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COMMONWEALTH OF PUERTO RICO

Basic Financial Statements

and Required Supplementary Information

(Unaudited)

June 30, 2014

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

UNAUDITED

Fiscal Year Ended June 30, 2014

Commonwealth of Puerto Rico

Honorable Alejandro García Padilla
Governor

Prepared by:

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COMMONWEALTH OF PUERTO RICO

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Disclaimer

Attached hereto is a draft of the unaudited Basic Financial Statements and Required Supplementary Information of the Commonwealth of Puerto Rico (the “Commonwealth”) for the fiscal year ended June 30, 2014 (the “Draft”). The Draft is subject to completion and audit and, as such, the Draft does not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants or any other similar organization. In particular, the Draft: (i) includes unaudited financial information from the Government Development Bank for Puerto Rico (“GDB”), a major component unit of the Commonwealth, and the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (“ERS”) and the Retirement System for the Judiciary of the Commonwealth of Puerto Rico, fiduciary funds of the Commonwealth; (ii) presents preliminary financial information regarding reserves for loan losses taken by GDB and any change to such information, which is still subject to evaluation by GDB’s management, could result in a material change to GDB’s net position as reported in the Draft; (iii) presents preliminary information regarding the total pension liability of the ERS, for which the ERS management is conducting enhanced procedures over the census data; (iv) presents preliminary information regarding intergovernmental, income tax and other receivables, which are still subject to management’s evaluation for collectability and could also result in adjustments to income tax refunds payables, and any change to such information, could result in a material change to the net position of the Primary Government in these financial statements; and (v) contains certain notes to the financial statements that are still subject to revision and may materially change. The final resolution of the above matters may result in an increase in the net deficit position of the Primary Government and a decrease in the net position of the aggregate Discretely Presented Component Units. Subject to the prior limitations, in the opinion of the responsible officers of the Puerto Rico Department of the Treasury, the unaudited financial information included in the Draft is a fair statement of the results for the periods reported.

The Commonwealth is making publicly available the Draft in order to provide members of U.S. Congress and the Puerto Rico Legislative Assembly additional information that could be useful in their evaluation of Puerto Rico’s financial condition and new legislative measures to address the current fiscal crisis. None of the Commonwealth, GDB or the members of the Working Group for the Fiscal and Economic Recovery of Puerto Rico owes or accepts any duty or responsibility to any reader or recipient of this Draft, whether in contract or tort, and shall not be liable for or in respect of any loss, damage (including, without limitation, consequential, special, punitive or contingent damages or lost profits) or expense of whatsoever nature of such third party that may be caused by, or alleged to be caused by, the use of the information contained in the Draft or that is otherwise consequent upon the gaining of access to the Draft by such third party.

Any statements and assumptions contained in the Draft, whether forward-looking or historical, are not guarantees of future performance and involve certain risks, uncertainties, estimates and other assumptions made in this document. The economic and financial condition of the Commonwealth and its instrumentalities is affected by various financial, social, economic, environmental and political factors. These factors are very complex, may vary from one fiscal year to the next, and are frequently the result of actions taken or not taken, not only by the Commonwealth and its agencies and instrumentalities, but also by entities such as the government of the United States. Because of the uncertainty and unpredictability of these factors, their impact cannot be included in the assumptions contained in this document. Future events and actual results may differ materially from any estimates, projections, or statements contained herein. Nothing in this document should be considered as an express or implied commitment to do or take, or to refrain from taking, any action by the Commonwealth, GDB, or any government instrumentality of the Commonwealth or an admission of any fact or future event. Nothing in this document shall be considered a solicitation, recommendation or advice to any person to participate, pursue or support a particular course of action or transaction, to purchase or sell any security, or to make any investment decision.

The Commonwealth’s external auditors have not participated in the preparation of this Draft and have no responsibility for its contents.

The Commonwealth is currently experiencing a severe fiscal and liquidity crisis. The Commonwealth and its instrumentalities face a number of fiscal and economic challenges that, either individually or in the aggregate, could adversely affect their ability to pay debt service and other obligations when due. The Commonwealth is currently considering a number of emergency measures that could affect the rights of creditors. Recipients of the Draft should be advised that to the extent that the Commonwealth or any entities related to the Commonwealth are unable to materially improve their financial position in the immediate future, such entities and/or the Commonwealth may need to seek relief under existing or potential future laws regarding receivership, insolvency, reorganization, moratorium and/or similar laws affecting creditors' rights, to the extent available, and may resort to other emergency measures including non-payment of debt obligations.

By accepting this document, the recipient shall be deemed to have acknowledged these limitations.

Management's Discussion and Analysis

This management's discussion and analysis section ("MD&A") provides a narrative overview and analysis of the financial activities of the Commonwealth of Puerto Rico (the "Commonwealth") for the fiscal year ended June 30, 2014. The MD&A is intended to serve as an introduction to the Commonwealth 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 matters, (b) provide an overview of the Commonwealth's financial activities, (c) present an overview of results for the General Fund on a budgetary basis, and (d) highlight individual fund matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the Commonwealth's financial condition, the financial statements, notes and required supplementary information should be reviewed in their entirety.

Financial Highlights

- The Commonwealth's Primary Government reported a net deficit position of $49.2 billion at June 30, 2014, comprised of $15.9 billion in total assets and $561 million in deferred outflows of resources, less $65.6 billion in total liabilities and $151 million in deferred inflows of resources.

- The net deficit position of the Commonwealth's Primary Government increased by $2.5 billion during fiscal year 2014 as a result of the Commonwealth's operations during such fiscal year. The net deficit position for Governmental Activities increased by $2.6 billion, which was offset by an increase of approximately $47 million in the net position for Business-Type Activities.

- The Commonwealth's Governmental Activities had total revenues of $17.9 billion for fiscal year 2014, which were lower than total expenses of $20.7 billion, but represented an increase of approximately $1.7 billion in total revenues when compared to fiscal year 2013.

- Total expenses incurred by the Commonwealth's Primary Government in fiscal year 2014, including expenses of $1.2 billion incurred in Business-Type Activities, were $21.9 billion, a decrease of approximately $915 million when compared to total expenses incurred during fiscal year 2013.

- The Discretely Presented Component Units reported a net position of $7.8 billion at June 30, 2014, comprised of $53.9 billion in total assets and $321 million in deferred outflows of resources, less $44.7 billion in total liabilities and $1.7 billion in deferred inflows of resources

- The total deficit in the General Fund (budgetary basis) was approximately $1.2 billion, consisting of the difference between total actual revenues of approximately $8.7 billion (excluding other financing sources) and the sum of total actual expenditures of approximately $9.2 billion and general obligation debt service payments of approximately $738 million.

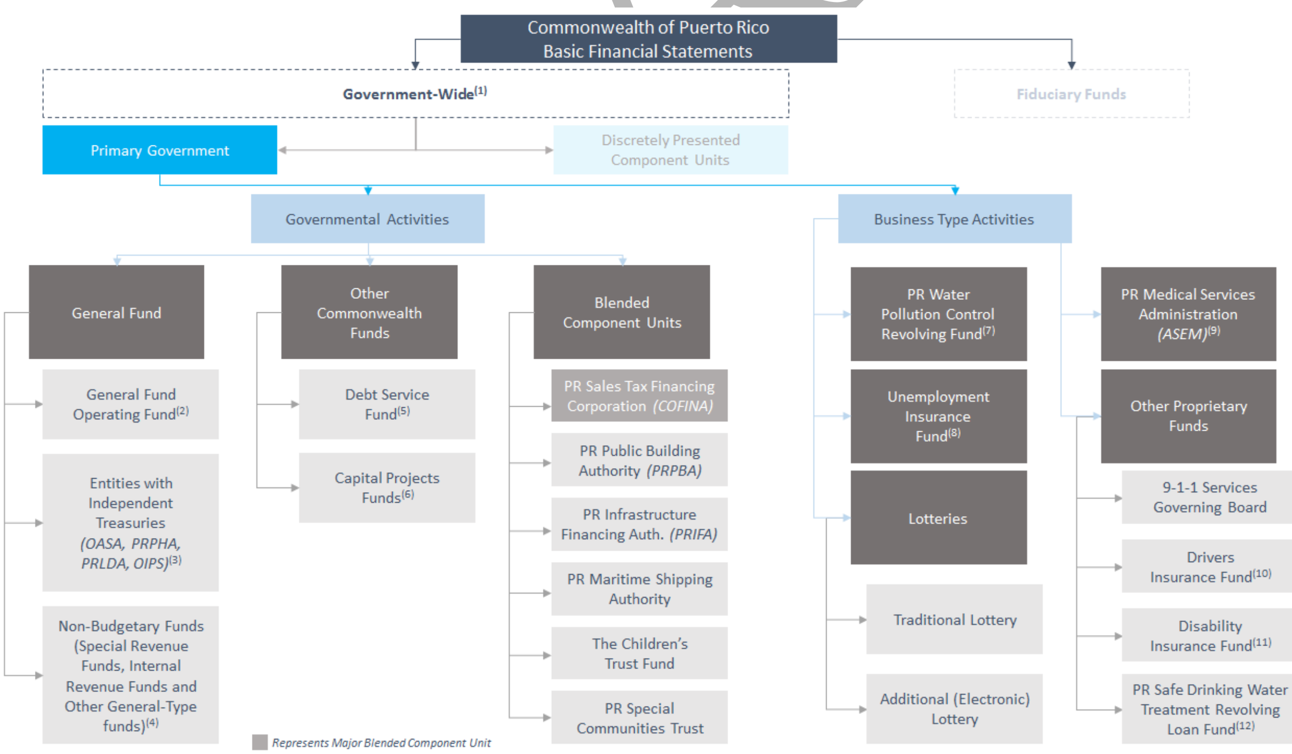
- The Commonwealth's management believes that there is substantial doubt as to the ability of the Primary Government (including the Governmental Activities carried out by certain Blended Component Units), and of various Discretely Presented Component Units and Fiduciary Funds, to continue as a going concern in accordance with GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

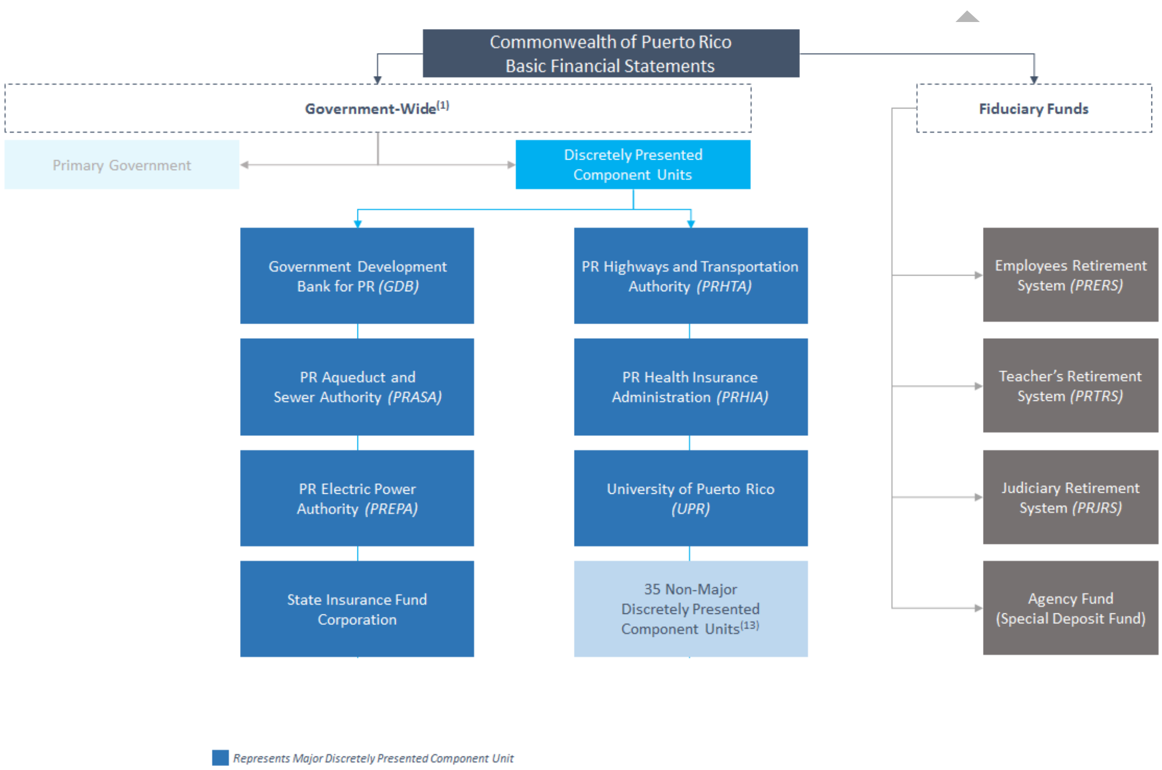
Overview of the Financial Statements

The Commonwealth as a whole consist of 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 Commonwealth's basic financial statements consist of three components: (ii) government-wide financial statements, (ii) fund financial statements, and (iii) notes to the financial statements. The fund financial statements include governmental, proprietary, and fiduciary funds that will be described later in this MD&A. The notes to the financial statements provide explanations and/or additional detail for all of the above types of financial statements and are considered an integral part of the financial statements.

The following chart illustrates the structure of the Commonwealth for financial reporting purposes:





(1) The Government-Wide financial statements report information of all of the non-fiduciary activities of the Commonwealth and its component units.
(2) Primary operating fund of the Commonwealth. The financial resources received and used in the General Fund Operating Fund mostly includes the General Fund budget, as approved by the Commonwealth's Legislature and as adjusted for timing and basis of accounting differences.
(3) OASA: Office for Administration, Sales and Acquisition Fund of the Puerto Rico Department of Housing (also known as *CRUV*, for its Spanish acronym). PRPHA: Puerto Rico Public Housing Administration. PRLDA: Puerto Rico Labor Development Administration. OIPS: Office for Improvement of Public Schools (also known as *OMEP*, for its Spanish acronym).
(4) Special Revenue Funds (including Federal Funds Fund, Pledge Funds Fund and other 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. Internal Revenue Funds includes only the General Services Administration (GSA) and accounts for transactions within the Commonwealth's agencies. Other general-type funds include expenses or accruals incurred not appropriated in the annual General Fund budget and appropriations made by the Commonwealth's Legislature without a specific revenue source.
(5) 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 component units, either blended or discretely presented. Long-term debt and interest due on July 1st of the following fiscal year are accounted for as a fund liability if resources are available as of June 30th for its payment.
(6) The capital projects funds are 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.
(7) The Water Pollution Control Revolving 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 Environmental Quality Board, the Puerto Rico Infrastructure Financing Authority, the Puerto Rico Aqueduct and Sewer Authority and the Government Development Bank for Puerto Rico, where each entity has agreed to assume their corresponding responsibilities.
(8) The Unemployment Insurance 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.
(9) Also known as ASEM, for its Spanish Acronym. This fund 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.
(10) 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.
(11) 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.
(12) 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 (PRDOH). Pursuant to such act, the PRDOH, on behalf of the Commonwealth, is authorized to enter into operating and capitalization grant agreements with the EPA for lending activities.
(13) Refer to Note 1(c) in the Basic Financial Statements.

The following table summarizes the major features of the basic financial statements.

Major Features of the Commonwealth's Government-Wide and Fund Financial Statements

	Government-Wide Financial Statements	**Fund Financial Statements**		
		Governmental Funds	**Proprietary Funds**	**Fiduciary Funds**
Scope	Commonwealth Primary Government and Component Units. Does not include Commonwealth Fiduciary Funds.	The activities of the Commonwealth that are not proprietary or fiduciary, including Education, Health, Public Safety Services, among others.	Activities of the Commonwealth that operate similar to private businesses, including Lotteries.	Instances in which the Commonwealth is the trustee or agent for someone else's resources, such as the retirement plans for public employees.
Required financial statements	Statement of Net Position; Statement of Activities.	Balance Sheet; Statement of Revenues, Expenditures and Changes in Fund Balances.	Statement of Net Position; Statement of Revenues, Expenses and Changes in Fund Net Position; Statement of Cash Flows.	Statement of Fiduciary Net Position; Statement of Changes in Fiduciary Net Position.
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of asset / liability information	All assets and liabilities, both financial and capital, and both short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.	All assets and liabilities, both financial and capital, and both short-term and long-term.	All assets and liabilities, both financial and capital, and both short-term and long-term.
Type of inflow / outflow information	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.	All revenues and expenses during the year, regardless of when cash is received or paid.

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 private 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, revenues 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.

Although one can think of the Commonwealth's net position (deficit) as one way to measure whether the Commonwealth's financial health is improving or deteriorating, one may also need to consider other non-financial factors, such as changes in the Commonwealth tax structure, population, employment, debt levels, fiscal conditions, economic factors, availability to external markets and the condition of the Commonwealth's roads, bridges and buildings, in order to assess the overall health of the Commonwealth.

In the Statement of Net Position and the Statement of Activities, operations of the Commonwealth are divided into two kinds of activities:

- **<u>Primary Government</u>** – The "Primary Government" consists of the following activities:
  - ***"Governmental Activities"*** – Most of the Commonwealth's basic services are reported here, including education, health, public housing and welfare, public safety, economic development, general government and interest on long-term debt. Federal grants (intergovernmental), personal and corporate income taxes, consumption and use taxes, business and other taxes, transfers from lottery revenues, and bond or loan proceeds finance most of these activities. Also included in Governmental Activities are six Blended Component Units, which are entities that, while legally separate from the Commonwealth, meet the blending criteria under GASB to be reported as part of the Primary Government.
  - ***"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, the Lotteries Fund, the Puerto Rico Medical Services Administration and the Water Pollution Control Revolving Fund.

- **<u>Discretely Presented Component Units</u>** – Although legally separate from the Commonwealth, these Discretely Presented Component Units are important to the Commonwealth because 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. Discretely Presented Component Units, presented in a separate column in these basic financial statements, are Discretely Presented 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 such Component Units provide specific financial benefits to, or impose financial burdens on, the Commonwealth. The Commonwealth classifies 42 separate legal entities as Discretely Presented Component Units, as disclosed in Note 1 to Basic Financial Statements.

The government-wide financial statements can be found immediately following this MD&A.

