as a result of the year's operations.

**Fund financial statements:**

Provide more detailed information about the Trust's most significant funds and not the Trust as a whole. The Trust maintains only one governmental fund which is considered a major fund. Information is presented separately in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on current inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. This information may be useful in evaluating the Trust's current financing requirements.

**Notes to the basic financial statements:**

The notes to the basic financial statements provide additional information that is essential for its complete understanding.

**3. Government-Wide Financial Analysis:**

Condensed information (expressed in thousands) about statements of net assets (deficit):

			Change	
	2010	2009	\$	%
Cash	\$ -	\$ 641	\$ (641)	(100%)
Due from Commonwealth	616	311	305	98%
Restricted assets	203,119	255,875	(52,756)	(21%)
Total assets	203,735	256,827	(53,092)	(21%)
Contracts payable	15,935	17,996	(2,061)	(11%)
Retainage payable	22,032	22,250	(218)	(1%)
Other payables	15,105	1,482	13,623	919%
Note payable	376,095	376,095	-	-
Total liabilities	429,167	417,823	11,344	3%
Net deficit	\$ (225,432)	\$ (160,996)	\$ (64,436)	40%

**Analysis as of June 30, 2010 and 2009:**

The primary asset of the Trust is a time deposit maintained in the Government Development Bank for Puerto Rico (“GDB”), which is restricted to provide funding to the Special Communities Projects (“Projects”). Decrease in restricted assets was mainly due to disbursements made for the development of the Projects.

Increase in total liabilities was mainly due to the recording of a reserve for legal claims of approximately \$10.1 million to cover for awarded and anticipated unfavorable judgments from various legal proceedings arising from the Trust’s normal operations.

Condensed information (expressed in thousands) about statements of activities:

			Change	
	2010	2009	\$	%
Revenue:				
Housing assistance	\$ 2,024	\$ 13,369	\$ (11,345)	(85%)
Other - mainly intergovernmental revenue for interest on line of credit	25,057	61,807	(36,750)	(59%)
Total revenue	27,081	75,176	(48,095)	(64%)
Expenses:				
Professional services and general government	63	598	(535)	(89%)
Public works	10,767	22,477	(11,710)	(52%)
Housing assistance	55,851	78,667	(22,816)	(29%)
Interest on line of credit	25,057	21,375	3,682	17%
Provision (credit) for losses on mortgage loans receivable	(221)	5,713	(5,934)	(104%)
Total expenses	91,517	128,830	(37,313)	(29%)
Transfers		692	(692)	(100%)
Change in net deficit	(64,436)	(52,962)	(11,474)	22%
Net deficit – Beginning of year	(160,996)	(108,034)	(52,962)	49%
Net deficit – End of year	\$ (225,432)	\$ (160,996)	\$ (64,436)	40%

**Analysis for the Years Ended June 30, 2010 and 2009**

Decrease in revenues was mainly due to a lower contribution from the Commonwealth in fiscal year 2010, which were used for interest payment on the non-revolving line of credit with GDB. In addition, interest income on deposits decreased by approximately \$11.3 million mainly due to the decrease in interest rates during fiscal year 2010 coupled with the decrease in the balance of restricted assets as a result of the disbursements for construction expenditures.

Decrease in public works and housing assistance expenses was mainly due to a decrease in the number of projects under construction because most of them are in advanced stages at June 30, 2010.

**4. Governmental Fund Results:**

The Trust has only one governmental fund which is the general fund. Overall, the fund's total assets decreased due to the payments of project expenditures.

According to Rule No. 6839 (Reglamento del Programa de Préstamos para la Rehabilitación y Construcción de Vivienda para Nuestras Comunidades Especiales) issued on July 13, 2004, the Trust has the faculty to issue mortgage loans to participants of the housing program. As of June 30, 2010, the outstanding balance of the mortgage loans receivable has been fully reserved. During the year ended June 30, 2010, fees on mortgage loans amounted to \$11,342.

**5. Long Term Debt:**

The Trust maintains a ten (10) year non-revolving line of credit with GDB. The outstanding balance as of June 30, 2010 amounted to \$376,095,201. There were no principal repayments on the credit line during fiscal year 2010.

