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Puerto Rico Municipal Finance Agency

(A Component Unit of the Commonwealth of Puerto Rico)

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

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Municipal Finance Agency
San Juan, Puerto Rico

We have audited the accompanying statement of net assets of Puerto Rico Municipal Finance Agency (the "Agency"), a component unit of the Commonwealth of Puerto Rico, as of June 30, 2010, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the Agency'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 Agency'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.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Puerto Rico Municipal Finance Agency as of June 30, 2010, and the changes in net assets and cash flows 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 4 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 Agency's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Agency's basic financial statements taken as a whole. Schedule I — Investments Held by Trustees by Bond Series, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplemental schedule is the responsibility of the Agency's management. Such schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

March 11, 2011

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This section presents a narrative overview and analysis of the financial performance of the Puerto Rico Municipal Finance Agency (the "Agency") and is designed to assist the reader in focusing on significant financial issues, provide an overview of the Agency's financial activity, and identify individual issues or concerns. The information presented here should be read in conjunction with the basic financial statements, including notes thereto.

1. FINANCIAL HIGHLIGHTS

- At June 30, 2010, the Agency's total assets and net assets amount to approximately $1,375.7 million and approximately $57.0 million, respectively.
- Payment of matured bonds and escrow fund disbursements amounted to approximately $93.3 million and $29.3 million, respectively, during the year ended June 30, 2010.
- The fair value of the Agency's investments increased by approximately $43.0 million during the year ended June 30, 2010.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include the management's discussion and analysis section, the independent auditors' report, and the basic financial statements of the Agency. The notes to the basic financial statements explain in more detail some of the information in the financial statements.

3. REQUIRED FINANCIAL STATEMENTS

The financial statements of the Agency are prepared using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the Agency. The statement of net assets presents the Agency's assets and liabilities, providing information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Agency and assessing its liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement measures the success of the Agency's operations over the past year, and can be used to determine whether the Agency has successfully recovered its costs from the revenues it has generated.

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash came from, what was cash used for, and what was the change in the cash balance during the reporting period.

4. FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of whether a governmental entity's financial position is improving or deteriorating. In the case of the Agency, assets exceeded liabilities by approximately $57.0 million at June 30, 2010. This represents an increase of $49.8 million over net assets at June 30, 2009.

Condensed financial information of the Agency is as follows (amounts in thousands):

	June 30,		Change	
	2010	2009	Amount	Percent
Assets	$ 1,375,689	$ 1,456,738	$ (81,049)	(5.6)%
Liabilities	1,318,689	1,449,547	(130,858)	(9.0)%
Net assets	$ 57,000	$ 7,191	$ 49,809	692.7%
Operating revenues	$ 108,868	$ 23,297	$ 85,571	367.3%
Operating expenses	59,059	67,719	(8,660)	(12.8)%
Change in net assets	49,809	(44,422)	94,231	(212.1)%
Net assets–beginning of year	7,191	51,613	(44,422)	(86.1)%
Net assets–end of year	$ 57,000	$ 7,191	$ 49,809	692.7%

The Agency's activities consist of servicing its obligations and disbursing municipal escrow deposits. Escrow funds are composed of loan deposits used to finance municipal projects. These funds change proportionately with the development of the related projects. Total assets consequently decrease as investments are cancelled to fund the Agency's activities.

Total assets decreased by $81.0 million or 5.6% from prior year. This decrease was mainly associated with the current year debt repayment of approximately $93.3 million, disbursements of escrow funds of approximately $29.3 million, and decrease in amount due to Government Development Bank for Puerto Rico of approximately $2.2 million which was offset by an increase in fair value of investments of approximately $43.0 million.

Total liabilities decreased by $130.9 million as a result of debt repayment and disbursements of escrow fund made during the year as described in the paragraph above.

Operating revenue increased by approximately $85.6 million during the year ended June 30, 2010, mainly due to the $43.0 million increase in fair value of investments during the year ended June 30, 2010, in comparison with a decrease of $51.6 in prior year, and a decrease in interest income of approximately $9.0 million due to current year reduction in investment balances and interest rates.