Governmental and Proprietary Funds Financial Statements

Financial statements prepared at the fund level provide additional details about the Commonwealth's financial position and activities. 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. Information presented in the fund financial statements differs from the information presented in the government-wide financial statements because the perspective and basis of accounting used to prepare the fund financial statements are different from the perspective and basis of accounting used to prepare the government-wide financial statements. The Commonwealth's governmental and proprietary funds types use different perspectives and accounting basis. The funds presented in the fund financial statements are categorized as either major or non-major funds as required by generally accepted accounting principles ("U.S. GAAP"). All of the funds of the Commonwealth can be divided into the following 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[1]

– Debt Service Fund

– COFINA Special Revenue Fund

– COFINA Debt Service Fund

The remaining nonmajor governmental funds, which consist of the Public Buildings Authority, the Children's Trust, the Infrastructure Financing Authority, the Special Communities Perpetual Trust, the Maritime Shipping Authority and the Commonwealth's capital project 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 funds 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 funds 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 funds financial statements.

Fiduciary Funds Financial Statements

The Commonwealth is a trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. All the Commonwealth fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. The Commonwealth excluded these activities from the Commonwealth government-wide financial statements because the Commonwealth cannot use these assets to finance its operations. The Commonwealth is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

[1] The General Fund is the primary operating fund of the Commonwealth. The financial resources received and used in the General Fund mostly includes: the General Fund budget, as approved by the Commonwealth Legislature and as adjusted for timing and basis of accounting differences, and other financial resources outside the General Fund budget such as: federal funds, pledged funds, special revenue funds, and agencies with independent treasuries.

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.

Overall Financial Position and Results of Operations (Government-Wide)

The following is an analysis of the financial position and changes in the financial position of the Commonwealth's Governmental Activities and Business-Type activities for fiscal year 2014. Condensed financial information from the Statement of Net Position as of June 30, 2014 and 2013 is as follows:

Net Position as of June 30, 2014 and 2013
(Amounts in millions)

	Governmental Activities		Business-Type Activities		Primary Government	
	2014	2013	2014	2013	2014	2013
Assets:						
Non-capital assets:						
Cash and investments	$ 3,225	$ 3,670	$ 814	$ 772	$ 4,039	$ 4,442
Receivables, net	2,802	1,938	600	566	3,402	2,504
Other	207	190	80	72	287	263
Total non-capital assets	**6,234**	**5,798**	**1,494**	**1,411**	**7,728**	**7,209**
Capital assets	8,140	8,282	65	59	8,205	8,341
Total assets	**14,374**	**14,080**	**1,559**	**1,470**	**15,934**	**15,550**
Deferred outflows of resources	**561**	**520**	—	—	**561**	**520**
Liabilities:						
Liabilities due within one year	6,222	7,301	281	243	6,503	7,544
Liabilities due in more than one year	58,629	54,675	439	435	59,068	55,110
Total liabilities	**64,850**	**61,976**	**720**	**678**	**65,571**	**62,654**
Deferred inflows of resources	**151**	**106**	—	—	**151**	**106**
Net Position:						
Net investment in capital assets	3,588	3,750	66	59	3,653	3,809
Restricted	656	947	1,090	1,011	1,746	1,958
Unrestricted (deficit)	(54,310)	(52,178)	(317)	(278)	(54,626)	(52,456)
Total net position	**$ (50,066)**	**$ (47,482)**	**$ 839**	**$ 792**	**$ (49,227)**	**$ (46,690)**

Totals may not add up due to rounding.

Net Position (Deficit)

Governmental entities are required by U.S. GAAP to report on their net position. The Statement of Net Position presents the value of all of the Commonwealth's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between them reported as net position. 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 Governmental Activities of the Primary Government as of June 30, 2014 amounted to approximately $16.50 billion and $65.72 billion, respectively, for a net deficit of approximately $49.22 billion as of June 30, 2014, compared to a net deficit of approximately $46.69 billion at the end of fiscal year 2013 (as restated).

Net deficit position for Governmental Activities increased by approximately $2.58 billion for fiscal year 2014, increasing to approximately $50.06 billion from approximately $47.48 billion for fiscal year 2013 (as restated). The unrestricted deficit for Governmental Activities – that part of net position that can be used to finance day-to-day governmental operations without constraints established by debt covenants, enabling legislation, or other legal requirements – had a deficit of approximately $54.31 billion as of June 30, 2014. The unrestricted deficit in Governmental Activities, which increased by approximately $2.13 billion, exists primarily because the Commonwealth has issued debt to pay for current expenses of Governmental Activities and not capital assets related thereto. The Statement of Net Position in Governmental Activities reflects outstanding bonds and notes amounting to approximately $40.49 billion and net pension obligations amounting to approximately $14.65 billion, as of June 30, 2014, as compared to outstanding bonds and notes amounting to approximately $37.58 billion and net pension obligations amounting to approximately $13.07 billion as of June 30, 2013. 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 aggregate effect of decades of operating expenses materially exceeding actual revenues.

The net position in Business-Type Activities increased by approximately $47 million in fiscal year 2014 when compared to fiscal year 2013, from approximately $792 million to approximately $839 million.

Statements of Activities and Results of Operations

Condensed financial information of the Statements of Activities for the years ended June 30, 2014 and 2013 is as follows (expressed in thousands):

Net Position as of June 30, 2014 and 2013
(Amounts in millions)

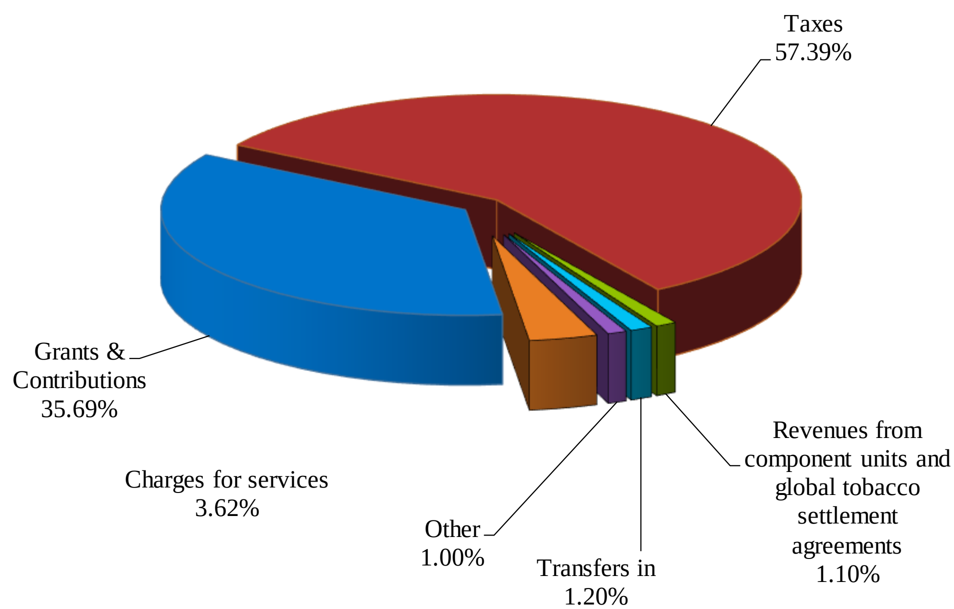
	Governmental Activities		Business-Type Activities		Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	$ 657	717	1,339	1,342	1,996	2,059
Operating grants and contributions	6,383	6,749	128	214	6,510	6,964
Capital grants and contributions	83	110	—	—	83	110
	7,122	7,577	1,467	1,556	8,590	9,133
General revenues:					—	—
Taxes	10,399	8,245	—	—	10,399	8,245
Revenue from global tobacco					—	—
settlement agreement	72	109	—	—	72	109
Revenue from component units	131	90	—	—	131	90
Other, including loss on investments	182	184	14	14	196	198
	10,784	8,628	14	14	10,799	8,642
Total revenues	17,907	16,205	1,482	1,570	19,388	17,775
Expenses:					—	—
General government	2,764	3,267	—	—	2,764	3,267
Public safety	2,278	2,665	—	—	2,278	2,665
Health	3,140	3,246	—	—	3,140	3,246
Public housing and welfare	3,736	3,732	—	—	3,736	3,732
Education	4,571	4,892	—	—	4,571	4,892
Economic development	1,400	1,129	—	—	1,400	1,129
Payment of obligations of component units	—	—	—	—	—	—
Intergovernmental	372	484	—	—	372	484
Interest and other	2,445	2,117	—	—	2,445	2,117
Lotteries	—	—	714	685	714	685
Unemployment insurance	—	—	272	387	272	387
Medical Services Administration	—	—	205	201	205	201
Water Pollution Control Revolving Fund	—	—	1	2	1	2
Nonmajor proprietary funds	—	—	29	32	29	32
Total expenses	20,704	21,533	1,221	1,307	21,925	22,840
Increase (decrease) in net position before transfers	(2,798)	(5,328)	261	263	(2,537)	(5,065)
Transfers	214	247	(214)	(247)	—	—
Change in net position	(2,584)	(5,081)	47	16	(2,537)	(5,065)
Net position, beginning of year, as adjusted (note 3)	(47,482)	(42,401)	792	776	(46,690)	(41,625)
Net position, end of year	$ (50,066)	(47,482)	839	792	(49,227)	(46,690)

Totals may not add due to roundup.

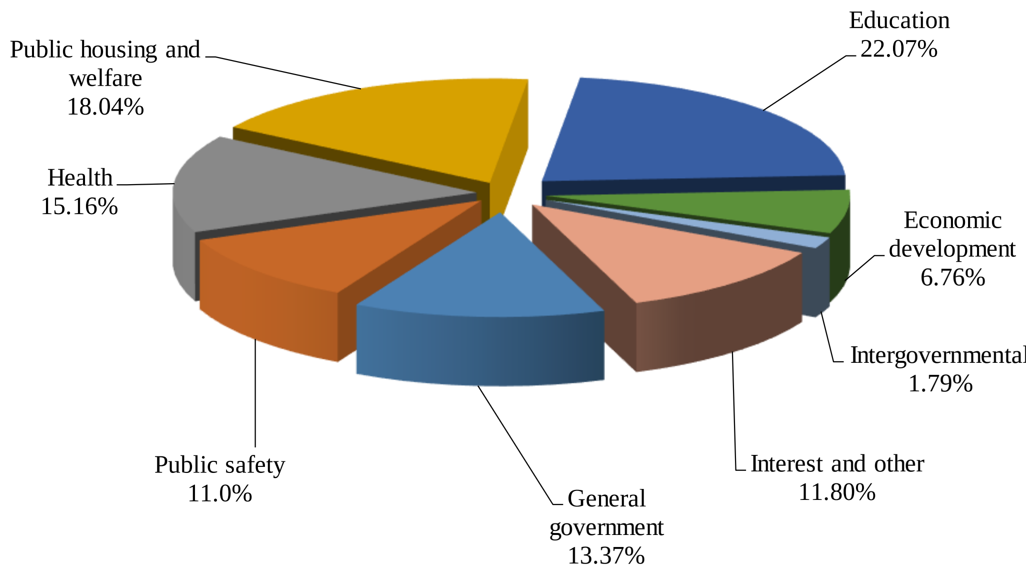
As described above, the Governmental Activities net deficit position increased from approximately $47.48 billion at June 30, 2013 (as restated) to approximately $50.06 billion at June 30, 2014, an increase of approximately $2.58 billion. The increase in total net deficit position is the result of higher operating expenses than operating revenues and an increase in the Commonwealth liabilities, such as bonds and notes, net pension obligations, legal claims and compensated absences, among others. Approximately 57.39% of the Governmental Activities' revenue (including transfers) came from taxes, while approximately 35.69% resulted from grants and contributions (primarily federal financial assistance). Charges for services represented approximately 3.62% of total revenue. The Governmental Activities' expenses cover a range of governmental services. The largest expenses were for general government, education, public housing and welfare, health and public safety. In fiscal year 2014, Governmental Activities' expenses, which amounted to approximately $20.70 billion were funded by $10.78 billion in general revenues, $7.12 billion in program revenues and transfers of $214 million from Business-Type Activities.

Revenues from Governmental Activities for fiscal year 2014 increased by approximately $1.7 billion compared to fiscal year 2013. Fiscal stabilization initiatives as well as other economic growth plans helped increase revenues from Governmental Activities for fiscal year 2014, thus partially offsetting the effects of the ongoing economic recession. During fiscal year 2014, the Commonwealth's policy of fiscal control reduced the level of expenses from Governmental Activities from fiscal year 2013 to fiscal year 2014 by approximately $829 million. If you exclude "Interest and other expenses," which increased by approximately $328 million for fiscal year 2014, total expenses were approximately $1.16 billion lower for fiscal year 2014 when compared to fiscal year 2013.

Revenues and Transfers – Governmental Activities
Year ended June 30, 2014



Expenses – Governmental Activities



Business-Type Activities' total net position increased by approximately $46.8 million from the total net position for fiscal year 2013.

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 2014, the Commonwealth's Governmental Funds, which include the General Fund, the Debt Service Fund, the COFINA Special Revenue Fund, the COFINA Debt Service Fund and certain nonmajor governmental funds (i.e. Puerto Rico Public Buildings Authority ("PBA"), Puerto Rico Infrastructure Financing Authority ("PRIFA"), Children's Trust, Special Communities Perpetual Trust and Puerto Rico Maritime Shipping Authority), reported a combined ending deficit of approximately $253.9 million. In fiscal year 2014, expenditures in these governmental funds exceeded revenues by approximately $4.1 billion. However, this deficit was partially offset by other financing sources totaling approximately $4.0 billion in the governmental funds. For fiscal year 2014, the excess of expenditures over revenues increased by approximately $447 million when compared with the prior year, primarily as a result of principal and interest payments on debt refunded through the issuance of the $3.5 billion of general obligations bonds in fiscal year 2014. Other financing sources increased by approximately $2.4 billion compared with the prior year, such increase attributable primarily to the issuance of $3.5 billion of general obligation bonds in fiscal year 2014.

The General Fund (as described in footnote 1 above) is the chief operating fund of the Commonwealth. At the end of fiscal year 2014, the General Fund, which encompasses other financial resources outside the General Fund budget such as federal funds, pledged funds, special revenue funds, non-budgeted funds and agencies with independent treasuries, had a total fund deficit of approximately $2.1 billion. The fund deficit of the

Commonwealth's General Fund increased by approximately $298.2 million as a result of such fiscal year's change in financial position.

The debt service fund is the fund in which the Commonwealth accumulates the resources for the payment of the long-term general obligations debt. During fiscal year 2014, the fund balance of the debt service fund increased by approximately $276.4 million. Bonds and interest payable during fiscal year 2014 increased by approximately $48.4 million compared with fiscal year 2013.

The COFINA Special Revenue Fund is used to account for and report all financial resources of the Puerto Rico Sales Tax Financing Corporation ("COFINA"). During fiscal year 2014, the fund balance of the COFINA special revenue fund decreased by approximately $39.9 million.

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 of COFINA. During fiscal year 2014, the fund balance of the COFINA debt service fund decreased by approximately $39.2 million.

General Fund Budgetary Highlights

The Commonwealth Constitution requires the Governor to submit a balanced budget that contains a plan of expenditures for the ensuing fiscal year and identifies the anticipated revenues and other resources sufficient to meet the proposed expenditures. The Commonwealth adopts an annual appropriations budget for its General Fund. A budgetary comparison schedule has been provided in page 307 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.

Total General Fund actual revenues on a budgetary basis for fiscal year 2014 were approximately $8.7 billion (excluding other financing sources), representing a decrease of approximately $679 million, or 7%, from original budgeted revenues and an increase of approximately $595 million from actual revenues of approximately $8.1 billion for fiscal year 2013.

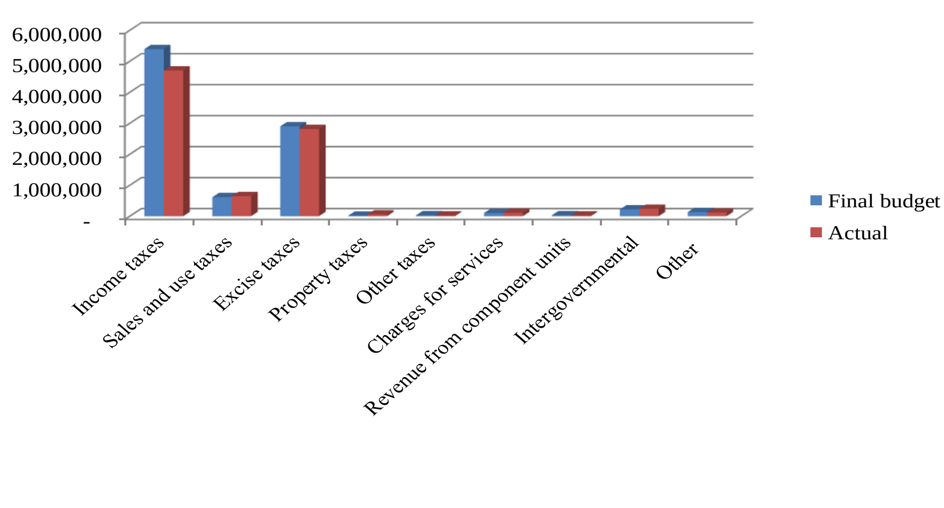
Total General Fund actual expenditures on a budgetary basis for fiscal year 2014 were approximately $9.2 billion, representing a decrease of $442 million from original budgeted expenses and an increase of approximately $228 million from actual expenditures of approximately $8.9 billion for fiscal year 2013.

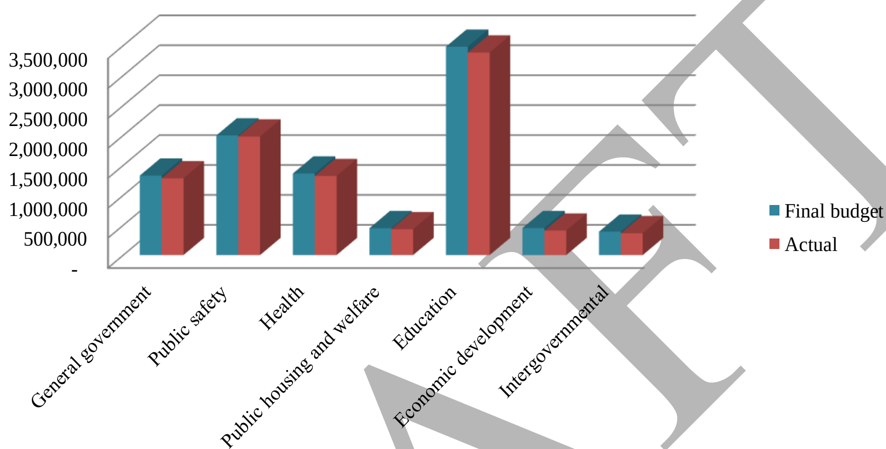
For fiscal year 2014, the deficiency of revenues over expenditures (budgetary basis) was approximately $440 million, consisting of the difference between total actual revenues of approximately $8.7 billion and total actual expenditures of approximately $9.2 billion, excluding debt service payments on general obligation bonds. For fiscal year 2013, the deficiency of revenues over expenditures (budgetary basis) was approximately $807 million, consisting of the difference between total actual revenues of approximately $8.1 billion and total actual expenditures of approximately $8.9 billion. The deficiency of revenues over expenditures (budgetary basis) for fiscal year 2014 decreased by approximately $367 million when compared to fiscal year 2013 and decreased by approximately $898 million when compared to the deficiency of revenues over expenditures (budgetary basis) of approximately $1.3 billion in fiscal year 2012.