**6. Requests for Information:**

This financial report is designed to provide a general overview of the Trust's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Mr. Harry Torres, Special Communities Perpetual Trust's Executive Director, Government Development Bank for Puerto Rico, P.O. Box 42001 San Juan, P.R. 00940-2001.

**SPECIAL COMMUNITIES PERPETUAL TRUST**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENT OF NET ASSETS (DEFICIT)**  
**AS OF JUNE 30, 2010**

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**ASSETS**

Due from Commonwealth	\$ 615,684
Restricted:	
Cash and cash equivalents	1,251,732
Time deposit with Government Development Bank for Puerto Rico	201,685,103
Interest receivable	182,523
Mortgage loans receivable	8,183,003
Less allowance for losses on mortgage loans receivable	<u>(8,183,003)</u>
Mortgage loans receivable-net	<u>-</u>
Total assets	<u>203,735,042</u>

**LIABILITIES**

Payable from restricted assets:	
Contracts payable	15,934,798
Retainage payable	22,031,454
Other payables	15,105,121
Note payable	<u>376,095,201</u>
Total liabilities	<u>429,166,574</u>

**NET ASSETS (DEFICIT)**

Restricted for low income housing and public works assistance	150,047,985
Unrestricted	<u>(375,479,517)</u>
Net deficit	<u>\$ (225,431,532)</u>

See notes to basic financial statements.

**SPECIAL COMMUNITIES PERPETUAL TRUST**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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Functions/Programs	Expenses	Program Revenue, Operating Grants and Contributions	Net Revenue (Expense) and Changes in Net Deficit
<b>GOVERNMENTAL ACTIVITIES:</b>			
Professional services and general government	\$ 62,811	\$ -	\$ (62,811)
Public works	10,766,912		(10,766,912)
Housing assistance	55,850,736	2,023,426	(53,827,310)
Interest on line of credit	25,057,343	25,057,343	
Credit for losses on mortgage loans receivable	<u>(221,052)</u>		<u>221,052</u>
Total governmental activities and change in net deficit	<u>\$ 91,516,750</u>	<u>\$ 27,080,769</u>	(64,435,981)
NET DEFICIT — Beginning of year			<u>(160,995,551)</u>
NET DEFICIT — End of year			<u>\$ (225,431,532)</u>

See notes to basic financial statements.

**SPECIAL COMMUNITIES PERPETUAL TRUST**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**BALANCE SHEET — GENERAL FUND**  
**AS OF JUNE 30, 2010**

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**ASSETS**

Due from Commonwealth	\$ 615,684
RESTRICTED:	
Cash and cash equivalents	1,251,732
Time deposit with Government Development Bank for Puerto Rico	201,685,103
Interest receivable	182,523
Mortgage loans receivable	8,183,003
Less allowance for losses on mortgage loans receivable	<u>(8,183,003)</u>
Mortgage loans receivable—net	<u>-</u>
TOTAL ASSETS	<u>\$203,735,042</u>

**LIABILITIES AND FUND BALANCE**

LIABILITIES:

Payable from restricted assets:	
Contracts payable	\$ 15,934,798
Retainage payable	22,031,454
Other payables	<u>5,045,016</u>
Total liabilities	<u>43,011,268</u>
FUND BALANCE – Restricted for low income housing and public works assistance	<u>160,723,774</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$203,735,042</u>

See notes to basic financial statements.

**SPECIAL COMMUNITIES PERPETUAL TRUST**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**RECONCILIATION OF THE BALANCE SHEET OF GENERAL FUND TO THE STATEMENT  
OF NET ASSETS (DEFICIT) — GOVERNMENTAL ACTIVITIES  
AS OF JUNE 30, 2010**

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FUND BALANCE PER GENERAL FUND BALANCE SHEET	\$ 160,723,774
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS (DEFICIT) ARE DIFFERENT THAN THE AMOUNTS REPORTED IN THE GENERAL FUND BECAUSE:	
Note payable and reserve for legal claims are not due and payable currently and, therefore, not reported in the general fund balance sheet	<u>(386,155,306)</u>
NET DEFICIT OF GOVERNMENTAL ACTIVITIES	<u>\$ (225,431,532)</u>

See notes to basic financial statements.

