RSM ROC & Company
Certified Public Accountants & Consultants

Puerto Rico Municipal Finance Agency

A Component Unit of the Commonwealth of Puerto Rico

Basic Financial Statements and Required Supplementary Information
June 30, 2007

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

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To: The Board of Directors of
Puerto Rico Municipal Finance Agency

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Puerto Rico Municipal Finance Agency (the Agency), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements as listed in the table of contents. 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 of 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, the financial statements referred to above present fairly, in all material respects, the financial position of Puerto Rico Municipal Finance Agency as of June 30, 2007, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

San Juan, Puerto Rico
October 24, 2007.

RSM ROC & Company

Stamp No. 2265600 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the original of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

As management of the Puerto Rico Municipal Finance Agency (the Agency) we offer readers of the Agency's financial statements this narrative overview and analysis of the Agency's financial performance during the fiscal year ended June 30, 2007. Please read it in conjunction with the Agency's basic financial statements, which follow this section.

(1) Financial highlights:

- The Agency's total assets and net assets amount to $1.8 billion and $69.9 million, respectively.
- Total assets decreased by $234 million or (11%); this decrease is associated with the current year debt service payment of $114 million and disbursement in escrow deposits by $109.5 million.
- Net assets increased by $9.7 million or 16% over the course of the year's operations due to an increase in the interest rate of the municipalities' obligations and the net effect of the bonds issued in fiscal year 2006.
- The Agency's interest expense in fiscal year 2007 was $86.6 million, a net increase of $5.1 million or 6.4% above 2007 expense. Interest expense on escrow accounts of municipalities increased to $12.8 million from $10.3 million in 2006, an increase of 24.3% due to a boost in escrow deposits arising from the 2006 bond issuance that increased the average balance to $308 million from $272 million in 2006. Escrow accounts decreased $109.5 million or (32%), from $341 million in 2006 to $231 million in 2007.

(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 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 fund 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 come from, what was cash used for, and what was the change in the cash balance during the reporting period.

(4) Financial analysis of the Agency:

The statement of net assets and the statement of revenues, expenses, and changes in fund net assets report information about the Agency's activities in a way that will help to determine whether the Agency 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 Agency and the changes in them. One can think of the Agency's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Agency's net assets are one indicator of whether its financial health is improving or deteriorating. However, one needs to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

(5) Net assets:

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

	June 30,		Change	
	2007	2006	Amount	Percent
Current assets	$ 247,828	$ 363,190	$ (115,362)	(32)%
Other assets	1,600,702	1,719,000	(118,298)	(7)%
Total assets	1,848,530	2,082,190	(233,660)	(11)%
Current liabilities	363,404	501,282	(137,878)	(28)%
Non-current liabilities	1,415,253	1,520,714	(105,461)	(7)%
Total liabilities	1,778,657	2,021,996	(243,339)	(12)%
Net assets:				
Restricted	55,058	41,273	13,785	33%
Unrestricted	14,815	18,921	(4,106)	(22)%
Net assets	$ 69,873	$ 60,194	$ 9,679	16%

Net assets increased $9.7 million to $69.9 million in 2007 from $60.2 million in 2006. The Agency's activities consist of servicing its obligations and disbursing municipal escrow deposit. Escrow funds are constituted of loan deposits used to finance municipal projects. These funds changed proportionately with the development of the related projects. During 2006 total assets consequently decrease as investments are cancelled to fund the Agency's activities. Interest earning assets with higher yield than the obligations cost offset the decrease in resources resulting in a net growth. Also, contributing to the net increase is the positive change in the fair value of investments of $558,000.

Condensed financial information on revenues, expenses, and changes in fund net assets are presented below:

	Year ended June 30,		Change	
	2007	2006	Amount	Percent
Operating revenue:				
Interest income	$ 95,363	$ 87,669	$ 7,694	9%
Other	389	-	389	100%
Change in fair value of investments	558	(37,753)	38,311	101%
	96,310	49,916	46,394	93%
Operating expenses	86,631	81,524	5,107	6%
Operating gain (loss)	9,679	(31,608)	41,287	131%
Non-operating income (expense):				
Transfer to municipalities	-	(24,558)	24,558	100%
Change in net assets	9,679	(56,166)	65,845	117%
Net assets, beginning of year	60,194	116,360	(56,166)	(48)%
Net assets, end of year	$ 69,873	$ 60,194	$ 9,679	16%

As mentioned above, change in net assets amounts to $9.7 million. Operating expenses increased by $5.1 million. Interest expense on bonds payable increased by $2.7 million to $73.8 million in 2007 from $71.1 million in 2006. The increase results from a greater average outstanding bond balance in 2007 when compared to 2006. Interest paid on escrow accounts from municipalities increased by $2.5 million in 2007, or 24.3%.