For fiscal year 2014, the total deficit in the General Fund (budgetary basis) was approximately $1.2 billion, consisting of the difference between actual revenues (approximately $8.7 billion), less total expenditures (approximately $9.2) and general obligation debt service payments (approximately $738 million, net of transfers in from the 1.03% of the property tax used for purposes of paying the Commonwealth's general obligation debt), as reported in page 307. For fiscal year 2014, the Commonwealth's General Fund deficit on a budgetary basis of approximately $1.2 billion differs from the deficiency of revenues over expenditures for the General Fund on a modified accrual basis (U.S. GAAP) of approximately $1.7 billion, which was offset by approximately $1.4 billion in other financing sources, principally consisting of proceeds from issuances of long-term debt, for a resulting General Fund deficit of $298 million. The variance between the U.S. GAAP and budgetary basis deficits results from differences in the basis of accounting, entity, and perspective differences between budgetary reporting versus those established by U.S. GAAP and followed in these financial statements. Examples of such differences include: (i) recognition of proceeds of long-term debt issued as other financing sources, (ii) recognition of receivables (revenues) for reimbursements of expenses allocated to federal funds, (iii) the recognition of revenues and expenditures of entities with independent treasuries, (iv) expenditures incurred in non-budgetary funds (special revenue funds, internal revenues funds and other funds) which were not included in the General Fund Budget and (v) timing differences in basis of accounting such as (a) the recognition of receivables on income and corporate taxes and (b) recognition of expenditure accruals. A reconciliation is presented on page 323 in the required supplementary information section. The Government's ability to continue reducing the deficit will depend in part on its ability to continue increasing revenues and reducing expenditures in the face of rising debt service and pension obligations, 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, 2014





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	
	2014	2013	2014	2013	2014	2013
Land	$ 911,298	909,748	6,782	6,872	918,080	916,620
Construction in progress	953,444	1,157,593	—	—	953,444	1,472,450
Buildings and building improvements, net	5,677,076	5,583,417	40,377	34,164	5,717,453	5,184,645
Equipment, furniture, fixtures, vehicles and software, net	161,257	181,519	18,183	18,169	179,440	209,145
Infrastructure, net	436,887	449,426	—	—	436,887	449,426
Total capital assets	$ 8,139,962	8,281,703	65,342	59,205	8,205,304	8,232,286

The Commonwealth's investment in capital assets for its Governmental Activities and Business Type Activities as of June 30, 2014 amounted to approximately $12.5 billion, less accumulated depreciation and amortization of approximately $4.3 billion, resulting in a book value of approximately $8.2 billion. Capital assets include land, constructions in progress, buildings, building improvements, equipment and infrastructure. Capital assets included in the Governmental Activities column are principally owned by Blended Component Units (e.g., PBA and PRIFA) and are primarily of value only to the Commonwealth, such as public schools, roads and buildings used for governmental services.

Other infrastructure assets, such as highways, bridges, toll road facilities, water and sewer systems, electricity production, transmission and distribution systems, and similar assets, are owned by Discretely Presented Component Units.

Debt Administration – Primary Government

The Commonwealth has incurred long-term debt financing and other obligations, including lease/purchases and contractual obligations where the Commonwealth's legal obligation to make payments is typically subject to and paid from annual appropriations made by the Legislature. For example, the debt reported by most Blended Component Units, by Business-Type Activities and certain Discretely Presented Component Units is supported, directly or indirectly, by payments from resources from the Commonwealth's Governmental Activities.

At June 30, 2014, the Primary Government's bonds and notes outstanding amounted to $40.77 billion, the Discretely Presented Component Units' bonds and notes outstanding amounted to $27.56 billion, and the Fiduciary Funds' bonds outstanding amounted to $3.08 billion.

General obligation bonds are backed by the full faith, credit and taxing power of the Commonwealth. 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 Commonwealth is in compliance with the 15% limitation at the time of issuance of such guaranteed debt. At June 30, 2014, the Commonwealth was in compliance with the debt limitation requirement.

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, have historically not been included as internal revenues for the purpose of calculating the constitutional debt limit, although they may be available for the payment of general obligation 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 such portion of the sales and use tax to COFINA and provided that such portion was not considered available resources under the Constitutional provisions regarding full faith and credit bonds.

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 certain Discretely Presented Component Units (other than bond anticipation notes) such as the Puerto Rico Electric Power Authority ("PREPA") and the Puerto Rico Aqueduct and Sewer Authority, is supported by the revenues of such Component Units from rates charged for services or products. However, the debt certain Blended Component Units and Discretely Presented Component Units is supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or taxes.

The Commonwealth's assigned general obligation bond ratings as of June 30, 2014 were as follows: BB+ by Standards and Poor's Investor Services (S&P), Ba2 by Moody's Investor Service, Inc., and BB Fitch Investor Service. From July 2014 to February 2016, the Commonwealth's general obligations bonds credit rating has been lowered to CC by S&P, Caa3 by Moody's and CC by Fitch.

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

Uncertainties, Liquidity Risk and Going Concern

The Commonwealth and several of its Component Units (also referred to as instrumentalities) face significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due, as further described in the basic financial statements. GASB Statement No. 56 requires management to evaluate whether there is substantial doubt about a government's ability to continue as a going concern for twelve months beyond the financial statement date. Information that may indicate substantial doubt as to a government's ability to continue as a going concern includes a government's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate financial assistance authority or financial review board, or similar actions. The risks and uncertainties facing the Commonwealth, together with other factors described in the basic financial statements, have led management to conclude that there is substantial doubt as to the ability of the Primary Government (including the Governmental Activities carried out by various Blended Component Units), and of various Discretely Presented Component Units and Fiduciary Funds, to continue as a going concern in accordance with GASB Statement No. 56.

The Commonwealth currently faces a severe fiscal and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. The Commonwealth's largest revenue streams are especially vulnerable during times of major economic downturns and have been affected by these same factors. Further stressing the Commonwealth's liquidity are large health care, pension and debt service costs. As the Commonwealth's tax base has shrunk and its revenues been affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services. The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. More recently, the Commonwealth's continued economic recession, high level of debt and pension obligations, and structural budget deficits, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth has relied more heavily on short-term financings and interim loans from GDB, and other instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and GDB in particular, and increased near-term refinancing risk. These factors have also resulted in delays in the repayment by the Commonwealth and its instrumentalities of outstanding GDB lines of credit, which delays have limited GDB's ability to continue providing liquidity to the Commonwealth. These factors are reflected in the deterioration of the Commonwealth's credit ratings. Since June 30, 2014, the principal rating agencies have continued to lower their rating on the general obligation bonds of the Commonwealth, which had already been placed within non-investment grade ratings in February 2014. They also lowered their ratings on the bonds of PBA and COFINA, and on other bonds of various instrumentalities, including GDB, all of which were lowered multiple notches in the grading levels.

The causes of these challenges have been analyzed in a report on the Commonwealth's economic and financial stability and growth prospects prepared by former IMF economists and released on June 29, 2015 (subsequently updated as of July 13, 2015). This report, commonly referred to as the Krueger Report, is described in Note 2 to the financial statements. At the time of the release of the Krueger Report, the Governor announced that the Commonwealth had no choice but to seek to restructure its debt with the goal of achieving a more sustainable debt service, and that if it was unable to do so the Commonwealth could default on its debt. In addition, the Governor created the Working Group for the Fiscal and Economic Recovery of Puerto Rico pursuant to Executive Order No. 2015-022, which prepared a Fiscal and Economic Growth Plan (the "FEGP") that was released on September 9, 2015 and updated on January 18, 2016. The FEGP, among other things, projects significant financing gaps for the next ten fiscal years, identifies measures that could be implemented to reduce such gaps, and concludes that there is a need for a significant restructuring of the debt of the Commonwealth and various instrumentalities that have issued tax-supported debt. In making such projections, the FEGP adopted the Krueger Report's methodology (with certain modifications described therein), and do not directly correspond to the basis of reporting results in these basic financial statements. The conclusions drawn by both the Krueger Report and the FEGP indicate significant risks for holders of bonds of the Commonwealth and its instrumentalities.

Following the release of the FEGP, the Commonwealth has proposed to seek a consensual restructuring of its outstanding debt and other tax-supported debt issued by certain instrumentalities. In January 2016, Commonwealth officials and advisors met with the advisors to the Commonwealth's creditors to present the Commonwealth's restructuring proposal, which was subsequently made public. The Krueger Report, the FEGP, and a summary of the Commonwealth's restructuring proposal are available in GDB's website at www.gdbpr.com.

There can be no assurance, however, that the Commonwealth will be able to successfully consummate its proposal or any other debt restructuring. If management is unable to complete such restructuring by the end of fiscal year 2016, or to otherwise obtain additional funding or other arrangements with its creditors, the Commonwealth's management expects that the Commonwealth and various instrumentalities will be unable to comply with their scheduled debt obligations.

Other Commonwealth instrumentalities that do not issue tax-supported debt and are thus not included in the FEGP and the proposed debt restructuring also face significant financial and fiscal challenges. As a result of the challenges faced by the Commonwealth, the Commonwealth announced that certain of its instrumentalities would be required to achieve self-sufficiency by reducing or eliminating their reliance on General Fund subsidies and emergency lines of credit from GDB. In order to achieve such self-sufficiency, such instrumentalities may need to seek a consensual restructuring of their debt or relief under existing or potential future laws regarding receivership, insolvency, reorganization, moratorium and/or similar laws affecting creditors' rights, to the extent available. One such law, Act No. 71-2014, known as the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act"), enacted by the Commonwealth to provide the aforementioned protection, was challenged by certain private investors in Federal court and was declared unconstitutional by the United States District Court for the District of Puerto Rico on February 6, 2015. The District Court's decision was upheld by the United States Court of Appeals for the First Circuit. The Commonwealth is seeking review of this decision by the U.S. Supreme Court, which granted the Commonwealth's petition for certiorari. The U.S. Supreme Court will hear oral arguments in March 2016. In addition, although the Commonwealth's instrumentalities are not currently eligible to seek relief under Chapter 9 of the United States Bankruptcy Code, there are ongoing initiatives in Congress to make Chapter

9 applicable to Puerto Rico's municipalities (including its instrumentalities). Consistent with the need to achieve self-sufficiency, PREPA, a major component unit of the Commonwealth, has reached a preliminary agreement with holders of a significant portion of its debt to restructure the terms of such obligations. Such agreement, however, is subject to substantial political, legal and implementation risk, and PREPA may still need relief under existing or potential future laws regarding receivership, insolvency, reorganization, moratorium and/or similar laws affecting creditors' rights.

The Commonwealth expects that its ability to finance future budget deficits will be severely limited even if it achieves a comprehensive debt restructuring, and, therefore, that it will be required to, among other measures, reduce the amount of resources that fund important governmental programs and services in order to balance its budget. There is no assurance, however, 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 a long-term basis. Moreover, the measures to achieve budgetary balance through austerity may adversely affect the performance of the Commonwealth's economy which, in turn, may adversely affect governmental revenues. While the FEGP and the proposed comprehensive debt restructuring seeks to address these recurring budgetary imbalances and to make debt service payments sustainable, it is at present uncertain that such a restructuring will be consummated or that it will achieve the goals of recurring budgetary balance and debt sustainability.

GDB's financial condition and liquidity has significantly deteriorated in past years as a result of some of the same factors that have affected the Commonwealth, including lack of market access, and the inability of the Commonwealth and its instrumentalities to repay their loans to GDB. During this period, GDB has continued to fund, in a limited manner, certain financial needs of the Commonwealth and its instrumentalities while paying its debt service obligations.

Although GDB has historically served as the principal source of short-term liquidity for the Commonwealth and its instrumentalities, GDB will not be able to continue to provide such assistance in the near future. To the extent that GDB financing is unavailable, the Commonwealth and its instrumentalities will be required to seek other sources of funding in order to meet their obligations. There is no assurance that the Commonwealth or its instrumentalities will be able to access other sources of financing or funding sufficient at any one time to meet their obligations as they come due. If such other financing or funding sources are not available, the financial condition of the Commonwealth and its instrumentalities could deteriorate further and their ability to repay their loans to GDB may be further adversely affected. In the absence of financing alternatives (including forbearance or other agreements with GDB creditors) or emergency liquidity measures in addition to those already implemented, GDB projects that its liquidity will be insufficient to meet all of its financial obligations during the fourth quarter of fiscal year 2016. Due to its strained liquidity situation, GDB is not expected to be a source of short-term liquidity for the Commonwealth or its instrumentalities.

If the Commonwealth's financial condition does not improve, or it is not able to obtain financing in the very near term or address the aforementioned uncertainties through a debt restructuring or other agreement with its creditors, the Commonwealth's management expects that the Commonwealth will not be able to honor all of its obligations as they come due while at the same time providing essential government services. The Commonwealth may therefore be forced to take emergency measures that affect the rights of bondholders and other creditors. GDB, as fiscal agent to the Commonwealth, together with its financial and legal advisors, has evaluated various such measures. In addition to Commonwealth 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, which have already been implemented, additional measures could include a moratorium on the payment of debt service of some or all of the debt obligations. Also, there are certain Commonwealth instrumentalities that offer basic and essential services to the population of Puerto Rico. To the extent that any of these instrumentalities is unable to continue to provide such essential services, the Commonwealth may be required to divert available Commonwealth resources to ensure that such services continue to be provided. Such action would further increase the Commonwealth's insufficiency of revenues to honor its obligations as they become due. Furthermore, because of the importance of GDB's functions to the operation of the Commonwealth, its public corporations and municipalities, if GDB's financial condition deteriorates further, the Commonwealth may amend the Organic Act of GDB or enact new emergency legislation (subject to applicable constitutional limitations), which could include a moratorium on the payment of debt service with respect to outstanding GDB indebtedness or other remedy that affects the rights of creditors. Both houses of U.S. Congress have conducted hearings on Puerto Rico's fiscal crisis and are evaluating various alternatives that include establishing a fiscal oversight board and providing some form of a restructuring regime.

Even though the Commonwealth's management believes that there is substantial doubt as to the Primary Government's ability to continue as a going concern in accordance with GASB Statement No. 56 (including its Governmental Activities carried out by PBA, Puerto Rico Infrastructure Financing Authority, Puerto Rico Maritime Shipping Authority, Special Communities Perpetual Trust and Puerto Rico Medical Service Administration), the financial information contained herein has been presented assuming that it will continue as a going concern. In reaching the determination as to substantial doubt about the Primary Government's ability to continue as a going concern in accordance with GASB Statement No. 56, the Commonwealth's management has considered that these entities and activities show all the indicators to support such a conclusion: (i) negative trends for an extended period of time as evidenced by their significant deficits; (ii) other indicators of financial difficulties (such as the events of nonpayment of Public Finance Corporation bonds, the non-appropriation of funds for the payment of loans to GDB and the activation of the claw-back provisions of the Constitution); (iii) internal matters such as the Primary Government's significant dependency on federal grants and on the tax revenues (Act No.154) from a few corporate sources carrying uncertain continuity and permanence as well as the frequent failure of the Commonwealth to meet its revenue projections; and (iv) external factors such as a contracting economy, contracting population, liquidity sources and debt restructuring alternatives that are currently dependent on US congressional legislation.

There is one Blended Component Unit, the Puerto Rico Sales Tax Financing Corporation ("COFINA"), and an enterprise fund of the Primary Government (the Lotteries Fund), whose financial statements, despite their deficit position, do not contain going concern qualifications in accordance with GASB Statement No. 56.

For similar reasons, the three contributory defined pension plans sponsored by the Commonwealth (collectively, the "Retirement Systems") and the following Component Units carry substantial doubt about their ability to continue as a going concern in accordance with GASB Statement No. 56: GDB, Puerto Rico Electric Power Authority, Puerto Rico Highways and Transportation Authority, Puerto Rico Health Insurance Administration, Agricultural Enterprise Development Administration, Puerto Rico Metropolitan Bus Authority, Puerto Rico and Municipal Island Maritime Transport Authority, Puerto Rico Convention Center District Authority (PRCCDA), Solid Waste Authority (SWA), Company for the Integral Development of the "Peninsula de Cantera" (CIDPC), University of Puerto Rico Comprehensive Cancer Center (UPRCCC), National Parks Company of Puerto Rico (NPCPR), Port of Americas Authority (PAA), Puerto Rico Industrial Development Company (PRIDCO) and Institute of Puerto Rican Culture (IPRC). This is the case even for those Component Units that do not currently have a deficit position at June 30, 2014 (PRCCDA, UPRCCC, PRIDCO, SWA, CIDPC, IPRC, PAA and NPCPR), because these were instead impacted by either the Commonwealth's withholding of certain assigned tax revenues and redirecting those funds to the payment of Commonwealth general obligation debt (also referred to as the exercise of the clawback) or the uncertainty of future Commonwealth appropriations to repay their lines of credit with GDB or external debt. For additional information refer to Note 2 of the Financial Statements.

