COMMONWEALTH OF PUERTO RICO

Basic Financial Statements

and Required Supplementary Information

June 30, 2013

(With Independent Auditors' Report Thereon)

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

Fiscal Year Ended June 30, 2013

Commonwealth of Puerto Rico

Honorable Alejandro García Padilla
Governor

Prepared by:

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COMMONWEALTH OF PUERTO RICO

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Independent Auditors' Report

The Honorable Governor and Legislature
Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following entities, funds and activities:

- *Governmental Activities*
  - Puerto Rico Public Housing Administration, which represents 25.65% and 2.47% of the total assets and revenues, respectively, of the General Fund.
  - Office for the Administration of the Sales and Acquisition Fund of the Puerto Rico Department of Housing, which represents 0.60% and 0.00% of the total assets and revenues, respectively, of the General Fund.
  - Office for the Improvements of Public Schools, which represents 0.90% and 0.00% of the total assets and revenues, respectively, of the General Fund.
  - Labor Development Administration, which represents 0.33% and 0.45% of the total assets and revenues, respectively, of the General Fund.
  - Public Buildings Authority special revenue, debt service, and capital projects funds, which are nonmajor governmental funds that collectively represent 7.54% and 2.67% of the total assets and revenues, respectively, of the aggregate remaining fund information.

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- Puerto Rico Infrastructure Financing Authority special revenue, debt service, and capital projects funds, which are nonmajor governmental funds that collectively represent 5.32% and 1.41% of the total assets and revenues, respectively, of the aggregate remaining fund information.

- The Children's Trust special revenue and debt service funds, which are nonmajor governmental funds that collectively represent 2.09% and 0.20% of the total assets and revenues, respectively, of the aggregate remaining fund information.

- Special Communities Perpetual Trust special revenue and debt service funds, which are nonmajor governmental funds that collectively represent 1.30% and 0.08% of the total assets and revenues, respectively, of the aggregate remaining fund information.

- Puerto Rico Maritime Shipping Authority debt service fund, which is a nonmajor governmental fund that represents 0.10% and 0.00% of the total assets and revenues, respectively, of the aggregate remaining fund information.

These entities collectively represent 15.49% and 2.95% of the total assets and revenues, respectively, of the governmental activities.

o *Business-Type Activities*

- Unemployment Insurance Fund, which is a major enterprise fund.

- Additional Lottery System, representing 81.53% and 50.13% of the assets and revenues, respectively, of the Lotteries Fund, which is a major enterprise fund.

- Puerto Rico Medical Services Administration, which is a major enterprise fund.

- Puerto Rico Water Pollution Control Revolving Fund, which is a major enterprise fund.

- The Governing Board of 9-1-1 Services, which is a nonmajor enterprise fund, representing 0.44% and 1.08% of the total assets and revenues, respectively, of the aggregate remaining fund information.

These entities collectively represent 78.64% and 65.35% of the total assets and revenues, respectively, of the business-type activities.

o *Discretely Presented Component Units*

The discretely presented component units listed in note 1(c) represent 72.28% and 92.09% of the total assets and revenues, respectively, of the aggregate discretely presented component units.

Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the activities, funds, and component units indicated above, are based solely on the reports of the other auditors.

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Liquidity Risks and Uncertainties

The Commonwealth has a net deficit of $47.2 billion in the governmental activities and a net deficit of $2.0 billion in the General Fund as of June 30, 2013, which has resulted from operating deficits over the last several years. The Commonwealth's high level of debt and the resulting required allocation of revenues to service this debt have contributed to these deficits and have adversely affected its credit ratings. The Commonwealth expects that its ability to finance budget deficits will be severely limited, and, therefore, it will be required to reduce the amount of resources that fund other important governmental programs and services in order to balance its budget.

The combined unfunded actuarial accrued liability and funded ratio for pension benefits of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Commonwealth of Puerto Rico Judiciary Retirement System (JRS), and the Puerto Rico System of Annuities and Pensions for Teachers (TRS) (the Pension Plans), were $33.7 billion and 7.4%, respectively as of June 30, 2103. In the opinion of management, based on information prepared by consulting actuaries, the net position of the ERS, the JRS, and the TRS will be exhausted by the fiscal years 2015, 2019, and 2020, respectively, if measures are not implemented to reduce the unfunded actuarial accrued liability and increase the funded ratio of the Pension Plans.

The Government Development Bank (GDB), a discretely presented component unit of the Commonwealth, has loans to the Commonwealth and its public entities amounting to approximately $6.9 billion or 48% of the GDB's total assets as of June 30, 2013. These loans are expected to be collected through appropriations from, bond issuances of, and revenues generated by the Commonwealth and its public entities. The GDB's liquidity and financial condition depends on the repayment of loans made to the Commonwealth and its public entities which face significant fiscal and financial challenges in their ability to generate sufficient funds from taxes, charges and/or future bond issuances.

The net deficit of the governmental activities and the General Fund, the combined unfunded actuarial accrued liability and the funded ratio of the Pension Plans, and the significant balances of loans due to the GDB present liquidity risks regarding the Commonwealth's ability to meet its financial obligations and to fund all necessary governmental programs and services. The liquidity risks and management's plans are discussed in notes 2 and 17. Our opinions were not modified as a result of this matter.

Puerto Rico Public Corporation Debt Enforcement and Recovery Act

As discussed in note 22 to the financial statements, the Commonwealth enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Debt Enforcement Act"), on June 28, 2014. The Act provides a statutory process for the enforcement and restructuring of the debts and other obligations of certain public corporations experiencing financial distress. As further discussed in note 2, there are various public corporations under financial distress and facing liquidity risk which could seek indebtedness relief under this Act. Such public corporations are reported as discretely presented component units. Our opinions were not modified as a result of this matter.

Puerto Rico Electric Power Authority (PREPA)

The accompanying financial statements have been prepared assuming that the Commonwealth and its component units will continue as going concerns. As discussed in note 2 to the financial statements, PREPA, a discretely presented component unit of the Commonwealth has had material recurring operating deficits, currently has a high level of debt and faces large non-discretionary capital expenditure requirements, while facing a decline in demand for electricity. PREPA currently faces heightened liquidity and market access risk as a result of the maturity in July and August 2014 of two short-term lines of credit in an aggregate principal amount of $671 million. PREPA's management is currently negotiating the renewal of these lines of credit with the corresponding commercial banks. PREPA's ability to repay its outstanding lines of credit is limited and its ability to extend, renew or replace these lines of credit is uncertain. This raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion on the aggregate discretely presented component units is not modified with respect to this matter.

Adoption of New Accounting Pronouncement

As discussed in notes 1(cc) and 3 to the financial statements, effective July 1, 2012, the Commonwealth adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*. Our opinions were not modified as a result of this matter.

Other Matters

Restatement of Net Position and Fund Balance

As part of our audit of the 2013 financial statements we also audited the adjustments described in note 3 that were applied to restate net position and fund balance as of July 1, 2012, except for such adjustments related to those entities that were audited by other auditors as described in the Auditors' Responsibility paragraphs. The Commonwealth's previously issued basic financial statements were audited by other auditors. In our opinion, based on our audit and the reports of other auditors, such adjustments are appropriate and have been properly applied.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 6 through 20, the schedules of funding progress on pages 243 and 244, the schedule of employer contributions on page 245, and the schedule of revenues and expenditures –budget and actual– budgetary basis - General Fund on page 246, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The combining and individual fund financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual fund financial statements and schedules are fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

June 30, 2014

Stamp No. E125980 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the Commonwealth of Puerto Rico (the Commonwealth or the Government) for the fiscal year ended June 30, 2013. The MD&A is intended to serve as an introduction to the basic financial statements, which have the following components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the Commonwealth's financial activities; (c) identify any material changes from the original budget; and (d) highlight individual fund matters. The following presentation is highly summarized and, in order to gain a thorough understanding of the Commonwealth's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

Overview of the Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the Commonwealth, the government-wide financial statements and the fund financial statements. These financial statements also include the notes to the basic financial statements that explain information in the financial statements and provide more detail.

Government-Wide Financial Statements

The government-wide financial statements provide readers a broad view of the Commonwealth's operations in a manner similar to a private-sector business. The statements provide both short and long-term information about the Commonwealth's financial position, which assists in assessing the Commonwealth's economic condition at the end of the fiscal year. These are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

- ***Statement of Net Position*** – This statement presents all of the government's assets, liabilities and deferred outflows and inflows of resources. Net position (deficit) is the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in the Commonwealth's net position may serve as a useful indicator of whether the financial position of the Commonwealth is improving or deteriorating.

- ***Statement of Activities*** – This statement presents information showing how the government's net position (deficit) changed during the most recent fiscal year. All changes in net position (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Commonwealth.

Both of the above financial statements have the following columns:

- ***Governmental Activities*** – These activities are mostly supported by taxes and intergovernmental revenue (federal grants). Most services normally associated with the Commonwealth government fall into this category, including general government, education, public housing and welfare, health, public safety and economic development.

- ***Business Type Activities*** – These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business type activities of the Commonwealth include the operations of the following major funds: the Unemployment Insurance Trust Fund (administered by the Commonwealth's Employment Security Bureau), the Lotteries Fund, the Puerto Rico Medical Services Administration and the Water Pollution Control Revolving Fund.

- ***Component Units*** – These are organizations that are legally separated from the Commonwealth, but either the Commonwealth is financially accountable for them or the nature and significance of their relationship with the Commonwealth are such that their exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The Commonwealth has both blended and discretely presented component units. Blended component units are presented within the primary government activities. Discretely presented component units are presented in a separate column.

The government-wide financial statements can be found immediately following this management's discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth uses fund accounting to help ensure and demonstrate compliance with finance related legal requirements. The fund financial statements focus on individual parts of the Commonwealth government, reporting the Commonwealth's operations in more detail than the government-wide financial statements. All of the funds of the Commonwealth can be divided into three categories:

- ***Governmental Funds Financial Statements*** – Most of the basic services provided by the Commonwealth are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as the current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short term view of the Commonwealth's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Commonwealth. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances (deficit) provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Commonwealth has four major governmental funds. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit). The Commonwealth's four major governmental funds are:

– General Fund

– Debt Service Fund

– COFINA Special Revenue Fund

– COFINA Debt Service Fund

The remaining nonmajor governmental funds are grouped and presented in a single column in the governmental funds financial statements. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

- ***Proprietary Funds Financial Statements*** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers, including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The Commonwealth has four major proprietary funds: (i) the Unemployment Insurance Fund; (ii) the Lotteries Fund, which includes the Lottery of Puerto Rico and the Additional Lottery System; (iii) the Puerto Rico Medical Services Administration; and, (iv) and the Water Pollution Control Revolving Fund. Other nonmajor proprietary funds are grouped and presented in a separate column in the proprietary funds financial statements. The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

Fiduciary Funds Financial Statements

These funds are used to account for resources held for the benefit of parties outside the Commonwealth government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Commonwealth's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the full accrual basis of accounting. The Commonwealth's fiduciary funds are: (i) the pension trust funds (three separate retirement systems for employees, which are fiduciary component units of the Commonwealth); (ii) the defined benefit other postemployment (OPEB) plans (three separate other postemployment plans for employees, which are fiduciary component units of the Commonwealth) and (iii) the agency funds (which account for the assets held for distribution by the Commonwealth as an agent for other governmental units, other organizations or individuals). The basic fiduciary funds financial statements can be found immediately following the proprietary funds financial statements.

Component Units Financial Statements

Component units are legally separate entities, for which the Commonwealth has financial accountability, but they have certain independent qualities as well. The government-wide financial statements present information for the component units in a single column on the statement of net position (deficit). Also, some information on the statement of net position (deficit) is aggregated for component units. The combining statement of net position and the combining statement of activities provide detail for each major component unit and the nonmajor component units in aggregate. The combining financial statements for major component units can be found immediately following the fiduciary funds financial statements.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the major component units' combining financial statements.

Required Supplementary Information / Supplementary and Other Information (Unaudited)

The basic financial statements include a section of required supplementary information and other information immediately following its notes. This section includes information of funding progress and employer contributions for the Commonwealth's three separate retirement systems, including postemployment healthcare benefits, schedule of revenues and expenditures – budget and actual – budgetary basis – General Fund, supplemental schedule of expenditures by agency – budget and actual – budgetary basis – General Fund, and combining schedules for nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds and nonmajor discretely presented component units.

Government-Wide Financial Analysis

The following is an analysis of the financial position and changes in financial position of the Commonwealth's governmental and business-type activities. Condensed financial information from the statements of net position as of June 30, 2013 and 2012 is as follows (expressed in thousands):

	Governmental Activities				Business-Type Activities			
	2013	2012 (as restated)	Change		2013	2012 (as restated)	Change	
Current and other assets	$ 6,157,305	7,574,867	(1,417,562)	-19%	1,410,662	1,389,662	21,000	2%
Capital assets	8,281,703	8,173,596	108,107	1%	59,205	60,705	(1,500)	-2%
Total assets	14,439,008	15,748,463	(1,309,455)	-8%	1,469,867	1,450,367	19,500	1%
Deferred outflows of resources	104,304	152,767	(48,463)	-32%	—	—	—	0%
Other liabilities	4,892,610	4,022,810	869,800	22%	111,233	96,898	14,335	15%
Long-term liabilities	56,863,701	53,708,572	3,155,129	6%	566,366	577,146	(10,780)	-2%
Total liabilities	61,756,311	57,731,382	4,024,929	7%	677,599	674,044	3,555	1%
Net investment in capital assets	3,749,901	3,482,183	267,718	8%	58,763	60,625	(1,862)	-3%
Restricted	946,509	2,702,239	(1,755,730)	-65%	1,011,466	966,503	44,963	5%
Unrestricted (deficit)	(51,909,409)	(48,014,574)	(3,894,835)	8%	(277,961)	(250,805)	(27,156)	11%
Total net position	$ (47,212,999)	(41,830,152)	(5,382,847)	13%	792,268	776,323	15,945	2%

Net Position (Deficit)

Net position may serve over time as a useful indicator of a government's financial position. Total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources of the governmental activities at June 30, 2013 amounted to approximately $14.5 billion and $61.7 billion, respectively, for a net deficit of approximately $47.2 billion, compared to a net deficit of $41.8 billion at the beginning of the current year.

The deficit in unrestricted net position in governmental activities, which increased by approximately $3.9 billion, exists primarily because the Commonwealth has issued debt for short-term purposes while retaining the long-term obligations, including the net pension obligation. The statement of net position presents outstanding bonds amounting to approximately $35.8 billion and net pension obligation amounting to approximately $13.1 billion. This deficit in unrestricted net position of governmental activities can be expected to continue for as long as the Commonwealth continues to have obligations outstanding for purposes other than the acquisition of governmental capital assets. The deficit also shows the accumulation of years of excessive operating expenses in disparity with actual revenues.

A portion of the Commonwealth's net position reflects its investment in capital assets such as land, buildings, and equipment, less any related debt used to acquire those assets. The Commonwealth uses these capital assets to provide services to its residents.

An additional portion of the Commonwealth's net position represents resources that are subject to external restrictions on how they may be used. Internally imposed designations of resources are not presented as restricted net assets.

During fiscal year 2013, the Commonwealth adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. Pursuant to the adoption of GASB Statement No. 61, certain discretely presented component units were blended with the corresponding fund. The Puerto Rico Infrastructure Financing Authority and Special Communities Perpetual Trust became blended component units within other governmental funds. Blending the aforementioned entities increased net deficit of governmental activities by approximately $1.8 billion (see note 3 for further detail).

The net position in business-type activities increased by approximately $15.9 million (2%) from $776.3 million in 2012 to $792.2 million in 2013. The increase in net position for business-type activities was caused primarily by the unemployment insurance fund, lotteries fund and Puerto Rico Water Pollution Control Revolving Fund revenues and U.S. Government Grants exceeding expenses by approximately $12.8 million, $21.1 million, and $29.1 million, respectively. This was partially offset by decreases in net position reported by the Puerto Rico Medical Services Administration (PRMeSA) fund and other nonmajor proprietary funds. Puerto Rico Medical Services Administration fund expenses exceeded revenues by $41.3 million primarily because the administration derives a substantial portion of its revenues from services rendered to member institutions and provides services to medical indigent population, some of them uninsured, which do not have formal means of repayment. Other nonmajor funds expenses exceeded revenues by $5.8 million.

With the adoption of GASB Statement No. 61, the PRMeSA became a blended component unit within business-type activities, while the presentation of the Governing Board of 9-1-1 Services was corrected and is now presented as a business type activity as opposed to a discretely presented component unit. This change had a negative effect in net position of the business-type activities approximately of $186.9 million (see note 3 for further detail).

Condensed financial information of the statements of activities for the years ended June 30, 2013 and 2012 is as follows (expressed in thousands):

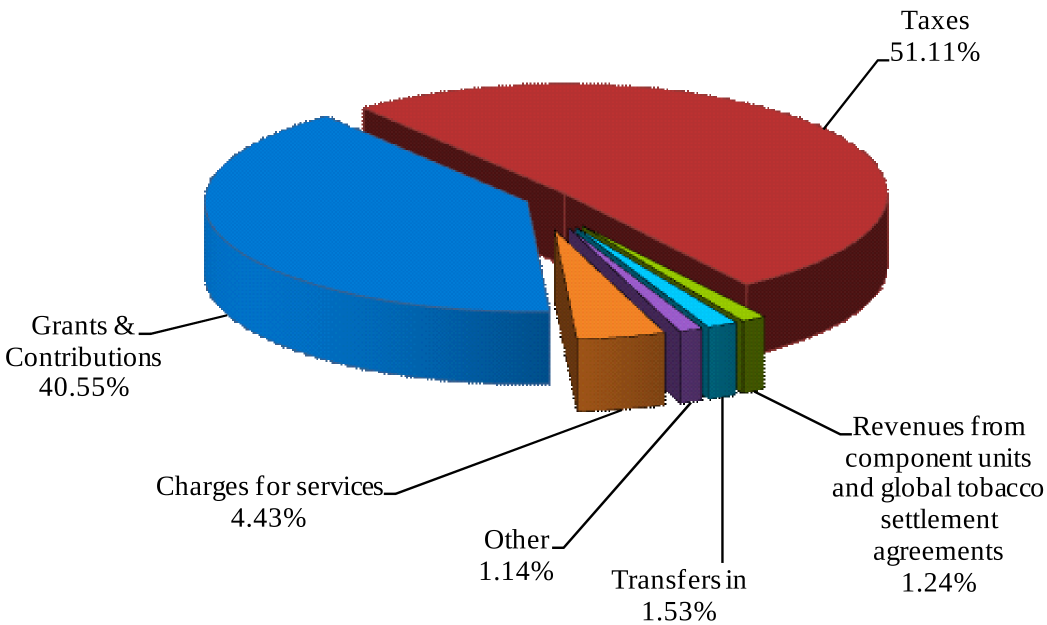
	Governmental Activities				Business-Type Activities			
	2013	2012 (as restated)	Change		2013	2012 (as restated)	Change	
Revenues:								
Program revenues:								
Charges for services	$ 714,849	563,838	151,011	27%	1,341,729	1,362,801	(21,072)	-2%
Operating grants and contributions	6,430,520	6,530,673	(100,153)	-2%	214,193	364,219	(150,026)	-41%
Capital grants and contributions	110,249	152,591	(42,342)	-28%	—	—	—	0%
	7,255,618	7,247,102	8,516	0%	1,555,922	1,727,020	(171,098)	-10%
General revenues:								
Taxes	8,244,567	8,028,704	215,863	3%	—	—	—	0%
Revenue from global tobacco settlement agreement	109,414	72,491	36,923	51%	—	—	—	0%
Revenue from component units	90,413	74,973	15,440	21%	—	—	—	0%
Other, including loss on investments	183,606	52,461	131,145	250%	14,198	15,604	(1,406)	-9%
	8,628,000	8,228,629	399,371	5%	14,198	15,604	(1,406)	-9%
Total revenues	15,883,618	15,475,731	407,887	3%	1,570,120	1,742,624	(172,504)	-10%
Expenses:								
General government	3,266,391	3,602,639	(336,248)	-9%	—	—	—	0%
Public safety	2,664,974	2,240,138	424,836	19%	—	—	—	0%
Health	3,245,973	2,903,009	342,964	12%	—	—	—	0%
Public housing and welfare	3,731,627	3,674,116	57,511	2%	—	—	—	0%
Education	4,891,928	5,145,390	(253,462)	-5%	—	—	—	0%
Economic development	1,129,467	809,961	319,506	39%	—	—	—	0%
Payment of obligations of component units	—	458,207	(458,207)	-100%	—	—	—	0%
Intergovernmental	483,970	374,127	109,843	29%	—	—	—	0%
Interest and other	2,099,043	1,971,196	127,847	6%	—	—	—	0%
Lotteries	—	—	—	0%	685,130	722,620	(37,490)	-5%
Unemployment insurance	—	—	—	0%	387,336	486,342	(99,006)	-20%
Medical Services Administration	—	—	—	0%	200,888	193,414	7,474	4%
Water Pollution Control Revolving Fund	—	—	—	0%	1,527	—	1,527	0%
Nonmajor proprietary funds	—	—	—	0%	32,386	47,518	(15,132)	-32%
Total expenses	21,513,373	21,178,783	334,590	2%	1,307,267	1,449,894	(142,627)	-10%
Increase (decrease) in net position before transfers	(5,629,755)	(5,703,052)	73,297	-1%	262,853	292,730	(29,877)	-10%
Transfers	246,908	206,502	40,406	20%	(246,908)	(206,502)	(40,406)	20%
Change in net position	(5,382,847)	(5,496,550)	113,703	-2%	15,945	86,228	(70,283)	-82%
Net position, beginning of year, as rested (note 3)	(41,830,152)	(36,333,602)	(5,496,550)	15%	776,323	690,095	86,228	12%
Net position, end of year	$ (47,212,999)	(41,830,152)	(5,382,847)	13%	792,268	776,323	15,945	2%

Results of Operation

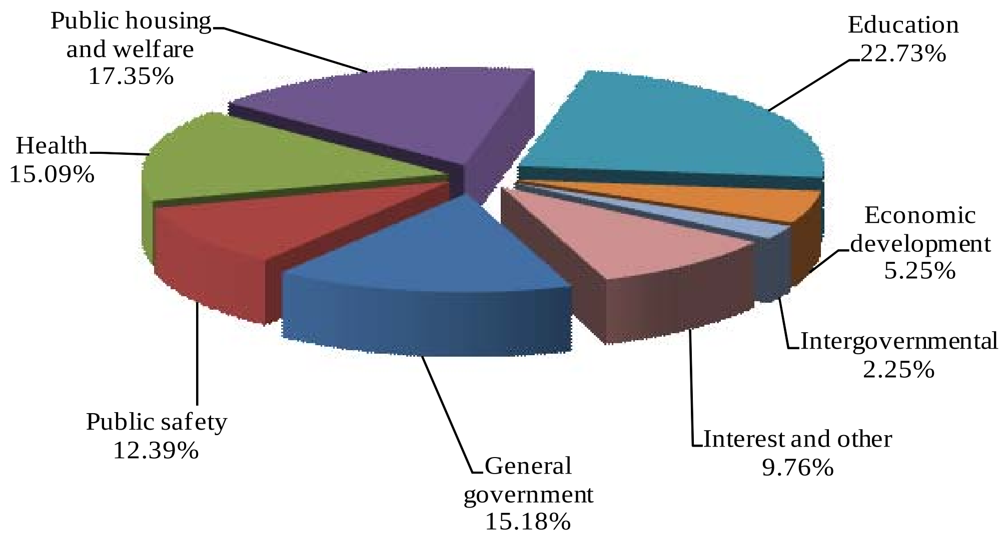
The governmental activities net deficit increased by approximately $5.4 billion or 13% from last year's total net deficit, as restated. The increase in net deficit is the result of excessive operating expenses in disparity of operating revenues and the increase in the Commonwealth liabilities such as net pension obligation, legal claims and compensated absences, among others. Approximately 51.11% of the governmental activities' revenue (including transfers) came from taxes, while 40.55% resulted from grants and contributions (primarily federal financial assistance). Charges for services provided represented 4.43% of the total revenue. The governmental activities expenses cover a range of services. The largest expenses were for general government, education, public housing and welfare, health, and public safety, which presented a combined increase of approximately $235.6 million when compared with prior fiscal year. In 2013, governmental activities' expenses exceeded program revenue by approximately $14.3 billion, resulting in the use of approximately $8.6 billion of general revenue and transfers from other funds (mostly taxes).

When compared to prior fiscal year, governmental activities revenues displayed an increase of approximately $407.9 million or 3%. Fiscal stabilization initiatives as well as other economic growth plans aided Governmental activities revenue collections for fiscal year 2013, thus offsetting effects of the economic recession. During fiscal year 2013, the Commonwealth continued its policy of fiscal and budgetary control and economic measures. These measures were instrumental in maintaining the level of governmental activities expenses when comparing fiscal year 2013 with 2012, which showed a slight increase of approximately $334.6 million.

Revenues and Transfers – Governmental Activities
Year ended June 30, 2013



Expenses – Governmental Activities



Business type activities' net position increased by approximately $15.9 million or 2% from last year's total net position, as restated. Approximately 86% of the business type activities total revenue came from charges for services, while 14% resulted from grants and contributions (primarily federal financial assistance). Business type activities expenses cover a range of services. The largest expenses were for lotteries, unemployment insurance and the Puerto Rico Medical Services Administration, which presented a combined decrease of approximately $129.0 million or 9% when compared with prior fiscal year. In 2013, business type activities' program revenues exceeded expenses by approximately $248.6 million, of which approximately $246.9 million were transferred to governmental activities.

Governmental Funds

The focus of the Commonwealth's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2013, the Commonwealth's governmental funds reported combined ending deficit of approximately $391.6 million. In fiscal year 2013, the expenditures exceeded the revenues by approximately $3.6 billion. However, this was offset by other financing sources, net amounting to approximately $1.5 billion in the governmental funds. This year, the excess of expenditures over revenue decreased by approximately $1.6 billion compared with the prior year. Other financing sources decreased by approximately $3.5 billion compared with the prior year.

The General Fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, the total General Fund balance had a total deficit of approximately $2.0 billion. The fund deficit of the Commonwealth's General Fund increased by approximately $842.8 million as a result of the current fiscal year's change in financial position. This is a 72% increase when compared to the General Fund deficit reported in fiscal year 2012.

The debt service fund is the fund in which the Commonwealth accumulates the resources for the payment of the long-term debt. At end of the fiscal year, the fund balance of the debt service fund decreased by approximately $453.7 million. Bonds and interest payable increased by approximately $77.1 million compared with prior year.

The COFINA special revenue fund is used to account for and report all financial resources of COFINA. At end of the fiscal year, the fund balance of the COFINA special revenue fund decreased by approximately $8.2 million. During the year, COFINA special revenue fund issued approximately $333.3 million of bond's anticipation notes to be transferred to the General Fund.

The COFINA debt service fund is used to account for the Commonwealth sales tax revenue being deposited in the Dedicated Sales Tax Fund for the payment of interest and principal on long-term obligations. At end of the fiscal year, the fund balance of the COFINA debt service fund decreased by approximately $134.2 million. Total assets decreased by approximately $134 million or 19% when compared to prior year manly due to the payment of interest related to debt issued.

Other governmental funds (nonmajor) fund balance decreased by approximately $650.4 million during the year. The beginning fund balance was affected mainly by the adoption of GASB Statement No. 61 and a correction of an error, causing a net increase of approximately $282.2 million (See note 3 for further detail).

Proprietary Funds

The Commonwealth's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As discussed above, the net position of the business-type activities increased by approximately $15.9 million as a result of operations in the proprietary funds. This resulted from an increase of approximately $12.8 million, $21.1 million, and $29.1 million in net position from the unemployment insurance fund, lotteries fund, and Puerto Rico Water Pollution Control Revolving Fund, respectively, offset by a decrease in net position of approximately $41.3 million and $5.8 million in the Puerto Rico Medical Service Administration and other nonmajor proprietary funds, respectively.

Capital Assets and Debt Administration

Capital Assets

The following is a summary schedule of the primary government's capital assets:

		Governmental activities		Business-type activities		Total Primary Government	
		2013	2012 (as restated)	2013	2012 (as restated)	2013	2012 (as restated)
Land	$	909,748	899,224	6,872	6,872	916,620	906,096
Construction in progress		1,157,593	1,470,470	—	1,980	1,157,593	1,472,450
Buildings and building improvements, net		5,583,417	5,149,754	34,164	34,891	5,617,581	5,184,645
Equipment, furniture, fixtures, vehicles and software, net		181,519	192,183	18,169	16,962	199,688	209,145
Infrastructure, net		449,426	461,965	—	—	449,426	461,965
Total capital assets	$	8,281,703	8,173,596	59,205	60,705	8,340,908	8,234,301

The Commonwealth's investment in capital assets for its governmental and business type activities as of June 30, 2013 amounted to approximately $12.5 billion, less accumulated depreciation and amortization of $4.2 billion, leaving a book value of $8.3 billion. This investment in capital assets includes land, construction in progress, buildings, building improvements and equipment as infrastructure.

The net book value of capital assets at June 30, 2013 is distributed by function/activity in the following proportions: general government, 45%; public safety, 6%; health, 2%; public housing and welfare, 30%; education, 4%; and economic development, 13%. Capital outlays were approximately $519 million for the fiscal year. Depreciation and amortization charges for the fiscal year totaled $336 million.

The fiscal year 2013 capital asset highlights include transactions from blended component units such as Public Buildings Administration transfers from construction in progress to buildings and building improvements in the amount of approximately $644 million and the Department of Transportation and Public Works additions of approximately $64 million.

The infrastructure assets representing items that are normally immovable and of value only to the Commonwealth, such as roads, highways, bridges, toll facilities, water and sewer systems, lighting production, transmission and distribution systems, and similar items, are principally owned by the component units of the Commonwealth. Therefore, the infrastructure assets are reported within depreciable capital assets under the discretely presented component units' column. Additional information on the Commonwealth's capital assets can be found in note 10 to the basic financial statements that accompany this report.

Debt Administration

Long-term obligations of the governmental activities as of June 30, 2013 were approximately $56.9 billion, of which $2.4 billion are due within one year. Long-term obligations of the governmental activities increased by approximately $3.2 billion, or 6%, when compared to the prior fiscal year.

General obligation bonds are backed by the full faith and credit of the Commonwealth, including the Commonwealth's power to levy additional taxes to help ensure repayment of the debt.

The Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth are not to be issued if the amount of the principal of, and interest on, such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenue raised under the provisions of Commonwealth legislation and conveyed into the treasury (internal revenues) in the two fiscal years preceding the current fiscal year. Section 2, Article VI of the Constitution of the Commonwealth does not limit the amount of debt that the Commonwealth may guarantee as long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. At June 30, 2013, the Commonwealth is in compliance with the debt limitation requirement.

The Commonwealth's policy has been and continues to be to prudently manage such debt within the constitutional limitation. Debt of municipalities, other than bond anticipation notes, is supported by real and personal property taxes, municipal license taxes, and the corresponding part of the sales and use tax. Debt of public corporations, other than bond anticipation notes, is generally supported by the revenues of such corporations from rates charged for services or products. However, certain debt of public corporations is supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or taxes.

Internal revenues consist principally of income taxes, property taxes, sales and use taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Department of the Treasury of the Commonwealth and motor vehicle fuel taxes and license fees, which are allocated to the Puerto Rico Highways and Transportation Authority, are not included as internal revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service. In addition, the portion of the sales and use tax allocated to COFINA is not included as internal revenues since the legislation that created COFINA transferred ownership of such portion of the sales and use tax to COFINA and provided that such portion was not available resources under the Constitutional provisions relating to full faith and credit bonds.

Long-term obligations of the business-type activities decreased by approximately $10.8 million, or 2% due primarily to the decrease in the obligation for unpaid lottery prices.

Additional information on the Commonwealth's long term debt can be found in note 12 to the basic financial statements that accompany this report.

General Fund Budgetary Highlights

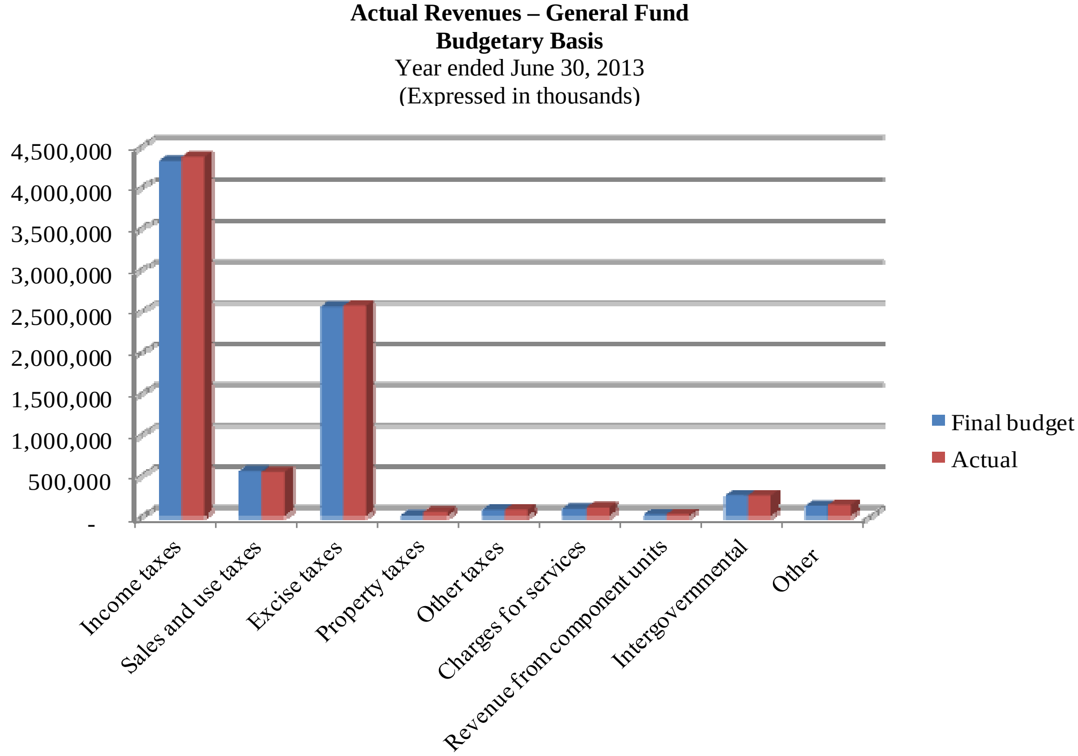
The Commonwealth adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided as required supplementary information for the General Fund to demonstrate compliance with this budget. The schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund only presents the information for the General Fund for which there is a legally adopted budget, as required by U.S. GAAP. See the notes to required supplementary information for a reconciliation of the schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund with the statement of revenues, expenditures, and changes in fund balance (deficit) for the General Fund.

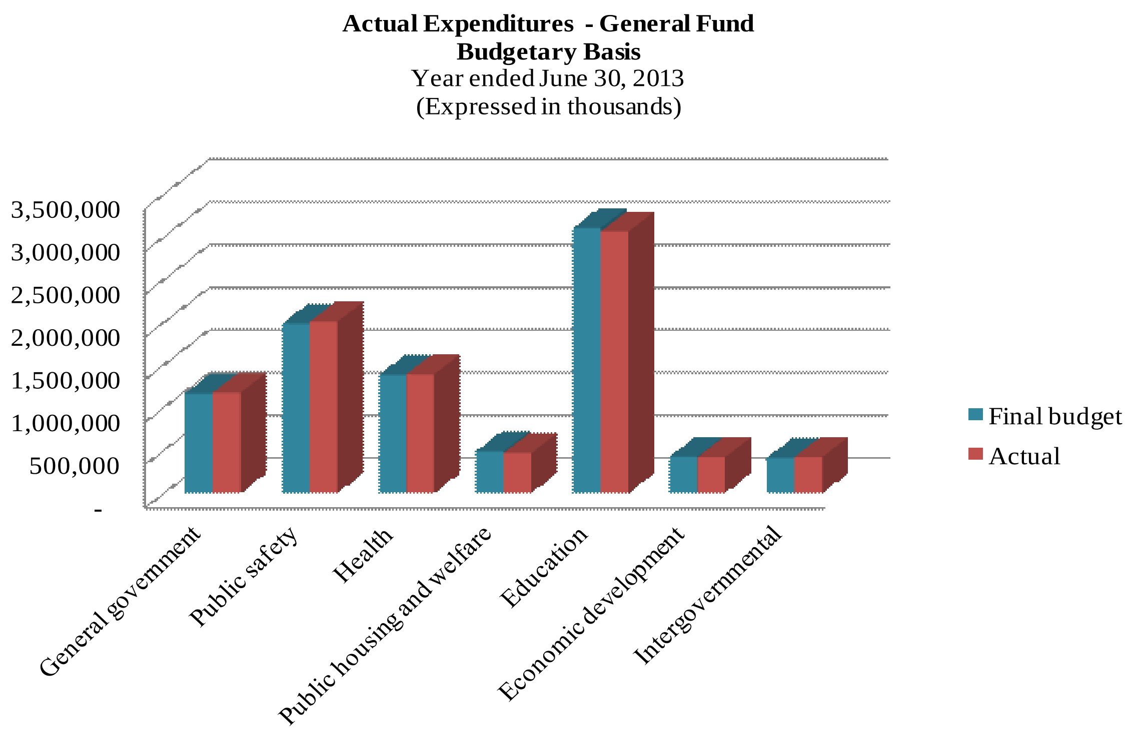
Total General Fund actual revenues on a budget basis (sources) for fiscal year 2013 were $8.1 billion, (excluding other financing sources) representing a decrease of approximately $511 million, or 6%, from original budgeted revenues and a decrease of approximately $442 million from actual revenues of $8.6 billion for fiscal year 2012.

Total actual expenditures on a budget basis of approximately $8.9 billion represented a decrease of $973 million from actual expenditures of $9.9 billion for fiscal year 2012.

For fiscal year 2013, the actual budgetary deficit in the General Fund was $807 million, consisting of the difference between total actual revenues of approximately $8.1 billion and total actual expenditures for such fiscal year of $8.9 billion. For fiscal year 2012, the deficit was $1.3 billion, consisting of the difference between total actual revenues of approximately $8.6 billion and total actual expenditures for such fiscal year of approximately $9.9 billion. The deficits for fiscal year 2013 decreased by approximately $531 million or 38.5% when compared to 2012 and decreased by approximately $275 million or 25% when compared to the deficit of approximately $1.1 billion in 2011. The Government's ability to continue reducing the deficit will depend in part on its ability to continue increasing revenues and reducing expenditures, which in turn depends on a number of factors, including improvements in general economic conditions.

The following information is presented to assist the reader in comparing the final amended budget and the actual results.


Actual Revenues – General Fund
Budgetary Basis
Year ended June 30, 2013
(Expressed in thousands)
4,500,000
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
Income taxes
Sales and use taxes
Excise taxes
Property taxes
Other taxes
Charges for services
Revenue from component units
Intergovernmental
Other
Final budget
Actual


Actual Expenditures - General Fund
Budgetary Basis
Year ended June 30, 2013
(Expressed in thousands)
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
General government
Public safety
Health
Public housing and welfare
Education
Economic development
Intergovernmental
Final budget
Actual

Differences Between Budget and Basic Financial Statements – Revenues and expenditures, as reported by the Commonwealth in its basic financial statements, may differ substantially from resources and appropriations in its annual budget for a number of reasons, including the following:

- The budgetary accounts are on a budgetary basis, while financial statements prepared by the Commonwealth include adjustments as required by governmental accounting standards.
- Expenditures for current purposes in a particular year may include amounts appropriated for earlier periods but not previously expended or amounts not budgeted for a particular fiscal year, but expended during that year, and, conversely, may exclude amounts appropriated for such fiscal year but not expended until later periods.
- Bonds are authorized by the Commonwealth in accordance with a four year capital improvement program. Since bond sales are determined by bond market conditions and other factors, the amounts for bonds sold for these improvements are financed by advances from the General Fund to the capital projects fund, which are later reimbursed from proceeds of a bond or notes sale.

Currently Known Facts

The following is a summary description of current known facts, decisions and conditions that have had and are expected to have a significant effect on the Commonwealth's financial position and results of operations.

Fiscal Stabilization Initiatives – The current administration, which commenced its term in January 2013, implemented the following measures to increase revenues and reduce the deficit for fiscal year 2013: 1) an initiative which resulted in $235 million in advance payments of non-resident withholding tax related to manufacturing patents, 2) the transfer of $240 million in excess funds in the Redemption Fund to the General Fund, 3) amendment of Act 154-2012 in order to extend the effective period and reset the tax rate to a fixed 4% of the excise tax on the acquisition of certain manufacturing products produced and services rendered in Puerto Rico, and 4) the implementation of a tax amnesty program designed to increase revenues by encouraging tax payers with older tax liabilities to pay them, which resulted in immediate collection of $98 million and payment plans for an additional $176 million.

Offset of Federal Funds – Through May 13, 2013, the United States Treasury Department (USTD) withheld $157.8 million in federal funds, amounts destined to certain agencies and instrumentalities. This action from the USTD responds to the Commonwealth's share of construction cost associated with the Cerrillo Dam and Reservoir and the Portuguese-River and Bucana-River Projects. As per the United States Army Corps of Engineers (USACE), the Commonwealth's share of construction costs plus accrued and projected interest through June 30, 2046 amounted to approximately $598 million. In March 2014, a request from the Commonwealth was approved by USACE to establish a new payment plan up to fiscal year 2046 for total payments of $233.5 million. Total payment plan plus amounts previously withheld would bring total payment to $391.3 million.

Public Private Partnership – On July 17, 2012, the Public Private Partnership Authority and the Puerto Rico Ports Authority (PPA) selected Aerostar Airport Holdings, LLC as the winning proponent on order to serve as the operator of the Luis Munoz Marin Airport. As a result of the transaction the PPA received a lump sum payment of $615 and will receive an estimated $552 million in revenue sharing over the life of the lease.

Downgrading – On February 4, 2014, Standard & Poor's Ratings Services (S&P) lowered its rating on the general obligation bonds of the Commonwealth from "BBB-" to "BB+," which is a non-investment grade rating. On February 7, 2014, Moody's Investors Service ("Moody's") lowered its rating on the general obligation bonds of the Commonwealth two notches, from "Baa3" to "Ba2", and maintained a "negative" outlook on all these bonds. Moody's also downgraded the COFINA's senior lien bonds to Baa1 from A2 and its junior-lien bonds to Baa2 from A3. On February 10, 2014, Fitch Ratings ("Fitch") lowered its rating on the general obligation bonds of the Commonwealth by two notches from "BBB-" to "BB". During these same dates, S&P, Moody's and Fitch, also downgraded the PBA's bonds to a rating of BB or non-investment grade status, while Moody's lowered the credit ratings of PRIFA's Special Tax Revenue Bonds from Baa3 to Ba2. (See note 22 for further detail).

Bond Issuance – The Commonwealth refinanced the outstanding general obligation VRDOs ($469 million) and the COFINA bond anticipation notes ($333 million) with the proceeds of $3.5 billion general obligation bonds issued on March 11, 2014. In addition to the possible acceleration of debt instruments, the credit rating downgrades have also triggered "additional termination events" under interest rate exchange and other derivative agreements relating to outstanding bonds and notes of the Commonwealth and certain of its public corporations, making them now subject to termination at the option of the applicable counterparty. (See note 22 for further detail).

Pledged Sales and Use Tax Revenue – On October 9, 2013, the Governor signed into law Act No. 116, which increased from 2.75% to 3.50% the portion of the Commonwealth sales and use tax transferred to COFINA and expanded the permitted uses of COFINA bond proceeds to, among others, refinance Bond Anticipation Notes ("BANs") and other lines of credit used to help finance the Commonwealth's deficit for fiscal years 2013 and 2014. On January 24, 2014, Act No. 18 was enacted, reducing, effective February 1, 2014, the municipal sales and use tax from 1.5% to 1.0% and at the same time increasing the Commonwealth's sales and use tax from 5.5% to 6.0%. By such legislation, the minimum amount of the Commonwealth's sales and use tax available to COFINA was increased. (See note 22 for further detail).

Fiscal and Operational Sustainability Act – On June 17, 2014, the Governor signed into law Act No. 66, which declared a state of fiscal emergency in order to adopt a plan to manage the economic consequences of the Commonwealth credit rating downgrade, and to establish expenditures reduction measures and a structured management in order to satisfy the commitments of the Commonwealth. This Act establishes as public policy the restoration of the Commonwealth's investment-grade credit rating through the short term elimination of the General Fund deficit and the improvement of the Public Corporations fiscal condition. (See note 22 for further detail).

Puerto Rico Public Corporation Debt Enforcement and Recovery Act – On June 28, 2014, the Commonwealth enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Debt Enforcement Act"). The Debt Enforcement Act provides an orderly, statutory process for the enforcement and restructuring, in a fair and equitable manner, of the debts and other obligations of certain public corporations experiencing financial distress, while ensuring the continuity of essential public services to the people of Puerto Rico.

Requests for Information

This financial report is designed to provide a general overview of the Commonwealth's finances for all of the Commonwealth's residents, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the Commonwealth's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Department of the Treasury of the Commonwealth of Puerto Rico, Área de Contabilidad Central, P.O. Box 9024140, San Juan, PR 00902.

COMMONWEALTH OF PUERTO RICO

Statement of Net Position

June 30, 2013

(In thousands)

		Primary government			
Assets:		Governmental activities	Business-type activities	Totals primary government	Component units
Cash and cash equivalents in commercial banks	$	350,015	49,450	399,465	1,457,618
Cash and cash equivalents in governmental banks		1,214,845	135,971	1,350,816	303,708
Cash equivalents in Puerto Rico Government Investment Trust Fund (PRGITF)		88,329	—	88,329	35,035
Investments		369,942	3,044	372,986	4,723,236
Collateral from securities lending transactions		—	—	—	102,689
Receivables – net of allowance for uncollectibles					
Income and excise taxes		1,135,995	—	1,135,995	—
Unemployment and other insurance premiums		—	3,750	3,750	40,542
Intergovernmental		407,634	—	407,634	129,743
Accounts		91,105	14,761	105,866	1,088,414
Loans		97,062	—	97,062	6,522,115
Accrued interest		40,514	68	40,582	301,683
Other		53,785	10,222	64,007	160,979
Due from:					
Primary government		—	—	—	428,563
Component units		95,017	11,863	106,880	3,690,465
Other governmental entities		23,437	10,641	34,078	542,329
Internal balances		(19,358)	19,358	—	—
Inventories		11,069	—	11,069	569,099
Prepaid expenses		9,721	—	9,721	39,501
Other assets		13,316	4,805	18,121	—
Restricted assets:					
Cash and cash equivalents in commercial banks		628,573	4,527	633,100	959,144
Cash and cash equivalents in governmental banks		230,741	136,987	367,728	388,618
Cash and cash equivalents under the custody of U.S. Treasury		—	398,059	398,059	—
Sales and use tax		111,486	—	111,486	—
Unemployment and other insurance premiums receivable		—	61,153	61,153	—
Intergovernmental		—	416	416	—
Receivables		—	4,624	4,624	—
Accrued interest		—	1,512	1,512	—
Loans receivable from component units		—	469,743	469,743	—
Investments		787,718	44,281	831,999	4,032,520
Due from other governmental entities		3,818	—	3,818	—
Other		8,619	25,427	34,046	73,406
Real estate held for sale or future development		44,804	—	44,804	227,514
Capital assets:					
Land and other nondepreciable assets		2,067,341	6,872	2,074,213	6,502,938
Other capital assets – net of depreciation or amortization		6,214,362	52,333	6,266,695	23,949,059
Deferred debt issue costs		359,118	—	359,118	256,560
Deferred expenses and other assets		—	—	—	106,330
Total assets		14,439,008	1,469,867	15,908,875	56,631,808
Deferred Outflows of Resources:					
Deferred outflows of resources - Accumulated decrease in fair value of hedging derivatives		104,304	—	104,304	95,660
Total deferred outflows of resources		104,304	—	104,304	95,660

COMMONWEALTH OF PUERTO RICO

Statement of Net Position

June 30, 2013

(In thousands)

	Primary government			
Liabilities:	Governmental activities	Business-type activities	Totals primary government	Component units
Accounts payable and accrued liabilities	1,789,691	44,509	1,834,200	2,089,225
Deposits and escrow liabilities	—	—	—	6,286,622
Tax refunds payable	1,205,517	—	1,205,517	—
Due to:				
Primary government	—	—	—	576,623
Component units	389,412	39,151	428,563	3,690,465
Other governmental entities	13,450	1,827	15,277	435,646
Securities lending obligations and reverse repurchase agreements	—	—	—	813,190
Interest payable	589,278	—	589,278	661,688
Deferred revenue	352,410	25,746	378,156	116,751
Bond anticipation notes	204,866	—	204,866	—
Liability for automobile accident insurance, workmen compensation and medical claims	—	—	—	1,075,851
Investment derivative instruments – interest rate swaps	56,972	—	56,972	—
Hedging derivatives instruments - interest rate swaps	104,304	—	104,304	227,422
Liabilities payable within one year:				
Bonds	827,410	—	827,410	693,622
Notes	1,323,474	1,078	1,324,552	1,218,941
Capital leases	5,523	—	5,523	901
Compensated absences	119,169	2,194	121,363	179,783
Lottery prizes	—	49,489	49,489	—
Voluntary termination benefits	101,178	733	101,911	11,765
Insurance benefits payable	—	69,386	69,386	—
Other long-term liabilities	218,249	8,907	227,156	87,395
Liabilities payable after one year:				
Commonwealth appropriation bonds	538,573	—	538,573	509,645
Bonds	34,423,774	—	34,423,774	19,099,063
Notes	1,687,370	272,266	1,959,636	5,910,698
Capital leases	171,819	—	171,819	29,570
Net pension obligation	13,072,665	—	13,072,665	—
Net postemployment benefit obligation	278,372	1,572	279,944	—
Compensated absences	1,411,149	15,803	1,426,952	356,216
Lottery prizes	—	126,703	126,703	—
Voluntary termination benefits	993,263	5,659	998,922	223,853
Other long-term liabilities	1,878,423	12,576	1,890,999	820,825
Total liabilities	61,756,311	677,599	62,433,910	45,115,760
Deferred Inflows of Resources:				
Deferred inflows of resources - service concession arrangements	—	—	—	1,785,090
Net Position:				
Net investment in capital assets	3,749,901	58,763	3,808,664	7,857,326
Restricted for:				
Capital projects	269,863	—	269,863	280,936
Debt service	582,679	—	582,679	853,559
Emergency services	—	9,993	9,993	—
Lending activities	—	602,274	602,274	—
Payment of insurance benefits	—	399,199	399,199	—
Public housing and welfare	93,459	—	93,459	121,598
Student loans and other educational purposes	—	—	—	99,674
Other	508		508	266,772
Unrestricted (deficit)	(51,909,409)	(277,961)	(52,187,370)	346,753
Total net position	$ (47,212,999)	792,268	(46,420,731)	9,826,618

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Activities

Year ended June 30, 2013

(In thousands)

		Program revenues			Net (expense) revenue and changes in net position			
					Primary government			
Functions	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total	Component units
Primary Government:								
Governmental activities:								
General government	$ 3,266,391	325,651	312,584	—	(2,628,156)	—	(2,628,156)	—
Public safety	2,664,974	51,482	88,336	—	(2,525,156)	—	(2,525,156)	—
Health	3,245,973	191,464	1,663,913	—	(1,390,596)	—	(1,390,596)	—
Public housing and welfare	3,731,627	4,634	2,797,402	110,249	(819,342)	—	(819,342)	—
Education	4,891,928	1,899	1,517,266	—	(3,372,763)	—	(3,372,763)	—
Economic development	1,129,467	139,719	51,019	—	(938,729)	—	(938,729)	—
Intergovernmental	483,970	—	—	—	(483,970)	—	(483,970)	—
Interest and other	2,099,043	—	—	—	(2,099,043)	—	(2,099,043)	—
Total governmental activities	21,513,373	714,849	6,430,520	110,249	(14,257,755)	—	(14,257,755)	—
Business-type activities:								
Unemployment insurance	387,336	267,321	185,954	—	—	65,939	65,939	—
Lotteries	685,130	917,462	—	—	—	232,332	232,332	—
Puerto Rico Medical Services Administration	200,888	110,872	—	—	—	(90,016)	(90,016)	—
Puerto Rico Water Pollution Control Revolving Fund	1,527	6,060	22,727	—	—	27,260	27,260	—
Nonmajor proprietary funds	32,386	40,014	5,512	—	—	13,140	13,140	—
Total business-type activities	1,307,267	1,341,729	214,193	—	—	248,655	248,655	—
Total primary government	$ 22,820,640	2,056,578	6,644,713	110,249	(14,257,755)	248,655	(14,009,100)	—

(Continued)

COMMONWEALTH OF PUERTO RICO

Statement of Activities

Year ended June 30, 2013

(In thousands)

		Program revenues			Net (expense) revenue and changes in net position			
					Primary government			
Functions	**Expenses**	**Charges for services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Total**	**Component units**
Component Units:								
Government Development Bank for Puerto Rico	$ 864,077	571,640	170,501	—	—	—	—	(121,936)
Puerto Rico Highways and Transportation Authority	1,154,822	217,720	—	428,930	—	—	—	(508,172)
Puerto Rico Electric Power Authority	5,191,088	4,843,016	—	31,979	—	—	—	(316,093)
Puerto Rico Aqueduct and Sewer Authority	1,233,804	735,693	—	19,859	—	—	—	(478,252)
University of Puerto Rico	1,414,968	216,482	138,337	5,219	—	—	—	(1,054,930)
Puerto Rico Health Insurance Administration	2,372,473	1,406,190	—	—	—	—	—	(966,283)
Nonmajor component units	2,135,444	1,518,821	69,788	20,678	—	—	—	(526,157)
Total component units	$ 14,366,676	9,509,562	378,626	506,665	—	—	—	(3,971,823)
General Revenues:								
Income taxes					$ 4,068,611	—	4,068,611	—
Sales and use tax					1,170,748	—	1,170,748	—
Excise taxes					2,870,741	—	2,870,741	65,642
Other taxes					134,467	—	134,467	—
Revenue from global tobacco settlement agreement					109,414	—	109,414	—
Revenue from State Insurance Fund Corporation					67,802	—	67,802	—
Revenue from Puerto Rico Tourism Company					22,611	—	22,611	—
Grants and contributions not restricted to specific programs					131,164	—	131,164	167,204
Revenue from primary government					—	—	—	2,262,734
Unrestricted investment earnings – net					9,004	14,198	23,202	287,013
Other					43,438	—	43,438	125,577
Transfers					246,908	(246,908)	—	—
Total general revenues and transfers					8,874,908	(232,710)	8,642,198	2,908,170
Change in net position					(5,382,847)	15,945	(5,366,902)	(1,063,653)
Net position – beginning of year, as restated (note 3)					(41,830,152)	776,323	(41,053,829)	10,890,271
Net position – end of year					$ (47,212,999)	792,268	(46,420,731)	9,826,618

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Balance Sheet – Governmental Funds

June 30, 2013

(In thousands)

		General	Debt service	COFINA special revenue	COFINA debt service	Other governmental	Total governmental
Assets:							
Cash and cash equivalents in commercial banks	$	212,263	137	—	—	137,615	350,015
Cash and cash equivalents in governmental banks		288,086	798,609	14,755	—	113,395	1,214,845
Cash equivalents in PRGITF		—	—	—	—	88,329	88,329
Investments		317,420	—	34,893	—	17,629	369,942
Receivables:							
Income and excise taxes		1,135,995	—	—	—	—	1,135,995
Intergovernmental		376,639	30,995	—	—	—	407,634
Accounts		90,063	—	—	—	1,042	91,105
Loans		97,023	—	—	—	39	97,062
Accrued interest		40,421	—	—	—	93	40,514
Other		6,265	—	—	—	47,520	53,785
Due from:							
Other funds		41,173	—	—	—	34,498	75,671
Component units		80,272	—	—	—	14,745	95,017
Other governmental entities		—	—	—	—	22,582	22,582
Other assets		12,142	—	—	—	1,174	13,316
Restricted assets:							
Cash and cash equivalents in commercial banks		62,170	—	—	5	566,398	628,573
Cash and cash equivalents in governmental banks		10,790	—	—	18,861	201,090	230,741
Sales and use tax		—	—	—	111,486	—	111,486
Investments		—	—	—	448,754	338,964	787,718
Due from other funds		—	—	—	—	7,272	7,272
Due from other governmental entities		—	—	—	—	3,818	3,818
Other assets		—	—	—	647	7,972	8,619
Real estate held for sale or future development		—	—	—	—	2,052	2,052
Total assets	$	2,770,722	829,741	49,648	579,753	1,606,227	5,836,091
Liabilities and Fund Balance (Deficit):							
Liabilities:							
Accounts payable and accrued liabilities	$	1,578,480	—	796	143	210,272	1,789,691
Tax refunds payable		1,205,517	—	—	—	—	1,205,517
Due to:							
Other funds		81,847	—	—	—	20,454	102,301
Component units		378,120	—	—	—	11,292	389,412
Other governmental entities		6,207	—	—	—	7,243	13,450
Notes payable		186,710	—	—	—	—	186,710
Bond anticipation notes payable		—	—	—	—	204,866	204,866
Bonds payable		—	384,235	—	—	72,595	456,830
Interest payable		44,587	259,971	—	—	120,676	425,234
Deferred revenue		1,126,282	28,841	—	—	124,601	1,279,724
Compensated absences		100,105	—	—	—	—	100,105
Termination benefits payable		722	—	—	—	—	722
Other liabilities		73,171	—	—	—	—	73,171
Total liabilities		4,781,748	673,047	796	143	771,999	6,227,733
Fund balances (deficit):							
Nonspendable		5,000	—	—	—	225,100	230,100
Spendable:							
Restricted		357,496	—	—	579,610	538,745	1,475,851
Committed		171	2,154	—	—	29,042	31,367
Assigned		15,408	154,540	48,852	—	106,991	325,791
Unassigned		(2,389,101)	—	—	—	(65,650)	(2,454,751)
Total fund balances (deficit)		(2,011,026)	156,694	48,852	579,610	834,228	(391,642)
Total liabilities and fund balances	$	2,770,722	829,741	49,648	579,753	1,606,227	5,836,091

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position

June 30, 2013

(In thousands)

Total fund deficit of governmental funds	$	(391,642)
Amounts reported for governmental activities in the statement of net position are different than the amounts reported in the governmental funds because:		
Inventories and prepaid expenses that are not reported in governmental funds and are reported in the statement of net position		20,790
Deferred outflows of resources - Accumulated decreases in fair value of hedging derivative		104,304
Due from other governmental entities that are not available to pay current expenditures and therefore, are not reported in funds		855
Capital assets used in governmental activities are not financial resources and, therefore, are not reported reported in funds		8,281,703
Real estate held for sale or future development are not current financial resources and therefore, are not reported in the funds		42,752
Deferred revenue reported in the governmental funds are recognized as revenue in the governmental activities		927,314
Debt issued by the Commonwealth has associated costs that are paid from current available resources in the funds. However, these costs are deferred in the statement of net position		359,118
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Interest payable		(164,044)
Derivative instruments interest rate swaps		(161,276)
Commonwealth appropriation bonds		(538,573)
Bonds payable		(34,794,354)
Notes payable		(2,824,134)
Capital leases payable		(177,342)
Net pension obligation		(13,072,665)
Net postemployment benefit obligation		(278,372)
Compensated absences		(1,430,213)
Voluntary termination benefits payable		(1,093,719)
Other long-term liabilities		(2,023,501)
Total net position of governmental activities	$	(47,212,999)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) – Governmental Funds

Year ended June 30, 2013

(In thousands)

	General	Debt service	COFINA special revenue	COFINA debt service	Other governmental	Total governmental
Revenues:						
Taxes:						
Income taxes	$ 4,229,193	—	—	—	—	4,229,193
Sales and use tax	543,170	—	—	627,578	—	1,170,748
Excise taxes	2,870,741	—	—	—	—	2,870,741
Property taxes	57,673	—	—	—	—	57,673
Other taxes	81,449	—	—	—	—	81,449
Charges for services	698,373	—	—	—	—	698,373
Revenue from global tobacco settlement agreement	107,688	—	—	—	—	107,688
Revenues from component units	90,413	—	—	—	—	90,413
Intergovernmental	6,502,506	102,323	—	—	38,262	6,643,091
Interest and investment earnings (losses)	16,249	519	33	324	(23,355)	(6,230)
Other	28,717	—	—	—	14,074	42,791
Total revenues	15,226,172	102,842	33	627,902	28,981	15,985,930
Expenditures:						
Current:						
General government	894,282	—	19	406	214,935	1,109,642
Public safety	2,186,195	—	—	—	827	2,187,022
Health	3,220,682	—	—	—	4,460	3,225,142
Public housing and welfare	3,627,405	—	—	—	26,061	3,653,466
Education	4,831,777	—	—	—	5,123	4,836,900
Economic development	794,859	—	—	—	198,594	993,453
Intergovernmental	470,135	—	—	—	13,900	484,035
Capital outlays	205,755	—	—	—	313,197	518,952
Debt service:						
Principal	154,353	384,235	—	—	186,405	724,993
Interest and other	187,535	605,148	—	643,423	425,149	1,861,255
Other – debt issuance costs	—		—	600	—	600
Total expenditures	16,572,978	989,383	19	644,429	1,388,651	19,595,460
Excess (deficiency) of revenues over (under) expenditures	(1,346,806)	(886,541)	14	(16,527)	(1,359,670)	(3,609,530)
Other financing sources (uses):						
Transfers in	1,069,121	745,880	117,655	—	480,114	2,412,770
Transfers out	(1,258,960)	(313,088)	(459,148)	(117,655)	(17,011)	(2,165,862)
Proceeds from long term debt issued	689,101	—	333,300	—	246,165	1,268,566
Sale of capital assets	4,713	—	—	—	—	4,713
Total other financing sources (uses)	503,975	432,792	(8,193)	(117,655)	709,268	1,520,187
Net change in fund balances (deficit)	(842,831)	(453,749)	(8,179)	(134,182)	(650,402)	(2,089,343)
Fund balances (deficit) – beginning of year, as restated (note 3)	(1,168,195)	610,443	57,031	713,792	1,484,630	1,697,701
Fund balances (deficit) – end of year	$ (2,011,026)	156,694	48,852	579,610	834,228	(391,642)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances (Deficit) of Governmental Funds to the Statement of Activitie

Year ended June 30, 2013

(In thousands)

Net change in fund balances (deficit) – total governmental funds		$ (2,089,343)
Amounts reported for governmental activities in the statement of activities ar different because:		
Governmental funds report capital outlays as expenditures. However, in the statemen of activities, the cost of those assets is allocated over their estimated useful live and reported as depreciation and amortization expense. In the current period, thes amounts are:		
Capital outlays	$ 518,952	
Less depreciation and amortization expens	(330,334)	
Loss on disposal of assets	(116,448)	
Subtotal		72,170
The issuance of long-term debt (e.g. bonds, notes) provides current financia resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neithe transaction, however, has any effect on net assets. Also, governmental fund report the effect of issuance costs, premiums, discounts, and similar items whe debt is first issued, whereas these amounts are deferred and amortized in th statement of activities. This amount is the net effect of these differences in th treatment of long-term debt and related items		
Principal payments of long-term deb	724,993	
Proceeds from issuance of long-term deb	(1,268,566)	
Subtotal		(543,573)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in th statement of net position (deficit)		600
Some revenues in the statement of activities do not provide current financial resource and therefore, are deferred in governmental funds. Also, revenues related to prior period that became available during the current period are reported in governmental funds bu are eliminated in the statement of activities. This amount is the net adjustmen		(122,259)
Some expenses reported in the statement of activities do not require the use of curre financial resources and, therefore, are not reported as expenditures in governmental fund		(2,736,466)
Changes in fair value of investment derivative instruments do not require the use of curre financial resources and, therefore, are not reported as investment revenue i governmental funds. This amount is the net decrease in such fair value		15,234
Generally, inventory and prepayments are recorded as expenditures in th governmental funds when purchased rather than capitalized as an asset However, these assets are capitalized in the statement of net position (deficit) This amount is the net decrease in total inventories and prepaid expenses		20,790
Change in net position (deficit) of governmental activities		$ (5,382,847)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Net Position – Proprietary Funds

June 30, 2013

(In thousands)

	Business-Type Activities – Enterprise Funds					
	Unemployment insurance	**Lotteries**	**Puerto Rico Medical Services Administration**	**Water Pollution Control Revolving Fund**	**Other proprietary**	**Total proprietary**
Assets:						
Current assets:						
Cash and cash equivalents in commercial banks	$ —	48,432	904	—	114	49,450
Cash and cash equivalents in governmental banks	—	66,581	—	—	69,390	135,971
Investments	—	—	—	—	3,044	3,044
Insurance premiums receivables – net	—	—	—	—	3,750	3,750
Accounts	—	—	12,519	—	2,242	14,761
Accrued interest receivable	—	—	—	—	68	68
Other receivables	—	9,240	722	—	260	10,222
Due from other funds	—	5,328	10,637	—	5,000	20,965
Due from component units	—	—	11,863	—	—	11,863
Due from other governmental entities	—	—	7,141	—	—	7,141
Other assets	—	—	4,767	—	38	4,805
Restricted assets:						
Cash and cash equivalents in commercial banks	106	—	—	—	1,435	1,541
Cash and cash equivalents in governmental banks	7	—	—	100,782	36,198	136,987
Cash and cash equivalents under the custody the U.S. Treasury	398,059	—	—	—	—	398,059
Insurance premiums receivables – net	61,153	—	—	—	—	61,153
Intergovernmental receivable	416	—	—	—	—	416
Receivables	43	—	—	3,089	1,492	4,624
Accrued interest receivable	1,512	—	—	—	—	1,512
Loans receivable from component unit	—	—	—	14,614	5,723	20,337
Total current assets	461,296	129,581	48,553	118,485	128,754	886,669
Noncurrent assets:						
Cash and cash equivalents in commercial banks - restricted	—	—	2,986	—	—	2,986
Loans receivable from component unit – restricted	—	—	—	300,719	148,687	449,406
Due from other funds	—	—	—	—	19,112	19,112
Due from other governmental entities	—	—	3,500	—	—	3,500
Restricted investments	—	—	—	—	44,281	44,281
Other restricted assets	—	24,420	—	1,007	—	25,427
Capital assets:						
Land and other nondepreciable assets	—	—	6,872	—	—	6,872
Depreciable assets	—	1,502	45,764	—	5,067	52,333
Total assets	461,296	155,503	107,675	420,211	345,901	1,490,586
Liabilities and net position:						
Current liabilities:						
Accounts payable and accrued liabilities	—	9,658	29,682	1,919	3,250	44,509
Notes payable	—	—	1,078	—	—	1,078
Due to other funds	14,051	—	—	—	6,668	20,719
Due to component units	—	—	39,151	—	—	39,151
Due to other governmental entities	—	—	—	—	1,827	1,827
Deferred revenue	15,404	7,997	—	—	2,345	25,746
Compensated absences	—	428	309	—	1,457	2,194
Lottery prizes	—	49,489	—	—	—	49,489
Voluntary termination benefits payable	—	550	—	—	183	733
Insurance benefits payable	68,565	—	—	—	821	69,386
Other long-term liabilities	—	—	8,907	—	—	8,907
Total current liabilities	98,020	68,122	79,127	1,919	16,551	263,739
Noncurrent liabilities:						
Notes payable	—	—	272,266	—	—	272,266
Net post-employment benefit obligation	—	—	1,572	—	—	1,572
Compensated absences	—	2,524	11,199	—	2,080	15,803
Lottery prizes	—	126,703	—	—	—	126,703
Voluntary termination benefits payable	—	4,944	—	—	715	5,659
Other long-term liabilities	—	—	12,576	—	—	12,576
Total liabilities	98,020	202,293	376,740	1,919	19,346	698,318
Net position:						
Net investment in capital assets	—	1,702	52,636	—	4,425	58,763
Restricted for emergency services	—	—	—	—	9,993	9,993
Restricted for lending activities	—	—	—	418,292	183,982	602,274
Restricted for payment of insurance benefits	363,276	—	—	—	35,923	399,199
Unrestricted (deficit)	—	(48,492)	(321,701)	—	92,232	(277,961)
Total net position (deficit)	$ 363,276	(46,790)	(269,065)	418,292	326,555	792,268

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Revenues, Expenses, and Changes in Fund Net Position (Deficit) – Proprietary Funds

Year ended June 30, 2013

(In thousands)

	Business-Type Activities – Enterprise Funds					
	Unemployment insurance	**Lotteries**	**Puerto Rico Medical Services Administration**	**Puerto Rico Water Pollution Control Revolving Fund**	**Other proprietary**	**Total proprietary**
Operating revenues:						
Insurance premiums	$ 267,321	—	—	—	16,486	283,807
Lottery ticket sales	—	917,411	—	—	—	917,411
Patient service, net of provision for bad debts	—	—	110,872	—	—	110,872
Interest	—	—	—	6,060	2,955	9,015
Emergency telephone service charges	—	—	—	—	20,573	20,573
Other	—	51	—	—	—	51
Total operating revenues	267,321	917,462	110,872	6,060	40,014	1,341,729
Operating expenses:						
Insurance benefits	387,336	—	—	—	3,229	390,565
Lottery prizes	—	597,885	—	—	—	597,885
Patient services	—	—	166,452	—	—	166,452
General, administrative, and other operating expenses	—	87,245	21,074	362	29,157	137,838
Total operating expenses	387,336	685,130	187,526	362	32,386	1,292,740
Operating income (loss)	(120,015)	232,332	(76,654)	5,698	7,628	48,989
Nonoperating revenues (expenses):						
U.S. government grants	185,954	—	—	22,727	5,512	214,193
Contributions to component unit	—	—	—	(1,165)	—	(1,165)
Interest and investment earnings	9,556	242	1,317	—	3,083	14,198
Interest expense	—	—	(16,528)	—	—	(16,528)
Other	—	—	3,166	—	—	3,166
Total nonoperating revenues (expenses)	195,510	242	(12,045)	21,562	8,595	213,864
Income (loss) before transfers	75,495	232,574	(88,699)	27,260	16,223	262,853
Transfers from other funds	—	—	47,370	1,880	927	50,177
Transfers to other funds	(62,744)	(211,426)	—	—	(22,915)	(297,085)
Net change in net position	12,751	21,148	(41,329)	29,140	(5,765)	15,945
Net position (deficit) – beginning of year, as restated (note 3)	350,525	(67,938)	(227,736)	389,152	332,320	776,323
Net position (deficit) – end of year	$ 363,276	(46,790)	(269,065)	418,292	326,555	792,268

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2013

(In thousands)

	Business-Type Activities – Enterprise Funds					
	Unemployment insurance	Lotteries	Puerto Rico Medical Services Administration	Puerto Rico Water Pollution Control Revolving Fund	Other proprietary	Total proprietary
Cash flows from operating activities:						
Receipts from customers and users	$ 279,517	890,530	93,872	—	49,469	1,313,388
Other receipts	—	251	—	—	—	251
Payments to suppliers and employees	—	(104,584)	(135,616)	(219)	(36,962)	(277,381)
Payments of lottery prizes	—	(569,648)	—	—	—	(569,648)
Payments of insurance benefits	(390,649)	—	—	—	(3,242)	(393,891)
Other payments	—	—	—	—	—	—
Net cash provided by (used in) operating activities	(111,132)	216,549	(41,744)	(219)	9,265	72,719
Cash flows from noncapital financing activities:						
Intergovernmental grants and contributions	185,324	—	—	22,727	5,597	213,648
Contributions to component unit	—	—	—	(1,165)	—	(1,165)
Interest paid	—	—	(10,572)	—	—	(10,572)
Transfers from other funds	—	13,648	38,732	1,880	927	55,187
Transfers to other funds	(69,323)	(190,023)	—	—	(22,915)	(282,261)
Net cash provided by (used in) capital and related financing activities	116,001	(176,375)	28,160	23,442	(16,391)	(25,163)
Cash flows from capital and related financing activities:						
Transfers from other funds	—	—	8,564	—	—	8,564
Capital expenditures	—	—	(2,429)	—	(800)	(3,229)
Principal payments	—	(44)	(1,165)	—	—	(1,209)
Net cash provided by (used in) noncapital activities	—	(44)	4,970	—	(800)	4,126
Cash flows from investing activities:						
Interest collected on deposits, investments and loans	9,556	242	4,491	6,021	5,164	25,474
Loans originated	—	—	—	(25,301)	(14,057)	(39,358)
Issuance of long-term debt	—	—	—	—	(8,000)	(8,000)
Principal collected on loans	—	—	—	14,887	7,392	22,279
Proceeds from sales and maturities of investments	—	—	—	—	19,521	19,521
Purchases of investments	—	—	—	—	(14,358)	(14,358)
Net cash provided by (used in) investing activities	9,556	242	4,491	(4,393)	(4,338)	5,558
Net increase (decrease) in cash and cash equivalents	14,425	40,372	(4,123)	18,830	(12,264)	57,240
Cash and cash equivalents at beginning of year, as restated (note 3)	383,747	74,641	8,013	81,952	119,401	667,754
Cash and cash equivalents at end of year	$ 398,172	115,013	3,890	100,782	107,137	724,994

COMMONWEALTH OF PUERTO RICO

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2013

(In thousands)

	Business-Type Activities – Enterprise Funds					
	Unemployment insurance	**Lotteries**	**Puerto Rico Medical Services Administration**	**Water Pollution Control Revolving Fund**	**Other proprietary**	**Total proprietary**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	$ (120,015)	232,332	(76,654)	5,698	7,628	48,989
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities						
Interests earned on deposits, loans and investments	—	—	—	(6,060)	(2,954)	(9,014)
Depreciation	—	268	4,516	—	920	5,704
Provision for bad debts	—	—	30,017	—	19	30,036
Loss on disposition of capital assets	—	—	—	—	413	413
Changes in operating assets and liabilities:						
Decrease (increase) in accounts and loans receivable	8,075	(10)	(47,016)	—	1,946	(37,005)
Decrease (increase) in other assets	—	641	(764)	—	8	(115)
Increase (decrease) in accounts payable and accrued liabilities	—	162	48,157	143	(148)	48,314
Increase in due to other governmental entities	—	2,405	—	—	1,233	3,638
Increase (decrease) in deferred revenues	4,121	(3,840)	—	—	182	463
Increase (decrease) in compensated absences	—	170	—	—	(88)	82
Decrease in obligation for unpaid lottery prizes	—	(15,395)	—	—	—	(15,395)
Increase (decrease) in voluntary termination benefits payable	—	(184)	—	—	119	(65)
Decrease in liability for insurance benefits payable	(3,313)	—	—	—	(13)	(3,326)
Total adjustments	8,883	(15,783)	34,910	(5,917)	1,637	23,730
Net cash provided by (used in) operating activities	$ (111,132)	216,549	(41,744)	(219)	9,265	72,719
Non-cash capital and financing activities:						
Retirement of capital assets	$ —	—	851	—	—	851
Payments to suppliers with proceeds from line of credit	$ —	—	4,032	—	—	4,032
Non-cash interest expense charged from line of credit	$ —	—	6,000	—	—	6,000

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Fiduciary Net Position – Fiduciary Funds

June 30, 2013

(In thousands)

		Pension (and other employee benefit) trust	Agency
Assets:			
Cash and cash equivalents in commercial banks			
Unrestricted	$	283,071	666,244
Restricted		26,503	—
Cash and cash equivalents in governmental banks			
Unrestricted		139,937	433,944
Restricted		35,811	—
Collateral from securities lending transactions		174,833	—
Investments at fair value:			
Bonds and notes		2,112,016	—
Nonexchange commingled trust funds		1,639,991	—
Stocks		97,374	—
Investments in limited partnerships		69,890	—
Receivables – net:			
Accounts		131,033	—
Loans and advances		1,202,629	—
Accrued interests and dividends		19,532	—
Other		42,526	—
Capital assets – net		27,906	—
Other assets		36,023	—
Total assets		6,039,075	1,100,188
Liabilities:			
Accounts payable and accrued liabilities		46,860	1,100,188
Securities lending obligations		174,833	—
Interest payable		13,876	—
Other liabilities		55,081	—
Bonds payable		3,051,189	—
Total liabilities		3,341,839	1,100,188
Net position – held in trust for pension benefits	$	2,697,236	—

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Changes in Fiduciary Net Position – Pension (and Other Employee Benefit) Trust Funds

Year ended June 30, 2013

(In thousands)

Additions:		
Contributions:		
Sponsor	$	568,107
Participants		446,195
Special		385,739
Total contributions		1,400,041
Investment income and investment expense:		
Interest		199,782
Dividends		2,935
Net change in fair value of investments		213,325
Investment expenses		(6,854)
Net investment income		409,188
Other income		24,070
Total additions		1,833,299
Deductions:		
Pension and other benefits		2,205,792
Refunds of contributions		59,973
General and administrative		73,404
Interest on bonds payable		192,230
Total deductions		2,531,399
Net change in net position held in trust for pension benefits		(698,100)
Net position held in trust for pension benefits:		
Beginning of year		3,395,336
End of year	$	2,697,236

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Major Component Units

June 30, 2013

(In thousands)

Assets:	Major component units: Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	Puerto Rico Health Insurance Administration	Major component units totals	Nonmajor component units totals	All component units totals
Current assets:									
Cash and cash equivalents in commercial banks	$ 999,165	2,967	122,130	101,680	20,371	13,156	1,259,469	198,149	1,457,618
Cash and cash equivalents in governmental banks	—	20,337	—	—	58,637	55,104	134,078	169,630	303,708
Cash equivalents in PRGITF	—	—	—	35,035	—	—	35,035	—	35,035
Investments	2,026,673	—	—	—	92,872	—	2,119,545	2,603,691	4,723,236
Collateral from securities lending transactions	—	—	—	—	—	—	—	102,689	102,689
Receivables – net:									
Insurance premiums	—	—	—	—	—	—	—	40,542	40,542
Intergovernmental	—	29,618	—	2,702	26,590	68,611	127,521	2,222	129,743
Accounts	—	13,890	776,550	71,848	43,831	57,224	963,343	125,071	1,088,414
Loans and advances	6,244,189	—	—	—	4,598	—	6,248,787	273,328	6,522,115
Accrued interest	275,365	635	—	—	—	—	276,000	25,683	301,683
Other governmental entities	—	603	356,495	52,278	36,511	66,352	512,239	30,090	542,329
Other	18,110	—	117,653	—	—	—	135,763	25,216	160,979
Due from:									
Primary government	97,154	—	82,982	55,497	49,806	44,610	330,049	98,514	428,563
Component units	3,378,372	1,173	178,172	12,432	18,846	—	3,588,995	101,470	3,690,465
Inventories	—	—	521,516	25,284	4,556	—	551,356	17,743	569,099
Prepaid expenses	—	7,418	5,082	6,377	889	4,289	24,055	15,446	39,501
Restricted assets:									
Cash and cash equivalents in commercial banks	86,501	118,829	431,121	273,358	20,746	—	930,555	28,589	959,144
Cash and cash equivalents in governmental banks	—	129,672	—	109,421	—	1,321	240,414	148,204	388,618
Investments	988,885	476,969	575,282	—	160,682	—	2,201,818	1,830,702	4,032,520
Other restricted assets	10,997	—	—	—	—	—	10,997	62,409	73,406
Deferred issue cost	31,105	77,707	55,810	63,335	—	—	227,957	28,603	256,560
Deferred expenses and other assets	4,224	—	10,898	—	74,341	—	89,463	16,867	106,330
Real estate held for sale or future development	65,595	—	—	—	—	—	65,595	161,919	227,514
Capital assets, not being depreciated	90,018	2,387,602	1,119,211	1,167,557	97,316	—	4,861,704	1,641,234	6,502,938
Capital assets, depreciable – net	9,910	8,772,139	5,719,347	6,252,911	867,196	211	21,621,714	2,327,345	23,949,059
Total assets	14,326,263	12,039,559	10,072,249	8,229,715	1,577,788	310,878	46,556,452	10,075,356	56,631,808
Deferred Outflows of Resources:									
Deferred outflows of resources	—	10,656	85,004	—	—	—	95,660	—	95,660
Total deferred outflow of resources	—	10,656	85,004	—	—	—	95,660	—	95,660

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Major Component Units

June 30, 2013

(In thousands)

	Major component units								
Liabilities and Deferred Inflow of Resources:	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	Puerto Rico Health Insurance Administration	Major component units totals	Nonmajor component units totals	All component units totals
Liabilities:									
Accounts payable and accrued liabilities	81,608	181,319	889,651	254,570	66,005	119,195	1,592,348	496,877	2,089,225
Deposits and escrow liabilities	5,576,669	—	181,482	82,247	—	—	5,840,398	446,224	6,286,622
Due to:									
Primary government	—	—	—	469,743	11,863	7,239	488,845	87,778	576,623
Component units	—	2,081,062	8,253	147,621	137,658	183,251	2,557,845	1,132,620	3,690,465
Other governmental entities	—	8,165	322,212	20,863	15,732	—	366,972	68,674	435,646
Securities lending obligations and reverse repurchase agreements	634,301	—	—	—	—	—	634,301	178,889	813,190
Interest payable	49,022	254,687	187,432	102,922	4,337	110	598,510	63,178	661,688
Deferred revenue	—	—	—	18,178	—	—	18,178	98,573	116,751
Liability for automobile accident insurance, workmen compensation and medical claims	—	—	—	—	—	150,005	150,005	925,846	1,075,851
Liabilities payable within one year:									
Notes payable	389,651	—	754,922	—	839	—	1,145,412	73,529	1,218,941
Bonds payable	35,832	101,875	399,215	16,900	20,070	—	573,892	119,730	693,622
Accrued compensated absences	2,389	—	87,755	12,725	35,555	485	138,909	40,874	179,783
Voluntary termination benefits payable	—	—	—	—	—	392	392	11,373	11,765
Capital leases	—	—	—	—	—	—	—	901	901
Other long-term liabilities	28,633	—	39,594	7,974	1,641	—	77,842	9,553	87,395
Liabilities payable after one year:									
Notes payable	4,451,088	—	7,294	—	1,434	—	4,459,816	1,450,882	5,910,698
Commonwealth appropriation bonds	3,431	—	—	398,547	—	—	401,978	107,667	509,645
Bonds payable	434,732	4,630,951	7,727,418	4,107,279	561,738	—	17,462,118	1,636,945	19,099,063
Accrued compensated absences	2,302	10,799	122,356	30,411	130,700	323	296,891	59,325	356,216
Voluntary termination benefits payable	18,500	88,202	—	—	—	4,343	111,045	112,808	223,853
Capital leases	—	—	—	—	—	—	—	29,570	29,570
Hedging derivative instruments – interest rate swaps	—	142,418	85,004	—	—	—	227,422	—	227,422
Other long-term liabilities	238,799	139,668	136,050	20,260	106,672	16,237	657,686	163,139	820,825
Total liabilities	11,946,957	7,639,146	10,948,638	5,690,240	1,094,244	481,580	37,800,805	7,314,955	45,115,760
Deferred inflows of resources									
Deferred inflows of resources - Service concession arrangements	—	1,165,674	—	—	—	—	1,165,674	619,416	1,785,090
Total deferred outflow of resources	—	1,165,674	—	—	—	—	1,165,674	619,416	1,785,090
Net position:									
Net investment in capital assets	89,614	2,956,277	23,378	2,745,582	391,767	211	6,206,829	1,650,497	7,857,326
Restricted for:									
Capital projects	—	41,793	—	—	3,350	—	45,143	235,793	280,936
Debt service	66,113	459,245	—	—	57,295	—	582,653	270,906	853,559
Affordable housing and related loan insurance programs	121,598	—	—	—	—	—	121,598	—	121,598
Student loans and other educational purposes	—	—	—	—	89,482	—	89,482	10,192	99,674
Other specified purposes	—	—	—	82,760	10,968	—	93,728	173,044	266,772
Unrestricted (deficit)	2,101,981	(211,920)	(814,763)	(288,867)	(69,318)	(170,913)	546,200	(199,447)	346,753
Total net position	$ 2,379,306	3,245,395	(791,385)	2,539,475	483,544	(170,702)	7,685,633	2,140,985	9,826,618

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Activities – Major Component Units

Year ended June 30, 2013

(In thousands)

	Expenses	Program revenues: Charges for services	Program revenues: Operating grants and contributions	Program revenues: Capital grants and contributions	Net revenues (expenses) and changes in net position	General revenues and transfers: Payments from primary government	General revenues and transfers: Payments from (to) other component units	General revenues and transfers: Grants and contributions not restricted to specific programs	General revenues and transfers: Excise taxes	General revenues and transfers: Interest and investment earnings	General revenues and transfers: Other	Change in net position	Net position beginning of year, as restated (see note 3)	Net position end of year
Major component units:														
Government Development Bank for Puerto Rico	$ 864,077	571,640	170,501	—	(121,936)	—	—	—	—	—	—	(121,936)	2,501,242	2,379,306
Puerto Rico Highways and Transportation Authority	1,154,822	217,720	—	428,930	(508,172)	258,424	—	—	—	42,425	66,869	(140,454)	3,385,849	3,245,395
Puerto Rico Electric Power Authority	5,191,088	4,843,016	—	31,979	(316,093)	—	—	—	—	26,329	14,065	(275,699)	(515,686)	(791,385)
Puerto Rico Aqueduct and Sewer Authority	1,233,804	735,693	—	19,859	(478,252)	6,132	—	—	—	7,478	5,202	(459,440)	2,998,915	2,539,475
University of Puerto Rico	1,414,968	216,482	138,337	5,219	(1,054,930)	834,208	67,832	161,651	—	4,318	9,855	22,934	460,610	483,544
Puerto Rico Health Insurance Administration	2,372,473	1,406,190	—	—	(966,283)	887,725	—	—	—	61,836	—	(16,722)	(153,980)	(170,702)
Nonmajor component units	2,135,444	1,518,821	69,788	20,678	(526,157)	276,245	(67,832)	5,553	65,642	144,627	29,586	(72,336)	2,213,321	2,140,985
	$ 14,366,676	9,509,562	378,626	506,665	(3,971,823)	2,262,734	—	167,204	65,642	287,013	125,577	(1,063,653)	10,890,271	9,826,618

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

The Commonwealth of Puerto Rico (the Commonwealth) was constituted on July 25, 1952, under the provisions of the Commonwealth's Constitution (the Constitution) as approved by the people of Puerto Rico and the U.S. Congress. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government. The Commonwealth assumes responsibility for general government, public safety, health, public housing and welfare, education, and economic development.