**SPECIAL COMMUNITIES PERPETUAL TRUST**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE — GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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REVENUES:

Interest income	\$ 1,856,228
Fees on mortgage loans	11,342
Contributions from the Commonwealth of Puerto Rico and agencies	<u>25,213,199</u>
Total revenues	<u>27,080,769</u>

EXPENDITURES:

Professional services and general government	62,811
Public works	10,766,912
Housing assistance	45,790,631
Interest on line of credit	25,057,343
Credit for losses on mortgage loans receivable	<u>(221,052)</u>
Total expenditures	<u>81,456,645</u>

NET CHANGE IN FUND BALANCE	(54,375,876)
FUND BALANCE — Beginning of year	<u>215,099,650</u>
FUND BALANCE — End of year	<u>\$ 160,723,774</u>

See notes to basic financial statements.

**SPECIAL COMMUNITIES PERPETUAL TRUST**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCE OF GENERAL FUND TO THE STATEMENT OF ACTIVITIES — GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

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NET CHANGE IN FUND BALANCE — GENERAL FUND \$ (54,375,876)

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE  
STATEMENT OF ACTIVITIES ARE DIFFERENT THAN THE  
AMOUNTS REPORTED IN THE GENERAL FUND BECAUSE:

Provision for legal claims reported in the statement of activities  
do not require the use of current financial resources and, therefore,  
are not reported as expenditures in governmental funds (10,060,105)

CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES \$ (64,435,981)

See notes to basic financial statements.

# **SPECIAL COMMUNITIES PERPETUAL TRUST**

## **(A Component Unit of the Commonwealth of Puerto Rico)**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS**

#### **AS OF AND FOR THE YEAR ENDED JUNE 30, 2010**

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#### **1. ORGANIZATION**

The Special Communities Perpetual Trust (the "Trust"), was created through Law 271 of November 21, 2002, and is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth"). It is governed by a board of directors composed of eleven (11) members: the Secretary of the Department of Housing (the "Housing Department") of the Commonwealth, the Secretary of the Department of Transportation and Public Works ("DOT") of the Commonwealth, the Coordinator for the Social and Economic Financing of the Special Communities, one mayor of the municipalities of the Commonwealth, one community leader resident in one special community, two public officers of the Commonwealth and four private citizens representing the public interest. All members of the board of directors are designated by the Governor of the Commonwealth.

The Trust was created to improve the quality and conditions of life for six hundred and eighty-six (686) special communities in Puerto Rico (the "Special Communities") with an investment of one billion dollars for the construction and rehabilitation of housing, construction and improvements of electric, water and sewage systems, repair and improvement of streets and sidewalks, construction and improvement of recreational facilities and to encourage the attempts to develop initiatives for economic auto-sufficiency for the residents of Special Communities. From the one billion dollars, \$560 million were designated for the rehabilitation and construction of 20,000 housing units; \$130 million in the construction of new public facilities and \$310 million for other construction, improvement and rehabilitation projects of Special Communities.

The Trust's board of directors approved through Resolution Number 2004-030 on December 30, 2004, and based on Executive Order No. 2004-96 approved by the Governor of Puerto Rico on December 21, 2004, the creation of the Irrevocable Trust for the Benefit of the Special Communities Perpetual Trust (the "Irrevocable Trust"). The objective of the Irrevocable Trust is to guarantee the accomplishment of the contractual commitments entered into by the Puerto Rico Department of Transportation and Public Works ("DOT") and the Puerto Rico Department of Housing ("DOH") on behalf of the Trust for the construction of the projects referred to above.

The total source of funding was required to be provided by the Government Development Bank for Puerto Rico ("GDB") with a line of credit for \$500 million, approved through Legislative Resolution No. 1028, and from an operating contribution of another \$500 million, approved through Legislative Resolution No. 1027. Both Resolutions were approved on November 21, 2002. As established in the Executive Order No. 2004-96, the proceeds of the line of credit and the operating contribution were transferred from GDB to the Irrevocable Trust acting as fiscal agent of the Trust.

In accordance with Rule No. 6839 (Reglamento del Programa de Préstamo para la Rehabilitación y Construcción de Viviendas para Nuestras Comunidades Especiales), effective July 13, 2004, the Trust has the faculty to grant mortgage loans to participants of the housing program.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

The accounting and reporting policies of the Trust conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Trust follows Governmental Accounting Standards Board (“GASB”) guidelines under the hierarchy established by Statement No. 55, “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*”, in the preparation of its basic financial statements.