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, 2014

(In thousands)

	Primary government			
Assets:	Governmental activities	Business-type activities	Totals primary government	Component units
Cash and cash equivalents in commercial banks	$ 152,202	56,380	208,582	1,756,820
Cash and cash equivalents in governmental banks	1,618,094	115,646	1,733,740	278,974
Cash equivalents in Puerto Rico Government Investment Trust Fund (PRGITF)	80,725	—	80,725	6,840
Investments	26,176	—	26,176	4,259,122
Collateral from securities lending transactions	—	—	—	158,834
Receivables – net of allowance for uncollectibles:				
Income and excise taxes	1,860,574	—	1,860,574	—
Unemployment and other insurance premiums	—	4,169	4,169	53,486
Intergovernmental	609,942	4,998	614,940	363,655
Accounts	31,632	20,550	52,182	1,191,093
Loans	84,435	—	84,435	4,877,340
Accrued interest	42,049	49	42,098	200,134
Other	59,710	13,388	73,098	77,182
Due from:				
Primary government	—	—	—	344,759
Component units	128,730	—	128,730	3,651,791
Other governmental entities	13,121	7,305	20,426	707,923
Internal balances	(42,134)	42,134	—	—
Inventories	10,733	—	10,733	443,527
Prepaid expenses	35,716	—	35,716	29,959
Other assets	15,797	4,542	20,339	—
Restricted assets:				
Cash and cash equivalents in commercial banks	486,589	7,142	493,731	1,159,470
Cash and cash equivalents in governmental banks	206,687	181,228	387,915	224,435
Cash and cash equivalents under the custody of U.S. Treasury	—	415,032	415,032	—
Sales and use tax receivable	113,706	—	113,706	—
Unemployment and other insurance premiums receivable	—	59,528	59,528	—
Intergovernmental receivable	—	10	10	—
Receivables	—	160	160	—
Accrued interest	—	5,968	5,968	—
Loans receivable from component units	—	490,916	490,916	—
Investments	654,549	38,735	693,284	3,603,069
Other	657	25,978	26,635	65,208
Real estate held for sale or future development	44,667	—	44,667	243,979
Capital assets:				
Land and other nondepreciable assets	1,864,742	6,872	1,871,614	5,838,886
Other capital assets – net of depreciation or amortization	6,275,220	58,558	6,333,778	24,294,353
Deferred expenses and other assets	—	—	—	149,385
Total assets	14,374,319	1,559,288	15,933,607	53,980,224
Deferred Outflows of Resources:				
Accumulated decrease in fair value of hedging derivatives	56,529	—	56,529	48,864
Loss on bonds refunding	504,313	—	504,313	272,462
Total deferred outflows of resources	560,842	—	560,842	321,326

COMMONWEALTH OF PUERTO RICO

Statement of Net Position

June 30, 2014

(In thousands)

		Primary government			
Liabilities:		Governmental activities	Business-type activities	Totals primary government	Component units
Accounts payable and accrued liabilities		1,970,912	60,981	2,031,893	2,584,310
Deposits and escrow liabilities		—	—	—	5,986,088
Tax refunds payable		1,009,447	—	1,009,447	—
Due to:					
Primary government		—	—	—	619,646
Component units		313,837	30,922	344,759	3,651,791
Other governmental entities		119,584	3,866	123,450	220,246
Securities lending obligations and reverse repurchase agreements		—	—	—	198,797
Interest payable		745,029	16,671	761,700	760,078
Grant advances		8,960	—	8,960	—
Unearned revenue		32,757	20,755	53,512	109,233
Bond anticipation notes		8,391	—	8,391	—
Liability for automobile accident insurance, workmen compensation and medical claims		—	—	—	1,187,689
Investment derivative instruments – interest rate swaps		—	—	—	—
Hedging derivatives instruments - interest rate swaps		56,529	—	56,529	48,864
Liabilities payable within one year:					
Bonds		522,400	—	522,400	1,028,116
Notes		318,136	—	318,136	1,435,020
Liability under guaranteed debt		949	—	949	—
Capital leases		5,224	—	5,224	964
Compensated absences		833,235	2,199	835,434	206,526
Lottery prizes		—	55,343	55,343	—
Voluntary termination benefits		98,352	732	99,084	22,858
Insurance benefits payable		—	63,661	63,661	—
Other long-term liabilities		177,811	25,859	203,670	154,422
Liabilities payable after one year:					
Commonwealth appropriation bonds		571,236	—	571,236	529,169
Bonds		37,035,459	—	37,035,459	18,976,981
Notes		2,044,120	278,292	2,322,412	5,589,571
Liability under guaranteed debt		223,915	—	223,915	—
Capital leases		166,594	—	166,594	28,758
Net pension obligation		14,645,271	—	14,645,271	—
Net postemployment benefit obligation		268,834	1,834	270,668	—
Compensated absences		644,286	15,900	660,186	346,910
Lottery prizes		—	131,214	131,214	—
Voluntary termination benefits		979,834	5,144	984,978	199,465
Other long-term liabilities		2,049,344	6,891	2,056,235	836,802
Total liabilities		64,850,446	720,264	65,570,710	44,722,304
Deferred Inflows of Resources:					
Income taxes		23,792	—	23,792	—
Service concession arrangements		—	—	—	1,744,617
Gain on bonds refunding		126,752	—	126,752	—
Total deferred inflows of resources		150,544	—	150,544	1,744,617
Net Position:					
Net investment in capital assets		3,587,555	65,577	3,653,132	7,613,932
Restricted for:					
Capital projects		296,488	—	296,488	335,331
Debt service		247,676	—	247,676	778,592
Emergency services		—	10,173	10,173	—
Lending activities		—	644,180	644,180	—
Payment of insurance benefits		—	435,668	435,668	—
Public housing and welfare		110,887	—	110,887	164,974
Student loans and other educational purposes		—	—	—	107,916
Other		1,280	—	1,280	209,970
Unrestricted (deficit)		(54,309,715)	(316,574)	(54,626,289)	(1,376,086)
Total net position	$	(50,065,829)	839,024	(49,226,805)	7,834,629

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Activities

Year ended June 30, 2014

(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	$ 2,764,087	310,148	337,195	—	(2,116,744)	—	(2,116,744)	—
Public safety	2,278,408	52,727	84,056	—	(2,141,625)	—	(2,141,625)	—
Health	3,139,595	165,865	1,693,632	—	(1,280,098)	—	(1,280,098)	—
Public housing and welfare	3,735,594	3,878	2,681,972	83,172	(966,572)	—	(966,572)	—
Education	4,570,665	1,251	1,466,992	—	(3,102,422)	—	(3,102,422)	—
Economic development	1,399,588	122,743	118,803	—	(1,158,042)	—	(1,158,042)	—
Intergovernmental	371,719	—	—	—	(371,719)	—	(371,719)	—
Interest and other	2,444,787	—	—	—	(2,444,787)	—	(2,444,787)	—
Total governmental activities	20,704,443	656,612	6,382,650	83,172	(13,582,009)	—	(13,582,009)	—
Business-type activities:								
Unemployment insurance	271,749	246,171	91,807	—	—	66,229	66,229	—
Lotteries	714,199	923,233	—	—	—	209,034	209,034	—
Puerto Rico Medical Services Administration	204,688	123,143	—	—	—	(81,545)	(81,545)	—
Puerto Rico Water Pollution Control Revolving Fund	1,183	6,482	26,917	—	—	32,216	32,216	—
Nonmajor proprietary funds	28,920	40,410	9,084	—	—	20,574	20,574	—
Total business-type activities	1,220,739	1,339,439	127,808	—	—	246,508	246,508	—
Total primary government	$ 21,925,182	1,996,051	6,510,458	83,172	(13,582,009)	246,508	(13,335,501)	—

(Continued)

COMMONWEALTH OF PUERTO RICO

Statement of Activities

Year ended June 30, 2014

(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	$ 1,606,639	410,646	163,522	—	—	—	—	(1,032,471)
Puerto Rico Highways and Transportation Authority	1,200,978	304,630	—	228,398	—	—	—	(667,950)
Puerto Rico Electric Power Authority	4,992,721	4,468,922	—	44,959	—	—	—	(478,840)
Puerto Rico Aqueduct and Sewer Authority	1,208,777	1,127,422	—	25,906	—	—	—	(55,449)
University of Puerto Rico	1,406,004	182,203	125,335	5,091	—	—	—	(1,093,375)
State Insurance Fund Corporation	585,005	614,693	—	—	—	—	—	29,688
Puerto Rico Health Insurance Administration	2,570,182	1,575,705	—	—	—	—	—	(994,477)
Nonmajor component units	1,369,826	780,592	55,495	65,015	—	—	—	(468,724)
Total component units	$ 14,940,132	9,464,813	344,352	369,369	—	—	—	(4,761,598)
General Revenues:								
Income taxes					$ 5,573,170	—	5,573,170	—
Sales and use tax					1,294,445	—	1,294,445	—
Excise taxes					3,363,611	—	3,363,611	69,999
Other taxes					168,078	—	168,078	—
Revenue from global tobacco settlement agreement					72,012	—	72,012	—
Revenue from State Insurance Fund Corporation					107,904	—	107,904	—
Revenue from Puerto Rico Tourism Company					21,516	—	21,516	—
Revenue from Automobile Accidents Compensation Administration					1,713	—	1,713	—
Grants and contributions not restricted to specific					—			
programs					119,289	—	119,289	168,070
Revenue from primary government					—	—	—	2,434,575
Unrestricted investment (losses) earnings – net					(78,632)	14,257	(64,375)	354,960
Other					141,139	—	141,139	34,401
Transfers					213,781	(213,781)	—	—
Total general revenues and transfers					10,998,026	(199,524)	10,798,502	3,062,005
Change in net position					(2,583,983)	46,984	(2,536,999)	(1,699,593)
Net position								
At beginning of year, as previously reported					(47,212,999)	792,268	(46,420,731)	9,826,618
Effect of adoption of GASB Statement No. 65 (see note 3)					(329,513)	—	(329,513)	(220,898)
Effect of adoption of GASB Statement No. 70 (see note 3)					(220,392)	—	(220,392)	—
Adjustments to correct prior year errors (see note 3)					281,058	(228)	280,830	(71,498)
Net position – beginning of year, as adjusted and restated					(47,481,846)	792,040	(46,689,806)	9,534,222
Net position – end of year					$ (50,065,829)	839,024	(49,226,805)	7,834,629

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Balance Sheet – Governmental Funds

June 30, 2014

(In thousands)

		General	Debt service	COFINA special revenue	COFINA debt service	Other governmental	Total governmental
Assets:							
Cash and cash equivalents in commercial banks	$	114,068	137	—	—	37,997	152,202
Cash and cash equivalents in governmental banks		281,311	1,133,933	9,600	—	193,250	1,618,094
Cash equivalents in PRGITF		—	—	—	—	80,725	80,725
Investments		10,600	—	170	—	15,406	26,176
Receivables:							
Income and excise taxes		1,860,574	—	—	—	—	1,860,574
Intergovernmental		541,422	56,277	—	—	12,243	609,942
Accounts		28,350	—	—	—	3,282	31,632
Loans		84,396	—	—	—	39	84,435
Accrued interest		41,531	—	—	—	518	42,049
Other		12,968	—	—	—	46,742	59,710
Due from:							
Other funds		17,816	—	—	—	4,959	22,775
Component units		111,032	—	—	—	17,698	128,730
Other governmental entities		—	—	—	—	13,121	13,121
Other assets		13,642	—	—	—	2,155	15,797
Restricted assets:							
Cash and cash equivalents in commercial banks		51,123	—	—	4	435,462	486,589
Cash and cash equivalents in governmental banks		16,648	—	—	18,788	171,251	206,687
Sales and use tax		—	—	—	113,706	—	113,706
Investments		—	—	—	407,371	247,178	654,549
Due from other funds		—	—	—	—	570	570
Other assets		—	—	—	657	—	657
Real estate held for sale or future development		—	—	—	—	2,052	2,052
Total assets	$	3,185,481	1,190,347	9,770	540,526	1,284,648	6,210,772
Liabilities, Deferred Inflow of Resources and Fund Balance (Deficit):							
Liabilities:							
Accounts payable and accrued liabilities	$	1,809,970	—	4,329	92	143,548	1,957,939
Tax refunds payable		1,009,447	—	—	—	—	1,009,447
Due to:							
Other funds		63,776	—	—	—	1,703	65,479
Component units		312,063	—	—	—	1,774	313,837
Other governmental entities		89,167	—	—	—	30,417	119,584
Grant advances		8,960	—	—	—	—	8,960
Notes payable		313,136	—	—	—	—	313,136
Bond anticipation notes payable		—	—	—	—	8,391	8,391
Bonds payable		—	397,285	—	—	76,760	474,045
Interest payable		7,130	324,122	—	—	121,288	452,540
Unearned revenue		22,926	—	—	—	9,831	32,757
Termination benefits payable		746	—	—	—	—	746
Other liabilities		68,210	—	—	—	—	68,210
Total liabilities		3,705,531	721,407	4,329	92	393,712	4,825,071
Deferred inflow of resources:							
Income taxes		1,413,862	—	—	—	—	1,413,862
Miscellaneous receivables		84,396	—	—	—	—	84,396
Intergovernmental grants and contributions		63,333	35,807	—	—	—	99,140
Global tobacco settlement agreement		—	—	—	—	42,193	42,193
Total deferred inflow of resources		1,561,591	35,807	—	—	42,193	1,639,591
Fund balances (deficit):							
Nonspendable		5,000	—	—	—	134,844	139,844
Spendable:							
Restricted		721,629	—	—	540,434	2,040,049	3,302,112
Committed		2,474,449	—	—	—	26,420	2,500,869
Assigned		140,925,872	433,133	5,441	—	153,160	141,517,606
Unassigned		(146,208,591)	—	—	—	(1,505,730)	(147,714,321)
Total fund balances (deficit)		(2,081,641)	433,133	5,441	540,434	848,743	(253,890)
Total liabilities, deferred inflow of resources and fund balances	$	3,185,481	1,190,347	9,770	540,526	1,284,648	6,210,772

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, 2014

(In thousands)

Total fund deficit of governmental funds	$	(253,890)
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		46,449
Deferred outflows of resources - Accumulated decrease in fair value of hedging derivatives		56,529
Deferred outflows of resources - Loss on debt refunding		504,313
Capital assets used in governmental activities are not financial resources and, therefore, are not reported reported in funds		8,139,962
Real estate held for sale or future development are not current financial resources and, therefore, are not reported in the funds		42,615
Deferred revenue reported in the governmental funds are recognized as revenue in the governmental activities		1,615,799
Deferred inflows of resources - Gain on debt refunding		(126,752)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Accounts payable and accrued liabilities		(12,973)
Interest payable		(292,489)
Hedging derivative instrument interest rate swaps		(56,529)
Commonwealth appropriation bonds		(571,236)
Bonds payable		(37,083,814)
Guranteed debt		(224,864)
Notes payable		(2,049,120)
Capital leases payable		(171,818)
Net pension obligation		(14,645,271)
Net postemployment benefit obligation		(268,834)
Compensated absences		(1,477,521)
Voluntary termination benefits		(1,077,440)
Other long-term liabilities		(2,158,945)
Total net position of governmental activities	$	(50,065,829)

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, 2014

(In thousands)

	General	Debt service	COFINA special revenue	COFINA debt service	Other governmental	Total governmental
Revenues:						
Taxes:						
Income taxes	$ 4,904,344	—	—	—	—	4,904,344
Sales and use tax	648,494	—	—	645,951	—	1,294,445
Excise taxes	3,363,611	—	—	—	—	3,363,611
Property taxes	55,838	—	—	—	—	55,838
Other taxes	112,240	—	—	—	—	112,240
Charges for services	694,507	—	—	—	—	694,507
Revenue from global tobacco settlement agreement	72,130	—	—	—	—	72,130
Revenues from component units	131,133	—	—	—	—	131,133
Intergovernmental	6,413,100	119,289	—	—	35,883	6,568,272
Interest and investment earnings (losses)	4,158	11,144	9	243	(84,484)	(68,930)
Other	133,385	—	—	—	7,891	141,276
Total revenues	16,532,940	130,433	9	646,194	(40,710)	17,268,866
Expenditures:						
Current:						
General government	1,077,706	—	181	—	154,241	1,232,128
Public safety	2,142,270	—	—	—	723	2,142,993
Health	3,066,137	—	—	—	3,948	3,070,085
Public housing and welfare	3,453,529	—	—	—	17,124	3,470,653
Education	4,595,314	—	—	—	1,856	4,597,170
Economic development	1,236,617	—	—	—	40,132	1,276,749
Intergovernmental	366,900	—	—	—	4,658	371,558
Capital outlays	95,736	—	—	—	102,615	198,351
Debt service:						
Principal	1,962,638	397,285	333,300	—	330,954	3,024,177
Interest and other	235,386	617,098	—	652,795	399,698	1,904,977
Other – debt issuance costs	—	36,821	—	—	—	36,821
Total expenditures	18,232,233	1,051,204	333,481	652,795	1,055,949	21,325,662
Deficiency of revenues under expenditures	(1,699,293)	(920,771)	(333,472)	(6,601)	(1,096,659)	(4,056,796)
Other financing sources (uses):						
Transfers in	1,793,491	737,639	374,941	9,066	1,066,813	3,981,950
Transfers out	(1,402,254)	(2,238,438)	(84,880)	(41,641)	(956)	(3,768,169)
Proceeds from long term debt issued	1,008,826	—	—	—	45,317	1,054,143
Issuance of refunding bond	—	3,500,000	—	—	—	3,500,000
Payments to refunded bond escrow agent	—	(466,574)	—	—	—	(466,574)
Sale of capital assets	1,016	—	—	—	—	1,016
Discount on bonds issued	—	(245,000)	—	—	—	(245,000)
Termination payments on swap agreements	—	(90,417)	—	—	—	(90,417)
Total other financing sources (uses)	1,401,079	1,197,210	290,061	(32,575)	1,111,174	3,966,949
Net change in fund balances (deficit)	(298,214)	276,439	(43,411)	(39,176)	14,515	(89,847)
Fund balances (deficit) – beginning of year, as restated (note 3)	(1,783,427)	156,694	48,852	579,610	834,228	(164,043)
Fund balances (deficit) – end of year	$ (2,081,641)	433,133	5,441	540,434	848,743	(253,890)

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 Activities

Year ended June 30, 2014

(In thousands)

Net change in fund balances (deficit) – total governmental funds		$ (89,847)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. In the current period, these amounts are:		
Capital outlays	$ 198,351	
Less depreciation and amortization expense	(299,293)	
Subtotal		(100,942)
The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:		
Principal payments of long-term debt	3,024,177	
Proceeds from refunding debt	(3,500,000)	
Payment to refunded bond escrow agent	466,574	
Termination fee on swap agreement	90,417	
Proceed from long-term debt issued	(1,054,143)	
Discount on bonds issuance	245,000	
Subtotal		(727,975)
Some revenues in the statement of activities do not provide current financial resources, and therefore, are deferred in governmental funds. Also, revenues related to prior periods that became available during the current period are reported in governmental funds but are eliminated in the statement of activities. This amount is the net adjustment.		636,797
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(2,348,465)
Generally, inventory and prepayments are recorded as expenditures in the governmental funds when purchased rather than capitalized as an asset. However, these assets are capitalized in the statement of net position. This amount is the net decrease in total inventories and prepaid expenses.		46,449
Change in net position (deficit) of governmental activities		$ (2,583,983)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Net Position – Proprietary Funds

