

# Government Development Bank for Puerto Rico Capital Fund

(A Component Unit of Government Development  
Bank for Puerto Rico)

Basic Financial Statements and Required  
Supplementary Information as of and  
for the Year Ended June 30, 2011, and  
Independent Auditors' Report

**GOVERNMENT DEVELOPMENT BANK  
FOR PUERTO RICO CAPITAL FUND  
(A Component Unit of Government Development Bank for Puerto Rico)**

**TABLE OF CONTENTS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

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	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2-4
BASIC FINANCIAL STATEMENTS:	
Balance Sheet	5
Statement of Revenues, Expenses, and Changes in Net Assets	6
Statement of Cash Flows	7
Notes to Basic Financial Statements	8-9

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Government Development Bank for Puerto Rico Capital Fund (the "Capital Fund"), a component unit of Government Development Bank for Puerto Rico, as of June 30, 2011, 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 Capital Fund'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 Capital Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 the Capital Fund as of June 30, 2011, and its changes in net assets and its 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 to 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 Capital Fund's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

*Deloitte & Touche LLP*

December 1, 2011

Stamp no. E26134  
affixed to original.

**GOVERNMENT DEVELOPMENT BANK  
FOR PUERTO RICO CAPITAL FUND  
(A Component Unit of Government Development Bank for Puerto Rico)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

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As management of Government Development Bank for Puerto Rico Capital Fund (the "Capital Fund"), we offer readers of the Capital Fund's financial statements this narrative overview and analysis of the Capital Fund's financial performance during the fiscal year ended June 30, 2011. Please read it in conjunction with the Capital Fund's basic financial statements, which follow this section.

**(1) Financial Highlights**

- Total assets decreased by approximately \$6 thousand or 2.4% when compared to prior year.
- Operating loss of less than one thousand dollars.

**(2) Overview of the Financial Statements**

This report includes this management's discussion and analysis section, the independent auditors' report, and the basic financial statements of the Capital Fund. The financial statements also include notes that explain in more detail some of the information in the financial statements.

**(3) Required Financial Statements**

The financial statements of the Capital Fund report financial information using accounting methods similar to those used by private sector entities. The balance sheet includes all of the Capital Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Capital Fund.

Revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement measures the success of the Capital Fund's operations over the past year and can be used to determine whether the Capital Fund successfully recovered its costs from the revenues 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 capital and noncapital financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**GOVERNMENT DEVELOPMENT BANK  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

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**(4) Financial Analysis of the Capital Fund**

The balance sheet and the statement of revenues, expenses, and changes in net assets report information about the Capital Fund in a way that will help determine whether the Capital Fund as a whole is better or worse financially as a result of this year's activities. These two statements report the net assets of the Capital Fund and the changes in them. Capital Fund's net assets — the difference between assets and liabilities — is a way to measure financial health or financial position. Over time, increases or decreases in the Capital Fund's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other nonfinancial factors such as changes in economic conditions and new or changed government legislation.

**(5) Net Assets and Changes in Net Assets**

Condensed financial information on assets, liabilities, and net assets is presented below (in thousands):

	June 30,		Change	
	2011	2010	Amount	Percent
Current assets	\$ 243	\$ 249	\$ (6)	(2.4)%
Noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	0%
Total assets	<u>\$ 243</u>	<u>\$ 249</u>	<u>\$ (6)</u>	(2.4)%
Current liabilities	\$ 11	\$ 17	\$ (6)	(35.3)%
Unrestricted net assets	<u>232</u>	<u>232</u>	<u>-</u>	0.0 %
Total liabilities and net assets	<u>\$ 243</u>	<u>\$ 249</u>	<u>\$ (6)</u>	(2.4)%

Total assets decrease of approximately \$6 thousand is due to the payment of operating expenses. Since the transfers of its investments portfolio to the Puerto Rico Tourism Development Fund on June 30, 2010, the operations of the Capital Fund have been reduced significantly.

**GOVERNMENT DEVELOPMENT BANK  
FOR PUERTO RICO CAPITAL FUND  
(A Component Unit of Government Development Bank for Puerto Rico)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

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Condensed financial information on revenues, expenses, and changes in net assets is presented below (in thousands):

	Year Ended June 30,		Change	
	2011	2010	Amount	Percent
Operating revenues:				
Dividend and interest income	\$ 1	\$ 617	\$ (616)	(99.8)%
Net increase (decrease) in fair value of investments	-	5,191	(5,191)	100.0 %
Other income	35	1	34	3400.0 %
Total operating revenue	36	5,809	(5,773)	99.4 %
Operating expenses	36	68	(32)	(47.1)%
Operating income	-	5,741	(5,741)	100.0 %
Transfer out	-	(72,066)	72,066	(100.0)%
Change in net assets	-	(66,325)	66,325	(100.0)%
Net assets — beginning of year	232	66,557	(66,325)	(99.7)%
Net assets — end of year	\$ 232	\$ 232	\$ -	0.0 %

Operating income decreased by approximately \$5.8 million from \$5.8 million of operating income in 2010, representing a 100% decrease. Since June 30, 2010 the operations of the Capital Fund have been reduced significantly after the transfer of its investment portfolio to the Puerto Rico Tourism Development Fund.