Operating expenses decreased by approximately $8.7 million mainly due to a reduction in interest expense on bonds payable and escrow deposits of $4.6 million and $4.0 million, respectively.

5. DEBT ADMINISTRATION

At June 30, 2010, outstanding bonds of the Agency amounted to approximately $1,197.9 million, including its current portion of approximately $90.2 million. Payment of matured bonds amounted to approximately $93.3 million during the year ended June 30, 2010.

6. REQUESTS FOR INFORMATION

This financial report is designed to provide all interested parties with a general overview of the Agency's finances and to facilitate the Agency's accountability for the resources it manages. If you have questions about this report or need additional financial information, contact the Puerto Rico Municipal Finance Agency, PO Box 42001, San Juan, Puerto Rico, 00940-2001.

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010

ASSETS:		
Current assets:		
Cash	$	9,130,958
Other		43,227
Restricted:		
Cash		3,797,694
Investments		253,936,870
Accrued interest receivable		30,457,671
Total current assets		297,366,420
Non-current restricted assets:		
Investments		1,063,297,387
Deferred bond issue and insurance costs		15,025,125
Total non-current restricted assets		1,078,322,512
TOTAL ASSETS		1,375,688,932
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accrued liabilities		556,078
Escrow liabilities and municipalities–related payables		88,462,695
Total current liabilities		89,018,773
Current liabilities payable from restricted assets:		
Accrued interest payable		25,380,721
Due to Government Development Bank for Puerto Rico		1,596,296
Current portion of bonds payable		90,200,000
Total current liabilities payable from restricted assets		117,177,017
Non-current liabilities payable from restricted assets:		
Due to Government Development Bank for Puerto Rico		4,788,889
Bonds payable–excluding current portion		1,107,703,930
Total non-current liabilities payable		1,112,492,819
TOTAL LIABILITIES		1,318,688,609
NET ASSETS:		
Restricted		136,844,911
Unrestricted		(79,844,588)
NET ASSETS	$	57,000,323

See notes to basic financial statements.

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

OPERATING REVENUES:	
Interest income:	
Investments held by trustees	$ 64,794,022
Other investments	1,054,610
Total interest income	65,848,632
Increase in fair value of investments	42,977,583
Other	41,430
Total operating revenues	108,867,645
OPERATING EXPENSES:	
Interest expense:	
Bonds payable	58,864,546
Escrow liabilities and municipalities–related payables	100,934
Total interest expense	58,965,480
Management fees	48,372
Other	44,692
Total operating expenses	59,058,544
OPERATING INCOME AND CHANGE IN NET ASSETS	49,809,101
NET ASSETS — Beginning of year	7,191,222
NET ASSETS — End of year	$ 57,000,323

See notes to basic financial statements.

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES —		
Payments to service providers	$	(90,195)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest collected		68,277,472
Purchases of:		
Investments held by trustees		(550,395,847)
Other investments		(1,367,594)
Maturities and redemptions of:		
Puerto Rico municipal bonds and notes		89,547,001
Investments held by trustees		547,803,397
Other investments		33,437,953
Net cash provided by investing activities		187,302,382
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Interest paid		(62,423,299)
Payment of matured bonds		(93,270,000)
Decrease in due to Government Development Bank for Puerto Rico		(2,160,480)
Decrease of funds held in escrow and municipalities–related payables		(29,343,217)
Net cash used in non-capital financing activities		(187,196,996)
NET INCREASE IN CASH		15,191
CASH — Beginning of year		12,913,461
CASH — End of year	$	12,928,652
RECONCILIATION TO STATEMENT OF NET ASSETS:		
Cash – unrestricted	$	9,130,958
Cash – restricted		3,797,694
TOTAL CASH AT YEAR – END	$	12,928,652
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating income	$	49,809,101
Adjustments to reconcile operating income to net cash used in operating activities:		
Increase in fair value of investments		(42,977,583)
Interest income		(65,848,632)
Interest expense		58,965,480
Decrease in other current assets		6
Decrease in accrued liabilities		(38,567)
Net cash used in operating activities	$	(90,195)

See notes to basic financial statements.