The accompanying basic financial statements of the Commonwealth are presented in conformity with U.S. Generally Accepted Accounting Principles (US GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying basic financial statements present the financial position of the Commonwealth and its various funds, the results of operations of the Commonwealth and its various funds and fund types, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2013 and for the year then ended.

(a) *Financial Reporting Entity*

The basic financial statements of the Commonwealth include all departments, agencies, funds, functions and public corporations that have been determined to meet the requirements for inclusion in the Commonwealth's financial reporting entity. The Commonwealth has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include when the Commonwealth appoints a voting majority of an organization's governing body and it has (i) the ability to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth. In situations where the Commonwealth has not appointed the voting majority of an organization's governing body, the GASB has then provided as criteria for financial accountability the fiscal dependency of such organizations on the Commonwealth when there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

As required by US GAAP, these basic financial statements present the Commonwealth and its component units.

(b) *Component Units*

The financial statements of the component units discussed below have been included in the financial reporting entity either as blended component units or as discretely presented component units in accordance with GASB Statement No. 14, *The Financial Reporting Entity,* as amended by GASB Statements No. 39 and No. 61.

(Continued)

Blended Component Units

The following entities, while legally separate from the Commonwealth, meet the blending criteria to be reported as part of the primary government as follows:

Public Buildings Authority (PBA) – PBA is governed by a seven member board comprised of the Secretary of the Department of Transportation and Public Works (DTPW), the Secretary of the Department of Education of the Commonwealth, the President of the Government Development Bank for Puerto Rico (GDB), and four members appointed by the Governor of Puerto Rico with the advice and consent of the Senate. It is a legally separate entity, whose activities are blended within the primary government because it exists to construct, purchase, or lease office, school, health, correctional, social welfare, and other facilities for lease to the Commonwealth's departments, component units, and instrumentalities. Bonds issued by the PBA to finance such facilities are payable from lease collections, which are largely derived from Commonwealth appropriations and are further secured by the Commonwealth's guaranty. Therefore the financial statements of the PBA are blended in the Commonwealth's fund financial statements as a special revenue, debt service and capital project fund.

Puerto Rico Infrastructure Financing Authority (PRIFA) – PRIFA is governed by a seven member board comprised of five members appointed by the board of the directors of the GDB, the Secretary of the Treasury of the Commonwealth and one member appointed by the Governor. The members of PRIFA's board of directors are executives on trustworthy positions, named and supervised by the Governor. The President is appointed by the Governor from among its members. PRIFA is a financing authority whose responsibilities are to provide financial, administrative, consulting, technical, advisory, and other types of assistance to other component units and governmental instrumentalities of the Commonwealth, which are authorized to develop infrastructure facilities and to establish alternate means for financing them. PRIFA's total debt outstanding, mostly Special Tax Revenue Bonds comprising over 95% of its total debt, is expected to be repaid entirely or almost entirely from resources of the Commonwealth, consisting of federal excise taxes levied on the rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the US Treasury and returned to the Commonwealth. PRIFA's remaining debt, other than the Special Tax Revenue Bonds, is currently being repaid with Commonwealth's legislative appropriations. Therefore, PRIFA's financial statements are blended in the Commonwealth's fund financial statements as a special revenue, debt service and capital project fund.

Puerto Rico Maritime Shipping Authority (PRMSA) – PRMSA is governed by the President of the GDB. The operations of PRMSA have been limited to processing the remaining legal requirements resulting from the sale of certain maritime operations formerly owned and operated by PRMSA. Such legal requirements consist solely of servicing the long-term debt that remained in PRMSA after the sale. The Commonwealth is required to annually appropriate funds in its general operating budget to provide for the payment of principal and interest on such debt, which is the total debt outstanding. Therefore, PRMSA's financial statements are blended in the Commonwealth's fund financial statements as a debt service fund.

Puerto Rico Medical Services Administration (PRMeSA) — PRMeSA is governed by a ten member board comprising the Secretary of the Department of Health of the Commonwealth, who is the Chairman, the Dean of the Medical Sciences Faculty of the University of Puerto Rico (UPR), the

President of the board of directors of the Puerto Rican League Against Cancer, the Mayor of the Municipality of San Juan, the Administrator of the State Insurance Fund Corporation, the Administrator of the Administration of Mental Health and Addiction Services, the President of the Medical Policy and Administration Committee, the Secretary of the Department of Family, and two members appointed by the Secretary of the Department of Health of the Commonwealth. Its purpose is to plan, organize, operate, and administer the centralized health services, provided in support of the hospital and other functions, offered by the member institutions and users of the medical complex known as the Puerto Rico Medical Center. The Commonwealth is required to annually appropriate funds in its general operating budget to provide for the payment of principal and interest on such debt, which is the total debt outstanding. Therefore, PRMeSA's financial statements are blended in the Commonwealth's fund financial statements as an enterprise fund.

Puerto Rico Sales Tax Financing Corporation (Known as COFINA, its Spanish Acronym) – COFINA was created under Act No. 91 approved on May 13, 2006, as amended by the Legislative Assembly of the Commonwealth. COFINA was originally created for the purpose of financing the payment, retirement or defeasance of certain debt obligations of the Commonwealth outstanding at June 30, 2006 (the 2006 Appropriation Debt). During 2009, the Commonwealth's Legislative Assembly expanded the purposes of COFINA to assist operational expenses of the Commonwealth for 2009 through 2011 and for 2012, to the extent included in the annual budget of the Commonwealth. The members of the board of directors of COFINA are the same as the ones of the GDB. Since COFINA's total outstanding debt of Sales Tax Revenue Bonds is being repaid and pledged with Commonwealth's sales and use taxes as described in note 12, its financial statements are blended in the Commonwealth's fund financial statements as a special revenue and debt service fund.

Special Communities Perpetual Trust (SCPT) – SCPT is governed by a board of directors composed of eleven members: the Secretary of the Department of Housing of the Commonwealth, the Secretary of the DTPW of the Commonwealth, the Coordinator for the Social and Economic Financing of the Special Communities, one mayor of a municipality of Puerto Rico, one community leader resident in one special community, four private citizens representing the public interest, and two public employees. All members of the board of directors are appointed by the Governor. SCPT's principal purpose is to fund development projects that address the infrastructure and housing needs of the underprivileged communities. Over the years since its inception, SCPT has seen its revenue sources diminished as its principal assets, mortgage loans, are being fully reserved. SCPT has accumulated debt with the GDB, which is being repaid, as required by the legislation creating SCPT, with Commonwealth's appropriations. Therefore, SCPT's financial statements are blended in the Commonwealth's fund financial statements as a special revenue and debt service fund.

The Children's Trust – The Children's Trust is governed by a seven member board comprised of the Governor, who designates the president of the board, the President of the GDB, the Director of the Office of Management and Budget (OMB) of the Commonwealth, the Secretary of Justice of the Commonwealth, and three private citizens appointed by the Governor with the advice and consent of the Senate. The Children's Trust's sole operation consists of providing financial assistance principally to the Commonwealth's departments to carry out projects aimed at promoting the well-being of families, children and youth of Puerto Rico, especially in the areas of education, recreation, and health. The operation of the Children's Trust is financed with the moneys being received by the Commonwealth from a global settlement agreement (GSA) dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The GSA calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies shall continue making contributions in perpetuity. As The Children's Trust provides financial assistance entirely or almost entirely to the Commonwealth's departments and its total debt outstanding is being repaid and pledged with the GSA resources received by the Commonwealth, its financial statements are blended in the Commonwealth's fund financial statements as a special revenue and debt service fund.

The COFINA debt service fund and the COFINA special revenue fund are presented as major governmental funds, while Puerto Rico Medical Services Administration is presented as a major enterprise fund. All the other blended component units are reported in the other governmental funds column. Complete financial statements of the blended component units can be obtained directly by contacting their respective administrative offices at:

Public Buildings Authority
P.O. Box 41029 – Minillas Station
San Juan, PR 00940-1029

Puerto Rico Infrastructure Financing Authority
P.O. Box 41207 Minillas Station
San Juan, PR 00940

Puerto Rico Maritime Shipping Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Medical Services Administration
P.O. Box 2129
San Juan, PR 00922-2129

Puerto Rico Sales Tax Financing Corporation
P.O. Box 42001
San Juan PR 00940-2001

Special Communities Perpetual Trust
P.O. Box 42001
San Juan, PR 00940-2001

The Children's Trust
P.O. Box 42001
San Juan, PR 00940-2001

Discretely Presented Component Units

The following component units, all legally separate entities, consistent with GASB Statement No. 14, as amended by GASB Statements No. 39 and 61, are discretely presented in the basic financial statements principally because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because the component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth (with the exception of Culebra Conservation and Development Authority, which does not meet all these criteria, but the Commonwealth has determined it would be misleading to exclude it from the Commonwealth's financial reporting entity). These component units are not blended with the primary government because they do not provide services entirely, or almost entirely to the primary government, their governing board is not substantively the same as that of the primary government, the primary government does not have any operational responsibilities over them, and they do not have total debt outstanding being repaid entirely or almost entirely with resources of the primary government. These have been classified by management between major and nonmajor component units. A major discretely presented component unit is determined by the Commonwealth based on the nature and significance of its relationship to the primary government. This determination is based on the evaluation of the following factors: a) the services provided by the component unit to the citizenry are such that separate reporting as a major component unit is considered to be essential to financial statement users, b) there are significant transactions with the primary government, or c) there is a significant financial benefit or burden relationship with the primary government. If a component unit is expected to meet some of these considerations for inclusion as major component unit in a future year, the Commonwealth may elect to report it as a major component unit.

Major Component Units

Government Development Bank for Puerto Rico (GDB) – GDB is governed by a seven member board appointed by the Governor. GDB's boards of directors' members are executives on a trustworthy position, named and supervised by the Governor. The GDB acts as fiscal agent, depository of funds, disbursing agent, investor and financial advisor for the Commonwealth, its public corporations, and municipalities in connection with the issuance of bonds and notes; and it also makes loans and advances funds predominantly to the Commonwealth's departments, component units, and municipalities.

Puerto Rico Highways and Transportation Authority (PRHTA) – PRHTA is governed by the Secretary of DTPW. The PRHTA has broad powers to carry out its responsibilities in accordance with DTPW's overall transportation policies. These powers include, among other things, the complete control and supervision of any highway facilities constructed, owned, or operated by the PRHTA, the ability to set tolls for the use of the highway facilities, and the power to issue bonds, notes, or other obligations. The PRHTA plans and manages the construction of all major projects relating to the Commonwealth's toll highway system, undertakes major repairs, and maintains the toll ways. The Commonwealth has the ability to significantly influence the toll rates charged by the PRHTA.

Puerto Rico Electric Power Authority (PREPA) – PREPA is governed by a nine member board comprising the Secretary of the Department of Transportation and Public Works (DTPW), six members appointed by the Governor with the advice and consent of the Senate, and two members representing the consumers' interest elected in a referendum carried out by the Puerto Rico Consumer Affairs Department. Board members are appointed or elected for a period of four years. PREPA is responsible for conserving, developing, and utilizing the power resources in order to promote the general welfare of Puerto Rico and owns and operates the Commonwealth's electrical power generation, transmission, and distribution system. The Commonwealth is entitled to receive contributions in lieu of taxes from PREPA.

Puerto Rico Aqueduct and Sewer Authority (PRASA) – PRASA is governed by a nine member board comprising six members appointed by the Governor with the advice and consent of the Senate (including the President of the Puerto Rico Planning Board), the Executive President of Puerto Rico Electric Power Authority, the Executive Director of Mayors' Federation, and the Executive Director of Mayors' Association. PRASA owns and operates the Commonwealth's system of public water supply and sanitary sewer facilities. PRASA is authorized, among other things, to borrow money and issue revenue bonds for any of its corporate purposes. The Commonwealth guarantees the principal and interest payments of certain outstanding bonds and of all future bonds issued to

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refinance those outstanding bonds at the date of refinancing. Act No. 45 of July 28, 1994 was later amended to include other loans under the State Revolving Fund Program (SRFP). The Commonwealth provides financial support to PRASA through legislative appropriations.

University of Puerto Rico (UPR) – The UPR is governed by a thirteen-member Governing Board, nine of which are appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico. The remaining members of the Governing Board consist of two tenured professors and two full-time students. The Secretary of the Department of Education of the Commonwealth becomes ex-officio member of the governing board. The Commonwealth provides financial support to the UPR through legislative appropriations.

Puerto Rico Health Insurance Administration (PRHIA) – PRHIA is governed by a board of directors, which, by law, is composed of eleven members (six compulsory members and five discretionary members). The compulsory members are the Secretary of Health of the Commonwealth, the Secretary of the Treasury of the Commonwealth, the Director of the Office of Management and Budget, the President of the GDB, the Insurance Commissioner of Puerto Rico, and the Administrator of the Administration of Services of Mental Health and Addiction. The five discretionary members are appointed by the Governor, with the advice and consent of the Senate. The board of directors' president is designated by the Governor and all discretionary board members are executives on a trustworthy position. PRHIA was created for implementing, administering, and negotiating a health insurance system through contracts with insurance underwriters to provide quality medical and hospital care to low income individuals, employees of the Commonwealth and policemen who voluntarily subscribe to the Puerto Rico health insurance medical plan. The Commonwealth provides financial support to PRHIA through legislative appropriations.

Nonmajor Component Units

Agricultural Enterprises Development Administration (AEDA) – AEDA is governed by the Secretary of Agriculture of the Commonwealth. The purpose of AEDA is to provide a wide variety of services and incentives to the agricultural sector. The Commonwealth has the ability to impose its will on AEDA. The Commonwealth provides financial support to AEDA through legislative appropriations.

Automobile Accidents Compensation Administration (AACA) – AACA is governed by a Cabinet Member, and a four member board appointed by the Governor with the advice and consent of the Senate. The AACA operates a system of compulsory insurance coverage for all registered motor vehicles and compensates citizens for injuries arising from motor vehicle accidents. The Commonwealth has the ability to significantly influence rates charged by the AACA. The Commonwealth has access to AACA's resources.

Cardiovascular Center Corporation of Puerto Rico and the Caribbean (CCCPRC) – CCCPRC is governed by a seven member board comprising of the Secretary of Health of the Commonwealth, the Director of the Medical Sciences Campus of the UPR, the Executive Director of the Puerto Rico Medical Services Administration, and four additional members appointed by the Governor with the advice and consent of the Senate, one of which should be from the Cardiology Society of Puerto Rico and another a member of a cardiology foundation properly registered in the Department of State of the Commonwealth. The purpose of the CCCPRC is to provide special treatment to patients suffering from cardiovascular diseases. The Commonwealth provides financial support to the

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CCCPRC through legislative appropriations.

Company for the Integral Development of the "Península de Cantera" (CIDPC) – CIDPC is governed by an eleven member board, of which six members are appointed by the Governor and five members appointed by the Mayor of the Municipality of San Juan. The CIDPC was created to establish and implement a comprehensive development plan for the Península de Cantera area. Its main function is to supervise and coordinate governmental efforts and also promote and manage private sector initiatives for the improvements and rehabilitation of the aforementioned area. The Commonwealth provides financial support to the CIDPC.

Corporation for the "Caño Martín Peña" ENLACE Project (CPECMP) – CPECMP was created for the purpose of coordinating the public policy related to the rehabilitation of the Caño Martín Peña area. The CPECMP is governed by a board of directors of thirteen members of which seven members are appointed by the Governor and six members appointed by the Mayor of the Municipality of San Juan. The Commonwealth generally provides financial support to the CPECMP through legislative appropriations.

Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico (CDASFIPR) – CDASFIPR was created for the development of the arts and the film industry in Puerto Rico and is governed by a seven member board comprising of the Secretary of Economic Development and Commerce, who is the president, the President of the Puerto Rico Public Broadcasting Corporation, the Secretary of Treasury, the Executive Director the Puerto Rico Institute of Culture and three additional members appointed by the Governor with the advice and consent of the Senate. The Commonwealth generally provides financial support to the CDASFIPR through legislative appropriations.

Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico (CIBMRIP) – CIBMRIP is governed by the Secretary of the Family of the Commonwealth, who is also the President of the CIBMRIP. The purpose of the Corporation is to establish and organize workshops in Puerto Rico, which will provide training, employment and other services that is deemed appropriate or necessary for the rehabilitation of blind people, mentally retarded or other delayed mental or other handicaps which constitute obstacles to their occupational capacity, residing in Puerto Rico. The Commonwealth provides financial support to the CIBMRIP through Commonwealth appropriations.

Culebra Conservation and Development Authority (CCDA) – CCDA was created to formulate and administer the program and plan for the conservation, use, and development of natural resources of the Municipality of Culebra. The CCDA is administered through a board of directors composed of seven members, including the Mayor of the Municipality of Culebra and six additional members appointed by the Mayor of the Municipality of Culebra and confirmed by the municipal legislature. The administration and operations of the CCDA are conducted by an executive director elected by the board of directors. The Commonwealth provides financial support to the CCDA through legislative appropriations. Although CCDA's board of directors is not appointed by the Commonwealth and it is not fiscally dependent on the Commonwealth, the Commonwealth believes it would be misleading to exclude it from its reporting entity, given the financial support provided by the Commonwealth.

Economic Development Bank for Puerto Rico (EDB) – EDB is governed by a nine members board comprising the President of the GDB, who is the Chairman, the Secretary of Agriculture of the Commonwealth, the Secretary of the Department of Economic Development and Commerce of the Commonwealth, the Executive Director of the Puerto Rico Industrial Development Company, the Executive Director of the Puerto Rico Tourism Company, and four members representing the private sector and appointed by the Governor with the advice and consent of the Senate. Private sector members are appointed for a maximum period of three years. The EDB is responsible for the promotion and development of the private sector economy of the Commonwealth. This purpose is to be met by granting direct loans, loan guarantees, loan participation, and/or direct investments to any person or business organization devoted to manufacturing, agriculture, trade, tourism, or other service enterprises with preference, but not limited, to economic activities that may have the effect of substituting imports. The Commonwealth has the ability to impose its will on the EDB.

Employment and Training Enterprises Corporation (ETEC) – ETEC is governed by an eleven member consulting board, which includes two private citizens appointed by the Governor with the consent of the Senate. The purpose of ETEC is to provide training for management, business development, and employment for inmates of the correctional institutions of the Commonwealth. The Commonwealth generally provides financial support to ETEC through legislative appropriations and has the ability to impose its will on ETEC.

Farm Insurance Corporation of Puerto Rico (FICPR) – FICPR is governed by a five member board consisting of the Secretary of Agriculture of the Commonwealth, the Dean of the Agricultural Sciences Faculty of the UPR Mayaguez Campus, a representative of the GDB, and two bona fide farmers appointed by the Governor with the advice and consent of the Senate. The purpose of the FICPR is to provide insurance to farmers against losses in their farms caused by natural disasters. The Commonwealth has the ability to impose its will on the FICPR.

Fine Arts Center Corporation (FACC) – FACC is governed by a nine member board comprising the President of the Musical Arts Corporation and eight members named by the Governor. FACC was created with the purpose of administering the Fine Arts Center. The Commonwealth provides financial support to FACC through legislative appropriations.

Institute of Puerto Rican Culture (IPRC) – IPRC is governed by a nine member board comprising the President of Musical Arts Corporation and eight members appointed by the Governor with the advice and consent of the Senate. The IPRC is responsible for implementing the public policy related to the development of Puerto Rican arts, humanities and culture. The Commonwealth provides financial support to the IPRC through legislative appropriations.

Institutional Trust of the National Guard of Puerto Rico (ITNGPR) – ITNGPR is governed by a seven member board comprising of the Adjutant General of the Puerto Rico National Guard, the President of the GDB, the Secretary of Justice of the Commonwealth, three militaries from the Puerto Rico National Guard, and one representative from the community appointed by the Governor. ITNGPR's purpose is to provide life insurance, retirement benefits, and economic assistance to the active members of the Puerto Rico National Guard and their families. The Commonwealth generally provides financial support to the ITNGPR through legislative appropriations and has the ability to impose its will on the ITNGPR.

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Land Authority of Puerto Rico (LAPR) – LAPR is governed by a five member board consisting of the Secretary of Agriculture of the Commonwealth and four members appointed by the Governor. LAPR was created to carry out the provisions of the Land Law of Puerto Rico, principally geared to the agricultural development of Puerto Rico. LAPR maintains debt that is paid with Commonwealth's appropriations and funds generated by LAPR operations.

Local Redevelopment Authority for Roosevelt Roads Puerto Rico (LRA) – LRA is governed by a nine member board comprising the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, two members appointed by the Mayor of the Municipality of Ceiba, one member appointed by the Mayor of the Municipality of Naguabo, one member appointed by the President of the Senate, one member appointed by the Speaker of the House of Representatives and three additional members appointed by the Governor, all to possess known interest and expertise in the areas of planning; commercial, tourism, residential and institutional development; real estate; tourism and recreational facilities administration; and infrastructure projects' management. The LRA is responsible for the implementation of the reuse and redevelopment plan for the former Navy Station of Roosevelt Roads located in Ceiba, Puerto Rico. Some of the activities involved in these redevelopment plans include the direction, supervision, regulation and maintenance of the economic development on the land and facilities formerly occupied by the US Navy. The Commonwealth generally provides financial support to the LRA through legislative appropriations.

Musical Arts Corporation (MAC) – MAC is governed by a seven member board appointed by the Governor with the advice and consent of the Senate. MAC was created to promote the development of the arts and cultural programs of the Commonwealth. The Commonwealth provides financial support to MAC through legislative appropriations.

National Parks Company of Puerto Rico (NPCPR) – NPCPR is governed by a nine member board comprising the Secretary of Recreation and Sports Department of the Commonwealth (the Secretary), who is the chairman, the Secretary of the Department of Education of the Commonwealth, the Executive Director of the Puerto Rico Tourism Company, the Secretary of the Department of Natural and Environmental Resources of the Commonwealth, and five members appointed by the Governor with the recommendation from the Secretary and with known interest in the development and preservation of parks in the private sector. The NPCPR is responsible for the operation of all national parks and the protection, conservation, maintenance and use of parks, beaches, forests, and natural and historical monuments for the optimum enjoyment of present and future generations. The Commonwealth provides financial support to the NPCPR through legislative appropriations.

Port of the Americas Authority (PAA) – PAA is governed by an eleven member board comprising of the Secretary of DTPW, the Secretary of Economic Development and Commerce, the Executive Director of Puerto Rico Industrial Development Company, the Majors of the Municipalities of Ponce, Peñuelas and Guayanilla and five private citizens appointed by the Governor with the consent of the Senate. The main purpose of the PAA is the planning, development and construction of a large scale container terminal in the city of Ponce, Puerto Rico. The Commonwealth generally provides financial support to the PAA through legislative appropriations.

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (PCSDIPRC) – PCSDIPRC is governed by a nine member board comprising of the Administrator of the Cooperative Development Administration, the Commissioner of Financial Institutions of Puerto Rico, the Secretary of the Treasury of the Commonwealth, the Inspector of Cooperatives, three citizens representing the cooperative movement, one representative of the Puerto Rico Cooperatives League, and one private citizen representing the public interest. PCSDIPRC has the responsibility of providing to all the cooperatives and the Federation of Cooperatives of Puerto Rico insurance coverage over the stocks and deposits, and for monitoring the financial condition of the insured cooperatives, and the uninsured cooperatives when requested by the Inspector of Cooperatives. The Commonwealth has the ability to impose its will on PCSDIPRC.

Puerto Rico Conservatory of Music Corporation (PRCMC) – PRCMC is governed by a seven member board appointed by the Governor, with the advice and consent of the Senate. The PRCMC is responsible for providing the Puerto Rican community and especially its youths with the required facilities to educate and perfect their musical skills, including secondary education programs for developing musical arts. It prepares the artistic element that nourishes the Puerto Rico Symphony Orchestra and other musical organizations, and coordinates the governmental efforts to interested industries, private enterprises, and particular citizens. The Commonwealth occasionally provides financial support to the PRCMC through legislative appropriations.

Puerto Rico Convention Center District Authority (PRCCDA) – PRCCDA is governed by a nine member board of directors comprising of four members from the public sector and five members from the private sector. The public sector members comprise the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Executive Director of the Puerto Rico Tourism Company (PRTC), the president of the GDB, and one member from the public sector. The private sector members are individuals having experience in the areas of hotel operations, tourism, real estate, or convention centers who are appointed by the Governor with the advice and consent of the Senate. The PRCCDA was created to develop, own, finance, plan, design, construct, operate, manage, and promote the new Puerto Rico Convention Center and the Puerto Rico Convention District. The PRCCDA also has the ownership interest as well as other rights and obligations related to the development and operations of the Jose Miguel Agrelot Coliseum. The Commonwealth provides financial support to the PRCCDA through legislative appropriations.

Puerto Rico Council on Education (PRCE) – PRCE is governed by a board comprising nine members appointed by the Governor with the consent of the Senate. Its purpose is to develop higher education, to administer the licensing and certification of institutions of higher education, and to administer scholarship funds. The Commonwealth provides financial support to the PRCE through legislative appropriations.

Puerto Rico Government Investment Trust Fund (PRGITF) – PRGITF is governed by the Secretary of the Treasury of the Commonwealth. The GDB is its trustee, custodian, and administrator. PRGITF's main objective is to provide investment opportunities in a professionally managed money market portfolio by investing in high quality securities with minimal credit risk. Qualified investors include the Commonwealth's central government, its public corporations, instrumentalities and agencies, and the municipalities of Puerto Rico. In conformity with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*, the financial statements of the PRGITF are not included in the accompanying basic financial statements because the primary government and each component unit investor is already presenting as cash or investment their corresponding share of the assets of the PRGITF.

Puerto Rico Industrial Development Company (PRIDCO) – PRIDCO is governed by a seven member board comprising the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Secretary of the Treasury of the Commonwealth, the President of the GDB, the President of the Planning Board of Puerto Rico, and three members from the private sector appointed by the Governor with the advice and consent of the Senate. The private sector members are appointed for a period of four years. PRIDCO administers the Commonwealth sponsored economic development program by providing facilities, general assistance, and special incentive grants to manufacturing companies operating in Puerto Rico. PRIDCO has issued interim notes and revenue bonds to finance manufacturing plants and other facilities. Rentals derived from the leasing of specified facilities of PRIDCO are pledged for the payment of PRIDCO's revenue bonds. PRIDCO maintains debt that is paid with Commonwealth's appropriations. The Commonwealth generally provides financial support to PRIDCO through legislative appropriations and has the ability to impose its will on PRIDCO.

Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (known as AFICA, its Spanish acronym) – AFICA is governed by a seven member board comprising of the Executive Director of PRIDCO, the President of the GDB, the Executive Director of Puerto Rico Infrastructure Financing Authority, the Executive Director of the Puerto Rico Tourism Company (PRTC), the President of the Environmental Quality Board, and two private citizens appointed by the Governor. AFICA is authorized to issue revenue bonds to finance industrial, tourist, environmental control, medical, and educational facilities in Puerto Rico and the United States of America for use by private companies, nonprofit entities, or governmental agencies. The bonds are payable solely from collections from such private companies, nonprofit entities, or governmental agencies, and do not constitute debt of the Commonwealth or any of its other component units. The Commonwealth has the ability to impose its will on AFICA.

Puerto Rico Land Administration (PRLA) – PRLA is governed by an eleven member board comprising the Secretary of Economic Development and Commerce of the Commonwealth, who serves as President, the President of the Planning Board of Puerto Rico, who serves as Vice-President, the Secretary of the Treasury of the Commonwealth, the Secretary of Agriculture of the Commonwealth, the Secretary of DTPW of the Commonwealth, the Secretary of Housing of the Commonwealth, the Executive Director of Puerto Rico Industrial Development Corporation and four members appointed by the Governor with the advice and consent of the Senate. The PRLA acquires parcels of land on behalf of government instrumentalities through negotiation or expropriation for future development or for reserve. The Commonwealth provides financial support to the PRLA through legislative appropriations.

Puerto Rico and Municipal Islands Maritime Transport Authority (PRMIMTA) – PRMIMTA is governed by a five member board comprising the Secretary of DTPW, who serves as President, the Executive Director of the Ports Authority, the Mayors of Vieques and Culebra, and one additional member appointed by the Governor. The operations of the PRMIMTA consist of administering and operating the maritime transportation services between San Juan, Fajardo, Vieques and Culebra. The

Commonwealth generally provides financial support to the PRMIMTA through legislative appropriations.

Puerto Rico Metropolitan Bus Authority (PRMBA) – PRMBA is governed by the Secretary of DTPW of the Commonwealth. The PRMBA provides bus transportation to passengers within the San Juan Metropolitan Area. The Commonwealth provides financial support to the PRMBA through the transfer of certain gasoline and diesel excise taxes collected by the Commonwealth.

Puerto Rico Municipal Finance Agency (PRMFA) – PRMFA is governed by a five member board comprising the President of the GDB, who is the Chairman, the Commissioner of Municipal Affairs, and three additional members appointed by the Governor, one of whom shall be either the mayor or chief financial officer of a municipality. The PRMFA was organized to create a capital market to assist the municipalities of Puerto Rico in financing their public improvement programs. The Commonwealth is required to cover any potential deficiency that may exist on the MFA reserve accounts established for debt service.

Puerto Rico Ports Authority (PRPA) – PRPA is governed by a five member board consisting of the Secretary of DTPW of the Commonwealth, who is the Chairman, the Secretary of Economic Development and Commerce of the Commonwealth, the Executive Director of the PRTC, the Executive Director of Puerto Rico Industrial Development Company and one private citizen appointed by the Governor with the consent of the Senate. The purpose of the PRPA is to administer all ports and aviation transportation facilities of the Commonwealth and to render other related services. The Commonwealth generally provides financial support to the PRPA through legislative appropriations.

Puerto Rico Public Broadcasting Corporation (PRPBC) – PRPBC is governed by an eleven member board of directors comprising the Secretary of the Department of Education of the Commonwealth, the President of the UPR, the Executive Director of the IPRC, and eight private citizens appointed by the Governor with the advice and consent of the Senate. At least three of these private citizens must have proven interest, knowledge, and experience in education, culture, art, science, or radio and television. The PRPBC was created for the purpose of integrating, developing, and operating the radio, television, and electronic communication facilities that belong to the Commonwealth. The Commonwealth provides financial support to the PRPBC through legislative appropriations.

Puerto Rico Public Private Partnerships Authority (PPPA) – PPPA is governed by a five member board of directors comprising the President of the GDB, the Secretary of the Treasury, the President of the Planning Board and two members appointed by the Governor, one member selected by the President of the Senate of Puerto Rico and another member, by the Speaker of the Puerto Rico House of Representatives. The PPPA is the only government entity authorized and responsible for implementing public policy on Public Private Partnerships established by Act No. 29 of June 8, 2009 and to determine the functions, services or facilities for which such Partnerships will be established. The Commonwealth has the ability to impose its will on the PPPA.

Puerto Rico School of Plastic Arts (PRSPA) – PRSPA is governed by a seven member board. Four members are appointed by the board of directors of the IPRC, representing the public educational and cultural interests. Board members may not be employees of the PRSPA. The remaining three members are elected from among the members of the board of directors of the IPRC, one of whom will serve as president. The PRSPA was created to develop, promote, plan, and coordinate programs of study in higher education oriented to the plastic arts, teaching, artistic techniques, and to help students to develop humanistic values. The Commonwealth generally provides financial support to the PRSPA through legislative appropriations.

Puerto Rico Telephone Authority (PRTA) – PRTA is governed by a five member board comprising the President of the GDB and four members that are appointed by the board of directors of the GDB from among the GDB board members, all of which are appointed by the Governor. PRTA is the legal entity responsible to account for the equity interest in Telecommunications de Puerto Rico, Inc. The Commonwealth has the ability to impose its will on the PRTA.

Puerto Rico Tourism Company (PRTC) – PRTC is governed by a seven member board comprising of representatives of different tourist related sectors appointed by the Governor with the consent of the Senate. At least one member must represent internal tourism and two must not be residents of the metropolitan area. Its purpose is to promote the tourism industry of Puerto Rico. The Commonwealth generally provides financial support to the PRTC through legislative appropriations.

Puerto Rico Trade and Export Company (PRTEC) – PRTEC is governed by a nine member board comprising the Secretary of the Department of Economic Development and Commerce, who is the Chairman, the Executive Director of the Ports Authority, the Secretary of the Department of Agriculture, the President of the EDB, the Executive Director of PRIDCO, the Legal Division Director of the PRTEC, and three private citizens. The PRTEC has the responsibility to promote the highest efficiency in the services provided to the commercial sector, with emphasis on small and medium sized enterprises while promoting the export of products and services from Puerto Rico to other countries. The Commonwealth has the ability to impose its will on the PRTEC.

Solid Waste Authority (SWA) – SWA is governed by a government board appointed by the Secretary of the Department of Natural Resources, whereby, the Secretary and the Executive Director of SWA periodically meet. SWA provides alternatives for processing of solid waste and encourages recycling, reuse, and recovery of resources from waste. The Commonwealth provides financial support to SWA through legislative appropriations.

State Insurance Fund Corporation (SIFC) – SIFC is governed by a seven member board appointed by the Governor with the advice and consent of the Senate. The board comprises the Commissioner of Insurance of Puerto Rico, an officer from the Department of Labor and Human Resources of the Commonwealth, an officer from the Department of Health of the Commonwealth, a representative of the employers' interest, a representative of the employees' interest, and two members without any of these interests. One of these members is appointed by the Governor as president of the board for a period of six years. The three public officials are appointed for a period of five years, and the rest of the members for four, three, two, and one year, respectively. SIFC provides workers' compensation and disability insurance to public and private employees. The Commonwealth has access to SIFC's resources.

University of Puerto Rico Comprehensive Cancer Center (UPRCCC) – UPRCCC is governed by a nine member board comprising of four ex-officio members: the President of the University of Puerto Rico (the UPR), the Chancellor of Medical Sciences Campus of the UPR, the Secretary of the Department of Health of the Commonwealth, and the Dean of the UPR School of Medicine. The remaining five (5) members, who shall be appointed by the Governor with the approval of the Commonwealth Senate, are citizens of Puerto Rico who have shown commitment to the fight against cancer are as follows: two members from the investigative studies or cancer treatment community; one member with experience in management, finance, or business administration, or with previous experience managing hospitals or medical investigation clinics; one member who is a cancer patient; and one member of which will be a member of the "Liga Puertorriqueña Contra el Cancer". The Commonwealth provides financial support to UPRCCC through legislative appropriations.

Complete financial statements of the discretely presented component units can be obtained directly by contacting their administrative offices:

Agricultural Enterprises Development
Administration
P.O. Box 9200
Santurce, PR 00908-0200

Automobile Accidents Compensation
Administration
P.O. Box 364847
San Juan, PR 00936-4847

Cardiovascular Center Corporation of
Puerto Rico and the Caribbean
P.O. Box 366528
San Juan, PR 00936-6528

Company for the Integral Development of the
"Península de Cantera"
P.O. Box 7187
Santurce, PR 00916-7187

Corporation for the "Caño Martín Peña"
ENLACE Project
P.O. Box 41308
San Juan, PR 00940-1308

Corporation for the Development of the Arts,
Science and Film Industry of Puerto Rico
P.O. Box 362350
San Juan, PR 00936-2350

Corporation of Industries for the Blind and
Mentally Retarded and Incapacitated Persons
of Puerto Rico
P.O. Box 13382
San Juan, PR 00908

Culebra Conservation and Development
Authority
P.O. Box 217
Culebra, PR 00775-0217

Economic Development Bank for Puerto Rico
P.O. Box 2134
San Juan, PR 00922-2134

Employment and Training Enterprises Corporation
P.O. Box 366505
San Juan, PR 00936-6505

Farm Insurance Corporation of Puerto Rico
P.O. Box 9200
Santurce, PR 00908

Fine Arts Center Corporation
P.O. Box 41287 – Minillas Station
San Juan, PR 00940-1287

Government Development Bank for Puerto Rico
P.O. Box 42001
San Juan, PR 00940-2001

Institute of Puerto Rican Culture
P.O. Box 9024184
San Juan, PR 00902-4184

Institutional Trust of the National Guard of
Puerto Rico
P.O. Box 9023786
San Juan, PR, 00902-3786

Land Authority of Puerto Rico
P.O. Box 9745
Santurce, PR 00908-9745

National Parks Company of Puerto Rico
P.O. Box 9022089
San Juan, PR 00902-2089

Public Corporation for the Supervision and
Deposit Insurance of Puerto Rico Cooperatives
P.O. Box 195449
San Juan, PR 00919-5449

Puerto Rico Conservatory of Music Corporation
951 Ponce de León Ave.
San Juan, PR 00907-3373

Puerto Rico Convention Center District Authority
P.O. Box 19269,
San Juan, Puerto Rico, 00910-1269

Puerto Rico Government Investment Trust Fund
P.O. Box 42001, Millas Station
San Juan, Puerto Rico 00940-2001

Puerto Rico Highways and Transportation Authority
P.O. Box 42007
San Juan, PR 00940-2007

Puerto Rico Land Administration
P.O. Box 363767
San Juan, PR 00936-3767

Puerto Rico and Municipal Islands Maritime
Transport Authority
P.O. Box 4305
Puerto Real, PR 00740

Puerto Rico Municipal Finance Agency
P.O. Box 42001
San Juan, PR 00940-2001

Local Redevelopment Authority for Roosevelt
Roads Puerto Rico
400 Calaf Street, PMB 456
San Juan, PR 00918-1314

Musical Arts Corporation
P.O. Box 41227
San Juan, PR 00940-1227

Port of the Americas Authority
P.O. Box 195534
San Juan, PR 00919-5534

Puerto Rico Aqueduct and Sewer Authority
P.O. Box 7066
San Juan, PR 00916-7066

Puerto Rico Council on Education
P.O. Box 19900
San Juan, PR 00910-1900

Puerto Rico Electric Power Authority
P.O. Box 364267
San Juan, PR 00936-4267

Puerto Rico Health Insurance Administration
P.O. Box 195661
San Juan, PR 00919-5661

Puerto Rico Industrial Development Company
P.O. Box 362350
San Juan, PR 00936-2350

Puerto Rico Metropolitan Bus Authority
P.O. Box 195349
San Juan, PR 00919-5349

Puerto Rico Industrial, Tourist, Educational,
Medical, and Environmental Control
Facilities Financing Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Ports Authority
P.O. Box 362829
San Juan, PR 00936-2829

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Puerto Rico Public Broadcasting Corporation
P.O. Box 190909
San Juan, PR 00919-0909

Puerto Rico School of Plastic Arts
P.O. Box 9021112
San Juan, PR 00902-1112

Puerto Rico Tourism Company
Tanca Street #500, Ochoa Building, 3rd Floor
Old San Juan, PR 00902-3960

Solid Waste Authority
P.O. Box 40285
San Juan, PR 00940-0285

University of Puerto Rico
Jardín Botánico Sur
1187 Street Flamboyán
San Juan, PR 00916-1117

Puerto Rico Public Private Partnerships Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Telephone Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Trade and Export Company
P.O. Box 195009
San Juan, PR 00919-5009

State Insurance Fund Corporation
P.O. Box 365028
San Juan, PR 00936-5028

University of Puerto Rico Comprehensive
Cancer Center
PMB 711, 89 De Diego Ave., Suite 105
San Juan, PR 00927-6346

The financial statements of the discretely presented component units have a year end of June 30, 2013, except for the Puerto Rico Telephone Authority, which has a year end of December 31, 2012.

Fiduciary Funds

The three employee retirement systems described in the following paragraphs (the Retirement Systems) administer the pension funds and other postemployment healthcare benefits for the Commonwealth and its political subdivisions. These Retirement Systems are subject to legislative and executive controls, and their administrative expenses are subject to legislative budget controls. They meet the component units' criteria and are reported as blended component units in the fiduciary funds of the Commonwealth. They have been omitted from the government wide financial statements, as their resources are not available to fund operations of the Commonwealth. The Retirement Systems, as governmental retirement plans, are excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) – ERS is governed by an eleven-member board of trustees, which is composed of the Secretary of the Treasury of the Commonwealth, who is the President, the President of the GDB, the Commissioner of Municipal Affairs, the Director of the Office of Human Resources of the Commonwealth, three employees, and two retirees, who are appointed by the Governor. The other two members are the President of the Federation of Majors and the President of the Association of Majors. The Commonwealth reports the ERS as a cost sharing multiple employer pension plans. The ERS is a multiple employer defined benefit pension plan, which covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their own retirement systems. The ERS is administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration) that also administers the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC). The ERS MIC is an unfunded, cost-sharing, multi-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired plan members.

Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) – JRS is governed by the same board of trustees as the ERS. The JRS is a single employer defined benefit plan that covers all active judges or retired judges of the judiciary branch of the Commonwealth. The JRS is administered by the ERS and JRS Administration that also administers the Retirement System for the Judiciary of the Commonwealth of Puerto Rico Medical Insurance Plan Contribution (JRS MIPC), an unfunded, single-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired judges of the Judiciary Branch of the Commonwealth.

Puerto Rico System of Annuities and Pensions for Teachers (TRS) – TRS is governed by a nine member board comprising three ex-officio members, which are the Secretary of the Department of Education, the Secretary of the Treasury of the Commonwealth, the President of the GDB, and one member who is a representative of a teachers' organization designated by the Governor; three teachers appointed by the Governor, one of which represents currently certified teachers in active service, and two who represent retired teachers; one member who is a representative of the entity that represents the proper unit under Act No. 45 of February 25, 1998, as amended; and one additional member, as representative of the public interest, with knowledge of and experience in the administration and operation of financial systems, appointed by the Governor. The Commonwealth reports the TRS as a single employer pension plan. The TRS provides retirement benefits to all teachers of the Department of Education of the Commonwealth, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education of the Commonwealth, and those who practice in private institutions accredited by the Department of Education of the Commonwealth who elect to become members. The TRS provides retirement, death, and disability benefits. The TRS is administered by the Teachers Retirement System (the TRS Administration) that also administers the Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution (TRS MIPC), an unfunded, cost-sharing, multi-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired teachers of the Department of Education of the Commonwealth and retired employees of the TRS Administration.

Complete financial statements of these component units can be obtained directly by contacting their respective administrative offices at:

Employees' Retirement System of the
Government of the Commonwealth of Puerto Rico
P.O. Box 42003 – Minillas Station
San Juan, PR 00940-2203

Retirement System for the Judiciary of the
Commonwealth of Puerto Rico
P.O. Box 42003 – Minillas Station
San Juan, PR 00940-2203

Puerto Rico System of Annuities and Pensions for
Teachers
P.O. Box 191879
San Juan, PR 00919-1879

(c) ***Component Units Audited Separately***

The basic financial statements of the Commonwealth include the financial statements of the following component units that were audited by other auditors:

Blended component units

Public Buildings Authority
Puerto Rico Infrastructure Financing Authority
Puerto Rico Maritime Shipping Authority
Puerto Rico Medical Services Administration
Special Communities Perpetual Trust
The Children's Trust

Discretely presented component units

Agricultural Enterprises Development Administration
Automobile Accidents Compensation Administration
Cardiovascular Center Corporation of Puerto Rico and the Caribbean
Company for the Integral Development of the "Península de Cantera"
Corporation for the "Caño Martín Peña" ENLACE Project
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico
Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico
Culebra Conservation and Development Authority
Employment and Training Enterprises Corporation
Farm Insurance Corporation of Puerto Rico
Fine Arts Center Corporation
Institute of Puerto Rican Culture
Institutional Trust of the National Guard of Puerto Rico
Land Authority of Puerto Rico
Local Redevelopment Authority for Roosevelt Roads Puerto Rico
Musical Arts Corporation
National Parks Company of Puerto Rico
Port of the Americas Authority
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
Puerto Rico Aqueduct and Sewer Authority
Puerto Rico Conservatory of Music Corporation
Puerto Rico Convention Center District Authority
Puerto Rico Council on Education
Puerto Rico Electric Power Authority
Puerto Rico Health Insurance Administration
Puerto Rico Highways and Transportation Authority
Puerto Rico Industrial Development Company
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental, Control Facilities Financing Authority
Puerto Rico Land Administration

(Continued)

Puerto Rico and Municipal Islands Maritime Transport Authority
Puerto Rico Metropolitan Bus Authority
Puerto Rico Municipal Finance Agency
Puerto Rico Ports Authority
Puerto Rico Public Broadcasting Corporation
Puerto Rico Public Private Partnerships Authority
Puerto Rico School of Plastic Arts
Puerto Rico Telephone Authority
Puerto Rico Trade and Export Company
Solid Waste Authority
State Insurance Fund Corporation
University of Puerto Rico
University of Puerto Rico Comprehensive Cancer Center

(d) ***Basis of Presentation***

Government-Wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information of all of the nonfiduciary activities of the Commonwealth and its component units. For the most part, the effect of interfund activity has been removed from these government wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The statement of net position presents the reporting entities' nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the residual measure reported as net position. Net position is reported in three categories:

Net Investment in Capital Assets – This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are directly attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of this component of net position. Rather, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted Net Position – This component of net position consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restricted assets result when constraints placed on those assets use are either, externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When both restricted and unrestricted resources are available for use, generally, it is the Commonwealth's policy to use restricted resources first, then the unrestricted resources as they are needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. The Commonwealth does not allocate general government (indirect) expenses to other functions. Program revenue includes charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenue also includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Revenues that are not classified as program revenues, including all taxes, are presented as general revenue. Resources that are dedicated internally are reported as general revenue rather than as program revenue.

Fund Financial Statements

The Commonwealth reports its financial position and results of operations in funds, which are considered separate accounting entities, including those component units which are required to be blended. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. Major funds are determined using a predefined percentage of the assets, liabilities, revenue, or expenditures/expenses of either the fund category or the governmental and enterprise funds combined. The nonmajor funds are combined in a single column in the fund financial statements.

Governmental Funds

Governmental funds focus on the sources and uses of funds and provide information on near-term inflows, outflows and balances of available resources. The Commonwealth reports the following governmental funds:

- *General Fund* – The General Fund is the primary operating fund of the Commonwealth. It is used to account for and report all financial resources received and used for those services traditionally provided by a government, except those required to be accounted for and reported in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, and education.

- *Debt Service Fund* – The debt service fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for general long-term bonds' principal, interest, and related costs other than bonds payable from the operations of proprietary fund types, pension trust funds, and discretely presented component units. Long-term debt and interest due on July 1 of the following fiscal year are accounted for as a fund liability if resources are available as of June 30 for its payment.

- *COFINA Special Revenue Fund* – The special revenue fund of the Puerto Rico Sales Tax Financing Corporation (COFINA) is used to account for and report all financial resources of COFINA, except those required to be accounted for and reported in the COFINA Debt Service fund.

- *COFINA Debt Service Fund* – The debt service fund of the Puerto Rico Sales Tax Financing Corporation is used to account for the Commonwealth sales tax revenue being deposited in the Dedicated Sales Tax Fund for the payment of interest and principal on long-term obligations.

- *Other Governmental Funds* – The Commonwealth reports the following blended component units within the nonmajor governmental funds: Public Buildings Authority, The Children's Trust, Puerto Rico Infrastructure Financing Authority, Special Communities Perpetual Trust and the Puerto Rico Maritime Shipping Authority. If a component unit is blended, the governmental fund types of the component unit should be blended with those of the primary government by including them in the appropriate combining statements of the primary government. Although the primary government's General Fund is usually the main operating fund of the reporting entity, the General Fund of a blended component unit should be reported as a special revenue fund. Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. These capital expenditures may be for the primary government directly or for discrete component units and outside organizations and governments such as the municipalities of the Commonwealth and other applicable entities. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the classification of fund balance is based on the extent to which the Commonwealth is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

- *Nonspendable* – Amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

- *Restricted* – Amounts that are legally restricted by outside parties, constitutional provisions or enabling legislation for a specific purpose.

- *Committed* – Amounts that are constrained for specific purposes that are internally imposed by the government's formal action at the highest level of decision-making authority and do not lapse at year-end. The highest level of decision authority for the Commonwealth is the

Legislature and the Governor, and the formal action is the passage of a law specifying the purposes for which amounts can be used.

- *Assigned* – includes fund balance amounts that are constrained by the Commonwealth and are intended to be used for specific purposes that are neither considered restricted or committed. The Director of the Office of Management and Budget of the Commonwealth is authorized to assign an amount for a specific purpose through the approval of budget certificates as required by statute.
- *Unassigned* – is the residual classification for the General Fund. In a governmental fund other than the General Fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed and assigned to that purpose.

The Commonwealth uses restricted amounts first when both restricted and unrestricted fund balances are available, unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, unless required by law or agreement, the Commonwealth would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Commonwealth does not have a formal minimum fund balance policy.

Proprietary Funds

These funds account for those activities, which are financed and operated in a manner similar to private business enterprises. Management intends to recover, primarily through user charges, the cost of providing goods or services to the general public.

The Commonwealth reports the following major proprietary funds:

- *Unemployment Insurance Fund* – This fund accounts for amounts requisitioned for the Puerto Rico Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits and charges made to individual employers.
- *Lotteries Fund* – This fund accounts for the assets and operations of two lottery systems administered by the Commonwealth.
- *Puerto Rico Medical Services Administration* – This fund, a blended component unit, accounts for the operations of the centralized health services, provided in support of hospitals and other functions offered by the member institutions and consumers of the complex known as Puerto Rico Medical Center.
- *Puerto Rico Water Pollution Control Revolving Fund* – This fund, administered by the Puerto Rico Environmental Quality Board (EQB), is authorized to enter into operating agreements and capitalization grant agreements with the U.S. Environmental Protection Agency (EPA), mostly for water infrastructure projects, under a joint cooperation agreement between the EQB, PRIFA, PRASA and the GDB, where each entity has agreed to assume their corresponding responsibilities.

The Commonwealth reports the following nonmajor proprietary funds: Disability Insurance, Drivers' Insurance, the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund and the Governing Board of 9-1-1 Services.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following are the Commonwealth's fiduciary funds:

- *Pension (and other employee benefit) Trust Funds* – These are used to account for the assets, liabilities, and net assets available for pension benefits and postemployment healthcare benefits held in trust for the public employees' retirement systems.
- *Agency Funds* – These are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

(e) *Measurement Focus and Basis of Accounting*

Government Wide Financial Statements – The government wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues from property tax are recognized in the fiscal year for which the taxes are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. Principal revenue sources considered susceptible to accrual include tax revenue, net of estimated overpayments (refunds) and amounts considered not collectible, which are recorded as taxpayers earn income (income taxes), as sales are made (consumption, sales and use taxes) and as cash is received (miscellaneous taxes). For this purpose, the Commonwealth considers income tax revenue to be available if collected within 120 days after the end of the current fiscal year end, property tax revenue if collected within 90 days after the end of the current fiscal year (see note 1(j) for further description for the use of up to 90 days), and consumption sales and use tax if collected within 30 days after the end of the current fiscal year. In applying the susceptible to accrual concept to federal grants, there are essentially two types of revenue. For the majority of grants, revenue is recognized when all applicable eligibility requirements are met (typically when related expenditures are incurred) and the resources are available. Resources received before the eligibility requirements are met are deferred.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employees' vested annual vacation and sick leave are recorded as expenditures when matured. The unmatured amount of accumulated annual vacation and sick leave unpaid at June 30, 2013 is reported only in the government wide financial statements.

- Interest and principal on general long-term obligations and interest on interest rate swap agreements are recorded when due, except for interest and principal due on July 1 of the following fiscal year, if resources are available for its payment as of June 30.

- Debt service expenditures, federal funds' cost disallowances, other long-term obligations, and amounts subject to judgments under litigation are recorded in the governmental funds only when payment is due; and in the case of judgments under litigation, when a settlement has been made and awaiting payment. Until these criteria are met, these liabilities have been recorded only in the government wide financial statements.

A summary reconciliation of the difference between total fund balances (deficit) as reflected in the governmental funds balance sheet and net position of governmental activities as shown on the government-wide statement of net position is presented in an accompanying reconciliation of the balance sheet of governmental funds to the statement of net position.

A summary reconciliation of the difference between net change in fund balances (deficit) as reflected in the governmental funds statement of revenues, expenditure, and changes in fund balances (deficit) and change in net position in the statement of activities of the government-wide financial statements is presented in the accompanying reconciliation of revenues, expenditures, and changes in fund balances (deficit) of governmental funds to the statement of activities.

Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Financial Statements – The financial statements of the proprietary funds, fiduciary funds, and discretely presented component units are reported using the economic measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. The major operating revenues of the Commonwealth's enterprise funds are as follows:

- *Unemployment Insurance Fund* – Amounts requisitioned for the Puerto Rico Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits and charges made to individual employers.

- *Lotteries Fund* – Amounts collected from the sale of traditional lottery tickets and electronic lotto games.

- *Puerto Rico Medical Services Administration* – Amounts charged and collected from private citizens, member institutions and municipalities for patient services provided.

- *Puerto Rico Water Pollution Control Revolving Fund* – Interest income from the granting of infrastructure and construction loans.

(f) ***Cash and Short Term Investments***

The Commonwealth follows the practice of pooling cash. The balance in the pooled cash accounts is available to meet current operating requirements, and any excess is invested in various interest bearing accounts with the Government Development Bank for Puerto Rico and with the Puerto Rico Government Investment Trust Fund (PRGITF). Cash and cash equivalents include investments with original maturities of 90 days or less from the date of acquisition.

The Commissioner of Financial Institutions requires that private financial institutions deposit collateral securities to secure the deposits of the Commonwealth and all other governmental entities in each of these institutions. The amount of collateral securities to be pledged for the security of public deposits shall be established by the rules and regulations promulgated by the Commissioner of Financial Institutions.

The Puerto Rico Unemployment Insurance Trust Fund is maintained to account for the collection of unemployment insurance contributions from employers and the payment of unemployment benefits to eligible claimants. As required by federal law, all resources not necessary for current benefit payments are placed on deposit with the U.S. Treasury. Interest earned over such deposit is retained in the fund.

Cash and short term investments and cash equivalents of the component units and certain funds of the primary government are maintained in separate bank accounts, from those of the rest of the primary government, in their own names.

(g) ***Securities Purchased under Agreements to Resell***

Certain component units of the Commonwealth enter into purchases of securities with simultaneous agreements to resell the same securities (repurchase agreements). The amounts advanced under these agreements generally represent short–term loans and are reflected as an asset. The securities underlying these agreements mainly consist of U.S. government obligations, mortgage-backed securities, and interest bearing deposits with other banks. Repurchase agreements are authorized transactions under their respective enabling legislation and/or authorized by the GDB.

(h) ***Securities Lending Transactions***

Certain component units and pension trust funds of the Commonwealth enter into securities lending transactions in which governmental entities (lenders) transfer their securities to broker dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Cash received as collateral on securities lending transactions and investments made with that cash are reflected as investments. Securities received as collateral are reported as investments if the component unit has the ability to pledge or sell them without a borrower default. Liabilities resulting from these securities lending transactions also are reported in the statement of net position. Securities lending transactions collateralized by letters of credit or by securities that the component unit does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the statement of net position.

(Continued)

(i) ***Investments and Investment Contracts***

Investments and investment contracts mainly include U.S. government and agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, investment contracts, and corporate debt and equity obligations. 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 (guaranteed investment contracts), which are carried at cost; and investment positions in 2a7-like external investment pools, which are carried at the pool's share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Investment income, including changes in the fair value of investments, is presented as investment earnings in the statement of activities, the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds, and the statement of revenues, expenses, and changes in fund net position (deficit) – proprietary funds. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in the change in the fair value of investments.

The PRGITF is considered a 2a7-like external investment pool and, as such, reports its investments at amortized cost.

(j) ***Accounts Receivable, Loans, and General Revenue***

Tax receivables in the General Fund include predominantly amounts owed by taxpayers for individual and corporate income taxes, net of estimated uncollectible amounts. Income tax receivables are recognized as revenue when they become measurable and available based on actual collections during the 120 days following the fiscal year end related to tax returns due before year end. Taxes receivable also includes amounts owed by taxpayers on income earned in periods prior to June 30, 2013, estimated to be collectible but not currently available, and thus are reported as deferred revenue in the General Fund. Unemployment, disability, and driver's insurance receivables in the enterprise funds are stated net of estimated allowances for uncollectible accounts.

The sales and use tax receivable is recognized as revenue when it becomes measurable and available based on actual collections during the 30 days following the fiscal year-end related to sales and use tax returns due before year-end.

Excise tax receivable is recognized as revenue when it becomes measurable and available based on actual collections during the 30 days following the fiscal year-end related to transactions that occurred before year-end. Act No. 154 of October 25, 2010 imposes a new temporary excise tax on the acquisition of certain personal property manufactured or produced in whole or in part in Puerto Rico and on the acquisition of certain manufacturing services carried out in Puerto Rico by nonresident alien individuals, foreign corporations and foreign partnerships. Act No. 154 applies to income realized and acquisitions occurring after December 31, 2010. Act No. 154 provides that, in certain circumstances, taxpayers will be deemed to be engaged in trade or business in Puerto Rico and taxable in Puerto Rico with respect to a portion of taxpayer's income where the taxpayers engage in significant transactions with other persons that are members of the same controlled group. Where a person engages in significant transactions with a member of the same controlled group that has gross receipts of seventy-five million dollars or more in any of the last three years and that manufactures or produces goods in Puerto Rico, or provides services in connection with the manufacture or production of goods in Puerto Rico, the person will not be subject to income tax, but will instead be subject to the excise tax in lieu of any income tax. The excise tax will apply until the year 2017. The excise tax is based on the value of the personal property or the services acquired, and was 4% for calendar year 2011, 3.75% in 2012 and 2.75% for portions of 2013 until February 28, 2013. On February 28, 2013, Act No. 2 was enacted raising the then prevailing excise tax rate of 2.75% to 4%, effective immediately, and maintaining such rate fixed at 4% until the year 2017.

Real property tax payments, under Act No. 7 described below, for the fiscal year ended June 30, 2013 were due September 1, 2012 and March 1, 2013. For purposes of the governmental fund financial statements, property tax revenue represents payments received during the year and payments received (against the current fiscal year and prior years' levies) within the first 90 days of the following fiscal year reduced by tax refunds for the fund financial statements. Additionally, the government wide financial statements recognize real property tax revenues (net of refunds) which are not available to the governmental funds in the fiscal year for which the taxes are levied. Act No. 7 of March 9, 2009, as amended, imposed a real property tax, in addition to the one already established for the municipalities of the Commonwealth through the Municipal Revenue Collection Center (CRIM), on residential and commercial real properties with appraised values in excess of approximately $210,000. This tax was applicable during fiscal years 2010 through 2012 and amounted to 0.591% of such properties' appraised value as determined by the CRIM. Act No. 1 of January 31, 2011 eliminated this additional real property tax commencing with the quarter ended June 30, 2011. Collections on this tax were still being received during fiscal 2013, as a result of delinquent taxpayers bringing their accounts current or taking advantages of amnesty programs offered by the Department of the Treasury. The Commonwealth applies a 90-day availability period, rather than the traditional 60-days period after year-end, in order to cover a period in which most tax extension payments are made. This has been applied consistently over the years.

Accounts receivable are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables primarily represent amounts owed to the Commonwealth for reimbursement of expenditures incurred pursuant to federally funded programs. Intergovernmental receivables also include taxes that the CRIM, is required to remit to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth. The amount to be remitted is based on the special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation, which is levied by the CRIM.

The accounts receivable from nongovernmental customers of the component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the primary government and other component units that arise from service charges although deemed fully collectible, are evaluated for collectability.

Loans of the General Fund are net of estimated uncollectible amounts. These receivables arise from amounts owed by public corporations and municipalities for public insurance and rent paid by the General Fund on their behalf.

The loans of the pension trust funds do not have allowances for uncollectible amounts since such loans are secured by mortgage deeds, plan members' contributions, and any unrestricted amounts remaining in escrow. Loans of the component units consist predominantly of loans to the primary government, other component units, and municipalities, and do not have allowances for uncollectible accounts as those are deemed fully collectible. The remaining loans of the component units are to small and medium businesses, agricultural, and low income housing loans from nongovernmental customers, and are presented net of estimated losses on such portfolios.

(k) ***Inventories***

Generally, inventories are valued at cost and predominantly on the first in, first out basis. Governmental fund inventories are recorded as expenditures when purchased rather than capitalized as an asset. Only significant amounts of inventory at the end of the year are capitalized in the governmental funds. However, inventories are always capitalized in the statement of net position of governmental activities.

(l) ***Restricted Assets***

Funds set aside for the payment and guarantee of notes and interest payable and for other specified purposes are classified as restricted assets since their use is limited for this purpose by applicable agreements or required by law. Restricted assets in the proprietary funds mainly include amounts set aside for the payment of insurance benefits.

(m) ***Real Estate Held for Sale***

Real estate held for sale is carried at the lower of fair value or cost, which is established by a third-party professional assessment or based upon an appraisal, minus estimated costs to sell. Subsequent declines in the value of real estate available for sale are charged to expenditure/expense.

(n) ***Capital Assets***

Capital assets include land, buildings, building improvements, equipment (including software), vehicles, construction in process, and infrastructure assets, and are reported in the applicable governmental, business type activities, and component unit columns in the government wide financial statements and in the proprietary fund financial statements. The Commonwealth's primary government defines capital assets as assets that (i) have an initial, individual cost of $25,000 or more at the date of acquisition; and (ii) have a useful life of more than one year. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available.

Donated capital assets are recorded at fair value at the time of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for business type activities and most component units. The costs of normal maintenance and repairs that do not add value to the assets or materially extend asset lives are not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government wide financial statements, as well as the proprietary funds and component units' financial statements.

(Continued)

Capital assets of the primary government are depreciated on the straight line method over the assets' estimated useful life. There is no depreciation recorded for land and construction in progress. The estimated useful life of capital assets is as follows:

	Years
Buildings and building improvements	20 – 50
Equipment, furniture, fixtures, vehicles and software	5 – 15
Infrastructure	50

The capital assets of the component units are recorded in accordance with the applicable standards of the component units and under their own individual capitalization thresholds, which includes capitalization of interest. Depreciation has been recorded when required by these standards based on the types of assets, use and estimated useful lives of the respective assets, and on the nature of each of the component unit's operations.

The estimated useful lives of capital assets reported by the component units are as follows:

	Years
Buildings and building improvements	3 – 50
Equipment, furniture, fixtures, vehicles and software	3 – 20
Intangibles, other than software	3 – 5
Infrastructure	10 – 50

In the case of capital assets under service concession arrangements pursuant to GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (mostly attributed to Puerto Rico Ports Authority and Puerto Rico Highways and Transportation Authority), these are maintained on their books and also stated at cost or at estimated historical cost. Construction in progress made by the third party operators under these service concession arrangements is not recorded by the aforementioned component units while such construction is still in progress and not ready for use and operation; at which time such constructed assets and improvements will be recognized at their corresponding fair value. These capital assets are not being depreciated since the closing date of their respective service concession arrangements because such agreements require the third party operators to return the related facilities to these component units in its original or enhanced condition. Such capital assets continue to apply existing capital asset guidance, including depreciation through the closing date of the respective service concession arrangements. Under these service concession arrangements, the aforementioned component units have received from the third party operator either an upfront compensation fee or capital assets (or the commitment to construct them under the agreement) or both. These resources, net of any contractual obligation from the component units, are considered a deferred inflow of resources, which is recognized into revenue under the straight-line method over the term of the respective agreements.

The Commonwealth follows the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, and amendment to GASB No. 34.* This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries.

(o) ***Tax Refunds Payable***

During the calendar year, the Commonwealth collects individual income taxes through withholdings and payments from taxpayers. At June 30, the Commonwealth estimates the amount owed to taxpayers for overpayments during the first half of the calendar year. These estimated amounts and the actual tax refunds claimed for prior years but not paid at year end are recorded as tax refunds payable and as a reduction of tax revenue.

(p) ***Deferred Revenue***

Deferred revenue at the governmental fund level arises when potential revenue does not meet the "available" criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Commonwealth has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when the Commonwealth has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet, and the revenue is recognized. Deferred revenue at the government wide and proprietary fund levels arises only when the Commonwealth receives resources before it has a legal claim to them.