**(6) Contacting the Capital Fund's Financial Management**

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

**GOVERNMENT DEVELOPMENT BANK  
FOR PUERTO RICO CAPITAL FUND  
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**BALANCE SHEET  
AS OF JUNE 30, 2011**

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ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 242,960
Accrued interest receivable	<u>19</u>

Total current assets	<u>\$ 242,979</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES — Accounts payable	\$ 11,413
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UNRESTRICTED NET ASSETS	<u>231,566</u>
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TOTAL	<u>\$ 242,979</u>
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See notes to basic financial statements.

**GOVERNMENT DEVELOPMENT BANK  
FOR PUERTO RICO CAPITAL FUND  
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**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011**

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OPERATING REVENUES:	
Interest income	\$ 1,025
Other income	<u>35,115</u>
Total operating revenues	<u>36,140</u>
OPERATING EXPENSES:	
Custodial service fees	812
Management fees and professional services	<u>36,015</u>
Total operating expenses	<u>36,827</u>
Operating loss and change in net assets	<u>(687)</u>
NET ASSETS — Beginning of year	<u>232,253</u>
NET ASSETS — End of year	<u>\$231,566</u>

See notes to basic financial statements.

**GOVERNMENT DEVELOPMENT BANK  
FOR PUERTO RICO CAPITAL FUND  
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**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2011**

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Other income received	\$ 35,115
Fees paid	<u>(42,671)</u>
Net cash used in operating activities	(7,556)
CASH FLOWS FROM INVESTING ACTIVITIES — Interest received	<u>3,908</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,648)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>246,608</u>
CASH AND CASH EQUIVALENTS — End of year	<u><u>\$ 242,960</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	\$ (687)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Interest income	(1,025)
Decrease in accounts payable	<u>(5,844)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (7,556)</u></u>

See notes to basic financial statements.

**GOVERNMENT DEVELOPMENT BANK  
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**NOTES TO BASIC FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

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**1. REPORTING ENTITY**

Government Development Bank for Puerto Rico Capital Fund (the “Capital Fund”) is a component unit of Government Development Bank for Puerto Rico (the “Bank”).

The Capital Fund was created by resolution of the Bank’s board of directors in 1992 to expand the investment options available to the Bank and to administer, separately from the Bank’s general investment operations, the equity investment process through professional equity investment managers. On May 31, 2010, the board of directors of the Capital Fund authorized the transfer of its investments portfolio of approximately \$72 million to the Puerto Rico Tourism Development Fund. The transfer was completed on June 30, 2010. The Capital Fund is exempt from taxation in Puerto Rico.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the Capital Fund conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”), as applicable to governmental entities. The Capital Fund follows Governmental Accounting Standards Board (“GASB”) under the hierarchy established by Statement No. 55, *The Hierarchy of Generally Accepted Principles for the State and Local Governments*, in the preparation of its financial statements. The Capital Fund has elected to apply all Financial Accounting Standards Board’s pronouncements issued after November 30, 1989, in accounting and reporting for its enterprise activities to the extent they do not conflict with GASB pronouncements.

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

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation** — The Capital Fund’s 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** — Operating revenues and expenses are distinguished from nonoperating items. The principal operating revenues of the Capital Fund are interest and dividends earned on investments and other interest earning assets, gains and losses from the sale of investments, and changes in the fair value of investments. Operating expenses are those related to the administration of the entity.

**Cash and Cash Equivalents** — Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the Capital Fund may not be able to recover its deposits. The balance of cash and cash equivalents as June 30, 2011, which equaled the bank balance, consists of money market funds held in custody by a financial institution. Cash and cash equivalents are exposed to custodial credit risk as the entire balance was uninsured and uncollateralized at June 30, 2011. The Capital Fund does not have a formal policy for custodial credit risk.

### **3. MANAGEMENT FEES**

The Capital Fund has no employees. The Bank provides management services to the Capital Fund for which the Capital Fund is charged a monthly fee. Total management fees charged during the year ended June 30, 2011 amounted to \$30,000.

### **4. SUBSEQUENT EVENTS**

Subsequent events were evaluated through December 1, 2011, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the financial statements. Management has determined that there are no material events or transactions that would affect the Capital Fund's financial statements through such date.

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