(6) Debt administration:

At June 30, 2007, the Agency had $1.5 billion in outstanding bonds, including the current portion of $99 million. The Agency paid $114 million in principal on bonds payable outstanding during the year. Detailed information regarding long-term debt activity is included in the notes to the basic financial statements (note 6).

(7) 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
June 30, 2007

ASSETS:	
Current assets-	
Cash	$ 3,463,539
Investments	244,318,825
Other	45,339
	247,827,703
Noncurrent restricted assets-	
Cash	4,438,617
Investment in securities	1,530,708,042
Accrued interest receivable	41,728,762
Deferred bond issue and insurance costs	23,826,736
	1,600,702,157
	1,848,529,860
LIABILITIES AND NET ASSETS:	
Current liabilities-	
Accrued liabilities	1,584,515
Escrow liabilities and municipalities - related payables	231,427,879
	233,012,394
Current liabilities payable from restricted assets-	
Accrued interest payable	31,356,688
Current portion of bonds payable	99,035,000
	130,391,688
Non-current liabilities payable from restricted assets:	
Due to Government Development Bank for Puerto Rico	16,344,884
Bonds payable, excluding current portion	1,398,908,058
	1,415,252,942
	1,778,657,024
NET ASSETS:	
Restricted	55,057,527
Unrestricted	14,815,309
	$ 69,872,836

The accompanying notes are an integral part of this statement.

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the year ended June 30, 2007

OPERATING REVENUES:		
Interest income:		
Investments held by trustees	$	80,800,600
Other investments		14,562,828
		95,363,428
Increase in fair value of investments		557,385
Other		455,030
		96,375,843
OPERATING EXPENSES:		
Interest expense:		
Bonds payable		73,788,240
Escrow accounts from municipalities		12,795,146
		86,583,386
Management fees		48,000
Other professional services		65,927
		86,697,313
OPERATING INCOME		9,678,530
NET ASSETS, beginning of year		60,194,306
NET ASSETS, end of year	$	69,872,836

The accompanying notes are an integral part of this statement.

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

STATEMENT OF CASH FLOWS
For the year ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest collected	$	93,585,509
Non-operating cash received		1,807,796
Acquisition of investments held by trustee		(278,941,203)
Maturities and Redemptions of-		
Puerto Rico municipal bonds and notes		98,411,000
Investments held by trustees		298,852,433
Other investments		116,207,950
Interest paid		(93,306,103)
Payment of matured bonds		(114,140,000)
Decrease of funds held in escrow and accounts payable		(109,520,568)
Decrease in due to GDB		(7,336,649)
Payments to service providers		(1,398,572)
Net cash provided by operating activities		4,221,593
CASH, beginning of year		3,680,563
CASH, end of year	$	7,902,156
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$	9,678,530
Adjustments to reconcile operating income to net cash provided by operating activities:		
Increase in unrealized fair value of investments		(557,441)
Amortization of premium, net		(3,968,431)
Amortization of bond issue and insurance costs		3,420,248
Change in assets and liabilities:		
Decrease in investment securities		229,743,293
Decrease in accrued interest receivable		3,008,968
Decrease in other current assets		1,807,796
Decrease in accrued expenses and other liabilities		(3,462,991)
Decrease in accrued interest payable		(6,178,459)
Decrease in escrow liability and municipalities - related payables		(107,793,271)
Decrease in due tu GDB		(7,336,649)
Decrease in bonds payable		(114,140,000)
Net cash provided by operating activities	$	4,221,593

The accompanying notes are an integral part of this statement.

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 the 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 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 applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures, issued on or before November 30, 1989. In addition, the Agency elected to apply all Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, except for those that conflict or contradict GASB pronouncements.

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.

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

(a) 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.

(b) 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 municipal bonds and notes and other investments, and the changes in the fair value of these investments. Operating expenses include interest on bonds payable and escrow accounts of the 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.

(c) 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 for which it is based on quotations received from independent broker/dealers.

(d) Deferred Bond Issue and Insurance Costs

Bond issue and insurance costs are amortized on a declining-balance basis over the term of the related debt, an approach that approximates the interest method.

(e) 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, 2007, 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 discounted cash flow analyses based on the Agency's current international borrowing rates for similar types of borrowing arrangements.

(f) Refundings

Refundings involve the issuance of new debt whose proceeds are used to repay immediately (current refunding) or at a future time (advance refunding) previously issued debt. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is 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 date after June 30, 2007:

(a) ***GASB Statement No. 45***, *Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions,* which is effective for periods beginning after December 15, 2006, December 15, 2007 or December 15, 2008, depending on the level of total annual revenues.

(b) ***GASB Statement No. 47***, *Accounting for Termination Benefits*, which is effective in two parts. For termination benefits provided through an existing defined benefit other postemployment benefits plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005.