Following is a description of the Trust’s most significant accounting policies:

**Basic Financial Statements GASB Statement No. 34** — The Trust follows GASB Statement No. 34 “*Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments*”. GASB No. 34 establishes two bases for reporting financial information: government-wide financial statements and fund financial statements. The government-wide financial statements are reported using the economic measurement focus and accrual basis of accounting. The basis for preparing fund financial statements is similar to conventional governmental financial statements except that the focus for presentation is on major funds rather than fund types. The management’s discussion and analysis information precedes the basic financial statements but is considered required supplementary information.

### **Government-Wide Financial Statements:**

The focus of the government-wide financial statements is on the overall financial position and activities of the Trust as a whole.

The government-wide financial statements include the statement of net assets (deficit) and the statement of activities.

### **Statement of Net Assets (Deficit):**

*Presentation of Assets and Liabilities* — Assets and liabilities are presented in the statement of net assets (deficit) based on their relative liquidity. The liquidity of the assets is determined based on their ability to be converted into cash and the absence of any restriction that might limit their conversion to cash. The liquidity of liabilities is based on maturity dates or expected payment dates.

*Presentation of Component of Net Assets (Deficit)* — Net assets (deficit) represent the difference between the Trust’s total assets and its total liabilities.

### **Statement of Activities:**

The focus of the statement of activities is on the net cost of the various activities conducted by the Trust. The difference between the expenses and revenue related to the specific activities identifies the extent to which each function of the Trust is related with its corresponding revenue source.

*Revenue and Other Financing Inflows* — A fundamental concept in the presentation of the statement of activities is the identification of resources inflows to the Trust that are related to specific programs and those that are general in nature. Revenues of the Trust consist of program revenue.

Program revenues are those that are identified with a specific function, otherwise the revenue would not flow to the Trust. As established before, program revenue are presented in the statement of activities as a subtraction of related program expenses in order to identify the net cost or benefit of a particular program.

*Expenses* — The Trust reports expenses by function. Direct expenses are those that are specifically associated with a service, program or department and are clearly identifiable to a particular function.

**Fund Financial Statements:**

Fund based financial statements are included in order to demonstrate that restrictions imposed by statutes, regulations, or contracts have been followed. The Trust fund includes the following financial statements of its general fund:

*Balance Sheet* — reports information about the current financial resources (assets, liabilities and fund balance).

*Statement of Revenues, Expenditures, and Changes in Fund Balance* — reports information about the inflows, outflows and fund balance of current financial resources.

**Basis of Accounting** — the basis of accounting determines when the Trust recognizes revenue and expenditures/expenses and related assets and liabilities.

Governmental fund follows the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available. Available is defined as expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Trust considers revenues to be available if they are collected within 120 days after the end of the fiscal year.

In applying the susceptible to accrual concept to the Trust's governmental revenue, there are essentially two major types of revenue: monies received through operating contributions from the Commonwealth and agencies, and interest earned on cash accounts and time deposits. Monies must be expended on the specific purpose or project established by the applicable laws, regulations and contractual agreements. These resources are reflected as operating revenue, at the time of receipt or when being collectible within a relatively short period, because the susceptible to accrual criteria are met.

Expenditures and related liabilities are generally recorded in the accounting period in which the liability is incurred, except for certain expenditures for public works and housing assistance, which are recorded in the period the services are rendered after receiving notification of approved invoices from the government entities that contracted third parties to perform these services (DOT and Housing Department). There may be cases where there is a significant lag between the time the services are rendered and the time when the Trust is notified of the pending invoices. Any such cases are accounted for in subsequent fiscal year(s) upon notification.

**Cash Equivalents** — Cash equivalents are defined as highly liquid investments (time deposits held with GDB) with original maturities at the inception date of three months or less.

**Due from Commonwealth** — The Housing Department collects the monthly payments of mortgage loans and leases due from participants on behalf of the Trust. These funds are deposited temporarily in the accounts of the Commonwealth until their transfer to the Trust.