June 30, 2014

(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	$ —	55,106	1,098	—	176	56,380
Cash and cash equivalents in governmental banks	—	53,940	—	—	61,706	115,646
Insurance premiums receivables – net	—	—	—	—	4,169	4,169
Intergovernmental receivable	—	—	4,998	—	—	4,998
Accounts	—	—	18,418	—	2,132	20,550
Accrued interest receivable	—	—	—	—	49	49
Other receivables	—	13,049	66	—	273	13,388
Due from other funds	—	—	22,036	—	2,999	25,035
Due from other governmental entities	—	—	7,305	—	—	7,305
Other assets	—	—	4,321	—	221	4,542
Restricted assets:						
Cash and cash equivalents in commercial banks	5,650	—	—	—	535	6,185
Cash and cash equivalents in governmental banks	—	—	—	116,544	64,684	181,228
Cash and cash equivalents under the custody the U.S. Treasury	415,032	—	—	—	—	415,032
Insurance premiums receivables – net	59,528	—	—	—	—	59,528
Intergovernmental receivable	10	—	—	—	—	10
Receivables	35	—	—	125	—	160
Accrued interest receivable	1,161	—	—	3,255	1,552	5,968
Loans receivable from component unit	—	—	—	19,309	7,258	26,567
Total current assets	481,416	122,095	58,242	139,233	145,754	946,740
Noncurrent assets:						
Cash and cash equivalents in commercial banks - restricted	—	—	957	—	—	957
Loans receivable from component unit – restricted	—	—	—	312,623	151,726	464,349
Due from other funds	—	19,017	—	—	16,589	35,606
Restricted investments	—	—	—	—	38,735	38,735
Other restricted assets	—	25,096	—	882	—	25,978
Capital assets:						
Land and other nondepreciable assets	—	—	6,872	—	—	6,872
Depreciable assets	—	1,348	52,994	—	4,216	58,558
Total assets	481,416	167,556	119,065	452,738	357,020	1,577,795
Liabilities and net position:						
Current liabilities:						
Accounts payable and accrued liabilities	—	9,010	46,707	2,124	3,140	60,981
Due to other funds	10,832	—	2,394	—	5,281	18,507
Due to component units	—	—	30,922	—	—	30,922
Due to other governmental entities	—	—	—	—	3,866	3,866
Interest payable	—	—	16,671	—	—	16,671
Unearned revenue	10,670	7,368	—	—	2,717	20,755
Compensated absences	—	569	313	—	1,317	2,199
Lottery prizes	—	55,343	—	—	—	55,343
Voluntary termination benefits payable	—	552	—	—	180	732
Insurance benefits payable	62,915	—	—	—	746	63,661
Other long-term liabilities	—	—	25,859	—	—	25,859
Total current liabilities	84,417	72,842	122,866	2,124	17,247	299,496
Noncurrent liabilities:						
Notes payable	—	—	278,292	—	—	278,292
Net post-employment benefit obligation	—	—	1,834	—	—	1,834
Compensated absences	—	2,361	11,508	—	2,031	15,900
Lottery prizes	—	131,214	—	—	—	131,214
Voluntary termination benefits payable	—	4,587	—	—	557	5,144
Other long-term liabilities	—	—	6,891	—	—	6,891
Total liabilities	84,417	211,004	421,391	2,124	19,835	738,771
Net position:						
Net investment in capital assets	—	1,696	59,865	—	4,016	65,577
Restricted for emergency services	—	—	—	—	10,173	10,173
Restricted for lending activities	—	—	—	450,614	193,566	644,180
Restricted for payment of insurance benefits	396,999	—	—	—	38,669	435,668
Unrestricted (deficit)	—	(45,144)	(362,191)	—	90,761	(316,574)
Total net position	$ 396,999	(43,448)	(302,326)	450,614	337,185	839,024

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

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

Year ended June 30, 2014

(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	$ 246,171	—	—	—	16,450	262,621
Lottery ticket sales	—	923,182	—	—	—	923,182
Patient service, net of provision for bad debts	—	—	123,143	—	—	123,143
Interest	—	—	—	6,482	3,122	9,604
Emergency telephone service charges	—	—	—	—	20,838	20,838
Other	—	51	—	—	—	51
Total operating revenues	246,171	923,233	123,143	6,482	40,410	1,339,439
Operating expenses:						
Insurance benefits	271,749	—	—	—	2,853	274,602
Lottery prizes	—	632,706	—	—	—	632,706
Patient services	—	—	166,613	—	—	166,613
General, administrative, and other operating expenses	—	81,493	21,657	892	22,487	126,529
Total operating expenses	271,749	714,199	188,270	892	25,340	1,200,450
Operating income (loss)	(25,578)	209,034	(65,127)	5,590	15,070	138,989
Nonoperating revenues (expenses):						
U.S. government grants	91,807	—	—	26,917	9,084	127,808
Contributions to component unit	—	—	—	(291)	(3,580)	(3,871)
Interest and investment earnings	9,213	458	—	—	4,586	14,257
Interest expense	—	—	(17,234)	—	—	(17,234)
Other	—	—	816	—	—	816
Total nonoperating revenues (expenses)	101,020	458	(16,418)	26,626	10,090	121,776
Income (loss) before transfers	75,442	209,492	(81,545)	32,216	25,160	260,765
Transfers from other funds	—	—	50,534	106	1,801	52,441
Transfers to other funds	(41,719)	(206,150)	(2,250)	—	(16,103)	(266,222)
Net change in net position	33,723	3,342	(33,261)	32,322	10,858	46,984
Net position – beginning of year, as restated (note 3)	363,276	(46,790)	(269,065)	418,292	326,327	792,040
Net position – end of year	$ 396,999	(43,448)	(302,326)	450,614	337,185	839,024

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2014

(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	$ 243,419	894,725	128,862	—	36,954	1,303,960
Other receipts	—	275	—	—	—	275
Payments to suppliers and employees	—	(101,322)	(152,814)	(688)	(19,716)	(274,540)
Payments of lottery prizes	—	(580,160)	—	—	—	(580,160)
Payments of insurance benefits	(277,399)	—	—	—	(2,928)	(280,327)
Net cash provided by (used in) operating activities	(33,980)	213,518	(23,952)	(688)	14,310	169,208
Cash flows from noncapital financing activities:						
Intergovernmental grants and contributions	92,214	—	—	26,917	9,084	128,215
Contributions to component unit	—	—	—	(291)	(3,580)	(3,871)
Interest paid	—	—	(563)	—	—	(563)
Transfers from other funds	—	736	32,730	106	1,801	35,373
Transfers to other funds	(44,937)	(220,574)	—	—	(17,490)	(283,001)
Net cash provided by (used in) noncapital and related financing activities	47,277	(219,838)	32,167	26,732	(10,185)	(123,847)
Cash flows from capital and related financing activities:						
Transfers from other funds	—	—	1,100	—	—	1,100
Capital expenditures	—	—	(11,894)	—	(356)	(12,250)
Principal payments	—	(105)	—	—	—	(105)
Net cash used in capital and related financing activities	—	(105)	(10,794)	—	(356)	(11,255)
Cash flows from investing activities:						
Interest collected on deposits, investments and loans	9,213	458	744	6,192	5,696	22,303
Loans originated	—	—	—	(31,212)	(10,317)	(41,529)
Principal collected on loans	—	—	—	14,738	10,743	25,481
Proceeds from sales and maturities of investments	—	—	—	—	21,814	21,814
Purchases of investments	—	—	—	—	(11,741)	(11,741)
Net cash provided by (used in) investing activities	9,213	458	744	(10,282)	16,195	16,328
Net increase (decrease) in cash and cash equivalents	22,510	(5,967)	(1,835)	15,762	19,964	50,434
Cash and cash equivalents at beginning of year,	398,172	115,013	3,890	100,782	107,137	724,994
Cash and cash equivalents at end of year	$ 420,682	109,046	2,055	116,544	127,101	775,428

COMMONWEALTH OF PUERTO RICO

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2014

(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)	$ (25,578)	209,034	(65,127)	5,590	15,070	138,989
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Interests earned on deposits, loans and investments	—	—	—	(6,482)	(3,123)	(9,605)
Depreciation	—	258	4,588	—	1,012	5,858
Provision for bad debts	—	—	13,530	—	—	13,530
Loss on disposition of capital assets	—	—	—	—	195	195
Changes in operating assets and liabilities:						
Decrease (increase) in accounts and loans receivable	1,984	(3,809)	(6,404)	—	(524)	(8,753)
Increase in other assets	—	(104)	(271)	—	(183)	(558)
Increase (decrease) in accounts payable and accrued liabilities	—	(452)	29,732	204	(109)	29,375
Increase (decrease) in due to other governmental entities	—	(572)	—	—	2,039	1,467
Increase (decrease) in unearned revenues	(4,737)	(629)	—	—	373	(4,993)
Decrease in compensated absences	—	(163)	—	—	(190)	(353)
Increase in obligation for unpaid lottery prizes	—	10,365	—	—	—	10,365
Decrease in voluntary termination benefits payable	—	(410)	—	—	(175)	(585)
Decrease in liability for insurance benefits payable	(5,649)	—	—	—	(75)	(5,724)
Total adjustments	(8,402)	4,484	41,175	(6,278)	(760)	30,219
Net cash provided by (used in) operating activities	$ (33,980)	213,518	(23,952)	(688)	14,310	169,208
Non-cash capital and financing activities:						
Retirement of capital assets	$ —	—	1,341	—	—	1,341
Payments to suppliers with proceeds from line of credit	$ —	—	4,948	—	—	4,948
Intergovernmental contribution for the payment of interest expenses	$ —	—	16,671	—	—	16,671

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Fiduciary Net Position – Fiduciary Funds

June 30, 2014

(In thousands)

		Pension (and other employee benefit) trust	Agency
Assets:			
Cash and cash equivalents in commercial banks:			
Unrestricted	$	133,911	573,136
Restricted		77,353	—
Cash and cash equivalents in governmental banks:			
Unrestricted		60,123	300,302
Restricted		21,299	—
Collateral from securities lending transactions		142,627	—
Investments at fair value:			
Bonds and notes		2,006,298	—
Nonexchange commingled trust funds		1,293,997	—
Stocks		93,002	—
Investments in limited partnerships		65,316	—
Receivables – net:			
Accounts		221,838	—
Loans and advances		1,040,465	—
Accrued interests and dividends		31,108	—
Other		38,659	—
Capital assets – net		28,536	—
Other assets		6,541	—
Total assets		5,261,073	873,438
Liabilities:			
Accounts payable and accrued liabilities		57,007	873,438
Securities lending obligations		142,627	—
Interest payable		13,876	—
Other liabilities		76,630	—
Bonds payable		3,077,587	—
Total liabilities		3,367,727	873,438
Net position – held in trust for pension benefits	$	1,893,346	—

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, 2014

(In thousands)

Additions:	
Contributions:	
Sponsor	$ 635,329
Participants	483,258
Special	364,333
Total contributions	1,482,920
Investment income and investment expense:	
Interest	167,858
Dividends	2,223
Net change in fair value of investments	261,068
Investment expenses	(6,408)
Net investment income	424,741
Other income	31,039
Total additions	1,938,700
Deductions:	
Pension and other benefits	2,265,507
Refunds of contributions	177,272
General and administrative	76,883
Interest on bonds payable	192,947
Total deductions	2,712,609
Net change in net position held in trust for pension benefits	(773,909)
Net position held in trust for pension benefits:	
Beginning of year, as previously reported	2,697,236
Effect of adoption of GASB Statement No. 65 (see note 3)	(29,981)
Beginning of year, as restated	2,667,255
End of year	$ 1,893,346

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Major Component Units

June 30, 2014

(In thousands)

	Major component units									
Assets:	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	State Insurance Fund Corporation	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	$ 1,338,415	11,754	147,236	67,982	15,091	53,583	10,318	1,644,379	112,441	1,756,820
Cash and cash equivalents in governmental banks	—	35,751	—	—	79,919	26,144	19,267	161,081	117,893	278,974
Cash equivalents in PRGITF	—	—	—	6,840	—	—	—	6,840	—	6,840
Investments	1,846,615	—	—	—	—	1,246,203	—	3,092,818	1,166,304	4,259,122
Collateral from securities lending transactions	—	—	—	—	—	103,107	—	103,107	55,727	158,834
Receivables – net:										
Insurance premiums	—	—	—	—	—	52,399	—	52,399	1,087	53,486
Intergovernmental	—	26,824	—	23,288	21,411	—	289,785	361,308	2,347	363,655
Accounts	—	10,357	818,889	166,040	29,536	—	69,344	1,094,166	96,927	1,191,093
Loans and advances	4,556,931	—	—	—	4,062	—	—	4,560,993	316,347	4,877,340
Accrued interest	177,886	576	—	—	—	5,336	—	183,798	16,336	200,134
Other governmental entities	—	—	613,938	—	71,685	—	—	685,623	22,300	707,923
Other	31,292	—	-	—	—	39,324	—	70,616	6,566	77,182
Due from:										
Primary government	—	34,641	78,119	54,855	17,468	1,882	30,020	216,985	127,774	344,759
Component units	3,435,453	—	109,644	20,131	10,063	2,458	—	3,577,749	74,042	3,651,791
Inventories	—	—	390,960	30,215	3,806	3,277	—	428,258	15,269	443,527
Prepaid expenses	—	4,800	463	5,483	1,141	291	2,254	14,432	15,527	29,959
Restricted assets:										
Cash and cash equivalents in commercial banks	84,939	1,298	634,225	359,809	8,290	—	1,100	1,089,661	69,809	1,159,470
Cash and cash equivalents in governmental banks	—	69,654	—	28,314	18,033	—	—	116,001	108,434	224,435
Investments	369,580	669,571	694,626	—	280,886	293,627	—	2,308,290	1,294,779	3,603,069
Other restricted assets	12,276	—	—	—	—	—	—	12,276	52,932	65,208
Deferred expenses and other assets	630	2,311	16,803	—	93,840	—	—	113,584	35,801	149,385
Real estate held for sale or future development	82,546	—	—	—	—	—	—	82,546	161,433	243,979
Capital assets, not being depreciated	16,945	2,246,264	1,108,149	722,007	92,291	21,315	—	4,206,971	1,631,915	5,838,886
Capital assets, depreciable – net	3,780	8,663,595	5,739,307	6,747,751	860,373	80,290	654	22,095,750	2,198,603	24,294,353
Total assets	11,957,288	11,777,396	10,352,359	8,232,715	1,607,895	1,929,236	422,742	46,279,631	7,700,593	53,980,224
Deferred Outflows of Resources:										
Accumulated decrease in fair value of hedging derivatives	—	—	48,864	—	—	—	—	48,864	—	48,864
Loss on bonds refunding	2,872	132,042	77,948	35,598	2,818	—	—	251,278	21,184	272,462
Total deferred outflow of resources	2,872	132,042	126,812	35,598	2,818	—	—	300,142	21,184	321,326

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Major Component Units

June 30, 2014

(In thousands)

	Major component units									
Liabilities:	**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**	**State Insurance Fund Corporation**	**Puerto Rico Health Insurance Administration**	**Major component units totals**	**Nonmajor component units totals**	**All component units totals**
Accounts payable and accrued liabilities	84,082	147,852	1,481,236	264,975	39,314	155,267	74,550	2,247,276	337,034	2,584,310
Deposits and escrow liabilities	5,214,539	—	184,581	83,154	—	—	—	5,482,274	503,814	5,986,088
Due to:										
Primary government	—	9,484	—	490,916	—	—	7,239	507,639	112,007	619,646
Component units	—	2,035,474	43,620	101,794	119,952	—	183,251	2,484,091	1,167,700	3,651,791
Other governmental entities	—	18,113	—	9,162	66,567	—	—	93,842	126,404	220,246
Securities lending obligations and reverse repurchase agreements	50,000	—	—	—	—	103,107	—	153,107	45,690	198,797
Interest payable	42,069	297,722	218,839	105,947	4,313	919	11,105	680,914	79,164	760,078
Unearned revenue	—	—	—	18,583	—	21,193	—	39,776	69,457	109,233
Liability for automobile accident insurance, workmen compensation and medical claims	—	—	—	—	—	811,996	281,714	1,093,710	93,979	1,187,689
Liabilities payable within one year:										
Notes payable	209,575	150,000	708,891	200,000	514	21,426	82,999	1,373,405	61,615	1,435,020
Bonds payable	305,941	107,600	432,281	48,744	21,090	—	—	915,656	112,460	1,028,116
Accrued compensated absences	3,273	10,362	97,413	12,918	37,880	12,949	731	175,526	31,000	206,526
Voluntary termination benefits payable	—	9,960	—	—	—	—	537	10,497	12,361	22,858
Capital leases	—	—	—	—	—	765	—	765	199	964
Other long-term liabilities	14,410	11,397	60,614	7,092	2,258	49,523	—	145,294	9,128	154,422
Liabilities payable after one year:										
Notes payable	4,317,616	250,000	—	—	908	232,261	—	4,800,785	788,786	5,589,571
Commonwealth appropriation bonds	3,434	—	—	416,798	—	—	—	420,232	108,937	529,169
Bonds payable	144,379	4,458,668	8,236,144	4,075,242	541,929	—	—	17,456,362	1,520,619	18,976,981
Accrued compensated absences	1,334	10,806	114,518	28,771	140,397	26,254	467	322,547	24,363	346,910
Voluntary termination benefits payable	16,700	70,543	—	—	—	—	3,952	91,195	108,270	199,465
Capital leases	—	—	—	—	—	28,515	—	28,515	243	28,758
Hedging derivative instruments – interest rate swaps	—	—	48,864	—	—	—	—	48,864	—	48,864
Other long-term liabilities	213,590	204,774	119,175	25,238	118,967	62,458	5,992	750,194	86,608	836,802
Total liabilities	10,620,942	7,792,755	11,746,176	5,889,334	1,094,089	1,526,633	652,537	39,322,466	5,399,838	44,722,304
Deferred inflows of resources										
Service concession arrangements	—	1,139,213	—	—	—	—	—	1,139,213	605,404	1,744,617
Total deferred inflow of resources	—	1,139,213	—	—	—	—	—	1,139,213	605,404	1,744,617
Net position:										
Net investment in capital assets	9,354	2,815,240	(253,448)	2,525,360	398,041	44,504	654	5,539,705	2,074,227	7,613,932
Restricted for:										
Capital projects	—	26,824	—	—	9,300	—	—	36,124	299,207	335,331
Debt service	43,132	443,377	—	—	57,081	67,760	—	611,350	167,242	778,592
Affordable housing and related loan insurance programs	164,974	—	—	—	—	—	—	164,974	—	164,974
Student loans and other educational purposes	—	—	—	—	99,166	—	—	99,166	8,750	107,916
Other specified purposes	—	—	—	27,050	13,139	—	—	40,189	169,781	209,970
Unrestricted (deficit)	1,121,758	(307,971)	(1,013,557)	(173,431)	(60,103)	290,339	(230,449)	(373,414)	(1,002,672)	(1,376,086)
Total net position	$ 1,339,218	2,977,470	(1,267,005)	2,378,979	516,624	402,603	(229,795)	6,118,094	1,716,535	7,834,629