(q) ***Long-term Debt***

The liabilities reported in the government wide financial statements include Commonwealth's general obligation bonds and long-term notes, obligations under lease/purchase agreements, and long-term liabilities including vacation, sick leave, long-term liabilities to other governmental entities, net pension obligation, legal claims, and noncurrent federal fund cost disallowances related to expenditures of federal grants. Long-term obligations financed by proprietary fund types and component units are recorded as liabilities in those funds and in the discretely presented component units' column.

In the government wide financial statements, premiums, discounts, and issuance costs on long-term debt and other long-term obligations are presented in the columns for governmental and business type activities. The same is presented in the proprietary fund financial statements. Bond and note premiums and discounts are deferred and amortized over the life of the debt under a method that approximate the effective interest method. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the term of the related debt on a straight-line basis. In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

The difference between reacquisition price and the net carrying amount of the old debt in a refunding transaction is deferred and amortized as a component of interest over the remaining life of the old debt, or the life of the new debt, whichever is shorter, using a stated interest method. On the statement of net position, this deferred amount is reported as a deduction from or as an addition to, the new debt liability.

(r) ***Derivative Instruments***

The Commonwealth accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. Certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value in the government-wide financial statements. The changes in fair value of hedging derivative instruments are reported as deferred inflows or deferred outflows of resources. The changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. See note 20 for disclosure information relating to hedging and investment derivative instruments.

(s) ***Accounting for Pension Costs***

The Commonwealth accounts for pension costs under the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, as amended* by GASB Statement No. 50. Under GASB Statement No. 27, annual pension cost measured on the accrual basis of accounting is equal to the employer's annual required contributions (ARC) to the plan, calculated in accordance with certain parameters, unless the employer has a net pension obligation for past under or over contributions. A pension liability or asset is reported equal to the cumulative difference between annual required contributions and the statutorily required contributions.

For the purpose of applying the requirements of GASB Statement No. 27, as amended by GASB Statement No. 50, *Pension Disclosures*, the Commonwealth's financial reporting entity is considered to be a sponsor of three defined benefit pension plans: JRS, TRS and ERS. This is because substantially all the participants in the three pension trust funds are part of the financial reporting entity of the Commonwealth. For the purpose of the basic financial statements, and as disclosed in note 17, the Commonwealth's annual pension cost, measured on the accrual basis of accounting, for the year ended June 30, 2013 amounted to approximately $2.8 billion. However, the statutory contributions made by the sponsors of the three defined benefit plans amounted to approximately $836.4 million. The excess of the annual required contribution over the statutorily required contributions of approximately $1.9 billion increased the net pension obligation at June 30, 2013 to approximately $13.1 billion. This amount is presented in the statement of net position of the governmental activities as of June 30, 2013, analogous to the accounting of a single-employer retirement plan.

For purposes of the stand-alone financial statements of each of the blended and discretely presented component units, the entities accounted for pension costs from the standpoint of a participant in a multiple employer cost sharing plan. Accordingly, pension costs recognized are equal to the statutorily or contractually required contributions, with a liability recorded for any unpaid required contributions. The basis of accounting used by the component units was either modified accrual basis or accrual basis, depending upon individual fund structure and type of entity. Most component units did not have pension related assets or liabilities because they have contributed the statutorily required contributions.

(t) ***Other Postemployment Benefits***

In addition to the pension benefits described in note 17, the Commonwealth provides other retirement benefits, such as summer and Christmas bonus, and postemployment healthcare benefits (OPEB) for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

The Christmas bonus and the summer bonus benefits are provided by the Commonwealth statutes. The Christmas bonus and the summer bonus paid by the Commonwealth to the retired employees during the year ended June 30, 2013 was $600 per retiree and the total amount was approximately $98.5 million. These benefits are recorded as expenditures when paid in the General Fund.

Postemployment healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share of not more than $100 per month for each retiree.

OPEB are measured and disclosed using the accrual basis of accounting. Annual postemployment benefits cost should equal the annual required contribution to the plans, calculated in accordance with certain parameters.

(u) ***Compensated Absences***

The vacation policy of the Commonwealth generally provides for the accumulation of 2.5 days per month, except for the teachers who accrue 4 days per month. Vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of 60 days. Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid vacation leave at the current rate regardless of years of service; and for all accumulated unpaid sick if the employee has at least 10 years of service with the Commonwealth. The liability for compensated absences reported in the government-wide and proprietary fund financial statements has been calculated using the vesting method, in which leave amounts for both, employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., social security and medicare tax). The governmental fund financial statements record expenditures when employees are paid for leave or the balance due is accrued upon the employee's separation from employment. Compensated absence accumulation policies for the blended component units and discretely presented component units vary from entity to entity based on negotiated agreements and other factors agreed upon between the management of these entities and their employees.

(Continued)

The Public Service Personnel Law requires certain component units and the primary government of the Commonwealth to annually pay the employees the accumulated vacation and sick leave earned in excess of the limits mentioned above. As a result of Act No.66 of June 17, 2014, some of these excess accumulations are no longer going to be payable to the employers (see note 2 for further discussion).

(v) *Termination Benefits*

The Commonwealth accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

(w) *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the General Fund during the fiscal year to control expenditures. The cost of those goods received and services rendered on or before June 30 are recognized as expenditures. The unencumbered balance of any appropriation of the General Fund at the end of the fiscal year lapses immediately. Appropriations, other than in the General Fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

(x) *Interfund and Intraentity Transactions*

The Commonwealth has the following types of transactions among funds:

Interfund Transfer – Legally required transfers are reported when incurred as transfer in by the recipient fund and as transfer out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government wide financial statements.

Intraentity Transactions – There are two types of intraentity transactions: First, the flow of resources between the primary government and its component units, and among the component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the primary government and blended component units are classified as interfund activity, as described above. Second, the intraentity balances between the primary government and discretely presented component units that are tantamount to long-term debt financing. The primary government's liability is reported in the statement of net position, the proceeds in the primary government's funds, and the asset in the discretely presented component units' statement of net position.

(y) ***Lottery Revenue and Prizes***

The revenue, expenses, and prizes awarded by the Lottery of Puerto Rico and the Additional Lottery System, reported within the lotteries enterprise fund, are recognized as drawings are held. Moneys collected prior to June 30 for tickets related to drawings to be conducted subsequent to June 30 are reported as deferred revenue. Unpaid prizes awarded as of June 30 are reported as a fund liability. Unclaimed prizes expire after six months and are transferred to the General Fund.

(z) ***Risk Management***

The Commonwealth purchases commercial insurance covering casualty, theft, tort claims, and other losses for the primary government, most component units, and the municipalities. The Commonwealth is reimbursed for premium payments made on behalf of the component units and the municipalities. The current insurance policies have not been canceled or terminated. For workers' compensation, the Commonwealth has a discretely presented component unit, the SIFC, which provides workers' compensation to both public and private employees. The Commonwealth's blended component units are responsible for assuring that its property is properly insured. Annually, these blended component units compile the information of all property owned and its respective replacement value and purchases its property and casualty insurance policies. Insurance coverage for fiscal year 2013 remained similar to those of prior years. In the last three years, the Commonwealth's or the component units' insurance settlements have not exceeded the amount of coverage.

Certain discrete and blended component units combine commercial insurance with internal self-insurance funds covering specific risks related to their specialized operations. The most significant self insurance funds reside at the discrete component unit's level, and are described in detail in note 15.

(aa) ***Tobacco Settlement***

The Commonwealth follows GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue*, as amended by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, (the TB), which provides accounting guidance for entities created to obtain the rights to all or a portion of future tobacco settlement resources and for the governments that create such entities.

The TB indicates that the entity created to obtain the rights, which is called the Tobacco Settlement Authority (TSA), should be considered a component unit of the government that created it and the component unit should be blended. The TB also states that the government receiving the payments from the tobacco companies under the agreement, which are called settling governments, should recognize a receivable and revenue for tobacco settlement resources when an event occurs. The event that results in the recognition of an asset and revenue by the settling government is the domestic shipment of cigarettes. The TB indicates that accruals should be made by the settling government and TSAs for estimated shipments from January 1 to their respective fiscal year ends, since the annual payments are based on a calendar year. However, under the modified accrual basis of accounting at the fund level, revenue should be recognized only to the extent that resources are available.

(bb) ***Use of Estimates***

The preparation of the basic financial statements in conformity with US GAAP 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 basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(cc) ***New Accounting Standards Adopted***

The following new accounting standards were adopted by the Commonwealth effective July 1, 2012:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which: (i) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration; and (ii) the operator collects and is compensated by fees from third parties. Within the Commonwealth's reporting entity, SCAs are normally entered into at the component unit level rather than by the primary government. The most significant SCAs within the Commonwealth reside at the Puerto Rico Highways and Transportation Authority and Puerto Rico Ports Authority. Refer to note 16 for further information on these SCAs.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The most significant effects of the amendments are to: 1) increase the emphasis on financial relationships by raising the bar for inclusion; 2) refocus and clarify the requirements to blend certain component units, and 3) improve the recognition of ownership interests (joint ventures, component units, investments). Pursuant to the adoption of this Statement, component units previously presented as discrete are now required to be blended. These component units are: Puerto Rico Infrastructure Financing Authority, Puerto Rico Medical Services Administration and the Special Communities Perpetual Trust.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30,

1989, which does not conflict with or contradict GASB pronouncements: (i) FASB Statements and Interpretations; (ii) Accounting Principles Board Opinions; and (iii) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Also, and most importantly, this Statement eliminates the former election option provided in paragraph 7 of Statement No. 20 for enterprise funds and business-types activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. In other words, the enterprise funds and business type activities within the Commonwealth's reporting entity can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including Statement No.62. The adoption of this statement had no significant impact on the basic financial statements of the Commonwealth.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provided financial reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period. GASB Statement No. 63 also amended the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This Statement also amended the reporting of the "net investment in capital assets" component of net position. This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are now required to be included in this component of net position. The principal impact on the Commonwealth from the adoption of this Statement for fiscal year 2013 was the renaming of net assets as net position; and presenting in separate sections of the statement of net position, the deferred inflows of resources resulting from the SCAs pursuant GASB Statement No. 60, and as deferred outflows of resources resulting from the changes in fair value of hedging derivative instruments pursuant GASB Statement No. 53.

(dd) ***Future Accounting Pronouncements***

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities, or viceversa. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. Although the Commonwealth is still in the process of analyzing the exact impact of this Statement, most of the impact might be of a reclassification nature remaining within the statement of net position; except for its existing deferred debt issue costs of approximately $359 million in governmental activities and approximately $257 million in component units at June 30, 2013, which will require elimination against beginning net position upon adoption on July 1, 2013; and prospectively, new debt issue costs on bonds or debt issuance will require immediate expensing.

- GASB Statement No. 66, *Technical Corrections-2012*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Commonwealth is in the process of analyzing the effects of this Statement, but no significant impact is expected upon adoption on July 1, 2013.

- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement, and to defined contribution plans that provide postemployment benefits other than pensions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. The major fundamental change, among others related to the application and determination of certain measurement assumptions in valuing pension plans, is switching from the existing "funding-based" accounting model, where currently the Annual Required Contribution (ARC) is compared to the actual payments made and that difference determines the Net Pension Obligation; to an "accrual basis" model similar to current FASB standards, where the Total Pension Obligation (Actuarially determined) is compared to the Net Plan Position (or assets) and the difference represents the Net Pension Liability. This particular Statement will be applicable to the three Retirement Systems of the Commonwealth, not to the rest of the Commonwealth's agencies or any of the Commonwealth's component units. The impact of this Statement will be establishing its new net pension liability for the Commonwealth to an amount resembling the existing actuarial deficiency in the aforementioned Retirement Systems which at June 30, 2013 amounted to approximately $34 billion.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement will bring the effect of Statement 67 summarized in the previous paragraph, into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Retirement Systems.

  The primary government of the Commonwealth, as well as its component units and the municipalities, are considered "cost-sharing" employers of the Retirement Systems; therefore, they would report its allocated share of the Commonwealth's resulting Net Pension Liability from Statement 67 as follows:

  - ✓ Based on the their respective individual proportion to the collective net pension liability of all the governments participating

  - ✓ The proportion should be consistent with the method used to assess contributions (percentage of payroll). The use of their respective long term expected contribution effort to Retirement Systems divided by those of all governments in the plan, is encouraged.

  This Statement is not effective until fiscal year 2015. The Commonwealth and the Retirement Systems are in the process of evaluating the impact of this Statement on its agencies and component units and also on the municipalities of the Commonwealth. The information to adopt this Statement will be based on the new actuarial reports to be prepared under the new Statement No. 67 described on the previous paragraph.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

  The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

  A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a governmental entity guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. Certain qualitative factors should be considered when evaluating the likelihood of a guaranty payment, such as: initiation of a bankruptcy process, breach of a debt contract in relation to the guaranteed obligation and indications of significant financial difficulty such as failure to pay agents or trustees. This Statement is effective for financial statements for periods beginning after June 15, 2013. Although the Commonwealth's primary government currently has several outstanding nonexchange guarantees as disclosed in note 13, the specific impact on the Commonwealth's basic financial statements upon future adoption on July 1, 2013 has not yet been determined.

(2) Liquidity Risks and Uncertainties

The Commonwealth has been facing a number of fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. The Commonwealth’s very high level of debt and the resulting required allocation of revenues to service this debt have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has been required to finance, further increasing the amount of its debt. More recently, the Commonwealth’s high level of debt, among other factors, has adversely affected its credit ratings and its ability to obtain financing at favorable interest rates. The Commonwealth expects that its ability to finance future budget deficits will be severely limited, and, therefore, that it will be required to reduce the amount of resources that fund other important governmental programs and services in order to balance its budget. While the Commonwealth may seek to reduce or entirely eliminate the practice of financing deficits or debt service, there is no assurance that budgetary balance will be achieved and, if achieved, that such budgetary balance will be based on recurring revenues or expense reductions or that the revenue or expense measures undertaken to balance the budget will be sustainable on an indefinite basis. Moreover, the effort to achieve budgetary balance may adversely affect the performance of the Commonwealth’s economy which, in turn, may adversely affect governmental revenues.

The following activities, funds, and discretely presented component units reflect deficit fund balance/net position at June 30, 2013 (expressed in thousands):

		Deficit balance
Primary Government:		
Governmental activities	$	47,212,999
General fund		2,011,026
Commonwealth's capital project fund (nonmajor governmental)		65,650
Lotteries		46,790
PRMeSA		269,065
Component units:		
PREPA		791,385
PRHIA		170,702
AEDA		97,017
CCCPRC		36,273
PRMBA		41,974
PRTC		29,336
PRMIMTA		28,484
MAC		4,721
ETEC		1,905

Risks and Uncertainties – Primary Government

The Commonwealth’s governmental activities show a deficit of approximately $47.3 billion, mostly attributed to the Commonwealth’s outstanding bonds amounting to approximately $35.8 billion and net pension obligation amounting to approximately $13.1 billion, which are recognized in the statement of net position. The deficit is attributable to the accumulated effect of high operating expenses in the government, including the funding of the Retirement System’s cash flow deficiencies along with a decrease in estimated revenues as well as the primary government issuing debt, the proceeds of which are predominantly transferred to component units and to other governments. On the other hand, the discretely presented component units report net position of approximately $9.8 billion. This inverse relationship between the governmental activities' and component units' net assets reveal the operational structure of the Commonwealth where the primary government issues debt, the proceeds of which are predominantly transferred to the component units and to other governments, that are not presented in these basic financial statements, to finance their capital projects and other operational needs. The Commonwealth includes within the annual budgetary appropriation process the necessary funds to cover the annual debt service requirements of the aforementioned debt, most of which are the result of Act No. 164 of December 17, 2001, described in note 12(d).

Governmental activities also include COFINA's deficit amounting to approximately $4.4 billion primarily attributable to bonds and notes payable, amounting to approximately $16.7 billion, the proceeds of which were used to pay obligations of the Commonwealth and other uses.

As further discussed in note 22, during February 2014 various rating agencies lowered their rating on the general obligation bonds of the Commonwealth to non-investment rating. They also lowered their rating on PBA and COFINA bonds, and on other bonds of various component units.

The business-type activities include PRMeSA's net deficit of $269.1 million. PRMeSA's net deficit increased by approximately $41.0 million during the year ended June 30, 2013 and had a working capital deficiency of $29.5 million at June 30, 2013. The only borrowing facility of PRMeSA is a note payable to GDB which amounted to approximately $273.3 million at June 30, 2013. Scheduled principal payments start in fiscal year 2015 to 2024.

The majority of the Commonwealth's General Fund revenues is received in the second half of the Commonwealth's fiscal year (January 1 through June 30), while expenditures from the General Fund occur more evenly throughout the fiscal year. The Commonwealth customarily addresses this timing difference by making use of internal revenues and by issuing short-term notes in the capital markets or to private financial institutions. Internal revenues consist principally of excise taxes and income taxes, a significant portion of which are received during the second half of the fiscal year, and sales and use taxes, which are received once the amounts due to COFINA have been transferred. External borrowing to cover this intrayear cash flow imbalance is typically done with tax and revenue anticipation notes that are payable later in the fiscal year in which they are issued. Due to the Commonwealth's financial challenges, it is uncertain whether private financial institutions will participate in the Commonwealth's tax and revenue anticipation note program in the future. The Commonwealth is negotiating with private financial institutions for its tax and revenue anticipation notes for the fiscal year 2015.

Also, subsequent to the Commonwealth's general obligation debt issuance of March 11, 2014, as further discussed in note 22, the Commonwealth expects that its capacity to incur additional general obligation debt will be significantly reduced as a result of the limits imposed by the Constitution of Puerto Rico on the issuance of general obligation debt (note 12(b)). As a result, the Commonwealth may be unable to issue general obligation debt in the future to finance capital improvement projects, provide working capital, and meet short-term obligations. Although the Commonwealth could seek to issue debt for which the good faith, credit and taxing power of the Commonwealth is not pledged, there may not be sufficient demand for such debt. Such debt is typically rated lower than the Commonwealth's general obligation debt and the Commonwealth's ability to issue such debt in the capital markets or to private financial institutions is

(Continued)

uncertain. The inability to issue general obligation debt may affect the Commonwealth's ability to make required investment in infrastructure and, thus, adversely affect economic activity in the Commonwealth.

If the Commonwealth's financial condition does not improve, it may lack sufficient resources to fund all necessary governmental programs and services as well as meet debt service obligations. In such event, it may be forced to take emergency measures. Although no specific contingency plans have been adopted to address any such situation, the GDB, as fiscal agent to the Commonwealth, together with its financial and legal advisors, is evaluating alternative courses of action. These could include administrative measures that give effect to the "priority norms" established by law for the disbursement of public funds when available Commonwealth resources are insufficient to cover all appropriations.

The Commonwealth's ability to reduce its General Fund deficit and to achieve a balanced budget in future fiscal years depend on a number of factors, some of which are not wholly within its control, including the performance of the Commonwealth's economy, that actual collections of taxes meet the Treasury Department's projections, and the government's ability to reduce and control governmental expenditures, particularly in areas such as education, public safety and healthcare, which represents a significant portion of the budget appropriations of the Commonwealth.

Remediation Plan – Primary Government

The Commonwealth's economic development program is focused on initiatives aimed at producing more diversified and sustainable economic development. One of the immediate and anchor economic development initiatives from the administration was the Jobs Now Act, signed into law on February 10, 2013. It purports to create jobs within 18 months of the new administration by eliminating certain hurdles that delay and impede the process of establishing new businesses or expanding existing businesses in Puerto Rico, it allows better access to capital, and it provides incentives under agreements between certain eligible businesses and the Commonwealth through the Puerto Rico Commerce and Exports Company. Under the Jobs Now Act, the Economic Development Bank was ordered to give priority to loan applications submitted by eligible businesses and to create programs to guarantee private financing to such eligible entities. Complementing this initiative, the Commonwealth also developed a strategic priority plan encompassed under five priority sectors: Life Sciences where the priority is to defend the traditional pharmaceutical base and pursue innovative opportunities; Knowledge Service where the Commonwealth is pursuing to grow the insurance and financial services sectors; Tourism where the Commonwealth wants to recapture the island's historical tourism's strengths and target emerging niche markets such as ecotourism, medical, cultural and sports tourism.; Small and Medium Enterprises (SME's) through a full-suite coordinated program to target them at all levels of development; and Agriculture where the Government is focusing on reducing imports by investing in high-productivity agricultural production. On February 5, 2014, the Governor announced that his administration will accelerate the infrastructure investment plan by pursuing $800 million in infrastructure investments including public-private partnerships that have been identified and by accelerating agency reviews of infrastructure investment plans. Also, the Tourism initiative added new US and international airlines to enter and serve the Puerto Rico market (like Southwest, Avianca and Seaborne), additional routes from existing airlines and increased cruise ship traffic coupled with improvements in the San Juan Harbor to accommodate larger vessels and over 6,500 new hotel rooms currently in financial permits or construction phases.

The Department of the Treasury has also elaborated a strategic plan designed to improve tax collections, foster tax compliance, implement effective enforcement measures, and attack tax evasion. To promote taxpayers' compliance, the Department of the Treasury has liberalized the procedures to enter into payment plans, offers-in-compromise agreements, and encouraged voluntary disclosure agreements. In addition, the Department of the Treasury has developed initiatives focused on effective enforcement methods, such as improving the efficiency of its audit selection process, the creation of technological solutions to improve collections, and the establishment of cooperation agreements with federal and local governmental agencies. The Department of the Treasury has also integrated its databases and established a tax intelligence project to identify tax evasion and improve its audit selection process. Previous initiatives established related to the implementation of a new point of sale system for the collection of the sales and use taxes continue to be enhanced by adding various enforcement and compliance programs. The Department of the Treasury has also been actively seizing the assets of businesses that are delinquent on their sales and use tax payments, making public disclosures of such delinquent entities, and has entered into agreements with various municipalities to conduct simultaneous field visits and joint audits in order to increase the effectiveness of the sales and use tax enforcement efforts as the ones described above.

The Department of the Treasury also implemented a temporary measure to collect on payroll and employer withholding debts. This measure allows employers to enter into payment plans with the Department of the Treasury, subject to the employer making a down payment of 25%, in the case of payroll debts, and 40%, in the case of employer withholding debts, of the total outstanding debt. Additional revenue enhancing measures such as the sale of tax accounts receivable are being actively planned to further reduce the deficit for the fiscal year 2014.

In addition to collection efficiency measures described above, the Commonwealth has also enacted legislation to expand and increase its revenue base. On June 30, 2013, the Commonwealth enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended several Acts, Regulations and Industry Tax Codes. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the General Fund of the Commonwealth, and are expected to bring additional and consistent tax revenue. These revenue enhancing measures, along with other cost cutting plans, are intended to address the structural deficit of the Commonwealth, add new revenues to the General Fund that would serve as a catalyst for economic growth and protect and strengthen the credit rating of the Commonwealth and its principal component units. The aforementioned amendments involve, among other changes, increases in the excise taxes on cigarette imports (Act No. 41); the establishment of a new national "volume of business" tax ranging between 0.2% to a maximum of 0.85% (1% for financial institutions) on the gross sales/revenue to businesses with a volume of sales/revenue exceeding $1 million (Act No. 40); the imposition of the sales and use taxes to certain business to business transactions, as defined, previously excluded, and other procedural changes (Acts No's. 40 and 42); additional limitations on certain deductions and credits that were formerly available on the tax returns of individuals (Act No. 40); increase in the corporate tax rates from 30% to 39% coupled with a reduction in the surtax exemption base from $750,000 to $25,000 (Act No. 40); increases in the escalating tax rates applicable for the alternative minimum tax determination on individuals and corporations (Act No. 40); a new surtax of 2% applicable to self-employed individuals with over $200,000 in gross income as defined (Act No. 40); a special contribution of 1.5% imposed on payments made for professional and consulting services rendered to a governmental entity (Act No. 48); and increases in the share of slot machines in casinos and the restructuring of the manner in which their profits are distributed (Act No. 48). In addition, subsequent to

(Continued)

June 2013, Act No. 117 of 2013 also amended the mechanism for collection of the sales and use tax from certain merchants after July 1, 2014, which is expected to improve collection. After such date, importers will be required to pay the tax on the imported merchandize and will be able to claim a credit for sales tax collected on subsequent resale of the merchandise. Some of these Acts also assigned funds for the enhancing and strengthening of the sales and use tax collection process (Act No. 46); created the 2013–2014 Budgetary Support Fund that was nourished with appropriately $96.5 million provided from transfers of excess cash from other funds, mostly coming from the Department of Education and the State Insurance Fund Corporation (Act No. 43); and the creation of a $92.5 million Fiscal Reconstruction Fund to be funded by the GDB using either its own funds or third party financing, in its capacity as the Commonwealth's fiscal agent. The loan, which will be evidenced by bonds and notes, will constitute an obligation of the Commonwealth, whose good faith, credit, and taxing power will be irrevocably pledged for the prompt payment of the principal of and interests on the bonds/notes. The $92.5 million to be deposited in the Fiscal Reconstruction Fund will be allocated to the Municipal Revenue Collection Center (CRIM) and AEDA.

Another action taken by the Commonwealth was addressing the budget deficits for fiscal year 2014 and 2015. On February 28, 2014, Act No. 33 was enacted to reduce the fiscal year 2014 appropriations by $170 million through various measures: (i) elimination of $77 million from certain reserve and contingency accounts under the custody of the OMB, no longer deemed necessary, (ii) reduction of $29 million in certain programs' appropriations not considered a priority, and (iii) reductions in agency budgets of approximately $64 million to be achieved by reaching for a weighted average reduction of 2% across all agencies' budgets. The Governor has also announced simultaneously with the aforementioned legislation of the $170 million reduction in 2014 appropriations, a recommendation for the Legislative Branch approval of a balanced budget for fiscal year 2015. The Commonwealth believes these budget balancing efforts in 2015 will establish the fiscal discipline to be maintained going forward.

In addition to eliminating the budget deficits in 2015, the Commonwealth needs to address certain cost escalators that might jeopardize the achievement of a balanced budget. One of such cost escalators consists of the higher operating subsidy requirements for many public corporations which are running deficits that are creating financial and cash flow distress on the GDB, which usually funds them, and the Commonwealth, which customarily provides annual appropriations to assist them. The Government has already reacted to these cost escalators by addressing specific areas of dependencies on certain public corporations that are key drivers of Puerto Rico's economic growth. On June 17, 2014, the Commonwealth enacted Act No.66 (also known as Fiscal Operation and Sustainability Act), which provides the legal base to address certain cost escalators to achieve a balanced budget. Act No.66 provides the following cost reduction measures: (i) reduction of at least 10% of external professional services contracts; (ii) authorization to adjust unilaterally the professional services rates; (iii) reduction of at least 10% of the trusted employees; (iv) freezing period for new recruitment of employees at the Executive Branch; (v) the Executive Branch cannot provide salary increases or increase benefits to the employees; (vi) establishment of a maximum amount of $600 for Christmas bonus and $200 for vacation bonus; (vii) elimination of payment of balances in excess over a maximum days of sick and vacation accruals; (viii) establishment of a legal framework to provide cost reduction at the public corporations of the Commonwealth; (ix) and other cost reduction measures.

PRMeSA's management adopted a fiscal stabilization plan that includes the following measures: (a) implementation of a new administration platform; (b) increase of actual contracted rates among existing government insurers as a function of incurred administration costs, frequency, severity of medical services and risk distribution throughout the insurance provider network; (c) implementation of an insurance coverage system for the medical indigent population through the PRHIA; (d) redefinition of contractual agreements with the government and commercial insurers; (e) improvement and implementation of an effective accounts receivable collection process; (f) redefinition and/or amendment of contractual agreements with major suppliers based on actual needs; and (g) formal request to various Commonwealth's agencies, including OMB, requesting additional funds to subsidize its operating deficit and improve its financial condition.

Risks and Uncertainties – Retirement Systems

The Pension Trust Funds' unfunded actuarial liability and funded ratio as of June 30, 2013, were approximately $33,684 million and 7.4%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the net position of the Employees' Retirement System of the Government of Commonwealth of Puerto Rico, the Retirement System for the Judiciary of the Commonwealth of Puerto Rico, and the Puerto Rico System of Annuities and Pension of Annuities and Pension for Teachers, comprising the Pension Trust Funds, will turn into a deficit by fiscal years 2015, 2019, and 2020, respectively, if measures are not implemented to reduce to unfunded actuarial accrued liability and increase the funded ratio of the Pension Trust Funds.

The estimate of when each of the Pension Trust Funds' net position will become a deficit and when their assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member, employer contributions and the employer additional contribution for ERS (Act No. 32), which as discussed below, was estimated in $120.0 million annually, as well as the estimated participant benefits and the Pension Trust Funds' administrative expenses to be paid each year.

The Pension Trust Funds' funding requirements could have a direct negative effect on the Commonwealth's General Fund, since the Commonwealth is the plan sponsor and is obligated to make contributions to fund the Pension Trust Funds.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the Pension Trust Funds and the additional contribution for ERS as provided by Act No. 32, for the upcoming years, may continue to be adversely affected, and could also affect the repayment of the Pension Trust Funds' bond payable.

Remediation Plan – Retirement Systems

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provided for incremental annual contributions from the General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS' actuaries.

On April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013 (Act No. 3), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth, the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth's General Fund. Based on current census data, expectations of market conditions and other actuarial information provided by consulting actuaries, the changes instituted by Act No. 3, along with the additional annual contribution of $120 million to be received from the Commonwealth during the next 20 years, will be sufficient to cover the Employees Retirement System's current and future obligations; contrasting with the approximately $900 million annual contribution being received from the Commonwealth prior to Act No. 3. This Act was litigated in the courts and during the second half of fiscal year 2013 the Puerto Rico Supreme Court upheld its validity and constitutionality (See note 17 for further description about this comprehensive reform). During the first half of fiscal year 2014, the Commonwealth has enacted legislation to reform the two other retirement systems of the Commonwealth, the Teachers Retirement System and the Judiciary Retirement System, by among other measures, reducing benefits, increasing employee contributions and replacing most of the defined benefit elements of the system with a defined contribution system. The more significant of these two remaining retirement systems is the Teachers Retirement System, which is being reformed through the passage of Act No. 160 of December 24, 2013. The constitutionality of Act No. 160 was challenged in court, and on April 11, 2014 the Supreme Court declared certain sections unconstitutional while maintaining the constitutionality of the following: (i) all changes made to the benefit structure apply to future participants that are hired after July 31, 2014; (ii) elimination of special laws benefits for participants that retire on or after August 1, 2014; and (iii) reduction of special laws benefits to current retirees as of July 31, 2014. Currently, the Supreme Court's decision is under the Commonwealth's evaluation and analysis in order to determine the course of action to undertake.

Risks and Uncertainties – GDB

The GDB lends funds to public corporations for capital improvements and operating needs. The loans for capital improvements generally are construction loans and are generally repaid from the proceeds of future bond issuances of the respective public corporations. The amount of outstanding loans from the GDB to the public corporations fluctuates annually, depending upon the capital program needs of the public corporations, the timing and level of their capital expenditures, and their ability to gain access to the long-term capital markets. The participation of certain of these public entities in the bond market has been delayed waiting for the credit rating of such entities to improve or for more favorable market conditions.

Loans to the Commonwealth and its public corporations amounted to approximately $6.9 billion or 48% of the GDB's total assets as of June 30, 2013. These loans are expected to be collected through appropriations from, bond issuances of, and revenues generated by the Commonwealth and its public corporations. The GDB's liquidity and financial condition depends on the repayment of loans made to the Commonwealth and its public corporations which face significant fiscal and financial challenges in their ability to generate sufficient funds from taxes, charges and/or future bond issuances.

The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past fourteen years. During the fiscal year ended June 30, 2013, and subsequent to the end of the fiscal year, the GDB's liquidity position was adversely affected by, among other factors, a significant increase in credit spreads for obligations of the Commonwealth and its public corporations, the Commonwealth's limited capital markets access, and a significant reduction of liquidity in the local Puerto Rico capital markets. In February 2014, the credit ratings of the Commonwealth and most of its public corporations (including the GDB) were lowered to noninvestment grade categories. With respect to the GDB, Moody's Investors Service (Moody's) lowered its credit rating to "Ba2" and maintained its negative outlook, while Standard

& Poor's Rating Services (S&P) lowered its credit rating to "BB" and maintained it in "CreditWatch" with negative implications. These factors have resulted in delays in the repayment by the Commonwealth and its public corporations of their loans payable to the GDB and, at the same time, caused the Commonwealth and its public corporations to rely more heavily on short-term financing from the GDB. The credit rating downgrades could further adversely affect the GDB's liquidity position. In addition, the liquidity of the GDB could also be affected by short-term obligations of the Commonwealth and its public corporations maturing during fiscal years 2014 and 2015, some of which are also subject to earlier acceleration as a result of the downgrades. The majority of these short-term obligations of the Commonwealth and its public corporations were refinanced with proceeds from the recent issuance of Commonwealth general obligation bonds (described below). However, several of such short-term obligations of the Commonwealth and its public corporations remain outstanding. Although the GDB has previously assisted the Commonwealth and its public corporations in satisfying obligations similar to those listed above, the GDB is not legally required to provide such assistance and there is no assurance that it will be able to continue to provide such assistance to any or all of the Commonwealth and its public corporations. To the extent that the GDB's financing is unavailable, the Commonwealth and its public corporations may be required to find other sources of funding in order to meet their obligations. There is no assurance that the Commonwealth and its public corporations will be able to access other sources of financing or obtain funding sufficient at any one time to meet their obligations as they come due. If such other financing or funding source are not available, the financial condition of the Commonwealth and the public corporations could deteriorate further and their ability to repay their loans to the GDB may be adversely affected.

A particular attention is being placed on loans granted by the GDB to the PRHTA. As of June 30, 2013, the GDB has extended various credit facilities to the PRHTA for, among other, capital improvement programs, working capital, debt service and collateral posting requirements. The outstanding balance of such facilities amounts to $2 billion, including accrued interest of $145 million, which represent 14% and 83% of GDB's total assets and net position, respectively, at June 30, 2013.

The GDB, in its ordinary course of business, provides interim lines of credit to public corporations like the PRHTA. These lines of credit have historically been repaid from bond issuances of each public corporation, once they regain or have access to the capital markets. No public corporation has ever defaulted on its obligations with the GDB. Refer to the section Risk and Uncertainties – Other Public Corporations for further information about the liquidity risks of PRHTA.

The PRHTA has reported net operating losses during each of the four fiscal years in the period ended June 30, 2013, and, as a result, the GDB has been partially financing its operations through credit facilities. In fiscal year 2010, the PRHTA entered into a fiscal oversight agreement with the GDB, whereby the GDB, among other things, imposes conditions on the extensions of credit to the PRHTA and continually monitors its finances. The PRHTA expects to repay the credit facilities due to the GDB with proceeds from the issuance of bonds within the next two fiscal years. On February 7, 2014, Moody's Investor Service downgraded PRHTA's highway revenue bonds from Baa2 to Ba1, PRHTA's transportation revenue bonds from Baa3 to Ba2, and PRHTA's subordinate transportation revenue bonds from Ba1 to Ba3.

Remediation Plan – GDB

Since one of GDB's principal functions is to provide financing to the Commonwealth and its instrumentalities, GDB's loan portfolio includes loans to various departments and agencies of the

Commonwealth, to various public corporations (component units), and to municipalities, which represent a significant portion of GDB's assets. Loans to the Commonwealth and its instrumentalities typically include working capital lines of credit payable from short-term tax and revenue anticipation notes issued by the Commonwealth, interim financing of capital improvements payable from Commonwealth's general obligation bonds or revenue bonds issued by the corresponding instrumentality, and in recent years, loans to finance the Commonwealth's budget deficit payable from COFINA, uncollected taxes, legislative appropriations and, to a lesser extent, from loans provided by sources other than the GDB, federal grants, and the sale of assets of component units, if necessary. Accordingly, the collectability of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth and its component units, and their ability to generate sufficient funds from taxes, charges, and/or bond issuances. Continuance of and/or significant negative changes in these factors may have an adverse impact on GDB's financial condition, liquidity, funding sources, and results of operations. Loans to municipalities are expected to be repaid principally from a portion of property tax assessments or municipal sales tax of each municipality.

Notwithstanding the aforementioned uncertainties and risks, the Commonwealth and the GDB have adopted and continue to adopt measures to mitigate these risks and uncertainties. As part of its role of providing financing to the Commonwealth and its instrumentalities to further the economic development of Puerto Rico, and as part of its risk management activities, the GDB is renegotiating and/or restructuring payment terms of the loans to certain governmental entities. Some of the renegotiations/restructurings extend the period for principal repayment but provide for repayment of the contractual interest in accordance with the original terms. Certain loans whose repayment source was originally from COFINA and from future issuances of Commonwealth's general obligation bonds are currently being repaid with annual legislative appropriations based on payment schedules proposed by the GDB, which are based on a period of amortization of 30 years, at contractual interest rates. The GDB will annually submit to the OMB, to be included in the Commonwealth's budget for legislative approval in each subsequent fiscal year, an amount established in the payment schedules with the terms stated above. However, there can be no assurance that the director of the OMB will include an amount for loan repayments in the Commonwealth's budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to the GDB on these loans. The Commonwealth has recently reformed and amended GDB's lending practices, financing capacity and oversight powers of public funds through Act No. 24 of February 13, 2014. This Act prohibits the GDB, subject to certain limited exceptions, from making loans to public corporations payable from future increases in rates, taxes or other charges. In essence, each public corporation seeking financing from the GDB must demonstrate sufficient approved revenue streams to cover debt service on any GDB loan. Act No.24 is intended to impose fiscal discipline on the public corporations, while preserving GDB's net position. In addition, Act No. 24 also (i) increases from $550 million to $2 billion the amount of the GDB obligations that can be guaranteed by the full faith and credit of the Commonwealth to provide the GDB with greater flexibility in its role of granting interim financing to public corporations and agencies; (ii) grants the GDB the ability to exercise additional oversight over certain public funds deposited at private financial institutions and grants the GDB the legal authority, subject to an entity's ability to request waivers under certain specified circumstances, to require such public funds (other than funds of the Legislative Branch, the Judicial Branch, the University of Puerto Rico, governmental pension plans, municipalities and certain other independent agencies) to be deposited at the GDB, which is expected to result in a more efficient management of public resources; and (iii) provides a process through which the OMB may assume, on behalf of the Commonwealth, the repayment from budgetary appropriations (commencing fiscal year 2017) of certain obligations owed by governmental agencies or public corporations to the GDB, up to a maximum amount of $500 million.

Management of the PRHTA and GDB are working with various alternatives for the PRHTA to gain access to the bond capital market, including, among other, a new trust indenture, revenue increasing measures, and expense reduction measures. If such alternatives are not materialized, the PRHTA could default on its credit facilities with the GDB, which may have a material adverse effect on the financial condition, operating results and liquidity of the GDB. GDB's management, however, believes that in such case alternatives are not materialized, the Commonwealth would provide financial support to the PRHTA in order to repay its outstanding borrowings with the GDB.

As part of the measures taken by the Commonwealth to reduce the credit exposures the GDB has on the PRHTA, Act No. 41 was enacted effective July 1, 2013, and establishes an increase to the cigarettes and other tobacco derivatives tax. The new act will impose an additional tax of $11.15 for every 100 cigarettes. Starting on July 1, 2013, the total tax will by $16.15 for every 100 cigarettes. Starting on July 1, 2015, it will be $17.

As part of its risk management activities and as a condition to provide financing support to certain public corporations, the GDB has entered into fiscal oversight agreements with certain public corporations. The agreements require the public corporations, among other, to implement a comprehensive expense reduction program, including certain fiscal oversight controls, subject to laws and existing agreements of the public corporations, designed to minimize future tariff increases to households and the private sector, and to protect and improve the credit rating of the public corporations, so that the public corporations may obtain adequate financing to fund its capital expenditure requirements and to operate its infrastructure in an efficient and reliable manner and in compliance with applicable laws and regulations. GDB's agreement to provide current financing and any future financing is expressly conditioned upon the public corporations' compliance with the covenants established in the fiscal oversight agreement and GDB's right to monitor and enforce such compliance. These agreements will be in effect until the public corporations have regained a level of financial stability and are able to secure long-term financing that will result in the continued stability of the public corporations' operations and financial condition. As of June 30, 2013, GDB's management determined that all public corporations and agencies have complied with the material terms and conditions of their respective agreements.

As further described in note 22, during March 2014, there was a $3.5 billion bond issuance of Commonwealth general obligation bonds, which provided for the repayment of approximately $1.9 billion of loans made by the GDB to the Commonwealth and the Public Buildings Authority (PBA), reducing the outstanding balance of the GDB's loans to the Commonwealth by $1.7 billion and of GDB's loans to PBA by $187 million.

Additionally, under recently enacted legislation, the GDB has the legal authority to require that certain public funds currently deposited at private financial institutions, including demand deposit accounts, be deposited at the GDB, subject to specified exceptions.

Based on previous experience and recent developments, GDB's management believes that the carrying amount of most of the loans to the public sector will be collected (including interest at the contractual interest rate).

Risks and Uncertainties – Other Public Corporations

Certain of the Commonwealth's public corporations are currently in financial distress and are facing specific liquidity risks including PREPA, PRASA, PRHTA, PRHIA and PRPA. These public corporations are reported in the aggregate discretely presented component units column of the basic financial statements. Management at these public corporations is currently implementing the provisions of Act 66-2014, which provides for certain cost reduction measures, as well as the evaluation of measures to increase revenues. Additionally, as further described in note 22, on June 28, 2014 the Commonwealth enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the “Debt Enforcement Act”). The Debt Enforcement Act provides an orderly, statutory process for the enforcement and restructuring, in a fair and equitable manner, of the debts and other obligations of certain public corporations experiencing financial distress, while ensuring the continuity of essential public services to the people of Puerto Rico. However, if management of such component units is unable to reduce their operational expenses, increase their revenues and/or reduce their debts, such component units may need to seek relief under the Debt Enforcement Act. The Government expects, however, that only those public corporations which have no other reasonable alternatives to be able to meet their debts and other contractual commitments while continuing to perform essential public functions would avail themselves of the provisions of the Debt Enforcement Act.

As discussed in Note 22, on June 28, 2014, a group of bondholders requested a declaratory judgment challenging the constitutionally of the Debt Enforcement Act in the U.S. District Court for the District Court of Puerto Rico.

Also, as previously mentioned the Commonwealth has recently reformed and amended GDB’s lending practices, financing capacity and oversight powers of public funds through Act No. 24 of February 13, 2014. The Debt Enforcement Act prohibits the GDB, subject to certain limited exceptions, from making loans to public corporations payable from future increases in rates, taxes or other charges. In essence, each public corporation seeking financing from the GDB must demonstrate sufficient approved revenue streams to cover debt service on any GDB loan. Act No.24 is intended to impose fiscal discipline on the public corporations, while preserving GDB’s net position.

Specific financial information regarding these public corporations follows:

PREPA - At June 30, 2013, PREPA had a net deficit of $791 million. Subsequent to June 30, 2013 PREPA has continued experiencing weak financial performance and currently faces heightened liquidity and market access risk stemming from the maturity of two short-term lines of credit (LOCs) and the required repayment of outstanding borrowings totaling $641 million in July and August 2014. PREPA's management is currently negotiating the renewal of these lines of credit with the corresponding commercial banks. PREPA’s ability to repay its outstanding lines of credit is limited and its ability to extend, renew or replace these lines of credit is uncertain. In addition to this immediate liquidity need, PREPA has had material recurring operational deficits (negative cash flow), currently has a very high level of debt and faces large non-discretionary capital expenditure requirements, all while facing a declining demand for electricity. As a result, if PREPA is unable to address these issues in the short-term, it may need to seek relief under the Debt Enforcement Act. As of June 27, 2014, PREPA has set aside sufficient funds to cover the debt service payment due on July 1, 2014 on its revenue bonds.

As further discussed in note 22, subsequent to June 30, 2013 PREPA’s revenue bonds have been downgraded several times by rating agencies, being June 26, 2014, the most recent downgrade where Moody's and Fitch downgraded the rating on $8.7 billion of PREPA's power revenue bonds from Ba2 to Ba3 and from BB to CC, respectively. On June 27, 2014, S&P also downgraded the same bonds from BBB- to BB. The downgrades reflect concerns with PREPA's increasingly tight liquidity and the ratings agencies' view, based on the enactment of the Debt Enforcement Act, that a debt restructuring or default by PREPA is probable as a result of the near-term maturities of the bank lines of credit mentioned above.

After considering the remediation plans further described in the *Remediation Plan – Other Public Corporations* section of this footnote, and the effect of the subsequent events previously described, in management's opinion PREPA's financial condition might raise significant liquidity risk regarding PREPA's ability to meet its financial obligations as they come due in the near future.

PRASA – At June 30, 2013 PRASA had a net position of $2,998.9 million, which includes revenue bonds payable of $4,522.7 million, notes payable of $469.7 million and lines of credit of $89.8 million. PRASA's net position decreased by $367.9 million during the year ended June 30, 2013 and had a working capital deficiency of $276.4 million at June 30, 2013. As further discussed in note 22, subsequent to June 30, 2013, PRASA's revenue bonds have been downgraded several times by rating agencies, being June 27, 2014, the most recent downgrade where Moody's lowered the ratings assigned to PRASA's revenue bonds to Ba3 from Ba2. Subsequent to June 30, 2013 PRASA significantly increased its rates for service charges.

PRHTA – PRHTA is currently experiencing severe financial difficulties and its operations during the last years have been financed through lines of credit provided by GDB. PRHTA net position decreased by approximately $140.5 million during the year ended June 30, 2013 and had a working capital deficiency (excluding current restricted assets and the current liabilities payables from restricted assets) of $50.9 million at June 30, 2013. Loans with GDB at June 30, 2013 amounted to $2,045.1 million. On June 27, 2014, Moody's lowered ratings on the bonds of PRHTA from Ba2 to Ba3.

PRHIA – At June 30, 2013, PRHIA had a net deficit of $170.7 million. PRHIA's net deficit increased by approximately $17 million during the year ended June 30, 2013 and had a working capital (excluding lines of credit with GDB of approximately $171.1 million maturing between 2015 and 2023) of approximately $33.4 million.

PRPA – At June 30, 2013, PRPA had a net position of approximately $133.3 million. PRPA's net position decreased by $73.4 million during the year ended June 30, 2013 and had a working capital deficiency of approximately $218.2 million at June 30, 2013.

Remediation Plan – Other Public Corporations

The following are significant actions taken by the other public corporations having significant financial distress to improve their operations:

PREPA: Conversion to natural gas as a fuel source has been completed at PREPA's second largest generating plant, reducing oil dependency by another 11% and negotiations to permit the conversion of PREPA's largest generating plant (18% of total capacity) are underway. In August 2013, PREPA successfully completed a $673 million bond issuance to fund its capital improvement program, including the conversion to natural gas of existing oil-fired generation units, which is expected to enable PREPA to improve its operating efficiency. On May 27, 2014, the Commonwealth enacted Act No.57 that restructures the Telecommunications Regulatory Board into an Energy and Telecommunications Commission, which will be responsible for all energy and telecommunications regulatory matters. This new entity would also be responsible for all tariff-related issues.

PRASA: In July 2013, PRASA implemented a 60% rate increase, on average, that will provide additional revenues to cover operational expenses and improve debt service coverage. As a result of this increase, in contrast with prior years, the Commonwealth does not anticipate having to appropriate funds to PRASA for its operational expenses.

PRHTA: On June 25, 2013, the Legislature of the Commonwealth enacted Act No. 30 and Act No. 31 to raise additional annual revenues for the PRHTA to repay its outstanding loans with the GDB. The additional annual revenues consist of (1) transfer to the PRHTA of vehicle license fee revenues currently received by the Commonwealth's Department of the Treasury, which amount to approximately $62.5 million; (2) increase in the petroleum products tax from $3.00 per barrel to $9.25 per barrel (to be adjusted for inflation, every four years beginning in 2017, based on the accumulated compounded yearly increase in the USA CPI Index plus a margin of 1.5%), which are estimated to generate approximately $189 million; (3) transfer to the PRHTA of the first $20 million in annual cigarette tax revenues currently collected by the Commonwealth's Department of the Treasury. All these measures would generate a total of approximately $270 million in new and additional annual revenues. Also recently approved legislation changed the governance structure of the PRHTA by establishing a board of directors.

PRHIA: PRHIA's management adopted a fiscal stabilization plan that includes the following measures: (a) maximization of discounts or rebates with respect to prescription drugs dispensed to beneficiaries; (b) implementation of a monitoring program with all insurance companies through audits and imposition of penalties and fines for noncompliance; (c) maximization of process of petitions of federal funds through more efficient segregation of Commonwealth and Federal beneficiaries; (d) improvement and implementation of an effective accounts receivable collection process. *PRPA*: On February 27, 2013, the Commonwealth finalized the public-private service concession arrangement involving Puerto Rico's Luis Muñoz Marin International Airport (LMMIA) and received an upfront payment of approximately $615 million that is reported as a component of deferred inflow of resources in the accompanying statement of net position. This transaction strengthened the PRPA's fiscal position and reduced both the PRPA's and the GDB's risk position by repaying over $490 million, most of which had been either owed to or guaranteed by the GDB.

(3) Restatements and Changes in Reporting Entity

During 2013, the Commonwealth identified various errors related to the prior year financial statements. In addition, the Commonwealth adopted GASB Statement No. 61, The Financial Reporting Entity: Omnibus (GASB Statement No. 61), which resulted in a change in the reporting of certain component units. The impact of correcting these errors and the effect of the adoption of GASB Statement No.61 are as follows:

Primary Government

Governmental Activities:

The following table summarizes the changes to net position (deficit) at the beginning of the year as previously reported by the primary government (expressed in thousands):

		Primary government		
		Governmental activities	**Business-type activities**	**Totals primary government**
Net position (deficit) – July 1, 2002, as previously reported	$	(40,000,636)	963,250	(39,037,386)
Changes in reporting entities:				
PRIFA		(1,526,404)	—	(1,526,404)
SCPT		(255,651)	—	(255,651)
PRMeSA		—	(227,736)	(227,736)
Correction of error:				
Public Housing Administration (PHA)(a)		(11,097)	—	(11,097)
Public Buildings Authority (PBA)(b)		(36,581)	—	(36,581)
Office for the Improvement of Public Schools (OIPS)(c)		330	—	330
Puerto Rico Department of Housing (PRDH)(d)		(96)	—	(96)
Labor Development Administration (LDA)(d)		(17)	—	(17)
Governing Board of 9-1-1 Services (9-1-1 Service)(e)		—	40,809	40,809
Net position (deficit) – July 1, 2012, as restated	$	(41,830,152)	776,323	(41,053,829)

The changes in reporting entity resulted from the adoption of GASB Statement No. 61 by which PRIFA and SCPT became blended component units within governmental activities, while PRMeSA became a blended component unit within business-type activities.

The corrections of error resulted from the following:

a) Approximately $11.1 million in capital assets continued to be reported by PHA after such assets had been transferred to other entities in previous years.

b) The capital assets of PBA were overstated by approximately $35.2 million due to certain accounting errors related to interest and administrative expenses incorrectly capitalized in construction in progress; unamortized bond premium was overstated by approximately $2.7 million and accounts payable were understated by approximately $4.1 million.

c) The accounts payable of OIPS (reported within the General Fund) were overstated by approximately $330 thousand.

d) The accounts payable of PRDH and LDA (both presented within the General Fund) were understated by approximately $96 thousand and $17 thousand, respectively.

e) The 9-1-1 Service, with a fund balance of approximately $40.4 million was, incorrectly presented in prior years as a discretely presented component unit. However, it did not have sufficient corporate powers to be considered a separate legal entity. The reporting entity error was corrected in current year by presenting it as a proprietary fund. Additionally, certain payables were understated by approximately $371 thousand.

Governmental Funds:

The following table summarizes the changes to fund balances (deficit) at the beginning of the year as previously reported in the statement of revenues, expenditures, and changes in fund balances (deficit) by the governmental funds (expressed in thousands):

		General Fund	Other Governmental Funds	Total Governmental Funds
Fund balances (deficit) – July 1, 2012, as previously reported	$	(1,106,556)	1,202,397	1,477,107
Changes in reporting entity:				
PRIFA		—	375,019	375,019
SCPT		—	108,278	108,278
Correction of error:				
PBA Blending (a)		—	(179,643)	(179,643)
PBA other (b)		—	(21,421)	(21,421)
PRDH (c)		(61,952)	—	(61,952)
OIPS (d)		330	—	330
LDA (e)		(17)	—	(17)
Fund balances (deficit) – July 1, 2012, as restated	$	(1,168,195)	1,484,630	1,697,701

The changes in reporting entity resulted from the adoption of GASB Statement No. 61 by which PRIFA and SCPT became blended component units within other governmental funds.

The corrections of error resulted from the following:

a) During the process of blending PBA into the Commonwealth's financial statements, approximately $179 million of current accounts payable were erroneously deemed not payable from current financial resources, and were excluded from the fund financial statements.

b) PBA had an understatement of deferred revenue of approximately $12.9 million, receivables were overstated by approximately $24.9 million, debt service accruals were understated by approximately $11.5 million, accounts payable were understated by approximately $4.1 million, and other current liabilities were understated by approximately $18.5 million

c) Certain assets of PRDH (presented within the General Fund) classified as held for sale in prior years for approximately $61.7 million, were deemed overstated because they were not considered available to pay current liabilities. Also, accounts payable were understated by approximately $96 thousand.

d) The accounts payable of OIPS (reported within the General Fund) were overstated by approximately $330 thousand.

e) The accounts payable of LDA (presented within the General Fund) were understated by approximately $17 thousand.

During fiscal year 2012, the Pledged Sales and Use Tax fund was presented as a separate major special revenue fund, when it did not meet the criteria for such presentation. This fund should have been presented within the COFINA debt service fund. For 2013, the correct presentation of the Pledged Sales and Use Tax fund was made within the COFINA debt service fund; however, this restatement does not appear in the table above because the Pledged Sales and Use Tax fund has always carried a zero fund balance.

Proprietary Funds:

The following table summarizes the changes to net position at the beginning of the year as previously reported by the proprietary funds (expressed in thousands):

		Puerto Rico Medical Services Administration	Other proprietary	Total proprietary
Net position – July 1, 2012, as previously reported	$	—	680,663	963,250
Changes in reporting entity:				
PRMeSA		(227,736)	—	(227,736)
Correction of error:				
9-1-1 Service		—	40,809	40,809
A non-major fund turned into a major fund:				
Puerto Rico Water Pollution Control Revolving Fund		—	(389,152)	—
Net position (deficit)– July 2012, as restated	$	(227,736)	332,320	776,323

The following table summarizes the changes to cash and cash equivalents at the beginning of the year as previously reported in the statement of cash flows by the proprietary funds (expressed in thousands):

		Puerto Rico Medical Services Administration	Other proprietary	Total proprietary
Cash and cash equivalents - July 1, 2012, as previously reported	$	—	176,653	635,041
Changes in reporting entity:				
PRMeSA		267	—	267
Correction of error:				
9-1-1 Service (a)		—	24,700	24,700
Inclusion as major fund:				
Puerto Rico Water Pollution Control Revolving Fund		—	(81,952)	—
Cash and cash equivalents - July 1, 2012, as restated	$	267	119,401	660,008

The changes in reporting entity resulted from the adoption of GASB Statement No. 61 by which PRMeSA became a blended component unit within business-type activities. Also the Puerto Rico Water Pollution Control Revolving Fund turned into a major fund by exceeding the quantitative thresholds provided by GASB Statement No. 34.

The correction of error resulted from the following:

a) The 9-1-1 Service was incorrectly presented in prior years as a discretely presented component unit. However, it did not have sufficient corporate powers to be considered a separate legal entity. The reporting entity error was corrected in current year by presenting it as a proprietary fund.

Discretely Presented Component Units

The following table summarizes the changes to net position at the beginning of the year as previously reported in the statement of activities by certain discretely presented component units (expressed in thousands):

Net position – July 1, 2012, as previously reported	$	8,903,698
Changes in reporting entities:		
PRIFA		1,526,404
PRMeSA		227,736
SCPT		255,651
UPR		1,990
CIBMRIP		565
Impact of GASB No. 60 implementation:		
PRHTA		5,441
Error corrections:		
AACA (a)		52,402
9-1-1 Service (b)		(40,438)
GDB (c)		(19,903)
AEDA (d)		(15,784)
SWA (e)		(8,089)
PRTEC (f)		2,082
PRMBA (g)		(1,241)
PRTC (h)		(1,194)
ETEC (i)		838
IPRC (j)		(520)
PRSPA (k)		341
LRA (k)		292
Net position – July 1, 2012, as restated	$	10,890,271

The changes in reporting entity resulted from the adoption of GASB No. 61 by which PRIFA and SCPT became blended component units within governmental activities, PRMeSA became a blended component unit within business-type activities, the UPR added two component units to its reporting entity, and CIBMRIP was added as a discretely presented component unit of the Commonwealth.

The adoption of GASB No. 60, resulted in the retroactive recognition by the PRHTA of certain infrastructure assets under service concession agreements in the amount of approximately $75.5 million and the corresponding deferred inflows of resources for approximately $70.1 million.

The corrections of error resulted from the following:

a) AACA had an overstatement of claims liability for approximately $60.0 million, an understatement of its post-employment benefit obligation for approximately $5.4 million, and an overstatement of approximately $2.2 million in capital assets.

b) The 9-1-1 Service was incorrectly presented in prior years as a discretely presented component unit. However, it did not have sufficient corporate powers to be considered a separate legal entity. The reporting entity error was corrected in current year by presenting it as a proprietary fund.

c) Accounts payable and accrued liabilities of GDB were understated by approximately $20.4 million related to federal cost disallowance. Such claim existed in prior years, but was not recognized. This understatement was recognized net of an overstatement of approximately $525 thousand in other current liabilities.

d) AEDA had an overstatement of capital assets for approximately $2.9 million and an understatement of long-term debt for approximately $12.9 million.

e) SWA had an overstatement in construction in progress for approximately $8.1 million.

f) PRTEC had an understatement of capital assets for approximately $2.1 million.

g) PRMBA had an overstatement of accounts receivable and non-operating revenue of approximately $1.2 million.

h) PRTC had an overstatement of approximately $750 thousand in capital assets due to an impairment loss not recognized in previous years; Interest payable was overstated by approximately $334 thousand because it was calculated based on amounts subsequently paid and not based on amounts incurred at year end; and, the investment in tourism projects were overstated by approximately $778 thousand due to the capitalization of certain incentive tax credits that were deemed not realizable.

i) ETEC had an overstatement of approximately $788 thousand in deferred revenue, and an understatement of capital assets for approximately $50 thousand.

j) IPRC had an understatement of voluntary termination benefits for approximately $520 thousand.

k) PRSPA and LRA restated their beginning net position to correct various errors in the aggregated amount of approximately $341 thousand and $292 thousand, respectively.

(4) Puerto Rico Government Investment Trust Fund (PRGITF)

PRGITF was created by Act No. 176, of August 11, 1995, and began operations on December 4, 1995. The PRGITF is a no load diversified collective investment trust administered by the GDB that was created for the purpose of providing eligible governmental investors of Puerto Rico with a convenient and economical way to invest in a professionally managed money market portfolio. The PRGITF is not an investment company or a mutual fund and is not subject to regulation or registration under the investment company Act of 1940. Units issued by the PRGITF are not subject to regulation or registration under the Securities and Exchange Act of 1933, as amended, because the units are issued by a government entity. The deposits on hand and the investments purchased are not collateralized, secured, or guaranteed by the Commonwealth or any of its agencies, instrumentalities, or political subdivisions.

PRGITF is considered a 2a7-like external investment pool, and as such, reports its investment at amortized cost. In addition, the Puerto Rico Government Investment Trust Fund follows GASB Statement No. 31; *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*; however, such financial statements are not included in the accompanying basic financial statements because the primary government and each component unit's investor already present their corresponding share of the assets of the PRGITF as cash equivalents or investments.

The investment securities on hand at June 30, 2013, consisted of certificates of deposit and time deposits, money market funds, securities purchased under agreements to resell, corporate obligations, commercial paper, and U.S. government and sponsored agencies obligations, all of which may be considered highly liquid. However, the participants' investments are subject to the ability of the PRGITF to receive payment from the securities' issuer when due. The liquidity of certain investments and changes in interest rates may affect PRGITF's yield and the fair value of its investments.

The Commonwealth classified approximately $88.3 million of investments presented in the PRGITF (see note 5) as cash and cash equivalents. Investments in the PRGITF with original maturity of 90 days or less from the date of acquisition are considered to be cash equivalents.

The dollar amount of the investments at June 30, 2013 at $1.00 per unit of participation was reported in the individual financial statements of each of the participants, and combined in the basic financial statements as follows (expressed in thousands):

		Balance outstanding	Percentage of total
Primary government:			
Commonwealth	$	88,021	29.26%
COFINA		35,433	11.78
The Children's Trust		17,629	5.86
PBA		308	0.10
Total for primary government		141,391	47.00
Discretely presented component units:			
GDB		118,862	39.52
PRASA		35,035	11.65
SIFC		1,039	0.34
SWA		623	0.21
PRHTA		171	0.06
PREPA		19	0.01
Total for discretely presented component units		155,749	51.79
Other governmental entities		3,646	1.21
Total for all participants	$	300,786	100.00%

The deposits at June 30, 2013 were invested in securities with a cost that approximates fair value, plus accrued interest, for approximately $300.2 million. The external portion of the PRGITF was not considered significant for separate reporting in the accompanying basic financial statements.

As June 30, 2013, the PRGITF's investments were rated A1 or AAA by Standard and Poor's. U.S. government securities carry the explicit guarantee of the U.S. government.

Following is a table of the investments held by the PRGITF at June 30, 2013, presented at amortized cost (expressed in thousands):

Securities purchased under agreements to resell	$	97,461
Commercial paper		92,956
U.S. government and sponsored agencies obligations		80,514
Certificates of deposit and time deposits		14,850
Money market		12,412
Corporate obligations		4,510
Total	$	302,703

(5) Deposits and Investments

Pursuant to the provisions of Act No. 91 of March 29, 2004, the primary government may invest in different types of securities, including domestic, international, and fixed income securities, among others.

The primary government maintains a cash and investment pool that is available for use by all funds, except for the fiduciary funds. Each fund's portion of this pool is reported on the statement of net position as cash and cash equivalents. The fiduciary funds' investments are held and managed separately from those of other primary government funds.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Commonwealth's deposit might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Commonwealth's name. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

Deposits in governmental banks represent the balance of interest and noninterest-bearing accounts in the GDB and EDB. The deposit liability at the GDB and the EDB is substantially related to deposits from other component units and of the Commonwealth.

Deposits maintained in GDB, the EDB, and non-Puerto Rico commercial banks are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk, because in the event that these financial institutions fail, the Commonwealth may not be able to recover these deposits.

Primary Government

Cash and cash equivalents consist of demand deposits, interest-bearing accounts, certificates of deposit, and bank investment contracts.

The carrying amount of deposits of the primary government at June 30, 2013 consists of the following (expressed in thousands):

		Carrying amount			Bank
		Unrestricted	**Restricted**	**Total**	**balance**
Commercial banks	$	399,465	633,100	1,032,565	1,014,144
Governmental banks		1,350,816	367,728	1,718,544	2,045,287
Under the Custody of the U.S. Treasury		—	398,059	398,059	398,030
Total	$	1,750,281	1,398,887	3,149,168	3,457,461

At year-end, the Commonwealth's bank balance of deposits in commercial banks amounting to approximately $1 billion was covered by federal depository insurance and by collateral held by the Commonwealth's agent in the Commonwealth's name. Deposits of approximately $398 million with the U.S. Treasury represent unemployment insurance taxes collected from employers that are transferred to the federal Unemployment Insurance Trust Fund in the U.S. Treasury. These deposits are uninsured and uncollateralized. The bank balance of deposits in governmental banks, which as of June 30, 2013 amounted to approximately $2 billion, is also uninsured and uncollateralized.

The bank balance of GDB's and EDB's deposits at June 30, 2013 is broken down as follows (expressed in thousands):

Primary government	$	2,045,287
Discretely presented components units		909,119
Total pertaining to the Commonwealth		2,954,406
Municipalities of Puerto Rico		527,978
Other nongovernmental entities		42,708
Escrow accounts		644,869
Certificates of deposit		1,737,026
Total deposits per GDB and EDB	$	5,906,987

The primary government classified approximately $88.3 million of investments in the PRGITF as cash equivalents.

Investments

Custodial Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the Commonwealth may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Credit Risk – This is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation. Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

The Commonwealth's general investment policy is to apply the "prudent investor" rule, that states investments shall be made with judgment and care under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment considering the probable safety of their capital as well as the probable income to be derived. The prudent investor rule should be applied in the context of managing an overall portfolio.

Short term funds of the agencies, including operating funds, may be invested in US. Treasury bills; U.S. Treasury notes or bonds with short term maturities; short-term obligations of U.S. government agencies and instrumentalities classified within the highest rating category of S&P and Moody's; fully insured or collateralized certificates of deposit of eligible financial institutions designated by the Commissioner of Financial Institutions and the Secretary of the Treasury of the Commonwealth; Prime commercial paper rated A1/P1 by S&P and Moody's or secured by an irrevocable line of credit of an institution rated within the highest rating category of S&P and Moody's or collateralized by government securities; bankers' acceptances (as alternatives to CDs) of eligible financial institutions doing business in Puerto Rico provided adequate collateral has been pledged; the PRGITF; obligations of the Commonwealth and its instrumentalities with an expected rate of return similar to other securities with the same risk profile.

Longer-term funds of the agencies may also be invested in U.S. government and agency securities rated in the highest rating category of S&P and Moody's. Taxable Municipal Bonds of state and local governments in the United States classified within the three (3) highest categories of at least two of the principal rating services; taxable municipal obligations of the Primary Government and its component units; Structured Investments (notes and other types of on-balance sheet securities issued by a U.S. Government Agency or another financial institutions that are classified in the highest rating category of at least two of the principal rating services); any mortgage-backed instrument issued by a U.S. Government Agency rated in the highest rating category of S&P and Moody's as a separate Trust.

Concentration of Credit Risk – This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Commonwealth policy on larger portfolios with positions in securities having potential default risk is to limit the investments in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.

Interest Rate Risk – It is the Commonwealth policy that a minimum 10% of total portfolio be held in highly marketable U.S. Treasury bills or overnight investment instruments. Larger portfolios should not hold more than 30% of the portfolio in marketable instruments with maturities beyond one month. This policy should be followed as long as it doesn't reduce investment yields.

Governmental Activities:

The governmental activities had approximately $87.4 million in nonparticipating investment contracts (guaranteed investment contract) that were exposed to custodial risk as uninsured, unregistered and held by the counterparties or by their trust departments or agents, but not in the primary government's name.

(Continued)

The following table summarizes the type and maturities of investments held by the governmental activities at June 30, 2013 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (in years)			
Investment type	**Within one year**	**After one to five years**	**After ten years**	**Total**
U.S. government securities	$ 51,430	7,090	—	58,520
U.S. government sponsored agencies notes - Federal National Mortgage Association (FNMA)	317,420	—	—	317,420
U.S. corporate bonds and notes	31,011	—	—	31,011
Commonwealth bonds and notes	—	—	225,100	225,100
PRGITF	53,062	—	—	53,062
External investment pools – fixed-income securities:				
Dreyfus Government Cash Management	358,684	—	—	358,684
Deutsche Bank	—	—	26,413	26,413
Nonparticipating investment contracts:				
Bayerische Hypo-und Vereinsbank AG	—	—	83,684	83,684
Calyon	—	—	3,766	3,766
Total debt securities and fixed-income investment contracts	$ 811,607	7,090	338,963	1,157,660
Reconciliation to the government-wide statement of net position (deficit):				
Unrestricted investments				$ 369,942
Restricted investments				787,718
Total				$ 1,157,660

The credit quality ratings (Standard and Poor's) and fair value by investment type for the investments reported by the governmental activities at June 30, 2013 consist of the following (expressed in thousands):

		Rating		
Investment type	**AAA**	**AA+ to AA-**	**A+ to A-**	**Total**
U.S. government sponsored agencies notes - FNMA	$ —	317,420	—	317,420
U.S. corporate bonds and notes	—	—	31,011	31,011
Commonwealth bonds and notes	—	—	225,101	225,101
PRGITF	53,062	—	—	53,062
External investment pools – fixed-income securities:				
Dreyfus Government Cash Management	358,684	—	—	358,684
Deutsche Bank	—	—	26,413	26,413
Nonparticipating investment contracts:				
Bayerische Hypo-und	—	—	—	—
Vereinsbank AG	—	—	83,684	83,684
Calyon	—	—	3,766	3,766
Total debt securities and fixed-income investment contracts	$ 411,746	317,420	369,975	1,099,141

Approximately $58.5 million of the total governmental activities' investments consist of U.S. government securities, which carry no credit risk, therefore, not included within the table above.

Business Type Activities:

The following table summarizes the type and maturities of investments held by the business-type activities at June 30, 2013 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment type		Within one year	After one to five years	After five to ten years	After ten years	Total
		Maturity (In years)				
U.S. government and agency securities	$	—	461	2,865	761	4,087
Mortgage and asset-backed securities:						
Government National Mortgtage Association (GNMA)		—	—	—	810	810
FNMA		—	—	42	1,899	1,941
Federal Home Loan Mortgage Corporation (FHLMC)		—	—	192	4,851	5,043
Commercial mortgages		—	—	—	1,499	1,499
Asset–backed securities		—	928	—	—	928
U.S. corporate bonds and notes		—	5,136	3,208	1,533	9,877
Foreign corporate and government bonds and notes		—	466	397	—	863
U.S. municipal notes		—	—	55	567	622
Negotiable certificates of deposit		12,180	—	—	—	12,180
Total debt securities	$	12,180	6,991	6,759	11,920	37,850
External investment pools — equity securities:						
SPDR S&P 500 ETF Trust						7,844
MFC ISHARES TR Russell 2000 index Fund						967
MFC Vanguard FTSE Emergency MKTS ETF						39
MFC Vanguard FTSE Development Markets						625
Total						$ 47,325
Reconciliation to the government-wide statement of net position (deficit):						
Unrestricted investments						$ 3,044
Restricted investments						44,281
Total						$ 47,325

The credit quality ratings (Standard and Poor's) and fair value by investment type for the investments reported by the business-type activities at June 30, 2013 consist of the following (expressed in thousands):

Investment type		AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	Not rated	Total
		Rating						
Mortgage and asset-backed securities:								
FNMA	$	—	1,941	—	—	—	—	1,941
FHLMC		—	5,043	—	—	—	—	5,043
Commercial mortgages		957	—	—	—	—	542	1,499
Asset-backed securities		190	—	—	—	—	738	928
U.S. corporate bonds and notes		131	963	5,740	2,473	570	—	9,877
Foreign corporate and government bonds and notes		—	232	202	349	80	—	863
U.S. municipal notes		202	365	55	—	—	—	622
Negotiable certificates of deposit		—	—	—	—	—	12,180	12,180
Total debt securities	$	1,480	8,544	5,997	2,822	650	13,460	32,953

Approximately $4.9 million of the total business-type activities' investments consist of U.S. government securities and mortgage-backed securities (GNMA), which carry no credit risk, therefore, not included within the table above.

Fiduciary Funds

Deposits and short-term investments

Cash and cash equivalents of the fiduciary funds at June 30, 2013 consist of the following (expressed in thousands):

		Carrying amount			
		Unrestricted	Restricted	Total	Bank balance
Commercial banks	$	949,315	26,503	975,818	976,723
Governmental banks		573,881	35,811	609,692	532,072
Total	$	1,523,196	62,314	1,585,510	1,508,795

Cash and cash equivalents consist of deposits with commercial banks, deposits with the GDB and money market funds. Restricted cash deposited with the GDB consists of escrow servicing accounts for mortgage loans administrated by the mortgage servicers and expired checks not claimed by the plan members, restricted for repayments.

Collateral for securities lending transactions of the pension trust funds amounting to approximately $174.8 million were invested in short-term investment funds sponsored by the pension trust funds' custodian bank. (See note 6).

Custodial Risk – As of June 30, 2013, the fiduciary funds had approximately $1,014 million of cash and cash equivalents and collateral from securities lending transactions which were exposed to custodial credit risk as uninsured and uncollateralized. Cash collaterals received from securities lending transactions invested in short-term investment funds sponsored by the pension trust funds' custodian bank are also exempt from compliance with the collateralization requirement.

Investments

The following table summarizes the type and maturities of investments held by the pension trust funds at June 30, 2013 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (In years)				
Investment type	Within one year	After one to five years	After five to ten years	After ten years	Total
U.S. government securities:					
U.S. Treasury notes	$ 56,464	2,064	20,004	—	78,532
U.S. Treasury note strips	—	—	65,067	—	65,067
U.S. Treasury Inflaction-Protected Securities (TIPS)	—	3,645	27,033	3,109	33,787
U.S. government sponsored agencies notes:					
Federal Home Loan Bank (FHLB)	—	14,092	5,897	—	19,989
FNMA	—	2,783	2,356	—	5,139
FHLMC	606	9,057	6,693	—	16,356
Federal Farm Credit Bank (FFCB)	—	4,176	1,547	—	5,723
Mortgage and asset–backed securities:					
GNMA	—	72	—	22,886	22,958
FNMA	—	234	1,008	31,304	32,546
FHLMC	—	—	245	24,763	25,008
Collateralized mortgage obligations (CMO)	8	—	—	935	943
Commercial mortgages	—	—	—	23,599	23,599
Asset–backed securities	—	2,265	—	40	2,305
U.S. corporate bonds and notes	118,491	601,329	473,228	66,979	1,260,027
Non U.S. corporate bonds and notes	23,065	131,323	97,059	9,916	261,363
Foreign government bonds and notes	—	5,937	5,879	1,836	13,652
U.S. municipal bonds and notes	—	589	6,017	3,025	9,631
Commonwealth bonds	—	985	—	—	985
GDB bonds	—	4,587	—	—	4,587
COFINA bonds	—	—	—	229,819	229,819
Total bonds and notes	198,634	783,138	712,033	418,211	2,112,016
Nonexchange commingled trust funds:					
Fixed income fund- SSgA Intermediate Fund:					
U.S.	—	211,649	—	—	211,649
Non-U.S.	—	104,637	—	—	104,637
Total bonds and notes and nonexchange commingled fixed-income trust funds	$ 198,634	1,099,424	712,033	418,211	2,428,302
Stocks and equity and other nonexchange commingled trust funds:					
U.S. corporate stock					2,959
Non U.S. corporate stock					94,415
Nonexchange commingled trust funds:					
Equity and other funds:					
U.S.- SSgA Russell 3000 Fund					1,005,616
U.S.- SSgA S&P 500 Fund					25,937
Non-U.S.- SSgA MSCI ACWI Ex USA Fund					292,152
Total stocks and equity and other nonexchange commingled trust funds					1,421,079
Investments in limited partnerships					69,890
Totals					$ 3,919,271

The pension trust fund's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2013:

Custodial Risk – At June 30, 2013, securities investments were registered in the name of the pension trust fund and were held in the possession of the pension trust fund's custodian banks, State Street Bank and Trust and Bank of New York Mellon, except for securities lent (see note 6).