**Custodial Credit Risk Related to Deposits** — Custodial credit risk is the risk that in the event of a bank failure, the Trust's deposits may not be returned to it. The Trust does not have a deposit policy for custodial credit risk. As of June 30, 2010, all of the Trust's bank balance, aggregating approximately \$202.9 million, was exposed to custodial credit risk since such deposits, all of which are maintained at GDB, are uninsured and uncollateralized.

**Mortgage Loans and Cost Recovery Method** — The Trust grants mortgage loans to participants of the housing program in exchange for housing benefits received. Loans are stated at unpaid principal balances reduced by an allowance for loan losses. Loans are measured for impairment when it is probable that all amounts, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement. Due, among other, to the housing assistance nature of this social program, and the high proportion of mortgage loans that are delinquent, management of the Trust believes that amounts to be ultimately collected will be minimal and, to that effect, adopted the cost recovery method for the accounting of mortgage loans. Under the cost recovery method, the Trust records all mortgage payments received as a reduction of the principal, therefore delaying recognition of interest income until the principal of the mortgage loans has been collected in its totality. Accordingly, the balance of mortgage loans receivable as of June 30, 2010 has been fully reserved.

**Recently Issued Accounting Pronouncements** — The GASB has issued the following accounting pronouncements that have effective date after June 30, 2010:

- (a) **GASB Statement No. 54** — *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for periods beginning after June 15, 2010.
- (b) **GASB Statement No. 57** — *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which is effective for periods beginning after June 15, 2011.
- (c) **GASB Statement No. 59** — *Financial Statements Omnibus*, which is effective for periods beginning after June 15, 2010.

The impact of these pronouncements in the Trust's basic financial statements has not yet been determined.

### 3. RESTRICTED CASH

The Trust maintains all of its deposits at GDB, which are restricted principally for Special Communities projects. These are unsecured and uncollateralized since, by law, GDB is exempt from the requirement of insuring the deposits of funds of the entities of the Commonwealth.

Restricted cash consists of the proceeds of the line of credit and the operating contribution that were transferred from GDB to the Irrevocable Trust for the benefit of the Trust. These funds were deposited in a restricted account in GDB bearing monthly interest based on the monthly floating London Interbank Bid Rate (LIBID Rate) at the last day of every month.

#### 4. MORTGAGE LOANS

Effective July 13, 2004, the Trust has the authority to grant mortgage loans to participants of the housing program. The eligibility requirements are the following:

- Personal status — Single or head of household.
- Be a resident in a Special Community before November 26, 2002.
- Did not own another real property during the last two (2) years preceding the application date.

The Housing Department evaluates the houses identified as eligible and determines the improvements required. The improvements are classified as follows:

- Minor improvements — Improvement costs that do not exceed \$15,000.
- Major improvements — Improvement costs that are over \$15,000 but are less than \$25,000.
- New construction.

The financing alternatives for the participants are the following:

- Minor improvements — Six (6) years non-interest bearing loan up to \$15,000 amortizing based on the years the participant lives the property.
- Major improvements:
  - i. Six (6) years non-interest bearing loan for \$15,000 amortizing based on the years the participant lives the property.
  - ii. Thirty (30) years 5% interest bearing loan for the excess of \$15,000 up to \$25,000.
- New construction — Acquisition cost of the participant's previous residence will be deducted from total construction cost to be financed.
  - a. Thirty (30) years loan for \$15,000 bearing 5% annual interest.
  - b. Thirty (30) years loan for the remaining balance, non-interest bearing, and amortizing based on the years the participant lives the property.

The Trust will forgive the monthly payments on loans associated with major improvements and new construction as it relates to the following participants:

- Low income handicapped participants unable to work.
- Low income primary care giver to handicapped person.
- Low income senior citizens, 65 years or older.

Mortgage loans receivable represent secured loans with a first lien on real estate property.

## **5. CONTRIBUTIONS FROM THE COMMONWEALTH OF PUERTO RICO AND AGENCIES**

The Housing Department grants leases to the participants of the housing program of the Trust when circumstances cause a delay in the process of granting the mortgage loans. Once the circumstances preventing the granting of the mortgage are resolved, the lease granted by the Housing Department is terminated and a mortgage loan is granted by the Trust. The revenue generated by the Housing Department for the leases is passed on from the Housing Department to the Trust. In connection with this, for the year ended June 30, 2010, the Trust recognized operating contributions amounting to \$155,856.