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Activities – Major Component Units

Year ended June 30, 2014

(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 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	Effect of adoption of GASB Statement No. 65 (see note 3)	Adjustments to correct prior year errors (see note 3)	Net position – beginning of year, as adjusted	Net position end of year
Major component units:																	
Government Development Bank for Puerto Rico	$ 1,606,639	410,646	163,522	—	(1,032,471)	—	—	—	—	—	—	(1,032,471)	2,379,306	(7,617)	—	2,371,689	1,339,218
Puerto Rico Highways and Transportation Authority	1,200,978	304,630	—	228,398	(667,950)	440,725	—	—	—	36,758	249	(190,218)	3,245,395	(77,707)	—	3,167,688	2,977,470
Puerto Rico Electric Power Authority	4,992,721	4,468,922	—	44,959	(478,840)	—	—	—	—	59,030	—	(419,810)	(791,385)	(55,810)	—	(847,195)	(1,267,005)
Puerto Rico Aqueduct and Sewer Authority	1,208,777	1,127,422	—	25,906	(55,449)	5,856	—	—	—	4,467	4,080	(41,046)	2,539,475	(63,335)	(56,115)	2,420,025	2,378,979
University of Puerto Rico	1,406,004	182,203	125,335	5,091	(1,093,375)	873,570	64,547	162,035	—	9,892	11,230	27,899	483,544	(4,819)	10,000	488,725	516,624
State Insurance Fund Corporation	585,005	614,693	—	—	29,688	(107,903)	—	—	—	143,717	—	65,502	337,101	—	—	337,101	402,603
Puerto Rico Health Insurance Administration	2,570,182	1,575,705	—	—	(994,477)	894,657	—	—	—	40,727	—	(59,093)	(170,702)	—	—	(170,702)	(229,795)
Nonmajor component units	1,369,826	780,592	55,495	65,015	(468,724)	327,670	(64,547)	6,035	69,999	60,369	18,842	(50,356)	1,803,884	(11,610)	(25,383)	1,766,891	1,716,535
	$ 14,940,132	9,464,813	344,352	369,369	(4,761,598)	2,434,575	—	168,070	69,999	354,960	34,401	(1,699,593)	9,826,618	(220,898)	(71,498)	9,534,222	7,834,629

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 ("U.S. 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 and Component Units, the results of operations of the Commonwealth and its various funds and Component Units, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2014 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 U.S. 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.

Blended Component Units

The following entities (the "Blended Component Units"), 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 payable from 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 payable from Commonwealth 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 should appropriate annually 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 should annually appropriate funds from its general operating budget to provide for the payment of principal and interest on such debt, which is the total debt outstanding of PRMSA. 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 payable from Commonwealth Legislative 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 PRMeSA 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 Maritime Shipping Authority
P.O. Box 42001
San Juan, PR 00940-2001

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

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

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

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

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

Discretely Presented Component Units

The Component Units described below (the "Discretely Presented 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 issues warranties to third parties, 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 a seven member board comprising the Secretary of Department of Transportation and Public Works ("DTPW") (serving as the President of the board), the President of the Planning Board, the Secretary of the Treasury, the President of GDB and three other members from the private sector appointed by the Governor with the advice and consent of the Senate. 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 DTPW, the Secretary of Economic Development and Commerce, four members appointed by the Governor with the advice and consent of the Senate, and two members representing the consumers' interest and one member representing the commercial and industrial 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. On May 27, 2014, the Commonwealth approved Act No. 57, which authorizes the Puerto Rico Energy Commission to approve electric rates proposed by PREPA among other matters.

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 PREPA, 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 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.

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 (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 PRMeSA, 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 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 five members, including the Mayor of the Municipality of Culebra and four 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 PRTC, 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 MAC 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 MAC 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.

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 payable from 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 PRTC, 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. On December 12, 2011, Act No. 240 was approved creating the Ponce Ports Authority (PPA), another component unit of the Commonwealth, with a 7 member board required to be comprised by the Secretary of Economic Development and Commerce, the director of the Ponce port, three members to be appointed by the Governor with the consent of the Senate and two members to be appointed by the Major of Ponce with the consent of the Ponce legislative assembly. PPA was created to continue the development of the container terminal being undertaken now by PAA and handle such facilities' future operations. As of June 30, 2014, the board of PPA had not been formed and operations had not started. All of the assets, rights and duties of PAA would eventually be transferred to PPA. However, as of June 30, 2014, no such transfer has taken place.

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 three members from the public sector and six 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 PRTC, and the president of the GDB. The private sector members are individuals having experience in the areas of hotel operations, tourism, real estate, convention centers and at least one with financial expertise who are appointed by the Governor with the advice and consent of the Senate. PRCCDA was created to be responsible, for improving, developing, managing and operating the property and improvements within the Puerto Rico Convention Center District (the "District") geographical area. PRCDDA has the power to finance all of the improvements to be developed through the issuance of bonds and the imposition of assessments against the owners or lessees of land within the District who benefit from the Convention Center and other improvements. Also, PRCCDA promotes the development, construction, expansion and improvement of the Puerto Rico Convention Center ("Convention Center"), Bahía Urbana, and the Jose Miguel Agrelot Coliseum (the "Coliseum"). The administration, operation and management of the Convention Center, the Coliseum, and Bahía Urbana is carried out by a third party private entity, under PRCDDA's responsibility. 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 payable from 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 PRIFA, the Executive Director of the 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 Puerto Rico 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 Municipal Finance Corporation (Known as COFIM, for its Spanish Acronym) – COFIM is governed by a seven member board comprising three members of the Board of Directors of GDB, three mayors from municipalities in Puerto Rico (two of them from the political party controlling the majority of municipalities and the remaining major elected by the rest of the municipalities) and one member representing the public interest recommended by all the mayors and municipalities and ratified by the Governor. COFIM was created by Act No. 19 of January 24, 2014 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. The Commonwealth is required to cover any potential deficiency that may exist on the COFIM reserve accounts established for debt service. At June 30, 2014, COFIM has had no active operations and its board of directors had not been constituted; therefore, it has not been included within the components units' financial information presented herein.

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 owned ports and aviation transportation facilities of the Commonwealth and to render other related services, including the supervision and monitoring over the service concession arrangement of the LMMIA, further described in note 16. 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 of the Commonwealth, 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. PRTA is currently inactive and awaiting for a legislative process to arrange its liquidation

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 PRPA, 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.

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 Municipal Finance Corporation
P.O. Box 42001
San Juan, PR 00940-2001

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

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

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

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, 2014, except for the Puerto Rico Telephone Authority, which has a year end of December 31, 2013.

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 ERS is a cost-sharing, 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 th
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

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 Tourism Company
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 Discretely Presented 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 related 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. The General Fund includes transactions for services such as general government, public safety, health, public housing and welfare, education and economic development. The financial resources received and used in the General Fund mostly include: budgeted resources (such as taxes and charges for services), as approved by the Commonwealth Legislature and as adjusted for timing and basis of accounting differences, and other financial resources outside the General Fund budget such as: federal funds, pledged funds, other special revenue funds, and agencies with independent treasuries.

- *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 Component Units, either blended or discretely presented. 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 COFINA 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 funds are 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, and net of estimated overpayments (as applicable) and amounts considered not collectible. 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 (see note 1(j) for further description about the period of availability for the principal sources of revenue in the Governmental Activities)

Principal revenue sources considered susceptible to accrual include personal and corporate income taxes (recognized as taxpayers earn income), sales and uses taxes (recognized as sales are made), excise taxes (as the underlying import or related activity take place), property taxes (imposed on real estate property values, as defined), intergovernmental revenues (typically when related expenditures are incurred) and other taxes and charges for services (typically as cash is received).

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, 2014 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. Cash balances of funds held in the Commonwealth Treasury are commingled in a general checking account and several special purpose bank accounts. The available cash balance in the general checking account beyond immediate need is pooled in interest bearing accounts with the Government Development Bank for Puerto Rico ("GDB") and with the Puerto Rico Government Investment Trust Fund ("PRGITF"). Cash balances not held in the Commonwealth Treasury and controlled by various Commonwealth instrumentalities are generally deposited in interest-bearing accounts with GDB.

Cash and cash equivalents include investments with original maturities of 90 days or less from the date of acquisition. Short-term investments are recorded at cost.

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. A significant portion of these cash instruments are invested in GDB deposits.

(g) ***Securities Purchased/Sold Under Agreements to Resell/Repurchase***

Certain Component Units of the Commonwealth enter into purchases of securities with simultaneous agreements to resell the same securities (resale agreements) and into sales of securities under agreements to repurchase (repurchase agreements). The amounts advanced or received under these agreements generally represent short–term loans and are reflected as an asset in the case of resale agreements and as a liability in the case of repurchase agreements. The securities underlying these agreements mainly consist of U.S. government obligations, mortgage-backed securities, and interest bearing deposits with other banks. Resale and 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.

(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*

Income taxes receivables, in both the General Fund and Statement of Net Position include predominantly amounts owed by taxpayers for individual and corporate income taxes, net of estimated uncollectible amounts. Income taxes receivables in the General Fund 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 taxable years of prior periods. Income taxes receivable also include amounts owed by taxpayers on income earned in periods prior to June 30, 2014, estimated to be collectible but not currently available, and thus are reported as deferred inflows of resources in the General Fund; while considered revenue in the Statement of Activities as the availability criteria is not applicable on the government-wide financial statements for revenue recognition.

The sales and use tax receivable is recognized as revenue in the General Fund when it becomes measurable and available based on actual collections during the 30 days following the fiscal year-end related to sales and use transactions due on or before year-end. The same treatment is given in the government-wide financial statements given its short period of availability.

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. The same treatment is given in the government-wide financial statements given its short period of availability .Act No. 154 of October 25, 2010 imposed a 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, 2014 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, if any, 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 year 2014, 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.

Intergovernmental receivables 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. This intergovernmental receivable is recognized as revenue when it becomes measurable and available based on actual collections during one year following the fiscal year-end related to transactions that occurred before year-end. Those intergovernmental receivables not expected to be collected within the aforementioned one year period are recorded as deferred inflows of resources. In applying the susceptible to accrual concept to federal 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 eligibility requirements, other than timing, are met are considered unearned revenue. Resources received before timing requirements are met are considered deferred inflows of resources. 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, pursuant Act No. 83 of 1991.

Unemployment, disability, driver's insurance and other services receivables recognized in the enterprise funds are stated net of estimated allowances for uncollectible accounts.

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 are presented net of estimated allowances for adjustments and losses in realization. However, most of the 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 are presented net of allowances for uncollectible accounts. 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 and lending activities.

(m) ***Real Estate Held for Sale or Future Development***

Real estate held for sale or future development 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.

Capital assets donated by third parties are recorded at fair value at the time of donation. Those capital assets donated by related parties are recorded at the carrying value existing at the transferor's records. 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.

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. In accordance with these provisions, governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others. The Commonwealth and its Components Units evaluated its capital assets as required by GASB No. 42 and an impairment of approximately $48 million and $110.6 million was identified at the Primary Government and Component Unit level, respectively. The $48 million impairment at the Primary Government level consisted of approximately $26.1 million of certain dwelling units identified for demolition by PHA and approximately $21.9 million of public schools identified for closure. At the Component Unit level, the impairment of approximately $110.6 million was identified in the construction in progress account for PRHTA.

(o) *Income 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 of income taxes during the first half of the calendar year. These estimated amounts and the actual individual income tax refunds claimed for prior years but not paid at year end are recorded as income tax refunds payable and as a reduction of tax revenue in both the Governmental Funds Statements and the Statement of Governmental Activities. Corporate income tax refunds claimed are recognized on a pay-as-you go basis.

(p) *Deferred Outflows/Inflows of Resources*

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Primary Government and the Component Units have two major items that qualify for reporting in this category: (i) the unamortized balance of losses on bond refunding and (ii) the accumulated decrease in the fair value of hedging derivatives, both reported in the government-wide Statement of Net Position. A loss on a bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt. Further information about the balances of unamortized deferred refunding losses reclassified out of debt into deferred outflow of resources as a result of the adoption of GASB Statement No. 65, can be found in note 12. With respect to hedging derivatives, the accumulated losses on their fair values are also deferred and amortized as the underlying hedged instrument (in this case, debt) is being repaid or refunded and/or as the hedging derivative is terminated. Further information on the derivative instruments of the Primary Government can be found in note 20. There were no deferred outflows of resources at the governmental funds level.

In addition to liabilities, the Statement of Net Position and the governmental funds' balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position and resources that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Primary Government has only one type of item arising under the modified accrual basis of accounting that qualify for reporting in this category, and that is *unavailable revenue*. Deferred inflows of resources at the governmental fund level arise when potential revenue does not meet the "available" criteria for revenue recognition in the current period under the modified accrual basis of accounting. In subsequent periods, when the applicable resources become available, the deferred inflow of resources is removed from the balance sheet, and the revenue is recognized. The Primary Government and the Component Units also have one item that qualifies for reporting in this category in the government wide Statement of Net Position and that one is the unamortized balance of gains on bond refunding. A gain on a bond refunding results when the carrying value of refunded debt is greater than its reacquisition price. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt. Further information about the balances of unamortized deferred refunding gains reclassified out of debt into deferred inflow of resources as a result of the adoption of GASB Statement No. 65 can be found in note 12. The Component Units also have one additional item that qualify for reporting in this category in the government wide Statement of Net Position, which is the unamortized balances of the upfront amounts received and related adjustments pertaining to the Service Concession Arrangements of PRPA and PRHTA, further described in note 16.

(q) *Long-Term Debt*

The liabilities reported in the government wide financial statements include Commonwealth's general obligation bonds and long-term notes, liabilities under guaranteed obligations, obligations under lease/purchase agreements, obligations for voluntary termination benefits, and long-term liabilities including vacation, sick leave, long-term liabilities to other governmental entities, net pension obligation, legal claims, 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 and discounts 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, other than prepaid insurance, are reported as expenses. 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.

(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., hedge-able 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 hedge-able 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 hedge-able 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, 2014 amounted to approximately $2.4 billion. However, the statutory contributions made by the sponsors of the three defined benefit plans amounted to approximately $861.4 million. The excess of the annual required contribution over the statutorily required contributions of approximately $1.6 billion increased the net pension obligation at June 30, 2014 to approximately $14.6 billion. This amount is presented in the statement of net position of the Governmental Activities as of June 30, 2014, 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 Commonwealth accounts for OPEB under the provisions of the GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires a systematic, accrual–basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. Annual postemployment benefits cost should equal the annual required contribution to the plans, calculated in accordance with certain parameters. For more information, refer to note 18.

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, 2014 was $600 per retiree, except for those retirees of the ERS, which had their summer bonus eliminated and the Christmas bonus reduced from $600 per retiree to $200 per retiree pursuant Act No. 3 of April 4, 2013, which reformed the ERS. The total amount of Christmas and summer bonus paid during fiscal year 2014 was approximately $46.3 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. The total amount of postemployment healthcare benefits paid during fiscal year 2014 was approximately $15.4 million. These benefits are recorded as expenditures when paid in the General Fund.

(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, up to an annual maximum of 40 days. 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 an annual maximum of 30 annual days and an accumulated 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.

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 in the government-wide financial statements 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 unearned 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 2014 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 U.S. 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, 2013:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement established accounting and financial reporting standards that reclassified, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities, or vice versa. This Statement also provided other financial reporting guidance related to the impact of the financial statement elements of 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.

  At adoption, the impact of Statement No. 65 at the Commonwealth, was applicable to the following categories:

  Debt Issuance Costs— The Commonwealth eliminated its existing unamortized debt issuance costs, other than prepaid insurance, against its beginning net position. Refer to note 3 for details of such impact at both the Primary Government and the Discretely Presented Component Units.

Refunding of Bonds—The unamortized deferred loss and/or gain on refunding bonds are now required to be presented as a deferred outflow and/or inflow of resources. The Commonwealth reclassified the beginning unamortized balance of such deferred loss and/or gain on refunding bonds as a deferred outflow and/or inflows of resources, which had previously been reported as a deduction of debt. Refer to note 12 for details of such reclassifications restatements made to the applicable debt at both the Primary Government and Discretely Presented Component Units.

Unavailable Revenue— The Commonwealth reclassified in its governmental funds' balance sheet during fiscal year 2014, as deferred inflows of resources, those potential revenue items not meeting the "*available*" criteria for revenue recognition under the modified accrual basis of accounting, and which were previously classified as traditional liabilities (deferred or unearned revenues).

- GASB Statement No. 66, *Technical Corrections-2012*. The objective of this Statement was 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 amended 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 amended Statement No. 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 clarified how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and resulted 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 adoption of this Statement on the Commonwealth had no significant impact.

- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The defined benefit pension plans reported in the Pension Trust Funds have implemented this Statement for the fiscal year ending June 30, 2014. This Statement replaced 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. The major fundamental change, among others related to the application and determination of certain measurement assumptions in valuing pension plans, was switching from the then existing "funding-based" accounting model, where the Annual Required Contribution (ARC) was compared to the actual payments made and that difference determined the Net Pension Obligation; to an "accrual basis" model, where the Total Pension Obligation (Actuarially determined) is compared to the Net Plan Position (or assets) and the difference represents the Net Pension Liability. The effects of this Statement have been presented on the financial statements of the Pension Trust Funds and disclosed on note 17.

- GASB Statement No. 70, *Accounting and Financial Reporting for 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 are 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. Upon adoption of this Statement, the Commonwealth recognized against its beginning net position a liability on certain guaranteed obligation issued by PAA. Refer to note 3 and note 12 for details of such impact on the Commonwealth's Governmental Activities and to note 13.a. for additional disclosures required by this Statement to cover all the Commonwealth guaranteed debt, regardless of whether or not it is required to make payments to the guaranteed obligation holders.

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

- 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 note 1.cc, 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 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 note 1.cc.

- 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. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflow of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement should be applied simultaneously with the provisions of Statement No. 68.

- GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches; the market approach, the cost approach, or the income approach. This Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable for the assets or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumptions of the default rate among underlying mortgages of a mortgage-backed security. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015.

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The provisions of this Statement that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the provisions of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The provisions of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures.* The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

  - ✓ Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

  - ✓ OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

- ✓ OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. The provisions of this statement are effective for fiscal years beginning after June 15, 2016.

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a non-employer entity provides financial support for OPEB of employees of another entity. The provisions of this statement are effective for fiscal years beginning after June 15, 2017.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015.

- GASB Statement No. 77, *Tax Abatement Disclosures.* This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments.

The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements. For financial reporting purposes, a tax abatement is defined as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. A transaction's substance, not its form or title, is a key factor in determining whether the transaction meets the definition of a tax abatement for the purpose of this Statement. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015.

- GASB No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Plans.* This Statement addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement is not effective until fiscal year 2016.

- GASB No. 79, *Certain External Investment Pools and Pool Participants.* This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this

Statement during the reporting period, individually or in the aggregate, were significant. If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement is not effective until fiscal year 2016, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are not effective until fiscal year 2017.

Management is evaluating the impact that these Statement will have on the Commonwealth's basic financial statements

(2) Uncertainties, Liquidity Risk and Going Concern

The discussion in the following paragraphs regarding the liquidity risks, uncertainties and remediation plans of the Commonwealth and certain of its Component Units provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the Commonwealth and its Component Units' ability to continue as a going concern for 12 months beyond date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter. GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards,* establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements, and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation.

The Commonwealth and several of its Component Units face significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due, as further described in the basic financial statements. The risks and uncertainties facing the Commonwealth, together with other factors described in the basic financial statements, have led management to conclude that there is substantial doubt as to the ability of the Primary Government (including the Governmental Activities carried out by various Blended Component Units), and of various Discretely

Presented Component Units and Fiduciary Funds, to continue as a going concern in accordance with GASB Statement No. 56.

The Commonwealth currently faces a severe fiscal and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. The Commonwealth's largest revenue streams are especially vulnerable during times of major economic downturns and have been affected by these same factors. Further stressing the Commonwealth's liquidity are large health care, pension and debt service costs. As the Commonwealth's tax base has shrunk and its revenues been affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services. The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. More recently, the Commonwealth's continued economic recession, high level of debt and pension obligations, and structural budget deficits, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth has relied more heavily on short-term financings and interim loans from GDB, and other instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and GDB in particular, and increased near-term refinancing risk. These factors have also resulted in delays in the repayment by the Commonwealth and its instrumentalities of outstanding GDB lines of credit, which delays have limited GDB's ability to continue providing liquidity to the Commonwealth. These factors are reflected in the deterioration of the Commonwealth's credit ratings. Since June 30, 2014, the principal rating agencies have continued to lower their rating on the general obligation bonds of the Commonwealth, which had already been placed within non-investment grade ratings in February 2014. They also lowered their ratings on the bonds of the Puerto Rico Public Buildings Authority ("PBA") and the Puerto Rico Sales Tax Financing Corporation ("COFINA"), and on other bonds of various instrumentalities, including GDB, all of which were lowered multiple notches in the grading levels.

The causes of these challenges have been analyzed in a report on the Commonwealth's economic and financial stability and growth prospects prepared by former IMF economists and released on June 29, 2015 (subsequently updated as of July 13, 2015). This report, commonly referred to as the Krueger Report, is described below. At the time of the release of the Krueger Report, the Governor announced that the Commonwealth had no choice but to seek to restructure its debt with the goal of achieving a more sustainable debt service, and that if it was unable to do so the Commonwealth could default on its debt. In addition, the Governor created the Working Group for the Fiscal and Economic Recovery of Puerto Rico, which prepared a Fiscal and Economic Growth Plan (the "FEGP") that was released on September 9, 2015 and updated on January 18, 2016. The FEGP, among other things, projects significant financing gaps for the next ten fiscal years, identifies measures that could be implemented to reduce such gaps, and concludes that there is a need for a significant restructuring of the debt of the Commonwealth and various instrumentalities that have issued tax-supported debt. In making such projections, the FEGP adopted the Krueger Report's methodology (with certain modifications described therein), and do not directly correspond to the basis of reporting results in these basic financial statements. The details of the FEGP are further described below. The conclusions drawn by both the Krueger Report and the FEGP indicate significant risks for holders of bonds of the Commonwealth and its instrumentalities.

Following the release of the FEGP, the Commonwealth has proposed to seek a consensual restructuring of its outstanding debt and other tax-supported debt issued by certain instrumentalities. In January 2016, Commonwealth officials and advisors met with the advisors to the Commonwealth's creditors to present the Commonwealth's restructuring proposal, which was subsequently made public. The Krueger Report, the FEGP, and a summary of the Commonwealth's restructuring proposal are available in GDB's website at www.gdbpr.com.

There can be no assurance, however, that the Commonwealth will be able to successfully consummate its proposal or any other debt restructuring. If management is unable to complete such restructuring by the end of fiscal year 2016, or to otherwise obtain additional funding or other arrangements with its creditors, the Commonwealth's management expects that the Commonwealth and various instrumentalities will be unable to comply with their scheduled debt obligations.

Other Commonwealth instrumentalities that do not issue tax-supported debt and are thus not included in the FEGP and the proposed debt restructuring also face significant financial and fiscal challenges. As a result of the challenges faced by the Commonwealth, the Commonwealth announced that certain of its instrumentalities would be required to achieve self-sufficiency by reducing or eliminating their reliance on General Fund subsidies and emergency lines of credit from GDB. In order to achieve such self-sufficiency, such instrumentalities may need to seek a consensual restructuring of their debt or relief under existing or potential future laws regarding receivership, insolvency, reorganization, moratorium and/or similar laws affecting creditors' rights, to the extent available. One such law, Act No. 71-2014, known as the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act"), enacted by the Commonwealth to provide the aforementioned protection, was challenged by certain private investors in Federal court and was declared unconstitutional by the United States District Court for the District of Puerto Rico on February 6, 2015. The District Court's decision was upheld by the United States Court of Appeals for the First Circuit. The Commonwealth is seeking review of this decision by the U.S. Supreme Court, which granted the Commonwealth's petition for certiorari. The U.S. Supreme Court will hear oral arguments in March 2016. In addition, although the Commonwealth's instrumentalities are not currently eligible to seek relief under Chapter 9 of the United States Bankruptcy Code, there are ongoing initiatives in Congress to make Chapter 9 applicable to Puerto Rico's municipalities (including its instrumentalities). Consistent with the need to achieve self-sufficiency, the Puerto Rico Electric Power Authority ("PREPA"), a major component unit of the Commonwealth, has reached a preliminary agreement with holders of a significant portion of its debt to restructure the terms of such obligations. Such agreement, however, is subject to substantial political, legal and implementation risk, and PREPA may still need relief under existing or potential future laws regarding receivership, insolvency, reorganization, moratorium and/or similar laws affecting creditors' rights.

The Commonwealth expects that its ability to finance future budget deficits will be severely limited even if it achieves a comprehensive debt restructuring, and, therefore, that it will be required to, among other measures, reduce the amount of resources that fund important governmental programs and services in order to balance its budget. There is no assurance, however, 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 a long-term basis. Moreover, the measures to achieve budgetary balance through austerity may adversely affect the performance of the Commonwealth's economy which, in turn, may adversely affect governmental revenues. While the FEGP and the proposed comprehensive debt restructuring seeks to address these recurring budgetary imbalances and to make debt service payments sustainable, it is at present uncertain that such a restructuring will be consummated or that it will achieve the goals of recurring budgetary balance and debt sustainability.

Activities, Funds and Component Units with Deficit

The following activities, funds, and blended and Discretely Presented Component Units reflect deficit fund balance/net position as of June 30, 2014 (expressed in thousands):

		Deficit balance
Primary Government:		
Governmental activities	$	50,071,686
General Fund		2,088,098
Lotteries		43,448
PRMeSA		302,326
Component Units:		
PREPA		1,267,005
PRHIA		229,795
AEDA		84,179
CCCPRC		39,815
PRMBA		64,498
PRTC		16,863
PRMIMTA		30,397
MAC		4,806
PPPA		3,770
ETEC		2,501
LRA		240

The Krueger Report

On February 5, 2015, former economists who have previously occupied senior executive positions at the International Monetary Fund ("IMF") (the "Former IMF economists"), were engaged at GDB's request by its counsel, to analyze the Commonwealth's economic and financial stability and growth prospects. The Former IMF economist delivered their report (the "Krueger Report") on June 28, 2015. The Krueger Report was subsequently updated as of July 13, 2015 and was accompanied by a note indicating that such update did not include final fiscal numbers for fiscal year 2015, which could materially change the estimated financing gaps mentioned in the report.

The Krueger Report was divided into two sections: (i) an assessment of the probable future performance of the Commonwealth's economy and public finances based on current policies, past experience and market conditions, and the risks inherent in the Commonwealth's outlook based on current conditions, and (ii) options to strengthen the Commonwealth's outlook with a particular emphasis on policies to improve economic growth and reduce debt-servicing difficulties. The analysis included a public sector debt sustainability analysis similar to those typically performed by the IMF. Based on historical and projected fiscal and financial information provided by the Commonwealth, the analysis prepared by the Former IMF economists looked at a broader concept of the central government and its fiscal balance rather than just the General Fund, in line with IMF practices. The analysis examined the extent of the potential fiscal financing gaps (i.e., the extent to which total projected expenditures exceed total projected revenues) over the next five years based on current government policies, as well as taking into account potential contingencies, such as the loss of certain federal funds, and the implementation of additional revenue and expenditure reform measures. The Krueger Report states that Puerto Rico faces an acute crisis in the face of faltering economic activity, fiscal solvency and debt sustainability, and institutional credibility. Some of the report's principal conclusions are as follows:

- The economic problems of Puerto Rico are structural, not cyclical, and are not going away without structural reforms. The report reviews the various shocks to Puerto Rico's economy in the last decade (including the decline in manufacturing activity and the housing market, the banking crisis and the 2007-2009 U.S. economic recession), and concludes that, even more significantly than those factors, other forces on the supply side have affected economic growth. These supply-side forces include low labor participation (40% versus 63% in the United States) and high labor costs, outmigration and population loss (according to the Puerto Rico Planning Board, population may continue to fall through 2020), high energy costs, high transportation costs and barriers to competition and business activity. The report states that the economy is in a cycle where unsustainable public finances are feeding into uncertainty and low growth, which in turn is raising the fiscal deficit and the debt ratio. The Former IMF economists' believe that the economy will continue to contract at a rate of at least 1% per annum, likely more in fiscal year 2015.

- Fiscal deficits are much larger than assumed and are set to deteriorate. The report points to a number of factors that contribute to the persistent deficits: overly optimistic revenue projections and budget formulation; lack of expenditure control and buildup of payables; negotiated discounts on anticipated tax obligations; extensive tax expenditures in the form of credits and exemptions; and lack of timely and reliable monitoring of fiscal trends. The report concludes that the standard measure of the fiscal balance in Puerto Rico, using the General Fund accounts, greatly understates the true deficit and the challenge ahead. The report discusses the conceptual problems with viewing the deficit from the standpoint of the General Fund accounts in isolation, including that the General Fund (i) being on a cash basis, does not reflect previously incurred expenses until the fiscal year in which they are recorded for payment, (ii) excludes numerous agencies and public corporations that operate like arms of the government and also run deficits, and (iii) excludes capital expenditures. As a result, the report states that an analysis of fiscal and debt sustainability cannot be conducted on the basis of the General Fund measure alone.

Using standard IMF metrics to view the deficit from a broader standpoint than the General Fund, the Krueger Report indicates that the overall deficit is larger than recognized. The Former IMF economists construct a measure of the overall deficit that incorporates cash and non-cash spending and uses a wider definition of the central government that includes, for example, governmental units receiving formula-based budgetary transfers. Under this methodology, the report identifies a deficit of approximately $2.0 billion for fiscal year 2015 that has been funded through a decline in cash balances and a further buildup of payables at the central government and at various others entities that receive funding from the General Fund. A similar narrative of large deficits is seen at the three largest public enterprises (PREPA, PRASA and PRHTA) and the principal retirement systems. These deficits have worsened the prospect for debt sustainability.

The report concludes that the actions taken by the Commonwealth to date to address the fiscal deficits are insufficient, and, thus, the fiscal deficits too are not going away and have to be closed through wide-ranging policy action.

- The central government deficits (as measured in the Krueger Report) over the coming years imply an unsustainable trajectory of large financing gaps. The report constructs a projection model using the above-described metrics and certain assumptions, including negative 1% real growth (the report states that this assumption is probably too optimistic in light of the looming crisis) and 2% inflation. The projection assumes the following: (i) budgetary support for the ERS starting in fiscal year 2017, for the JRS starting in fiscal year 2019 and for TRS starting in fiscal year 2020; (ii) principal payments of debt; (iii) the gradual pay down of arrears to suppliers and taxpayers ($450 million per year); and (iv) additional downside risks from a potential loss of federal funding for the Affordable Care Act and from a decline in Act No 154 of 2010 excise tax receipts (due to modified source income accounting rules for firms operating in multiple tax jurisdictions). Based on current policies, the model reflects overall deficits of between $3 billion and $5 billion per year over the next five years, and continuing to grow thereafter. After factoring the additional downside risks described in clause (iv) above, the report identifies that annual deficits could range from $3.7 billion in fiscal year 2016 to $8.2 billion in fiscal year 2025.

- Puerto Rico's public debt cannot be made sustainable without growth, nor can growth occur in the face of structural obstacles and doubts about debt sustainability. To restore growth and confidence, Puerto Rico needs to implement ambitious measures as an integrated package in three principal areas: (1) structural reforms directed at restoring competitiveness, (2) fiscal reform and restructuring of public debt, and (3) institutional credibility.

First, with respect to structural reforms, the Krueger Report discusses needed supply-side measures, some of which can be implemented by the Commonwealth by amending local laws (such as labor laws that result in a disincentive for employment) but others that would require federal legislative action. The impact on growth of supply-side reforms, however, takes time. Implementing structural reforms alone would leave large fiscal deficits.

Second, with respect to fiscal adjustment and public debt, the Krueger Report states that fiscal reforms should focus more on broadening the tax base than on raising tax rates, and on targeted expenditure reductions. The report concludes that there is scope to increase savings to over $2 billion per year by fiscal year 2020 and $2.5 billion per year by fiscal year 2025, although total expenditures would still rise in dollar terms and relative to GNP as it is assumed that the government makes up for any cash shortfalls of the retirement systems. The report states that, while a reduction of fiscal imbalances should improve long-term economic prospects, the adjustment should be designed to be as growth oriented as possible. Too much fiscal tightening could depress demand and would do nothing to address the supply-side problems at the root of the Commonwealth's growth problems. The report also states that there is scope to raise receipts around $3 billion annually by fiscal year 2020 and $4 billion annually by fiscal year 2025. The report acknowledges that their quantitative estimates are subject to great uncertainty and do not reflect the full menu of policy options.

The Krueger Report concludes that, even after factoring in a substantial fiscal effort, a large residual financing gap persists into the next decade, implying a need for debt relief. Based on the assumptions used in the projection model and incorporating the effects of proposed fiscal reforms, the residual financing gap disappears by fiscal year 2025, but to close the gap in prior years significant debt service relief is required. To close the financing gap, the government would need to seek relief from a significant but progressively declining proportion of principal and interest falling due during fiscal years 2016-2024. The report acknowledges that any debt restructuring would be challenging as there is no precedent of this scale and scope, but concludes that, from an economic perspective, the fact remains that the central government faces large financing gaps even with substantial adjustment efforts (as there are limits to how much expenditures can be cut or taxes raised). The report notes: "difficult or not, the projections are clear that the issue can no longer be avoided."

Finally, with respect to institutional credibility, the Krueger Report states that the legacy of budgetary laxity, non-transparency and unreliable and dated statistics must be overcome for the reform program to work and command credibility. The recommendations in this area include, among others, legislative approval of a long-term fiscal plan, rules to limit changes to the plan, the establishment of an independent fiscal oversight board to advice on the budget and control its implementation, and the strengthening of statistics on the wider economy.

The Krueger Report acknowledges that the recommendations contained therein consist of a daunting agenda from a political, legal and organizational standpoint, but the Former IMF economists believe that addressing these issues is urgent and that delays can intensify the crisis.

The projections included in the Krueger Report include estimates and assumptions about economic growth and other variables that are inherently subject to significant political, economic and other uncertainties. Actual results may vary materially from such estimates and projections.

Current and Potential Events of Nonpayment

The Commonwealth and certain of its Component Units have failed or are expected to fail to make scheduled debt service payments on certain of its outstanding debt obligations:

Public Finance Corporation ("PFC") Bonds

PFC, a blended component unit of GDB, has issued bonds that are denominated as "Commonwealth Appropriation Bonds," since these bonds are limited obligations of PFC payable solely from the proceeds of payments of principal of and interest on certain promissory notes (the "Notes") issued to PFC by the Commonwealth and certain of its Component Units (the "Authorized Debtors"). Pursuant to certain legislation (the "Appropriation Acts"), the Notes are, in turn, payable solely from annual budgetary appropriations of the Legislature of Puerto Rico.

The Appropriation Acts require the Office of Management and Budget ("OMB") to include the amounts required to pay debt service on the Notes in the proposed annual budget of the Commonwealth that is submitted by the Governor to the Legislative Assembly. However, the Legislative Assembly is not legally required to appropriate funds for such payments. The non-appropriation of funds for payments on the Notes would result (and has resulted in fiscal year 2016) in a lack of proceeds available under the Notes to pay the principal and interest due on the PFC Bonds. In the event of a non-appropriation of funds and the resulting lack of payment of the PFC Bonds, bondholders have no recourse to other assets of the Authorized Debtors or of PFC, nor do they have recourse against the Legislature of Puerto Rico, the Commonwealth or other governmental entities of the Commonwealth. There is a risk, however that PFC bondholders could nonetheless elect to file suit against PFC and/or the Commonwealth as a result of the non-appropriation of funds and/or the non-payment of the PFC Bonds.