Credit Risk – All fixed-income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted average credit quality of either "A" or better using either Standard and Poor's or Moody's Investor Service credit ratings. TRS's investment guidelines prohibit the investments in securities with expected maturity dates beyond 30 years. Positions that drift below investment grade should be reported to a management representative of the TRS and monitored carefully. The TRS portfolio is not expected to have more than 5% invested in securities that have drifted after purchase below investment-grade quality. The JRS investment policy limits the investment in corporate debt securities to the top ratings issued by nationally recognized statistical rating organizations. The credit quality ratings for investments held by the pension trust funds at June 30, 2013 are as follows (expressed in thousands):

	Rating (1)								
Investment type	**AAA**	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to BB-**	**B**	**CCC**	**Not Rated**	**Total**
Bonds and notes:									
U.S. government agencies obliations:									
FHLB	$ —	19,989	—	—	—	—	—	—	19,989
FNMA	—	5,139	—	—	—	—	—	—	5,139
FHLMC	—	16,356	—	—	—	—	—	—	16,356
FFCB	—	5,723	—	—	—	—	—	—	5,723
Mortgage and asset-backed securities:									
FNMA	—	32,546	—	—	—	—	—	—	32,546
FHLMC	—	25,008	—	—	—	—	—	—	25,008
Other collateralized mortgage obligations	56	387	—	—	99	—	401	—	943
Commercial mortgages	23,599	—	—	—	—	—	—	—	23,599
Asset-backed securities	2,265	—	—	—	—	40	—	—	2,305
U.S. corporate bonds and notes	15,294	151,667	604,060	432,424	51,309	—	—	5,273	1,260,027
Non U.S. corporate bonds	—	46,579	123,838	69,392	9,479	—	—	12,075	261,363
Foreign government bonds and notes	—	10,741	1,075	—	1,836	—	—	—	13,652
U.S. municipal bonds	3,025	3,262	3,344	—	—	—	—	—	9,631
Commonwealth bonds	—	—	—	985	—	—	—	—	985
GDB bonds	—	—	—	4,587	—	—	—	—	4,587
COFINA bonds	—	—	229,819	—	—	—	—	—	229,819
Total bonds and notes	44,239	317,397	962,136	507,388	62,723	40	401	17,348	1,911,672
Nonexchange commingled trust funds:									
Fixed Income fund - SSgA Intermediate Fund	38,333	37,765	123,795	116,393	—	—	—	—	316,286
Total debt securities and fixed-income nonexchange commingled trust fund	$ 82,572	355,162	1,085,931	623,781	62,723	40	401	17,348	2,227,958

(1) Rating obtained from Standard & Poor's or equivalent rating by Moody's Investor Service or Fitch Ratings.

Approximately $200.3 million of the total fiduciary funds investments consist of U.S. government securities and mortgage-backed securities (GNMAs), which carry no risk, therefore, not included within the table above.

Concentration of Credit Risk – No ERS and JRS investment in marketable securities in any organization represents 5% or more of ERS and JRS net assets held in trust for pension benefits. There are no TRS investments in any one issuer that represent 5% or more of total investments as of June 30, 2013. The TRS investment guidelines specify that no more than 5% of a manager's assets at market shall be invested in the securities of any single issuer.

The pension trust funds invest in shares of the following State Street Global Advisor equity funds: SSgA S&P 500 Flagship Securities Lending Fund (the SSgA S&P 500 Fund), the SSgA Russell 3000 Index Non-Lending Fund (the SSgA Russell 3000 Fund) and the SSgA MSCI ACWI Ex USA Non-Lending Fund (the SSgA MSCI ACWI Ex USA Fund). The investment objectives of the SSgA S&P 500 Fund, the SSgA Russell 3000 Fund and the SSgA MSCI ACWI Ex USA Fund are to match the return of the Standard & Poor's 500 Index, the Russell 3000 Index and the MSCI ACWI Ex USA Index, respectively, over the long-term. Shares of the SSgA S&P 500 Fund and of the SSgA Russell 3000 Fund can be redeemed on a daily basis at net asset value (NAV) and have no redemption restrictions. Shares of the SSgA MSCI ACWI Ex USA Fund can be redeemed semi-monthly at NAV and have no redemption restrictions. The pension trust funds' investment in these funds is included as part of nonexchange commingled trust funds.

As of June 30, 2013, the investments underlying the SSgA S&P 500 Fund, the SSgA Russell 3000 Fund and the SSgA MSCI ACWI Ex USA Fund had the following sector allocations:

Sector	SSgA S&P 500 Fund	SSgA Russell 3000 Fund	SSgA MSCI ACWI Ex USA Fund
Financials	17%	18%	26%
Information technology	18	17	7
Healthcare	13	12	8
Consumer discretionary	12	13	10
Energy	11	10	9
Consumer staples	10	9	11
Industrials	10	11	11
Materials	3	4	9
Utilities	3	3	3
Telecommunication services	3	3	6
Total	100%	100%	100%

In addition, the pension trust funds invest in shares of the State Street Global Advisor Intermediate Credit Index Non-Lending Fund (the SSgA Intermediate Fund). The investment objective of the SSgA Intermediate Fund is to replicate the Barclays U.S. Intermediate Credit Bond Index over a long-term by investing exclusively in fixed income securities. Shares of the SSgA Intermediate Fund can be redeemed on a daily basis at their NAV and have no redemption restrictions. The pension trust funds' investment in the SSgA Intermediate Fund is included as part of nonexchange commingled trust funds.

As of June 30, 2013, the investments underlying the SSgA Intermediate Fund had the following sector allocations:

Sector	Percentage
Corporate- Industrial	42%
Corporate- Finance	30
Corporate- Utility	6
Noncorporates	20
Cash	2
Total	100%

As of June 30, 2013, the composition of the underlying investments in the SSgA MSCI ACWI Ex USA Fund and in the SSgA Intermediate Fund by country was as follows:

Country	SSgA MSCI ACWI Ex USA Fund	SSgA Intermediate Fund
Germany	6%	4%
Spain	2%	-
France	7%	1%
United Kingdom	15%	3%
Netherlands	2%	-
Sweden	2%	-
Italy	1%	-
Switzerland	7%	-
Australia	6%	2%
China	4%	-
Japan	16%	1%
Korea	3%	-
Hong Kong	2%	-
Singapore	1%	-
Taiwan	3%	-
Canada	7%	5%
Mexico	1%	1%
Brazil	3%	2%
India	2%	-
Russia	1%	-
South Africa	2%	-
U.S.	-	67%
Other	7%	14%
Total	100%	100%

(Continued)

Interest Rate Risk – In accordance with their investment policy, ERS and JRS manage their exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. The Pension Trust Fund is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable investment-grade core fixed-income securities. The TRS investment guidelines specify that the duration of the portfolio is expected to vary no more than between 75% and 125% of the duration of the respective benchmark.

As of June 30, 2013, investment maturities as a percentage of total debt securities and fixed-income nonexchange traded mutual funds are as follows:

Maturity	**Maximum maturity**
Within one year	8%
After one year to five years	46
After five years to ten years	29
After ten years	17
Total	100%

Foreign Currency Risk – This is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The TRS international portfolio is expected to achieve long-term and aggressive capital appreciation by investing in Core EAFE (Europe Australasia and the Far East) securities. The portfolio is expected to be broadly diversified with respect to exposures to countries, economic sectors, industries, and individual stock. No single issue is expected to exceed 5% (at market) of the portfolio.

(Continued)

The TRS's investments and deposits exposed to foreign currency risk as of June 30, 2013, are as follows:

Investment type	Local currency	Fair value (in thousands)
Cash and cash equivalents	Australian Dollar	$ 21
Cash and cash equivalents	Euro	555
Cash and cash equivalents	Japanese Yen	47
Cash and cash equivalents	British Sterling Pound	4
Cash and cash equivalents	Singapore Dollar	7
Total cash and cash equivalents		634
Common stock	Australian Dollar	7,297
Common stock	British Sterling Pound	21,382
Common stock	Danish Krone	4,314
Common stock	Euro	12,411
Common stock	Hong Kong Dollar	3,756
Common stock	Japanese Yen	16,217
Common stock	New Zealand Dollar	1,403
Common stock	South Africa Rand	787
Common stock	Singapore Dollar	1,345
Common stock	South Korean Won	1,015
Common stock	Swedish Krona	8,048
Common stock	Swiss Franc	9,534
Common stock	Turkish Lira	906
Total common stock		88,415
Nonexchange commingled trust funds - Ssga MCSI ACWI Ex USA		292,152
Total cash and cash equivalents and securities exposed to foreign currency risk		$ 381,201

Investments in Limited Partnerships

Pursuant to the Statement of Investment Guidelines for the Government of Puerto Rico, the pension trust funds invested approximately $1.4 million in limited partnerships during the year ended June 30, 2013.

The fair value of investments in limited partnerships at June 30, 2013 amounted to approximately $69.0 million. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements. Investments in limited partnerships are not rated by a nationally recognized statistical rating organization. The related credit risk is measured through credit analysis, periodic reviews of results of operations, and meetings of subject companies' management.

As of June 30, 2013, the pension trust funds had capital commitments with limited partnerships and related contributions as follows (expressed in thousands):

	Public sector commitments	Fiscal year contributions	Cumulative contributions	Fair value
Guayacán Fund of Funds, L.P.:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	$ 25,000	—	23,820	1,250
Puerto Rico System of Annuities and Pensions for Teachers	20,000	—	19,056	1,000
Subtotal	45,000	—	42,876	2,250
Guayacán Fund of Funds II, L.P.:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	25,000	—	23,681	4,529
Puerto Rico System of Annuities and Pensions for Teachers	25,000	—	23,681	4,529
Subtotal	50,000	—	47,362	9,058
Guayacán Private Equity Fund, L.P.				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	5,000	—	4,645	3,414
Puerto Rico System of Annuities and Pensions for Teachers	5,000	—	4,645	3,512
Subtotal	10,000	—	9,290	6,926
Guayacán Private Equity Fund II, L.P.:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	25,000	—	19,030	20,460
Subtotal	25,000	—	19,030	20,460
Other Funds:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	47,596	1,324	47,127	25,414
Puerto Rico System of Annuities and Pensions for Teachers	28,714	45	26,498	5,782
Subtotal	76,310	1,369	73,625	31,196
Total	$ 206,310	1,369	192,183	69,890

Component Units

Deposits

Cash and cash equivalents consist of demand deposits, interest-bearing accounts, certificates of deposit, and bank investment contracts. Cash and cash equivalents of the component units at June 30, 2013 consist of (expressed in thousands):

	Carrying amount			
	Unrestricted	Restricted	Total	Bank balance
Commercial banks	$ 1,457,618	959,144	2,416,762	2,354,084
Governmental banks	303,708	388,618	692,326	741,678
Total	$ 1,761,326	1,347,762	3,109,088	3,095,762

As of June 30, 2013, the component units had approximately $742 thousands of cash and cash equivalents that were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

Credit Risk – In addition to the investments permitted for the Primary Government, the component units' investment policies allow management to invest in: certificates of deposit or Euro notes issued by financial institutions in the U.S. in which the issuer is classified in the highest rating category for short term obligations and in the two highest for long term obligations as classified by S&P and Moody's: corporate notes and bonds classified in the highest categories of at least two of the principal rating services; taxable corporate debt issued through AFICA and CARIFA within the two (2) highest categories of at least two of the principal rating services; trust certificates (Subject to prior written consultation with the GDB), Mortgage and Asset Backed Securities rated AAA by Standard & Poor's or Aaa by Moody's that shall not exceed 5 percent of the underlying Trust at any time.

The component units' investment policies establish limitations and other guidelines on 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 component units' investment policies provide that investments transactions shall be entered into with counterparties that are rated BBB+/A-1 or better by the Standard & Poor's or equivalent rating by Fitch Ratings or Moody's Investors Service, depending on the type and maturity of the investment and the counterparty to the transaction.

Concentration of credit risk – In addition, the investment policy specifies that no more than 5% of a manager's assets at fair value shall be invested in the securities of any single issuer.

The following table summarizes the type and maturities of investments held by the component units at June 30, 2013 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment type		Maturity (In years) Within one year	After one to five years	After five to ten years	After ten years	Total
U.S. government securities	$	293,562	197,827	107,308	98,492	697,189
U.S. government sponsored agencies notes:						
FHLB		60,407	316,139	114,362	—	490,908
FNMA		11,435	281,347	383,695	153,782	830,259
FHLMC		3,478	230,303	142,354	2,427	378,562
FFCB		12,790	80,302	50,254	715	144,061
Other		5,025	3,450	2,793	913	12,181
Mortgage and asset–backed securities:						
GNMA		144	27,564	13,630	173,598	214,936
FNMA		15,887	39,154	19,791	856,382	931,214
FHLMC		979	42,464	4,813	302,742	350,998
Commercial mortgages		—	14,548	313	37,770	52,631
Asset–backed securities		—	21,584	9,148	418	31,150
Other		1,282	5,246	370	85,628	92,526
U.S. corporate bonds and notes		202,023	694,405	188,119	61,575	1,146,122
Foreign government bonds and notes		2,293	23,928	35,462	1,917	63,600
U.S. municipal notes		20,485	74,862	77,955	595,776	769,078
Commonwealth agency bonds and notes		257,057	383,435	276,009	206,767	1,123,268
Money market funds		80,407	—	—	57,330	137,737
Negotiable certificates of deposit		42,864	2,000	—	—	44,864
PRGITF		1,039	118,862	—	—	119,901
External investment pools – fixed–income securities		128,145	400	—	6,476	135,021
Nonparticipating investment contracts		—	—	15,863	303,951	319,814
Others		6,509	2,410	634	10,756	20,309
Total debt securities and fixed–income investment contracts	$	1,145,811	2,560,230	1,442,873	2,957,415	8,106,329
Equity securities:						
U.S. corporate stocks						443,623
Non U.S. corporate stocks						4,105
External investment pools – equity securities						107,650
Limited partnership/private equity						94,049
Total						8,755,756
Reconciliation to the government-wide statement of net position (deficit):						
Unrestricted investments						4,723,236
Restricted investments						4,032,520
Total						$ 8,755,756

Certain component units classified approximately $35.0 million of investments presented in the PRGITF as cash equivalents.

Custodial Credit Risk – The component units had approximately $251 million in various types of U.S. government and agency securities, mortgage-backed securities and other investments that were exposed to custodial credit risk as uninsured, unregistered, and held by the counterparties or by their trust departments or agents, but not in the component units' name.

Foreign Currency Risk – SIFC limits its exposure to foreign currency risk by limiting the total amount invested to 5% of the portfolio. As of June 30, 2013, the SIFC had the following investments denominated in foreign currency (expressed in thousands):

Description	Currency		Fair value
Common stock	Australian Dollar	$	4,983
	British Pound		7,150
	Canadian Dollar		1,669
	DKK		585
	Euro		12,080
	Hong Kong Dollar		1,359
	Japanese Yen		16,549
	Norwegian Krona		1,981
	Swiss Franc		6,356
	Swedish Krona		470
	Singapore Dollar		1,037
Preferred stock – government bonds:	Euro		1,402
Government bonds	Euro		3,488
Total		$	59,109

Subsequent Downgrades in Credit Ratings of Commonwealth's Bonds

As explained in note 22 during February 2014, several bonds of the Commonwealth and its instrumentalities were downgraded between one and two notches by the principal credit rating agencies in the United States. However, none of the downgrades went below the BBB- ratings under S&P standards, and most of the existing investments in the tables above were not affected, as in general terms, the investment policies of the Commonwealth require its agencies and instrumentalities to maintain their investment portfolios of debt securities with investment grade ratings. With over 99% and 77% of the investments at the primary government and component unit level, respectively, with credit ratings no lower than A- at June 30, 2013, overall average credit ratings on the entire investment portfolio have remained within the Commonwealth's required investment policies, even after the February 2014 downgrades.

(6) Securities Lending and Repurchase Agreement Transactions

During the year, the pension trust funds, included within the fiduciary funds; the Government Development Bank for Puerto Rico (GDB), the Economic Development Bank (EDB), and the State Insurance Fund Corporation (SIFC), discretely presented component units, entered into securities lending and securities sold with agreements to repurchase transactions. These transactions are explained below:

Pension Trust Funds

The Retirement System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit equal to approximately 102% of the fair value of the domestic securities on loan and 105% of the fair value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily, and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At year end, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes the borrowers (the collateral) exceeded the amounts the borrowers owe the Retirement System. At June 30, 2013, the collateral received represented 102% of the fair value of the domestic securities lent.

The securities on loan for which collateral was received as of June 30, 2013, consisted of the following (expressed in thousands):

Description	Fair value of underlying securities
U.S. government securities:	
U.S. Treasury bill	$ 1,000
U.S. Treasury notes	21,795
U.S. Treasury note strips	64,970
U.S. Treasury Inflaction-Proctected Securities (TIPS)	10,363
U.S. government sponsored`agencies notes:	
FHLB	7,749
FNMA	2,744
FHLMC	7,775
FFCB	1,024
U.S. corporate bonds and notes	47,681
Non U.S. corporate bonds and notes	2,861
U.S. corporate stock	244
Non U.S. corporate stock	2,467
Total	$ 170,673

The underlying collateral for these securities had a fair value of approximately $174.8 million as of June 30, 2013. The collateral received was invested in a short term investment fund sponsored by the custodian bank and is presented as collateral from securities lending transactions in the accompanying statement of fiduciary net position.

As of June 30, 2013, the distribution of the short-term investment fund by investment type is as follows expressed in thousands):

Investment type		Fair value of underlying securities
Securities bought under agreements to resell	$	172,831
Commercial paper		1,101
Certificates of deposit		901
Total	$	174,833

Under the terms of the securities lending agreement, the Retirement System is fully indemnified against failure of the borrowers to return the loaned securities (to the extent the collateral is inadequate to replace the loaned securities) or failure to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan. In addition, the Retirement System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

Component Units

GDB – The following is selected information concerning securities sold under agreements to repurchase (expressed in thousands):

Carrying amount at June 30, 2013	$	634,301
Maximum amount outstanding at any month-end		1,359,397
Average amount outstanding during the year		801,513
Weighted average interest rate for the year		0.54%
Weighted average interest rate at year-end		0.15%

The following summarizes the activity of securities sold under agreements to repurchase for the year ended June 30, 2013 (expressed in thousands):

		Beginning balance	Issuances	Maturities	Ending balance	Within one year
GDB Operating Fund	$	884,484	30,009,621	(30,259,804)	634,301	—

All sales of investments under agreements to repurchase are for fixed terms. In investing the proceeds of securities sold under agreements to repurchase, GDB's policy is for the term to maturity of investments to be on or before the maturity of the related repurchase agreements. At June 30, 2013, the total amount of securities sold under agreements to repurchase mature within one year.

EDB – EDB's investment policies, as authorized by Act number 22 of July 24, 1985, Article 3, allow management to sell securities under agreements to repurchase. The following table summarizes certain information on securities sold under agreements to repurchase (expressed in thousands):

Carrying amount at June 30, 2013	$	76,200
Average amount outstanding during the year		113,889
Maximum amount outstanding at any month-end		268,739
Weighted average interest rate for the year		1.42%
Weighted average interest rate at year-end		1.40%

As of June 30, 2013, securities sold under agreements to repurchase were collateralized with mortgage-backed securities, other government agencies securities, and other investments with a market value of $81.1 million.

The activity for securities sold under agreements to repurchase during 2013 was as follows (expressed in thousands):

		Beginning balance	Issuances	Maturities	Ending balance	Within one year
Securities sold under agreements to repurchase	$	123,925	610,079	(657,804)	76,200	—

SIFC – The Commonwealth statutes and the SIFC's board of directors' policies permit the SIFC to use its investments to enter into securities lending transactions, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, securities and/or irrevocable bank letter of credit. The SIFC's securities custodian, JP Morgan Chase Bank, N.A., as agent of the SIFC, manages the securities lending program and receives cash collateral, securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the SIFC unless the borrower defaults. The collateral requirement is equal to 102% for securities issued in the United States of America and 105% for securities issued outside of the United States of America, of the fair value of the securities lent. Additional collateral has to be provided by the next business day if it's fair value falls to less than 100% of the fair value of the securities lent. All security loans can be terminated on demand by either the SIFC or the borrower. In lending securities, the term to maturity of the securities loans is matched with the term to maturity of the investment of the cash collateral. Such matching existed at year-end. At year end, the SIFC has no credit risk exposure to borrowers because the amounts the SIFC owes the borrowers exceed the amounts the borrowers owe SIFC. Contracts with the lending agents require them to indemnify the SIFC if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the SIFC for income distributions by the securities' issuers while the securities are on loan.

Securities lent as of June 30, 2013 had a fair value of $231.6 million and were secured with collateral received with a fair value of $236.7 million. Securities lent for which cash was received as collateral as of June 30, 2013 consist of the following (expressed in thousands):

Description		Fair value of underlying securities
Corporate bonds and notes	$	34,648
Equity securities		44,783
U.S. sponsored agencies bonds and notes		6,561
U.S. Treasury notes and bonds		14,424
	$	100,416

Cash collateral received as of June 30, 2013 amounted to $102.7 million and was invested as follows (expressed in thousands):

Description		Fair value of underlying securities
Resell agreements	$	63,079
Commercial paper		13,106
Certificates of deposit with other banks		26,504
	$	102,689

In addition, the SIFC had the following lending obligations as of June 30, 2013 for which securities were received as collateral (expressed in thousands):

		Fair value	
Description		Securities lent	Investment collateral received
U.S. Treasury bonds and notes	$	120,154	122,672
U.S. Treasury bills		1,200	1,243
Corporate bonds and notes		2,949	3,114
U.S. sponsored agencies bonds and notes		6,833	6,985
	$	131,136	134,014

(7) Receivables and Payables

Governmental and Business – Type Activities

Receivables in the governmental funds include approximately $1.2 billion of accrued income, excise and sales and use taxes. Intergovernmental receivables include approximately $340.8 million from the federal government and $31 million from CRIM. In addition, the enterprise funds include $64.9 million of unemployment, disability, and drivers' insurance premium receivables; and approximately $35.0 million receivable from private citizens, member institutions and municipalities for patient services provided by the Puerto Rico Medical Services Administration. Payables in the governmental funds include approximately $1.2 billion of trade accounts due to suppliers for purchase of merchandise and services rendered, approximately $410 million of salary related benefits owed to eligible police agents for annual salary increases, awards and other monetary benefits granted to them through several laws dating back to 1954, approximately $206 million of excess of outstanding checks over bank balance and $1.2 billion of tax refunds payable.

In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue*, as amended (the TB), a receivable of $42.3 million was recorded as other receivable in the government-wide financial statements for estimated shipments from January 1 to June 30, 2013, which will be applied to debt service upon collection. Additionally, the TB indicated that the trust designated as the TSA (the Children's Trust in the case of the Commonwealth) should recognize a liability for the bonds payable and an expense (and liability if unpaid) in the same period in its stand-alone financial statements. The expense (and liability if unpaid) recognizes the contractual obligation to remit the proceeds of the bond sold to the settling government (the Commonwealth). Since the Children's Trust is reported as a blended component unit, the TB indicates these remittances should be reported as transfers into the fund receiving the proceeds and transfers out in the fund that accounts for the activities of the TSA. Since the Children's Trust has no contractual obligation, under its enabling legislation or elsewhere, to remit all bond proceeds or assets related to the TSA to the settling government (the Commonwealth), the Children's Trust has not recognized an expense and liability for unpaid proceeds from the bonds since it records the expense as amounts are disbursed as grants to its settling government (including its instrumentalities) or third parties.

Pension Trust Funds

Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. For the year ended June 30, 2013, the maximum amount of loans to plan members for mortgage loans was $100,000, and $5,000 for personal and cultural trip loans. During the years ended June 30, 2013 and 2012, personal loans with principal balances amounting to approximately $88.1 million and $225.0 million, respectively, were sold to two financial institutions. As per servicing agreement, the ERS will be in charge of the servicing, administration and collection of loans and outstanding principal balances at the end of the closing date for a servicing fee of 2%.

The allowance for adjustments and losses in realization is considered a general allowance for all categories of loans and interest receivable, except mortgage loans, and also a specific allowance for the special collection project loans balances.

As of June 30, 2013, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:		
Personal	$	790,473
Mortgage		307,026
Cultural trips		69,825
Total loans to plan members		1,167,324
Accrued interest receivable		39,681
Total loans and interest receivable from plan members		1,207,005
Less allowance for adjustments and losses in realization		(4,376)
Total loans and interest receivable from plan members – net	$	1,202,629

As of June 30, 2013, accounts receivable from employers, included within accounts receivable in the accompanying statement of fiduciary net position, consisted of the following (in thousands):

Early retirement programs	$	5,458
Special laws		42,749
Employer and employee contributions		71,383
Interest on late payments		11,443
Total accounts receivable from employers		131,033
Less allowance for doubtful accounts receivable		—
Accounts receivable from employers – net	$	131,033

According to Act No. 447, each employer must pay, on a monthly basis, the amounts corresponding to contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interests are charged as established by the Pension Trust Fund.

The Commonwealth and many of its instrumentalities, which are the employers as it relates to the ERS, have been facing significant fiscal and economic challenges. Further, in recent months, the rating downgrade and widening of credit spreads for Puerto Rico's public sector debt, including public corporations, has put further strain on liquidity and sources of funding of the employers. Consequently, most of the receivables from employers are delinquent past established payment dates and/or installment plan due dates. In other instances, amounts past due have continued to be renegotiated to later dates.

Although certain measures have been taken to improve the collection of such receivables, the timing of collections from employers affects the liquidity needs of the ERS. Although management is of the opinion that all amounts from employers are collectible, should any such amounts become uncollectible in the future, this situation could ultimately affect the payment of benefits to members or repayment of the ERS's bonds payable.

As of June 30, 2013, accounts receivable from employers include amounts due from PRMeSA of approximately $18.3 million, as follow (in thousands):

Employer and employee contributions	$	7,663
Interest		10,630
Total accounts receivable from PRMeSA	$	18,293

On November 1, 2011, the PRMeSA and ERS entered into a payment plan agreement (the Agreement) for the repayment of a debt amounting to approximately $15.3 million, at such date, corresponding to fiscal year 2010-2011. Beginning on November 15, 2011, the agreement calls for sixty (60) monthly installments of $255,677 bearing no interest. Default payments of less than one year in default will bear interest at 9%, and 12% for those in excess of one year.

Future minimum payments for the next for (4) years are as follows:

Year		Amount
2014	$	3,068,124
2015		3,068,124
2016		3,068,124
2017		1,022,707
Total	$	10,227,079

Component Units – GDB

Loans to the Commonwealth, its agencies, and instrumentalities amounted to approximately $6.9 billion or 48% of the GDB's total assets as of June 30, 2013. These loans are expected to be collected from appropriations proceeds from bond issuances of, or revenues generated by, the Commonwealth, and/or its agencies and instrumentalities. The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past thirteen years and its credit ratings have been lowered. In addition, many of the Commonwealth's agencies and instrumentalities have had losses from operations during the past years. The collectability of these loans may be affected by budgetary constraints, the fiscal situation, and the credit rating of the Commonwealth, its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges and/or bond issuances. Continuance of and/or significant negative changes in these factors may affect the ability of the Commonwealth and its agencies and instrumentalities to repay their outstanding loan balances with the GDB and accordingly, may have an adverse impact on GDB's financial condition, liquidity, funding sources, and results of operations.

GDB's management believes that no losses will be incurred by the GDB with respect to principal and interest on most of its loans to the public sector (including municipalities) and, as a result, no allowance for loan losses is generally established for them. For public sector loans, excluding municipalities, GDB's management bases its position in that in the past, the Director of the Commonwealth's Office of Management and Budget (OMB) has included in the budget of the Commonwealth appropriations to assist the Commonwealth and certain of its agencies and instrumentalities requiring financial support in repaying their loans with the GDB. The Legislature of the Commonwealth (the Legislature) has approved these appropriations, and such practice is anticipated to continue in the future, subject to the new provisions of Act No. 24 of 2014, described in note 15(a). In addition, management's position is based on the fact that the GDB has been able to collect most of the loans to such public sector entities with proceeds of bonds or notes issued by the Commonwealth or its agencies and instrumentalities, including bonds issued by COFINA. These public corporations and the Commonwealth have never defaulted on their respective bonds. The GDB has, in the past, collected the outstanding principal and interest at the contractual rate on loans repaid from Commonwealth's appropriations, or bond or note proceeds. Accordingly, no allowance has been established in the case of public sector loans for any shortfall between the present value of the expected future cash flows and the recorded investments in the loans.

Although management of the GDB believes that no losses of principal and interest will be incurred by the GDB with respect to most loans outstanding to the public sector at June 30, 2013, there can be no assurance that the Director of the OMB will include amounts for loan repayments in the Commonwealths' budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to the GDB by the Commonwealth or public sector entities requiring the Commonwealth's support, or that the proceeds from any future bond issuances by COFINA or certain public entities which have financed their capital improvement programs with the GDB, will be sufficient to cover the outstanding amount due to the GDB at June 30, 2013. In addition, the participation of certain public entities in the bond market has been delayed waiting for the credit rating of such entities to improve or for more favorable market conditions. Because of the relationship among the GDB, the public sector entities, the Director of the OMB, and the Legislature, the timing and amount of any financial assistance and bond proceeds to be used to repay certain public sector loans cannot be reasonably estimated by the GDB.

At June 30, 2013, loans to public corporations and agencies of the Commonwealth amounting to $6.9 billion are repayable from the following sources (in thousands):

		Amount
Repayment source:		
Proceeds from future bond issuances of public corporations	$	2,989,364
Operating revenues of public entities other than the Commonwealth		407,266
Legislative appropriations		3,475,032
Other		17,472
Total	$	6,889,134

Since one of GDB's principal functions is to provide financing to the Commonwealth and its instrumentalities, GDB's loan portfolio includes loans to various departments and agencies of the Commonwealth, to various public corporations, and to municipalities, which represent a significant portion of the GDB's assets. Loans to the Commonwealth and its departments and agencies typically include working capital lines of credit payable from short-term tax and revenue anticipation notes issued by the Commonwealth, interim financing of capital improvements payable from Commonwealth's general obligation bonds or revenue bonds issued by the corresponding agency and, in recent years, loans to finance the Commonwealth's budget deficit payable from COFINA, uncollected taxes and annual appropriations made by the Legislature of Puerto Rico.

At June 30, 2013, approximately $3.5 billion of the public sector loans are payable from legislative appropriations from, or future tax revenues of, the Commonwealth. Accordingly, the payment of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth. Significant negative changes in these factors may have an adverse impact on GDB's financial condition. Since 2000, the Commonwealth's recurring expenditures have exceeded its recurring revenues. These shortfalls were partially covered with loans from the GDB and other nonrecurring revenues. From fiscal year 2003 to 2008, the GDB granted loans to the Commonwealth aggregating to $1,964 million to cover part of the Commonwealth's deficit. As of June 30, 2013, the outstanding principal amount of these loans was $220.7 million.

During fiscal year 2013, the GDB received $65.1 million, $97.9, million and $62.4 million of appropriations to repay principal of and interest on public sector loans whose repayment source was originally from COFINA, from future issuances of Commonwealth's general obligations bonds, and other legislative appropriations, respectively. The Commonwealth's General Fund budget for fiscal year 2014 includes $65.7 million, $103.1 million, and $122.5 million of appropriations to repay principal of and interest on public sector loans whose repayment sources were originally from COFINA, from future issuances of Commonwealth's general obligations bonds, and other legislative appropriations, respectively. These appropriations are based on payment schedules proposed by the GDB, which are based on a period of amortization of 30 years each, at contractual interest rates. The GDB will annually submit to the OMB, to be included in the Commonwealth's budget for legislative approval in each subsequent fiscal year, an amount established in the payment schedules with the terms stated above. The GDB expects that future appropriations will be approved by the Legislature of the Commonwealth to comply with such schedules. However, there can be no assurance that the Director of the OMB will include an amount for loan repayments in the Commonwealth's budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to the GDB on these loans.

In addition, at June 30, 2013, approximately $3.4 billion of public sector loans are payable from proceeds from future bond issuances and operating income of public corporations of the Commonwealth. The GDB lends funds to such public corporations for capital improvements and operating needs. The loans for capital improvements generally are construction loans and are repaid from the proceeds of future bond issuances of the respective public corporations. Such loans may, however, also be repaid from the revenues of such public corporations, from loans provided by sources other than the GDB, from federal grants, and from the sale of assets of such public corporations. The amount of outstanding loans from the GDB to the public corporations fluctuates annually, depending upon the capital program needs of the public corporations, the timing and level of their capital expenditures, and their ability to gain access to the long-term capital markets. The participation of certain of these public entities in the bond market has been delayed waiting for the credit rating of such entities to improve or for more favorable market conditions.

As of June 30, 2013, the GDB has extended various credit facilities to the PRHTA for, among other, capital improvement programs, working capital, debt service and collateral posting requirements. The outstanding balance of such facilities amounts to approximately $2.0 billion, including accrued interest of $145 million, which represent 14% and 83%, of GDB's total assets and net position, respectively, at June 30, 2013.

The GDB, in its ordinary course of business, provides interim lines of credit to public corporations like the PRHTA. These lines of credit have historically been repaid from bond issuances of each public corporation, once they regain or have access to the capital markets.

PRHTA has reported net operating losses during each of the three fiscal years in the period ended June 30, 2013, and, as a result, the GDB has been partially financing its operations through credit facilities. In fiscal year 2010, the PRHTA entered into a fiscal oversight agreement with the GDB, whereby the GDB, among other things, imposes conditions on the extensions of credit to the PRHTA and continually monitors its finances. Refer to note 2 for further discussion on management plans to repay outstanding borrowings with the GDB.

During August 2013, the PRHTA issued the 2013A bond anticipation notes amounting to $400 million. The proceeds from the bond anticipation notes were used to pay outstanding loans held by the PRHTA with GDB. In addition to the above, subsequent to June 30, 2013, GDB disbursed and collected approximately $89 million and $69.5 million, respectively, related to loans of the PRHTA.

(8) Pledges of Receivables and Future Revenues

The Commonwealth has pledged the first two point seventy-five (2.75%) percent of the sales and use tax for the repayment of certain outstanding obligations of the Commonwealth. During 2013, COFINA, a blended component unit of the Commonwealth, responsible for the financing, payments and retirement of certain debt obligations of the Commonwealth, has issued bond anticipation notes for approximately $333.3 million payable on September 30, 2014. The Commonwealth has committed to appropriate each year, from the sales and use tax, amounts sufficient to cover the principal and interest requirements on the debt issued by COFINA. COFINA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured debt is $35.5 billion and $17.7 billion, respectively. The pledged sale and use tax base amount for the fiscal year ended June 30, 2013 amounted to approximately $619 million. For fiscal year 2013, interest paid by COFINA amounted approximately to $643 million and issuance costs of approximately $600 thousands on the aforementioned bond anticipation notes issued. Sales and use tax revenue recognized by the Commonwealth was approximately $543 million.

Rum manufactured in Puerto Rico is subject to federal excise taxes; however, these are returned by the U.S. Internal Revenue Service (IRS) to the Commonwealth. Act No. 44, as amended, requires that in each fiscal year through fiscal year 2057, the first $117 million, of certain federal excise taxes received by the Commonwealth be transferred to the Puerto Rico Infrastructure Financing Authority (PRIFA), a blended component unit of the Commonwealth. Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. Treasury and returned to the Commonwealth. The Commonwealth has pledged these taxes for the repayment of PRIFA's Special Tax Revenue Bonds (the Bonds). The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by PRIFA. PRIFA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. The federal excise taxes securing the Bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. The level of federal excise taxes to be received by the Commonwealth is currently expected to decrease, although the exact amount cannot be determined. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, Act No. 44 requires that PRIFA request and the Director of the Office of Management and Budget of the Commonwealth include in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Commonwealth's Legislature, however, is not obligated to make the necessary appropriation to cover such deficiency. Total principal and interest remaining on the secured debt is $2.5 billion and $1.3 billion, respectively. For the year ended June 30, 2013, of the total of $117 million received by PRIFA from the Commonwealth, a total of $113 million was pledged for the debt service of the Special Tax Revenue Bonds. For fiscal year 2013, principal and interest paid on Special Tax Revenue Bonds by PRIFA amounted to $112.1 million.

Also, the Commonwealth has pledged part of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes (up to $11 million monthly but no more than $120 million annually) derived from excise taxes over crude oil and its derivatives and $15 per vehicle per year from motor vehicle license fees for the repayment of the PRHTA Revenue Bonds. On June 25, 2013, as described in note 7, the Commonwealth enacted Act No. 31, amending the aforementioned gasoline excise tax rates and distributions, and eliminating the $120 million ceiling; therefore providing additional sources for the repayment of the debt issued by the PRHTA. The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by the PRHTA. The PRHTA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured debt is $4.6 billion and $4.3 billion, respectively. The pledged excise tax for the fiscal year ended June 30, 2013 amounted to $120 million. For fiscal year 2013, principal and interest paid by the PRHTA amounted to $185 million and $307 million, respectively, and the excise tax revenue recognized by the Commonwealth was $258 million.

(9) Interfund and Intraentity Transactions

Interfund receivables and payables at June 30, 2013 are summarized as follows (expressed in thousands):

Receivable Fund	Payable Fund		
Lotteries	General	$	5,328
Other governmental	General		41,770
Other proprietary	General		24,112
General	Other governmental		20,454
General	Unemployment		14,051
Puerto Rico Medical Service Administration	General		10,637
General	Other Proprietary		6,668
		$	123,020

Transfers from (to) other funds for the year ended June 30, 2013 are summarized as follows (expressed in thousands):

Transferee Fund	Transferor Fund		
Debt service (a)	General	$	728,869
Other governmental (b)	General		479,914
General (c)	COFINA Special Revenue		459,148
General (d)	Debt service		312,888
General (e)	Lotteries		211,426
COFINA Special Revenue (f)	COFINA Debt Service		117,655
General (g)	Unemployment Insurance		62,744
Puerto Rico Medical Services Administration (h)	General		47,370
General (i)	Other proprietary		22,915
Debt service (j)	Other governmental		17,011
Water Pollution Revolving Fund (k)	General		1,880
Other proprietary (l)	General		927
Other governmental	Debt service		200
		$	2,462,947

The principal purposes of the interfund transfers are to (expressed in thousands):

a. Transfer of $728,869 from the General Fund to the debt service fund to make funds available for debt service payments.

b. Recognize as transfers the rental payments made by the Commonwealth's agencies on properties leased by the PBA, a blended component unit of the Commonwealth ($205,063); transfer for these payments made by the Commonwealth's agencies on properties leased by the PRIFA, a blended component unit of the Commonwealth ($5,788); $107,687 related to the revenues received from the Tobacco Settlement Agreement managed by The Children's Trust, a blended component unit of the Commonwealth; $29,892 related to the SCPT for the payment of its debt and $131,484 to the PRIFA for the payment of debt and capital projects.

c. Transfer of $459,148 from the COFINA Special Revenue Fund to the General Fund to fund the General Fund for the payment of appropriation debt.

d. Transfer of $312,888 from the debt service fund to the General Fund for the payment of principal and interests on notes payable.

e. Transfer of $211,426 from the Lotteries to the General Fund to distribute the increase in net assets of the Lotteries for the use of the General Fund, as required by the Lotteries enabling legislation.

f. Transfer of $117,655 from the COFINA Debt Service Fund to the COFINA Special Revenue Fund to be transferred to the General Fund for the purpose stated below.

g. Transfer from the Unemployment Insurance Fund related to the distribution of surplus cash corresponding to the General Fund for the payment of administrative expenses ($62,744).

h. Transfer of $47,370 from the General Fund to Puerto Rico Medical Service Administration, a major proprietary fund, to make funds available for debt service payments, capital projects and operating expenses.

i. Transfer from the Drivers' and Disability Insurance Funds related to the distribution of surplus cash to the General Fund ($22,915).

j. Transfer from the Commonwealth's capital projects fund to the debt service fund for the payment of interest of its bonds ($17,011).

k. Transfer to provide local matching funds from the General Fund to the Puerto Rico Water Pollution Control Revolving Fund, a major enterprise fund of the Commonwealth ($1,880).

l. Transfer to provide local matching funds from the General Fund to the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, a nonmajor enterprise fund of the Commonwealth ($927).

Interfund receivables and payables represent the pending settlements of the aforementioned transfers or transactions from current and prior years.

Due from component units are as follows (expressed in thousands):

Payable Entity		Receivable Entity: General fund	Public Building Authority	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Puerto Rico Medical Services Administration	Total Due from Component Units
Puerto Rico Aqueduct and Sewer Authority	$	-	-	315,334	154,409	-	469,743
University of Puerto Rico		-	-	-	-	11,863	11,863
Puerto Rico Health Insurance Administration		7,239	-	-		-	-
Cardiovascular Center Corporation of Puerto Rico and the Caribbean		-	14,745	-		-	-
National Parks Company of Puerto Rico		13,322	-	-		-	-
Puerto Rico Land Administration		1,203	-	-	-	-	-
Puerto Rico Maritime Shipping Authority		1,150	-	-	-	-	-
Puerto Rico Metropolitan Bus Authority		12,621	-	-		-	-
Puerto Rico Ports Authority		25,804	-	-	-	-	-
Puerto Rico Tourism Company		8,337	-	-	-	-	-
Puerto Rico Trade and Export Company		2,859	-	-	-	-	-
Puerto Rico Industrial Development Company		7,737	-	-	-	-	-
Total due to	$	80,272	14,745	315,334	154,409	11,863	481,606

Due to component units primary government are as follows (expressed in thousands):

Receivable Entity		Payable Entity: General fund	Public Building Authority	Puerto Rico Medical Services Administration	Puerto Rico Infrastructure Financing Authority	Total Due to Component Units
Government Development Bank for Puerto Rico	$	97,154	-	-	-	97,154
Puerto Rico Electric Power Authority		60,495	7,919	12,405	2,163	82,982
Puerto Rico Aqueduct and Sewer Authority		47,597	-	7,900	-	55,497
University of Puerto Rico		29,750	-	18,846	1,210	49,806
Puerto Rico Health Insurance Administration		44,610	-	-	-	44,610
Agricultural Enterprises Development Administration		28,442	-	-	-	28,442
University of Puerto Rico Comprehensive Cancer Center		2,000	-	-	-	2,000
Land Authority of Puerto Rico		8,696	-	-	-	8,696
National Parks Company of Puerto Rico		8,805	-	-	-	8,805
Puerto Rico Metropolitan Bus Authority		1,023	-	-	-	1,023
Puerto Rico Ports Authority		16,500	-	-	-	16,500
Puerto Rico Tourism Company		2,315	-	-	-	2,315
Company for the Integral Development of the "Península de Cantera		30,733	-	-	-	30,733
Total due to	$	378,120	7,919	39,151	3,373	428,563

The amount owed by PRASA of approximately $470 million represents construction loans granted by the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, nonmajor enterprise funds, to finance the construction of capital assets for PRASA.

The amount presented as due from primary government by the University of Puerto Rico exclude approximately $11.9 million, which was recorded and presented by the Commonwealth as notes payable in the accompanying statement of net position of the governmental activities.

Due from (to) component units are as follows (expressed in thousands):

		Receivable Entity														
Payable Entity		Government Development Bank for Puerto Rico	Puerto Rico Aqueduct and Sewer Authority	Puerto Rico Electric Power Authority	Puerto Rico Highways and Transportation Authority	University of Puerto Rico	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Farm Insurance Corporation of Puerto Rico	Land Authority of Puerto Rico	Puerto Rico Convention Center District Authority	Puerto Rico Land Administration	Puerto Rico Metropolitan Bus Authority	Puerto Rico Ports Authority	State Insurance Fund Corporation	University of Puerto Rico Comprehensive Cancer Center	Total Due to Component Units
Puerto Rico Trade and Export Company	$			1,344												1,344
Puerto Rico Conservatory of Music Corporation		1,398														1,398
Institute of Puerto Rican Culture		3,276														3,276
State Insurance Fund Corporation				3,713												3,713
Farm Insurance Corporation of Puerto Rico									4,992							4,992
Puerto Rico Metropolitan Bus Authority				4,867										2,767		7,634
Puerto Rico Electric Power Authority		6,843	1,410													8,253
Economic Development Bank for Puerto Rico		9,422														9,422
Puerto Rico Tourism Company						5,771				4,178			1,515			11,464
National Parks Company of Puerto Rico		11,251		2,702												13,953
Cardiovascular Center Corporation of Puerto Rico and the Caribbean				18,950												18,950
Company for the Integral Development of the		30,715			1,173											31,888
University of Puerto Rico comprehensive Cancer Center		20,050				13,075										33,125
Puerto Rico and Municipal Islands Maritime Transport Authority			1,400	1,156									35,577	2,146		40,279
Land Authority of Puerto Rico		37,018		4,154												41,172
Solid Waste Authority		74,178		5,486										4,541		84,205
Puerto Rico Industrial Development Company		87,325									1,306					88,631
Agricultural Enterprises Development Administration		92,606						7,719	9,679							110,004
University of Puerto Rico		101,183	1,045	20,196			1,616								13,618	137,658
Puerto Rico Aqueduct and Sewer Authority		89,835		57,786												147,621
Puerto Rico Convention Center District Authority		146,773	1,294	3,437												151,504
Puerto Rico Health Insurance Administration		183,251														183,251
Port of the Americas Authority		220,392														220,392
Puerto Rico Ports Authority		215,389	5,626	31,573										2,686		255,274
Puerto Rico Highways and Transportation Authority		2,047,467	1,657	22,808								3,095	6,035			2,081,062
Total Due from Component Units	$	3,378,372	12,432	178,172	1,173	18,846	1,616	7,719	14,671	4,178	1,306	3,095	43,127	12,140	13,618	3,690,465

(Continued)

The amount due from component units presented by the GDB of $3,378,372 includes loan balances amounting to $3,376,035. The rest of the loans receivable reported by the GDB consists of the following (expressed in thousands):

Primary government – governmental activities	$	3,060,840
Primary government-business-type activities		273,344
Other governmental entities and municipalities		2,372,530
Private sector		537,475
Total loans receivable reported by GDB	$	6,244,189

The loans to the primary government are presented by the Commonwealth within notes payable in the statement of net position.

Expenses of the primary government include approximately $2.3 billion in capital and operational contributions made by the primary government to the component units as follows (expressed in thousands):

Puerto Rico Health Insurance Administration	$	887,725
University of Puerto Rico		834,208
Puerto Rico Highways and Transportation Authority		258,424
Puerto Rico Aqueduct and Sewer Authority		6,132
Nonmajor components units		276,245
Total contributions made by primary government to component units	$	2,262,734

(10) Capital Assets

Capital assets activity for the year ended June 30, 2013 is as follows (expressed in thousands):

Primary Government

	Beginning balance (as restated)	Increases	Decreases	Ending balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 899,224	12,405	1,881	909,748
Construction in progress	1,470,470	405,522	718,399	1,157,593
Total capital assets, not being depreciated	2,369,694	417,927	720,280	2,067,341
Buildings and building improvements	8,374,273	767,544	85,800	9,056,017
Equipment, furniture, fixtures, vehicles, and software	587,620	30,609	7,496	610,733
Infrastructure	605,846	—	—	605,846
Total capital assets, being depreciated and amortized	9,567,739	798,153	93,296	10,272,596
Less accumulated depreciation and amortization for:				
Buildings and building improvements	3,224,519	279,391	31,310	3,472,600
Equipment, furniture, fixtures, vehicles, and software	395,437	38,404	4,627	429,214
Infrastructure	143,881	12,539	—	156,420
Total accumulated depreciation and amortization	3,763,837	330,334	35,937	4,058,234
Total capital assets, being depreciated and amortized, net	5,803,902	467,819	57,359	6,214,362
Governmental activities capital assets, net	$ 8,173,596	885,746	777,639	8,281,703

As further discussed in note 3, the beginning balances of capital assets, and other balances, were restated primarily due to the impact of the adoption of GASB Statement No. 61.

	Beginning balance (as restated)	Increases	Decreases	Ending balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	6,872	—	—	6,872
Construction in progress	1,980	540	2,520	—
Total capital assets, not being depreciated	8,852	540	2,520	6,872
Building and building improvements	95,946	1,076	—	97,022
Equipment	87,163	5,542	3,615	89,090
Total capital assets being depreciated	183,109	6,618	3,615	186,112
Less accumulated depreciation and and amortization for:				
Building and building improvements	61,055	1,803	—	62,858
Equipment	70,201	3,941	3,221	70,921
Total accumulated depreciation and amortization	131,256	5,744	3,221	133,779
Total business-type activities capital assets, being depreciated, net	51,853	874	394	52,333
Total business-type activities capital assets, net	$ 60,705	1,414	2,914	59,205

Depreciation and amortization expense was charged to functions/programs of the primary government for the year ended June 30, 2013 as follows (expressed in thousands):

Governmental activities:	
General government	$ 96,064
Public safety	27,716
Health	7,706
Public housing and welfare	113,657
Education	67,321
Economic development	17,870
Total depreciation and amortization expense – governmental activities	$ 330,334

The Commonwealth annually performs an impairment analysis of its capital assets in accordance with the provisions of GASB Statement No.42. The current year's analysis identified no impairments to be recorded in the statement of activities for the year ended June 30, 2013.

General infrastructure assets include $427 million representing costs of assets transferred to the Department of Natural and Environmental Resources (DNER) of the Commonwealth in 1997 upon completion of the Cerrillos Dam and Reservoir and the Portugues-River and Bucana-River Projects (the Cerrillos Dam and Reservoir Project) by the United States (U.S.) Army Corps of Engineers. These infrastructure assets are reported within governmental activities and include dams, intake facilities, and similar items built for flood control, water supply, and recreational purposes. The depreciation is computed using the straight-line method over an estimated useful life of 50 years from the transfer date of the property. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, excluding those costs for items built for recreational purposes, amounting to $214 million. The Commonwealth's unpaid allocated share of these construction costs associated with the Cerrillos Dam and Reservoir Project amounted to $188 million, plus accrued interest of $43 million, at June 30, 2013. The Commonwealth also recorded a payable to the U.S. Army Corp of Engineers, amounting to approximately $14.6 million, for its estimated allocated share of the construction costs associated with the recreational part of the Cerrillos Damn and Reservoir Project, including accrued interest of approximately $4.0 million (see note 12(n)). On August 17, 2001, the Legislature of the Commonwealth approved Act No. 120, which requires the conditional transfer of the ownership of certain real properties under the name of the Department of Recreation and Sports (DRS) of the Commonwealth to the municipalities of the Commonwealth. Land and facilities have been transferred occasionally since the date of this Act at no cost to the municipalities. During the fiscal year ended June 30, 2013, no transfers were made to the municipalities under the provisions of this Act.

On February 24, 2012, PRIFA, a blended component unit, entered into an Assistance Agreement with the Puerto Rico Department of Justice (PRDOJ) and the GDB to acquire, refurbish and operate a property to be used for the relocation of the PRDOJ's main offices. In connection with the Assistance Agreement, the GDB provided a $35 million credit facility to PRIFA to undertake the acquisition and administration of this property and manage the initial phase of the rehabilitation and refurbishment of the property. On March 8, 2012, PRIFA acquired the property for approximately $27 million. The credit facility is payable solely from, and secured by the assignment of the PRDOJ lease agreement and any other existing and future lease agreement and by a mortgage lien on the property acquired.

PRIFA has also issued certain bonds and notes to finance the construction of certain capital projects for the benefit of PRASA, municipalities and other agencies and instrumentalities of the Commonwealth. The capital projects include the construction of infrastructure and buildings to be used in the operations of, and managed by, PRASA, the municipalities and other agencies in their respective operations. The capital projects, including the land acquired, are included as part of PRIFA's capital assets until construction is completed and the conditions for transfers to the ultimate beneficiaries are met. During the year ended June 30, 2013, PRIFA incurred approximately $6.9 million in construction costs for the benefit of other instrumentalities of the Commonwealth.

In October 2010, PRIFA entered into a memorandum of understanding with Puerto Rico Public-Private Partnerships Authority, Puerto Rico Public Buildings Authority, Puerto Rico Department of Education, Puerto Rico Department of Transportation and Public Works (DTOP, for its Spanish acronym), and the GDB for the administration of the Schools for the 21st Century Program (the 21st Century Program). Construction in process includes $222.5 million related to this program. The program consists of remodeling of over 100 schools throughout Puerto Rico. The estimated cost of the program at June 30, 2013 amounts to approximately $460 million. To finance the program, the PBA issued government facilities revenue bonds in the amount of $878 million during the fiscal year ended June 30, 2012 of which $237 million are deposited in construction funds at June 30, 2013.

PBA contracted the services of PRIFA to serve as construction manager. Under the contract, PRIFA is responsible for the management of the program including among others, the contracting general contractors and or subcontractors, inspection, supervision and acceptance of the remodeled schools and in certain cases provides maintenance to the schools. PRIFA billed the PBA the cost of the program plus an agreed upon administrative fee.

Certain of the schools under the program are property of the Department of Transportation and Public Works (DTOP), an agency of the Commonwealth. The Authority leased such schools from DTOP for a minimum rent of $10 per year. When the improvements of such schools are completed the Authority will bill rent to the Department of Education of the Commonwealth for the payment of the debt service of the bonds issued under the program.

Discretely Presented Component Units

Capital assets activity for discretely presented component units for the year ended June 30, 2013 is as follows (expressed in thousands):

	Balance (as restated)	Increases	Decreases	Ending balance
Capital assets not being depreciated/amortized:				
Land	$ 3,297,229	39,205	15,801	3,320,633
Art works	3,541	5	—	3,546
Construction in progress	3,674,510	1,284,377	1,780,128	3,178,759
Total capital assets not being depreciated/amortized	6,975,280	1,323,587	1,795,929	6,502,938
Capital assets being depreciated/amortized				
Buildings and building improvements	5,345,612	177,280	42,001	5,480,891
Equipment, furniture, fixtures, vehicles and software	10,945,428	344,544	71,296	11,218,676
Infrastructure	27,942,601	1,251,776	27,329	29,167,048
Intangibles, other than software	2,293	4,969	—	7,262
Total capital assets, being depreciated/amortized	44,235,934	1,778,569	140,626	45,873,877
Less accumulated depreciation/amortization for:				
Buildings and building improvements	2,336,415	154,469	37,406	2,453,478
Equipment, furniture, fixtures, vehicles and software	2,445,802	360,413	47,835	2,758,380
Infrastructure	16,038,174	707,042	33,236	16,711,980
Intangibles, other than software	923	57	—	980
Total accumulated depreciation/amortization	20,821,314	1,221,981	118,477	21,924,818
Total capital assets, being depreciated/amortized (net)	23,414,620	556,588	22,149	23,949,059
Capital assets (net)	$ 30,389,900	1,880,175	1,818,078	30,451,997

(11) Short-Term Obligations

Short term obligations at June 30, 2013 and changes for the year then ended are as follows (expressed in thousands):

		Balance at June 30, 2012	Debt issued	Debt paid	Other increases	Other (decreases)	Balance at June 30, 2013	Due within one year
Governmental activities:								
Notes payable to GDB	$	16,884	98,000	(150)	71,976	—	186,710	186,710
Tax revenue anticipation notes		—	900,000	(900,000)	—	—	—	—
Bond anticipation notes		75,835	185,672	(56,641)	—	—	204,866	204,866
	$	92,719	1,183,672	(956,791)	71,976	—	391,576	391,576

(a) *Notes Payable to the GDB*

The Commonwealth has entered into various short-term line of credit agreements with the GDB (all within governmental activities) consisting of the following at June 30, 2013 (expressed in thousands):

Agency	Purpose	Interest rate		Line of credit	Outstanding balance
Department of the Treasury	To pay operational expenses of agencies	150 bp over prime rate	$	98,000	98,000
Department of the Treasury	To pay agencies' debt	125 bp over 3 months LIBOR		100,000	71,976
Department of the Treasury	To fund information technology project	125 bp over GDB's commercial paper rate		44,868	14,174
Department of the Treasury	Purchase of mobile X-ray machines	125 bp over 3 months LIBOR		12,000	2,560
			$	254,868	186,710

Other increases include an increase of approximately $72.0 million in notes payable to the GDB-short term, which were classified as long term at June 30, 2012, but which matured during fiscal year 2013 became due and payable at June 30, 2013 and, consequently, is reported as a new short term debt matured and payable in the balance sheet – governmental funds. At the same time, upon such debt becoming matured and payable, a principal payment recognition was recorded for the same amount in the statement of revenue, expenditures and changes in fund balances (deficit)-governmental funds and presented within the debt paid column in the previous table reducing the long-term note payable to the GDB.

(b) ***Tax Revenue Anticipation Notes***

Act No. 1 of the Legislature of the Commonwealth, approved on June 26, 1987 (Act No. 1), authorizes the Secretary of the Department of the Treasury to issue, from time to time, notes in anticipation of taxes and revenues (Tax Revenue Anticipation Notes or TRANS) so that the Secretary, in the cash flow management program designed to maximize the use of moneys in the General Fund, will have an alternate means of providing a liquidity mechanism to cover any temporary cash shortages projected for a fiscal year. Act No. 139, approved on November 9, 2005, amended Section 2(g) of Act No. 1 to provide that the total principal amount of notes issued under the provisions of Act No. 1 and outstanding at any time for any fiscal year may not exceed the lesser of eighteen percent (18%) of the net revenues of the General Fund for the fiscal year preceding the fiscal year in which the notes are issued or one billion five hundred million dollars ($1.5 billion).

TRANS issued during fiscal year 2013 amounted to $900 million at interest rates ranging from 1.750% to 3.013%. TRANS proceeds were used to cover temporary cash deficiencies resulting from the timing differences between tax collections and the payments of current expenditures. TRANS were refinanced during the year in order to take advantage of interest rates. The maximum amount of TRANS outstanding at any time during the year was $900 million. As of June 30, 2013, the outstanding balance of TRANS was paid in full.

(c) ***Bond Anticipation Notes***

During fiscal year 2012, the Commonwealth was authorized to issue bond anticipation notes in an aggregate principal amount, not to exceed $290 million, in order to complete certain public improvement projects, acquire certain properties and equipment on behalf of some component units, and cover the cost and interest of the bonds expected to be issued, as described below. These notes were issued in anticipation of the issuance of public improvement bonds expected to be issued during fiscal year 2014. Although legal steps have been taken to refinance the anticipation notes with the bonds, since such bonds have not been issued as of the date of these basic financial statements, the related notes have been recognized as a short-term fund liability in the capital project fund. As of June 30, 2013, $204.9 million of bond anticipation notes were outstanding. From the outstanding balance, $61.9 million are payable to the GDB and $143 million are payable to others.

(12) Long-Term Obligations

(a) *Primary Government*

Long-term obligations at June 30, 2013 and changes for the year then ended are as follows (expressed in thousands):

	Balance at June 30, 2012 (as restated)	Debt issued	Debt paid	Other increases	Other (decreases)	Balance at June 30, 2013	Due within one year
Governmental activities:							
General obligation and revenue bonds	$ 35,139,420	333,300	(558,615)	380,884	(43,805)	35,251,184	827,410
Commonwealth appropriation bonds	536,517	—	—	2,975	(919)	538,573	—
Notes payable to component units:							
GDB	1,985,448	935,007	(108,241)	—	—	2,812,214	1,129,844
Other	30,993	—	(19,073)	—	—	11,920	6,920
Capital leases	182,605	259	(5,522)	—	—	177,342	5,523
Total bonds, notes, and and capital leases payable	37,874,983	1,268,566	(691,451)	383,859	(44,724)	38,791,233	1,969,697
Compensated absences	1,376,253	—	—	672,827	(518,762)	1,530,318	119,169
Net pension obligation	11,158,801	—	—	2,750,286	(836,422)	13,072,665	—
Net postemployment benefit obligation	215,244	—	—	189,481	(126,353)	278,372	—
Voluntary termination benefits payable	653,872	—	—	532,146	(91,577)	1,094,441	101,178
Other long-term liabilities	2,429,419	—	—	383,680	(716,427)	2,096,672	218,249
Total governmental activities	53,708,572	1,268,566	(691,451)	4,912,279	(2,334,265)	56,863,701	2,408,293
Business-type activities:							
Notes payable to GDB	264,434	9,988	(1,078)	—	—	273,344	1,078
Net postemployment benefit obligation	1,345	—	—	227	—	1,572	—
Compensated absences	17,589	—	—	408	—	17,997	2,194
Obligation for unpaid lottery prizes	191,586	—	—	554,254	(569,648)	176,192	49,489
Voluntary termination benefits	6,020	—	—	1,242	(870)	6,392	733
Claims liability for insurance benefits	72,994			390,283	(393,891)	69,386	69,386
Other long-term liabilities	23,178	—	—	1,987	(3,682)	21,483	8,907
Total business-type activities	577,146	9,988	(1,078)	948,401	(968,091)	566,366	131,787
Total primary government	$ 54,285,718	1,278,554	(692,529)	5,860,680	(3,302,356)	57,430,067	2,540,080

As further discussed in note 3, the beginning balance of long-term obligations and other balances were restated primarily due to the impact of the adoption of GASB statement No.61.

The principal balance of general obligation and revenue bonds paid reported as expenditures in the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds does not agree with amounts reported as debt paid in the table above because it includes principal paid on July 1, 2012 on general obligation and revenue bonds amounting to approximately $425 million, which was accrued at June 30, 2012 as a fund liability. Also, during fiscal year 2013 the amount of approximately $456.8 million of debt principal paid on July 1, 2013 was accrued as a fund liability at June 30, 2013, but not included as payments in the table above. The net effect of approximately $31.8 million is the difference between the principal paid on bonds, notes and capital leases payable included in the previous table and the principal shown as expenditures in the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds.

Approximately $1.8 million of the long-term liability to the U.S. Army Corps of Engineers, matured during 2013 and became due and payable, and is included as an addition to the other liabilities presented in the balance sheet-governmental funds. At the same time, upon such portion becoming matured and payable, a principal payment recognition was recorded for the same amount in the statement of revenue, expenditures and changes in fund balances (deficit)-governmental funds, but not included as debt paid in the table above. The remaining balance of the other increases (decreases) in bonds, notes and capital leases payable consists of capitalization of interest on capital appreciation bonds (increases); amortization of deferred losses, net on refundings (increases); amortization of premiums (decreases) and accretion of discounts (increases) on bonds. These adjustments did not require any source or use of cash.

Compensated absences, net pension obligation, net postemployment benefit obligation, voluntary termination benefits, other long-term liabilities, obligation for unpaid lottery prizes, and claims liability for insurance benefits reflect other increases resulting from accrual adjustments for 2013 to agree these obligations to their new estimated balances at June 30, 2013, and other decreases resulting from payments on these obligation made during 2013. These payments, as pertaining to the governmental activities, are not included as principal payments in the statement of revenue, expenditures and changes in fund balances (deficit)-governmental funds, but presented as expenses within their corresponding functions.

(b) ***Debt Limitation***

The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, Section 2, Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth shall not be issued if the amounts of the principal of and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenues raised under the provisions of Commonwealth legislation and deposited into the Treasury (hereinafter internal revenues) in the two fiscal years preceding the fiscal year of such proposed issuance. Section 2, Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. Internal revenues consist principally of income taxes, sales and use tax, property taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Commonwealth, and motor vehicle fuel taxes, crude oil and derivative products excise taxes and license fees, which are allocated to the PRHTA, a discrete component unit, are not included as revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service. In addition, the portion of sales and use tax allocated to COFINA is not included as internal revenues consistent with the legislation creating COFINA, which transfers ownership of such portion of the sales and use tax to COFINA and provides that such portion is not "available resources" under the constitutional provisions relating to the payment of debt service. At June 30, 2013, the Commonwealth is in compliance with the debt limitation requirement.

(c) ***Bonds Payable***

The Constitution of the Commonwealth provides that public debt will constitute a first claim on the available revenue of the Commonwealth. Public debt includes general obligations and revenue bonds of the Commonwealth and any payment required to be made by the Commonwealth under its guarantees of bonds issued by blended or discretely presented component units. The full faith, credit, and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal and interest of the general obligation bonds.

Act No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. The levy is made by Municipal Revenue Collection Center (known as CRIM, its Spanish acronym), a municipal corporation, not a component unit of the Commonwealth. CRIM is required to remit the 1.03% of property tax collected to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations and revenue bonds of the Commonwealth. During the year ended June 30, 2013, the total revenue and receivable reported by the Commonwealth amounted to approximately $102.8 million and $31.0 million, respectively, which are included in the debt service fund.

For financial reporting purposes, the outstanding amount of bonds represents the total principal to be repaid, plus unamortized premiums and interest accreted on capital appreciation bonds, less unaccreted discount and deferred refunding losses.

Bonds payable outstanding at June 30, 2013, including accreted interest on capital appreciation bonds, are as follows (expressed in thousands):

	General obligation bonds	Revenue bonds	Total
Term bonds payable through 2042; interest payable monthly or semiannually at rates varying from 0.13% to 6.50%	$ 5,200,588	8,229,077	13,429,665
Serial bonds payable through 2042; interest payable monthly or semiannually at rates varying from 0.13% to 6.75%	5,316,060	1,874,587	7,190,647
Fixed rate bonds payable through 2057; interest payable at rates varying from 3.38% to 6.50%	—	5,871,382	5,871,382
Capital appreciation bonds payable through 2056; no interest rate, yield ranging from 3.75% to 7.48%. (1)	174,630	4,895,143	5,069,773
Special Tax Revenue Bonds payable through 2046; interest payable or accreted semiannually at rates varying from 4% to 5.5%	—	1,840,793	1,840,793
Mental Health Infrastructure Revenue Bonds payable through 2038; interest payable semiannually at rates varying from 5.6% to 6.5%	—	37,800	37,800
The Children's Trust Fund tobacco settlement asset-backed bonds payable through 2057; interest payable or accreted semiannually at rates varying from 4.25% to 8.375%	—	1,399,632	1,399,632
Capital Fund Program Bonds, maturing in various dates payable through 2025; interest payable semiannually at rates varying from 2.00% to #	—	468,505	468,505
LIBOR-Based Adjustable Rate Bonds due on August 1, 2057; interest payable quarterly (1.11% at June 30, 2013)	—	136,000	136,000
Total	10,691,278	24,752,919	35,444,197
Unamortized premium (discount), net	108,255	70,752	179,007
Deferred refunding loss, net	(219,895)	(152,125)	(372,020)
Total bonds payable	$ 10,579,638	24,671,546	35,251,184

(1) Revenue bonds include $848 million capital appreciation bonds convertible to fixed rate interest bonds on August 1, 2016; August 1, 2019; and August 1, 2020.

As of June 30, 2013, debt service requirements for general obligation and revenue bonds outstanding, including accreted interest of capital appreciation bonds are as follows (expressed in thousands):

Year ending June 30		Principal	Interest	Interest subsidy (1)	Total
2014	$	827,410	1,508,040	3,835	2,339,285
2015		855,700	1,488,280	3,835	2,347,815
2016		573,035	1,461,016	3,835	2,037,886
2017		626,390	1,160,449	3,835	1,790,674
2018		560,770	1,451,088	3,835	2,015,693
2019 – 2023		3,380,895	7,100,061	19,173	10,500,129
2024 – 2028		4,423,987	6,294,777	19,173	10,737,937
2029 – 2033		6,470,427	5,407,279	19,173	11,896,879
2034 – 2038		7,863,775	3,692,688	19,173	11,575,636
2039 – 2043		10,728,650	1,712,620	16,297	12,457,567
2044 – 2048		7,300,615	381,127	—	7,681,742
2049 – 2053		5,808,191	313,365	—	6,121,556
2054 – 2058		14,104,333	274,535	—	14,378,868
Total		63,524,178	32,245,325	112,164	95,881,667
Less unaccreted interest		(28,079,981)			
Plus unamortized premium, net		179,007			
Less deferred refunding loss, net		(372,020)			
Total	$	35,251,184			

(1) Sales Tax Revenue Bonds, First Subordinate Series 2010D and 2010E were issued as Build America Bonds. COFINA will receive a subsidy payment from the federal government equal to 35% and 45%, respectively, of the amount of each interest payment. On June 24, 2013, the IRS sent notice that 8.7% of the subsidy payment on the Build America Bonds will be sequestered due to adjustments of the Federal Government budget.

The table that follows represents governmental activities debt service payments on certain general obligation and revenue variable-rate bonds and the net payments on associated hedging derivative instruments (see note 20) as of June 30, 2013. Although interest rates on variable rate debt and the current reference rates of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rates of hedging derivative instruments at June 30, 2013 will remain the same for their term.

Year ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Hedging Derivative Instruments, Net	Total
2014	$ —	5,854	16,093	21,947
2015	—	5,854	16,093	21,947
2016	—	5,854	16,093	21,947
2017	—	5,854	16,093	21,947
2018	—	5,854	16,093	21,947
2019-2023	360,340	16,639	53,264	430,243
2024-2028	17,370	7,813	29,206	54,389
2029-2033	12,470	7,699	26,199	46,368
2034-2038	—	7,684	25,772	33,456
2039-2043	—	7,684	25,772	33,456
2044-2048	—	7,684	25,772	33,456
2049-2053	—	7,684	25,772	33,456
2054-2058	136,000	6,915	23,196	166,111
Total	$ 526,180	99,072	315,418	940,670

COFINA's outstanding bonds are payable from amounts deposited in the Dedicated Sales Tax Fund in each fiscal year. The minimum amount to be deposited is the Pledged Sales Tax Base Amount, which for the fiscal year ended June 30, 2013, was $618,972,164. The Pledged Sales Tax Base Amount increases each fiscal year thereafter at a statutory rate of 4% up to $1,850,000,000. At June 30, 2013, the Pledged Sales Tax Base Amount, by year, is as follows (expressed in thousands):

Year ending June 30	Amount
2014	$ 643,731
2015	669,480
2016	696,260
2017	724,110
2018	753,074
2019-2023	4,242,049
2024-2028	5,161,101
2029-2033	6,279,269
2034-2038	7,639,690
2039-2043	9,050,807
2044-2048	9,250,000
2049-2053	9,250,000
2054-2058	9,250,000
Total	$ 63,609,571

On April 30, 2013, COFINA issued its Bond Anticipation Notes Series 2013A, amounting to approximately $333.3 million. The Series 2013A notes bear interest at 1.95% and mature on September 30, 2014. The proceeds from the issuance of the Series 2013A notes were used to complete the funding of the Commonwealth's operating deficit for fiscal year 2013. Although not a bond, for practical purposes the Commonwealth has included this bond anticipation note within the aforementioned debt service requirements table for general obligation and revenue bonds.

On August 1, 2008, Puerto Rico Housing Finance Authority (the Authority), a blended component unit of the GDB, issued Capital Fund Modernization Program Subordinate Bonds amounting to $384 million and Housing Revenue Bonds amounting to $100 million. The proceeds from the issuance on these bonds were mainly used to finance a loan (the Loan) to Vivienda Modernization 1, LLC (the LLC). The LLC will utilize moneys from the Loan for the purpose of financing a portion of the costs of the acquisition and modernization of various housing projects in the Commonwealth and paying certain transactional costs.

The LLC is a limited liability company created under the laws of the Commonwealth whose sole member is Vivienda Modernization Holdings 1, S.E. (the Sole Member or the Partnership), a civil partnership created under the laws of the Commonwealth and pursuant to a related Partnership Agreement. The Partnership was created on August 1, 2008 by the Department of Housing of the Commonwealth of Puerto Rico (DOH), in its capacity as the general partner (the General Partner) and Hudson SLP XL LLC, a Delaware limited liability company, as the Special Limited Partner (the Special Limited Partner) and Hudson Housing Tax Credit Fund XL LP, a Delaware limited partnership, as the Investment Partnership (the Investment Partnership); collectively with the Special Limited Partner, (the Limited Partners). The Partnership has been organized exclusively to be the sole member of the LLC, which entity has been formed to acquire, develop, rehabilitate, own, maintain and operate thirty three residential rental housing developments intended for rental to persons of low and moderate income. As part of these developments, LLC is intended to acquire a 99 year term Surface Right with respect to the related land and to acquire, develop, finance, rehabilitate, maintain, operate, lease and sell or otherwise dispose of each Apartment Complex, in order to obtain for the Partnership and its Partners statutory compliance, long-term appreciation, cash income, and tax benefits consisting, of tax credits and tax losses over the term hereof.

Profits, losses and tax credits are allocated in accordance with the Partnership Agreement. Profits and losses from operations and low-income housing tax credits in any year shall be allocated 99.98% to the Investment Partnership, 0.01% to the Special Limited Partner and 0.01% to the General Partner. As defined in the Partnership Agreement, certain transactions and occurrences warrant special allocations of profits and losses. All other losses shall be allocated to the extent allowable under Section 704(b) of the U.S. IRC.

Pursuant to the Partnership Agreement, the Limited Partners are required to provide capital contributions totaling approximately $235 million to the Partnership (Initial Projected Equity), subject to potential adjustment based on the amount of low-income housing credits ultimately allocated to the developments in addition to other potential occurrences as more fully explained in the Partnership Agreement. As of June 30, 2013, the Limited Partners have provided capital contributions totaling $126.6 million.

Pursuant to the Partnership Agreement, the General Partner is required to provide capital contributions totaling $10 million to the Partnership. Should the Partnership have not sufficient funds available to pay the outstanding balance of the developer fee thereof, as defined, the General Partner shall be required to provide additional capital contributions to the Partnership in an amount sufficient for the Partnership to pay such balance in full. The General Partner shall have no right or obligation to make any other capital contributions. As of June 30, 2013, the General Partner had provided no capital contributions. In addition, the DOH as general partner shall establish the Assurance Reserve

Fund at initial closing in the amount of the initial capital contribution less $4 million (plus any initial capital contribution with respect to the apartment complexes). Amounts in the Assurance Reserve Fund shall be used, (i) upon the request of the General Partner, subject to the consent of the Special Limited Partner, or (ii) upon the direction to the Special Limited Partner, to meet financial obligations of the General Partner, other than for excess development costs, as provided in the Partnership Agreement. As of June 30, 2013, such reserve was maintained in the Partnership. The amount owed to the DOH for the assurance reserve fund as of June 30, 2013, amounted to $16.6 million.

On August 7, 2008, Puerto Rico Public Housing Administration (PHA) and the LLC entered into a Regulatory and Operating Agreement (the Agreement). PHA and the LLC have determined that it would be desirable for the public housing rental development to undergo comprehensive modernization (e.g. new floors, electrical wiring, plumbing, windows, doors, roofs and accessibility features) or development, which modernization or development will be undertaken and operated by the LLC.

On August 7, 2008, the LLC and the DOH entered into a Purchase and Sales Agreement through which the LLC acquired the surface rights of a property (the Property) and the improvement erected on such property consisting of buildings and construction in progress with a net book value and cost of $45.9 million and $110 million, respectively, from the DOH under those certain deeds of Constitution of Surface Rights and Transfer of Improvements dated August 7, 2008, which will require the LLC to rehabilitate or construct on the Property four thousand one hundred thirty-two (4,132) residential rental units (the Units or collectively the Development) all of which will receive the benefit of operating subsidy and benefit of low income housing tax credit under Section 42 of the Internal Revenue Code of 1986, as amended. Eighty-four (84) of the units, all of which will be located at the Brisas de Cayey II site, are to be newly constructed. The remaining units will be modernized.

Also, on August 7, 2008, the DOH entered into a loan agreement with the LLC in the amount of $102.9 million for the acquisition of the 33 residential rental properties (the deferred purchase price note). The LLC shall make payments equal to the amount of net available capital contributions, as defined, for the preceding calendar quarter.