(c) ***GASB Statement No. 48***, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* which is effective for financial statements for periods beginning after December 15, 2006.

(d) ***GASB Statement No. 49****, Accounting and Financial Reporting for Pollution Remediation Obligations*, which is effective for financial statements for periods beginning after December 15, 2007.

(e) ***GASB Statement No. 50****, Pension Disclosures, An Amendment of GASB Statements No. 25 and No. 27*, which is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which is effective for periods which the financial statements and required supplemental information contain information resulting from actuarial valuations as of June 15, 2007, or later.

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

(g) ***GASB Technical Bulletin No. 2006-1****, Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*, which is effective simultaneously with the implementation of GASB Statements No. 43 and 45.

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

3) Custodial Credit Risk:

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposit may not be returned to it. The Agency does not have a deposit policy for custodial credit risk. As of June 30, 2007, all of the Agency's bank balance, aggregating approximately $3,500,000, was exposed to custodial credit risk since such deposits, all of which are maintained at the Bank, are uninsured and uncollateralized.

4) Transactions with Government Development Bank for Puerto Rico:

Cash at June 30, 2007 amounts to $7,902,156 of which $3,463,539 consisted of interest-bearing demand deposits with the Bank, and the remaining $4,438,617 was deposited with the trustees. In addition, the Agency has an amount due to the Bank representing loans purchased from the Bank with the 2003 bond issue (note 8). Since the Agency has no employees, the Bank provides certain management and administrative services to the Agency for which the Bank charged $48,000 during the year ended June 30, 2007.

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:

- U.S. Government and 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 Unites States of America
- Mortgage and asset-backed securities
- Corporate debt, including investment contracts
- External investment pools

The investment guidelines also establish limitations and other guidelines.

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 as of June 30, 2007, consist of the following:

Description	Amount
Cash	$ 4,438,617
Puerto Rico municipal bonds and notes	1,419,627,445
U.S. government and agencies obligations	14,643,500
Guaranteed investment contracts	36,707,984
Corporate bonds	59,729,113
	$ 1,535,146,659

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

Investments and investment contracts, excluding equity securities, at June 30, 2007, are shown below by contractual maturity. 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.

	Interest Rate Risk (dollars in thousands)				
Securities Type	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
U.S. Treasury notes	$ 245	$ -	$ -	$ -	$ 245
U.S. Agencies	14,398	-	-	-	14,398
Municipality obligations	95,487	372,362	435,797	515,982	1,419,628
Corporate bonds	59,729	-	-	-	59,729
External investment pools	186,330	-	-	-	186,330
Nonparticipating investment contracts	57,989	-	-	36,708	94,697
	$414,178	$ 372,362	$ 435,797	$ 552,690	$ 1,775,027
	23%	21%	25%	31%	100%

The Agency investment policies limit its investments to the top rating issued by Standard & Poor's, Moody's Investors Service and Fitch ratings.

Investments, excluding investment contracts, at June 30, 2007, are shown below by rating classification.

	Credit Rate Risk (dollars in thousands)		
	AAA to A	BBB	Total
U.S. Treasury notes	$ 245	$ -	$ 245
U.S. Agencies	14,398	-	14,398
Municipality obligations	-	1,419,628	1,419,628
Nonparticipating investment contracts	36,708	57,989	94,697
Corporate debt	59,729	-	59,729
External investment pools	74,789	111,541	186,330
	$ 185,869	$ 1,589,158	$ 1,775,027
	10%	90%	100%

The Puerto Rico municipal bonds and notes (the Municipal Bonds and Notes) at June 30, 2007, mature as follows (based on face value of bonds and notes) (in thousands):

Description	Amount
Within one year	$ 91,412
Between one and five years	356,568
Between five and ten years	417,547
After ten years	494,712
	$ 1,360,239

The 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 municipal bonds and notes primarily range from 3.5% to 6.0%.

The 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, 2007, bonds payable consist of the following:

Description	Interest Rate	Amount
1984 Series A Bonds	8.62%	$ 70,000
1997 Series A and B Bonds, including unamortized premium of $103,200, net of deferred loss on refunding of $5,420,041.53, maturing at various dates through July 1, 2013	5.00% - 6.00%	77,423,158
1999 Series A and B Bonds, including unamortized premiums of $2,269,859, net of deferred loss on refunding of $1,771,649, maturing at various dates through August 1, 2013	5.00% - 5.75%	252,793,210
2002 Series A Bonds, including unamortized premium of $11,936,317, maturing at various dates through August 1, 2027	3.50% - 5.25%	430,906,317
2005 Series A, B and C Bonds, including unamortized premium and anticipatory hedge of $45,259,861, underwriter discount of $3,626,707, net of deferred loss on refunding of $12,047,781, maturing at various dates through August 1, 2030	3.60% - 5.25%	736,750,373
		$ 1,497,943,058