1. REPORTING ENTITY

Puerto Rico Municipal Finance Agency (the "Agency") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth"), created by Act No. 29 of the Legislature of the Commonwealth on June 30, 1972, as amended, and an affiliate of Government Development Bank for Puerto Rico (the "Bank"). The Agency was organized to create a capital market to assist municipalities of Puerto Rico in financing their public improvements programs. The Agency is exempt from taxation in Puerto Rico.

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 the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting and reporting policies of the Agency conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Agency follows Governmental Accounting Standards Board ("GASB") 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 financial statements. The Agency has elected to apply all Financial Accounting Standards Board's pronouncements issued after November 30, 1989, in accounting and reporting for its activities to the extent they did not conflict with GASB pronouncements.

Following is a description of the Agency's significant accounting policies:

Measurement Focus and Basis of Accounting — Proprietary fund basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows.

Operating Revenues and Expenses — Proprietary funds distinguish operating revenues and expenses from non-operating items. The principal operating revenues of the Agency are interest earned on invested assets and the changes in the fair value of some investments. Operating expenses include interest on bonds payable and escrow liabilities of municipalities, as well as general and administrative expenses of the Agency. All revenues and expenses not meeting these criteria are reported as non-operating revenues and expenses.

Investments — Investments and investment contracts are carried at fair value, except for money market investments and participating investment contracts with a remaining maturity at the time of purchase of one year or less, and nonparticipating investment contracts, which are carried at cost. Fair value is determined based on quoted market prices, except for investments in Puerto Rico municipal bonds and notes, where the fair value is estimated by management using as a basis quoted market prices for the debt these investments collateralize. Such quoted market prices are obtained from independent sources.

Deferred Bond Issue and Insurance Costs — Bond issue and insurance costs are amortized on a straight-line basis over the term of the related debt.

Fair Value of Financial Instruments — Except for investments in Puerto Rico municipal bonds and notes, and bonds payable, the carrying values of the Agency's financial instruments are substantially similar to their fair values at June 30, 2010, because such instruments have either short-term maturities or bear interest at rates that vary with the market. The fair value of the Agency's bonds payable is estimated using quoted market prices from independent sources.

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

The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2010:

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

- GASB Statement No. 57 — *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which is effective for periods beginning after June 15, 2011.

- GASB Statement No. 59 — *Financial Instruments Omnibus*, which is effective for periods beginning after June 15, 2010.

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

3. CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a financial institution failure, the Agency's deposit may not be returned to it. The Agency does not have a policy for custodial credit risk. As of June 30, 2010, all of the Agency's bank balance, aggregating to approximately $13.1 million was exposed to custodial credit risk since the related deposits, a $9.3 million of which are maintained at the Bank, are uninsured and uncollateralized.

4. BALANCES AND TRANSACTIONS WITH GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

Cash at June 30, 2010 amounts to $12,928,652 of which $9,130,958 consisted of interest-bearing demand deposits with the Bank. In addition, the Agency has an amount due to the Bank arising from the purchase of loans to municipalities from the Bank (see Note 8). Since the Agency has no employees, the Bank provides certain management and administrative services to the Agency for which the Bank charged $48,372 during the year ended June 30, 2010.

5. CASH AND INVESTMENTS

In accordance with investment guidelines promulgated by the Bank for agencies and public corporations of the Commonwealth under the authority provided by Act No.113 of August 3, 1995 and Executive Order 1995-50A (the "investment guidelines"), the Agency is authorized to purchase or enter into the following investment instruments:

- United States (U.S.) government, agencies and sponsored agencies obligations
- Certificates of deposit
- Bankers' acceptances
- Commercial paper
- Participations in the Puerto Rico Government Investment Trust Fund
- Obligations of the Commonwealth of Puerto Rico, its agencies, municipalities, public corporations and instrumentalities
- Obligations of state and local governments of the U.S.
- Mortgage and asset-backed securities
- Corporate debt, including investment contracts
- External investment pools

The Agency's investment guidelines establish limitations and other guidelines on maturities and amounts to be invested in the aforementioned investment categories and by issuer/counterparty and on exposure by country. In addition, such policies provide guidelines on the institutions with which investment transactions can be entered into.