The terms of the deferred purchase price note are described as set forth below:

Commitment	$ 102,889,957
Interest rate	3.55%
Maturity date	Later of (i) funding of the last installment of the third capital contribution or (ii) August 7, 2013

The note shall be a full recourse liability of the LLC; however, none of the LLC’s members has personal liability. As of June 30, 2013, the principal balance outstanding on the deferred purchase price note was approximately $8.8 million and accrued interest was approximately $552 thousand. At the same time, based on the Purchase and Sale Agreement, PHA received approximately $92.4 million from the LLC, which was used to pay eligible project expenses incurred by PHA on an interim basis to minimize the expenditure of 2003 tax exempt bonds that were ineligible for inclusion in the credit transaction. In addition, PHA received approximately $18.1 million from the LLC for Capital Fund Bonds funds previously expensed by the PHA from June to July 2009.

PHA has entered into an Interagency Agreement dated August 7, 2008 with the DOH, in DOH's capacity as general partner of the Partnership, to delegate management and operational duties related to the Development to PHA as set forth in the Interagency Agreement. The LLC and PHA also intend that the units be developed, operated and managed so as to assure receipt by the LLC of the aforementioned economic and tax benefits to the full extent available to the LLC.

Additionally, on August 7, 2008, the LLC entered into a Master Developer Agreement with the DOH to perform services in connection with the development, rehabilitation, and modernization of certain housing projects (the Master Developer Agreement). Pursuant to the Master Developer Agreement, the DOH will earn a developer's fee in the amount of approximately $75 million for services performed and to be performed. Payment of the developer's fee shall be subject to the terms and conditions of Section 6(a) (i-iv) of the Master Developer Agreement. As of June 30, 2013, the LLC owed the DOH the amount of approximately $71.1 million.

Under the Partnership Agreement, projects which do not meet the final completion schedule or satisfy other completion, occupancy, rent attainment or tax-credit related requirements or other Investor Limited Partner conditions to capital contributions with respect to such projects as set forth in the Partnership Agreement may under certain conditions be required to be purchased by the DOH or its designee. In such case, the DOH or its designee would assume the portion of the Loan allocated to such project(s), including both moneys remaining to be disbursed and repayment obligations, and would become a new additional borrower under the loan agreement. The LLC would be released with respect to the amount of the Loan assumed. The DOH or its designee could also seek to obtain a limited partner (who might or might not be the original Investor Limited Partner) and tax credit equity contributions. Such transfer does not affect the obligation of the DOH to grant moneys to the Authority to fund the permanent loan. As a requirement of such purchase, the DOH or its designee is required to repay equity already contributed by the Investor Limited Partner, plus interest and a purchase premium.

The Commonwealth's bonds payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America, that require rebate to the federal government of excess investments earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2013.

(d) *Commonwealth Appropriation Bonds*

Over the years, the GDB, as fiscal agent and the bank for the Commonwealth, had extended lines of credit, advances, and loans to several agencies and component units of the Commonwealth in order to finance their capital improvement projects and to cover their operational deficits at the time. At different points in time, these loans were refunded through the issuance of Commonwealth appropriation bonds issued by the Puerto Rico Public Finance Corporation (PFC), a blended component unit of the GDB, which serves only as a conduit for the issuance of the bonds. The Commonwealth has recognized a mirror effect of these refundings by PFC over the years in its own debt in proportion to the portion of the Commonwealth's notes included in such PFC refundings. Also, during more recent years, COFINA, through the issuance of bonds, has been used to repay certain other loans and existing appropriation bonds. COFINA is a blended component unit of the Commonwealth created in 2007 with the capacity to issue bonds to repay or refund advances from the GDB, the appropriation bonds referred to above, and other debt obligations, collectively referred as the extra constitutional debt. There were no new activities of Commonwealth appropriation bonds during fiscal year 2013, other than the annual amortization of corresponding premiums and deferred refunding losses.

At June 30, 2013, the outstanding balance of the Commonwealth appropriation bonds pertaining to the primary government (i.e. excluding the balance pertaining to discretely presented component units), consists of the following obligations (expressed in thousands):

Act. No. 164 restructuring	$	420,405
Puerto Rico Maritime Shipping Authority (PRMSA)		118,168
Total Commonwealth appropriation bonds	$	538,573

Act No. 164 Restructuring – On December 17, 2001, Act No. 164 was approved, which authorized certain government agencies and discretely presented component units to refund approximately $2.4 billion of their outstanding obligations with the GDB, for which no repayment source existed, over a period not exceeding 30 years, and to be repaid with annual Commonwealth appropriations not to exceed $225 million. This refunding was originally executed with Commonwealth appropriation bonds through several Series issued by PFC during the period between December 2001 and June 2002. Subsequently, additional refundings (current and advance) and/or redemptions of Act No. 164 restructuring have been executed through PFC and COFINA bond issuances.

Approximately $420.4 million of the Commonwealth Appropriation bonds outstanding at June 30, 2013, belong to the primary government under Act No. 164, consisting of the Department of Health of the Commonwealth (health reform financing and other costs), the Department of the Treasury of the Commonwealth (originally the fiscal year 2001 deficit financing and the obligation assumed for defective tax liens), and the one attributed to PRIFA, which effective July 1, 2012 became a blended component unit of the Commonwealth pursuant the adoption of GASB No. 61, as previously described in note 1(b). The outstanding balance of Commonwealth Appropriation bonds related to Act No. 164, bears interest at rates ranging from 3.10% to 6.50%. Debt service requirements in future years are as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2014	$ —	22,443	22,443
2015	—	22,443	22,443
2016	25,684	21,779	47,463
2017	20,836	21,048	41,884
2018	21,554	20,254	41,808
2019 – 2023	121,535	86,436	207,971
2024 – 2028	113,679	64,856	178,535
2029 – 2033	132,947	8,647	141,594
Total	436,235	$ 267,906	704,141
Plus unamortized premium	4,016		
Less deferred refunding loss	(19,846)		
Total	$ 420,405		

Puerto Rico Maritime Shipping Authority (PRMSA) – A promissory note payable owed by PRMSA to the GDB was assumed by the Commonwealth in connection with the sale of the maritime operations of PRMSA. Commonwealth appropriation bonds, 2003 Series B and 2004 Series B were issued to refund this liability, which were refunded most recently in June 2012 with the issuance of PFC 2012 Series A bonds.

The bond balance bears interest at a variable rate ranging from 3.10% to 5.35%. Debt service requirements in future years are as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2014	$ —	6,837	6,837
2015	—	6,837	6,837
2016	—	6,837	6,837
2017	—	6,837	6,837
2018	—	6,837	6,837
2019 – 2023	—	34,186	34,186
2024 – 2028	83,384	19,524	102,908
2029 – 2032	48,310	8,185	56,495
Total	131,694	$ 96,080	227,774
Less deferred refunding loss	(13,526)		
Total	$ 118,168		

(e) *Advance Refunding, Defeased Bonds, and Refunding of Commonwealth Appropriation Bonds*

In prior years, the Commonwealth defeased certain general obligation and other bonds by placing the proceeds of the bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2013, approximately $676.9 million of bonds outstanding from prior years' advance refunding are considered defeased.

PBA has defeased certain revenue bonds in prior years by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debts. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the statement of net assets (deficit). As of June 30, 2013, approximately $619.1 million of PBA's bonds are considered defeased.

During prior years, COFINA issued certain refunding bonds, the proceeds of which were placed in an irrevocable trust to provide for all future debt service payments on the refunded COFINA Series 2009A and 2009B bonds. The outstanding balance of the advance refunded bonds was $91.2 million at June 30, 2013.

(f) *Notes Payable to Component Units and Others*

The Commonwealth financed certain long term liabilities through the GDB and other component units, mostly within governmental activities. The outstanding balance at June 30, 2013 on the financing provided by the GDB and other component units within governmental activities comprises the following (expressed in thousands):

GDB:		
Department of the Treasury	$	1,337,412
Special Communities Perpetual Trust		360,403
Office of Management and Budget		212,131
Public Buildings Authority		336,144
Department of Education		110,365
Department of Transportation and Public Works		82,611
Department of Agriculture		67,311
Correction Administration		55,338
Department of Justice		51,945
Department of Health		45,717
Puerto Rico Infrastructure Financing Authority		43,219
Police Department		33,012
Department of Housing		28,205
Office of the Superintendent of the Capitol		25,413
Puerto Rico Court Administration Office		13,102
Department of Recreation and Sports		9,596
Office of Veterans' Affairs		290
Notes payable to GDB	$	2,812,214

Other components units:		
Health facilities agreement payable to the UPR's Medical Sciences Campus	$	11,920
Notes payable to other component units	$	11,920

As of June 30, 2013, the Department of the Treasury of the Commonwealth has entered into various lines of credit agreements with the GDB amounting to approximately $2.5 billion for different purposes as presented in the following table. The purpose, interest rate, maturity date, and amount outstanding under each individual agreement at June 30, 2013 consist of the following (expressed in thousands):

Purpose	Interest rate	Maturity	Lines of credit	Outstanding balance
To pay certain monthly principal deposits required in connection with outstanding public with outstanding public improvement bonds and public improvement refunding bonds	150 bp over PRIME, but not less than 6%	June 30, 2042	$ 600,433	$ 600,433
To finance payroll and operational expenditures of the Commonwealth for fiscal year 2006	5.50%	June 30, 2036	741,000	220,725
Resources to meet appropriations in annual budget of the Commonwealth (fiscal year 2004) and federal programs expenditures	125 bp over 3 month LIBOR	June 30, 2018	640,000	143,951
To pay lawsuits against the Commonwealth and to assign $15.3 million to Labor Development Administration for operational expenses	6.00%	June 30, 2018	160,000	154,821
To finance capital improvements projects of agencies and municipalities	150 bp over GDB's commercial paper rate	June 30, 2019	130,000	87,065
To finance capital improvements of several governmental agencies	7.00%	June 30, 2018	105,000	71,732
Resources to cover the operational needs of the catastrophic disasters fund (fiscal year 2004) of the Puerto Rico Health Insurance Administration and the Department of the Family	125 bp over 3 month LIBOR	September 30, 2015	79,930	42,704
To pay invoices presented to the Treasury Department related to Act No.171 "Ley de Manejo de Neumátuicos"	6.00%	June 30, 2019	22,100	8,539
Acquisition of Salinas Correctional Facilities	125 bp over 3 month LIBOR	June 30, 2018	15,000	7,442
Total			$ 2,493,463	1,337,412

On November 21, 2002, Resolution No. 1028 from the Legislature of the Commonwealth authorized the GDB to provide a line of credit financing for $500 million to the Special Communities Perpetual Trust for the construction and rehabilitation of housing; construction and improvements of electric, water and sewage systems; repair and improvements 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 a selected group of displaced and economically disadvantaged communities, all encompassed within the Special Communities Program initiated with the creation of the Special Communities Perpetual Trust by Act No. 271 of November 21, 2002. This non-revolving line of credit, originally for a ten year term, was extended on June 30, 2012 to a maturity date of June 30, 2040. Effective October 2009, the interest rate on this line was set at 7%. Annual payments on the line are determined using a 30-year amortization table based on the principal and interest balance as of December 31 of each year, and a 4% interest penalty is carried on late payments. Legislative Resolution No. 1762 of September 18, 2004 established that the principal plus accrued interest of this line would be repaid from Commonwealth's appropriations as established by the OMB. The outstanding balance of this line at June 30, 2013 amounted to $360.4 million.

On May 23, 2012, the Office of Management and Budget of the Commonwealth (OMB) entered into a $100 million line of credit agreement with the GDB to cover costs of the implementation of the third phase of Act No. 70 of 2010. Borrowings under this line of credit bear interest at prime rate plus 1.50% with a floor of 6%. The line of credit matures on July 31, 2027. As of June 30, 2013, $65.1 million were outstanding. On June 5, 2006, the Office of Management and Budget entered into a $150 million line of credit agreement with the GDB to provide economic assistance for disasters and emergencies. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and were payable upon the original maturity of the line of credit on September 30, 2011. On July 22, 2011, the Office of Management and Budget and the GDB amended the $150 million line of credit agreement to extend its maturity date to July 30, 2022. In addition, the agreement was converted to a revolving line of credit bearing interest at 150 basis points over prime rate, but in no event shall such rate be less than 6% per annum. As of June 30, 2013, approximately $147.1 million were outstanding.

During July 2012, the PBA executed two Loan Agreements with the GDB in which the PBA may borrow up to $174.7 million. Borrowings under this agreement are to be used to provide financing for all or a portion of the interest and principal component of certain of its outstanding revenue and revenue refunding bonds coming after 12 months after the date of the line first draw. The agreement is due on December 2013. Interest on outstanding borrowings is charged at the cost of the GDB Lender cost plus 150 basis points, but in any event the rate will not be less than 6% at any time (6% at June 30, 2013). This loan was approved in accordance with Resolution 1684 adopted July 2012. Principal outstanding will be paid from the proceeds of revenue bonds to be issued by the PBA under Section 209 of Resolution 468, Resolution 158 and Resolution 77. At June 30, 2013, the PBA had a balance outstanding of approximately $174.7 million. On August 18, 2010, the GDB provided to the PBA a non-revolving credit facility in the maximum principal amount of $93.6 million bearing interest at a fluctuating annual rate equal to Prime plus 1.50%, provided that such interest shall not be less than 6%, or at such other rate determined by the GDB. The proceeds of the facility were used for construction projects development. The loan is due on June 30, 2014 and will be payable from the proceeds of future revenue refunding bond issuance of the PBA. As of June 30, 2013, $41.3 million were outstanding. The PBA also maintains a $75 million line of credit agreement with the GDB for payment of operational expenses. Borrowings under this line of credit agreement bear interest at a fixed rate of 7%, and are payable upon maturity on June 30, 2018. As of June 30, 2013, $67.2 million were outstanding. In addition, on May 2, 2008, the PBA executed two Loan Agreements with the GDB for the interim financing of its Capital Improvement Program in an amount not to exceed $226 million, bearing interest at 6%. The loans and the accrued interest are due on June 30, 2014 and will be repaid from the proceeds of the future revenue refunding bond issuance of the PBA. The loans are divided into $209 million on a tax exempt basis and $16.9 million on a taxable basis. As of June 30, 2013, $52.9 million were outstanding.

On February 6, 2003, the Department of Education of the Commonwealth entered into a $25 million line of credit agreement with the GDB for the purchase of equipment and for school improvements. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR, and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, $4.8 million was outstanding. On August 4, 2002, the Department of Education of the Commonwealth entered into an additional $140 million line of credit agreement with the GDB in order to reimburse the Department of the Treasury of the Commonwealth for payments made on their behalf for state funds used to fund federal program expenditures. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, $105.6 million still remains outstanding related to this line of credit agreement. The line of credit is expected to be repaid upon collection of the federal grants.

The Department of Transportation and Public Works of the Commonwealth entered into four line of credit agreements with the GDB amounting to $118 million for improvement and maintenance of roads around the island. Borrowings under these lines of credit bear interest at a 7% rate and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2013, $82.6 million was outstanding.

On August 9, 1999, the Department of Agriculture of the Commonwealth entered into a $125 million non-revolving line of credit agreement with the GDB to provide economic assistance to the agricultural sector, which sustained severe damages caused by Hurricane Georges in 1998. As of February 24, 2004, the line of credit increased by $50 million resulting in a total amount of $175 million. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, $67.3 million were outstanding.

On October 2, 2002, the Department of Justice of the Commonwealth entered into a $90 million line of credit agreement with the GDB for the financing of 12 public improvement projects for the Municipality of Ponce pursuant to a court order. Borrowings under this line of credit agreement bear interest at variable rates and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, $18.4 million related to this line of credit agreement were outstanding. On August 8, 2005, the Department of Justice of the Commonwealth entered into an amended agreement to increase the aforementioned line of credit from $90 million to $110 million to cover various additional projects in Ponce, pursuant to the same court order. Borrowings under the new amended line of credit agreement bear interest at 7% rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, the balance outstanding under this amended line of credit agreement amounted to $33.5 million.

In August 2003, the Department of Health of the Commonwealth entered into a $30 million line of credit agreement with the GDB in order to repay certain outstanding debts that the PRMeSA had with other agencies and suppliers. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2013, $22.1 million related to this line of credit agreement were outstanding. On November 8, 2004, the Department of Health entered into an additional $58.5 million line of credit agreement with the GDB for the financing of a project of the Department of Health and PRMeSA. Borrowings under this line of credit agreement bear interest at variable rates based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on October 31, 2014. As of June 30, 2013, the outstanding balance of this line of credit agreement amounted to $20.1 million. On February 14, 2008, the Department of Health also entered into an additional $8 million line of credit agreement with the GDB to cover costs of treatment, diagnosis and supplementary expenses during fiscal year 2008 in conformity with Act 150. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and are payable upon maturity of the line of credit on June 30, 2040. As of June 30, 2013, the outstanding balance of this line of credit agreement amounted to $3.5 million.

On February 18, 2005, PRIFA entered into a $40 million credit agreement with the GDB for the construction of an auditorium for the Luis A. Ferré Fine Arts Center. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon maturity of the loan agreement on June 30, 2018. Principal and interest payments are being paid from Commonwealth's appropriations. As of June 30, 2013, $4.5 million related to this credit agreement were outstanding. On June 1, 2009, PRIFA entered into an additional revolving line of credit agreement with the GDB to provide financing for costs incurred by PRIFA under certain American Recovery and Reinvestment Act Programs (the ARRA programs). Borrowings under this line of credit agreement bear interest at variable rates based on 150 basis points over the prime rate and are payable upon the maturity of the line of credit on January 31, 2014. This line is being repaid from the cost reimbursements received from the federal government under the ARRA programs and Commonwealth's appropriations. As of June 30, 2013, the outstanding balance of this line of credit agreement amounted to $6.6 million. On March 8, 2012, PRIFA also entered into an additional $35 million line of credit agreement with the GDB for the acquisition, refurbishments and maintenance of certain real estate property that will be subsequently leased to the Commonwealth's Department of Justice. This credit facility is secured by a mortgage lien on the property and is payable from future Commonwealth's appropriations. Currently, the property is under refurbishment and has not been occupied by the intended tenant. This line of credit matures on June 30, 2017 and bears interest at 150 basis points over the prime rate, with a minimum interest rate of 6%. As of June 30, 2013, the outstanding balance of this line of credit agreement amounted to $32.1 million.

On July 29, 2004, the Police Department of the Commonwealth entered into a $48 million line of credit agreement with the GDB for the acquisition of vehicles and high technology equipment. Borrowings under this line of credit agreement bear interest based on the All Inclusive Total Interest Cost of the Medium Term Notes, Series B, plus a markup of 1.25% and are payable upon the maturity of the line of credit on September 30, 2014. The outstanding balance of this line of credit agreement amounted to $33 million at June 30, 2013.

On March 8, 2007, the Department of Housing entered into a $19 million line of credit agreement with the GDB, to reimburse the Puerto Rico Housing Financing Authority, a blended component unit of the GDB for certain advances made for the Santurce Revitalization Project. Borrowings under this line of credit agreement bear interest at a variable rate of three month LIBOR plus 1.25%, not to exceed 4% and are payable upon maturity of the line of credit on June 30, 2040. As of June 30, 2013, the line of credit has an outstanding balance of $8.1 million. On December 3, 2007, the Department of Housing entered into an additional $30 million line of credit agreement with the GDB for the purchase of Juan C. Cordero Dávila building. Borrowings under this line of credit agreement bear interest based on 75 basis points over three month LIBOR and are payable upon maturity of the line of credit on February 28, 2038. As of June 30, 2013, $20.1 million related to this line of credit agreement were outstanding.

On May 12, 2004, the Correction Administration of the Commonwealth entered into a $60 million line of credit agreement with the GDB for improvements to certain correctional facilities. Borrowings under this line of credit agreement bear interest at a fixed 7% rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, $12.1 million were outstanding. In addition, on November 24, 2010, Correction Administration of the Commonwealth entered into an $80 million line of credit agreement with the GDB for the construction of a new correctional medical center. Borrowings under this line of credit agreement bear interest at a rate per annum equal to Prime Rate as such rate shall change from time to time, plus 150 basis points, effective as of each change in the Prime Rate, but in no event shall such rate be less than 6% per annum nor greater than 12% per annum and were payable originally upon the maturity of the line of credit on January 31, 2013. During fiscal year 2013, the maturity of this line of credit was extended until June 30, 2040. As of June 30, 2013, $43.2 million were outstanding.

On February 15, 2002, the Office of the Superintendent of the Capitol entered into a $35 million line of credit agreement with the GDB for the Office of the Superintendent of the Capitol parking's construction. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, $16.1 million remained outstanding from the line of credit agreement. On February 9, 2012, the Office of the Superintendent of the Capitol entered into an additional $15 million line of credit agreement with the GDB for permanent improvements of existing buildings. Borrowings under this line of credit agreement bear interest at 150 basis points over Prime Rate and shall not be less than 6% nor greater than 12% per annum and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2013, $9.3 million were outstanding.

On May 7, 2001, the Puerto Rico Court Administration Office (the Office) entered into a $49.4 million non-revolving line of credit agreement with the GDB for operating purposes. Borrowings under this line of credit agreement bear interest at a variable rate of three month LIBOR plus 1%, not to exceed 8%. The Office must deposit $6 million a year, from the total fees collected on the filing of civil cases, in a special fund created by the Department of the Treasury of the Commonwealth, which is pledged for repayment until July 31, 2015. As of June 30, 2013, approximately $13.1 million remains outstanding.

On January 18, 2005, the Department of Recreation and Sports of the Commonwealth (DRS) entered into a $17.2 million line of credit agreement with the GDB for the development of a series of recreational projects at different municipalities. Borrowings under this line of credit agreement bear interest based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, $0.5 million were outstanding. Also, on February 9, 2004, the DRS entered into a $16 million line of credit agreement with the GDB for the development and improvement of recreational facilities. Borrowings under this line of credit agreement bear interest on the unpaid principal amount of each advance at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, $0.5 million were outstanding. An additional line of credit agreement was entered into between the GDB and the DRS in the maximum principal amount of $17.6 million bearing interest on the unpaid principal amount of each advance at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. The line of credit proceeds were used for development and improvement of recreational facilities. As of June 30, 2013, $8.6 million were outstanding.

On February 14, 2012, the Office of Veterans' Affairs entered into a $7.5 million line of credit agreement with the GDB for betterments to the Veterans' House in Juana Diaz and for phase I of the Veterans' Graveyard Construction. Borrowings under this line of credit agreement bear interest at a rate that will not be less than 6% nor greater than 12% per annum and are payable upon maturity of the line of credit on March 31, 2015. As of June 30, 2013, $290 thousand were outstanding.

As of July 1, 1999, debts of approximately $102 million payable to UPR, a discretely presented component unit, in relation to outstanding noninterest bearing debt accumulated in prior years by Health Facility and Services Administration (HFSA) were transferred to the Commonwealth. On September 7, 2004, additional debts of approximately $71.2 million were also restructured and combined with the previous financing arrangement. As of June 30, 2013, $1.9 million remains outstanding of this arrangement. The Commonwealth has also agreed to pay the UPR $20 million related to Commonwealth legislative scholarships for fiscal years 2008 and 2009, which are payable in annual installments of $5 million. As of June 30, 2013, $10 million remains outstanding. Future amounts required to pay principal balances at June 30, 2013 are expected to be as follows (expressed in thousands):

Year ending June 30:		
2014	$	6,920
2015		5,000
Total	$	11,920

The noninterest bearing note payable to PREPA, a discretely presented component unit, consisted of a fuel adjustment subsidy due by the Commonwealth and the refinancing during 2004 of other accumulated debt by the Commonwealth's agencies with PREPA. The outstanding balance of $6.3 million existing at June 30, 2012 was fully repaid during fiscal year 2013.

The Commonwealth has also financed a long term liability through the GDB within its business type activities, with a line of credit agreement to Puerto Rico Medical Services Administration (PRMeSA), a component unit that became blended effective July 1, 2012. On October 14, 2010, the Legislature of the Commonwealth approved a new article 9A to Act No. 66 of June 22, 1978, by which it authorized PRMeSA to incur on an obligation of up to $285 million to be deposited in a special GDB account and to be used for payment of debts to suppliers, agencies and a reserve fund for self-insurance of PRMeSA, and to provide operational liquidity to ease PRMSA's fiscal situation. The GDB was named fiscal agent to administer and monitor the use of these funds. The Commonwealth will honor the payment of this obligation with appropriations to be made every year until fiscal year 2023-2024. Borrowings under this line of credit agreement bear interest at variable rates based on 150 basis points over the prime rate. As of June 30, 2013, $273.3 million were outstanding.

With the exception of a few lines of credit having a defined source of repayment, the remaining lines of credit described above used Commonwealth appropriations as the source of repayment until June 30, 2007. Beginning in fiscal year 2008, these lines of credit were repaid or refunded with a combination of Commonwealth appropriations and COFINA under the mechanism described in note 12(d).

(g) ***Compensated Absences***

Long term liabilities include approximately $1.5 billion and $18.0 million of accrued compensated absences recorded as governmental and business type activities, respectively, at June 30, 2013.

(h) ***Net Pension Obligation***

The amount reported as net pension obligation in the governmental activities of approximately $13.1 billion at June 30, 2013, represents the cumulative amount owed by the Commonwealth for the unfunded prior years' actuarially required pension contributions to the ERS, JRS, and TRS (collectively known as the pension plans) (see note 17).

(i) ***Net Postemployment Benefit Obligation***

The amount reported as net postemployment benefit obligation in the governmental activities and business-type activities of approximately $278.3 million and $1.6 million, respectively, at June 30, 2013 represents the cumulative amount owed by the Commonwealth for the unfunded prior years' actuarially required other postemployment benefit contributions to the ERS MIPC, JRS MIPC, and TRS MIPC (see note 18) in the case of governmental activities and to other postemployment plans in the case of business-type activities.

(j) ***Unpaid Lottery Prizes***

The amount reported as unpaid lottery prizes represents the lottery prizes payable of the Lottery of Puerto Rico (commonly known as Traditional Lottery) and the Additional Lottery System (commonly known as Lotto) jointly known as the Lottery Systems at June 30, 2013. The minimum annual payments related to unpaid awards of both lotteries are as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2014	$	49,489	10,132	59,621
2015		19,583	9,950	29,533
2016		17,398	10,034	27,432
2017		15,359	9,927	25,286
2018		13,245	9,457	22,702
2019 – 2023		41,067	35,784	76,851
2024 – 2028		16,385	16,040	32,425
2029 – 2032		3,666	3,001	6,667
Total	$	176,192	104,325	280,517

The minimum annual payments related to unpaid awards of Lotto include an unclaimed prizes liability of approximately $13.6 million at June 30, 2013, which is reported as prizes payable – current portion.

The liability for unpaid lottery prizes is reported in the accompanying statement of net position – business – type activities and statement of net position – proprietary funds.

(k) ***Claims Liability for Insurance Benefits***

The Commonwealth provides unemployment compensation, occupational disability, and drivers' insurance coverage to public and private employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth. These insurance programs cover workers against unemployment, temporary disability, or death because of work or employment related accidents or because of illness suffered as consequence of their employment.

		Unemployment		Other proprietary funds		Totals	
		2013	2012	2013	2012	2013	2012
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$	72,161	85,784	833	554	72,994	86,338
Total incurred benefits		387,336	486,340	3,229	4,037	390,565	490,377
Total benefit payments		(390,932)	(499,963)	(3,241)	(3,758)	(394,173)	(503,721)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$	68,565	72,161	821	833	69,386	72,994

The Commonwealth establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. Insurance benefit claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The liability for insurance benefits claims is reported as insurance benefits payable in the accompanying statement of net position business type activities – and statement of net position proprietary funds. The liability as of June 30, 2013, amounts to approximately $69.4 million.

(l) ***Obligations under Capital Lease Arrangements***

The Commonwealth is obligated under capital leases with third parties that expire through 2038 for land, buildings, and equipment.

The present value of future minimum capital lease payments at June 30, 2013 reported in the accompanying government-wide statement of net position is as follows (expressed in thousands):

Year ending June 30:		
2014	$	19,487
2015		19,257
2016		19,202
2017		19,114
2018		18,106
2019 – 2023		85,707
2024 – 2028		85,707
2029 – 2033		65,346
2034 – 2038		17,262
Total future minimum lease payments		349,188
Less amount representing interest costs		(171,846)
Present value of minimum lease payments	$	177,342

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2013, include the following (expressed in thousands):

Land	$	7,960
Buildings		254,886
Equipment		4,215
Subtotal		267,061
Less accumulated amortization		(63,890)
Total	$	203,171

Amortization charge applicable to capital leases and included within depreciation expense of capital assets amounted to $6.5 million in 2013.

(m) ***Termination Benefits Payable***

Voluntary Termination Benefits – On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides early retirement benefits or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 applies to agencies and component units whose budgets are funded in whole or in part by the General Fund.

Act No. 70 established that early retirement benefits (early retirement program) will be provided to eligible employees that have completed between 15 to 29 years of credited services in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. Pursuant to Act No. 70, the Commonwealth, as employer, will continue making the applicable employer contributions to the Retirement System, as well as covering the annuity payments to the employees opting for the early retirement, until both the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System (incentivized resignation program) or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement (incentivized retirement program). Economic incentives will consist of a lump sum payment ranging from one month to six month salary based on employment years.

Additionally, eligible employees that choose to participate in the early retirement program or in the incentivized resignation program are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth.

In addition, Act No. 70 allows certain component units of the Commonwealth that operate with their own resources to implement a similar program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. The benefits and the requirements are the same provided by Act No. 70, except as follows: in the early retirement benefit program, the component unit will make the employee and the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System; and in the incentivized retirement program, the component unit will make the employee and the employer contributions to the Retirement System for a five year period.

The following table summarized the financial impact resulting from the benefits granted to participants of Act No. 70 and similar programs in the government wide financial statements as of and for the year ended June 30, 2013 (expressed in thousands):

		Primary government			
Accrued voluntary termination		**Governmental activities**	**Business-type activities**	**Totals primary government**	**Component units**
Benefits as of June 30, 2013:					
Current liabilities	$	101,178	733	101,911	11,765
Noncurrent liabilities		993,263	5,659	998,922	223,853
Total	$	1,094,441	6,392	1,100,833	235,618
Expenses for the year ended June 30, 2013	$	532,146	1,242	533,388	39,470

At June 30, 2013, unpaid long term benefits granted on Act No. 70 were discounted at interest rates that ranged from 0.80% to 2.90% at the primary government level and from 0.30% to 3.37% at the component units level.

By Act No. 70, the General Fund of the Commonwealth must appropriate on an annual basis funds necessary to cover the annual payments of Act No. 70 on certain components units. Discounted termination benefits payable of these component units amounted to approximately $85 million as of June 30, 2013.

(n) *Other Long Term Liabilities*

The remaining long term liabilities of governmental activities at June 30, 2013 include (expressed in thousands):

Liability for legal claims and judgments (note 16)	$	1,639,698
Liability to U.S. Army Corps of Engineers (note 10)		202,657
Accrued Employees' Christmas bonus		132,456
Liability for federal cost disallowances (note 16)		68,252
Liability to the Puerto Rico System of Annuities and Pensions for Teachers		21,528
Other		32,081
Total	$	2,096,672

As described in note 10, the Commonwealth has a debt obligation with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, amounting to $214 million, excluding those costs for items built for recreational purposes. The unpaid allocated share of these construction costs amounted to $188 million, plus accrued interest of $43 million, at June 30, 2013 and it is payable on annual installment payments. The expected maturity date of this debt obligation is June 5, 2046. Due payments of principal and interest on this debt obligation, including late fees, amounted to $5 million and $43 million, respectively, at June 30, 2013 and were recorded in the accompanying the General Fund's financial statements as of June 30, 2013. This debt obligation bore interest at 6.063%.

On October 10, 2012, following a 30 days payment notice issued on August 15, 2012 by the U.S. Army Corps of Engineers to the Secretary of the Treasury of the Commonwealth demanding payment of the amounts due and payable for $190,164,357 associated with the Cerrillos Dam and Reservoir Project, the U.S. Army Corps of Engineers placed such debt into the U.S. Department of the Treasury Offset Program (the Offset Program). Upon placing this debt under the Offset Program, the U.S. Department of the Treasury withheld federal funding, otherwise directed to certain Commonwealth's agencies and instrumentalities recipients, in order to repay the aforementioned amount due on behalf of the U.S. Army Corps of Engineers. As interest penalties had continued to accrue, the balance that was subject to the Offset Program amounted to $190,644,452 at September 15, 2012. Through May 13, 2013, the amounts withheld under the Offset Program and applied to the debt amounted to $157.8 million. On May 15, 2013, the Secretary of the Treasury of the Commonwealth requested the U.S. Army Corps of Engineers an immediate stay of the Offset Program and the forgiveness of the cumulative penalty interests accrued since 1998. During the seven months period ended in May, 2013 (period during which the Offset Program was in place), the

Offset Program impacted the following federal programs (expressed in thousands):

Rum Taxes Program	$	117,331
Department of Education		36,918
Regional Analytical Service Program		2,067
Office of the Veteran's Ombudsman		1,042
Others		458
Total	$	157,816

On March 21, 2014, the US Army Corps of Engineers approved a new payment plan proposed by the Secretary of the Treasury for this debt obligation. This new payment plan consists of 33 annual payments of $7,076,760, including interests at 1.5%, from June 7, 2014 until June 7, 2046. As part of this new payment plan, the US Army Corps of Engineers waived all cumulative penalty interest and fees. The new payment plan reduces prospectively the total debt service amount reflected at June 30, 2013 on this debt obligation by approximately $232.3 million.

Debt service requirements on this debt obligation with fixed maturities at June 30, 2013 were as follows (expressed in thousands):

		Principal	**Interest**	**Total**
Year ending June 30:				
2014	$	9,290	2,747	12,037
2015		4,395	2,682	7,077
2016		4,461	2,616	7,077
2017		4,527	2,550	7,077
2018		4,595	2,482	7,077
2019 – 2023		24,032	11,352	35,384
2024 – 2028		25,889	9,495	35,384
2029 – 2033		27,890	7,494	35,384
2034 – 2038		30,045	5,339	35,384
2039 – 2043		32,367	3,017	35,384
2044 – 2048		20,609	620	21,229
Total	$	188,100	50,394	238,494

In addition, the Commonwealth has a debt obligation of $14.6 million with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the recreational part of the Cerrillos Dam and Reservoir Project, including accrued interest of approximately $4 million, at June 30, 2013. The final debt agreement with the U.S. Army Corps of Engineers for the recreational part of the Cerrillos Dam and Reservoir Project has not been finalized, and therefore, terms and conditions could differ from those estimated. The related debt is expected to be payable on annual installment payments over a 35 year period. However, the debt has been presented as a long term payable after one year in the accompanying statement of net position since the commencement date of repayment has not yet been determined.

(Continued)

The remaining other long-term liabilities within business-type activities at June 30, 2013 are composed primarily of accrued pension costs and accrued legal claims for approximately $18.3 million and $4.8 million, respectively.

(o) ***Fiduciary Funds***

On February 27, 2007, ERS's administration and the GDB, acting as ERS's fiscal agent (the Fiscal Agent), presented to the board of trustees, a financial transaction for the issuance of pension funding bonds in order to reduce ERS's unfunded actuarial accrued liability. The ERS authorized the issuance of one or more series of bonds (the ERS Bonds) in order to increase the funds available to pay pension benefits to certain of its beneficiaries and reduce its unfunded accrued actuarial pension liability. The ERS Bonds are limited, non-recourse obligations of the ERS, payable solely from and secured solely by a pledge of employer contributions made after the date of issuance of the first series of ERS Bonds, and from funds held on deposit with the Bank of New York Mellon (the Fiscal Agent). The ERS Bonds are not payable from contributions made to the ERS by participating employees, or from the assets acquired with the proceeds of the ERS Bonds, or from employer contributions released by the Fiscal Agent to the ERS after funding of required reserves, or from any other asset of the ERS. The ERS invested the proceeds of the ERS Bonds and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

On January 31, 2008, the ERS issued the first series of ERS Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A (the Series A Bonds). On June 2, 2008, the ERS issued the second of such series of ERS Bonds; which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the Series B Bonds). Finally, on June 30, 2008, the ERS issued the third and final of such series of ERS Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the Series C Bonds). The following is a summary of changes in the bonds payable principal balance (expressed in thousands):

	Maturity		Balance at June 30, 2012	Additions/ accretion	Balance at June 30, 2013
5.85% to 6.45% Term and Capital Appreciation Bonds Series A	2023-2058	$	1,602,749	3,713	1,606,462
6.25% to 6.55% Term and Capital Appreciation Bonds Series B	2028-2058		1,129,989	20,479	1,150,468
6.15% to 6.50% Term and Capital Appreciation Bonds Series C	2028-2043		300,848	188	301,036
Bond discounts			(6,993)	216	(6,777)
Total		$	3,026,593	24,596	3,051,189

As of June 30, 2013, the outstanding principal balance of the ERS Bonds is as follows (in thousands):

Description		
Series A Bonds:		
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	$	62,692
Term Bonds, maturing in 2023, bearing interest at 5.85%		200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%		679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%		332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%		332,000
Total Series A Bonds outstanding		1,606,462
Series B Bonds:		
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%		194,401
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%		139,967
Term Bonds, maturing in 2031, bearing interest at 6.25%		117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%		270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%		429,000
Total Series B Bonds outstanding		1,150,468
Series C Bonds:		
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%		3,036
Term Bonds, maturing in 2028, bearing interest at 6.15%		110,000
Term Bonds, maturing in 2038, bearing interest at 6.25%		45,000
Term Bonds, maturing in 2043, bearing interest at 6.30%		143,000
Total Series C Bonds outstanding		301,036
Total bonds outstanding		3,057,966
Less bonds discount		(6,777)
Bonds payable – net	$	3,051,189

Series A Bonds – The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the Series A Term Bonds) and $45 million were issued as capital appreciation bonds (the Series A Capital Appreciation Bonds). Interest in the Series A Term Bonds are payable monthly on the first day of each month. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months. The Series A Bonds are subject to redemption at the option of the ERS from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series A Term Bonds are subject to mandatory redemption in part commencing on July 1, 2021 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

Redemption Period	Subject Bonds		Amount
July 1, 2021	Term bonds maturing July 1, 2023	$	50,000
July 1, 2022	Term bonds maturing July 1, 2023		70,000
July 1, 2023	Term bonds maturing July 1, 2023		80,000
	Subtotal		200,000
July 1, 2034	Term bonds maturing July 1, 2038		133,500
July 1, 2035	Term bonds maturing July 1, 2038		133,500
July 1, 2036	Term bonds maturing July 1, 2038		133,500
July 1, 2037	Term bonds maturing July 1, 2038		133,500
July 1, 2038	Term bonds maturing July 1, 2038		133,500
	Subtotal		667,500
	Total	$	867,500

ERS complied with the sinking fund requirements at June 30, 2013.

Series B Bonds – The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the Series B Term Bonds) and $243 million were issued as capital appreciation bonds (the Series B Capital Appreciation Bonds). Interest in the Series B Term Bonds are payable monthly on the first day of each month. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months. The Series B Bonds are subject to redemption at the option of the ERS from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium.

Series C Bonds – The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the Series C Term Bonds) and $2 million were issued as capital appreciation bonds (the Series C Capital Appreciation Bonds). Interest in the Series C Term Bonds are payable monthly on the first day of each month. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months. The Series C Bonds are subject to redemption at the option of the ERS from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series C Term Bonds are subject to mandatory redemption in part commencing on July 1, 2024 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

Redemption Period	Subject Bonds	Amount
July 1, 2024	Term bonds maturing July 1, 2028	$ 18,700
July 1, 2025	Term bonds maturing July 1, 2028	22,000
July 1, 2026	Term bonds maturing July 1, 2028	29,150
July 1, 2027	Term bonds maturing July 1, 2028	36,300
July 1, 2028	Term bonds maturing July 1, 2028	3,850
	Subtotal	110,000
July 1, 2029	Term bonds maturing July 1, 2038	100
July 1, 2030	Term bonds maturing July 1, 2038	540
July 1, 2031	Term bonds maturing July 1, 2038	100
July 1, 2032	Term bonds maturing July 1, 2038	3,420
July 1, 2033	Term bonds maturing July 1, 2038	4,320
July 1, 2034	Term bonds maturing July 1, 2038	100
July 1, 2035	Term bonds maturing July 1, 2038	11,940
July 1, 2036	Term bonds maturing July 1, 2038	2,160
July 1, 2037	Term bonds maturing July 1, 2038	7,920
July 1, 2038	Term bonds maturing July 1, 2038	14,400
	Subtotal	45,000
July 1, 2039	Term bonds maturing July 1, 2043	28,600
July 1, 2040	Term bonds maturing July 1, 2043	28,600
July 1, 2041	Term bonds maturing July 1, 2043	28,600
July 1, 2042	Term bonds maturing July 1, 2043	28,600
July 1, 2043	Term bonds maturing July 1, 2043	28,600
	Subtotal	143,000
	Total	$ 298,000

ERS complied with the sinking fund requirements at June 30, 2013.

Debt service requirements in future years on ERS's bonds as of June 30, 2013 are as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2014	$	—	166,519	166,519
2015		—	166,519	166,519
2016		—	166,519	166,519
2017		—	166,519	166,519
2018		—	166,519	166,519
2019 – 2023		120,000	823,233	943,233
2024 – 2028		186,150	760,552	946,702
2029 – 2033		1,054,405	725,324	1,779,729
2034 – 2038		960,885	603,205	1,564,090
2039 – 2043		730,070	320,472	1,050,542
2044 – 2048		28,600	247,718	276,318
2049 – 2053		—	247,568	247,568
2054 – 2058		539,900	179,875	719,775
2059		221,100	1,201	222,301
		3,841,110	4,741,743	8,582,853
Less unaccreted interest		(783,144)		
Less unamortized discount		(6,777)		
Total	$	3,051,189		

Pledge of Employer Contributions Pursuant to Security Agreement – The ERS entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the ERS pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the Resolution).

The Resolution and the Security Agreement constitute a contract between the ERS and the Fiscal Agent, on behalf of owners of the bonds. The pledge, covenants and agreements of the ERS set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. Annual employer contributions that are made after January 31, 2008, which was the date of issuance of the first Series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, are pledged for annual debt service requirements as established. The pledge is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

(Continued)

(p) ***Discretely Presented Component Units***

Notes, bonds and appropriation bonds payable are those liabilities that are paid out of the component units' own resources. These obligations do not constitute a liability or debt of the primary government.

The outstanding balance of notes payable at June 30, 2013 is as follows (expressed in thousands):

	Interest rates	Maturity through	Balance at June 30, 2012	Additions	Reductions	Balance at June 30, 2013	Due within one year
Government Development Bank for Puerto Rico	1.59% – 6.97%	2040	$ 5,350,364	569,123	1,078,748	4,840,739	389,651
Economic Development Bank for Puerto Rico	2.25% – 7.23%	2031	726,141	150,003	173,096	703,048	—
Puerto Rico Ports Authority	Variable	2027	93,300	1,487	76,214	18,573	6,789
Puerto Rico Electric Power Authority	3.25% – 4.375%	2023	574,031	1,468,737	1,280,552	762,216	754,922
Puerto Rico Trade and Export Company	4.51% – 6.48%	2034	390,531	—	19,119	371,412	520
University of Puerto Rico	3.25% – 5.50%	2014	3,604	—	1,331	2,273	839
Puerto Rico Industrial Development Company	5.10% – 8.45%	2024	92,732	—	6,574	86,158	7,044
Puerto Rico Tourism Company	Variable	2013	11,570	4,544	—	16,114	16,114
State Insurance Fund Corporation	Variable	2028	279,651	—	4,489	275,162	21,160
Puerto Rico Metropolitan Bus Authority	2.62%	2015	37,048	—	2,503	34,545	2,503
Agricultural Enterprises and Development Administration	4.54%	2013	1,830	36,341	18,772	19,399	19,399
			$ 7,560,802	2,230,235	2,661,398	7,129,639	1,218,941

Debt service requirements on component units' notes payable with fixed maturities at June 30, 2013 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2014	$ 1,218,941	271,725	1,490,666
2015	624,284	261,546	885,830
2016	705,433	234,765	940,198
2017	423,804	205,054	628,858
2018	284,083	181,052	465,135
2019 – 2023	2,281,203	487,498	2,768,701
2024 – 2028	1,192,966	125,344	1,318,310
2029 – 2033	328,242	55,132	383,374
2034 – 2038	50,846	12,981	63,827
2039 – 2040	19,837	2,473	22,310
Total	$ 7,129,639	1,837,570	8,967,209

Commonwealth appropriation bonds payable outstanding at June 30, 2013 are as follows (expressed in thousands):

Component Unit	Interest rates	Maturity through	Balance at June 30, 2012	Additions	Reductions	Balance at June 30, 2013	Amounts due within one year
Puerto Rico Aqueduct and Sewer Authority	3.10% – 6.15%	2032	$ 398,049	703	205	398,547	—
Puerto Rico Tourism Company	3.10% – 6.15%	2032	43,484	78	—	43,562	—
Land Authority of Puerto Rico	3.10% – 6.50%	2032	55,178	1,098	—	56,276	—
Government Development Bank for Puerto Rico	3.10% – 6.50%	2032	3,427	8	4	3,431	—
Solid Waste Authority	3.10% – 6.50%	2032	7,778	51	—	7,829	—
Total Commonwealth appropriation bonds – component units			$ 507,916	1,938	209	509,645	—

Debt service requirements on the Commonwealth's appropriation bonds payable with fixed maturities at June 30, 2013 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2014	$ —	29,123	29,123
2015	—	29,123	29,123
2016	10,601	28,925	39,526
2017	8,600	28,615	37,215
2018	8,895	28,295	37,190
2019 – 2023	50,160	135,477	185,637
2024 – 2028	164,146	120,053	284,199
2029 – 2033	280,409	27,789	308,198
Premium	7,784	—	7,784
Deferred loss	(20,950)	—	(20,950)
Total	$ 509,645	427,400	937,045

Bonds payable outstanding at June 30, 2013 are as follows (expressed in thousands):

Component Unit	Interest rates	Maturity through	Balance at June 30, 2012	Additions	Reductions	Balance at June 30, 2013	Amount due within one year
Government Development Bank for Puerto Rico	2.96% – 6.56%	2039	$ 607,766	—	137,202	470,564	35,832
University of Puerto Rico	5.0% – 5.75%	2036	614,449	—	32,641	581,808	20,070
Puerto Rico Municipal Finance Agency	3.80% – 6.00%	2031	1,003,532	1,647	96,647	908,532	101,580
Puerto Rico Ports Authority	2.75% – 6.0%	2027	676,791	21,734	483,633	214,892	—
Puerto Rico Aqueduct and Sewer Authority	2.0% – 6.15%	2050	4,097,149	48,583	21,553	4,124,179	16,900
Puerto Rico Highways and Transportation Authority	2.25% – 6.50%	2046	4,893,002	30,049	190,225	4,732,826	101,875
Puerto Rico Industrial Development Company	5.10% – 6.75%	2029	225,271	456	28,558	197,169	8,305
Puerto Rico Convention Center District Authority	4.00% – 5.00%	2036	446,462	—	10,380	436,082	9,845
Puerto Rico Electric Power Authority	2.00% – 6.25%	2042	8,311,689	—	185,056	8,126,633	399,215
Total bonds payable-component units			$ 20,876,111	102,469	1,185,895	19,792,685	693,622

Debt service requirements on component units' bonds payable with fixed maturities at June 30, 2013 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2014	$ 693,622	980,028	1,673,650
2015	560,163	976,873	1,537,036
2016	807,217	945,161	1,752,378
2017	573,255	913,535	1,486,790
2018	1,694,173	2,139,707	3,833,880
2019 – 2023	3,472,812	3,631,606	7,104,418
2024 – 2028	3,611,663	2,724,007	6,335,670
2029 – 2033	2,813,496	1,915,443	4,728,939
2034 – 2038	3,284,832	1,115,602	4,400,434
2039 – 2043	1,416,611	445,903	1,862,514
2044 – 2048	694,689	110,351	805,040
2049 – 2050	20,760	1,608	22,368
Premium	540,510	—	540,510
Discount	(213,647)	—	(213,647)
Deferred loss	(177,471)	—	(177,471)
Total	$ 19,792,685	15,899,824	35,692,509

The table that follows represents debt service payments on two component units' variable-rate bonds and the net payments on associated hedging derivative instrument as of June 30, 2013 (in thousands). Although interest rates on variable rate debt and the current reference rate of hedging derivative instrument change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rate of the hedging derivative instrument on June 30, 2013 will remain the same for their term (expressed in thousands).

	Variable-Rate Bonds		Hedging derivative instruments,	
	Principal	Interest	net	Total
Year ending June 30:				
2014	$ —	9,523	34,528	44,051
2015	—	9,523	34,528	44,051
2016	—	9,523	34,523	44,046
2017	88,465	9,523	115,258	213,246
2018	195,025	9,345	99,754	304,124
2019-2023	46,055	45,197	127,894	219,146
2024-2028	14,570	40,332	121,549	176,451
2029-2033	325,675	18,018	78,973	422,666
2034-2038	—	14,279	17,368	31,647
2039-2043	—	14,279	—	14,279
2044-2048	389,060	1,855	—	390,915
Total	$ 1,058,850	181,397	664,375	1,904,622

Several component units have defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old debts. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the statement of net position. As of June 30, 2013, the following bonds are considered defeased (expressed in millions):

	Amount outstanding
Puerto Rico Electric Power Authority	$ 3,952
Puerto Rico Highways and Transportation Authority	1,980
Puerto Rico Municipal Finance Agency	299
Total	$ 6,231

(13) Guaranteed and Appropriation Debt

(a) *Guaranteed Debt*

The Commonwealth may provide guarantees for the repayment of certain borrowings of component units to carry out designated projects. At June 30, 2013, the following component unit debts are guaranteed by the Commonwealth (expressed in thousands):

		Maximum guarantee	Outstanding balance
Blended component unit – Public Buildings Authority	$	4,721,000	4,196,675
Discretely presented component units:			
Government Development Bank for Puerto Rico		267,000	267,000
Puerto Rico Aqueduct and Sewer Authority		1,159,562	1,159,562
Port of the Americas Authority		250,000	220,392
Total	$	6,397,562	5,843,629

The Commonwealth has guaranteed the payments of rentals of its departments, agencies, and component units to the PBA, a blended component unit, under various lease agreements executed pursuant to the law that created the PBA. Such rental payments include the amounts required by the PBA for the payment of principal and interest on the guaranteed debt as authorized by law. The rental commitment to cover principal and interest on the guaranteed debt (excluding premiums and deferred refunding losses) as of June 30, 2013 and for the next five years and thereafter follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2014	$	72,595	200,167	272,762
2015		76,760	194,488	271,248
2016		82,000	190,244	272,244
2017		86,125	185,685	271,810
2018		90,905	179,678	270,583
2019-2023		416,970	1,000,906	1,417,876
2024-2028		512,015	870,096	1,382,111
2029-2033		1,453,937	942,907	2,396,844
2034-2038		747,695	307,200	1,054,895
2039-2043		764,190	103,730	867,920
	$	4,303,192	4,175,101	8,478,293
Less unamortized discounts on bonds outstanding		(29,519)		
Plus unamortized premium		48,153		
Less deferred loss on bonds defeased		(125,151)		
Total	$	4,196,675		

Rental income of the PBA funds amounted to approximately $206 million during the year ended June 30, 2013, of which $75.5 million was used to cover debt service obligations.

Government Development Bank for Puerto Rico Remarketed Refunding Bonds – The Commonwealth guarantees the Remarketed Refunding Bonds, Series 1985, issued by the GDB, a discretely presented component unit. The outstanding balance of these bonds amounted to $267 million at June 30, 2013. On August 1, 2008, the GDB repurchased the $267 million outstanding of its adjustable refunding bonds as a result of significant increases in the interest rate of these auction rate bonds. On December 30, 2009, the GDB remarketed and reissued these bonds at a fixed rate of 4.75%, maturing on December 1, 2015. These notes are subject to redemption at the option of the GDB on or after June 1, 2013 at a redemption price of 101% through May 31, 2014 and 100% after June 1, 2014.

Puerto Rico Aqueduct and Sewer Authority (PRASA) – Act No. 45 of July 28, 1994 states that the Commonwealth guarantees the payment of principal and interest of all outstanding bonds at the date the law was enacted and of all future bond issues to refinance those outstanding bonds of PRASA. Act No. 140 of August 3, 2000 amended Act No. 45 to extend the Commonwealth guarantee to include the principal and interest payments of the Rural Development Serial Bonds and the loans under the State Revolving Fund Program (SRFP) outstanding at the effective date of Act No. 140, and of all future bonds and SRFP loans that may be issued through June 30, 2005. Act No. 386 of September 21, 2004 extended the Commonwealth guarantee to June 30, 2010. Act. No. 75 of July 12, 2010 amended section 1 of Act No. 45 of July 28, 1994 to extend the Commonwealth guarantee over the Rural Development and SRFP's borrowings to June 30, 2015.

United States Department of Agriculture (USDA) Rural Development Program assists the Authority in the financing and construction of aqueduct and sewer facilities in rural areas by purchasing revenue bonds from the Authority, the proceeds of which are used by the Authority to finance such projects. GDB provides interim financing for these projects through short-term lines of credit. On June 12, 2013, the Authority issued approximately $45.5 million of Series II of USDA Rural Development Program Bonds, at a maximum interest of 3.50%, payable semiannually and maturing in semiannually installments through July 1, 2053. The funds raised by this issuance were used to partially repay the outstanding balance of USDA Rural Development Program lines of credit for construction projects from GDB. As of June 30, 2013, the USDA Rural Development Program Bonds consisted of twenty-six (26) separate series, issued from 1983 through 2013, bearing interest from 2% to 5% due in semiannual installments through 2053. The outstanding balance of the USDA Rural Development Program Serial Bonds as of June 30, 2013 and 2012 was approximately $405 million and $368.5 million, respectively. The USDA Rural Development Program Serial Bonds are guaranteed by the Commonwealth, pursuant to Law No. 140 of 2000 as amended and the Authority's net revenue is pledged toward the payment of debt service on the USDA Rural Development Program Bonds. The USDA Rural Development Program Bonds are subordinate to all senior and senior subordinated debt.

The Puerto Rico Water Pollution Control Revolving Fund and Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (the Revolving Funds) were created by Act No. 44 of June 21, 1988 and Act No. 32 of July 7, 1997, respectively, of the Commonwealth. The Puerto Rico Water Pollution Control Revolving Fund is administered, pursuant to Act No. 44 and Act No. 9 of June 21, 1988 and June 18, 1970, respectively, as amended, by Puerto Rico Environmental Quality Board (EQB). The Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund is administered, pursuant to Act No. 5 of July 21, 1977, as amended, by Puerto Rico Department of Health (DOH).

Pursuant to these laws, the EQB and the DOH, on behalf of the Commonwealth, are authorized to enter into operating agreements and capitalization grant agreements with the U.S. Environmental Protection agency (EPA). Puerto Rico Infrastructure Financing Authority (PRIFA), a component unit of the Commonwealth, PRASA, and the GDB entered into a memorandum of understanding under which each party has agreed to assume specific responsibilities in connection with the operations of the Revolving Funds.

PRASA has entered into revolving loan agreements to finance certain capital improvements. As of June 30, 2013, PRASA had outstanding approximately $469.7 million under these loan agreements.

The loan agreements are evidenced by promissory notes, which bear interest at a 2% annual rate payable semiannually. Construction loans are required to be paid in full within 20 years of the project completion date. PRASA has pledged its net revenues on a basis subordinate in all respect to the PRASA's bonds outstanding. If PRASA's pledged revenues are not sufficient for the payment of principal and interest, the payments are guaranteed by the Commonwealth under Act No. 45 of July 28, 1994, as amended, which obligates the Commonwealth to pay principal and interest on the notes.

On March 18, 2008, PRASA issued approximately $284.8 million of Revenue Refunding Bonds, Series A and B (the 2008 Revenue Refunding Bonds), (guaranteed by the Commonwealth) to refund PRASA's outstanding Revenue Refunding Bonds, Series 1995 (guaranteed by the Commonwealth) in the amount of approximately $262.8 million. The 2008 Revenue Refunding Bonds bear interest at rates from 5.80% to 6.10% per annum with maturity dates ranging from July 1, 2021 to July 1, 2034. The outstanding balance of the 2008 Revenue Refunding Bonds at June 30, 2013 amounted $284.8 million.

At various times during fiscal years ended 2005 and 2006, the Port of the Americas Authority, a component unit of the Commonwealth, entered into bond purchase agreements with the GDB, whereby the GDB agreed to disburse to the Port of the Americas Authority from time to time certain bond principal advances up to a maximum aggregate principal amount of $70 million (Port of the Americas Authority 2005 Series A Bond), $40 million (Port of the Americas Authority 2005 Series B Bond), and $140 million (Port of the Americas Authority 2005 Series C Bond). The proceeds of the bonds were used to finance the cost of development and construction of the Port of the Americas. The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable in full on January 1, 2015 and January 15, 2015. The principal amount may be paid with any of the following: (i) a long-term bond issuance once the projects are completed; (ii) other revenue of the Port of the Americas Authority; (iii) or legislative appropriations as established in Act No. 409 of September 22, 2004 (Act No. 409). Principal and interests payments are guaranteed by the Commonwealth by Act No. 409. As of June 30, 2013, the principal outstanding under those bond purchase agreements amounted to approximately $220.4 million.

(b) ***Debt Supported by Appropriations and Sales and Use Taxes***

At June 30, 2013, the outstanding principal balances of debt payable by Commonwealth appropriations and sales and use taxes (PFC bonds and notes payable, as described in note 12(d), and notes payable to the GDB, as described in note 9) which are included in the individual financial statements of the following discretely presented component units, are as follows (expressed in thousands):

	PFC Bonds and notes	Notes payable to GDB and others	Total
Puerto Rico Aqueduct and Sewer Authority	$ 411,229	—	411,229
Puerto Rico Health Insurance Administration		171,080	171,080
Puerto Rico Convention Center District Authority	—	146,773	146,773
University of Puerto Rico	—	71,927	71,927
Solid Waste Authority	7,829	74,178	82,007
Agricultural Services Development Administration	—	59,946	59,946
Land Authority of Puerto Rico	55,748	—	55,748
Puerto Rico Tourism Company	43,562	—	43,562
Puerto Rico Industrial Development Company	—	41,653	41,653
Puerto Rico Infrastructure Financing Authority	3,607	—	3,607
Company for the Integral Development of the “Península de Cantera”	—	30,715	30,715
University of Puerto Rico Comprehensive Cancer Center	—	20,050	20,050
Government Development Bank	3,501	13,340	16,841
National Parks Company of Puerto Rico	—	5,841	5,841
Institute of Puerto Rican Culture	—	3,276	3,276
Puerto Rico Electric Power Authority	—	743	743
Total	$ 525,476	639,522	1,164,998

Notes payable to the GDB are reported in the statement of net position as “Due from (to) component units”.

(c) ***Other Guarantees***

Mortgage Loan Insurance – The Puerto Rico Housing Finance Authority (the Authority), a component unit of the GDB, provides mortgage credit insurance to low and moderate income families through its mortgage loan insurance program. The Commonwealth guarantees up to $75 million of the principal insured by the mortgage loan insurance program. As of June 30, 2013, the mortgage loan insurance program covered loans aggregating to approximately $508 million. Currently, the Commonwealth has not been called to make any direct payments pursuant to these guarantees.

(14) Conduit Debt Obligations and No Commitment Debt

From time to time, certain of the Commonwealth's component units issue revenue bonds to provide financial assistance to private sector entities for the acquisition and construction of transportation, environmental, industrial, tourism, educational, and commercial facilities, deemed to be in the public interest and that are expected to provide benefits to Puerto Rico. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private sector entity served by the bond issuance. Neither the Commonwealth nor any political subdivision or component unit thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the basic financial statements of the issuing entities. As of June 30, 2013, conduit debt obligations consisted of the following bonds issued by component units (expressed in thousands):

Issuing entity		Issued since inception to date	Amount outstanding
Discretely presented component units:			
Puerto Rico Ports Authority	$	155,410	155,410
Puerto Rico Highways and Transportation Authority		270,000	157,000
Government Development Bank for Puerto Rico		1,147,475	788,405
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority		6,353,000	1,036,000
Total	$	7,925,885	2,136,815

(a) *Puerto Rico Ports Authority (PRPA)*

PRPA has issued $39,810,000 in Special Facility Revenue Bonds under the provisions of a trust agreement dated June 1, 1993, and $115,600,000 in Special Facility Revenue Bonds, under the provisions of a trust agreement dated May 1, 1996, between the PRPA and a private bank. The proceeds from the sale of the bonds were used to finance the construction, acquisition of equipment, and improvement of certain facilities at the Luis Munoz Marin International Airport for the benefit of a major private airline. The property is owned by the PRPA and leased to the private company. These bonds are limited obligations of the PRPA, and are payable solely from and secured by a pledge of certain payments made under the Special Facilities Agreement with the private company and certain other moneys. Neither the credit of the Commonwealth nor that of any of its political subdivisions is pledged for the repayment of these bonds. In addition, the bonds are unconditionally guaranteed by the private company's parent company. Pursuant to the agreements between the PRPA and the private company, the private company has agreed to pay amounts sufficient to cover the principal of and premium, if any, and interest on the bonds. The bonds are not collateralized by any property, but are payable solely from certain pledged payments by the private company under the agreement or by the private company's parent company under its unconditional guarantee. The outstanding balance of these bonds amounted to $155.4 million at June 30, 2013.

(b) ***Puerto Rico Highways and Transportation Authority (PRHTA)***

In March 1992, the PRHTA issued Special Facility Revenue Bonds, 1992 Series A, B and C for approximately $117 million for the construction of a toll bridge. The proceeds from the sale of these bonds were transferred by the PRHTA to a private entity, Autopistas de Puerto Rico & Compañía, S.E. (Autopistas), pursuant to a signed concession agreement for the design, construction, operation and maintenance of the bridge. On October 30, 2003, the PRHTA issued Special Facility Revenue Refunding Bonds, 2004 Series A, amounting to approximately $153 million for the purpose of refunding PRHTA's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by the PRHTA to Autopistas pursuant to a new loan agreement by and between Autopistas and the PRHTA. The bonds shall be paid from the proceeds received by Autopistas from the operation of the bridge.

Under certain circumstances, the concession agreement may be terminated and the PRHTA is then obligated to assume Autopista's entire obligation to pay principal of, and interest on, the bonds outstanding, which pursuant to the signed agreement, will be paid from the net revenues of the use and operation of the bridge. The PRHTA does not currently expect the concession agreement to terminate. The outstanding bonds (including accrued interest) at June 30, 2013 amounted to approximately $157 million.

(c) ***Government Development Bank for Puerto Rico (GDB)***

In December 2003, the GDB, through its Housing Finance Authority, issued $663 million in Capital Fund Program Bonds Series 2003 to lend the proceeds thereof to the Public Housing Administration in its financing of improvements to various public low and moderate income housing projects. The Capital Fund Program Bonds Series 2003 are limited obligations of the Housing Finance Authority, which will be paid solely from an annual allocation of public housing capital funds when received from the U.S. Department of Housing and Urban Development and other funds available under the bond indenture. Accordingly, these bonds are considered no commitment debt and are excluded, along with the related assets held in trust, from the accompanying basic financial statements. The outstanding balance of these bonds amounted to $468.5 million at June 30, 2013.

On August 1, 2008, the Housing Finance Authority issued the Capital Fund Modernization Program Subordinate Bonds amounting to $384.5 million and the Housing Revenue Bonds amounting to $100 million. The proceeds from the issuance were mainly used to finance a loan to a limited liability company and pay the costs of issuance. The $384.5 million bonds are limited obligations of the Housing Finance Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by the U.S. Department of Housing and Urban Development, with an outstanding balance of $319.9 million at June 30, 2013. The $100 million bonds were also limited obligations of the Housing Finance Authority, payable from amounts deposited in escrow accounts with a trustee and the proceeds of a loan to be made by the Housing Finance Authority to the limited liability company using moneys received as a grant from the Department of Housing of Puerto Rico. Payment of principal of the Housing Revenue Bonds was also secured by an irrevocable standby letter of credit issued by the GDB. The Housing Revenue Bonds were paid-off on September 30, 2011.

(Continued)

(d) ***Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (AFICA)***

AFICA's revenue bonds are special and limited obligations of AFICA and, except to the extent payable from bond proceeds and investments thereof, will be payable solely from and secured by a pledge and assignment of the amounts payable under the loan agreements between AFICA and the borrowers. Furthermore, payment of principal and interest on the revenue bonds is unconditionally guaranteed by the borrowers, their parent companies, or letters of credit generally issued by major U.S. banks or U.S. branches of international banks.

The revenue bonds are considered conduit debt and do not constitute a debt or a pledge of the good faith and credit of AFICA or the Commonwealth or any political subdivision thereof.

In connection with the issuance of revenue bonds, AFICA enters into trust agreements, whereby AFICA assigns and pledges to the trustees, for the benefit of the holders of the revenue bonds, (1) all amounts receivable by AFICA in repayment of the amounts due under the loan agreements; (2) any rights, title, and interest of AFICA in the proceeds derived from the issuance of the revenue bonds and of any securities in which moneys in any fund or account created by the trust agreements or loan agreements are invested and the proceeds derived therefrom; and (3) AFICA's rights, title, and interest in and to the loan agreements, subject to AFICA's retention of certain rights, including the right to collect moneys payable to AFICA, which are not received with respect to repayment of the loans.

Since inception and up to June 30, 2013, AFICA has issued revenue bonds aggregating to $6,353 million, $1,036 million of which was outstanding as of June 30, 2013. Of the revenue bonds outstanding at June 30, 2013, $439 million represent industrial and commercial revenue bonds; $100 million, tourism related revenue bonds; $170 million, hospital revenue bonds; and $327 million, educational revenue bonds. Pursuant to the loan agreements covering the issuance of these bonds, corporations and partnerships operating in Puerto Rico borrowed the proceeds from the bond issuances by AFICA.

(15) Risk Management

The risk management policies of the primary government of the Commonwealth are addressed on note 1(z).

The following describes the risk management programs separately administered by certain discretely presented component units, including all the major component units and certain non-major component units carrying self-funded risk reserves:

(a) ***GDB***

To minimize the risk of loss, the GDB purchases insurance coverage for public liability, hazard, automobile, crime and bonding, as well as workmen's insurance for employees. The selection of the insurer has to be approved by the Public Insurance Office of the Department of the Treasury. Insurance coverage is updated annually to account for changes in operating risk. For the last three years, insurance settlements have not exceeded the amount of coverage. Other risk management policies of the GDB involve its mortgage and loans servicing and insurance activities. Certain loan portfolios of the Housing Finance Authority, a blended component unit of the GDB, are administered by private servicers who are required to maintain an errors and omissions insurance policy. The Housing Finance Authority has a program to manage the risk of loss on its mortgage loan lending and insurance activities.

(b) ***UPR***

UPR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Through January 1993, the UPR was insured under claims made insurance policies with respect to medical malpractice risks for $250,000 per occurrence up to an annual aggregate of $500,000. Subsequent to such date, the UPR was unable to obtain insurance at a cost it considered to be economically justifiable; consequently, the UPR is now self insured for such risks. Under Act No. 98 of August 24, 1994, the responsibility of the UPR is limited to a maximum amount of $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Self insured risk liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The process used in computing claims liabilities does not necessarily result in an exact amount because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the claims liability amount for medical malpractice in fiscal years 2013 and 2012 were as follows (expressed in thousands):

		2013	2012
Claims payable – July 1	$	11,956	12,254
Incurred claims and changes in estimates		(1,084)	894
Payments for claims and adjustments expenses		(1,300)	(1,192)
Claims payable – June 30	$	9,572	11,956

In addition, the UPR is a defendant in several lawsuits other than medical malpractice arising out of the normal course of business. Management has recorded an accrual of $8.8 million as of June 30, 2013 to cover claims and lawsuits that may be assessed against the UPR. The UPR continues to carry commercial insurance for these risks of loss.

These claims payable are presented as a component of accounts payable and accrued liabilities in the accompanying statement of net position. The UPR continues to carry commercial insurance for all other risks of loss.

(c) ***PREPA***

PREPA purchases commercial insurance covering casualty, theft, tort claims, natural disaster and other claims covering all risk property (excluding transmission and distribution lines), boiler and machinery, and public liability. In addition, PREPA has a self-insured fund to pay the cost of repairing, replacing on reconstructing any property damaged or destroyed from, or extraordinary expenses incurred as a result of a cause, which is not covered by insurance required under the 1974 agreement.

PREPA has a cost plus health insurance program covering substantially all employees. PREPA contracted an administrator for the processing, approval, and payment of claims plus an administrative fee. The accrual for employees' health plan includes the liability for claims processed and an estimate for claims incurred but not reported.

Changes in the balances of the health insurance program and other self-insurance risks during fiscal years 2013 and 2012 were as follows (expressed in thousands):

		2013	2012
Claims payable – July 1	$	7,188	7,167
Incurred claims		100,889	87,434
Claim payments		(102,807)	(87,413)
Claims payable – June 30	$	5,270	7,188

These claims payable are presented as a component of accounts payable and accrued liabilities in the accompanying statement of net position.

(d) ***PRASA***

PRASA has acquired commercial insurance to mitigate its exposure to certain losses involving real and personal property (including windstorm, flood and earthquake damages) and comprehensive general and automobile claims. PRASA also has an Owner Controlled Insurance Program (OCIP) under which commercial general liability, excess general liability, builder's risk, and contractors pollution liability coverage are procured or provided on a project "wrap up" basis for contractors and subcontractors of any tier, who have been properly enrolled, while performing operations at the applicable project site. Each commercial insurance policy maintained by PRASA contains specific policy limits and deductibles. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(e) ***PRHTA***

PRHTA carries commercial insurance to cover casualty, theft, claims and other losses. The PRHTA has not settled any claims in excess of its insurance coverage for any of the past three years.

(f) ***PRHIA***

PRHIA is responsible for implementing, administering and negotiating a health insurance system, through contracts with insurance underwriters, to provide quality medical and hospital care to the Commonwealth residents regardless of their financial condition and capacity to pay. PRHIA pays a monthly premium to such insurance underwriters based on a contracted premium and the number of members subscribed in the health plan. Funds to pay for such premiums are requested from the Commonwealth, net of funds available for such purposes from all other sources.

(Continued)

Under the provisions of Act No. 105 of July 19, 2002, that amends Act No. 72 of 1993, PRHIA was authorized to negotiate directly with health providers under a pilot program. PRHIA has, since then, entered into different direct contracts to cover the insured population of different regions and municipalities. Since November 1, 2006 through September 1, 2010, PRHIA directly contracted providers that served approximately 190,000 lives from the metro-north region. At June 30, 2011, PRHIA has direct contracting projects with the municipalities of Vieques and Guaynabo, and effective October 1, 2011, the projects were expanded to cover the west, the metro north, the north, San Juan, the northeast and the virtual regions under a new arrangement with a new insurance underwriter as third party administrator. In addition, PRHIA implemented certain cost containment strategies to control costs, such as establishing a co-payment that applies for the unjustified use of emergency rooms, detection and control of prescription drug overuse, implementation of disease management program for respiratory conditions, modification of provider fees and better coordination of benefits for the population having other medical insurance.

PRHIA establishes a liability to cover for the estimated amount to be paid to providers based on experience and accumulated statistical data under one of the direct contracting pilot projects. The estimates of medical claims incurred but not reported and other medical expense payments is developed using actuarial methods and assumptions based upon payment patterns, inflation of medical costs, historical developments and other relevant factors. PRHIA agrees with health care organizations certain medical care services provided to the beneficiaries. The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid medical and benefit adjustment expenses for the two most recent fiscal years (expressed in thousands):

		2013	2012
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$	213,173	35,454
Total incurred benefits		1,262,982	775,761
Total benefit payments		(1,326,150)	(598,042)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$	150,005	213,173

The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as liability for automobile accident insurance, workmen compensation and medical claims in the accompanying statement of net position.

(g) ***SIFC***

SIFC provides workers' compensation insurance to public and private employees. This insurance covers workers against injuries, disability, or death caused by work or employment related accidents, or by illness suffered as a consequence of their employment. SIFC establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. The liability includes estimates for cases reported that have not been adjudged and cases incurred but not reported. The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid benefits and benefit adjustment expenses for the two most recent fiscal years (expressed in thousands):

		2013	2012
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$	820,012	784,018
Total incurred benefits		481,743	526,610
Total benefit payments		(480,821)	(490,616)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$	820,934	820,012

The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as liability for automobile accident insurance, workmen compensation and medical claims in the accompanying statement of net position.

The liability for incurred but unpaid benefits and benefit adjustment expenses is based on historical claims experience data, assumptions and projections as to future events, including claims frequency, severity, persistency, and inflationary trends determined by an independent actuarial study. This liability has been discounted at 3.78% in 2013. SIFC's management believes that discounting such liability results in a better matching of costs and revenues since compensation benefits have a long payment cycle. The assumptions used in estimating and establishing the liability are reviewed annually based on current circumstances and trends.

SIFC's management believes that the liability for incurred but unpaid benefits and benefit adjustment expenses, actuarially determined at June 30, 2013, is a reasonable estimate of the ultimate net cost of settling benefits and benefit expenses incurred. Because actual benefit costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other social and economic factors, the process used in computing the ultimate cost of settling benefits and expenses for administering benefits is necessarily based on estimates. The amount ultimately paid may be above or below such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur.

(h) ***AACA***

AACA operates a system of compulsory insurance for vehicles licensed to be used on public roads and highways in Puerto Rico. This insurance covers bodily injuries and compensation for beneficiaries (and their dependents) caused by automobile accidents. The annual premium is $35 per motor vehicle.

The following table provides a reconciliation of the beginning and ending liability for the future benefits for the two most recent fiscal years, presented based on an undiscounted method (expressed in thousands):

		2013	2012 (As Restated)
Liability for incurred but unpaid benefits and benefit adjustment expenses at beginning of year	$	97,111	166,596
Total incurred benefits		41,165	56,526
Total benefit payments		(33,364)	(65,982)
Prior period adjustment		—	(60,029)
Liability for incurred but unpaid benefits and benefit adjustment expenses at end of year	$	104,912	97,111

The liability for future benefits is reported as liability for automobile accident insurance, workmen compensation and medical claims in the accompanying statement of net position. The liability covers the estimated cost of all future benefits related to claims incurred but not reported during the year. Future benefits include death and funeral, disability and accident and health benefits. The AACA has recorded this liability, including administrative expenses for claim processing, based on the results of an actuarial report prepared by an independent actuary.

Changes in the ultimate liabilities for benefit payments may be required as information develops, which varies from experience, provides additional data, or, in some cases, augments data, which previously were not considered sufficient for use in determining the claim liabilities.

(i) ***PCSDIPRC***

PCSDIPRC has the responsibility of providing to all the cooperatives and the Federation of Cooperatives of Puerto Rico insurance coverage over the stocks and deposits, and for monitoring the financial condition of the insured cooperatives, and the uninsured cooperatives when requested by the Inspector of Cooperatives. PCSDIPRC contracted independent actuaries for the preparation of actuarial estimates of the reserves for estimated losses on stocks and deposits.

The following table provides the activity during fiscal years 2013 and 2012 in the estimated reserves (expressed in thousands):

		2013	2012
Liability for estimated losses on insured stocks and deposits at beginning of year	$	26,975	26,000
Provision for losses		825	4,472
Payment of claims		(2)	(3,580)
Recoveries		83	83
Liability for estimated losses on insured stocks and deposits at end of year	$	27,881	26,975

These estimated reserves are presented as a component of accounts payable and accrued liabilities in the accompanying statement of net position (deficit).