Interest owed on the line of credit through June 30, 2010, amounting to \$25,057,343, was repaid with a Commonwealth contribution. Such amount has also been included as an operating contribution.

## **6. LONG TERM DEBT — NOTE PAYABLE**

The Trust maintains a ten (10) year non-revolving line of credit with GDB. The outstanding balance as of June 30, 2010 amounted to \$376,095,201.

Legislative Resolution No. 1672 of September 16, 2004 amended Legislative Resolution No. 1028 to establish that the principal plus accrued interest of this line of credit that matures on June 30, 2013 will be repaid in annual installments each June 30, from a contribution of the Public Improvements Fund of the Commonwealth to be appropriated by the Office of Management and Budget (OMB), during the next ten (10) years, effective on fiscal year 2003-2004. Contributions were determined by OMB taking into consideration the principal balance and accrued interest. Variable interest is calculated based on the average cost of funds of GDB plus twenty five (25) basis points each ninety (90) days. Interest is accumulated daily and is also payable annually. During the year ended June 30, 2010, no funds were appropriated by the OMB for the repayment of the line of credit, but the Commonwealth made a contribution equivalent to the interest owed on the line of credit through June 30, 2010 from the proceeds of Sales Tax Revenue Bonds issued by the Puerto Rico Sales Tax Financing Corporation, a component unit of the Commonwealth.

The Commonwealth's general fund budget for fiscal year 2011 includes an appropriation for the payment of the line of credit annual installment for the year ended June 30, 2011. This appropriation was based on a schedule proposed by the Bank to the OMB to repay principal of, and interest on public sector loans whose repayment source was originally from, among other, future issuances of Commonwealth's general obligation bonds for public improvements. The schedule provides for a period of amortization of thirty (30) years, at contractual interest rates. The Bank will annually submit to the OMB, to be included in the Commonwealth's budget for legislative approval, the amount established in the schedule for each subsequent fiscal year and expects that future appropriations will be approved by the legislature of the Commonwealth to comply with such schedule.

On June 30, 2006, the terms of the non-revolving line of credit were modified. Interest rate from May 25, 2006 to November 30, 2006 was the All-Inclusive True Interest Cost of the Medium Term Notes of the series B issued by GDB plus 125 basis points. Subsequently, every December 1<sup>st</sup>, the interest rate will be adjusted based on the All-Inclusive True Interest Cost plus 125 basis points or the interest rate negotiated by the GDB's president or his designee. Effective October 2009, a minimum interest rate of 7% will be charged on the line of credit. As of June 30, 2010, the interest rate was 7%.

**7. COMMITMENTS**

The Trust has financial assistance agreements with several municipalities of the Commonwealth to provide funding for the construction, improvement and rehabilitation of certain projects of the Special Communities. At June 30, 2010, the Trust's commitments with the municipalities amounted to approximately \$116.7 million, from which a total of approximately \$88.8 million had been disbursed.

**8. CONTINGENCIES**

The Trust is a defendant in numerous legal proceedings pertaining to matters incidental to the performance its normal operations. The Trust recorded approximately \$10,060,000 to cover for awarded and anticipated unfavorable judgments at June 30, 2010. This amount was included as other payables in the accompanying statement of net assets (deficit), and represents the amount estimated as probable liability that will require future available financial resources for its payment. The amounts claimed approximate \$70 million; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claims are excessive and exaggerated. Management, based on the advice of its legal counsel, believes that the ultimate liability in excess of amounts provided would likely not exceed \$12.7 million.

**9. TRANSACTIONS WITH GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**

The Trust is an affiliate of GDB. During the year ended June 30, 2010, GDB provided certain management and administrative services to the Trust at no cost.

**10. SUBSEQUENT EVENT**

On August 10, 2010, January 25, 2011 and February 18, 2011, the Trust disbursed approximately \$3.2 million, \$862 thousand, and \$418 thousand, respectively, in connection with legal settlements reached.

On September 3, 2010, the Trust's management signed an agreement with Puerto Rico Infrastructure Financing Authority ("PRIFA"), in which PRIFA agrees to provide the Trust administrative and technical assistance to complete the Trust's projects. The projects will be completed with the Trust's resources and PRIFA will be allowed to charge certain management and administrative fees to the Trust, as agreed by the parties.

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