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

The external investment pool is registered with the Securities and Exchange Commission.

Restricted cash and investment in securities held by trustees in the Agency's name for repayment of bonds payable and other liabilities as of June 30, 2010, consist of the following:

Description	Amount
Cash	$ 3,797,694
Puerto Rico municipal bonds and notes	1,115,528,748
U.S. government, agencies and sponsored agencies obligations	8,838,376
Guaranteed investment contracts	36,707,980
Corporate bonds	52,299,925
Mortgage and asset-backed securities	7,566,820
External investment pool	96,292,408
	$ 1,321,031,951

The trust indenture authorizes the Agency to purchase or enter into the above investments and investment contracts.

Investments at June 30, 2010, are shown below by contractual maturity (in thousands). Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Expected Maturities (dollars in thousands)				
Securities Type	**Within One Year**	**After One to Five Years**	**After Five to Ten Years**	**After Ten Years**	**Total**
Puerto Rico municipal bonds and notes	$ 88,939	$ 360,263	$ 347,599	$ 318,727	$ 1,115,528
U.S. government, agencies and sponsored agencies obligations	8,838				8,838
Guaranteed investment contracts				36,708	36,708
Corporate bonds	52,300				52,300
Mortgage and asset-backed securities	7,567				7,567
External investment pool	96,293				96,293
	$ 253,937	$ 360,263	$ 347,599	$ 355,435	$ 1,317,234
	19 %	27 %	27 %	27 %	100 %

Investments in fixed-income external investment pools had an average maturity of less than 60 days; accordingly, they were presented as investments with maturity of less than one year.

All of the Agency's investments in U.S. government and agencies obligations carry the explicit guarantee of the U.S. government. The credit quality ratings for investments in debt securities, excluding U.S. government obligations, at June 30, 2010 are as follows:

	Credit Rate Risk (dollars in thousands)		
	AAA to A	BBB-	Total
Puerto Rico municipal bonds and notes	$ -	$ 1,115,528	$ 1,115,528
U.S. government, agencies and sponsored agencies obligations	6,897		6,897
Guaranteed investment contracts	36,708		36,708
Corporate bonds	52,300		52,300
Mortgage and asset-backed securities	7,567		7,567
External investment pool	96,293		96,293
	$ 199,765	$ 1,115,528	$ 1,315,293

The Puerto Rico municipal bonds and notes are payable by the municipalities from revenue derived from ad valorem taxes on all taxable property located within the respective municipalities. Interest rates on the Puerto Rico municipal bonds and notes range from 3.70% to 6.00%.

The Puerto Rico municipal bonds and notes are general obligations of the municipalities and are pledged to secure the debt service payments for the bonds issued by the Agency.

6. BONDS PAYABLE

As of June 30, 2010, bonds payable consist of the following:

Description	Interest Rate	Amount	Due Within One Year
1997 Series A and B Bonds, including unamortized premium of $61,575, and net of deferred loss on refunding of $3,625,229, maturing at various dates through July 1, 2013	5.50% - 6.00%	$ 44,061,346	$ 12,420,000
1999 Series A and B Bonds, including unamortized premium of $500,232, and net of deferred loss on refunding of $1,195,557, maturing at various dates through August 1, 2013	5.50% - 5.75%	122,019,675	35,185,000
2002 Series A Bonds, including unamortized premium of $7,018,304, maturing at various dates through August 1, 2027	3.75% - 5.25%	365,353,304	21,125,000
2005 Series A, B, and C Bonds, including unamortized premium of $31,922,930, net of deferred loss on refunding of $7,812,340, and unaccreted discount of $2,355,985, maturing at various dates through August 1, 2030	3.60% - 5.25%	666,469,605	21,470,000
TOTAL		$ 1,197,903,930	$ 90,200,000

As of June 30, 2010, debt service requirements for bonds outstanding are as follows:

For the Year Ending June 30,	Principal	Interest	Total
2011	$ 90,200,000	$ 57,507,224	$ 147,707,224
2012	94,775,000	52,684,271	147,459,271
2013	93,835,000	47,703,195	141,538,195
2014	101,580,000	42,667,203	144,247,203
2015	83,335,000	36,787,760	120,122,760
2016-2020	372,885,000	121,854,527	494,739,527
2021-2025	219,010,000	53,893,698	272,903,698
2026-2030	59,130,000	8,028,579	67,158,579
2031	58,640,000	4,392,926	63,032,926
	1,173,390,000	$ 425,519,383	$ 1,598,909,383
Plus (less):			
Unamortized premium	39,503,041		
Unaccreted discount	(2,355,985)		
Unamortized deferred loss on refunding of bonds	(12,633,126)		
	$ 1,197,903,930		

Bonds activity for the year ended June 30, 2010, is as follows:

Description	Balance at June 30, 2009	Issuances	Other Increases	Other Reductions	Payments	Balance at June 30, 2010
Bonds payable	$ 1,266,660,000	$ -	$ -	$ -	$ (93,270,000)	$ 1,173,390,000
Plus (less):						
Unamortized premium	45,815,922			(6,312,881)		39,503,041
Unaccreted discount	(2,736,186)			380,201		(2,355,985)
Unamortized deferred loss on refunding on bonds	(14,689,811)			2,056,685		(12,633,126)
Total	$ 1,295,049,925	$ -	$ -	$ (3,875,995)	$ (93,270,000)	$ 1,197,903,930

The 1997 Series A and B Bonds maturing on or after July 1, 2010, except for the Series A Bonds maturing on July 1, 2011 and 2012, which are not subject to redemption, may be redeemed at the option of the Agency, upon not less than 30 days prior notice. The redemption price is 100%.

The 1999 Series A and B Bonds maturing after August 1, 2010 may be redeemed at the option of the Agency, upon not less than 30 days prior notice. The redemption price is 101% from August 1, 2010 through July 31, 2011, 100.50% from August 1, 2011 through July 31, 2012, and 100% thereafter.

The 2002 Series A Bonds, maturing after August 1, 2012 may be redeemed at the option of the Agency, upon not less than 30 days prior notice, either in whole or in part, as directed by the Agency. The bonds may be redeemed 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.

The 2005 Series A Bonds, and the Series B and C Refunding Bonds were issued on December 22, 2005. The 2005 Series A Bonds maturing after August 1, 2015 and the 2005 Series C Refunding Bonds maturing on or after August 1, 2015 may be redeemed prior to their maturity, at the option of the Agency, upon not less than 30 days prior notice at a redemption price equal to the principal amount to be redeemed together with accrued interest thereon, and without a premium. The 2005 Series A Bonds maturing on August 1, 2030 in the principal amounts of $58,025,000 and $615,000, respectively, are subject to redemption to the extent of the respective amortization requirements set forth below, upon not less than 30 days prior notice to registered owners thereof on August 1, 2026 and on August 1 in each year thereafter from moneys in the 2005 Series A Bonds redemption account under the 2005 Series A Bonds indenture at a redemption price of par plus accrued interest to the date fixed for redemption:

Amortization Requirements for 2005 Series A Bonds due August 1,

Year		
2026	$ 14,085,000	$ 145,000
2027	16,335,000	165,000
2028	13,685,000	140,000
2029	7,885,000	95,000
2030	6,035,000	70,000
	$ 58,025,000	$ 615,000

The Series B Refunding Bonds are not subject to redemption.

The 2005 Series B Refunding Bonds were used, together with other moneys, to refund some of the outstanding 1997 Series A Bonds. The reacquisition price exceeded the net carrying amount of the old debt by $3.5 million. This amount is being netted against the new debt and amortized over the old debt's life, which is shorter than that of the refunding debt. The 2005 Series C Refunding Bonds were used, together with other moneys, to refund some of the outstanding 1999 Series A Bonds and 1999 Series B Refunding Bonds.

The fair value of bonds payable at June 30, 2010 amounted to approximately $1.210 billion. At June 30, 2010, approximately $243.3 million of the bonds refunded through advance refundings, remain outstanding.