(16) Commitments and Contingencies

Primary Government – The Commonwealth is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Commonwealth only for causes of actions set forth in said Act to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Commonwealth may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgments.

With respect to pending and threatened litigation involving the Commonwealth's governmental activities, excluding the litigation mentioned in the ensuing paragraphs, the Commonwealth reported approximately $454 million as an amount to cover for awarded and anticipated unfavorable judgments at June 30, 2013. This amount was included as other long-term liabilities in the accompanying statement of net position, and represents the amount estimated as probable liability or a liability with a fixed or expected due date that will require future available financial resources for this payment. The amounts claimed exceed $8 billion; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claims are excessive and exaggerated. Management believes that the ultimate liability in excess of amounts provided, if any, would not be significant.

The Commonwealth is a defendant in two parallel lawsuits, one filed in the state court and the other at the federal court. The plaintiffs are various primary healthcare centers seeking to recover from the Commonwealth approximately $500 million of Medicaid funds retained by the Department of Health of the Commonwealth since 1997. In February 2005, United States Court of Appeals for the First Circuit determined that the Commonwealth must return the funds withheld because of noncompliance with a federal law. As of June 30, 2013, the Commonwealth accrued $440 million for this legal contingency.

The Commonwealth is a defendant in a class action presented by parents of special education students in the areas of education and healthcare. In October 2006, the State Court of Appeals decided in favor of the parents' request to include damage claims pursuant to the same class action case although not as a remedy in the class action per se. The court now may award damages to the members of the class action and to do so it may look at the claims by dividing them into groups or consider each case individually. This will require that the parents prove the damages suffered on an individual basis. The Commonwealth plans to defend vigorously each individual case. As of June 30, 2013, the Commonwealth accrued $650 million for this legal contingency.

Under the lawsuit *Vaquería Tres Monjitas, Inc. et al v. Ramírez et al.* certain plaintiffs alleged that the price rates set by the Administrator of the Office for the Regulation of the Dairy Industry (ORIL, as its Spanish acronym) did not afford local dairy processors Suiza Dairy and Vaquería Tres Monjitas the opportunity to make the reasonable profit to which they were constitutionally entitled. The parties reached a settlement agreement on October 29, 2013. Among other things, the Commonwealth, through certain of its instrumentalities, agreed to contribute the following amounts to certain regulatory accrual payments to be made pursuant to the settlement agreement: $50 million by December 31, 2014, $15 million by December 31, 2015, $15 million by December 31, 2016 and $15 million by December 31, 2017. After numerous motions, hearings and appeals, the settlement agreement took effect on November 6, 2013. The case is now closed although the court will retain jurisdiction in order to tend to any matter of compliance or breach of compliance regarding the settlement agreement. As of June 30, 2013, the Commonwealth accrued $95 million for this legal contingency.

On December 21, 2012, the Federal Government, through the US Department of Justice, filed a lawsuit in order to demand from the Commonwealth and its Police Department, compliance with the action and remediation plan submitted on September 8, 2011 by the Civil Rights Division of the US Department of Justice pursuant an investigation which revealed a pattern of civil rights violations by the Police Department. According to this investigation and resulting report, the pattern or practice of illegal activity is the product of an ongoing failure by the Commonwealth and its Police Department to provide officers with the necessary guidance, training, and tools to engage in constitutional and effective law enforcement. The Federal Government is seeking declaratory and equitable relief to eliminate this unlawful pattern by asking the Commonwealth and its Police Department to adopt and implement policies and procedures in the areas of recruitment, hiring, promotions, policies, training, supervision, investigation, discipline, and prevent the police officers of depriving persons of rights, privileges, or immunities secured and protected by the Constitution or laws of the United States. Although the claim does not include damages, the action and remediation plan proposed would require an investment of approximately $600 million, which are expected to be incurred over a period of 10 years, starting with fiscal year 2014. During the first year, the Commonwealth is expected to allocate approximately $20 million while the Federal government would contribute $9 million. The Secretary of Justice of the Commonwealth is still negotiating the final determinations of the measures to be implemented by the Police Department in terms of final costs and timeframe. On July 17, 2013, a final definitive agreement was reached between the US Department of Justice and the Commonwealth, which was filed with the Court. Management expects the Court to dismiss the claim, but retain jurisdiction to assure compliance through a Technical Compliance Advisor to be appointed. No provision for any liability is required at this time under this remediation plan. Expenditures and related liabilities will be recognized as costs during the execution of the remediation plan are incurred beginning in fiscal year 2014.

As has been the case with each comprehensive pension reform measure enacted in the United States, certain public employees have brought lawsuit challenging the constitutionality of pension reform in Puerto Rico. Certain teachers and members of the Judiciary Branch of the Commonwealth have brought suits challenging the constitutionality of Act 160 and Act 162 of December 24, 2013, which reformed the Puerto Rico Teachers Retirement System and the Judiciary Retirement System, respectively. On January 8, 2014 a teachers' association filed a lawsuit challenging the constitutionality of Act 160 as applied to them. On January 14, 2014, the Puerto Rico Supreme Court issued a temporary restraining order staying the effect of Act 160 until the Supreme Court rules on the constitutionality issue. An evidentiary hearing was scheduled for January 27, 2014. On that same date the Supreme Court appointed a Special Master to conduct the evidentiary hearing. On January 31, 2014 the parties agreed to submit the case through the presentation of sworn statements and documents, without holding a hearing. On February 7, 2014, the Special Master issued a report with a summary of uncontested facts. On February 11, 2014, the Supreme Court issued an order granting both parties until March 3, 2014, to file briefs on the constitutionality of Act 160. On April 11, 2014 the Supreme Court declared certain sections of Act 160-2013 unconstitutional while maintaining the constitutionality of the following: (i) all changes made to the benefit structure apply to future participants that are hired after July 31, 2014; (ii) elimination of special laws benefits for participants that retire on or after August 1, 2014; and (iii) reduction of special laws benefits to current retirees as of July 31, 2014. Currently, the Supreme Court's decision is under the Government's evaluation and analysis in order to determine the course of action to undertake.

On December 30, 2013 a judges association filed a complaint in the Commonwealth's Court of First Instance, San Juan Part, alleging that Act 162 was unconstitutional because it allegedly violated the principle on judicial independence and retroactively makes changes to the Judiciary Retirement System. On February 21, 2014, the Puerto Rico Supreme Court upheld the constitutionality of Act No. 162, but ordered the application of its provisions prospectively rather than retroactively.

In connection with the termination of an interest rate exchange agreement (swap) with a notional amount of $218 million by COFINA relating to its Sales Tax Revenue Bonds, Series 2007A, COFINA made a termination payment to the counterparty in November 2008. The counterparty has asserted that it was entitled to a termination payment in excess of that paid by COFINA in November 2008, plus interest at a default rate, amounting to approximately $64 million. The counterparty alleges that the date of the termination notice used by COFINA for purposes of calculating the termination payment was not in accordance with the agreement. In addition, the counterparty alleges that the termination payment should have been based on the value of replacement swaps entered into by COFINA, which actually have different credit terms than those contained in the terminated swap. COFINA has accrued $3.4 million in connection with this matter at June 30, 2013. The amount claimed in excess of that accrued at June 30, 2013 is approximately $60.6 million. While the counterparty may assert continued default interest since the claim date, an amount of possible loss in excess of the $3.4 million accrued, if any, cannot be reasonably estimated. COFINA intends to contest this matter vigorously. Among other things, it is the opinion of COFINA that, even assuming that the counterparty's allegations regarding improper termination are correct, the amounts claimed by the counterparty are not correct. Accordingly, management does not expect that the ultimate costs to resolve this matter will have a material adverse effect on COFINA's financial position or results of operations.

On May 7, 2013, a group of governmental employees that worked in the PBA's central offices in Minillas since 1984 up to May 2012, filed a lawsuit claiming damages suffered during the years working at such offices, caused by the existence of asbestos in the building. The employees are claiming a total of $300 million of which $100 million would be used to create a medical program to monitor health conditions on all of these employees and $200 million to be paid to them for damages. This case is in its initial stages, therefore no provision for any liability that may result upon adjudication of this lawsuit has been recorded by the Commonwealth.

PRMeSA, a component unit blended as a business type activity, is a party in certain legal actions and claims related to medical malpractice arising in the ordinary conduct of its business. Although PRMeSA appears as a defendant in the claims, many of them involve medical personnel of the member institutions, and in effect, these claims are against said institutions. As a result of the deficiency as of June 30, 2013, of funds available in the Self-Insurance Fund, any unfavorable outcome may have a significant effect on the financial condition of PRMeSA. Based on a review of current facts and circumstances, PRMeSA's management has provided for what is believed to be a reasonable estimate of the exposure to loss associated to litigation. PRMeSA has established an accrual reserve for claim losses in the amount of $3 million at June 30, 2013.

The Commonwealth is a party to other claims and litigation that its legal counsel has advised may result in possible adverse court decisions with estimated potential losses of approximately $152 million.

In May 2014, the Secretary of the Treasury of the Commonwealth (the "Secretary") declared null a closing agreement entered into in a prior year in which a taxpayer and the former Secretary agreed to recognize the value of unamortized tax asset not recovered by the taxpayer of approximately $230 million as of January 1, 2011, as a tax overpayment. The Commonwealth recorded the $230 million upon execution of the closing agreement and it remains recorded as of June 30, 2013. In June 2014, the taxpayer filed a lawsuit against the Commonwealth requesting a declaratory judgment to enforce the validity of the closing agreement. This legal case is pending. The Commonwealth plans to vigorously defend against this lawsuit.

The Commonwealth receives financial assistance from the federal government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Substantially, all grants are subject to audit under Circular A-133 of the Office of Management and Budget of the United States of America (OMB Circular A-133), all of which are performed at the individual department or agency level. Disallowance as a result of these audits may become liabilities of the Commonwealth. At June 30, 2013, based on an evaluation of pending federal disallowances, the Commonwealth has recorded approximately $68.3 million as other long-term liabilities in the accompanying statement of net position. Expenditures that are still subject to audit could be disallowed but management believes any such future disallowances would not be material to the basic financial statements.

PRIFA is a sub-grantee of the Office of the Governor of the Commonwealth under the State Fiscal Stabilization Fund Program, which was authorized under Title XIV of Division A of the American Recovery and Reinvestment Act of 2009 (the ARRA Act). PRIFA was awarded a $20 million grant for ARRA Act implementation costs and a $55 million grant for school renovations. Under the ARRA programs, PRIFA is responsible to oversee the administration of all resources awarded to the Commonwealth under the ARRA Act. PRIFA will also act as coordinator of efforts and tasks to ascertain ARRA Act funds are properly managed. Additionally, PRIFA is responsible for contracting, managing, and providing oversight to the school renovations or improvement projects. Pursuant to the provisions of the ARRA Act, PRIFA also entered into a sub-grantee agreement with the Puerto Rico Energy Affairs Administration (EAA) to administer approximately $62 million of a grant to be received from the US Department of Energy under the Weatherization Assistance Program (WAP). WAP was established to provide assistance to the elderly, families with children, persons with disabilities and those with a high-energy burden in their household.

On November 23, 1998, a global settlement agreement (the Global Agreement) was entered into by and between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The Global Agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. Estimated payments to be received under the Global Agreement through the year ending June 30, 2025 amount to approximately $1.1 billion. After 2025, the tobacco companies shall continue making contributions in perpetuity. Pursuant to Act No. 173 of July 30, 1999, which created the Children's Trust (a blended component unit), the Commonwealth assigned and transferred to the Children's Trust the contributions that the Commonwealth is entitled to receive under the Global Agreement. Payments received under the Global Agreement and recognized as revenue during the year ended June 30, 2013, amounted to approximately $109.4 million. All of the revenue to be received under the Global Agreement and investment earnings on certain accounts under bond indentures are pledged as collateral for the Tobacco Settlement Asset-Backed Bonds, Series 2002, 2005, and 2008. At June 30, 2013, the approximate amount of the pledge is $1.4 billion, representing the approximate remaining principal and interest of the aforementioned bond issuances, which are committed through May 15, 2057. Accordingly, until May 15, 2057, such revenues are not available for other purposes.

At June 30, 2013, the Children's Trust had approved commitments to provide assistance to several entities through thirty-six contracts with balances amounting to approximately $24 million.

On October 14, 2010, the Legislature of the Commonwealth approved a new article 9A to Act No. 66 of June 22, 1978, (the Article), authorizing PRMeSA, which became a blended component unit effective July 1, 2012, to incur in obligations up to $285 million, under such terms and conditions approved by the Board of Member Institutions of PRMeSA and the GDB, as fiscal agent of the Commonwealth and its instrumentalities. These additional funds shall be deposited in a special account at the GDB and may only be used for the following purposes:

a. payment of debts to suppliers, agencies, institutions, reserve fund for the self-insurance (professional responsibility and inter-fund debt) of PRMeSA; and

b. to provide operational liquidity to ease PRMeSA's fiscal situation, as determined by the agreement with the GDB.

From savings generated as a result of the debt renegotiations with the agencies and institutions, PRMeSA will create a fund to cover operating expenses related to maintenance, overhaul and reconditioning of the physical plant. The GDB, in its role as fiscal agent, shall possess the administrative mechanisms as it deems necessary to ensure that these funds will be used solely and exclusively for the purposes set forth in the Article. The special bank account and the funds deposited therein shall not be seized, syndicated, frozen, encumbered or otherwise affected by decisions, judgments, orders or rulings issued by courts of Justice of the Commonwealth or its agencies or public corporations during any adjudicative proceeding of administrative or judicial nature, regardless of whether they were initiated by private individuals or public institutions. PRMeSA was required to develop and implement within one hundred eighty (180) days from the approval of the Article, an aggressive collection plan for the recovery of its accounts receivable. The Directors shall report periodically to the GDB on the implementation of that plan, and report annually to the Board of Member Institutions and the GDB the collection proceeds arising from the execution of the plan. The GDB was authorized as fiscal agent to undertake any necessary measures in order to, within a reasonable period of time, help PRMeSA to become and operate as an independent fiscal instrumentality. However, once the collection plan is working as expected and providing PRMeSA the funds resources required, and becomes a financially independent institution as determined by the GDB, PRMeSA will be required to assume the remaining established obligations.

The healthcare industry, under which PRMeSA operates, is subject to numerous laws and regulations which include, among other things, matters such as government healthcare participation requirements, various licenses and accreditations, reimbursements for patient services and Medicare and Medicaid fraud and abuse. Government action has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statutes and/or regulations by healthcare providers. Providers that are found to have violated these laws and regulations may be subjected to fines or penalties. While management of PRMeSA believes its policies, procedures and practices comply with governmental regulations, no assurance can be given that the Administration will not be subject to governmental inquires or actions.

The Health Insurance Portability and Accountability Act (HIPAA) was enacted in August 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information and enforce standards for health information. Organizations are required to be in compliance with HIPAA provisions. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. PRMeSA's management believes that they are in compliance.

The Health Information Technology for Economic and Clinical Health Act set meaningful use of interoperable Electronic Health Record (EHR) adoption in the health system as a critical national goal and incentivized the EHR adoption. Its goal is not adoption alone but meaningful use of EHRs, that is, their use by providers to achieve significant improvements in care. Meaningful use compliance is required before the Federal Fiscal Year 2016 or otherwise the hospital will incur penalties for non-compliance that may reduce future Medicare payments and potentially Medicare Advantage program payments. The Centers for Medicare and Medicaid Services (CMS) manages and has implemented an incentive program for those hospitals that implement EHR and that also, comply with certain specific requirements. CMS' EHR Incentive Programs provide incentive payments to eligible hospitals as they adopt, implement, upgrade or demonstrate meaningful use, as defined by CMS, of certified EHR technology. As of June 30, 2013, PRMeSA is under the implementation of its EHR system.

The Special Communities Perpetual Trust (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, 2013, the Trust's commitments with the municipalities for housing assistance projects amounted to approximately $108.5 million, from which a total of approximately $98.8 million had been disbursed.

Construction commitments at June 30, 2013, entered into by the PBA, amounted to approximately $39.2 million. In addition, PBA's construction commitments to honor the cost of the uncompleted public schools under the 21st Century Program amounted to approximately $164.4 million at June 30, 2013. PRIFA has active construction projects at June 30, 2013, representing construction commitments amounting to $38.2 million.

The Commonwealth is also committed under numerous non-cancelable long term operating lease agreements which expire through 2033, covering land, office facilities, and equipment. Rental expenditure within the governmental funds for the year ended June 30, 2013 under such operating leases was approximately $114 million.

The future minimum lease payments for these leases are as follows (expressed in thousands):

Year ending June 30:		
2014	$	84,734
2015		66,627
2016		44,105
2017		29,684
2018		15,871
2019 – 2023		30,032
2024 – 2028		16,093
2029 – 2033		1,272
Total future minimum lease payments	$	288,418

Discretely Presented Component Units – in the normal course of their operations, various component units are subject to guarantees, actions brought by third parties seeking damages or entering into commitments. Such actions are disclosed in the separately issued reports of the major component units, included below. With respect to commitments related to guarantees, certain nonmajor component units engaged in the financial services industry were also included for informative purposes. These commitments and guarantees are summarized below:

(a) ***GDB***

At June 30, 2013, the GDB has financial guarantees for the private sector of approximately $597 million. In addition, at June 30, 2013, standby letters of credit to the public sector were approximately $1.3 billion. Commitments to extend credit to the public sector were approximately $1.3 billion and to the private were approximately $95 million.

On July 24, 2013, Aerostar Airport Holdings, LLC (Aerostar) and the PRPA entered into a lease agreement of Luis Muñoz Marín International Airport (LMMIA), for a term of forty years. In connection with the lease of LMMIA, the GDB executed a payment guarantee in favor of Aerostar for any Termination Damages due and payable in cash by the PRPA under the lease agreement. In accordance with GDB's guarantee, Aerostar has the right to terminate the lease agreement mainly under three different non-compliance scenarios on the part of the PRPA. The amount of Termination Damages mainly consists, among other components, of the LMMIA Facility Leasehold Value and Leasehold Compensation as defined in the agreement.

On September 22, 2011, Autopistas Metropolitanas de Puerto Rico, LLC (Metropistas) and PRHTA entered into a concession agreement (the Concession Agreement) for the administration of the toll roads PR-22 and PR-5, for which the PRHTA received in exchange a lump-sum payment of $1.1 billion and a commitment to make immediate improvements to the toll roads amounting to $56 million and to comply with world-class operating standards which may require investing more than $600 million over the life of the concession. In connection with the closing of the Concession Agreement, the GDB executed a payment guarantee in favor of Metropistas pursuant to which the GDB acts as guarantor of any Termination Damages, as defined in the Concession Agreement, due and payable in cash by the PRHTA under the Concession Agreement. The amount of Termination

Damages consists, among other components, of the fair market value of Metropistas' interest in the toll roads. At the same time, in connection with the payment guarantee, the GDB and the PRHTA also entered into a Reimbursement Agreement whereby the PRHTA agreed to reimburse the GDB for any amounts paid under the guarantee.

On August 18, 2002, the Legislature approved Act No. 198, which creates the Cooperative Development Investment Fund. The purpose of this fund is to promote the development of cooperative entities. This fund will be capitalized through contributions to be provided by the GDB up to $25 million to be matched by cooperative entities. As of June 30, 2013, the GDB has contributed $19.3 million to the Cooperative Development Investment Fund, $1.4 million of which were contributed during the year ended June 30, 2013.

GDB's Development Fund has entered into an agreement with the Economic Development Bank for Puerto Rico (EDB) whereby the Development Fund would guarantee a portion of loans granted by the EDB under a government program named "The Key for Your Business" (the Program). Under the agreement, the Development Fund would assign $15 million of its capital for the Program. The Development Fund guarantees one-third of the outstanding principal balance of each loan plus accrued interest and certain other charges. The Development Fund charges one percent of the loan amount as guarantee fee and no loan can exceed $50,000. In addition, the GDB, the Development Fund, and certain participating banks enter into guarantee, commitment and funding agreements in which the Development Fund guarantees eligible loans made by such banks to eligible businesses up to a maximum of 30% of the principal amount of the loans. The guarantee Program started on April 3, 2012 and ended on April 3, 2013. As of June 30, 2013 guarantees amounted to approximately $56 million. At June 30, 2013, the outstanding balance of loans guaranteed by the Development fund amounted to approximately $6.6 million, and the allowance for losses on guarantees amounted to approximately $664 thousand.

The Housing Finance Authority, a blended component unit of the GDB, acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2013, the principal balance of the mortgage loans serviced for others is approximately as follows (expressed in thousands):

Puerto Rico Community Development Fund I	$	42,750
R-G Mortgage, Inc. or its successor		1,316
Office for the Administration of the Assets of the Urban Renovation and Housing Corporation or its successor without guaranteed mortgage loan payments		28
	$	44,094

GDB and certain of its component units are defendants in several lawsuits arising out of the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material adverse effect on the financial position and results of operations of the GDB or its component units.

(b) ***PRHTA***

PRHTA is a defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. These are generally either fully or partially covered by insurance. The contactors are required, under the terms of the construction agreements to carry adequate public liability insurance and to hold harmless the PRHTA from lawsuits brought on account of damages relating to the construction of the projects.

On June 13, 2011 and February 17, 2012, the PRHTA deposited approximately $21.8 million and $16.9 million, respectively, at the Federal Court of Puerto Rico as part of the appeal process at the U.S. Court of Appeals for the First Circuit of Boston for two legal cases related to construction projects. As of June 30, 2013, the PRHTA, based on legal advice, has recorded a liability of approximately $139.2 million for probable losses on those claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of the recorded liability that may arise for such claims will not be significant to the PRHTA's financial position or results of operations.

PRHTA entered into a System and Test Track Turnkey Contract (STTT Contract) with Siemens Transportation Partnership Puerto Rico, S.E. (Siemens) and other contractors for the purpose of operating and maintaining the Urban Train. During 2005, the STTT Contract became effective upon execution of the contract for an initial term of five years with an option by the PRHTA to extend the term for an additional five years. The compensation is based on a schedule included in the master agreement which approximates $4.0 million on a monthly basis. The total annual operation and maintenance cost, including cost of issuance and electricity, for fiscal year 2013 was approximately $75.1 million.

PRHTA faces a number of business challenges that have been exacerbated by the Commonwealth's economic recession and the fact that the PRHTA has not increased tolls to its customers at sufficient levels to offset the effects of its rising costs. PRHTA's principal challenges, some of which are interrelated, are: (i) reduction of operating costs; (2) increase in the use of federal grants; and (iii) improving its liquidity. The PRHTA is committed to take all necessary measures to ensure it achieves a healthy financial condition. Refer to note 15(a) for additional measures and actions being taken by the GDB as well on addressing PRHTA's challenges.

(c) ***PRASA***

PRASA is a defendant on various lawsuits presented by customers alleging that PRASA has over billed them due to the methodology used to estimate consumption. There are two cases in which plaintiffs requested a certification of the suit as a class action and seek recovery damages in the amount of approximately $386 million, plus legal costs of around $100 million (25%) and interests and an injunction enjoining PRASA from continuing to bill using the current methodology. PRASA's potential exposure from these lawsuits is unlikely or cannot be presently determined and, as such, no liability is being reported on the accompanying basic financial statements.

PRASA is the defendant or codefendant in various other lawsuits. The ultimate outcome of the lawsuits cannot presently be determined. However, PRASA's management, based on the advice of legal counsels, is of the opinion that these lawsuits will not have a material impact on the basic financial statements.

(d) ***PREPA***

PREPA is a defendant or codefendant in several lawsuits incidental to its business, some involving substantial amounts. In those instances that management and legal counsel believe that the outcome of the litigation will be unfavorable to PREPA, a provision has been made to cover the estimated liability. PREPA's management, based on discussions with legal counsel, believes that the additional liability, if any, resulting from the ultimate resolution of these matters will not have a material effect on PREPA's financial position or results of operations.

On May 18, 2000, Abengoa, Puerto Rico, S.E. (Abengoa), PREPA's contractor for the repowering of San Juan steam plant units 5 and 6, unilaterally declared a termination of the contract with PREPA and filed a complaint for breach of contract. PREPA has moved for time to answer the complaint and has filed a counterclaim for the cost of the project and for all damages caused to PREPA by the alleged illegal contract termination. PREPA believes that the actions by the contractor will not materially affect the ability of PREPA to provide service nor there will be a material difference in the quality of service provided by PREPA.

In 2009, a large fire at a tank farm owned by CAPECO caused major damage to surrounding areas. PREPA stored some of its fuel at this facility. In the aftermath of the fire, numerous claims were filed against CAPECO. Some of the plaintiffs included PREPA as a defendant in these suits, alleging that PREPA failed in its duty (as the owner of fuel stored at the site) to properly monitor CAPECO's operations in the tank farm. All cases are in the initial stages and PREPA intends to vigorously defend against these claims. On August 12, 2010, CAPECO filed for bankruptcy. As a result thereof, all proceedings against CAPECO have been stayed. The proceedings against PREPA continue.

In 2011, separate lawsuits were filed against PREPA by various consumers claiming damages allegedly caused by incorrect and unlawful billing and invoicing practices. The lawsuits have been consolidated and certified as complex litigation, as requested by PREPA. The consumers are claiming damages in excess of $100 million and requested that the case be certified as a class action. PREPA filed its reply in opposition to the class certification request. Discovery proceedings have begun. In 2011 a federal class action lawsuit was filed claiming that PREPA's rate schedules, including subsidies granted to various groups, violate federal antitrust law, specifically the Robinson-Patman Act, and the religious freedom clause of the First Amendment to the United States Constitution by discriminating against certain customers who are not entitled to subsidies and requiring certain customers to associate with persons of different religious or political views by subsidizing those views through PREPA's lower electric rates to such persons. The amount claimed is unspecified. PREPA believes the claims are without merit because several elements of the Robinson-Patman Act that the plaintiffs must prove do not exist in PREPA's case, including that it does not sell electricity in interstate commerce and because PREPA's subsidies are mandated by Commonwealth legislation rather than independent PREPA actions. Discovery proceedings have begun. In 2011, a civil lawsuit was filed against PREPA and its directors in federal court in Puerto Rico, by eight private individuals and one local private corporation, claiming violations of the Racketeer Influenced and Corrupt Organizations Act (the RICO Act), including unlawful use of an enterprise to launder money generated by a pattern of racketeering activity, unlawful manipulation of an enterprise for purposes of engaging in, concealing, or benefiting from a pattern of racketeering activity, unlawful conspiracy to violate the RICO Act and conspiracy to advance a money-laundering scheme. Neither the United States federal government nor the Commonwealth government is a party in this civil lawsuit. The amount claimed is unspecified. Plaintiffs have also asked the federal court to allow them to be the representatives of a class consisting of all consumers of the electricity sold by PREPA from 2007 to the present. On September 25, 2012, the federal court dismissed all of the above claims except those claims regarding conspiracy to advance a money laundering scheme and conspiracy for acquiring an interest in an enterprise. The federal court has not yet ruled on the issue of class certification. PREPA believes that class action certification will not be granted because the grounds advanced by plaintiffs are the same as those made in a prior year, unrelated Commonwealth court lawsuit against PREPA in which class certification was denied on facts very similar to those in this RICO Act lawsuit. Discovery proceedings have begun. PREPA believes that the undismissed RICO Act claims are without merit because the plaintiffs will be unable to prove the necessary elements of those claims, in particular those that require showing that PREPA conspired through its employees to violate the RICO Act, or that its directors or Board members obtained any interest in PREPA (other than their Board position).

In 2009, PREPA filed a lawsuit in Commonwealth court against Vitol, Inc. and certain of its affiliates and subsidiaries seeking a declaratory judgment as to the nullity of a $2 billion fuel supply agreement due to Vitol's failure to disclose certain corruption cases for which it accepted responsibility. Vitol removed this lawsuit to federal court and presented a counterclaim alleging that PREPA owed it approximately $45 million for delivered fuel and related excise taxes. Although the case is currently in the discovery stage, the court has stayed this process until such time as certain motions regarding forum selection have been resolved. On November 28, 2012, PREPA filed a second complaint against Vitol in the Commonwealth Court of First Instance seeking essentially the same remedies sought in the first action but as to four other contracts, after discovery revealed the date in which Vitol learned of the investigations in the corruption cases. Vitol also removed this action to the U.S. District Court for the District of Puerto Rico. PREPA claims approximately $3.5 billion in the aggregate. Vitol has resolved the claim for the $17 million in excise taxes and has stated that it will amend its counterclaim to dismiss that claim. Discovery in the case is closed. The parties have submitted motions for summary judgment against each other and are in the process of filing their respective oppositions thereto.

In 2007, 2008 and 2009, six cases were filed against PREPA, PRASA, and other entities alleging damages resulting from landslides. The complaints allege that PREPA caused or contributed to the landslides based on its construction of transmission lines in the area. In total, the six plaintiffs have claimed approximately $19.5 million in damages. These cases are in discovery stage and have been stayed by the court due to the bankruptcy of PRASA's insurer. Once proceedings in this case resume, PREPA will continue with its vigorous defense.

Fifty-five plaintiffs, former PREPA employees, claim that they have health problems due to PREPA's intentional failure to comply with federal and local laws regarding asbestos materials. In particular, plaintiffs claim that, during a certain time-frame, in which PREPA had the obligation to take measures regarding asbestos materials in its facilities, PREPA failed to comply with its duty to protect the plaintiffs from asbestos exposure. Plaintiffs claim approximately $321 million in damages. PREPA alleged employer's immunity but the courts held that a hearing on the merits of said defense was necessary before ruling on the matter of PREPA's alleged gross negligence. After the hearing as to the alleged negligence, held on several dates in July and August 2013, the Court requested that the parties submit legal briefs, which the parties are in the process of filing. If PREPA prevails on the employer immunity defense, the case will be dismissed. If PREPA does not prevail on said defense, the case will proceed to trial on negligence and damages as to every particular plaintiff.

In addition to these cases, PREPA is involved in typical litigation for an electric power utility, but management estimates the amounts of such claims are not material and will not affect adversely PREPA's operations.

(e) ***UPR***

UPR participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes the impact will not be material to the UPR's financial statements.

Effective April 23, 2012, the National Science Foundation (NSF), an independent U.S. government agency, suspended the federal awards for research and development in the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the UPR because the UPR has not corrected the time and effort reporting deficiencies as established in the Corrective Action Plan. NSF is responsible for promoting science and engineering through research programs and education projects. NSF will not reimburse expenditures incurred on and after April 23, 2012 by the UPR in the involved units. Most of the research and training activities under grants affected by the suspension status continue with funding from the UPR. Significant interactions between NSF and the UPR has led to a robust body of Effort Reporting System (ERS) policies and procedures, the creation of a system – wide Office for Research Compliance and Integrity and an overarching committee for continuous assessment and creation of sponsored programs, policies and procedures. On November 21, 2013, NSF lifted its suspension of the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the University.

(f) ***PRHIA***

PRHIA has been requested to repay the Commonwealth's Department of the Treasury approximately $103 million representing excess transfers of money from the central government during the fiscal years 2001–2003. After consultation with external legal counsel, PRHIA is of the opinion that the money does not have to be repaid and believes that the likelihood of an unfavorable outcome is remote. Therefore, no reserve for such request has been recognized in PRHIA's financial statements.

(g) ***EDB***

At June 30, 2013, the EDB has financial guarantees of approximately $3 million. In addition, at June 30, 2013, commitments to extend credit were approximately $41 million and commitments to invest in venture capital were approximately $8 million.

(h) ***PCSDIPRC***

PCSDIPRC provides insurance coverage over the stocks and deposits of all cooperatives in Puerto Rico. The deposit base of the cooperatives approximates $7.1 billion at June 30, 2013.

Environmental Commitments and Contingencies

Primary Government – The Commonwealth accounts for the pollution remediation obligations in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care.

Once any of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention–related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The government commences or legally obligates itself to commence pollution remediation.

During 2012, the PBA identified asbestos in its central offices building in Minillas. Asbestos removal cost was estimated based on environmental engineers' consultant survey and as a result of this study, the PBA recorded a liability of $2 million at June 30, 2012. During the year ended June 30, 2013 most of the asbestos removal process was completed at a total cost very similar to the total provision recorded in 2012. The PBA has contracted environmental engineers to determine if asbestos exists at any other of the PBA's properties. At June 30, 2013 no other property has been identified, therefore no additional reserve for any future potential liability has been recorded.

Component Units – The following discretely presented component units' operations are the ones carrying and involved in specific activities that are subject to state and federal environmental regulations:

- *PREPA* – Facilities and operations of PREPA are subject to regulation under numerous federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, Oil

Pollution Act (OPA), Resource Conservation Recovery Act (RCRA), Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and Underground Storage Tanks, among others.

In 2002, PREPA received a "Special Notice Concerning Remedial Investigation/Feasibility Study for Soil" at the Vega Baja Solid Waste Disposal Superfund Site. The EPA has identified PREPA and six other entities as "potentially responsible parties", as defined in the CERCLA. In 2003, PREPA agreed to join the other potentially responsible parties in an Administrative Order on Consent (AOC) for a Remedial Investigation/Feasibility Study (RI/FS), with the understanding that such agreement did not constitute an acceptance or responsibility. Under the AOC, PREPA committed up to $250,000 as its contribution to partially fund the RI/FS. At this time, RI/FS has been completed. The work proceeded in accordance with the schedule established by PREPA and the other designated potentially responsible parties (PRP's). In July 2010, a proposed plan was issued identifying the Preferred Alternative to address soil contamination at the Vega Baja Solid Waste Disposal Site. EPA held a public hearing on August 3, 2010 to discuss the alternatives to address soil contamination.

The Record of Decision (ROD) was published as scheduled by EPA on September 30, 2011. Alternative No. 2, Removal with On-Site Consolidation and Cover in the Non-Residential Area, was selected. From this point on, EPA resumed negotiations with the PRP's, both private and public, towards signing a Consent Decree through which the PRP's would contribute enough funds to cover the costs of the remedial action and the maintenance of the site. PREPA has already approved a contribution of $1.0 million through Resolution 3804, April 1, 2011. Notwithstanding, through further negotiations an additional contribution of $300,000 was required by EPA. This additional contribution was approved by PREPA's Governing Board.

On December 4, 2012, the Federal Department of Justice lodged with the Court the Consent Decree Civil Action No. 3:12-cv-01988, which requires that PREPA shall pay to EPA for the past response costs of the agency the amounts of $300,000 within 30 days of the effective date; $300,000 no later than August 15, 2013 and $300,000 no later than August 15, 2014. Also, an Environmental Escrow account must be created to serve as financial assurance for the performance of the obligations under the Consent Decree. PREPA shall deposit $400,000 into the escrow account within 60 days of the effective date of the Consent Decree. The effective date of the Consent Decree has not been established yet. This Consent Decree can be terminated upon motion by any party, provided that all public Defendants have satisfied their obligations of payments to Response Cost and Stipulated Penalties.

PREPA continues to develop and implement a comprehensive program to improve environmental compliance in all applicable environmental media. This program has been and continues to be updated to conform to new regulatory requirements.

- *PRASA* – On July 1, 2003, PRASA entered into an agreement (Civil Action No. 01-1709) with EPA to attain compliance with the Clean Water Act in relation to PRASA's wastewater pump stations (WWPSs) in response to a significant number of sanitary sewer bypasses from these locations. The Clean Water Act prohibits discharges of sewage from any point in the collection and treatment system other than the authorized point at the treatment facility. PRASA completed all improvement projects required by EPA for these WWPSs on or before the established completion dates in the agreement. This agreement also required PRASA to invest $1 million in the development and implementation of a Supplemental Environmental Project (SEP). This project consisted of the connection of three NON-PRASA communities to the PRASA's drinking water system. The connection has been completed and is awaiting completion of adjacent systems to fully integrate these systems to PRASA's service. The agreement also required the implementation of the Preventive Maintenance Program (PMP) for all of PRASA's WWPSs. This was fully completed in December of 2010, and is still in place. As part of the agreement, PRASA pays stipulated penalties for pump station bypass events on a quarterly basis. The penalty calculations are based on the pumping capacity of the pump station and the time taken to correct the deficiency causing the bypass event. The amount paid during fiscal year 2013 was approximately $300,000.

On June 22, 2006, PRASA entered into a consent decree (Civil Action No. 06-1624) with EPA that requires PRASA to implement system-wide remedial measures at all of the wastewater treatment plants operated by PRASA. The decree establishes deadlines for the compliance with the conditions set forth in the agreement and stipulates penalties for violation of any of those deadlines. PRASA was assessed a stipulated civil penalty of $1 million which was paid during fiscal year 2008. This penalty was assessed by the Court as payment for the discharge permit violations of several treatment facilities to the Clear Water Act. The agreement also required PRASA to deposit in an escrow account with the GDB an additional civil penalty of $3 million. These funds are to be used for providing sewer service to a community that has not been connected to PRASA's sanitary sewer system. PRASA is currently engaged in discussion with EPA as to the specific community that will benefit from this project. As part of the agreement, PRASA pays stipulated penalties on a yearly basis for exceedances to each of PRASA's facilities to their individual discharge permits. The penalty calculations are based on frequency of the exceedances as well as the percentage of the exceedances with its respective limit. The amount paid during fiscal year 2013 was approximately $500,000. These penalty payments are deposited into an escrow account from which a fraction of the deposited amount can be reimbursed to PRASA based on completion of specific projects and initiatives.

On May 25, 2006, PRASA entered into a plea agreement with the U.S. Department of Justice related to violations of the Clean Water Act, as amended, Title 33, USC, Sections 1131(a) and 1319(c)(2)(A). As part of the agreement (Criminal Case No. 06-CR-00202-001), PRASA paid a $9 million fine. This penalty was assessed by the Court as payment for the discharge permit violations of several treatment facilities to the Clean Water Act. PRASA was placed on probation for a period of five years. As part of the probation PRASA has to comply with several special conditions, such as: (i) upgrade the collection and wastewater treatment system in the Ponce de León Avenue area of San Juan for a cost of not less than $10 million to prevent direct discharges to the Martín Peña Channel; (ii) upgrade nine wastewater treatment plants for a cost of not less than $109 million; and (iii) comply with the consent decree signed by PREPA with the U.S. government on June 22, 2006. The plea agreement also established stipulated penalties for violation of any on the deadlines of performance standards set forth in the agreement. Currently, PRASA is in compliance with the deadlines and requirements of this consent order and no penalties have been paid.

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On December 15, 2006, an agreement (Civil Case No. KPE 2006-0858 was signed between PRASA and the Department of Health of the Commonwealth related to violations of the Safe Drinking Water Act (SDWA), as amended. The agreement was preliminary approved by the supervising court on March 15, 2007 and it was amended and finally approved by that court on June 20, 2008. PRASA agreed to implement a work plan to remediate the violations, establish preventive and mitigation measures, and execute a preventive maintenance program for the purpose of meeting the requirements of the SDWA. This Act requires the compliance with parameters of water quality and treatment techniques in PRASA's water systems. As part of the agreement, PRASA paid a civil penalty of $1 million during fiscal year ended June 30, 2007. The civil penalty was stipulated by the court for alleged noncompliance issues to the SDWA attended in this decree. In this Consent Decree, PRASA shall pay stipulated penalties for failing to comply with remedial measures deadlines, fail to submit deliverables or exceedances to maximum contaminant levels. During fiscal year ended June 30, 2008 and based on the amendment and final approval of the agreement, PRASA accrued approximately $2.7 million for penalties for noncompliance as stipulated by the final agreement, which were paid during fiscal year 2009. Also, as part of the penalties for noncompliance with the remedial measures of the agreement with the Department of Health during fiscal year 2009, $1.3 million were deposited in a GDB escrow account to be used for a SEP. This SEP included three projects: (1) a chemical monitoring of 67 non-PRASA systems, (2) the installation of a disinfection system in six non-PRASA systems, and (3) the connection of schools that have their own deficient water systems to PRASA's water system. During fiscal year ended June 30, 2013, the penalties amounted to approximately $600,000. PRASA deposited $50,000 in an escrow account for parameters exceedances that will be used for compliance projects with the approval of the Department of Health.

On November 2007, PRASA entered into negotiation of a consent decree (Civil Action No. 10 1365) with EPA that requires PRASA to implement system wide remedial measures at all of the sludge treatment systems at the water treatment plants owned and operated by PRASA. The consent decree was lodged on May 3, 2010 and its entry date was August 24, 2010. This consent order supersedes previous consent orders known as PRASA II (Civil Action No. 92 1511) and PRASA III (Civil Action No. 00-2554). This consent order establishes deadlines for the compliance with the conditions set forth in the proposed agreement and stipulates penalties for violation of any of those deadlines.

PRASA was assessed a civil penalty of approximately $3.2 million of which $1 million was paid to the Treasurer of the United States of America as a civil penalty, and $2.2 million was deposited in an escrow account with the GDB for the design and construction of a SEP. This SEP consisted of the installation of an aeration system in the Toa Vaca Lake. The aeration system was finished and placed into operation on November 2012. The total amount of penalties paid under this agreement during the fiscal year 2013 was approximately $1.7 million. Stipulated penalties must be paid by PRASA for failing to comply with remedial measures deadlines, permitting limit exceedances or fail to submit deliverables or DMR's monthly reports or Discharge Monitoring Reports.

PRASA is in the process of renegotiation of all the consent decrees and commitments mentioned above. The objective of this renegotiation is to establish a prioritization system that will smooth out the economic impact of the capital improvement projects on a yearly basis.

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- *SWA* – SWA initiated in years prior to the year ended June 30, 2013, the implementation and development of the Strategic Plan for Recycling and Disposal of Solid Waste in Puerto Rico at an estimated cost of approximately $112 million. The first stage consists of the construction of thirty-nine (39) projects to be financed through an interim financing agreement with the Government Development Bank for Puerto Rico. The lines-of-credit under the agreement were paid by the Department of the Treasury of the Commonwealth through joint resolutions approved by the Legislature of Puerto Rico. SWA has continued with the planning and construction of the projects.

  During May 2008, SWA approved the "Dynamic Itinerary for Infrastructure Projects of Solid Waste in Puerto Rico". This itinerary defines the strategies for safe and efficient handling of solid waste in Puerto Rico for the next twenty-five (25) years in compliance with all applicable regulations. SWA proposes this itinerary for the purpose of adopting this plan as the official instrument to guide public policy for the development of infrastructure projects for handling and final disposition of solid waste in Puerto Rico. The projects proposed in the itinerary include programs to develop facilities for the recovery of recyclable materials facilities (RMF's) for the deposit of acceptable sludge, facilities to convert solid waste to energy, transshipment facilities and lateral expansion to sanitary stuffing systems (SSS). The development of these projects takes into consideration the closing of various SSS. The construction investment is estimated at approximately $1.9 billion. SWA projects that financing for these projects will come from both the public and private sectors.

Construction Commitments – As of June 30, 2013, the following discretely presented component units are the ones maintaining various unspent construction agreements as follows (expressed in thousands):

Puerto Rico Highways and Transportation Authority	$	642,200
Puerto Rico Aqueduct and Sewer Authority		88,300
Puerto Rico Electric Power Authority		112,000
University of Puerto Rico		36,600
Puerto Rico Ports Authority		13,200
Company for the Integral Development of the Peninsula de Cantera		14,560
Port of the Americas Authority		1,434
Puerto Rico and Municipal Islands Maritime Transport Authority		4,800
Institute of Puerto Rican Culture		2,242
Total	$	915,336

Service Concession Arrangements (SCA)

PRHTA- On September 22, 2011, the PRHTA entered into a toll road concession agreement with Autopistas Metropolitanas Puertos Rico, LLC (the Concessionaire), in which the PRHTA granted to the Concessionaire the right to operate PR-5 and PR-22 highways (the Toll Roads) for a period of 40 years. During the 40-year term, the Concessionaire will have the right to charge and collect tolls imposed on the Toll Roads. The PRHTA received an upfront concession fee payment of $1.136 billion, from which approximately $1.003 billion was used to redeem or defease certain bonds issued and outstanding associated with the Toll Roads. Pursuant to the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* the PRHTA recognized a deferred inflow of resources of $1.136 billion, which will be amortized and recognized as revenue over the 40-year term of the agreement. The PRHTA will recognize approximately $28.4 million annually through year 2052 as a result of the amortization of the recognized deferred inflow of resources. The Toll Roads will continue to be presented as an asset of the PRHTA, which at June 30, 2013 amounted to approximately $90.3 million; but are not being depreciated since September 22, 2011 until the end of the agreement in 2052, as the concession agreement required the Concessionaire to return the Toll Roads to the PRHTA in its original or enhanced condition.

On December 20, 1992, the PRHTA and Autopistas de Puerto Rico y Compañía S.E. (Autopistas) entered into a concession agreement, amended in 2004 and in 2009, for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge (the Bridge), a toll bridge which traverses the San Jose Lagoon between the municipalities of San Juan and Carolina. The initial term of this agreement was 35 years, expiring on April 3, 2027; but has been subsequently amended on September 9, 2009 to extend the term to 50 years until 2044. Also, pursuant to the provisions of GASB No. 60, as of June 30, 2013, the PRHTA recognized the Bridge at its estimated fair value of $109.5 million, amortized over an estimated useful life of 50 years, and a deferred inflow of resources, also of $102.8 million that will be amortized and recognized as revenue over the remaining term of the agreement.

The highways and bridge under concession agreement, net at June 30, 2013 and 2012 consisted of (in thousands):

		2013	2012 (As Restated)
Toll Roads Concession	$	90,740	90,740
Toll Roads Concession Improvements		11,334	—
Bridge Concession		67,890	70,080
Total	$	169,964	160,820

The deferred inflows of resources at June 30, 2013 and 2012 consisted of (in thousands):

		2013	2012 (As Restated)
Toll Roads Concession	$	1,097,784	1,114,857
Bridge Concession		67,890	70,080
Total	$	1,165,674	1,184,937

PRPA- On February 27, 2013, the Federal Aviation Administration (FAA) approved the closing of the Lease and Use Agreements (the APP Agreements) entered into on July 27, 2012 between the PRPA and Aerostar Airport Holdings, LLC (Aerostar) with respect to the Luis Munoz Marin International Airport Project (LMMIA Project). The APP Agreements awarded Aerostar the right to operate, manage, maintain, develop and rehabilitate the LMMIA during a term of 40 years, subject to extension conditions as defined, in exchange for an upfront payment of a leasehold fee of $615 million to the PRPA. In addition, upon the closing of the APP Agreements, the PRPA will receive from Aerostar annual rental payments for the first five full reporting years of $2.5 million; then from the sixth full reporting year through and including the thirtieth reporting year, the PRPA will receive annual rental payments equal to 5% of the gross airport revenue earned by Aerostar in such years; and finally from the thirty-first reporting year and each succeeding year, the PRPA will receive annual rental payments equal to 10% of the gross airport revenue earned by Aerostar in such years.

Under the APP Agreements, the PRPA is responsible for certain capital improvements pursuant to the Airline Capital Improvement Program. The present value of these capital improvements was estimated at $3.068 million at transaction date. Pursuant to the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements, the PRPA* recognized at February 27, 2013, the date of the closing of the APP Agreements, a resulting deferred inflow of resources amounting to $622.5 million and a liability of $3,068 million for the present value of the capital improvement commitments of the PRPA; in exchange for the receipt of the $615 million upfront leasehold fee and the receivable of the annual payments of $2.5 million to be received from Aerostar for the first 5 years since the closing, with a present value estimate of $10.5 million. Since the closing date through June 30, 2013, approximately $5.8 million of the deferred inflow of resources have been amortized into revenue and approximately $15.3 million will be amortized annually into revenue until the term of the APP Agreement. As of June 30, 2013, the PRPA has satisfied approximately $2.2 million of its capital improvement commitments.

The right awarded to Aerostar to operate, manage and rehabilitate the LMMIA (following certain Operating Standards established by the FAA and the Authority) is accompanied with the assignment of all the revenues from the LMMIA facilities through the different lease agreements with airport concessionaries, including food and beverage providers, retailers, ground transportation providers, and other airport users, formerly belonging to the Authority. Aerostar will also be able to charge a maximum level of fees to the airlines at LMMIA, as established in the APP Agreements. The APP Agreements also provide for a series of capital improvement expenditures on the LMMIA from Aerostar over the term of the APP Agreements, with certain required initial projects and general accelerated upgrades, as defined. The PRPA, on the other hand, is required to provide police and fire services to the LMMIA in exchange for an annual compensation of $2.8 million, to be adjusted thereafter based on inflation. The APP Agreements also establishes certain compensation events, the occurrence of which from either party would trigger a compensation amount or activity from the defaulting party to the affected party, as defined. Finally, the PRPA will be responsible to Aerostar, at the term of the APP Agreements, for any capital related improvements not fully reimbursed to Aerostar from the Passenger Facility Charge (PFC) program or other airline charges.

PRPA used $525 of the $615 million upfront leasehold fee received to repay debt obligations to lenders and suppliers, to cover certain related transaction costs and to set up reserve funds to cover early retirement of employees, improvements to regional airports and cover obligations of the PRPA in case of losses sustained on the APP Agreements. The LMMIA assets under this concession agreement amounted to $474.6 million at June 30, 2013; while the deferred inflows of resources at June 30, 2013 amounted to $619.4 million.

(17) Retirement Systems

The Commonwealth sponsors three contributory defined benefit pension plans (collectively known as the Retirement Systems), which are reported in the accompanying statement of fiduciary net position:

- Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS)
- Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS)
- Puerto Rico System of Annuities and Pensions for Teachers (TRS)

Each system is independent; thus, their assets or liabilities may not be transferred from one system to another or used for any purpose other than to benefit the participants of each system.

The Retirement Systems issue financial reports, which are publicly available and include the basic financial statements, the required trend information, and any other required supplementary information. These reports may be obtained by written request to the corresponding retirement system administrator at the addresses detailed in note 1(b).

(a) *ERS*

Plan Description – The ERS is a cost-sharing, multi-employer defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration) and was created by Act No. 447 on May 15, 1951. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the ERS is vested on an eleven-member board of trustees, composed of three participating employees (two members from ERS and one member from JRS) and two pensioners (one member from the ERS and one member from the JRS), who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of GDB, the Director of the Human Resources of the Commonwealth, and Commissioner of Municipal Affairs. The other two members are the President of the Federation of Mayors and the President of the Association of Mayors.

As of June 30, 2013, the ERS has an unfunded actuarial accrued liability (UAAL) of approximately $22,981 million, representing a 3.1% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, it is estimated that starting in fiscal year 2015, the ERS's assets will be less than its obligations (including bonds payable but excluding its UAAL) resulting in a deficit net position. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken. As described in note 16, future employer contributions have been pledged for the payment of debt service, consequently further depletion of ERS's assets could result in the inability to pay benefits.

The estimate of when the ERS's net position will become a deficit and when its assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member, employer contributions and the employer additional contribution (Act No. 32), which as discussed below, was estimated in $120.0 million annually, as well as the estimated participant benefits and the ERS's administrative expenses to be paid each year.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. An appropriation for such additional contribution of approximately $120 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of budgetary constraints at the present time management believes that approximately $90 million of this amount will not be collected as expected during fiscal year 2014. Further, this additional contribution was reduced to $28.2 million for the Commonwealth's proposed budget for the fiscal year 2015.

The ERS's funding requirements, together with the funding requirements of the JRS and the TRS, could have a direct negative effect on the Commonwealth's General Fund, since the Commonwealth is the plan sponsor and is obligated to make contributions to fund each of the systems.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contribution as provided by Act No. 32, for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS's bond payable.

To address these issues, the ERS and the Commonwealth, with the assistance of the ERS external consulting actuaries, concluded that, in addition to other measures, annual increases in the employers' contribution rate would be required to fully fund pensions, without having to liquidate the ERS investment portfolio. Accordingly, on July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Other measures taken to improve the funding ratio of ERS, include 1) improving the collection of late contributions by receiving such contributions directly from the Municipal Revenue Collection Center (CRIM) when a municipality fails to send their contributions within 30 days from the due date or from the Department of Treasury of the Commonwealth (Hacienda) in the case of agencies; 2) implementation of Act No. 70 establishing early retirement incentives; 3) revision of the

Employee Personal Loan Policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 4) the receipt of a special contribution from the Commonwealth that was invested in junior subordinated capital appreciation bonds issued by COFINA (the COFINA Bonds) amounting to $162.5 million in 2011.

Act No. 70 established a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment. The ERS will be responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make the required contributions to the ERS. As of June 30, 2013, the ERS has recorded a liability of approximately $16 million for its responsibility as an employer under Act No. 70.

Furthermore, on April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefit structures under the ERS, including, but not limited to, the following:

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.

2. Increased the minimum pension for current retirees from $400 to $500 per month.

3. The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.

4. The retirement age for active System 2000 participants will be gradually increased from age 60 to age 65.

5. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.

6. Eliminated the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.

7. The retirement age for new employees was increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.

8. The employee contribution rate was increased from 8.275% to 10%.

9. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.

10. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the ERS.

11. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.

12. Survivor benefits were modified.

The ERS consists of different benefit structures pursuant to Act No. 447 of 1951, as amended, including a cost-sharing multi-employer contributory defined benefit program and a cash balance program, similar to a cash balance plan. The ERS is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (Commonwealth Agencies, Municipalities, and Public Corporations, including the ERS) are covered by the ERS. All regular, appointed, and temporary employees of the Commonwealth at the date of employment become plan members of the ERS. The ERS is optional for Commonwealth officers appointed by the Governor and Head of Agencies.

Plan members, other than those who joined the ERS after March 31, 1990, are eligible for the benefits described below:

Retirement Annuity – Plan members are eligible for a retirement annuity upon reaching the following age:

Policemen and Firefighters	Other Employees
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the ERS. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

Merit Annuity – Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation. As a result of the enactment of Act No. 3 of April 4, 2013, effective July 1, 2013, merit annuities will no longer be available to participants who joined the ERS after April 1, 1990.

Deferred Retirement Annuity – A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the ERS are left within the ERS until attainment of 58 years of age.

Coordinated Plan – On the coordinated plan, the participating employee contributes 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service.
- $110 per month if retired with less than 55 years of age and 30 years of credited service.
- All other between $82 and $100 per month.
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month.

Noncoordinated Plan – On the noncoordinated plan, the participating employee contributes 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

Reversionary Annuity – A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than $240 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity – A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

Nonoccupational Disability Annuity – A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the average compensation of the first 20 years of credited service increased by 2% for every additional year of credited service in excess of 20 years.

Death Benefits:

Occupational:

Surviving Spouse – annuity equal to 50% of the participating employee's salary at the date of the death.

Children – $10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee's salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

Beneficiary – the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of death.

(Continued)

Postretirement – Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under Title II of the Social Security Act) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $1,000.

Refunds – A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the ERS, plus any interest earned thereon.

Amendments to Benefits Structure for Plan Members who Joined the ERS on or After April 1, 1990 – Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the ERS effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the merit annuity for participating employees (except policemen and firemen) who have completed 30 years of creditable service.

Special Benefits:

During fiscal years 2003 to 2007, the Commonwealth granted additional benefits to the ERS's retirees. As of June 30, 2013, these benefits are being funded through special appropriations from the Commonwealth for the amount corresponding to the Commonwealth agencies and from the public corporations and municipalities. Special benefits include the following:

- Christmas Bonus – An annual bonus of $600 for each retiree and disabled member paid each December. The ERS pays $150 per retiree and disabled member and the remaining bonus is paid by the Commonwealth.
- Summer Bonus – An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July. This benefit is prorated if there are multiple beneficiaries and is funded by the Commonwealth.
- Medication Bonus – An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs. Evidence of coverage is not required. This benefit is funded by the Commonwealth.
- Cost of Living Adjustment for Pension Benefits – Act No. 10 of May 21, 1992, provided for increases of 3% every three years, of the pensions paid by the ERS to those plan members with three or more years of retirement. Act No. 10 requires further legislation to grant this increase every three years, subject to the presentation of actuarial studies regarding its costs and the source of financing. Since fiscal year 1992 to 2007 there have been other acts addressing the cost of living allowance (C.O.L.A.), such as Act No. 207 of August 13, 1995; Act No. 221 of August 9, 1998; Act No. 40 of June 13, 2001; Act No. 157 of June 27, 2003; and Act No. 35 of April 24, 2007.

On April 24, 2007, the Governor signed Act No. 35 to provide for an increase of 3% of the pension paid by the ERS to those plan members whose monthly pension was less than $1,250, effective on July 1, 2008.

To protect the financial health of the ERS, the increases granted pursuant to the above laws are being financed through annual appropriations from the Commonwealth and contributions from municipalities and public corporations.

Early Retirement Programs – The Municipality of San Juan issued Resolution No. 41, dated May 5, 2008, which provided an early retirement program for the municipalities' employees. The Municipality of San Juan will reimburse the annuities and other benefits paid by the ERS during a five-year period, plus the employer and employee contributions with respect to the plan members covered until they reach the normal retirement age.

The Puerto Rico Environmental Quality Board (EQB) implemented an early retirement program for its employees under Act No. 7 dated August 9, 2008. The EQB has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting in 2009 through 2012. The EQB was at default on the retirement plan payment, so they requested a new payment plan. The ERS Board of Trustees approved a payment plan for the debt balance due of the retirement program for 24 months starting in March 2014.

Amendment to Act No. 447 Effective January 1, 2000, to Create System 2000 – On September 24, 1999, Law 305, an amendment to Act No. 447 of May 15, 1951, which created the ERS, was enacted to provide for a new benefit structure, similar to a cash balance plan, known as System 2000, to cover employees joining the ERS on or after January 1, 2000.

Employees participating in the ERS as of December 31, 1999, were allowed to elect either to stay in the defined benefit structure or transfer to System 2000. People joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. Under System 2000, contributions received from participants are pooled and invested by the ERS, together with the assets corresponding to the defined benefit structure. Future benefit payments under the original defined benefit structure and System 2000 will be paid from the same pool of assets. As a different benefit structure, System 2000 is not a separate plan, and as such, is not presented separately from the original defined benefit structure, pursuant to the provisions of GASB Statement No. 25. The Commonwealth does not guarantee benefits at retirement age.

The annuity benefits to participants is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes or, (2) earns a rate equal to 90% of the return of the ERS's investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Plan members receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000 rather should be provided to those plan members that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (11.275% of the employee's salary for 2013) with respect to employees under System 2000 will continue but will be used to fund the defined benefit plan. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

At June 30, 2013, System 2000's membership consisted of 63,508 current participating employees.

As discussed above, Act No. 3 of 2013 substantially amends the provisions of the previous Acts governing the ERS benefit structures and programs.

Funding Policy – The contribution requirement to the ERS is established by law and is not actuarially determined. Required employers' contributions consist of 11.275% of applicable payroll in the cases of municipalities, central government, and public corporations. Required employee contribution consists of 5.775% of the first $550 of the monthly salary with the excess at 8.275% for the coordinated benefit structure and 8.275% of the total monthly salary for participating employee's contributions for the noncoordinated benefit structure. If necessary, additional non payroll related contributions from the Commonwealth should ultimately cover any deficiency between the participating employers' and employee's contributions and the ERS's pension benefit obligations and general and administrative deductions.

The special benefits contributions of approximately $203.9 million in 2013 mainly represent contributions from the General Fund of the Commonwealth for the special benefits granted by special laws. The funding of the special benefits is provided to the ERS through legislative appropriations each July 1. The legislative appropriations are considered estimates of the payments to be made by the ERS for the special benefits. Deficiencies in legislative appropriations are covered by the ERS's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over special benefits paid is combined with the assets held in trust for the payment of other pension benefits.

During the year ended June 30, 2013, ERS increased the assumed rate of return from 6.0% in 2012 to 6.4 % in 2013 which resulted in a decrease of approximately $290 million in the actuarial accrued liability.

As discussed above, Act No. 3 of 2013 substantially amends the provisions of the previous Acts governing the ERS funding policies.

(b) ***JRS***

Plan Description – The JRS is a single-employer defined benefit pension plan administered by the ERS and JRS Administration and was created by Act No. 12 on October 19, 1954 (Act No. 12 of 1954). The JRS is a pension trust fund of the Commonwealth and is not an employer. The JRS provides retirement benefits to the employees of the judiciary branch of the Commonwealth, through the Office of the Administration of Court Facilities (the Employer). The JRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the JRS is vested on an eleven-member board of trustees, composed of three participating employees (two members from ERS and one member from JRS) and two pensioners (one member from ERS and one member from JRS), who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of GDB, the Commissioner of Municipalities Affairs, and the Executive Director of the Human Resources

Office of the Commonwealth. The other two members are the President of the Federation of Mayors and the President of the Association of Mayors.

As of June 30, 2013, the JRS has an unfunded actuarial accrued liability for pension benefits of approximately $357.7 million, representing a 14.2% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, if measures are not taken soon to deal with this situation, the JRS's assets are estimated to be exhausted by the fiscal year 2019. The JRS's funding requirements, together with the funding requirements of the ERS and the TRS, could have a direct negative effect on the Commonwealth's General Fund, since the Commonwealth is the plan sponsor and is obligated to make contributions to fund each of the systems.

The estimate of when the JRS's assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member and employer contributions, as well as the estimated participant benefits and the JRS's administrative expenses to be paid each year. If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its employer contributions to the JRS for the upcoming years, may be adversely affected. Actual result could differ from this estimate.

To address these issues, the JRS and the Office of the Administration of Court Facilities (the Employer) entered into an agreement to increase the employer contributions from 20% to 30.34%, effective on July 1, 2008. Employees' contributions consist of 8% of the employees' monthly salary. Contributions from the Commonwealth should ultimately cover any deficiencies between the employer and employee's contributions and JRS's pension benefit obligation and administrative costs.

Additionally, to help address the funded status situation, Act No.162 of 2013 was enacted to amend certain provisions of the retirement system. However, many provisions of Act No. 162 were ruled unconstitutional or to apply only prospectively.

The ERS and JRS Administration allocated 1.73% of its general and administrative expenses to the JRS during the year ended June 30, 2013. The methodology used to determine the allocation of the Administration's expenses is based on total Employer and participating employees' contributions to the JRS, divided by the aggregate total of employers and participants' contributions to the JRS and ERS, combined.

During the year ended June 30, 2013, the JRS liquidated investments of approximately $3 million to cover the Department of Treasury overdraft.

Under the terms of Act No. 12 of 1954, as amended, all judges of the judiciary branch of the Commonwealth are plan members of the JRS. Members of the JRS are eligible for the following benefits:

Retirement Annuity – Plan members with 10 years of credited service are eligible for retirement upon reaching 60 years of age.

Plan members are eligible for monthly benefit payments determined by the application of a stipulated benefit to the plan member's highest salary received as judge. The annuity for which a plan member is eligible, is limited to a minimum of 25% and a maximum of 75% of the highest salary received as a judge.

Reversionary Annuity – A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The payments would start after the death of the retiree, for an amount not less than $120 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity – A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability, payable as an annuity, reduced by any payments received from the state insurance fund under the Workmen's Accident Compensation Act.

Nonoccupational Disability Annuity – A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for annuity of 30% of the average compensation of the first 10 years of credited services, increased by 1% for every additional year of credited service in excess of 10 years, up to a maximum of 50% of the average compensation.

Death Benefits:

Occupational:

Surviving spouse – Annuity equal to 50% of the participating employee's salary at the date of the death.

Children – $10 per month for each child, minor or student, up to a maximum benefit per family of 75% of the participating employee's salary at the date of the death. If no spouse survives or dies while receiving the annuity payments, each child, 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Preretirement:

While in active service, the contributions and interest accumulated as of the date of the death, plus an amount equal to the annual compensation at the time of the death. While not in active service, the benefit equals a refund of the accumulated contributions.

Postretirement:

Surviving spouse and dependent children – up to 60% of the retiree's pension, payable for life for a surviving spouse and/or disabled children and payable until age 18 or completion of studies, if later, for nondisabled children.

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Other designated by the retiree – the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $500.

Refunds – A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the JRS, plus any interest earned thereon.

Special Benefits **-** Special benefits include the following:

- Christmas Bonus – An annual bonus of $600 for each retiree and disabled member paid each December. The JRS pays $150 per retiree and disabled member and the remaining bonus is paid by the Commonwealth.
- Summer Bonus – An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July. This benefit is prorated if there are multiple beneficiaries and is funded by the Commonwealth.
- Medication Bonus – An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs. Evidence of coverage is not required. This benefit is funded by the Commonwealth.
- Cost-of-living Adjustments (COLA) – Effective January 1, 2001, commencing January 1, 2002 and subsequently every three years thereafter, the annual benefit is increased by 3% for retirees and disabled members provided that the member had been receiving payments for at least three years (Section 236c). These COLAs are paid by the General Fund of the Commonwealth. In addition, an ad-hoc 3% COLA was granted effective January 1, 1999 and is paid by the JRS (Section 236b).

Funding Policy – The contributions to the JRS are established by law and are not actuarially determined. Required contributions consist of 30.34% of applicable payroll for the Employer and 8% for the participating employees. Contributions from the Commonwealth should ultimately cover any deficiency between the Employer's and employees' contributions and the JRS's pension benefit obligations and administrative costs.

The special benefits contributions of approximately $1.4 million in 2013 represent contributions from the General Fund of the Commonwealth for the special benefits granted by special laws. The funding of the special benefits is provided to the JRS through legislative appropriations each July 1. The legislative appropriations are considered estimates of the payments to be made by the JRS for the special benefits. Deficiencies in legislative appropriations are covered by the JRS's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over special benefits paid is combined with the assets held in trust for the payment of other pension benefits.

During the year June 30, 2013, JRS increased the assumed rate of return from 6.1% in 2012 to 6.3% in 2013, which resulted in a decrease of approximately $9 million in the actuarial accrued liability.

(c) *TRS*

Plan Description – The Puerto Rico System of Annuities and Pensions for Teachers (TRS) is a cost-sharing multiple-employer defined benefit pension plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The TRS is considered an integral part of the Commonwealth's financial reporting entity and is included in the Commonwealth's basic financial statements as a pension trust fund. The TRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the TRS is vested in a board of trustees, composed of nine members, as follows: three ex-officio members, which are the Secretary of the Treasury, the Secretary of the Department of Education, and the President of the GDB; one member who is a representative of a teacher's organization designated by the Governor; three teachers of the TRS appointed by the Governor, one of which is a currently certified teacher in active service, and two who represent retired teachers; one member who is a representative of the entity in accordance with Act No. 45 of February 25, 1998, as amended; and one additional member, as representative of the public interest, with knowledge of and experience in the administration and operation of financial systems, appointed by the Governor.

As of June 30, 2013, the TRS has an unfunded actuarial accrued liability for pension benefits of approximately $10,345 million, representing a 15.6% funding ratio. Certain measures have been taken to improve the TRS's funding status. However, in the opinion of management and based on information prepared by consulting actuaries, if additional measures are not taken soon to deal with this situation, the TRS's assets are estimated to be exhausted by the fiscal year 2020. The TRS's funding requirements, together with the funding requirements of the ERS and the JRS, could have a direct negative effect on the Commonwealth's General Fund, since the Commonwealth is the plan sponsor and is obligated to make contributions to fund each of the systems.

The estimate of when the TRS's assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for member and employers' contributions, as well as the estimated participant benefits and the TRS's administrative expenses to be paid each year. If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its employer contributions to the TRS for the upcoming years may be adversely affected. Actual result could differ from this estimate.

To address these issues, the TRS and the Commonwealth, with the assistance of the TRS's external consulting actuaries, concluded that annual increases in the employers' contribution rate were required to assist in funding pension payments, without having to liquidate the TRS's investment portfolio. As a result of such determination, the Commonwealth approved Act No. 114 on July 5, 2011, establishing annual employer contribution increases of 1% of covered payroll for the fiscal years 2012 to 2016. In addition, it establishes annual employer contribution increases of 1.25% for the fiscal years 2017 to 2021.

All active teachers of the Puerto Rico Department of Education and the employees of the TRS become plan members of the TRS at their date of employment. Licensed teachers working in private schools or other educational organizations have the option to become members of the TRS so long as the required employer and employee contributions are satisfied.

The plan members of the TRS are eligible for the benefits described below:

Retirement Annuity – Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the TRS. The annuity for which a plan member is eligible is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

The plan members are eligible for retirement annuity benefits upon complying with the following:

Minimum Age	Years of creditable services	Retirement annuity compensation
50 and 55	30 or more	75% of average compensation
Under 50	30 or more	65% of average compensation
60	At least 10, but less than 25	1.8% of average compensation times years of service
50	At least 25, but less than 30	1.8% of average compensation timers years of service
47, but less than 50	At least 25, but less than 30	95% of 1.8% of average compensation times years of service

Deferred Retirement Annuity – A participating employee who terminates service before age 60, after having accumulated a minimum of ten years of creditable services, qualifies for a deferred retirement annuity payable beginning at age 60. A participating employee who has completed 25 or more years of creditable services and is under the age of 47 at termination, qualifies for a deferred retirement annuity payable beginning at age 47. The vested rights described above are provided if his/her contributions to the TRS are left within the TRS until the attainment of the respective retirement age.

Occupational Disability Annuity – A participating employee, who as a direct result of the performance of his/her occupation becomes disabled, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months or the number of months of creditable services, if less than five years, recognized by the TRS, times years of creditable services; but not less than $400 per month.

Nonoccupational Disability Annuity – A participating employee disabled for causes not related to his/her occupation, and with at least five years of credited service, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months recognized by the TRS, times years of service; but not less than $400 per month.

Death Benefits:

Preretirement – The beneficiaries receive the contributions made to the plan and 2% interest accumulated as of the date of death (after discounting debts with the TRS), plus an amount equal to the annual compensation of the member at the time of death.

Postretirement – The surviving spouse receives 50% of the retiree's pension and if there are children under 22 years of age or disabled (until disability ceases), they receive the other 50% of the pension. If there is no surviving spouse or children who qualify, the beneficiaries receive the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $1,000.

Refunds – A participating employee who ceases his/her employment with the Commonwealth without the right to a retirement annuity has the right to a refund of the employee contributions paid to the TRS, plus any interest earned thereon.

Early Retirement Program – On January 27, 2000, Act No. 44 was approved, which provided that effective March 9, 2000, plan members were eligible for early retirement upon attaining the age of 50 and 28 years of services in the first year of implementation and age 50 and 25 years of service in subsequent years. Those who select early retirement under these conditions will receive monthly benefits equal to 75% of their average compensation, which is computed based on the highest 36 months of compensation recognized by the TRS. Effective July 31, 2001, the option for early retirement was closed.

Special Benefits – Special benefits include the following:

- Christmas Bonus – An annual bonus of $600 for each retiree and disabled member paid each December. The TRS pays $150 per retiree and disabled member and the remaining bonus is paid by the Commonwealth.
- Summer Bonus – An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July. This benefit is prorated if there are multiple beneficiaries and is funded by the Commonwealth.
- Medication Bonus – An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs. Evidence of coverage is not required. This benefit is funded by the Commonwealth.
- Cost of Living Adjustments – Act No. 62 of September 4, 1992 provided, subject to the approval of the Legislature of the Commonwealth (the Legislature), for increases of 3% every three years in pensions to those plan members with three or more years of retirement. In years 1995, 1998, 2001, 2004, and 2007, the Legislature has replicated the benefit granted per Act No. 62 of September 4, 1992. This benefit is funded by the Commonwealth.

(Continued)

- Other Pension Increase Acts – Act No. 128 of June 10, 1967 and Act No. 124 of June 8, 1973 provided a pension increase (from 2% to 10%) based on the monthly pension, and Act No. 47 of June 1, 1984, provided a pension increase based on credited service worked. This increase is funded by the Commonwealth.
- Cultural Loans – Act No. 22 of June 14, 1965 provides a 50% repayment of the interest that would be paid by the active teachers and retirees. This benefit is funded by the Commonwealth.
- Death Benefit – Act No. 272 of March 29, 2004 increases the death benefit of $500 to $1,000. This $500 increase is funded by the Commonwealth.

Funding Policy – Participating employees are required to contribute 9% of their compensation to the TRS, while the employer was required to contribute 10.5% of the applicable payroll for the year ended June 30, 2013. However, Act No. 114 provides for annual employer contribution increases of 1% for the fiscal years 2013 to 2016, and 1.25% annually for the fiscal years 2017 to 2021. Commonwealth contributions should ultimately cover any deficiency between the participating employees' contributions and the TRS's pension benefit obligations and administrative costs.

The special benefits contributions of approximately $54.1 million in 2013 represent contributions from the General Fund of the Commonwealth for the special benefits granted by special laws, as detailed in note 2. The funding of the special benefits is provided to the TRS through legislative appropriations each January 1 and July 1. The legislative appropriations are considered estimates of the payments to be made by the TRS for the special benefits. Deficiencies in legislative appropriations are covered by the TRS's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over special benefits paid is combined with the assets held in trust for the payment of other pension benefits.

During the year ended June 30, 2013, the TRS increased the assumed rate of return from 5.95% in 2012 to 6.25% in 2013, which resulted in a decrease of approximately $430 million in the actuarial accrued liability.

Other relevant information on the Commonwealth's Retirement Systems is presented below (as of June 30, 2013, for ERS, JRS, and TRS):

(d) ***Membership as of June 30, 2013***

		ERS	JRS	TRS	Total
Retirees currently receiving benefits	$	111,044	431	35,977	147,452
Current participating employees		125,671	364	41,553	167,588
Total		236,715	795	77,530	315,040

(e) *Annual Pension Cost and Net Pension Obligation*

The Commonwealth's annual pension cost and net pension obligation of the three pension plans as of and for the year ended June 30, 2013 were as follows (expressed in thousands):

	ERS	JRS	TRS	Total
Annual required contributions	$ 2,192,821	38,501	736,591	2,967,913
Interest on net pension obligation	512,791	4,572	146,813	664,176
Adjustment to annual required sponsors' contributions	(743,529)	(6,977)	(131,297)	(881,803)
Annual pension cost	1,962,083	36,096	752,107	2,750,286
Statutory sponsors' contributions made	(637,576)	(11,402)	(187,444)	(836,422)
Increase in net pension obligation	1,324,507	24,694	564,663	1,913,864
Net pension obligation at beginning of year	8,621,475	75,094	2,462,232	11,158,801
Net pension obligation at end of year	$ 9,945,982	99,788	3,026,895	13,072,665

The net pension obligation at June 30, 2013 for ERS, JRS and TRS of approximately $13.1 billion, is recorded in the accompanying statement of net position.

The following tables show the most significant actuarial methods and assumptions used to estimate the net pension obligation:

	ERS	JRS	TRS
Date of latest actuarial valuation	June 30, 2013	June 30, 2013	June 30, 2013
Actuarial-cost method	Projected unit credit cost method with straight proration based on service to decrement	Projected unit credit cost method with straight proration based on service to decrement	Entry age normal
Amortization method	30 years closed, level dollar	30 years closed, level percentage of payroll	30 years closed, level percentage of payroll
Remaining amortization period	24 years	13 years	24 years

The annual required contribution for the year ended June 30, 2013, was determined by actuarial valuations for each of the pension plans as described below:

	ERS	JRS	TRS
Asset-valuation method	Market value of assets	Market value of assets	Market value of assets
Actuarial assumptions:			
Inflation	2.5%	2.5%	2.5%
Investment rate of return	6.4	6.3	6.3
Projected payroll growth	2.5	—	—
Projected salary increases per annum	3.0	3.0	3.5% (general wage inflation, plus service-based merit increase)
Cost-of-living adjustments	0.99% annually to approximate 3.0% triennial increases	0.99% annually to approximate 3.0% triennial increases	None assumed
Mortality	Pre-retirement Mortality: For general employees and Mayors, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date.	Pre-retirement Mortality: RP-2000 Employee Mortality Rates with white collar adjustments for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date.	Pre-retirement Mortality: RP-2000 Employee Mortality Rates for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date.
			Post-retirement Healthy Mortality:
	100% of deaths while in active service are assumed to be occupational for members covered under Act 127. For other members, 25% of deaths while in active service are assumed to be occupational and 75% are assumed to be nonoccupational.	Among deaths while in active service, 50% are assumed to be occupational, 50% are assumed to be nonoccupational.	Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 87% of the rates from the UP-1994 Mortality Table for females.