As of June 30, 2007 debt service requirements for bonds outstanding are as follows:

Year ending June 30,	Principal	Interest	Total
2008	$ 99,105,000	$ 68,958,449	$ 168,063,449
2009	95,545,000	66,673,811	162,218,811
2010	93,200,000	62,105,929	155,305,929
2011	90,200,000	57,507,224	147,707,224
2012	94,775,000	52,684,271	147,459,271
2013-2017	446,890,000	192,200,673	639,090,673
2018-2022	299,790,000	96,114,574	395,904,574
2023-2027	183,065,000	35,479,594	218,544,594
2028-2031	58,670,000	10,250,911	68,920,911
	1,461,240,000	$ 641,975,436	$ 2,103,215,436
Plus (less):			
Unamortized premiums, net	59,569,237		
Underwriter discount	(3,626,707)		
Unamortized deferred loss on refunding of bonds	(19,239,472)		
	$ 1,497,943,058		

Bond balance activity for the year ended June 30, 2007, is as follows:

Beginning Balance	Increases	Decreases	Ending Balance	Amount Due With One Year
$ 1,616,564,853	$ -	$ 118,621,795	$ 1,497,943,058	$ 99,035,000

The 1997 Series A and B Bonds maturing on or after July 1, 2007, 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 101.50% from July 1, 2007 through June 30, 2008, 100.75% from July 1, 2008 through June 30, 2009, and 100% thereafter.

The 1999 Series A and B Bonds maturing after August 1, 2009 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, 2009 through July 31, 2010, 100.50% from August 1, 2010 through July 31, 2011, and 100% thereafter.

The 2002 Series A Bonds issued on December 5, 2002, 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 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 after August 1, 2030 in principal amounts of $58,025,000 and $615,000, are subject to redemption to the extent of the respective amortization requirements as set forth in the closing agreement, upon not less than 30 days prior notice. 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 the refunded 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. This amount is being netted against the new debt and amortized over the old debt's life, which is shorter than the refunded debt.

The fair value of bonds payable at June 30, 2007 amounted to approximately $1.5 billion. At June 30, 2007, approximately $300 million of the bonds refunded through an in substance defeasance, 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 indentures of the Agency's 2002 bond issue, the Reserve Fund shall be approximately, 50% and 50%, respectively, of the maximum principal and interest requirements for any subsequent fiscal year on the bonds. The 2005 Reserve Account under the 2005 Indenture established from the proceeds of the 2005 Series A Bonds equal to $19,583,398, 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 (the "1997 Required Debt Services Reserve"). After the issuance of the 2005 Series B Refunding Bonds and the refunding of the 1997 Refunded Bonds, the required reserve account will be $15,863,142.

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 $42,305,890.87. At June 30, 2007, the Reserve Fund consisted of U.S. government and agencies securities, external investment pools, and investment agreements amounting to $15.9 million for the 1997 bonds, $39.8 million for the 1999 bonds, $20.8 million for the 2002 bonds, and $19.7 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, 2007.

8) Due to Government Development Bank for Puerto Rico:

Loans purchased to the Bank with the proceeds of the 2002 Series A, and the 2005 Series B and C, bonds issues included several advances granted to some municipalities in addition to the proceeds of their respective loans deposited in the escrow accounts. The advances are granted with the purpose of expediting the payment process, which in these cases is performed directly by the municipality. These advances are to be collected from the escrow deposits when the balance reaches certain level. While the advances remained deposited at the Bank, the escrow deposits were fully transferred to the Agency.

Activity for the year ended June 30, 2007, is as follows:

Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
$ 23,681,533	$ -	$ 7,336,649	$ 16,344,884	$ -

PUERTO RICO MUNICIPAL FINANCE AGENCY

A Component Unit of the Commonwealth of Puerto Rico

INVESTMENTS HELD BY TRUSTEES BY BOND SERIES

June 30, 2007

	2005 Series A, B and C Bonds	2002 Series A Bonds	1999 Series A and B Bonds	1997 Series A and B Bonds	1984 Series A Bonds	Total
Puerto Rico municipal bonds and notes	$ 405,481,337	$ 415,207,841	$ 470,059,126	$ 128,879,141	$ -	$ 1,419,627,445
U.S. government and agencies obligations	3,188,235	2,527,373	8,927,892	-	-	14,643,500
Investment contracts	-	78,833,392	-	15,863,142	-	94,696,534
External investment pools	131,243,422	-	55,086,853	-	-	186,330,275
Corporate bonds	19,582,515	-	40,146,598	-	-	59,729,113
	$ 559,495,509	$ 496,568,606	$ 574,220,469	$ 144,742,283	$ -	$ 1,775,026,867
Cash	$ 526	$ 695,712	$ 23	$ 3,671,988	$ 70,368	$ 4,438,617

See accompanying independent auditors' report.