7. DEBT SERVICE RESERVE FUND

The provisions of Act No. 29 of June 30, 1972, as amended, establish a Debt Service Reserve Fund (the "Reserve Fund"). According to the trust indenture of the Agency's 2002 bond issuance, the Reserve Fund shall be approximately, 50% and 50%, of the maximum principal and interest requirements, respectively, for any subsequent fiscal year on the bonds; the required reserve account will be approximately $10.8 million. The 2005 Reserve Account under the 2005 Indenture established from the proceeds of the 2005 Series A Bonds equal to approximately $18.9 million, to cover the sum of (i) 50% of the maximum principal and interest payments requirement for any fiscal year on the 2005 Series A 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 in accordance with the provisions of the United States Internal Revenue Code of 1986.

The 1997 Reserve Account requires an amount equal to the lesser of: (i) ten percent (10%) of the original proceeds of each series of 1997 Indenture Bonds outstanding, (ii) the maximum annual principal and interest requirements for any fiscal year on all 1997 Indenture Bonds outstanding, and (iii) 125% of average annual debt service on all 1997 Indenture Bonds outstanding. After the issuance of the 2005

Series B Refunding Bonds and the refunding of the 1997 Refunded Bonds, the required reserve account will be approximately $15.7 million.

The Agency is required to maintain in the 1999 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 1999 Indenture Bonds then outstanding and (b) the largest amount of the maximum principal and interest payments requirement for any fiscal year on the 1999 Municipal Bonds of any 1999 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 with a yield (determined in accordance with the provisions of the Code) equal to the yield from time to time on all 1999 Indenture Bonds outstanding (the "1999 Required Debt Service Reserve"). After the issuance of the 2005 Series C Refunding Bonds and the refunding of the 1999 Refunded Bonds, the required reserve account will be approximately $32.7 million. At June 30, 2010, the Reserve Fund consisted of U.S. government, agencies and sponsored agencies securities, external investment pools, and investment agreements amounting to $15.9 million for the 1997 bonds, $33.5 million for the 1999 bonds, $20.8 million for the 2002 bonds, and $19.3 million for the 2005 bonds, which are included as restricted investment securities in the accompanying statement of net assets. To assure the maintenance of the Reserve Fund, the Agency is authorized to request from the Commonwealth transfers of any amount that may be needed to restore the Reserve Fund to the required level. No such transfers have been requested as of June 30, 2010.

8. DUE TO GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

Loans purchased from the Bank with the proceeds of certain bond issuances included several advances granted to some municipalities in addition to the proceeds of their respective loans deposited in the escrow accounts. The advances were granted under an alternate procedure covered under Act No. 220 of August 6, 1999 to expedite municipal loan payments. These advances are to be collected from the escrow deposits.

Activity for the year ended June 30, 2010, is as follows:

Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
$ 8,545,665	$ -	$ 2,160,480	$ 6,385,185	$ 1,596,296

9. SUBSEQUENT EVENTS

Subsequent events were evaluated through March 11, 2011, the date the financial statements were available to be issued, to determine whether any such events should either be recognized or disclosed in the 2010 financial statements.

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PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE I — INVESTMENTS HELD BY TRUSTEES BY BOND SERIES
AS OF JUNE 30, 2010

	2005 Series A, B and C Bonds	2002 Series A Bonds	1999 Series A and B Bonds	1997 Series A and B Bonds	Total
Puerto Rico municipal bonds and notes	$ 341,495,950	$ 346,879,571	$ 332,655,736	$ 94,497,491	$ 1,115,528,748
U.S. government, agencies and sponsored agencies obligations	14,111	1,926,945	6,897,320		8,838,376
Guaranteed investment contracts		20,844,838		15,863,142	36,707,980
Corporate bonds	18,818,545		33,481,380		52,299,925
Mortgage and asset-backed securities	1,997,985	3,368,721	41,875	2,158,239	7,566,820
External investment pool	33,595,567	22,371,775	40,325,066		96,292,408
Total investments	$ 395,922,158	$ 395,391,850	$ 413,401,377	$ 112,518,872	$ 1,317,234,257
Cash	$ 33,954	$ 2,416	$ -	$ 3,761,324	$ 3,797,694