ERS	JRS	TRS
Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for females. The rates are projected on a generational basis starting in 1994 using Scale AA. table, As a generational table, it reflects mortality improvements both before and after the measurement date.	Post-retirement Healthy Mortality: RP-2000 Healthy Annuitant Mortality Rates with white collar adjustments for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date.	Post-retirement Healthy Mortality: The rates are projected on a generational basis starting in 1994 using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date.
Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality table for females. No provision was made for future mortality improvement for disabled retirees.	Post-retirement Disabled Mortality: RP-2000 Disabled Annuitant Mortality Rates, without projection. No provision was made for future mortality improvement for disabled retirees.	Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 equal to the rates in the UP-1994 Mortality Table for males and females. No provision was made for future mortality improvement for disabled retirees.

The ERS, JRS, and TRS statutory contribution as a percentage of the required contribution for the current year and each of the two preceding years is as follows:

	ERS	JRS	TRS
Year ended June 30, 2013	29.1%	29.6%	25.5%
Year ended June 30, 2012	29.2%	34.2%	26.8%
Year ended June 30, 2011	40.4%	37.1%	30.3%

(f) ***Three Year Trend Information***

The three year trend information is as follows (dollars expressed in thousands):

		ERS	JRS	TRS
Annual pension cost (APC):				
Year ended June 30, 2013	$	1,962,083	36,096	752,107
Year ended June 30, 2012		1,903,046	32,274	673,891
Year ended June 30, 2011		1,656,181	29,113	550,400
Percentage of APC contributed:				
Year ended June 30, 2013		32.5%	31.6%	24.9%
Year ended June 30, 2012		31.0	35.5	25.9
Year ended June 30, 2011		42.4	37.6	29.4
Net pension obligation (asset):				
At June 30, 2013	$	9,945,982	99,788	3,026,895
At June 30, 2012		8,621,475	75,094	2,462,232
At June 30, 2011		7,308,172	54,268	1,962,912

(g) ***Funded Status***

Funded status of the pension plans as of June 30, 2013, the most recent actuarial valuation date, is as follows (dollars expressed in thousands):

		ERS	JRS	TRS	Total
Actuarial accrued liability	$	(23,712,081)	(416,734)	(12,251,995)	(36,380,810)
Actuarial value of assets		731,342	59,012	1,906,882	2,697,236
Unfunded actuarial accrued liability	$	(22,980,739)	(357,722)	(10,345,113)	(33,683,574)
Funded ratio		3.1%	14.2%	15.6%	7.4%
Covered payroll	$	3,489,096	32,138	1,248,674	4,769,908
Unfunded actuarial accrued liability as a percentage of covered payroll		658.6%	1,113.1%	828.5%	706.2%

The schedule of funding progress presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations.

(18) Other Postemployment Benefits

The Commonwealth provides postemployment healthcare benefits through defined benefit plans that are administered by the ERS and JRS Administration or by the TRS Administration:

- Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC)

- Retirement System for the Judiciary of the Commonwealth of Puerto Rico Medical Insurance Plan Contribution (JRS MIPC)

- Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution (TRS MIPC)

(a) *Plans Descriptions*

ERS MIPC and TRS MIPC are unfunded cost-sharing multiple-employer defined benefit other postemployment (OPEB) plans sponsored by the Commonwealth. JRS MIPC is an unfunded, single-employer defined benefit OPEB plans sponsored by the Commonwealth. These OPEB plans were created under Act No. 95 approved on June 29, 1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full time employees of: (1) the Commonwealth's primary government and (2) certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan. JRS MIPC covers all judges of Judiciary Branch of the Commonwealth. The TRS MIPC covers all active teachers of the Department of Education of the Commonwealth and employees of the TRS Administration.

Commonwealth employees become plan members upon their date of employment. Plan members are eligible for benefits upon reaching the following age:

ERS MIPC:
- Police and Firemen:
  - 50 with 25 years of credited service
  - 58 with 10 years of credited service
- Other Employees:
  - 55 with 25 years of credited service
  - 58 with 10 years of credited service
- JRS MIPC:
  - 60 with 10 years of credited service
- TRS MIPC:
  - 47 with 25 years of credited service
  - 60 with 10 years of credited service

Funding Policy – The contribution requirement of ERS MIPC, JRS MIPC and TRS MIPC are established by Act No. 95 approved on June 29, 1963. Its benefit consists of a maximum of $100 per month per retiree. All these OPEB plans are financed by the Commonwealth on a pay-as-you-go basis. There is no contribution requirement for plan members during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

(b) ***Membership as of June 30, 2013***

	ERS	JRS	TRS	Total
Retirees and beneficiaries currently receiving benefits	124,497	489	39,065	164,051
Current participating employees	125,671	364	41,553	167,588
Total	250,168	853	80,618	331,639

(c) ***Annual OPEB costs and Net OPEB obligation***

The annual OPEB cost and the annual required contribution (ARC) were computed as part of an actuarial valuation in accordance with parameters of GASB Statement No. 45 based on current years demographic data.

The Commonwealth's annual OPEB cost and the net OPEB obligation for the postemployment healthcare benefits plans as of and for the year ended June 30, 2013 were as follows (expressed in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Annual OPEB cost:				
ARC	$ 154,999	643	45,669	201,311
Interest on net OPEB obligation	5,265	35	1,362	6,662
Adjustment to annual required contribution	(11,881)	53	(6,664)	(18,492)
Annual OPEB cost	148,383	731	40,367	189,481
Statutory sponsor's contributions made	(91,823)	(291)	(34,239)	(126,353)
Increase in net OPEB obligation	56,560	440	6,128	63,128
Net OPEB obligation at beginning of year	166,757	947	47,540	215,244
Net OPEB obligation at year end	$ 223,317	1,387	53,668	278,372

The net OPEB obligation at June 30, 2013 for ERS MIPC, JRS MIPC, and TRS MIPC totaling $278.4 million is recorded in the accompanying statement of net position.

(d) ***Actuarial Assumptions***

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

	ERS MIPC	JRS MIPC	TRS MIPC
Date of latest actuarial valuation	June 30, 2013	June 30, 2013	June 30, 2013
Actuarial-cost method	Projected unit credit cost method with straight proration based on service to decrement	Projected unit credit cost method with straight proration based on service to decrement	Entry age normal
Amortization method	30 years closed, level dollar	30 years closed, level percentage of payroll	30 years closed, level percentage of payroll
Discount rate	3.25%	3.25%	3.25%
Projected payroll growth	N/A	3	N/A
Projected salary increases	N/A	N/A	3.5% general wage inflation plus a service based merit increase
Inflation	N/A	N/A	2.5%
Remaining amortization period	24 years	13 years	24 years
Amortization approach	Closed	Closed	Closed

The ERS MIPC, JRS MIPC, and TRS MIPC statutory contributions as a percentage of the required contribution for the current year and each of the two preceding years are as follows:

	ERS MIPC	JRS MIPC	TRS MIPC
Year ended June 30, 2013	59.2%	45.3%	75.0%
Year ended June 30, 2012	70.8	53.1	83.9
Year ended June 30, 2011	72.5	47.9	83.7

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long–term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short–term volatility in actuarial accrued liabilities and actuarial value of assets.

(e) *Three Year Trend Information*

The three year trend information is as follows (dollars expressed in thousands):

		ERS MIPC	JRS MIPC	TRS MIPC
Annual OPEB cost:				
Year ended June 30, 2013	$	148,383	731	40,367
Year ended June 30, 2012		130,704	530	40,962
Year ended June 30, 2011		127,336	513	39,891
Percentage of annual OPEB cost contributed:				
Year ended June 30, 2013		61.9%	39.8%	84.8%
Year ended June 30, 2012		72.4	58.9	90.0
Year ended June 30, 2011		73.4	60.4	79.1
Net OPEB obligation:				
At June 30, 2013	$	223,317	1,387	53,668
At June 30, 2012		166,757	947	47,540
At June 30, 2011		130,741	729	43,448

(f) *Funded Status*

Funded status of the postemployment healthcare benefit plans as of June 30, 2013, the most recent actuarial valuation date, is as follows (expressed in thousands):

		ERS MIPC	JRS MIPC	TRS MIPC	Total
Actuarial accrued liability (AAL)	$	1,482,879	6,705	792,875	2,282,459
Actuarial value of assets		—	—	—	—
Unfunded actuarial accrued liability	$	1,482,879	6,705	792,875	2,282,459
Funded ratio		—%	—%	—%	—%
Covered payroll	$	3,489,096	32,138	1,248,674	4,769,908
Unfunded actuarial accrued liability as a percentage of covered payroll		42.5%	20.9%	63.5%	47.9%

The schedule of funding progress presented as required supplementary information following the notes to the basic financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(19) Debt Service Deposit Agreements

On May 26, 2005 (but effective on July 1, 2005), the Commonwealth, PFC, and the GDB (together the Commonwealth) and Lehman Brothers Special Financing Inc. (Lehman) entered into Debt Service Deposit Agreements (DSD Agreements), the objective of which was for the Commonwealth to secure an upfront payment in exchange for granting Lehman the rights to earnings generated from eight of its debt service funds. On September 25, 2008, as a result of Lehman commencing a case in the United States Bankruptcy Court for the Southern District of New York under Chapter 11 of the United States Code, Lehman selected Hexagon Securities LLC to act as the Qualified Dealer under the DSD Agreements and delivered Qualified Securities as permitted under the DSD Agreement. Seven of the funds are associated with the Commonwealth's PFC bonds, presented in the accompanying basic financial statements as Commonwealth appropriation bonds, and one fund is associated with the Commonwealth's general obligation bonds. The upfront payment, which amounted to $82.7 million, was received on May 26, 2005 and equaled the present value of the projected earnings income adjusted for credit timing risks as well as an appropriate amount of compensation for Lehman.

With the upfront payment made as explained above, the Commonwealth delivered to Lehman the required and scheduled debt service deposits and Lehman delivered qualified government debentures, which will mature before the next debt service payment date at an amount approximating such next debt service payment. Lehman will attempt to earn sufficient funds on the debt service deposit amounts, less its cost for the qualified government debentures, to make back the $82.7 million over time. At the same time, the Commonwealth will be managing its borrowings and investments by increasing the predictability of its cash flows from earnings on its investments and not for purpose of speculation. The Commonwealth acknowledges that, in exchange for the upfront payment received, it is foregoing its right to receive investment earnings on the deposit amounts referred to above in the future and that, by accepting the upfront payment, the Commonwealth has minimized the risks resulting from fluctuations in interest rates during the term of the DSD Agreements but also has foregone the possibility of receiving greater returns on such amounts from such fluctuations.

Under the DSD Agreements, the Commonwealth will be exposed to the payment to Lehman of a Termination Amount, as defined in the agreement, principally upon the occurrence of redemption or a defeasance of the related bonds on or prior to the last scheduled deposit date. The amount of the Termination Amount will vary depending on various market conditions, as defined in the DSD Agreements. Under certain market conditions, the Termination Amount owed to Lehman by the Commonwealth may exceed the amount of the original upfront payment received.

The $82.7 million upfront payment received by the Commonwealth was recognized as other revenue for budgetary purposes in 2005; however, under US GAAP, such upfront payment was deferred and is being recognized proportionally over the future periods the Commonwealth would have otherwise earned such interest earnings. The unamortized balance amounted to approximately $25.6 million and is a component of deferred revenue at June 30, 2013. During fiscal year 2013, approximately $3.8 million was amortized into other revenue in the accompanying statement of activities, and $1.6 million was paid by the Commonwealth as a partial termination of one of the agreements.

(20) Derivative Instruments

The fair values and notional amounts of derivative instruments outstanding at June 30, 2013, classified by type, and the changes in fair value of such derivative instruments for the fiscal year then ended as reported in the 2013 basic financial statements are as follows (in thousands):

		Changes in fair value from June 30, 2013 (1)		Fair value at June 30, 2013 (2)			
Item		Classification	Amount	Classification	Amount		Notional
Governmental activities:							
Cash flow hedges:							
1 Pay-fixed interest rate swap	(4)	Deferred outflow	$ 12,835	Liability	$ (36,393)	(5)	$ 233,615
2 Pay-fixed interest rate swap		Deferred outflow	(94)	Liability	(2,591)		32,815
3 Pay-fixed interest rate swap		Deferred outflow	(156)	Liability	(2,498)		32,625
4 Pay-fixed interest rate swap		Deferred outflow	(148)	Liability	(2,250)		31,280
5 Pay-fixed interest rate swap		Deferred outflow	(115)	Liability	(1,994)		30,005
6 Pay-fixed interest rate swap	(4)	Deferred outflow	1,399	Liability	(2,702)	(5)	14,925
7 Pay-fixed interest rate swap	(4)	Deferred outflow	1,398	Liability	(2,700)	(5)	14,915
8 Pay-fixed interest rate swap	(3)	Deferred outflow	33,444	Liability	(53,176)		136,000
Investment derivative instruments:							
9 Pay-fixed interest rate swap	(4)	Investment revenue	8,377	Liability	(18,660)	(5)	114,071
10 Pay-fixed interest rate swap	(4)	Investment revenue	6,121	Liability	(14,270)	(5)	83,314
11 Basis Swap		Investment revenue	2,597	Liability	(15,727)	(5)	849,185
12 Basis Swap		Investment revenue	(1,861)	Liability	(8,315)	(5)	424,592

(1) Positive (negative) values represent a decrease (an increase) in the liability's fair value.
(2) Negative values indicate that the Commonwealth is in a payable position. The fair value excludes the accrued interest receivable or payable at year-end.
(3) Derivative instrument corresponds to COFINA.
(4) Insured swap.
(5) Amortizing swap. The notional amount of the swap matches the principal amount of the associated debt. The swap agreement contains scheduled reductions to the notional amount that matches scheduled reductions in the associated debt outstanding principal balanc

The fair values of the pay-fixed interest rate swaps and the basis swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps.

Accrued interest payable on swaps are presented separately from the fair values of the swaps in the Commonwealth's government-wide statement of net position and in the governmental funds – balance sheet and amounted to $9.8 million at June 30, 2013.

The following table shows the derivative instruments position by counterparty and the counterparty credit ratings at June 30, 2013 (in thousands):

Item	Counterparty/swap		Total Notional amount	Total Fair value	Counterparty Credit Rating Moodys/S&P
8 and 11	Goldman Sachs Bank	$	985,185	(68,903)	**A2/A**
2 to 7	Morgan Stanley Capital Services Inc.		581,158	(23,050)	**Baa1/A-**
1	Bank of New York Mellon		233,615	(36,393)	**Aa1/AA-**
9	DEPFA BANK plc		114,071	(18,660)	**Baa3/BBB**
10	Merrill Lynch Capital Services, Inc.		83,314	(14,270)	**Baa2/A-**
	Total	$	1,997,343	(161,276)	

Hedging Derivative Instruments

The following table displays the objective and terms of the Commonwealth's hedging derivative instruments outstanding at June 30, 2013, along with the credit rating of the associated counterparty (amounts in thousands):

Item	Type	Objective	Notional amount	Effective date	Maturity date	Terms Pays	Terms Receives	Counterparty credit rating Moody's/S&P
1	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C-5-1 and C-5-2 bonds	$ 233,615	7/1/2008	7/1/2021	3.7658%	67% 1M LIBOR	Aa1/AA-
2	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	32,815	8/10/2006	7/1/2021	4.2000	CPI+0.90%	Baa1/A-
3	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	32,625	8/10/2006	7/1/2020	4.3200	CPI+1.02%	Baa1/A-
4	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	31,280	8/10/2006	7/1/2019	4.2900	CPI+1.00%	Baa1/A-
5	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	30,005	8/10/2006	7/1/2018	4.2600	CPI+0.98%	Baa1/A-
6	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A3 bonds	14,925	10/16/2007	7/1/2029	3.5180	66% 1M LIBOR	Baa1/A-
7	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A2 bonds	14,915	10/16/2007	7/1/2029	3.5180	66% 1M LIBOR	Baa1/A-
8	Pay-fixed interest rate swap	Hedge of changes in cash flows on the COFINA 2007 Series A bonds	136,000	7/31/2007	8/1/2057	4.9200	67% 3M LIBOR +0.93%	A2/A-

LIBOR: London Interbank Offered Rate Index
CPI: Consumer Price Index

For derivative instruments No. 2, 3, 4, and 5, the floating interest rate, CPI plus a spread (the rate to receive), is capped to the maximum rate permitted by Commonwealth law (12% as of June 30, 2013). This cap is equal to the cap in the hedged bond. Other swaps do not have significant embedded options.

Investment Derivative Instruments – The following table displays the terms of the Commonwealth's investment derivative instruments outstanding at June 30, 2013, along with the credit rating of the associated counterparty (amounts in thousands):

Item	Type	Notional amount	Effective date	Maturity date	Terms pays	Receives	Counterparty credit rating Moody's/S&P
9	Pay-fixed interest rate swap	$ 114,071	7/1/2008	7/1/2024	3.6815%	67% 1M LIBOR	Baa3/BBB
10	Pay-fixed interest rate swap	83,314	7/1/2008	7/1/2024	3.6815	67% 1M LIBOR	Baa2/A-
11	Basis Swap	849,185	7/1/2006	7/1/2035	SIFMA	67% 3M LIBOR + 0.4409	A2/A
12	Basis Swap	424,592	7/5/2007	7/1/2035	SIFMA	67% 3M LIBOR + 0.4409	Baa1/A-

None of the investment derivative instruments has significant embedded options.

The Commonwealth entered into the basis swaps (derivative instruments No. 11 and 12) to economically hedge the portion of the fair value of the underlying liabilities attributable to the relative value/basis risk between tax-exempt and taxable rates, which can be expressed as a ratio. At June 30, 2013, management of the Commonwealth concluded that these basis swaps were not considered as effective hedging instruments under GASB Statement No. 53.

On October 1, 2012, the Commonwealth (the "Transferor") partially terminated derivative instrument No. 11, when it entered into a Novation Agreement with a notional amount of $424,592,500 (the "Novated Amount") with Morgan Stanley Capital Services LLC (the "Transferee") and Goldman Sachs Bank USA (the "Remaining Party"), without receiving or paying any consideration. As a result of this Novation Agreement, the Commonwealth shall have no obligations of any kind to the Remaining Party with respect to the Novated Amount of the Old Transaction or to the Remaining Party or the Transferee with respect to the New Transaction. Thus, the notional amount of derivative instrument No. 11 was reduced to $849,185,000.

Risks on Derivative Instruments:

Credit or Counterparty Risk — The Commonwealth is exposed to credit risk on derivative instruments that are in asset positions. When the fair value of a derivative contract is positive, the counterparty owes the Commonwealth, which creates a credit risk for the Commonwealth. If the counterparty were to default under its agreement when the counterparty owes a termination payment to the Commonwealth, the Commonwealth may have to pay another entity to assume the position of the defaulting counterparty. When the fair value of the derivative contract is negative, the Commonwealth owes to the counterparty and, therefore, does not pose credit risk to the Commonwealth.

The Commonwealth has sought to limit credit risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap agreements. In addition, to minimize its exposure to loss related to credit risk, it is the Commonwealth's policy to require counterparty collateral posting provisions on its derivative agreements. These terms require collateralization of the fair value of the derivative instruments in asset position (net of the effect of applicable netting arrangements) in excess of certain agreed upon thresholds which range from $20.0 million to zero (full collateralization) should the credit rating of the counterparty falls below a specified rating. Collateral posted is to be in the form of cash, U.S. Treasury securities, or specified agency securities. The Commonwealth has never failed to access collateral when required.

It is the Commonwealth's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, closeout netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

At June 30, 2013, none of the derivative instruments was in an asset position. Thus, the Commonwealth did not have aggregate counterparty credit exposure or netting arrangements as of that date.

Interest Rate Risk — The Commonwealth is exposed to interest rate risk on its swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR or the Consumer Price Index (CPI) decreases, the Commonwealth's net payment on the swap increases. Additionally, as long-term LIBOR and CPI rates decrease, the fair values of the derivative instruments in liability positions increase. On its basis swaps, as LIBOR decreases and/or SIFMA trades as a higher percentage of LIBOR, the Commonwealth's net payment on the basis swap increases. Additionally, as long-term LIBOR rates increase and/or long-term SIFMA/LIBOR ratios increase, the fair values of the basis swaps in liability positions decrease.

Basis Risk — The Commonwealth is exposed to basis risk on some of its pay-fixed interest rate swaps where the variable-rate payments received by the Commonwealth on the derivative and the rate paid on the hedged variable-rate debt are based on different reference rates or indexes.

Termination Risk — The Commonwealth or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The Commonwealth is at risk that the counterparty will terminate a swap at a time when the Commonwealth owes a termination payment to the counterparty. Substantially all derivative instruments were terminated subsequent to year-end (see note 22).

Rollover Risk — The Commonwealth is exposed to rollover risk on hedging derivative instruments that mature prior to the maturity of the hedged debt, thus re-exposing the Commonwealth to the risk being hedged. None of the Commonwealth's derivative instruments matures prior to the maturity of the hedged debt.

Collateral Posting Requirements and Contingencies — All of the Commonwealth's derivative instruments, except for the Commonwealth's derivative instruments that are insured by Assured Guaranty Municipal Corp. (derivative instruments No. 1, 6 and 7) and the COFINA's derivative instrument No. 8, include provisions that require the Commonwealth to post collateral in excess of certain agreed upon thresholds (that range from $30.0 million to $50.0 million) when its credit rating falls below Baa1 (Moody's Investor Service) or BBB+ (Standard & Poor's). If the Commonwealth's credit rating falls below Baa3 (Moody's Investor Service) or BBB- (Standard & Poor's), it is required to post collateral of 100% of their payable positions. The collateral posted is to be in the form of cash, U.S. Treasury securities, or specified agency securities for derivative instruments in liability positions, net of the effect of applicable netting arrangements and thresholds. If the Commonwealth does not post collateral, the derivative instrument may be terminated by the counterparty.

At June 30, 2013, the aggregate fair value of the Commonwealth's derivative instruments with these collateral posting provisions was a liability position of $69.1 million. The Commonwealth's credit rating as of June 30, 2013 was Baa3 (Moody's Investor Service) and BBB- (Standard & Poor's). Since the aggregate fair value of these derivative instruments was below the established threshold with each of the counterparties, the Commonwealth was not required to post collateral as of June 30, 2013.

At June 30, 2013, no collateral posting requirement applied to the COFINA's derivative instrument.

As disclosed in note 22, part of the $3.5 billion bond issuance of the Commonwealth's General Obligation Bonds of 2014, Series A were used by the Commonwealth to terminate seven hedging derivative instruments with notional amount of approximately $390.2 million and three investment derivative instruments with the notional amount of approximately $622.0 million on March 17, 2014. The Commonwealth paid approximately $90.2 million to terminate these swaps. After this bond issuance transaction, the remaining outstanding derivative instruments are those of Goldman Sachs Bank, which includes: the outstanding derivative instrument No. 11 (a basis swap) with notional amount of approximately $849.2 million, which has separate undeclared additional termination events against each other and for which the Commonwealth executed a standstill agreement with its counterparty in March 2014, and the COFINA's hedging derivative instrument No. 8 with notional amount of $136.0 million.

(21) Fund Balance (Deficit)

Below is the detail included in the fund balance (deficit) classifications for the governmental funds at June 30, 2013 (expressed in thousands):

	General	Debt service	COFINA Special revenue	COFINA Debt service	Other governmental	Total governmental
Nonspendable:						
Endowment	$ 5,000	—	—	—	225,100	230,100
Spendable:						
Restricted for:						
General government	—	—	—	—	508	508
Public housing and welfare	—	—	—	—	93,459	93,459
Capital projects	40,076	—	—	—	229,787	269,863
Debt service	317,420	—	—	579,610	214,991	1,112,021
Subtotal	357,496	—	—	579,610	538,745	1,475,851
Committed to:						
Public housing and welfare	—	—	—	—	29,042	29,042
Health	171	—	—	—	—	171
Debt service	—	2,154	—	—	—	2,154
Subtotal	171	2,154	—	—	29,042	31,367
Assigned to:						
General government	573	—	48,852	—	—	49,425
Public housing and welfare	8,047	—	—	—	7,158	15,205
Capital projects	6,788	—	—	—	98,241	105,029
Debt service	—	154,540	—	—	1,592	156,132
Subtotal	15,408	154,540	48,852	—	106,991	325,791
Unassigned	(2,389,101)	—	—	—	(65,650)	(2,454,751)
Total fund balance (deficit)	$ (2,011,026)	156,694	48,852	579,610	834,228	(391,642)

(22) Subsequent Events

Subsequent events were evaluated through June 30, 2014, the date the basic financial statements of the Commonwealth were available to be issued, to determine if any such events should either be recognized or disclosed in the 2013 basic financial statements. The subsequent events disclosed are principally those related to debt activities, including credit rating downgrade events, and other revenue and/or budget related legislation which management believes are of sufficient public interest for disclosure.

Primary Government

Tax Revenue Anticipation Notes and Other Notes and Bonds Issued after Year End

On July 1, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series A (2014) for $300,000,000 (the 2014 TRANs-A) to the GDB for the purpose of providing funds to pay the General Fund appropriations made for fiscal year 2014 in anticipation of the receipt of taxes and revenues required to be deposited in the General Fund and estimated in the budget of the Commonwealth to be realized in cash during fiscal year 2014. The 2014 TRANs-A bears interest at a rate equal to the greater of (i) the rate of interest determined from time to time by the GDB at its prime rate plus 150 basis points or (ii) 6.0%, and shall mature and be due and payable on July 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this 2014 TRANs-A.

On July 2, 2013, the Commonwealth issued Public Improvement Refinancing Note of 2013, Series B for $319,645,474 (the 2013 PIRN-B) to the GDB for the purpose of providing funds to make during fiscal year 2014 the monthly principal deposits in respect and thereby refinance the principal component of certain outstanding public improvement and public improvement refunding bond issues of the Commonwealth. The 2013 PIRN-B bears interest at a rate of interest per annum equal to the prime rate as determined and announced by the GDB from time to time plus 150 basis points. No such rate of interest per annum shall be in excess of 12% or be less than 6% per annum. The 2013 PIRN-B shall mature and be due and payable on June 30, 2043. The good faith, credit and taxing power of the Commonwealth are pledged to the payment of the principal of and interest on the 2013 PIRN-B.

On July 9, 2013, PRIFA entered into a Bond Purchase Agreement of its Revenue Bonds, Series 2011 C-1 bonds, for approximately $96.8 million. The agreement provides for the establishment of a new term rate period that ended on November 14, 2013, with a new term rate not to exceed 3.25%.

On July 16, 2013, the Commonwealth issued Public Improvement Refinancing Note of 2013, Series A for $255,755,568 (the 2013 PIRN-A) to the GDB for the purpose of providing funds to make during fiscal year 2014 the monthly interest deposits in respect and thereby refinance the interest component of certain outstanding public improvement and public improvement refunding bond issues of the Commonwealth. The 2013 PIRN-A bears interest at a rate of interest per annum equal to the prime rate as determined and announced by the GDB from time to time plus 150 basis points. No such rate of interest per annum shall be in excess of 12% or be less than 6% per annum. The 2013 PIRN-A shall mature and be due and payable on June 30, 2043. The good faith, credit and taxing power of the Commonwealth are pledged to the payment of the principal of and interest on the 2013 PIRN-A.

On July 16, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series B (2014) for $100,000,000 (the 2014 TRANs-B) to Oriental Bank for the purpose of providing resources which are necessary to meet the appropriations in the fiscal year 2014 annual budget in anticipation of the receipt of taxes and revenues. The 2014 TRANs-B bears interest at a rate of Base LIBOR plus the applicable margin, as defined, and shall mature and be due and payable on June 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this 2014 TRANs-B.

On July 23, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series C (2014) for $100,000,000 (the 2014 TRANs-C) to Banco Popular de Puerto Rico for the purpose of providing resources which are necessary to meet the appropriations in the fiscal year 2014 annual budget in anticipation of the receipt of taxes and revenues. The 2014 TRANs-C bears interest at a rate of Base LIBOR plus the applicable margin, as defined, and shall mature and be due and payable on June 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this 2014 TRANs-C.

On July 23, 2013, the Commonwealth sold, in a private placement, $104,700,000 of Public Improvement Refinancing Notes, Series 2013 A (the Notes). The Notes had a maturity date of December 1, 2013 and bear interest at a per annum interest rate equal to the sum of LIBOR and 2.50%.

On August 12, 2013, the Commonwealth sold, in a private placement, $210,300,000 of Public Improvement Refinancing Notes, Series 2013 B (the Refinancing Notes) and $85,000,000 Commonwealth's Bond Anticipation Notes, Series 2013 A. These Notes will have a maturity date of December 1, 2013 and bear interest at a per annum interest rate equal to the sum of LIBOR and 2.5%.

On August 13, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series D (2014) for $200,000,000 (the 2014 TRANs-D) to Banco Santander Puerto Rico for the purpose of providing resources which are necessary to meet the appropriations in the fiscal year 2014 annual budget in anticipation of the receipt of taxes and revenues. The 2014 TRANs-D bears interest at a rate of Base LIBOR plus the applicable margin, as defined, and shall mature and be due and payable on June 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this 2014 TRANs-D.

On August 22, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series E (2014) for $200,000,000 (the 2014 TRANs-E) to JP Morgan Chase Bank, National Association for the purpose of providing resources which are necessary to meet the appropriations in the fiscal year 2014 annual budget in anticipation of the receipt of taxes and revenues. The 2014 TRANs-E bears interest at a fixed interest rate equal to 3.25% multiplied by a margin rate factor, as defined, and shall mature and be due and payable on June 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this 2014 TRANs-E.

On September 12, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series F (2014) for $100,000,000 (the 2014 TRANs-F) to Scotiabank of Puerto Rico for the purpose of providing funds to pay the General Fund appropriations made for fiscal year 2014 in anticipation of the receipt of taxes and revenues that would otherwise be required to be deposited in the General Fund and estimated in the budget of the Commonwealth to be realized in cash during fiscal year 2014. The 2014 TRANs-F bears interest at a fixed rate equal to 3% per annum, and shall be due and payable on June 30, 2014. Upon the failure of the Commonwealth to maintain a rating on its general obligation debt of at least investment grade by each of the rating agencies, the 2014 TRANs-F shall bear interest at a fixed interest rate equal to 6% per annum. The good faith, credit, and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on the 2014 TRANs-F.

On March 11, 2014, the Commonwealth issued $3.5 billion tax-exempt, 8% fixed coupon rate, General Obligation Bonds Series 2014 A with an effective yield of 8.727%, maturing in 2035. From the net proceeds of approximately $3.2 billion, $900 million were used to refinance short-term obligations and swap termination payments, and $400 million were used to capitalize interest. The remaining net proceeds will be used to refinance certain obligations of the Commonwealth and its instrumentalities with the GDB, resulting in a liquidity infusion to the GDB of approximately $1.9 billion. Some of the obligations that will be repaid include the general obligation VRDOs referred to above, which were carrying acceleration clauses on its covenants.

On November 14, 2013, PRMeSA and the Municipality of San Juan (MSJ) signed an agreement to settle the accounts receivable from the Hospital of MSJ related to medical services rendered by PRMeSA to the MSJ covering impatient and outpatient services, laboratory, pharmacy, general services and other ancillary services billed to the MSJ. The settlement was for the amount of $11.5 million and covers the period from July 1, 2002 to June 30, 2012. The agreement is to be paid in five installments beginning in fiscal year 2014 for $8 million, $800, thousands in 2016, $850, thousands in 2017, $900 thousands in 2018 and the last payment is due August 2019 for $950 thousands, bearing no interest.

Significant Legislation after Year End

On October 9, 2013, the Governor signed into law Act No. 116, which increased from 2.75% to 3.50% the portion of the Commonwealth sales and use tax transferred to COFINA and expanded the permitted uses of COFINA bond proceeds to, among others, refinance Bond Anticipation Notes ("BANs") and other lines of credit used to help finance the Commonwealth's deficit for fiscal years 2013 and 2014.

On January 24, 2014, Act No. 18 was enacted, reducing, effective February 1, 2014, the municipal sales and use tax from 1.5% to 1.0% and at the same time increasing the Commonwealth's sales and use tax from 5.5% to 6.0%. By such legislation, the minimum amount of the Commonwealth's sales and use tax available to COFINA was increased. Simultaneously, Act No 18 created the Municipal Administration Fund (MAF), which is intended to provide the municipalities with the economic benefit of the municipal sales and use tax collections lost as a result of the reduction from 1.5% to 1.0% in the municipal sales and use tax rate that occurred concurrently with the increase from 5.5% to 6.0% in the Commonwealth's sales and use tax rate. The MAF will be funded from the first moneys due to the Secretary of the Treasury from the Commonwealth's sales and use tax once all required deposits have been made to COFINA up to an amount equal to the equivalent of 8.33% of all collections from the Commonwealth's sales and use tax to the Transfer Date, and thereafter, on a pro-rata basis with the transfer of sales and use tax collections to the General Fund. Total deposits to the MAF in any fiscal year will equal the amount attributable to 0.5% of the Commonwealth sales and use tax for the current fiscal year. Amounts on deposit in the MAF will be for the benefit of the municipalities, and may be used to continue funding the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvements Fund, which were previously funded from the collections attributable to 0.5% of the municipal sales and use tax. In addition, the GDB is required to make certain advances to the municipalities during the fiscal year in order to address any monthly cash shortfall caused by timing delays as a result of the lag in availability of operational funds to the municipalities caused by interposing the COFIM and COFINA funding requirements prior to making such funds available to the municipalities. Such advances by the GDB would be payable from the COFIM Surplus (defined in the following paragraph below) and the amount to be received by the MAF. Finally, to the extent the amount of Commonwealth sales and use tax collections available for deposit into the MAF during any fiscal year is less than the amount attributable to 0.5% of the Commonwealth sales and use tax for such fiscal year, the Commonwealth's General Fund is required to cover any such shortfall.

Act No. 19 also created the Municipal Financing Corporation (COFIM, its Spanish acronym). COFIM is authorized to issue bonds and use other financing mechanisms to pay or refinance, directly or indirectly, all or a portion of the municipalities' debt obligations payable from the municipal sales and use tax. COFIM will receive, on an annual basis, the first collections attributable to the 1.0% municipal sales and use tax until the greater of 0.3% of the municipal sales and use tax or the "base amount" established in the statute is deposited annually in COFIM. The base amount for fiscal year 2015 is $65.5 million and increases by 1.5% every fiscal year. Amounts remaining after all transfers have been made to COFIM, and any amounts transferred to COFIM not necessary to pay COFIM's annual debt service, will be made available to the municipalities for operating expenses (the "COFIM Surplus"). COFIM expects to issue bonds principally in order to refinance municipal sales and use tax-backed loans granted to municipalities by the GDB.

As part of the American Recovery and Reinvestment Act of 2009 (ARRA), in 2009 the United States Congress adopted the Making Work Pay Credit (MWPC) to provide refundable tax credits of up to $400 (or $800 if joint filers) to working individuals for taxable years 2009 and 2010. In order to provide the tax credit to residents of Puerto Rico, the United States Treasury paid the Puerto Rico Department of the Treasury approximately $1.2 billion. The Commonwealth was to return the balance of ARRA funds not spent as of December 31, 2013. As of December 31, 2013, the balance owed to the United States Treasury was $349 million, including $300 million that was not spent on MWPC and $49 million in overpayments made to certain taxpayers. The Commonwealth has reached an agreement with the United States Treasury to return the fund balance of $300 million in monthly installments of $25 million beginning on February 3, 2014 until the balance has been repaid. Thereafter, the Commonwealth will make two additional monthly payments of $25 million and $24 million, respectively, to cover the MWPC related overpayments.

Bonds Credit Rating Downgrade

On February 4, 2014, Standard & Poor's Ratings Services (S&P) lowered its rating on the general obligation bonds of the Commonwealth from "BBB-" to "BB+," which is a non-investment grade rating. S&P kept all these ratings on "CreditWatch" with negative implications, and noted that further downgrades were possible. On February 7, 2014, Moody's Investors Service ("Moody's") lowered its rating on the general obligation bonds of the Commonwealth two notches, from "Baa3" to "Ba2", and maintained a "negative" outlook on all these bonds. Moody's also downgraded the COFINA's senior lien bonds to Baa1 from A2 and its junior-lien bonds to Baa2 from A3, with a negative outlook. On February 10, 2014, Fitch Ratings ("Fitch") lowered its rating on the general obligation bonds of the Commonwealth by two notches from "BBB-" to "BB", and removed the downgraded bonds from Rating Watch negative but maintained its Rating Outlook negative on these bonds. During these same dates, S&P, Moody's and Fitch, also downgraded PBA's bonds to a rating of BB or non-investment grade status, while Moody's lowered the credit ratings of PRIFA's Special Tax Revenue Bonds from Baa3 to Ba2. Since PBA's main activity consists of the rental of buildings to agencies and public corporations of the Commonwealth and PRIFA's principal source of pledged revenues for its bonds' debt service is the federal excise taxes on distilled spirits export, its financial stability depends directly on the financial well-being of the Commonwealth and the continuity of the referenced federal excise taxes. Therefore the effect, if any, of any decision made by the Commonwealth as the result of the downgrade on PBA's and PRIFA's financial position and result of operations cannot be determined at present time.

As a result of the previously described credit rating downgrades, certain obligations of the Commonwealth and its instrumentalities could become due in the near future if the lenders or counterparties exercise acceleration or termination rights. The most significant of such maturing, accelerable or terminable obligations are listed below:

(i) Tax and revenue anticipation notes (the 2014 TRANS) issued by the Commonwealth in an aggregate principal amount of $1.1 billion (most of them described further below and issued after June 30, 2013) which are payable from income taxes collected during fiscal year 2014 and mature on June 2014. Three equal principal installments are due on the 2014 TRANS on each of April, May and June of 2014.

(ii) General obligation bonds of the Commonwealth that are variable rate demand obligations (VRDOs) in an aggregate principal amount of approximately $188.7 million supported by a letter of credit that expired on June 21, 2014, but that could be subject to acceleration as a result of the downgrade. The bonds are also secured by a bond insurance policy; the letter of credit provider may cancel the bond insurance policy and then direct a mandatory tender of the bonds and require the immediate repayment of the amounts disbursed under the letter of credit. The outstanding balance of these VRDOs was subsequently retained with the proceeds of the $3.5 billion general obligation issued by the Commonwealth in March 11, 2014.

(iii) General obligation VRDOs of the Commonwealth in an aggregate principal amount of approximately $14.9 million supported by a liquidity facility that expired on May 1, 2014 and, to the extent that the facility expires and is not replaced, the bonds would be payable over a five (5) year period. The outstanding balance of these VRDOs was subsequently retained with the proceeds of the $3.5 billion general obligation issued by the Commonwealth in March 11, 2014.

(iv) General obligation VRDOs of the Commonwealth in an aggregate principal amount of approximately $242.6 million that have been directly purchased by banking institutions, and are subject to optional tender for purchase by the banking institutions on thirty (30) days' notice as a result of the downgrade. The bonds are subject to mandatory tender at the expiration of the current interest rate periods on May 1, 2014 ($44,905,000) and June 1, 2014 ($197,655,000). The outstanding balance of these VRDOs was subsequently retained with the proceeds of the $3.5 billion general obligation issued by the Commonwealth in March 11, 2014.

(v) General obligation VRDOs of the Commonwealth in an aggregate principal amount of approximately $14.9 million which have been directly purchased by banking institutions, and are subject to optional tender for purchase on seven (7) days' notice. If not accelerated, the bonds are subject to mandatory tender for purchase in accordance with their terms on June 1, 2014. The outstanding balance of these VRDOs was subsequently retained with the proceeds of the $3.5 billion general obligation issued by the Commonwealth in March 11, 2014.

In addition, the interest rates on certain bonds and notes of the Commonwealth will increase as a result of the credit downgrades, to rates ranging from 10% to 12.0%. The Commonwealth refinanced the outstanding general obligation VRDOs ($469 million) and the COFINA bond anticipation notes ($333 million) with the proceeds of the $3.5 billion general obligation bonds issued on March 11, 2014, as described further below. In addition to the possible acceleration of debt instruments described above, the credit rating downgrades have also triggered "additional termination events" under interest rate exchange and other derivative agreements relating to outstanding bonds and notes of the Commonwealth and certain of its public corporations, making them now subject to termination at the option of the applicable counterparty. The swap and other derivative agreements currently subject to termination have a negative mark-to-market valuation of $333.5 million as of February 14, 2014. The Commonwealth or its relevant public corporations currently have $142 million of collateral posted to the counterparties under these swap and derivative agreements. If any such agreements were terminated, they would likely be terminated at their then current mark-to-market valuations (net of collateral posted), plus cost, which could differ substantially from the mark-to-market valuations. The Commonwealth and the relevant public corporation would also be subject to interest rate risk on the underlying variable rate bonds.

As of the date of these basic financial statements, none of the counterparties has exercised any tender, acceleration, put or termination right, and the Commonwealth, the GDB and the affected public corporations are currently engaged in discussions with swap counterparties, bondholders and credit and liquidity facility providers in order to obtain waivers or modifications of certain of these requirements to mitigate the adverse impacts of the downgrades. There can be no assurance at this time, however, as to the final outcome of such discussions or the nature or extent of the relief provided, if any, with respect to the acceleration, tender, put or termination rights described above. Such negotiations may be unsuccessful or, even if they are successful, future events may trigger other acceleration, termination, tender or put rights. While the Commonwealth and the GDB do not currently expect, absent further adverse developments, that the Commonwealth and the public corporations will be required to fund the total amount of these obligations in the near term, there can be no assurance that the Commonwealth and the public corporations will not be required to fully fund such obligations and, if required to do so, that sufficient funds will be available to fund them.

Pension Trust Funds

(a) ***JRS* –** On December 24, 2013, the Governor of Puerto Rico signed into law Act No.162 of 2013 (Act No.162), in order to implement a comprehensive reform plan to address the JRS's UAAL. Act No. 162 included various changes applicable to all participants and retirees; however, the constitutionality of Act 162 was challenged, and on February 21, 2014, the Puerto Rico Supreme Court ruled that the reform could only be applied as follows:

1. Active participants and retirees hired or retired prior to December 24, 2013 maintain the existing benefits.

2. Participants hired between December 24, 2014 and June 30, 2014 will accrue a maximum pension of 60% of salary, and will contribute 10% of salary, among other changes.

3. Participants hired on or after July 1, 2014 will participate in a new Hybrid Plan.

4. The ability to retire with existing benefits for participants already in the JRS until July 1,

2015 was declared unconstitutional.

Act No.162 amends the provisions of the different benefit structures under the JRS for new participants (based on the Supreme Court ruling described above) through several measures.

JRS's management is in the process of estimating the effects of Act No.162 on the JRS's UAAL. However, as result of the Supreme Court ruling, its effect will be significantly less than had been estimated when Act No.162 was enacted.

(b) ***TRS*** – On December 24, 2013, the Governor signed into law Act No.160-2013 (Act No.160) as new legislation for the TRS. The goal underlying Act No.160 is for the TRS to have the ability to make benefit payments when due. The restructuring of future liabilities of the TRS, coupled with an increase in inflows into the TRS, is projected to allow the TRS to pay all pension benefits as they become due. The reform is designed to protect accrued pension benefits.

Act No.160 contemplates a series of reforms, which play a critical role over time in supporting the ability of the System to pay benefits including, among others: (i) freezing the retirement benefits that participants will have accrued under the current defined benefit system as of July 31, 2014; (ii) replacing this defined benefit going forward with a defined contribution plan; (iii) increasing the retirement age of participants; (iv) increasing employee contributions; and (v) eliminating and reducing certain benefits granted to future and existing retirees under special laws. It also provides for certain additional employer contributions by the Commonwealth.

The constitutionality of Act No.160 was challenged in several lawsuits brought by participants of the TRS. The Puerto Rico Supreme Court (the Supreme Court) appointed a Special Master to conduct an evidentiary hearing on the facts and suspended the effectiveness of Act No.160 pending final Resolution of the constitutional challenge. On February 7, 2014, the Special Master issued its report and on February 11, 2014, the Supreme Court issued an order granting parties until March 3, 2014 to file briefs on the constitutionality of Act No.160.

On April 11, 2014, the Supreme Court declared certain sections of Act No.160 unconstitutional while maintaining the constitutionality of the following: (i) all changes made to the benefit structure apply to future participants that are hired after July 31, 2014; (ii) elimination of special laws benefits for participants that retire on or after August 1, 2014; and (iii) reduction of special laws benefits to current retirees as of July 31, 2014.

The Supreme Court's decision remains under the Commonwealth and Management's evaluation and analysis in order to determine the appropriate course of action.

Component Units

On June 28, 2014, the Commonwealth enacted the Debt Enforcement Act (see note 2). This Act is intended to fill the void that currently exists with respect to an orderly legal process governing the enforcement and restructuring of the debts and other obligations of a public corporation, due to the general inapplicability of Chapters 9 and 11 of the United States Bankruptcy Code to public corporations that are governmental instrumentalities of the Commonwealth. The purpose of the Act is to create a legal framework that: (1) allows public corporations to adjust their debts in a manner that protects the interests of all affected creditors; (2) provides procedures for the orderly enforcement and restructuring of a public corporation's debt in a manner that is consistent with the United States and Commonwealth Constitution; and, (3) maximizes the return to the public corporation's stakeholders.

The Act applies solely to public corporations. The following public corporations, however, are excluded from its application: the Children's Trust; the Employees Retirement System of the Government of the Commonwealth of Puerto Rico and its Instrumentalities; Government Development Bank for Puerto Rico and its subsidiaries, affiliates, and entities ascribed to GDB; the Judiciary Retirement System; the Municipal Finance Agency; the Municipal Finance Corporation; the Puerto Rico Public Finance Corporation; the Puerto Rico Industrial Development Company, the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority; the Puerto Rico Infrastructure Financing Authority; the Puerto Rico Sales Tax Financing Corporation (COFINA); the Puerto Rico System of Annuities and Pensions for Teachers; and the University of Puerto Rico.

The Debt Enforcement Act established two types of processes to address a public corporation's debt burden. The first is a consensual debt modification process that culminates in a recovery program whose objective is to enable the public corporation to become financially self sufficient, allocate equitably among all stakeholders the burdens of the recovery program and provide the same treatment to all creditors. The debt relief available under this consensual process may include a combination of amendments to (such as rate adjustments, maturity extensions etc.), or waivers or exchanges of those debt instruments identified by the public corporation. The debt enforcement remedies available to holders of affected debt instruments are suspended during the pendency of the process, up to 270 days (subject to a limited extension). Any amendments to a class of affected debt instruments must be approved by holders representing at least 75% of the amount of debt in such class that participate in the voting/approval process, provided that holders of at least 50% of the amount of debt in such class participate in the voting/approval process. Once approved by such debt holders, the public corporation must obtain court approval in order for the amendments to be binding on all debt holders of the affected class. The Act provides for the creation of a specialized courtroom to handle all court proceedings involving the interpretation and application of the provisions of the Act.

The second type of process established in the Act is more akin to the type of procedure found in Chapters 9 of the United States Bankruptcy Code. The process would begin with the filing of a petition for relief in the specialized courtroom described above. Upon the filing of the petition, any action for the enforcement of any claims against such petitioner is automatically stayed. To be eligible for filing the petitioner must be: (1) currently unable or at serious risk of being unable to pay valid debts as they mature, while continuing to provide public services, without additional legislative or financial assistance;(2) ineligible for relief under Chapter 11 of the United States Bankruptcy Code; and, (3) authorized to file the petition by its governing body and GDB, or on its behalf by GDB at the request of the Governor of Puerto Rico. This process will allow a public corporation to defer its debt repayment and to decrease interest on and principal of its debt to the extent necessary to enable it to continue to fulfill its public functions. Collective bargaining agreements may be modified or rejected under certain circumstances, other types of contracts can be rejected (giving rise to claims for breach of contract) and trade debt can be reduced when necessary. The process is designed to permit the public corporations to satisfy their contractual obligations to the maximum extent possible, to maximize distributions to creditors consistent with and subject to the execution of vital public functions. During the pendency of this process the public corporation remains in possession and control of its assets and operations. Only the public corporation (or the Governor in its stead) is authorized to file a petition for debt enforcement under this process - a creditor may not file a petition.

Presently, the Commonwealth does not have in place a debt restructuring plan for any of its public corporations covered by this Act.

On June 28, 2014, a group of bondholders request a declaratory judgment challenging the constitutionally of the Debt Enforcement Act in the U.S. District Court for the District Court of Puerto Rico.

(a) ***GDB***

On February 7, 2014, Moody's downgraded GDB's Senior Notes from Baa3 to Ba2 and Puerto Rico Public Finance Corporation (PRPFC), a blended component unit of the GDB, Commonwealth Appropriation Bonds from Ba1 to Ba3, and maintained a negative outlook on all these bonds. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

On February 4, 2014, Standard & Poor's Ratings Services ("S&P") lowered its rating on the bonds of Government Development Bank for Puerto Rico ("GDB"), including those of its blended component unit, the Puerto Rico Public Finance Corporation (the Commonwealth Appropriation Bonds) to "BB," one notch below the Commonwealth's general obligation rating of BB+, which was also lowered from BBB- on the same date. S&P kept all of these ratings on Credit Watch with negative implications, and noted that further downgrades were possible.

The Commonwealth has recently reformed and amended GDB's lending practices, financing capacity and oversight powers of public funds through Act No. 24 of 2014. This Act prohibits the GDB, subject to certain limited exceptions from making loans to public corporations payable from future increases in rates, taxes or other charges. In essence, each public corporation seeking financing from the GDB must demonstrate sufficient approved revenue streams to cover debt service on any GDB loan. Act 24 is intended to impose fiscal discipline on the public corporations, while preserving GDB's balance sheet. For more details about this Act, please refer to note 15(a).

Housing Finance Authority – Act No. 34 of June 26, 2013 was enacted to provide subsidies to eligible individuals of families for the purchase of an eligible principal residence. To that effect the Housing Finance Authority created, in July 2013, My Own Home Fund and transferred $6.1 million of its own funds for the operation of the program. The Housing Finance Authority is pending to receive $9.2 million from the OMB which will also be used on the program.

(b) ***PRASA***

Effective July 15, 2013, PRASA revised by approximately 60% the actual rate structure to increase operating revenues for fiscal year 2014.

On July 24, 2013, PRASA entered into a $50.0 million credit agreement with a commercial bank. The loan proceeds were used to finance certain capital improvements to the PRASA's water system and cover associated loan costs. The loan is mainly repayable from bond anticipation notes to be issued by PRASA. The loan agreement bears interest equal to LIBOR rate plus the applicable margin, as defined, with a floor of 4.25% and the interest is payable at maturity date. The applicable margin is 400 basis points or 600 basis points if the long-term credit rating of the PRASA outstanding senior bonds is downgraded below Ba1 by Moody's Investors Service and below BB+ by Standard & Poor's and Fitch Ratings. As amended on August 28, 2013, the loan matures not later than December 30, 2013. The loan is a senior debt on a parity with the PRASA's senior bonds and shall be equally and ratably secured by the pledged of the PRASA's revenues (other than that portion of the PRASA's revenues consisting of appropriations from the Commonwealth for the payment of principal and interest on the PRASA's Commonwealth Guaranteed Indebtedness and the PRASA's Commonwealth Supported Obligations.

On February 4, 2014, S&P lowered its rating on the bonds of PRASA one notch to BB+. S&P kept all of this rating on Credit Watch with negative implications. On February 7, 2014, Moody's downgraded PRASA's Revenue Bonds from Ba1 to Ba2 with a negative outlook. On February 11, 2014, Fitch downgraded PRASA's Commonwealth Guaranteed Bonds from BBB- to BB with a negative outlook, although the rating has been removed from the Ratings Watch Negative. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

On June 27, 2014, Moody's lowered ratings on the bonds of PRASA from Ba2 to Ba3. The rating reflects the Commonwealth's declaration of intent through legislation to allow restructuring of public corporations liabilities, which demonstrates a willingness and ability to repay obligations that is weaker than the Commonwealth's full faith and credit.

(c) ***PREPA***

Act No. 50 of July 1, 2013 authorizes PREPA to charge an "all in rate" preferential rate to PRASA of twenty-two (22) cents per kilowatt hour for fiscal years 2014, 2015, and 2016. Starting in fiscal year 2017, the "all in rate" preferential rate charged to PRASA will be reduced to sixteen (16) cents per kilowatt hour subject to certain terms and conditions.

On August 15, 2013, PREPA issued $673,145,000 Puerto Rico Power Electric Authority Power Revenue Bonds, Series 2013A (the Series 2013A Bonds). The Series 2013A Bonds consist of $35,000,000 and $130,645,000 serial bonds maturing on July 1, 2030 and 2043, respectively, and bearing interest at 7.25% and 7%, respectively, and $150,000,000, $307,500,000 and $50,000,000 term bonds due on July 1, 2033, 2036, and 2040, respectively, and bearing interest at 7%, 6.75%, and 7%, respectively. The proceeds of the Bonds will be used to (i) finance a portion of the cost of various projects under its capital improvement program, (ii) fund a deposit to the Reserve Account in the Puerto Rico Electric Power Authority Revenue Bonds Interest and Sinking Fund, (iii) pay capitalized interest on the Series 2013A Bonds through January 1, 2016 and (iv) pay the costs of issuance of the Series 2013A Bonds.

On February 7, 2014, Moody's downgraded from Baa3 to Ba2 the rating on the Puerto Rico Electric Power Authority's (PREPA) approximately $8.7 billion of outstanding power revenue bonds. The rating is maintained with a negative outlook. Then, on February 18, 2014, Fitch downgraded from BBB- to BB+ the rating on the same amount of outstanding power revenue bonds and revised the rating outlook from stable to negative. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency. These credit rating downgrades could result in the acceleration of certain PREPA obligations or the termination of certain credit and liquidity facilities that support certain PREPA obligations. The most significant of such maturing, accelerable or terminable obligations of PREPA are listed below:

- Revolving line of credit in an aggregate principal amount of $250 million (of which approximately $249.5 million was outstanding as of January 31, 2014) due to commercial banks, with a final maturity date of October 7, 2014.
- Revolving line of credit in an aggregate principal amount of $550 million (of which approximately $513.7 million was outstanding as of January 31, 2014), due to commercial banks, with a final maturity date of August 15, 2014.
- Notional amount of certain basis swaps in the amount of $1.35 billion.

Commonwealth and PREPA have entered into 30-day standstill agreements with swap counterparties with respect to approximately $1.35 billion in notional amount of certain basis swaps. Also, negotiations with respect to waivers, amendments and/or extensions with respect to the PREPA's revolving lines of credit are at an advanced stage. There can be no assurance at this time, however, as to the final outcome of such discussions or the nature or extent of the relief provided, if any, with respect to the acceleration rights described above.

On June 11, 2014, Fitch rating downgraded the PREPA's revenue bonds from BB+ to BB. The rating is under review for possible further downgrade. The rating change was based on the assumption that GDB may not provide interim liquidity to PREPA and that PREPA may not renew its lines of credit maturing in July and August 2014. On June 18, 2014, S&P downgraded its rating on PREPA from BBB to BBB-. On June 26, 2014, Moody's and Fitch downgraded the rating on $8.7 billion of PREPA's power revenue bonds from Ba2 to Ba3 and from BB to CC, respectively. On June 27, 2014, S&P also downgraded the same bonds from Ba2 to Ba3. The downgrade reflect concerns with PREPA's increasingly tight liquidity and the ratings agencies' view, based on the enactment of the Debt Enforcement Act, that a debt restructuring or default by PREPA is probable as a result of the near-term maturities of the bank lines of credit mentioned above. The ratings only reflect the opinions of such rating agencies and an explanation of the significance of such rating may be obtained only from the relevant rating agencies.

(d) ***PRHTA***

On August 29, 2013, the PRHTA issued $400,000,000 Puerto Rico Highways and Transportation Authority Special Revenue Bonds, 2013A Bond Anticipation Notes (the Series A Notes). The Series A Notes mature on September 1, 2015 and bear interest at the Index Rate, as defined. The Index Rate is computed as the sum of the LIBOR plus the Applicable Spread (2.40%) and is subject to adjustment as provided in the 2013 Resolution. The Series A Notes are payable from, and are secured by the pledge of, certain revenues of the PRHTA, which include (i) the excise taxes in excess of $120 million per fiscal year, imposed by the Commonwealth on certain petroleum products; (ii) the remaining $25 per vehicle annual license fees imposed by the Commonwealth, which was previously allocated to the Department of the Treasury; (iii) the total amount of excise taxes up to $20 million per fiscal year, imposed by the Commonwealth on cigarettes;

(iv) unencumbered revenues held in the 1998 Construction Fund established under Resolution No. 98-06 adopted by the PRHTA on February 26, 1998, as amended and (v) any additional revenues pledged to the PRHTA in accordance with the 2013 Resolution. The proceeds of the Series A Notes will be used to (i) pay a portion of the PRHTA's loans from the GDB and (ii) pay the costs of issuance of the Series A Notes.

On August 28, 2013, the PRHTA entered into a $61.8 million non-revolving line of credit agreement with the GDB for working capital purposes. The line of credit matures on February 28, 2014 and bears interest at prime rate plus 150 basis points (with a cap of 12% and a floor of 6.00%), payable at maturity date.

On February 4, 2014, S&P lowered various ratings on the PRHTA's bonds to the same rating as the Commonwealth GO at 'BB+', and kept it on CreditWatch with negative implications, to reflect the potential diversion of gas tax-derived revenue to pay GO debt service under the Commonwealth Constitution. On February 7, 2014, Moody's downgraded PRHTA's Transportation Revenue Bonds from Baa3 to Ba2, its Highway Revenue Bonds from Baa2 to Ba1 and its Subordinate Transportation Revenue Bonds from Ba1 to Ba3 with a negative outlook, based on expectations of continued stagnation or decline in the Commonwealth economy. The rating changes were driven by the downgrade of the Commonwealth's general obligation bonds from Baa3 to Ba2. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency. These credit rating downgrades could result in the acceleration of certain PRHTA obligations or the termination of certain credit and liquidity facilities that support certain PRHTA obligations. The downgrades also resulted in additional collateral postings and termination events under certain derivatives agreements. The most significant of such maturing, accelerable or terminable obligations of the PRHTA are listed below:

- Bond anticipation notes in an aggregate principal amount of $400 million, which were directly purchased by a financial institution, and which matures on September 1, 2015. On February 12, 2014, the PRHTA amended the documents to its $400 million bond anticipation notes, limiting the holder's right to accelerate and waiving covenant defaults due to the downgrades. Principal set-asides will continue as originally scheduled.

- VRDO in an aggregate principal amount of approximately $200 million supported by a liquidity facility that expired on May 27, 2014, but that could be subject to acceleration as a result of the downgrade. The provider of the liquidity facility may cause the mandatory tender of the bonds and, thereafter, require the immediate repayment of the amounts disbursed under the liquidity facility. On May 19, 2014, GDB purchased the outstanding balance of these VRDOs.

In addition, the interest rates on certain bonds and notes will increase as a result of the credit downgrades, to rates ranging from 10%-12%. In addition to the possible acceleration of debt instruments described above, the credit rating downgrades have triggered additional termination events under interest rate exchange (swap) and other derivative agreements relating to outstanding bonds and notes of the PRHTA, making them now subject to termination at the option of the applicable counterparty.

As a result of these credit rating downgrades, the PRHTA has posted approximately $70 million in additional collateral, which was funded through the GDB. In addition, as a result of the downgrades, almost all of the interest rate exchange agreements are now subject to termination at the option of the applicable counterparty. If any such agreements were to be terminated, the PRHTA, as applicable, would then be subject to variable rate interest risk on any corresponding variable rate indebtedness. Any collateral posted at the time of the terminations could be used to effectively offset a like-amount of liquidity needed to fund the termination payments.

On June 27, 2014, Moody's lowered the ratings on the bonds of PRHTA from Ba2 to Ba3. The rating reflects the Commonwealth's declaration of intent through legislation to allow restructuring of public corporations liabilities, which demonstrates a willingness and ability to repay obligations that is weaker than the Commonwealth's full faith and credit.

(e) ***UPR***

On November 21, 2013, NSF lifted its suspension of the Research and Development Center at the Mayaguez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of UPR.

In September 2013, the Federal Centers for Disease Control and Prevention (CDC) issued a preliminary report, which indicated that a bacteria affected several patients in the UPR's Hospital Intensive Care Unit (the Hospital) during a period of time, which include several months of the year ended June 30, 2013. The Hospital may be subject to penalties or sanctions as a result of this situation. Also, there are known judicial and extra-judicial claims related with this matter. As permitted by Act No. 98 of August 24, 1994, maximum claims loss against the Hospital is limited to $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. It is the opinion of the Hospital and UPR's management and its legal counsel that the outcome of these claims would not have a material effect on the Hospital's financial statements.

In January 2014, a $75 million line of credit facility with the GDB was amended to extend the maturity date to January 31, 2016.

On February 4, 2014, S&P downgraded UPR's revenue bonds and the Desarrollos Universitarios, Inc. (DUI), AFICA bonds from BBB- to BB+. On February 10, 2014, Moody's downgraded the UPR's revenue bonds from Ba1 to Ba3 and the DUI's AFICA bonds from Ba2 to B1. The Moody's rating differential reflects the subordinate pledge and lease structure of the DUI's AFICA bonds. Both rating actions followed the downgrade on February 4, 2014 by S&P and on February 7, 2014 by Moody's of the Commonwealth and GDB bonds, which it has generally mirrored given UPR's significant dependence on Commonwealth's appropriations. The outlook is negative; the UPR is highly reliant on the Commonwealth operating revenues and for governance coupled with reliance on the GDB for liquidity and financial management support. The UPR has weak liquidity and limited ability to grow other revenue sources.

(f) ***PRCCDA***

On October 1, 2013, the PRCCDA entered into a $6.7 million line of credit with the GDB for payments to expropriate the structure currently existing in Parcel C. Borrowings under this line of credit bear interest at 6% through 2013 and are due at September 30, 2014. This line of credit will be paid with the sale of Parcel C or any other income generated from the Parcel.

On February 10, 2014, Moody's downgraded the PRCCDA's hotel occupancy tax revenue bonds from Baa3 to Ba2, followed by the downgrade on February 4, 2014 by S&P and on February 7, 2014 by Moody's of the Commonwealth and GDB bonds.

(g) ***PRPA***

During December 2013, the line of credit of $74.6 million payable to the GDB, used for the mandatory tender of the PRIFA Series A Bonds, was converted into a five (5) years term loan. The term loan is to be repaid by the PRPA in monthly principal payments of approximately $1.2 million plus interest at the rate of 150 basis points over the prevailing prime rate, but never to be less than 6%. Also during December 2013, the line of credit of $96.8 million payable to the GDB, used for the mandatory partial tender of the PRIFA Series C Bonds, was converted into a five (5) years term loan. The term loan is to be repaid by the PRPA in monthly principal payments of approximately $1.6 million plus interest at the rate of 150 basis points over the prevailing prime rate, but never to be less than 6%.

(h) ***PPPA***

On September 17, 2013, the board of directors of the PPPA approved a study of desirability and convenience for the possible partnership project for the establishment of a commuter train between the municipalities of Caguas and San Juan, and therefore, authorized the PPPA to start the process for the establishment of such public private partnership.

(i) ***SIFC***

On December 19, 2013 SIFC entered into a Note Purchase Agreement with the GDB whereby SIFC agreed to purchase from the GDB Senior Guaranteed Notes in an aggregate amount of $110 million which are guaranteed by the Commonwealth full faith, credit and taxing power pursuant to Act No. 12 of the Legislature, approved on May 9, 1975, as amended (the Guaranty Act). The notes bear interest, payable monthly, in arrears, on the first day of each month at 8% per annum, commencing on February 1, 2014. The notes mature as follow: $40 million in 2017, $30 million in 2018 and $40 million in 2019. Act No. 43 of June 30, 2013, requires a transfer of $40 million from SIFC to the Budgetary Support Fund of 2013-14 under the custody of the OMB, in two payments due on September 30, 2013 and March 31, 2014.

(j) ***PRMFA***

During February 2014, various credit rating agencies lowered the credit rating on PRMFA's bonds payable to non-investment grade. These credit agencies cited their evaluation of the Commonwealth's liquidity as the reason for the decrease in credit rating. As a result of this event, management of the PRMFA has evaluated PRMFA's capacity to timely comply with the debt service requirements of its bonds payable. The PRMFA has $1 billion in investment securities which are restricted for the debt service payment. PRMFA's management believes its investment securities portfolio, as a readily marketable investment, provides a strong liquidity source to support debt service requirements on its bonds payable on a timely basis.

(k) ***UPRCCC***

On October 16, 2013, the UPRCCC's Board of Directors approved and authorized an agreement with the GDB to amend the 2007 loan agreement and line of credit and the establishment of a new revolving credit facility in the aggregate principal amount up to $196 million. The purposes of such financing are the construction and development of a ninety-six (96) bed tertiary clinical facility and hospital specialized in cancer treatment and prevention in the Municipality of San Juan, to purchase machinery and equipment, the payment of maintenance of the facilities of UPRCCC and the improvement thereon, and the payment of costs incurred in connection of such financing. The agreement was signed in November 2013.

(l) ***PRTEC***

On September 30, 2013, the PRTEC called $95 million of its collateralized promissory notes.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Funding Progress – Defined Benefit Pension Plans

Year ended June 30, 2013

The Schedule of Funding Progress presents the following information for the past six years for each of the Commonwelath's defined benefit pension plans. All actuarially determined information has been calculated in accordance with actuarial assumptions and methods reflected in the actuarial valuations as of the indicated actuarial valuation date.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date		Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio		Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2013	$	731,342	23,712,081	22,980,739	3%	$	3,489,096	659
June 30, 2012		1,236,873	27,645,786	26,408,913	5		3,570,339	740
June 30, 2011		1,723,811	25,457,354	23,733,543	7		3,666,402	647
June 30, 2010		1,667,358	21,370,006	19,702,648	8		3,818,332	516
June 30, 2009		1,851,223	18,943,586	17,092,363	10		4,292,552	398
June 30, 2008		2,607,086	N/D	N/D	N/D		N/D	N/D

Retirement System for the Judiciary of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date		Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio		Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2013	$	59,012	416,734	357,722	14%	$	32,138	1,113
June 30, 2012		58,588	416,340	357,752	14		33,066	1,082
June 30, 2011		63,975	382,776	318,801	17		31,811	1,002
June 30, 2010		55,410	338,195	282,785	16		32,061	882
June 30, 2009		50,566	323,928	273,362	16		30,587	894
June 30, 2008		69,311	N/D	N/D	N/D		N/D	N/D

Puerto Rico System of Annuities and Pensions for Teachers (expressed in thousands):

Actuarial Valuation Date		Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio		Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2013	$	1,906,882	12,251,995	10,345,113	16%	$	1,248,674	829
June 30, 2012		2,099,563	12,350,836	10,251,273	17		1,292,975	793
June 30, 2011		2,385,863	11,448,609	9,062,746	21		1,320,400	686
June 30, 2010		2,221,977	9,279,776	7,057,799	21		—	515
June 30, 2009		2,157,593	8,721,515	6,563,922	25		1,418,304	463
June 30, 2008		N/D	N/D	N/D	N/D		N/D	N/D

N/D = Not determined

Note: See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Funding Progress – Postemployment Healthcare Plans

Year ended June 30, 2013

The Schedule of Funding Progress presents the following information for the past six years for each of the Commonwealth's defined benefit postemployment healthcare plans. All actuarially determined information has been calculated in accordance with actuarial assumptions and methods reflected in the actuarial valuations as of the indicated actuarial valuation date.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2013	$ —	1,482,879	1,482,879	%	$ 3,489,096	43
June 30, 2012	—	2,120,970	2,120,970	—	3,570,339	59
June 30, 2011	—	1,758,389	1,758,389	—	3,666,402	48
June 30, 2010	—	1,699,373	1,699,373	—	3,818,332	45
June 30, 2009	—	1,633,159	1,633,159	—	4,292,552	38
June 30, 2008	—	N/D	N/D	—	N/D	N/D

Retirement System for the Judiciary of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2013	$ —	6,705	6,705	%	$ 32,138	21
June 30, 2012	—	6,592	6,592	—	33,066	20
June 30, 2011	—	5,810	5,810	—	31,811	18
June 30, 2010	—	5,808	5,808	—	32,061	18
June 30, 2009	—	5,643	5,643	—	30,587	19
June 30, 2008	—	N/D	N/D	—	N/D	N/D

Puerto Rico System of Annuities and Pensions for Teachers (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2013	$ —	792,875	792,875	%	$ 1,248,674	64
June 30, 2012	—	797,332	797,332	—	1,292,975	62
June 30, 2011	—	706,069	706,069	—	1,320,400	54
June 30, 2010	—	694,230	694,230	—	—	51
June 30, 2009	—	750,382	750,382	—	1,418,304	53
June 30, 2008	—	N/D	N/D	—	N/D	N/D

N/D = Not determined

Note: See accompanying independent auditors‘ report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Employer's Contribution

Year ended June 30, 2013

The following table shows the Commonwealth's annual required contribution (ARC) and percent of the ARC funded for the past six fiscal years in the case of the Retirement Systems and past three fiscal years in the case of post employment healthcare benefits. (Amounts in thousands except for percentages)

Retirement Systems

	ERS		JRS		TRS	
Fiscal Year Ended	**Annual Required Contribution**	**Percentage Contributed**	**Annual Required Contribution**	**Percentage Contributed**	**Annual Required Contribution**	**Percentage Contributed**
June 30, 2013	$ 2,192,821	29	38,501	30	$ 736,591	26
June 30, 2012	2,019,467	29	33,544	34	659,334	27
June 30, 2011	1,734,979	40	29,684	37	528,170	30
June 30, 2010	1,459,774	36	28,127	39	477,213	35
June 30, 2009	1,258,695	47	22,195	50	393,871	44
June 30, 2008	1,191,275	56	19,803	37	341,495	46

Post Employment Healthcare Benefits

	ERS		JRS		TRS	
Fiscal Year Ended	**Annual Required Contribution**	**Percentage Contributed**	**Annual Required Contribution**	**Percentage Contributed**	**Annual Required Contribution**	**Percentage Contributed**
June 30, 2013	$ 154,999	59	643	45	$ 45,669	75
June 30, 2012	133,654	71	554	53	41,069	84
June 30, 2011	129,395	73	529	48	39,925	84
June 30, 2010	128,294	69	488	52	42,487	71
June 30, 2009	111,683	77	425	55	38,015	77
June 30, 2008	110,650	72	408	55	36,836	77

See accompanying independent auditors‘ report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information - Unaudited
Schedule of Revenues and Expenditures – Budget and Actual –
Budgetary Basis – General Fund
Year ended June 30, 2013
(In thousands)

		Original budget	Amended budget	Actual
Revenues:				
Income taxes	$	4,715,000	4,325,000	4,375,037
Sales and use taxes		691,000	552,000	539,929
Excise taxes		2,667,000	2,557,000	2,568,164
Property taxes		—	12,000	52,614
Other taxes		84,000	78,000	81,127
Charges for services		110,000	90,000	105,644
Revenues from component units		24,000	24,000	24,594
Intergovernmental		223,000	249,000	247,848
Other		128,000	123,000	136,424
Total revenues		8,642,000	8,010,000	8,131,381
Expenditures – current:				
General government		1,196,469	1,163,279	1,382,066
Public safety		1,989,895	1,984,535	1,966,079
Health		1,374,141	1,379,399	1,378,397
Public housing and welfare		482,736	486,659	460,269
Education		3,073,372	3,102,839	2,916,347
Economic development		431,329	425,495	413,948
Intergovernmental		405,621	411,357	421,359
Total expenditures		8,953,563	8,953,563	8,938,465
Deficiency of revenues under expenditures		(311,563)	(943,563)	(807,084)
Other financing sources (uses):				
Notes payable issued for debt service		—	—	600,433
Transfer in from COFINA		332,000	332,000	459,148
Transfer in from Debt Service Fund and Lottries Fund		108,000	295,000	502,911
Transfer out and other payments for debt service		(128,437)	(128,437)	(946,410)
Total other financing sources		311,563	498,563	616,082
Deficiency of revenues and other financing sources under expenditures and other financing uses	$	—	(445,000)	(191,002)

See accompanying independent auditors' report.

(1) Schedule of Funding Progress

The schedule of funding progress provides information about the funded status of the Retirement Systems and the progress being made in accumulating sufficient assets to pay benefits when due. The information was obtained from the last actuarial report as of June 30, 2013.

(2) Schedule of Employers' Contributions

The schedule of employers' contributions provides information about the annual required contributions (ARC) and the extent to which contributions made cover the ARC. The ARC is the annual required contribution for the year calculated in accordance with certain parameters, which include actuarial methods and assumptions.

The Retirement Systems' schedule of employers' contributions includes both Commonwealth's and participating employees' contributions as the Commonwealth's contributions, ultimately, should cover any deficiency between the participating employees' contributions, pension benefits, and the Retirement Systems' administration costs.

The information was obtained from the last actuarial report as of June 30, 2013.

(3) Budgetary Control

The Governor is constitutionally required to submit to the Legislature an annual balanced budget of the Commonwealth for the ensuing fiscal year. The annual budget is prepared by the Commonwealth's Office of Management and Budget (OMB) and takes into consideration the advice provided by the Puerto Rico Planning Board (annual economic growth forecasts and four year capital improvements plan), the Department of the Treasury of the Commonwealth (revenue estimates, accounting records, and the comprehensive annual financial report), the GDB (fiscal agent), and other governmental offices and agencies. Section 7 of Article VI of the Constitution of Puerto Rico provides that "The appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for the said fiscal year, unless the imposition of taxes sufficient to cover the said appropriations is provided by law".

The annual budget, which is developed utilizing elements of program budgeting, includes an estimate of revenue and other resources for the ensuing fiscal year under: (i) laws existing at the time the budget is submitted; and (ii) legislative measures proposed by the Governor and submitted with the proposed budget, as well as the Governor's recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four year capital improvements plan adopted by the Puerto Rico Planning Board.

The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon passage by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by two thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Governor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the

(Continued)

Legislature and the Governor. This permits the Commonwealth to continue making payments for its operating and other expenses until the new budget is approved. The appropriated annual budget for fiscal year 2013 (including other financing uses) amounted to approximately $9.1 billion, including several special budget appropriations to the General Fund made by the Legislature throughout the year which amounted to approximately $4.0 billion.

The OMB has authority to amend the budget within a department, agency, or government unit without legislative approval.

For budgetary purposes, encumbrance accounting is used. The encumbrances (that is, purchase orders and contracts) are considered expenditures when a commitment is made. For US GAAP reporting purposes, encumbrances outstanding at year end are reported within the restricted, committed, assigned, and unassigned fund balance classifications and do not constitute expenditures or liabilities on a US GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the General Fund at the end of the fiscal year lapses immediately. Appropriations, other than in the General Fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, for budgetary purposes, revenues are recorded when cash is received.

During any fiscal year in which the resources available to the Commonwealth are insufficient to cover the appropriations approved for such year, the Governor may take administrative measures to reduce expenses and submit to both houses of the Legislature a detailed report of any adjustment necessary to balance the budget, or make recommendations to the Legislature for new taxes or authorize borrowings under provisions of existing legislation or take any other necessary action to meet the estimated deficiency. Any such proposed adjustments shall give effect to the "priority norms" established by law for the disbursement of public funds in the following order of priority: (i) the payment of the interest on and amortization requirements for public debt (Commonwealth general obligations and guaranteed debt for which the Commonwealth's guarantee has been exercised); (ii) the fulfillment of obligations arising out of legally binding contracts, court decisions on eminent domain, and other unavoidable obligations to protect the name, credit and full faith of the Commonwealth; (iii) current expenditures in the areas of health, protection of persons and property, education, welfare and retirement systems; and (iv), all other purposes.

In addition, the Legislature may direct that certain revenue be retained and made available for spending within a specific appropriation account. Generally, expenditures may not exceed the level of spending authorized for an individual department. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Appropriations are enacted for certain departments, agencies, and government units included in the General Fund.

For these funds, a schedule of revenue and expenditures – budget and actual budgetary basis – General Fund is included. Appropriations for capital projects are made for each bond issue and the authorization continues for the expected construction period.

The OMB has the responsibility to ensure that budgetary spending control is maintained on an individual department basis. The OMB may transfer part or all of any unencumbered balance within a department to another department subject to legislative approval. Budgetary control is exercised through the Puerto Rico Integrated Financial Accounting System (PRIFAS). PRIFAS ensures that encumbrances or expenditures are not processed if they exceed the department's total available spending authorization, which is considered its budget. The legal level of budgetary control is at the individual department level for General Fund expenditures, principal and interest due for the year for the debt service fund, and by bond authorization for capital expenditures.

(4) Statutory (Budgetary) Accounting

The Commonwealth's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with US GAAP. Revenue is generally recognized when cash is received, net of estimated income tax refunds. Short term and long-term borrowings may be used to finance budgetary excess of expenditures over revenue. Expenditures are generally recorded when the related expenditure is incurred or encumbered. Encumbrances generally lapse the year following the end of the fiscal year when the encumbrance was established, as established by Act No. 123 of August 17, 2001. Unencumbered appropriations lapse at year-end. Amounts required for settling claims and judgments against the Commonwealth and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

Under the statutory basis of accounting, the Commonwealth uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

The schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund only presents the information for the General Fund for which there is a legally adopted budget, as required by US GAAP. See note 5 for a reconciliation of the statement of revenue and expenditures – budget and actual – budgetary basis – General Fund with the statement of revenues, expenditures, and changes in fund balances (deficit) for the General Fund. The special revenue funds do not have a legally mandated budget.

(5) Budget/US GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with U.S. GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenue and other financing sources over expenditures and other financing uses for the year ended June 30, 2013 is presented below for the General Fund (expressed in thousands):

Deficiency of revenues and other financing sources under expenditures and other financing uses – budgetary basis	$	(191,002)
Entity differences-deficiency of revenues and other financing sources under expenditures and other financing uses for:		
Nonbudgeted funds		(297,521)
Inclusion of agencies with independent treasuries		(59,352)
Timing differences:		
Adjustment for encumbrances		150,687
Current year expenditures against prior year encumbrances		(254,080)
Basis of accounting differences:		
Net decrease in taxes receivable (net of tax refunds and deferred revenues)		(190,126)
Net decrease in other receivables		(1,437)
Excess of revenues and other financing sources over expenditures and other financing uses – US GAAP basis	$	(842,831)

See accompanying independent auditor’s report.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

COMMONWEALTH OF PUERTO RICO

General Fund

Year ended June 30, 2013

The General Fund is the primary operating fund of the Commonwealth. The General Fund is used to account for and report all financial resources received and used for those services traditionally provided by a government, which are not required legally or by sound financial management to be accounted for in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, education, and economic development. Following is the supplemental schedule of expenditures – budget and actual – General Fund.

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2013

(In thousands)

	Original budget	Amended budget	Actual
Expenditures - Current:			
General government:			
Senate of Puerto Rico	$ 45,749	45,749	45,759
House of Representatives of Puerto Rico	54,125	53,125	53,152
Comptroller's Office	43,000	43,000	42,979
Governor's Office	23,934	23,592	23,730
Office of Management and Budget (1)	54,894	52,758	22,764
Planning Board	11,737	11,606	10,078
Department of State	7,921	6,717	6,425
Department of the Treasury (1)	291,932	290,750	539,414
Central Office of Personnel Administration	4,292	4,292	4,262
Commonwealth Elections Commission	73,522	73,522	67,043
Federal Affairs Administration	4,935	4,807	4,531
General Services Administration	200	200	202
Municipal Complaints Hearing Commission	5,118	5,090	6,055
Civil Rights Commission	3,067	1,193	703
Office of the Citizen's Ombudsman	5,808	5,808	4,896
Government Ethics Board	10,290	10,290	10,290
Legislative Affairs Office	17,897	17,897	17,897
Office of the Superintendent of the Capitol	20,194	20,194	20,195
Comptroller's Special Reports Joint Commission	691	691	731
Legislative Donation Commission	22,907	1,107	1,236
Coordination Office for Special Communities of Puerto Rico	3,787	3,694	2,802
Corporation "Enlace" Caño Martín Peña	1,008	1,008	1,008
Puerto Rico Statistics Institute	641	641	641
Office for the Governmental's Integrity and Efficiency	5,948	6,130	4,503
Permits Management Office	4,981	4,981	4,376
Permits Inspector General Office	4,939	4,939	4,703
Board for the Review of Permits and Use of Lands	1,191	1,191	1,098
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	303,175	303,175	293,675
Puerto Rico System of Annuities and Pensions for Teachers	119,353	119,353	119,353
Contributions to Political Parties	11,600	11,600	18,674
Public Buildings Authority	22,320	22,320	22,320
Procurement Administration Offices	1,740	1,741	1,691
Office of Elections Comptroller	4,879	4,879	3,756
Labor Development Administration	1,302	1,302	17,416
Telecomunication Board	3,188	—	—
Information and Technology Communication Office	151	151	113
Apellative Board of the Personnel System Administration	4,053	3,786	3,595
Total general government	1,196,469	1,163,279	1,382,066
Public safety:			
Puerto Rico General Court of Justice	342,762	342,763	336,396
Civil Defense	7,191	6,945	6,522
Commission of Investigation, Processing and Appeals Board	513	508	440
Department of Justice	144,309	135,494	132,220
Puerto Rico Police Department	814,720	813,741	796,875
Puerto Rico Firefighters Corps	68,726	68,739	66,568
Puerto Rico National Guard	11,798	12,018	11,160
Public Service Commission	6,813	6,813	6,649
Consumer Affairs Department	10,180	9,704	8,348
Correction Administration	—	—	—
Natural Resources Administration	33,943	34,922	38,220
Department of Correction and Rehabilitation	419,288	424,226	430,004
Parole Board	2,507	2,507	2,390
Forensic Sciences Institute	16,475	16,095	16,008
Special Prosecutor Panel	2,859	2,824	2,814
Pre-Trial Services Office	7,549	7,456	8,788
Correctional Health	71,696	70,995	74,187
Medical Emergencies Service	25,551	25,770	25,526
Criminal Justice College	3,015	3,015	2,964
Total public safety	1,989,895	1,984,535	1,966,079

(Continued)

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2013

(In thousands)

	Original budget	Amended budget	Actual
Health:			
Environmental Quality Board	6,564	7,013	11,786
Department of Health	315,379	314,478	302,075
Puerto Rico Medical Services Administration	11,022	11,022	11,022
Mental Health and Drug Addiction Services Administration	100,491	106,251	113,019
Puerto Rico Solid Waste Authority	13,000	13,024	12,950
Puerto Rico Health Insurance Administration	899,316	899,242	899,176
Medical Services Administration	24,710	24,710	24,710
University of Puerto Rico Comprehensive Cancer Center	3,659	3,659	3,659
Total health	1,374,141	1,379,399	1,378,397
Public housing and welfare:			
Office of Youth Affairs	4,284	4,547	3,445
New Business Training Administration	12	—	1
Department of Labor and Human Resources	14,253	14,443	2,165
Labor Relations Board	892	892	879
Department of Housing	19,626	19,594	18,591
Department of Recreation and Sports	47,101	50,898	49,053
Administration for the Horse Racing Sport and Industry	2,672	2,672	2,605
Women’s Affairs Commission	4,326	4,298	5,130
Public Housing Administration	1,500	1,500	2,093
Office of the Veteran‘s Ombudsman	3,234	3,213	3,045
Department of Family	32,256	40,842	36,596
Family and Children Administration	176,630	174,238	170,711
Minors Support Administration	14,810	15,541	17,401
Vocational Rehabilitation Administration	18,646	18,499	17,675
Social Economic Development Administration	91,492	84,372	80,739
Office of the Disabled Persons Ombudsman	1,528	1,528	1,197
Office for Elderly Affairs	3,305	3,298	2,955
Right to Employment Administration	—	—	—
Company for the Integral Development of the Península de Cantera	2,825	2,825	2,825
Industries for the Blind, Mentally Retarded, and Other Disabled Persons of Puerto Rico	500	500	500
Patient Ombudsman	3,081	3,195	2,848
Administration for the Care and Development of the Childhood	8,767	8,766	8,817
Special Communities Trust	29,890	29,892	29,892
Puerto Rico Public Finance Authority	1,106	1,106	1,106
Total public housing and welfare	482,736	486,659	460,269
Education:			
Department of Education	2,180,954	2,208,709	2,019,300
Institute of Puerto Rican Culture	24,355	26,426	29,830
Puerto Rico School of Plastics Arts	2,422	2,422	2,405
State Office for Historic Preservation	1,892	1,809	1,455
University of Puerto Rico	825,676	825,676	825,276
Musical Arts Corporation	7,452	7,368	7,351
Fine Arts Center Corporation	4,111	4,111	4,041
Puerto Rico Public Broadcasting Corporation	14,848	14,607	14,978
Athenaeum of Puerto Rico	500	500	500
Puerto Rico Conservatory of Music Corporation	7,360	7,316	7,316
Puerto Rico Council on Education	3,802	3,895	3,895
Total education	3,073,372	3,102,839	2,916,347

(Continued)

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2013

(In thousands)

		Original budget	Amended budget	Actual
Economic development:				
Department of Transportation and Public Works		72,906	67,011	55,724
Department of Natural and Environmental Resources		7,108	6,199	6,137
Department of Agriculture		20,531	22,804	21,105
Cooperative Enterprises Development Administration		1,056	1,056	1,094
Rural Development Corporation		1,059	1,059	1,059
Energy Affairs Administration		395	396	—
Puerto Rico Infrastructure Financing Authority		117,352	117,353	117,975
Land Authority of Puerto Rico		150	150	150
Puerto Rico Industrial Development Company		3,609	3,609	3,609
Puerto Rico Ports Authority		800	800	800
Puerto Rico Electric Power Authority		131	131	131
Puerto Rico Metropolitan Bus Authority		39,791	39,768	39,970
Puerto Rico Tourism Company		50	75	54
Agricultural Enterprises Development Administration		90,606	89,276	89,779
Culebra Conservation and Development Authority		336	336	336
National Parks Company of Puerto Rico		22,002	22,032	21,850
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico		474	467	373
Ports of Americas Authority		17,117	17,117	17,117
Local Redevelopment Authority for Roosevelt Roads Puerto Ricc		900	900	900
Puerto Rico Convention Center District Authority		12,099	12,099	12,099
Puerto Rico Maritime Transportation Authority		22,857	22,857	23,686
Total economic development		431,329	425,495	413,948
Intergovernmental – Municipal Services Administration		405,621	411,357	421,359
Total expenditures	$	8,953,563	8,953,563	8,938,465
Operating Transfer-out to Other Funds:				
Department of the Treasury – transfer to Debt Service Fund and other funds	$	128,437	128,437	946,410

(1) As a department and a fiscal agent.

See accompanying independent auditors' report.

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Public Buildings Authority Special Revenue Fund – The operating fund of the Public Buildings Authority, a blended component unit, used to account for the operation, maintenance, equipment replacement, and other extraordinary operation and maintenance costs of the buildings and facilities that, when constructed, are leased to the Commonwealth's primary government agencies.

The Children's Trust Special Revenue Fund – The special revenue fund of the Children's Trust, a blended component unit, is used to account for the money received by the Commonwealth from a global settlement agreement dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United State of America, including the Commonwealth. The financial resources received by this fund are used to carry out projects aimed at promoting the well-being of children and youth of Puerto Rico.

Puerto Rico Infrastructure Financing Authority's Special Revenue Fund – The special revenue fund of the Puerto Rico Infrastructure Financing Authority, a blended component unit, is used to account principally for the moneys received by the Commonwealth, up to $117 million, of certain federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the Unites States, which are collected by the US Treasury and returned to the Commonwealth. Under Act No. 44 of June 21, 1988, as amended, the Commonwealth transfers to this fund the first $117 million of these federal excise taxes reimbursed, which are subsequently transferred to the Puerto Rico Infrastructure Financing Authority's Debt Service Fund to provide for the debt service of its special tax revenue bonds. This special revenue fund also receives ARRA funds for the weatherization program aimed at converting certain government buildings into eco-friendly locations.

Special Communities Perpetual Trust's Special Revenue Fund – The special revenue fund of the Special Communities Perpetual Trust, a blended component unit, is used to account for the moneys received from the Governmental Development Bank, through a line of credit financing and cash contributions, upon inception of the Special Communities Perpetual Trust. The financial resources received by this fund are used to carry out development projects that address the infrastructure and housing needs of certain underpriviledged communities.

Debt Service Funds

The debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest, and related costs other than bonds payable from operations of proprietary fund types, pension trust funds, and discretely presented component units. Long-term debt and interest due on July 1 of the following year are accounted for as a fund liability if resources are available as of June 30 for its payment.

The Children's Trust Debt Service Fund – The debt service fund of The Children's Trust accounts for the financial resources that are restricted, committed, or assigned to expenditure for the payment of interest and principal on long-term obligations financed with moneys to be received by the Commonwealth from the global settlement agreement signed by certain tobacco companies.

Public Buildings Authority Debt Service Fund – A blended component unit engaged in the construction and/or acquisition of building facilities for lease mainly to the Commonwealth's primary government agencies. Its debt service fund is used to account for the financial resources that are restricted, committed, or assigned to expenditure for the payment of revenue bonds and other liabilities incurred to finance the construction of the buildings and facilities.

Puerto Rico Maritime Shipping Authority Debt Service Fund – This is the remainder of a former shipping company owned by the Commonwealth. Its debt service fund is used to account for the financial resources that are restricted for the payment of the long-term liability that resulted from the sale of its marine operations. This fund is mainly subsidized from appropriations and operating transfers from the General Fund

Puerto Rico Infrastructure Financing Authority's Debt Service Fund – The debt service fund of the Puerto Rico Infrastructure Financing Authority accounts for the financial resources that are restricted to expenditure for the payment of interest and principal on its special tax revenue bonds. These resources are received from operating transfers from the Puerto Rico Infrastructure Financing Authority Special Revenue Fund.

Special Communities Perpetual Trust's Debt Service Fund –The debt service fund of the Special Communities Perpetual Trust accounts for the financial resources that are restricted to expenditure for the payment of interest and principal on its line of credit with the GDB, financed with moneys to be received by the Commonwealth from general legislative appropriations.

Capital Projects Funds

Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not being financed by the Public Buildings Authority's Capital Projects Fund, the Puerto Rico Infrastructure Financing Authority's Capital Project Fund, proprietary fund types, pension trust funds, and discretely presented component units.

Commonwealth Public Improvements Funds and Other Funds – These funds present the activities of the capital improvements program of the Commonwealth, financed with the proceeds of the general obligation bonds.

Public Buildings Authority's Capital Projects Fund – The Public Buildings Authority's capital projects fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not financed by proprietary fund types, pension trust funds, and discretely presented component units.

Puerto Rico Infrastructure Financing Authority's Capital Projects Fund – The Puerto Rico Infrastructure Financing Authority's capital projects fund is used to account for and report financial resources that are restricted, committed or assigned for the acquisition or construction of capital assets and capital improvements, not financed by proprietary fund types, pension trust funds, and discretely presented component units.

COMMONWEALTH OF PUERTO RICO

Combining Balance Sheet – Nonmajor Governmental Funds

June 30, 2013

(In thousands)

	Special Revenue				Debt Service					Capital Projects				
Assets:	**Public Buildings Authority**	**Puerto Rico Infraestructure Financing Authority**	**Special Communities Perpetual Trust**	**The Children's Trust**	**The Children's Trust**	**Public Buildings Authority**	**Puerto Rico Infraestructure Financing Authority**	**Special Communities Perpetual Trust**	**Puerto Rico Maritime Shipping Authority**	**Commonwealth of Puerto Rico**	**Public Buildings Authority**	**Puerto Rico Infraestructure Financing Authority**	**Eliminations**	**Total Nonmajor Governmental Funds**
Cash and cash equivalents in commercial banks	$ 137,548	—	—	67	—	—	—	—	—	—	—	—	—	137,615
Cash and cash equivalents in governmental banks	3	2,569	—	19,534	—	—	—	—	1,642	89,647	—	—	—	113,395
Cash equivalents in PRGITF	—	—	—	—	—	—	—	—	—	88,021	308	—	—	88,329
Investments	—	—	—	17,629	—	—	—	—	—	—	—	—	—	17,629
Receivables – net of allowance for uncollectibles:														
Accounts	—	371	—	—	—	—	—	—	—	671	—	—	—	1,042
Loans	—	—	—	—	—	—	—	—	—	39	—	—	—	39
Accrued interest	—	—	91	2	—	—	—	—	—	—	—	—	—	93
Other	1,281	—	—	—	42,311	—	—	—	—	—	—	3,928	—	47,520
Due from:														
Other funds	24,790	3,618	632	—	—	—	47	—	—	4,786	—	625	—	34,498
Component units	14,745	—	—	—	—	—	—	—	—	—	—	—	—	14,745
Other governmental entities	22,325	12	245	—	—	—	—	—	—	—	—	—	—	22,582
Other assets	1,174	—	—	—	—	—	—	—	—	—	—	—	—	1,174
Restricted assets:														
Cash and cash equivalents in commercial banks	—	14,309	—	—	11	212,696	74,559	—	—	—	245,267	19,556	—	566,398
Cash and cash equivalents in governmental banks	—	—	116,772	—	—	—	—	—	37	—	25,117	59,164	—	201,090
Investments	—	225,100	—	—	110,097	—	3,139	—	—	—	—	628	—	338,964
Due from other funds	—	—	—	—	—	—	—	—	7,272	—	—	64,872	(64,872)	7,272
Due from other governmental entities	—	—	—	—	—	—	—	—	—	—	—	3,818	—	3,818
Other	—	—	—	—	441	—	—	—	—	—	—	7,531	—	7,972
Real estate held for sale or future development	198	—	—	—	—	—	—	—	—	1,854	—	—	—	2,052
Total assets	$ 202,064	245,979	117,740	37,232	152,860	212,696	77,745	—	8,951	185,018	270,692	160,122	(64,872)	1,606,227
Liabilities and Fund Balances:														
Liabilities:														
Accounts payable and accrued liabilities	$ 13,242	12,033	22,600	1,032	—	—	—	—	87	45,152	22,848	93,278	—	210,272
Due to:														
Other funds	—	1,958	1,681	—	—	—	—	—	—	—	63,285	18,402	(64,872)	20,454
Other governmental entities	4,589	—	—	—	—	—	—	—	—	650	—	2,004	—	7,243
Component units	7,919	2,163	—	—	—	—	—	—	—	—	—	1,210	—	11,292
Bond anticipation notes payable	—	—	—	—	—	—	—	—	—	204,866	—	—	—	204,866
Bonds payable	—	—	—	—	—	72,595	—	—	—	—	—	—	—	72,595
Interest payable	—	—	—	—	—	120,106	—	—	570	—	—	—	—	120,676
Deferred revenue	82,290	—	—	—	42,311	—	—	—	—	—	—	—	—	124,601
Total liabilities	108,040	16,154	24,281	1,032	42,311	192,701	—	—	657	250,668	86,133	114,894	(64,872)	771,999
Fund balances:														
Non-spendable	—	225,100	—	—	—	—	—	—	—	—	—	—	—	225,100
Restricted for:														
General government	—	508	—	—	—	—	—	—	—	—	—	—	—	508
Public housing and welfare	—	—	93,459	—	—	—	—	—	—	—	—	—	—	93,459
Capital projects	—	—	—	—	—	—	—	—	—	—	184,559	45,228	—	229,787
Debt service	—	—	—	—	110,549	19,995	77,745	—	6,702	—	—	—	—	214,991
Committed to:														
Public housing and welfare	—	—	—	29,042	—	—	—	—	—	—	—	—	—	29,042
Assigned to:														
Public housing and welfare			—	7,158	—	—	—	—	—	—	—	—	—	7,158
Capital projects	94,024	4,217	—	—	—	—	—	—	—	—	—	—	—	98,241
Debt service	—	—	—	—	—	—	—	—	1,592	—	—	—	—	1,592
Unassigned	—	—	—	—	—	—	—	—	—	(65,650)	—	—	—	(65,650)
Total fund balances (deficit)	94,024	229,825	93,459	36,200	110,549	19,995	77,745	—	8,294	(65,650)	184,559	45,228	—	834,228
Total liabilities and fund balances	$ 202,064	245,979	117,740	37,232	152,860	212,696	77,745	—	8,951	185,018	270,692	160,122	(64,872)	1,606,227

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

Year ended June 30, 2013

(In thousands)

	Special Revenue				Debt Service					Capital Projects				
	Public Buildings Authority	**Puerto Rico Infraestructure Financing Authority**	**Special Communities Perpetual Trust**	**The Children's Trust**	**The Children's Trust**	**Public Buildings Authority**	**Puerto Rico Infraestructure Financing Authority**	**Special Communities Perpetual Trust**	**Puerto Rico Maritime Shipping Authority**	**Commonwealth of Puerto Rico**	**Public Buildings Authority**	**Puerto Rico Infraestructure Financing Authority**	**Eliminations**	**Total Nonmajor Governmental Funds**
Revenues:														
Interest and investment earnings	$ 3,965	(31,823)	747	35	3,382	—	208	—	2	—	—	129	—	(23,355)
Intergovernmental	—	—	—	—	—	38,262	—	—	—	—	—	—	—	38,262
Other	8,552	3,459	582	313	1	—	—	—	—	—	—	1,167	—	14,074
Total revenues	12,517	(28,364)	1,329	348	3,383	38,262	208	—	2	—	—	1,296	—	28,981
Expenditures:														
Current:														
General government	142,548	11,538	—	300	—	—	—	—	—	60,549	—	—	—	214,935
Public safety	—	—	—	—	—	—	—	—	—	803	—	24	—	827
Health	—	—	—	424	—	—	—	—	—	4,036	—	—	—	4,460
Public housing and welfare	—	—	17,562	3,629	—	—	—	—	—	4,870	—	—	—	26,061
Education	—	—	—	156	—	—	—	—	—	358	—	4,609	—	5,123
Economic development	—	—	—	—	—	—	—	—	55	196,179	—	2,360	—	198,594
Intergovernmental	—	—	—	2,702	—	—	—	—	—	11,198	—	—	—	13,900
Capital outlays	—	1,217	—	—	—	—	—	—	—	11,688	300,198	94	—	313,197
Debt service:														
Principal	4,900	—	—	—	57,935	82,835	37,460	3,235	—	—	—	40	—	186,405
Interest and other	5,575	—	—	—	53,483	252,254	81,352	25,243	6,894	35	—	313	—	425,149
Total expenditures	153,023	12,755	17,562	7,211	111,418	335,089	118,812	28,478	6,949	289,716	300,198	7,440	—	1,388,651
Deficiency of revenues under expenditures	(140,506)	(41,119)	(16,233)	(6,863)	(108,035)	(296,827)	(118,604)	(28,478)	(6,947)	(289,716)	(300,198)	(6,144)	—	(1,359,670)
Other financing sources (uses):														
Transfers in	205,063	119,886	—	—	107,687	330,271	118,885	29,892	—	200	—	11,388	(443,158)	480,114
Transfers out	(216,361)	(112,875)	—	—	—	—	—	—	—	(17,011)	(113,910)	(12)	443,158	(17,011)
Proceeds from long term debt issued	174,799	5,786	—	—	—	—	—	—	—	36,101	28,891	588	—	246,165
Total other financing sources	163,501	12,797	—	—	107,687	330,271	118,885	29,892	—	19,290	(85,019)	11,964	—	709,268
Net change in fund balances	22,995	(28,322)	(16,233)	(6,863)	(348)	33,444	281	1,414	(6,947)	(270,426)	(385,217)	5,820	—	(650,402)
Fund balances (deficit) – beginning of year (as restated)(note 3)	71,029	258,147	109,692	43,063	110,897	(13,449)	77,464	(1,414)	15,241	204,776	569,776	39,408	—	1,484,630
Fund balances (deficit) – end of year	$ 94,024	229,825	93,459	36,200	110,549	19,995	77,745	—	8,294	(65,650)	184,559	45,228	—	834,228

See accompanying independent auditors' report.

Nonmajor Proprietary Funds

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the government is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Disability Insurance – It was created by Act No. 139 on June 26, 1968. It is used to account for disability benefits to remedy temporarily the loss of income as a result of disability caused by sickness or accident unrelated to the employment.

Drivers' Insurance – It was created by Act No. 428 on May 15, 1950. It is used to account for contributions made by the drivers and their employers to provide a social security plan for the benefit of the drivers in Puerto Rico. The plan also includes payment of benefits for health and life insurance.

Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund – It was created by Act No. 32 on July 7, 1997. It is administered, pursuant to Act No. 9 of June 18, 1970, as amended, by the Puerto Rico Department of Health (DOH). Pursuant to such act, the DOH, on behalf of the Commonwealth, is authorized to enter into operating and capitalization grant agreements with the EPA for lending activities.

Governing Board of 9-1-1 Services (9-1-1 Service) – It was created by Act No. 144 on December 22, 1994. The 9-1-1 Service is responsible for providing an efficient service of fast response to emergency calls through the 9-1-1 number, and transferring these to the appropriate response agencies.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Nonmajor Proprietary Funds

June 30, 2013

(In thousands)

	Business-Type Activities – Nonmajor Enterprise Funds				
	9-1-1 Service Governing Board	**Disability Insurance**	**Drivers' Insurance**	**Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund**	**Total**
Assets:					
Current assets:					
Cash and cash equivalents in commercial banks	$ —	35	79	—	114
Cash and cash equivalents in governmental banks	12,763	51,611	5,016	—	69,390
Insurance premiums receivables, net	—	2,657	1,093	—	3,750
Accrued interest receivable	—	68	—	—	68
Accounts Receivable	2,242	—	—	—	2,242
Other receivables	8	252	—	—	260
Due from other funds	—	—	5,000	—	5,000
Other assets	38	—	—	—	38
Investments	3,044	—	—	—	3,044
Restricted assets:					
Cash and cash equivalents in commercial banks	—	1,435	—	—	1,435
Cash and cash equivalents in governmental banks	7,848	—	—	28,350	36,198
Loans receivable from component unit	—	—	—	5,723	5,723
Receivables	—	—	—	1,492	1,492
Total current assets	25,943	56,058	11,188	35,565	128,754
Noncurrent assets:					
Loans receivable from component unit – restricted	—	—	—	148,687	148,687
Due from other funds	—	—	19,112	—	19,112
Restricted investments	9,136	35,145	—	—	44,281
Depreciable assets	4,916	151	—	—	5,067
Total assets	39,995	91,354	30,300	184,252	345,901
Liabilities and Net Position:					
Current liabilities:					
Accounts payable and accrued liabilities	2,115	681	184	270	3,250
Due to other funds	5,865	803	—	—	6,668
Due to other governmental entities	1,739	38	50	—	1,827
Deferred revenue		2,325	20	—	2,345
Compensated absences	711	455	291	—	1,457
Voluntary termination benefits payable	183	—	—	—	183
Insurance benefits payable		658	163	—	821
Total current liabilities	10,613	4,960	708	270	16,551
Noncurrent liabilities:					
Compensated absences	962	682	436	—	2,080
Voluntary termination benefits payable	715	—	—	—	715
Total liabilities	12,290	5,642	1,144	270	19,346
Net position:					
Net investment in capital assets	4,274	151	—	—	4,425
Restricted for lending activities		—	—	183,982	183,982
Restricted for payment of insurance benefits		35,923	—	—	35,923
Restricted for emergency services	9,993	—	—	—	9,993
Unrestricted	13,438	49,638	29,156	—	92,232
Total net position	$ 27,705	85,712	29,156	183,982	326,555

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenues, Expenses, and Changes in Net Position Nonmajor Proprietary Funds

Year ended June 30, 2013

(In thousands)

	Business-Type Activities – Nonmajor Enterprise Funds				
	9-1-1 Service Governing Board	**Disability Insurance**	**Drivers' Insurance**	**Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund**	**Total**
Operating revenues:					
Emergency telephone service charges	$ 20,573	—	—	—	20,573
Insurance premiums	—	12,130	4,356	—	16,486
Interest	—	—	—	2,955	2,955
Total operating revenues	20,573	12,130	4,356	2,955	40,014
Operating expenses:					
Insurance benefits	—	2,224	1,005	—	3,229
General, administrative, and other operating expenses	16,375	7,309	4,338	1,135	29,157
Total operating expenses	16,375	9,533	5,343	1,135	32,386
Operating income (loss)	4,198	2,597	(987)	1,820	7,628
Nonoperating revenues (expenses):					
Contributions from U.S. government	—	—	—	5,512	5,512
Interest and investment earnings	963	1,629	491	—	3,083
Total nonoperating revenues	963	1,629	491	5,512	8,595
Income (loss) before transfers	5,161	4,226	(496)	7,332	16,223
Transfers from other funds	—	—	—	927	927
Transfers to other funds	(18,265)	(4,582)	(68)	—	(22,915)
Net change in net position	(13,104)	(356)	(564)	8,259	(5,765)
Net position – beginning of year, as restated (see note 3 to the financial statement)	40,809	86,068	29,720	175,723	332,320
Net position – end of year	$ 27,705	85,712	29,156	183,982	326,555

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows – Nonmajor Proprietary Funds

Year ended June 30, 2013

(In thousands)

	Business-Type Activities – Nonmajor Enterprise Funds				
	9-1-1 Service Governing Board	**Disability Insurance**	**Drivers' Insurance**	**Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund**	**Total**
Cash flows from operating activities:					
Receipts from customers and users	$ 32,230	12,820	4,419	—	49,469
Payments to suppliers and employees	(23,819)	(7,528)	(4,459)	(1,156)	(36,962)
Payments of insurance benefits	—	(2,279)	(963)	—	(3,242)
Net cash provided by (used in) operating activities	8,411	3,013	(1,003)	(1,156)	9,265
Cash flows from noncapital financing activities:					
Intergovernmental grants and contributions	—	—	—	5,597	5,597
Transfers from other funds	—	—	—	927	927
Transfers to other funds	(18,265)	(4,582)	(68)	—	(22,915)
Net cash provided by (used in) noncapital financing activities	(18,265)	(4,582)	(68)	6,524	(16,391)
Cash flows from capital and related financing activities – capital expenditures	(625)	(175)	—	—	(800)
Cash flows from investing activities:					
Interest collected on deposits, investments and loans	964	1,289	9	2,902	5,164
Loans originated	—	—	—	(14,057)	(14,057)
Issuance of long-term debt	—	—	(8,000)	—	(8,000)
Principal collected on loans	—	—	2,500	4,892	7,392
Proceeds from sales and maturities of investments	5,426	14,095	—	—	19,521
Purchases of investments	—	(14,358)	—	—	(14,358)
Net cash provided by (used in) investing activities	6,390	1,026	(5,491)	(6,263)	(4,338)
Net decrease in cash and cash equivalents	(4,089)	(718)	(6,562)	(895)	(12,264)
Cash and cash equivalents – beginning of year, as restated (see note 3 of the financial statement)	24,700	53,799	11,657	29,245	119,401
Cash and cash equivalents – end of year	$ 20,611	53,081	5,095	28,350	107,137
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ 4,198	2,597	(987)	1,820	7,628
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Interests earned on deposits, loans and investments	—	—	—	(2,954)	(2,954)
Depreciation	896	24	—	—	920
Provision for bad debts	19	—	—	—	19
Loss on disposition of capital assets	413	—	—	—	413
Changes in operating assets and liabilities:					
Decrease in accounts receivable	1,374	509	63	—	1,946
Decrease in other assets	8	—	—	—	8
Decrease in accounts payable and accrued liabilities	(60)	(2)	(64)	(22)	(148)
Increase in due to other governmental entities	1,192	18	23	—	1,233
Increase in deferred revenues	—	182	—	—	182
Increase (decrease) in compensated absences	252	(259)	(81)	—	(88)
Increase in termination benefits payable	119	—	—	—	119
Increase (decrease) in liability for insurance benefits payable	—	(56)	43	—	(13)
Total adjustments	4,213	416	(16)	(2,976)	1,637
Net cash provided by (used in) operating activities	$ 8,411	3,013	(1,003)	(1,156)	9,265

See accompanying independent auditors' report.

Fiduciary funds are used to account for funds held by the Commonwealth in a trustee capacity, or as an agent for individuals, organizations, and other governmental units. Following are the Commonwealth's fiduciary funds:

Pension Trust Funds

The pension trust funds are used to account for the assets, liabilities, and net assets available for pension benefits held in trust for the public employees of the Commonwealth.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) – ERS is a cost-sharing multiple-employer defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. The ERS is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities are covered by the ERS. All regular appointed and temporary employees of the Commonwealth become plan members at the date of employment. The ERS is administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration) that also administers the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC). The ERS MIPC is an unfunded, cost-sharing, multi-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired plan members.

Puerto Rico System of Annuities and Pensions for Teachers (TRS) – TRS is a cost-sharing multiple-employer defined benefit pension plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The TRS is sponsored by the Commonwealth. All active teachers of the Commonwealth's Department of Education are covered by the TRS. Licensed teachers working in private schools or other educational organizations have the option to become members of TRS at their own choice as long as the required employer and employee contributions are satisfied. The employees of the TRS are also plan members. The TRS is administered by the Puerto Rico Teachers Retirement System (the TRS Administration) that also administers the Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution (TRS MIPC), an unfunded, cost-sharing, multi-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired teachers of the Department of Education of the Commonwealth and retired employees of the TRS Administration.

Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) – JRS is a single-employer defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 12 on October 19, 1954. The JRS is sponsored by the Commonwealth. All judges of the judiciary branch of the Commonwealth are plan members. The JRS provides retirement benefits to the employees of the judiciary branch of the Commonwealth, through the office of the Administration of Court Facilities. The JRS is administered by the ERS and JRS Administration that also administers the Retirement System for the Judiciary of the Commonwealth of Puerto Rico Medical Insurance Plan Contribution (JRS MIPC), an unfunded, single-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired judges of the Judiciary Branch of the Commonwealth.

Agency Fund

Agency fund is used to account for assets held by the Commonwealth as an agent for individuals, private organizations, and other governments. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

Special Deposits – This fund acts in a fiduciary capacity in order to account for moneys received with specified purposes for which the law does not specify its recording in any other fund. It mainly includes deposits under the custody of the courts of justice for alimony payments, escrows, revenue collections and agency accounts for which the Commonwealth act in an agent's capacity.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Fiduciary Net Position – Pension Trust Funds

June 30, 2013

(In thousands)

	Pension Trust Funds						
	(ERS)		(TRS)		(JRS)		
	Pension	Postemployment healthcare benefits	Pension	Postemployment healthcare benefits	Pension	Postemployment healthcare benefits	Total
Assets:							
Cash and cash equivalents in commercial banks:							
Unrestricted	$ 222,225	—	59,183	—	1,663	—	283,071
Restricted	26,503	—	—	—	—	—	26,503
Cash and cash equivalents in governmental banks:							
Unrestricted	130,527	—	8,494	—	916	—	139,937
Restricted	35,811	—	—	—	—	—	35,811
Collateral from securities lending transactions	124,411	—	48,420	—	2,002	—	174,833
Investments at fair value:							
Bonds and notes	1,351,177	—	742,146	—	18,693	—	2,112,016
Nonexchange commingled trust funds	1,053,555	—	546,775	—	39,661	—	1,639,991
Stocks	75	—	97,299	—	—	—	97,374
Investments in limited partnerships	55,067	—	14,823	—	—	—	69,890
Receivables – net:							
Accounts	131,033	—	—	—	—	—	131,033
Loans and advances	791,161	—	411,032	—	436	—	1,202,629
Accrued interest and dividends	11,494	—	7,847	—	191	—	19,532
Other	19,028	—	23,471	—	27	—	42,526
Capital assets – net	8,594	—	19,312	—	—	—	27,906
Other assets	35,242	—	781	—	—	—	36,023
Total assets	3,995,903	—	1,979,583	—	63,589	—	6,039,075
Liabilities:							
Accounts payable and accrued liabilities	21,388	—	23,233	—	2,239	—	46,860
Securities lending obligations	124,411	—	48,420	—	2,002	—	174,833
Interest payable	13,876	—	—	—	—	—	13,876
Other liabilities	53,697	—	1,048	—	336	—	55,081
Bonds payable	3,051,189	—	—	—	—	—	3,051,189
Total liabilities	3,264,561	—	72,701	—	4,577	—	3,341,839
Net position – held in trust for pension benefits	$ 731,342	—	1,906,882	—	59,012	—	2,697,236

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Changes in Fiduciary Net Position – Pension Trust Funds

Year ended June 30, 2013

(In thousands)

	Pension Trust Funds						
	ERS		TRS		JRS		
	Pension	**Postemployment healthcare benefits**	**Pension**	**Postemployment healthcare benefits**	**Pension**	**Postemployment healthcare benefits**	**Total**
Additions:							
Contributions:							
Sponsor	$ 424,704	—	133,369	—	10,034	—	568,107
Participants	322,528	—	120,842	—	2,825	—	446,195
Special	203,943	91,823	54,075	34,239	1,368	291	385,739
Total contributions	951,175	91,823	308,286	34,239	14,227	291	1,400,041
Investment income and investment expense:							
Interest	127,377	—	71,457	—	948	—	199,782
Dividends	242	—	2,693	—	—	—	2,935
Net change in fair value of investments	120,956	—	86,573	—	5,796	—	213,325
Investment expenses	(3,553)	—	(3,229)		(72)		(6,854)
Net investment income	245,022	—	157,494	—	6,672	—	409,188
Other income	22,035	—	1,432	—	603	—	24,070
Total additions	1,218,232	91,823	467,212	34,239	21,502	291	1,833,299
Deductions:							
Pension and other benefits	1,430,712	91,823	628,274	34,239	20,453	291	2,205,792
Refunds of contributions	52,307	—	7,666	—	—	—	59,973
General and administrative	49,173	—	23,606	—	625	—	73,404
Interest on bonds payable	192,230	—	—	—	—	—	192,230
Total deductions	1,724,422	91,823	659,546	34,239	21,078	291	2,531,399
Net change in net position held in trust for pension benefits	(506,190)	—	(192,334)	—	424	—	(698,100)
Net position held in trust for pension benefits:							
Beginning of year	1,237,532	—	2,099,216	—	58,588	—	3,395,336
End of year	$ 731,342	—	1,906,882	—	59,012	—	2,697,236

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Changes in Assets and Liabilities – Agency Funds

Year ended June 30, 2013

(In thousands)

Assets		Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
Cash and cash equivalents in commercial banks	$	698,972	457	33,185	666,244
Cash and cash equivalents in governmental banks		546,931	10,641,005	10,753,992	433,944
Other receivables		5,252	—	5,252	—
Total assets	$	1,251,155	10,641,462	10,792,429	1,100,188
Liabilities					
Accounts payable and accrued liabilities	$	1,251,155	10,641,462	10,792,429	1,100,188
Total liabilities	$	1,251,155	10,641,462	10,792,429	1,100,188

See accompanying independent auditors’ report.

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Year ended June 30, 2013

These entities, all legally separate entities, consistent with GASB Statement No. 14, as amended by GASB Statements No. 39 and 61, are discretely presented in a separate column of the basic financial statements of the primary government principally because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because these component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth (with the exception of Culebra Conservation and Development Authority, which does not meet all these criteria, but the Commonwealth has determined it would be misleading to exclude it from the Commonwealth's financial reporting entity). These entities have been classified as nonmajor component units because management believes they do not meet the following factors for inclusion as major: a) the services provided by the component unit to the citizenry are such that separate reporting as a major component unit is considered to be essential to financial statement users, b) there are significant transactions with the primary government, or c) there is a significant financial benefit or burden relationship with the primary government. The accounting principles followed by each of the component units included herein may vary depending on the type of industries they are involved in (that is, banking, construction, public utilities, and so forth). The detailed information for each of these entities may be obtained directly from the administrative offices of the corresponding entities, as described in note 1 to the basic financial statements included in the financial section of this report.

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2013

(In thousands)

	Agricultural Enterprises Development Administration	Automobile Accidents Compensation Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Company for the Integral Development of the "Península de Cantera"	Corporation for the "Caño Martín Peña" ENLACE Project	Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico
Assets:						
Cash and cash equivalents in commercial banks	$ 28,479	12,261	9,394	1,543	40	915
Cash and cash equivalents in governmental banks	13,204	—	—	—	—	—
Investments	300	156,512	—	—	—	865
Collateral from securities lending transactions	—	—	—	—	—	—
Receivables – net:						
Insurance premiums	—	748	—	—	—	—
Intergovernmental	—	—	—	—	—	—
Accounts	12,937	—	5,143	—	—	31
Loans and advances	—	—	—	5,970	—	564
Accrued interest	—	663	—	—	—	—
Other governmental entities	3,158	412	1,225	536	967	593
Other	665	489	—	23	—	—
Due from:						
Primary government	28,442	—	—	30,733	—	—
Component units	—	—	1,616	—	—	—
Inventories	5,802	—	2,481	—	—	—
Prepaid expenses	976	—	908	48	—	—
Restricted assets:						
Cash and cash equivalents in commercial banks	—	9	102	—	102	—
Cash and cash equivalents in governmental banks	—	—	—	—	—	11,172
Investments		—	—	—	—	—
Other restricted assets	—	—	—	497	—	—
Deferred issue cost	—	—	—	—	—	—
Deferred expenses and other assets	—	36	—	—	—	—
Real estate held for sale or future development	—	—	—	847	—	—
Capital assets, not being depreciated	3,739	1,026	103	80	3,774	—
Capital assets, depreciable – net	24,406	4,527	16,724	64	1,454	—
Total assets	122,108	176,683	37,696	40,341	6,337	14,140
Liabilities and Deferred Inflows of Resources:						
Liabilities:						
Accounts payable and accrued liabilities	58,239	4,848	29,319	1,569	270	200
Deposits and escrow liabilities	—	—	—	—	—	—
Due to:						
Primary government	—	—	14,745	—	—	—
Component units	110,004	—	18,950	31,888	—	—
Other governmental entities	—	329	1,064	—	—	323
Securities lending obligations and reverse repurchase agreements	—	—	—	—	—	—
Interest payable	—	—	—	—	—	—
Deferred revenue	—	37,813	—	—	—	—
Liability for automobile accident insurance workmen compensation and medical claims	—	104,912	—	—	—	—
Liabilities payable within one year:						
Notes payable	19,399	—	—	—	—	—
Bonds payable	—	—	—	—	—	—
Accrued compensated absences	2,339	3,292	3,395	55	66	162
Voluntary termination benefits payable	2,423	—	—	—	—	—
Capital leases	—	—	—	—	—	—
Other long-term liabilities	—	—	1,191	—	—	—
Liabilities payable after one year						
Notes payable	—	—	—	—	—	—
Commonwealth appropriation bonds	—	—	—	—	—	—
Bonds payable	—	—	—	—	—	—
Accrued compensated absences	2,583	—	—	—	21	—
Voluntary termination benefits payable	24,138	—	—	—	—	—
Capital leases	—	—	—	—	—	—
Other long-term liabilities	—	5,397	5,305	—	—	—
Total liabilities	219,125	156,591	73,969	33,512	357	685
Deferred inflows of resources:						
Deferred inflows of resources - Service concession arrangements	—	—	—	—	—	—
Total liabilities and deferred inflows of resources	219,125	156,591	73,969	33,512	357	685
Net Position:						
Net Investment in capital assets	28,145	5,553	16,827	144	5,228	—
Restricted for:						
Trust – nonexpendable	—	—	—	—	—	—
Capital projects	183,652	—	—	—	—	—
Debt service	—	—	—	—	—	—
Student loans and other educational purpose	—	—	—	—	—	
Other specified purposes	—	—	102	497	102	14,707
Unrestricted (deficit)	(308,814)	14,539	(53,202)	6,188	650	(1,252)
Total net position	$ (97,017)	20,092	(36,273)	6,829	5,980	13,455

(Continued)

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2013
(In thousands)

	Corporation of Industries for the Blind Mentally Retarded Incapacitated Persons of Puerto Rico	Culebra Conservation and Development Authority	Economic Development Bank for Puerto Rico	Employment and Training Enterprises Coporation	Farm Insurance Corporation of Puerto Rico	Fine Arts Center Corporation
Assets:						
Cash and cash equivalents in commercial banks	$ 108	68	2,992	1	6,120	3,252
Cash and cash equivalents in governmental banks	420	—	1,323	641	—	—
Investments	—	—	989,162	—	—	—
Collateral from securities lending transactions	—	—	—	—	—	—
Receivables – net:						
Insurance premiums	—	—	—	—	—	—
Intergovernmental	—	—	—	—	—	—
Accounts	165	2	—	—	—	193
Loans and advances	—	—	260,334	—	—	—
Accrued interest	—	—	9,281	—	—	—
Other governmental entities	—	—	66	168	3,234	107
Other	—	—	—	—	—	—
Due from:						
Primary government	—	—	—	—	—	—
Component units	—	—	—	—	7,719	—
Inventories	170	—	—	151	—	—
Prepaid expenses	3	—	—	—	10	99
Restricted assets:						
Cash and cash equivalents in commercial banks	—	5	1,251	—	—	—
Cash and cash equivalents in governmental banks	433	—	—	—	—	—
Investments	—	—	—	—	—	—
Other restricted assets	—	—	13,439	—	—	—
Deferred issue cost	—	—	117	—	—	—
Deferred expenses and other assets	—	—	8,311	—	—	—
Real estate held for sale or future development	—	—	—	—	—	—
Capital assets, not being depreciated	—	640	2,735	—	—	3,164
Capital assets, depreciable – net	277	284	6,157	41	212	15,103
Total assets	1,576	999	1,295,168	1,002	17,295	21,918
Liabilities and Deferred Inflow of Resources:						
Liabilities:						
Accounts payable and accrued liabilities	304	60	2,732	686	446	478
Deposits and escrow liabilities	—	—	330,318	—	—	252
Due to:						
Primary government	—	—	—	—	—	—
Component units	—	—	9,422	—	4,992	—
Other governmental entities	308	—	—	—	—	—
Securities lending obligations and reverse repurchase agreements	—	—	76,200	—	—	—
Interest payable	—	—	7,043	—	—	—
Deferred revenue	364	2	—	—	4,081	
Liability for automobile accident insurance workmen compensation and medical claims	—	—	—	—	—	—
Liabilities payable within one year						
Notes payable	—	—	—	—	—	—
Bonds payable	—	—	—	—	—	—
Accrued compensated absences	—	20	—	285	590	269
Voluntary termination benefits payable	—	14	—	—	—	250
Capital leases	—	1	—	—	—	—
Other long-term liabilities	—	—	—	1,936	—	—
Liabilities payable after one year						
Notes payable	—	—	703,048	—	—	—
Commonwealth appropriation bonds	—	—	—	—	—	—
Bonds payable	—	—	—	—	—	—
Accrued compensated absences	—	57	2,013	—	—	266
Voluntary termination benefits payable	—	133	—	—	—	2,589
Capital leases	—	3	—	—	—	—
Other long-term liabilities	—	—	4,310	—	—	—
Total liabilities	976	290	1,135,086	2,907	10,109	4,104
Deferred inflows of resources:						
Deferred inflows of resources - Service concession arrangements	—	—	—	—	—	—
Total liabilities and deferred inflows of resources	976	290	1,135,086	2,907	10,109	4,104
Net Position:						
Net Investment in capital assets	277	924	(530)	41	212	17,696
Restricted for:						
Trust – nonexpendable	—	—	—	—	—	—
Capital projects	—	—	—	—	—	—
Debt service	—	—	—	—	—	—
Student loans and other educational purpose	—					—
Other specified purposes	—	6	13,259	—	—	—
Unrestricted (deficit)	323	(221)	147,353	(1,946)	6,974	118
Total net position	$ 600	709	160,082	(1,905)	7,186	17,814

(Continued)

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2013

(In thousands)

	Institute of Puerto Rican Culture	Institutional Trust of the National Guard of Puerto Rico	Land Authority of Puerto Rico	Local Redevelopment Authority for Roosevelt Roads Puerto Rico	Musical Arts Corporation	National Parks Company of Puerto Rico	Port of the Americas Authority
Assets:							
Cash and cash equivalents in commercial banks	$ 13,494	656	921	—	1,974	174	—
Cash and cash equivalents in governmental bank	1,969	1,017	32,437	83	641	583	285
Investments	—	—	—	—	—	—	—
Collateral from securities lending transaction:	—	—	—	—	—	—	—
Receivables – net:							
Insurance premiums	—	—	—	—	—	—	—
Intergovernmental	335	—	—	—	—	—	—
Accounts	775	1,401	14,470	213	47	325	2
Loans and advances	—	—	—	—	—	—	—
Accrued interest	—	408	—	—	—	—	—
Other governmental entities	—	19	6,344	—	75	229	—
Other	—	154	—	—	—	—	—
Due from:							
Primary government	—	—	8,696	—	—	8,805	—
Component units	—	—	14,671	—	—	—	—
Inventories	1,936	—	—	—	—	—	—
Prepaid expenses	—	91	121	558	—	95	2
Restricted assets:							
Cash and cash equivalents in commercial bank	—	—	—	313	115	161	—
Cash and cash equivalents in governmental bank	—	—	—	—	412	11,364	—
Investments	—	50,521	—	—	—	—	—
Other restricted assets	—	—	—	—	—	—	—
Deferred issue cost	—	—	—	—	—	—	—
Deferred expenses and other assets	—	—	7,810	—	—	—	—
Real estate held for sale or future development	—	—	—	—	—	—	—
Capital assets, not being depreciated	1,276	19,752	88,198	16,545	568	20,503	339,812
Capital assets, depreciable – net	57,126	12,591	9,342	6	166	143,113	—
Total assets	76,911	86,610	183,010	17,718	3,998	185,352	340,101
Liabilities and Deferred Inflows of Resources							
Liabilities							
Accounts payable and accrued liabilitie	2,950	1,638	15,779	1,282	408	1,202	11,922
Deposits and escrow liabilities	—	—	10,959	—	—	—	—
Due to:							
Primary government	—	—	—	—	—	13,322	—
Component units	3,276	—	41,172	—	—	13,953	220,392
Other governmental entities	—	—	113	16,345	347	648	—
Securities lending obligations and reverse repurchase agreements	—	—	—	—	—	—	—
Interest payable	—	—	784	—	—	261	14,100
Deferred revenue	—	—	—	—	573	211	—
Liability for automobile accident insurance workmen compensation and medical claim	—	—	—	—	—	—	—
Liabilities payable within one year							
Notes payable	—	—	—	—	—	—	—
Bonds payable	—	—	—	—	—	—	—
Accrued compensated absences	92	53	985	52	484	237	7
Voluntary termination benefits payable	619	—	—	—	876	—	—
Capital leases	—	—	—	—	—	—	—
Other long-term liabilities	—	—	2,920	—	—	—	—
Liabilities payable after one year:							
Notes payable	—	—	—	—	—	—	—
Commonwealth appropriation bonds	—	—	56,276	—	—	—	—
Bonds payable	—	—	—	—	—	—	—
Accrued compensated absences	1,457	—	862	—	250	4,513	—
Voluntary termination benefits payable	5,137	—	—	—	—	12,695	—
Capital leases	—	—	—	—	—	—	—
Other long-term liabilities	—	—	38,227	—	5,781	2,621	—
Total liabilities	13,531	1,691	168,077	17,679	8,719	49,663	246,421
Deferred inflows of resources:							
Deferred inflows of resources - Service concession arrangements	—	—	—	—	—	—	—
Total liabilities and deferred inflows of resources	13,531	1,691	168,077	17,679	8,719	49,663	246,421
Net Position:							
Net Investment in capital assets	55,127	32,343	97,540	205	735	157,775	93,400
Restricted for:							
Trust – nonexpendable	—	—	—	—	—	—	—
Capital projects		—	—		—	10,702	—
Debt service	—	—	—	—	—	—	—
Student loans and other educational purpose	—		—	—	—	—	—
Other specified purposes	—	48,068	—	—	526	—	—
Unrestricted (deficit)	8,253	4,508	(82,607)	(166)	(5,982)	(32,788)	280
Total net position	$ 63,380	84,919	14,933	39	(4,721)	135,689	93,680

(Continued)

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2013

(In thousands)

	Public Corporation for the Supervision and Deposit Insurance of P.R. Cooperatives	Puerto Rico Conservatory of Music Corporation	Puerto Rico Convention Center District Authority	Puerto Rico Council on Education	Puerto Rico Industrial Development Company	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental, Control Facilities Financing Authority
Assets:						
Cash and cash equivalents in commercial banks	$ 2,912	53	18,590	40	3,341	—
Cash and cash equivalents in governmental banks	116	—	895	1,918	14,475	9,554
Investments	217,503	—	—	—	4,093	—
Collateral from securities lending transactions	—	—	—	—	—	—
Receivables – net:						
Insurance premiums	—	—	—	—	—	—
Intergovernmental	—	—	—	—	—	—
Accounts	—	—	12,287	—	23,560	—
Loans and advances	3,300	—	1,718	—	77	—
Accrued interest	1,950	—	—	—	—	1
Other governmental entities	—	375	—	41	—	—
Other	320	1,242	3,714	700	—	—
Due from:						
Primary government	—	—	—	—	—	—
Component units	—	—	4,178	—	—	—
Inventories	—	—	—	—	—	—
Prepaid expenses	—	4	1,549	—	2,388	—
Restricted assets:						
Cash and cash equivalents in commercial banks	—	1,117	—	—	—	—
Cash and cash equivalents in governmental banks	—	—	1,077	2,308	—	—
Investments	—	—	57,330	5,460	31,511	—
Other restricted assets	—	—	—	—	—	—
Deferred issue cost	—	—	13,076	—	1,594	—
Deferred expenses and other assets	—	—	—	—	—	—
Real estate held for sale or future development	—	—	—	—	—	—
Capital assets, not being depreciated	35	5,157	284,647	—	242,151	—
Capital assets, depreciable – net	3,027	80,284	416,585	218	425,199	—
Total assets	229,163	88,232	815,646	10,685	748,389	9,555
Liabilities and Deferred Inflows of Resources						
Liabilities:						
Accounts payable and accrued liabilities	28,730	3,334	4,399	1,337	17,915	72
Deposits and escrow liabilities	—	—	5,462	—	8,689	—
Due to:						
Primary government	—	—	—	—	7,737	—
Component units	—	1,398	151,504	—	88,631	—
Other governmental entities	712	74	665	—	—	—
Securities lending obligations and reverse repurchase agreements	—	—	—	—	—	—
Interest payable	—	—	10,331	—	4,084	—
Deferred revenue	—	846	8,356	—	—	—
Liability for automobile accident insurance, workmen compensation and medical claims	—	—	—	—	—	—
Liabilities payable within one year:						
Notes payable	—	—	—	—	7,044	—
Bonds payable	—	—	9,845	—	8,305	—
Accrued compensated absences	1,870	219	120	99	5,774	—
Voluntary termination benefits payable	—	—	—	115	966	—
Capital leases	—	—	—	—	88	—
Other long-term liabilities	—	3,506	—	—	—	—
Liabilities payable after one year:						
Notes payable	—	—	—	—	79,114	—
Commonwealth appropriation bonds	—	—	—	—	—	—
Bonds payable	—	—	426,237	—	188,864	—
Accrued compensated absences	—	613	—	665	—	—
Voluntary termination benefits payable	711	159	—	1,488	8,739	—
Capital leases	—	—	—	—	137	—
Other long-term liabilities	—	—	—	—	6,929	—
Total liabilities	32,023	10,149	616,919	3,704	433,016	72
Deferred inflows of resources:						
Deferred inflows of resources - Service concession arrangements	—	—	—	—	—	—
Total liabilities and deferred inflows of resources	32,023	10,149	616,919	3,704	433,016	72
Net Position:						
Net Investment in capital assets	3,062	80,829	128,221	218	400,294	—
Restricted for:						
Trust – nonexpendable	—	—	—	—	—	—
Capital projects	—	—				
Debt service	—	—	48,162	—	20,810	—
Student loans and other educational purposes	—	1,401	—	6,905	—	—
Other specified purposes	81,689	—	—	—	—	—
Unrestricted (deficit)	112,389	(4,147)	22,344	(142)	(105,731)	9,483
Total net position	$ 197,140	78,083	198,727	6,981	315,373	9,483

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2013

(In thousands)

	Puerto Rico Public Private Partnerships Authority	Puerto Rico School of Plastic Arts	Puerto Rico Telephone Authority	Puerto Rico Tourism Company	Puerto Rico Trade and Export Company	Solid Waste Authority
Assets:						
Cash and cash equivalents in commercial banks	$ —	10	—	5,684	8,838	269
Cash and cash equivalents in governmental banks	3,982	67	1,497	8,769	4,748	3,390
Investments	—	—	—	41,845	—	18,351
Collateral from securities lending transactions	—	—	—	—	—	—
Receivables – net:						
Insurance premiums	—	—	—	—	—	—
Intergovernmental	—	—	—	—	—	—
Accounts	—	84	—	10,287	1,685	—
Loans and advances	—	—	—	1,365	—	—
Accrued interest	—	—	1	—	5,292	—
Other governmental entities	737	—	—	—	—	1,637
Other	—	—	—	680	—	619
Due from:						
Primary government	—	—	—	2,315	—	—
Component units	—	—	—	—	—	—
Inventories	—	—	—	—	—	—
Prepaid expenses	—	—	—	70	105	—
Restricted assets:						
Cash and cash equivalents in commercial banks	—	2	—	—	5,472	—
Cash and cash equivalents in governmental banks	—	469	10,556	—	704	10,900
Investments	—	1,886	—	—	356,266	—
Other restricted assets	—	—	—	—	—	—
Deferred issue cost	—	—	—	414	—	72
Deferred expenses and other assets	15	—	—	—	—	16
Real estate held for sale or future development	—	—	—	—	—	—
Capital assets, not being depreciated	—	—	—	12,543	60,275	21,711
Capital assets, depreciable – net	1	7,634	—	19,520	54,169	103,277
Total assets	4,735	10,152	12,054	103,492	497,554	160,242
Liabilities and Deferred Inflow of Resources						
Liabilities:						
Accounts payable and accrued liabilities	1,339	332	5	30,181	3,560	2,420
Deposits and escrow liabilities	—	—	—	—	—	—
Due to:						
Primary government	—	—	—	8,337	2,859	—
Component units	—	—	—	11,464	1,344	84,205
Other governmental entities	—	—	—	—	—	1,083
Securities lending obligations and reverse repurchase agreements	—	—	—	—	—	—
Interest payable	—	—	—	899	4,932	43
Deferred revenue	—	—	—	7,504	—	—
Liability for automobile accident insurance, workmen compensation and medical claims	—	—	—	—	—	—
Liabilities payable within one year:						
Notes payable	—	—	—	16,114	520	—
Bonds payable	—	—	—	—	—	—
Accrued compensated absences	11	173	—	772	525	304
Voluntary termination benefits payable	—	72	—	593	231	432
Capital leases	—	—	—	66	55	—
Other long-term liabilities	—	—	—	—	—	—
Liabilities payable after one year:						
Notes payable	—	—	—	—	370,892	—
Commonwealth appropriation bonds	—	—	—	43,562	—	7,829
Bonds payable	—	—	—	—	—	—
Accrued compensated absences	—	295	—	6,062	1,378	387
Voluntary termination benefits payable	—	370	—	6,713	2,704	5,320
Capital leases	—	—	—	—	150	—
Other long-term liabilities	—	—	6,759	561	3,013	—
Total liabilities	1,350	1,242	6,764	132,828	392,163	102,023
Deferred inflows of resources:						
Deferred inflows of resources - Service concession arrangements	—	—	—	—	—	—
Total liabilities and deferred inflows of resources	1,350	1,242	6,764	132,828	392,163	102,023
Net Position:						
Net Investment in capital assets	1	7,634	—	31,996	99,094	50,810
Restricted for:						
Trust – nonexpendable			—	—	—	
Capital projects	—	—				—
Debt service	—	—	—	3,718	—	—
Student loans and other educational purpose	—	1,886	—	—	—	—
Other specified purposes	—	—	3,802	—	3,266	1,653
Unrestricted (deficit)	3,384	(610)	1,488	(65,050)	3,031	5,756
Total net position	$ 3,385	8,910	5,290	(29,336)	105,391	58,219

(Continued)

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2013

(In thousands)

	Puerto Rico Land Administration	Puerto Rico and Municipal Islands Maritime Transport Authority	Puerto Rico Metropolitan Bus Authority	Puerto Rico Municipal Finance Agency	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation
Assets:						
Cash and cash equivalents in commercial banks	$ 703	296	2,128	—	2,583	375
Cash and cash equivalents in governmental banks	36,300	—	68	2,847	3,824	—
Investments	10,915	—	—	—	—	—
Collateral from securities lending transactions	—	—	—	—	—	—
Receivables – net:						
Insurance premiums	—	—	—	—	—	—
Intergovernmental	—	83	1,804	—	—	—
Accounts	740	197	—	—	40,298	229
Loans and advances	—	—	—	—	—	—
Accrued interest	584	—	—	—	—	—
Other governmental entities	46	155	420	—	—	1,009
Other	—	—	—	—	—	23
Due from:						
Primary government	—	—	1,023	—	16,500	—
Component units	1,306	—	3,095	—	43,127	—
Inventories	—	129	3,517	—	—	—
Prepaid expenses	381	2,019	1,668	43	3,884	—
Restricted assets:						
Cash and cash equivalents in commercial banks	—	—	—	7,659	10,737	1,475
Cash and cash equivalents in governmental banks	733	—	—	—	98,025	—
Investments	—	—	—	1,013,128	—	—
Other restricted assets	—	—	—	23,122	25,351	—
Deferred issue cost	—	—	—	10,131	3,199	—
Deferred expenses and other assets	—	—	542	—	—	137
Real estate held for sale or future development	161,072	—	—	—	—	—
Capital assets, not being depreciated	30,403	25,676	2,526	—	427,020	83
Capital assets, depreciable – net	8,686	43,900	42,223		710,513	13,971
Total assets	251,869	72,455	59,014	1,056,930	1,385,061	17,302
Liabilities and Deferred Inflow of Resources:						
Liabilities:						
Accounts payable and accrued liabilities	973	16,779	16,536	560	79,618	2,097
Deposits and escrow liabilities	34,046	—	—	55,099	1,399	—
Due to:						
Primary government	1,203	1,150	12,621	—	25,804	—
Component units	—	40,279	7,634	—	255,274	—
Other governmental entities	1,518	30,076	8,506	3,521	1,832	486
Securities lending obligations and reverse repurchase agreements	—	—	—	—	—	—
Interest payable	—	—	—	19,161	1,540	—
Deferred revenue	5,646	7,223	2,238	—	1,858	—
Liability for automobile accident insurance, workmen compensation and medical claims	—	—	—	—	—	—
Liabilities payable within one year:						
Notes payable	—	—	2,503	—	6,789	—
Bonds payable	—	—	—	101,580	—	—
Accrued compensated absences	737	1,288	4,224	—	—	885
Voluntary termination benefits payable	456	349	1,041	—	2,512	424
Capital leases	—	—	—	—	—	—
Other long-term liabilities	—	—	—	—	—	—
Liabilities payable after one year:						
Notes payable	—	—	32,042	—	11,784	—
Commonwealth appropriation bonds	—	—	—	—	—	—
Bonds payable	—	—	—	806,952	214,892	—
Accrued compensated absences	—	—	1,277	—	—	1,344
Voluntary termination benefits payable	3,263	3,795	8,029	—	22,546	4,279
Capital leases	—	—	—	—	—	—
Other long-term liabilities	—	—	4,337	—	6,481	—
Total liabilities	47,842	100,939	100,988	986,873	632,329	9,515
Deferred inflows of resources:						
Deferred inflows of resources - Service concession arrangements	—	—	—	—	619,416	—
Total liabilities and deferred inflows of resources	47,842	100,939	100,988	986,873	1,251,745	9,515
Net Position:						
Net Investment in capital assets	8,686	69,576	44,749	—	149,179	14,054
Restricted for:						
Trust – nonexpendable	—	—	—	—		
Capital projects					41,318	—
Debt service	—	—	—	122,826	2,790	—
Student loans and other educational purpose	—	—	—	—	—	—
Other specified purposes	733	—	—	—	3,288	1,346
Unrestricted (deficit)	194,608	(98,060)	(86,723)	(52,769)	(63,259)	(7,613)
Total net position	$ 204,027	(28,484)	(41,974)	70,057	133,316	7,787

(Continued)

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2013

(In thousands)

	State Insurance Fund Corporation	University of Puerto Rico Comprehensive Cancer Center	Nonmajor Component Units Total
Assets:			
Cash and cash equivalents in commercial banks	$ 66,360	3,575	198,149
Cash and cash equivalents in governmental banks	23,123	1,454	169,630
Investments	1,164,145	—	2,603,691
Collateral from securities lending transactions	102,689	—	102,689
Receivables – net:			
Insurance premiums	39,794	—	40,542
Intergovernmental	—	—	2,222
Accounts	—	—	125,071
Loans and advances	—	—	273,328
Accrued interest	7,503	—	25,683
Other governmental entities	8,005	532	30,090
Other	16,587	—	25,216
Due from:			
Primary government	—	2,000	98,514
Component units	12,140	13,618	101,470
Inventories	3,557	—	17,743
Prepaid expenses	53	371	15,446
Restricted assets:			
Cash and cash equivalents in commercial banks	—	69	28,589
Cash and cash equivalents in governmental banks	—	51	148,204
Investments	314,600	—	1,830,702
Other restricted assets	—	—	62,409
Deferred issue cost	—	—	28,603
Deferred expenses and other assets	—	—	16,867
Real estate held for sale or future development	—	—	161,919
Capital assets, not being depreciated	18,532	8,560	1,641,234
Capital assets, depreciable – net	85,030	21,515	2,327,345
Total assets	1,862,118	51,745	10,075,356
Liabilities and Deferred Inflow of Resources:			
Liabilities:			
Accounts payable and accrued liabilities	150,862	1,496	496,877
Deposits and escrow liabilities	—	—	446,224
Due to:			
Primary government	—	—	87,778
Component units	3,713	33,125	1,132,620
Other governmental entities	—	724	68,674
Securities lending obligations and reverse repurchase agreements	102,689	—	178,889
Interest payable	—	—	63,178
Deferred revenue	21,858	—	98,573
Liability for automobile accident insurance workmen compensation and medical claims	820,934	—	925,846
Liabilities payable within one year			
Notes payable	21,160	—	73,529
Bonds payable	—	—	119,730
Accrued compensated absences	11,128	362	40,874
Voluntary termination benefits payable	—	—	11,373
Capital leases	691	—	901
Other long-term liabilities	—	—	9,553
Liabilities payable after one year:			
Notes payable	254,002	—	1,450,882
Commonwealth appropriation bonds	—	—	107,667
Bonds payable	—	—	1,636,945
Accrued compensated absences	35,282	—	59,325
Voluntary termination benefits payable	—	—	112,808
Capital leases	29,280	—	29,570
Other long-term liabilities	73,418	—	163,139
Total liabilities	1,525,017	35,707	7,314,955
Deferred inflows of resources:			
Deferred inflows of resources - Service concession arrangements	—	—	619,416
Total liabilities and deferred inflows of resources	1,525,017	35,707	7,934,371
Net Position:			
Net Investment in capital assets	40,428	10,024	1,650,497
Restricted for:			
Trust – nonexpendable			
Capital projects	—	121	235,793
Debt service	72,600	—	270,906
Student loans and other educational purpose	—	—	10,192
Other specified purposes	—	—	173,044
Unrestricted (deficit)	224,073	5,893	(199,447)
Total net position	$ 337,101	16,038	2,140,985

Note: See accompanying independent auditors’ report.

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Activities
Year ended June 30, 2013
(In thousands)

		Program revenues				General revenues and transfers								
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Net revenues (expenses) and changes in net position	Payments from (to) primary government	Payments from (to) other component units	Grants and contributions not restricted to specific programs	Excise taxes	Interest and investment earnings	Other	Change in net position	Net position beginning of year, as restated (see note 3 of the financial statement)	Net position end of year
Agricultural Enterprises Development Administration	$ 182,300	99,170	—	—	(83,130)	88,725	—	—	—	35	11,128	16,758	(113,775)	(97,017)
Automobile Accidents Compensation Administratic	83,789	85,296	—	—	1,507	(13,696)	—	—	—	14,541	—	2,352	17,740	20,092
Cardiovascular Center Corporation of Puerto Rico an the Caribbean	89,100	81,193	—	—	(7,907)	14,478	—	—	—	55	—	6,626	(42,899)	(36,273)
Company for the Integral Development of the "Península de Cantera"	9,211	—	10,733	—	1,522	—	—	90	—	66	—	1,678	5,151	6,829
Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Pueto Ric	726	256	—	—	(470)	505	—	—	—	—	—	35	565	600
Corporation for the "Caño Martin Peña" Enlace Projec	4,437		87		(4,350)	4,118				2	47	(183)	6,163	5,980
Corporation for the Development of the Arts, Scienc and Film Industry of Puerto Ric	2,520	468	—	—	(2,052)	3,599	—	—	—	—	16	1,563	11,892	13,455
Culebra Conservation and Development Authorit	664	258	—	—	(406)	349	—	—	—	—	—	(57)	766	709
Economic Development Bank for Puerto Ric	68,794	67,830	—	2,458	1,494	—	—	—	—	363	712	2,569	157,513	160,082
Employment and Training Enterprises Corporatio	3,188	2,071	—	—	(1,117)	361	—	—	—	—	132	(624)	(1,281)	(1,905)
Farm Insurance Corporation of Puerto Ric	3,462	2,390	1,097	—	25	—	—	—	—	56	—	81	7,105	7,186
Fine Arts Center Corporatior	8,840	1,977	—	—	(6,863)	4,216	—	—	—	30	—	(2,617)	20,431	17,814
Institute of Puerto Rican Cultur	24,395	—	—	—	(24,395)	19,326	—	—	—	—	—	(5,069)	68,449	63,380
Institutional Trust of the National Guard of Puert Rico	8,719	4,830	—	—	(3,889)	—	—	—	—	—	—	(3,889)	88,808	84,919
Land Authority of Puerto Ric	25,749	8,682	—	—	(17,067)	14,755	—	—	—	12	680	(1,620)	16,553	14,933
Local Redevelopment Authority Roosevelt Roa Puerto Rico	3,373	451	934	—	(1,988)	900	—	—	—	—	—	(1,088)	1,127	39
Musical Arts Corporation	8,315	540	—	—	(7,775)	7,303	—	—	—	165	172	(135)	(4,586)	(4,721)
National Parks Company of Puerto Ric	36,066	8,985	—	564	(26,517)	29,042	—	—	—	77	39	2,641	133,048	135,689
Port of the Americas Authority	751	—	—	—	(751)	17,117	—	—	—	39	—	16,405	77,275	93,680
Public Corporation for the Supervision and Depos Insurance of Puerto Rico Cooperative	12,660	22,182	2,473	—	11,995	—	—	—	—	(386)	—	11,609	185,531	197,140
Puerto Rico and Municipal Islands Transpor Authority	55,168	5,859	211	1,492	(47,606)	29,777	—	—	—		—	(17,829)	(10,655)	(28,484)
Puerto Rico Conservatory of Music Corporatio	13,575	2,882	—	24	(10,669)	8,635	—	2,604	—	2	24	596	77,487	78,083
Puerto Rico Convention Center District Authorit	77,675	25,500	—	—	(52,175)	12,105	34,555	—	—	291	4,193	(1,031)	199,758	198,727
Puerto Rico Council on Educatio	33,460	524	3,009	—	(29,927)	28,761	—	—	—	25	40	(1,101)	8,082	6,981
Puerto Rico Industrial Development Compan	85,522	62,763	—	16,136	(6,623)	—	—	—	—	364	5,426	(833)	316,206	315,373
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financin Authority	324	409	—	—	85	—	—	—	—	10	—	95	9,388	9,483
Puerto Rico Land Administratio	13,573	15,338	—	—	1,765	—	—	—	—	225	—	1,990	202,037	204,027
Puerto Rico Metropolitan Bus Authority	87,574	5,761	13,487	—	(68,326)	52,913	—	—	—	16	—	(15,397)	(26,577)	(41,974)
Puerto Rico Municipal Finance Agency	45,135	—	—	—	(45,135)	—	—	—	—	45,606	—	471	69,586	70,057
Puerto Rico Ports Authority	261,161	152,296	23,712	—	(85,153)	6,942	4,000	—	—	89	718	(73,404)	206,720	133,316
Puerto Rico Public Broadcasting Corporatio	25,442	4,122	—	—	(21,320)	16,368	—	2,859	—	2	297	(1,794)	9,581	7,787
Puerto Rico Public Private Partnerships Authorit	9,597	16,868	—	—	7,271	2,728	—	—	—	2	—	10,001	(6,616)	3,385
Puerto Rico School of Plastic Art	6,214	806	1,792	—	(3,616)	2,319	—	—	—	225	—	(1,072)	9,982	8,910
Puerto Rico Telephone Authority	159	—	—	—	(159)	—	—	—	—	12	610	463	4,827	5,290
Puerto Rico Tourism Company	125,091	168,056	—	—	42,965	(21,538)	(106,387)	—	65,642	376	5,085	(13,857)	(15,479)	(29,336)
Puerto Rico Trade and Export Company	39,062	17,348	—	—	(21,714)	—	—	—	—	18,074	258	(3,382)	108,773	105,391
Solid Waste Authority	28,406	2,330	—	—	(26,076)	13,939	—	—	—	1	9	(12,127)	70,346	58,219
State Insurance Fund Corporatio	642,094	651,380	—	—	9,286	(67,802)	—	—	—	64,252	—	5,736	331,365	337,101
University of Puerto Rico Comprehensive Cance Center	9,153	—	12,253	4	3,104	—	—	—	—		—	3,104	12,934	16,038
Total nonmajor component units	$ 2,135,444	1,518,821	69,788	20,678	(526,157)	276,245	(67,832)	5,553	65,642	144,627	29,586	(72,336)	2,213,321	2,140,985

See accompanying independent auditors' report.