As previously discussed, due to the non-appropriation of funds for the payment of the Notes in the annual budget for fiscal year 2016, the payments on the Notes, and the corresponding payments on the PFC Bonds, that have come due and payable since August 1, 2015 have not been made. As of February 1, 2016, PFC had missed payments of debt service on its bonds in the aggregate amount of approximately $86.5 million. The non-appropriation of the necessary funds to make the payments on PFC Bonds reflects the reality of the Commonwealth's current liquidity situation and fiscal challenges, in combination with the balance of the Commonwealth's obligations to its creditors and the equally important obligations to the residents of Puerto Rico to ensure the provision of essential services. As of the date hereof, the Commonwealth is unaware of any litigation having been commenced by holders of the PFC Bonds or the PFC Bonds trustee under the governing agreements and/or the Notes in connection with the missed payments on the PFC Bonds. The other Authorized Debtors, in addition to the Commonwealth, consist of the following Component Units:

- Puerto Rico Maritime and Shipping Authority (a Blended Component Unit) (PRMSA)
- Puerto Rico Aqueduct and Sewer Authority (PRASA)
- Solid Waste Authority (SWA)
- Land Authority of Puerto Rico (LAPR)
- Puerto Rico Tourism Company (PRTC)
- Puerto Rico Infrastructure Financing Authority (PRIFA) (a Blended Component Unit)

- Puerto Rico Housing Finance Authority (a blended component unit of GDB)

GDB's Lines of Credit

The Commonwealth's General Fund budget for fiscal year 2014 included approximately $291.3 million of appropriations to GDB, including approximately $270 million of appropriations to repay principal and interest on public sector loans from GDB whose repayment source according to the loan agreements was either from future issuances of Commonwealth general obligation bonds or COFINA bonds or legislative appropriations. These appropriations were based on payment schedules proposed by GDB, which are mostly based on a period of amortization that ranges from 25 to 40 years each, at contractual interest rates. During fiscal year 2014, Executive Order No. 2014-029 was signed by the Governor, which modified the budgetary appropriation originally approved by the Legislative Assembly of the Commonwealth and thus modified the principal and/or interest payments actually received by GDB. The amount of the appropriation was reduced from approximately $291.3 million to $30.1 million. This reduction was compensated with the funds obtained from the $3.5 billion General Obligation Bonds issuance of March 2014.

For fiscal year 2015, the Commonwealth and GDB renegotiated the terms of such loans and the Commonwealth appropriated and paid the renegotiated debt service on the public sector loan portfolio of GDB. The appropriation for the payment of debts of the Commonwealth and its instrumentalities with GDB in fiscal year 2016 was reduced from approximately $261.6 million, the amount included in the budget submitted by OMB to the Legislative Assembly, to approximately $17.5 million. The debt service of such loan portfolio for subsequent fiscal years depends on future appropriations by the Legislative Assembly and the availability of funds to meet such appropriations. These factors have adversely impacted GDB's financial performance and financial position, including its cash flows, its exposures to credit risk and liquidity risk, its capacity to timely service its outstanding debt, and its ability to provide liquidity to the Commonwealth.

As a result of the uncertainty regarding budgetary appropriations and availability of Commonwealth funds to repay loans to GDB, the following Component Units may not be able to cover the debt service of their loans from GDB, therefore casting substantial doubt as to their ability to continue as a going concern:

- Puerto Rico Health Insurance Administration (PRHIA)
- Puerto Rico Convention Center District Authority (PRCCDA)
- University of Puerto Rico (UPR)
- Solid Waste Authority (SWA)
- Agricultural Enterprises Development Administration (AEDA)
- Company for the Integral Development of the "Peninsula de Cantera" (CIDPC)
- University of Puerto Rico Comprehensive Cancer Center (UPRCCC)
- National Parks Company of Puerto Rico (NPCPR)
- Institute of Puerto Rican Culture (IPRC)
- Ports of Americas Authority (PAA)

Retention by the Commonwealth of Tax Revenues Assigned to Certain Public Corporations

On December 1, 2015, the Governor signed Executive Order No. OE-2015-46 (the "Executive Order No. 46"), which orders the Secretary of Treasury to retain certain revenues in light of recently revised revenue estimates and the Commonwealth's deteriorating liquidity situation. Pursuant to Executive Order No. 46, certain available resources of the Commonwealth assigned to PRHTA, PRIFA, CCDA and PRMBA to pay debt service on their obligations were, and continue to be, retained by the Commonwealth and redirected to pay the Commonwealth's general obligation debt (commonly referred to as the "clawback"), pursuant to Article VI, Section 8 of the Constitution of the Commonwealth and the statutory provisions pursuant to which such revenues were assigned to the applicable public corporations. As a result of the clawback of revenues mentioned above, PRIFA and PRMBA were not able to meet their debt service obligations due on January 1, 2016 in full and PRHTA and CCDA did so using moneys previously held by the bond indenture trustees in reserves or other accounts.

On January 4, 2016, the Commonwealth made the approximately $330 million payment of general obligation debt due on that date. The Commonwealth used approximately $164 million of revenues retained from PRIFA, PRHTA, PRCCDA and the PRMBA pursuant to Executive Order No. 46 to make this payment.

The following table illustrates the revenues that were retained by the Commonwealth pursuant to Executive Order No. 46 as of December 31, 2015 and used to make the required payment on its general obligation bonds on January 4, 2016:

Entity	Amount
PRIFA	$ 113,000
PRHTA	47,600
PRCCDA	3,000
PRMBA	300
Total	$ 163,900

The Commonwealth expects that the principal and interest payment on Commonwealth general obligations bonds due July 1, 2016 (approximately $800 million) will be partially covered from revenues retained by the Commonwealth pursuant to Executive Order No. 46. Even with the additional resources provided by the implementation of the clawback, the Commonwealth currently expects that it will not have sufficient resources to meet the entire debt service obligation on the Commonwealth's general obligations bonds due on July 1, 2016.

As discussed below, the following entities could be unable to meet their upcoming debt service obligations as a result on the Commonwealth's exercise of the clawback.

- ***PRIFA - Special Tax Revenue Bonds***

PRIFA, a blended component unit of the Commonwealth, previously issued four series of its special tax revenue bonds (the "Special Tax Revenue Bonds") pursuant to the PRIFA's Trust Agreement, dated as of October 1, 1998, as amended (the "PRIFA Trust Agreement"), between PRIFA and U.S. Bank Trust National Association, as successor trustee (the "PRIFA Trustee"). The proceeds of certain federal excise taxes (the "Rum Tax Revenues") remitted to the Department of the Treasury are deposited into a special fund on behalf of PRIFA pursuant to Article 25 of Act 44 of the Legislature of Puerto Rico, approved June 21, 1988, as amended. The Rum Tax Revenues are available resources of the Commonwealth under the Puerto Rico Constitution.

Pursuant to Executive Order 46, the Secretary of the Treasury withheld $113 million of the Rum Tax Revenues on December 1, 2015. No additional revenues will be retained for the remaining period of the fiscal year, since the maximum total allocated per year is capped to $113 million for debt service payment and $4 million for PRIFA's operational expenses. As a result of the exercise of the clawback, PRIFA did not transfer sufficient funds to the PRIFA Trustee to make the $35.9 million interest payment in full in respect of the January 1, 2016 payment date for its outstanding Special Tax Revenue Bonds (the "PRIFA Bonds"), issued pursuant to the PRIFA Trust Agreement. The PRIFA Trustee applied funds already on deposit in the Bond Service Account (as defined in the Trust Agreement) pro rata to the January 1, 2016 interest payment on the PRIFA Bonds.

Certain PRIFA Bonds are insured by Ambac Assurance Corporation ("Ambac") and Financial Guaranty Insurance Company ("FGIC"). The PRIFA Trustee received funds from Ambac (approximately $10.6 million) for the payment of debt service on the Ambac insured bonds in respect of the January 1, 2016 payment date. The PRIFA Trustee used the funds from Ambac and the pro rata amount on hand in the Bond Service Account to make the full January 1, 2016 debt service payment on the PRIFA bonds insured by Ambac. Based on information provided by the PRIFA Trustee as of January 8, 2016, FGIC has not transferred sufficient funds to the Trustee to make the interest payment in full on the FGIC insured bonds. The Trustee has notified FGIC that there is a $6.4 million deficiency for the interest payment on the FGIC insured bonds (slightly less than the total interest amount due). The Trustee had residual amounts on hand which it has allocated pro rata and paid across the FGIC Insured Bonds on January 4, 2016.

- **PRHTA - Tax Revenue Bonds**

PRHTA previously issued senior and subordinated bonds (the "1998 Resolution Bonds") pursuant to its Resolution No. 98-06, adopted by PRHTA on February 26, 1998, as amended (the "1998 Resolution"), and bonds (the "1968 Resolution Bonds," and together with the 1998 Resolution Bond, the "PRHTA Bonds") pursuant to its Resolution No. 68-18, adopted by PRHTA on June 13, 1968, as amended (the "1968 Resolution," and together with the 1998 Resolution, the "PRHTA Resolutions"). The proceeds of the gasoline tax, the gas oil and diesel oil tax and the petroleum products tax, license fees and the cigarette tax allocated to PRHTA (collectively, the "PRHTA Tax Revenues"), are available resources of the Commonwealth under the Puerto Rico Constitution.

Accordingly, as authorized by Executive Order No. 46, the Secretary of the Treasury has begun to withhold the PRHTA Tax Revenues pursuant to Article VI, section 8 of the Puerto Rico Constitution. As of December 31, 2015, the Commonwealth had withheld approximately $47.6 million (November and December collections) of these revenues. As a result, the PRHTA Tax Revenues were not available to pay principal and interest on the 1998 Resolutions Bonds or interest on the 1968 Resolution Bonds due on January 1, 2016. Debt service on the 1998 Resolution Bonds and the 1968 Resolution Bonds due on January 1, 2016 was paid in full from funds on deposit in the senior reserve account and the subordinate reserve account established under the 1998 Resolution and under the 1968 Resolution.

- **PRCCDA - Tax Revenue Bonds**

PRCCDA previously issued its Hotel Occupancy Tax Revenue Bonds, Series A (the "Hotel Occupancy Bonds") pursuant to the Trust Agreement, between PRCDDA and the Bank of New York Mellon, as trustee, dated as of March 24, 2006 (the "PRCDDA Trust Agreement"). The proceeds from the hotel occupancy tax (collectively, the "Room Tax Revenues") collected by the Puerto Rico Tourism Company pursuant to Article 24 of Act 272 of the Legislature of Puerto Rico, approved September 9, 2003, as amended, are available resources of the Commonwealth under the Puerto Rico Constitution.

Accordingly, as authorized by Executive Order 46, the Secretary of the Treasury has begun to withhold the Room Tax Revenues pursuant to Article VI, section 8 of the Puerto Rico Constitution. As a result, the Room Tax Revenues were not available to pay interest on the Hotel Occupancy Bonds due on January 1, 2016. The PRCCDA paid such interest due on January 1, 2016 under the PRCCDA Trust Agreement from funds on deposit in the Debt Service Reserve Fund established under the PRCCDA Trust Agreement.

As of December 31, 2015, the Commonwealth withheld $3 million of these revenues. The Commonwealth expects to withhold approximately $12 million in additional Room Tax Revenues in the second semester of fiscal year 2015-16. These amounts will not be available to pay principal of or interest on the Hotel Occupancy Bonds due on July 1, 2016.

Risks and Uncertainties – Primary Government

The Commonwealth's Governmental Activities show a net deficit of approximately $50.06 billion, mostly attributed to the outstanding bonds and notes within the Commonwealth's Governmental Activities amounting to approximately $40.5 billion and net pension obligations amounting to approximately $14.6 billion, which are recognized in the statement of net position. The net deficit is attributable to the accumulated effect of over a decade of operating expenses exceeding program and general revenues, the funding the Retirement System's cash flow deficiencies, and a decrease in estimated revenues, among other factors. On the other hand, the Discretely Presented Component Units report a net position of approximately $7.8 billion. This contrast between the Governmental Activities' and Component Units' net position evidences the operational structure of the Commonwealth where the Primary Government issues debt and transfers a portion of the proceeds thereof to its Component Units (not presented in these basic financial statements) to finance their capital projects and other operational needs. The Commonwealth regularly included in its appropriations budget the necessary funds to cover the annual debt service requirements of the aforementioned debt, including outstanding bonds of PFC, a blended component unit of GDB. However, as discussed above, these appropriations were not included in the Commonwealth's budget for fiscal year 2016 and it is uncertain whether the Commonwealth will be able to appropriate sufficient funds to cover the debt service requirements of its Component Units in the future.

Governmental Activities include COFINA's net position deficit of approximately $5.5 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.

Governmental Activities also include PBA's net deficit of $280.5 million. PBA's net deficit decreased by approximately $181 million during the year ended June 30, 2014 and PBA had a working capital deficiency of approximately $89 million. Ninety-five percent of PBA's revenues are derived from rents paid by governmental agencies, which are included in the General Fund budget. These General Fund rent allocations amounted to approximately $364 million, $354 million, $207 million and $214 million for fiscal years 2015, 2014, 2013 and 2012, respectively. If the Commonwealth's financial situation precludes it from fully complying with its rent obligations to PBA, PBA may be unable to meet its financial and contractual obligations, which include approximately $4.2 billion in bonds guaranteed by the Commonwealth. The bonds are secured by a pledge of the rentals of governmental facilities financed or refinanced by such bonds and leased by PBA to departments, agencies and instrumentalities of the Commonwealth. The full faith and credit of the Commonwealth is pledged for the payment of such rentals and the payment of principal and interest on the bonds is further secured by the guaranty of the Commonwealth. The Commonwealth pledges to draw from any funds available in the Department of Treasury such sums as may be necessary to cover any deficiency in the amount required for the payment of principal and interest on the bonds, in the aggregate principal amount not exceeding $4,721 million.

The net deficit of the Commonwealth's Governmental Activities as of June 30, 2014 also include PRMSA's deficit of approximately $118 million and SCPT's deficit of approximately $278 million, mostly caused by PFC Notes owed by PRMSA of approximately $132 million and a line of credit owed by SCPT to GDB of approximately $346 million. As further discussed below, the PFC bonds and the underlying notes are payable solely from legislative appropriations. SCPT's line of credit with GDB is also payable solely from legislative appropriations. Such appropriations were not included in the Commonwealth's budget for fiscal year 2016 and, thus, the scheduled debt service payments have not been made.

The financial condition of PRMeSA, a Business-Type Activity of the Commonwealth, has been weakened by high operating costs and recurring operating losses, which have affected its ability to pay suppliers, governmental agencies and other creditors on a regular basis. PRMeSA's net deficit as of June 30, 2014 amounted to $302.3 million. PRMeSA's net deficit increased by approximately $33 million during the year ended June 30, 2014 and had a working capital deficiency of $84.8 million as of June 30, 2014. The only borrowing facility of PRMeSA is a note payable to GDB which amounted to approximately $278.3 million as of June 30, 2014.

The Lotteries Fund accounts for the assets and operations of the two lottery systems, the Traditional Lottery System and the Additional Lottery System (Lotto), which are administered by the Commonwealth. As of June 30, 2014, the Lotteries Fund had a net deficit of $43.4 million, all corresponding to the Lotto. The

Lotteries Fund's net deficit decreased by approximately $3.3 million during the year ended June 30, 2014. The income before payments (transfers) to the Commonwealth for the Traditional Lottery and for the Lotto amounted to $69.8 million and $136.2 million, respectively, for the year ended June 30, 2014. The reason for the deficit in the Lotto is because it carries the non-current obligation of prizes payable in annuities, which exceeds its total assets; however, its working capital position is positive and it maintains sufficient liquidity to meet prize payments as they become due. Also, the operations of the two systems result in income that is available for distribution to the Commonwealth's General Fund, as required by law.

The majority of the Commonwealth's General Fund revenues are 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 intra-year cash flow imbalance is typically done with tax and revenue anticipation notes (TRANS) that are payable later in the fiscal year in which they are issued. Although the Commonwealth was able issue TRANS during fiscal year 2015, it has been unable to obtain TRANs financing for fiscal year 2016 from commercial banks or capital market sources, and has relied on financing from other governmental entities. It is uncertain whether private financial institutions will participate in the Commonwealth's tax and revenue anticipation note program in the future.

The Commonwealth expects that its capacity to incur additional general obligation debt will be further constrained as a result of the downgrade of its obligations to non-investment grade and the limits imposed by the Constitution of Puerto Rico on the issuance of general obligation debt (note 12(b)), creating another source of financial difficulty. The Constitution of the Commonwealth provides that the Commonwealth may not issue general obligation debt if the principal and interest on all such debt payable in any fiscal year, together with any amount paid by the Commonwealth in the prior fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual internal revenues of the Commonwealth in the two preceding fiscal years. Based on the Commonwealth's current debt service requirements for these obligations and its average revenues for fiscal years 2014 and 2015, this percentage is currently 14.502%. Therefore, the Commonwealth expects that its capacity to incur additional general obligation debt will be significantly limited for the next several years as a result of this Constitutional limit, among other factors. Although the Commonwealth could seek to pledge its full faith and credit for the repayment of debts issued by its instrumentalities or to issue debt for which the full faith, credit and taxing power of the Commonwealth is not pledged, it is uncertain whether there will be sufficient demand for such debt.

GDB, in its role as fiscal agent to the Commonwealth and its instrumentalities, has hired Conway Mackenzie, Inc. ("CM"), a U.S.-based consulting firm, to perform a liquidity analysis of the Commonwealth, assist with the implementation of measures to improve cash management and forecasting procedures, and provide assistance to the Puerto Rico Treasury Department (the "Treasury Department") in the development of short and medium-term cash flow projections. CM has also performed a limited review of certain other Commonwealth funds and Component Units, and this limited review has now been expanded to include a more detailed review of such funds and units. As part of the engagement, CM has provided liquidity projections of the Commonwealth's TSA, in which the Treasury Department deposits and disburses amounts related to all funds managed by Treasury, including, among others, receipts from taxes and charges for services, collections made on behalf of certain Component Units, receipts of reimbursements of expenditures covered by Federal funds, and net receipts from new debt issuances and pension contributions and disbursements of pensions benefits for the three principal retirement systems. It is important to note that CM's analysis was limited to funds available to the Treasury Department in its TSA at GDB and did not factor other potential sources of liquidity available to the Commonwealth, such as cash in the Commonwealth's depositary accounts other than the TSA (including accounts holding funds for capital projects of the Commonwealth), agency deposits at third party financial institutions and cash and other liquid assets held by GDB. CM's work product is ongoing and subject to review by GDB and the Treasury Department and is expected to change due to, among other things, such review, potential legislative and administrative initiatives and actual results for fiscal year 2016. An executive summary of the aforementioned liquidity analysis includes the following results:

- The Commonwealth has been operating with limited liquidity. Liquidity has been managed by extraordinary measures such as tax amnesty programs to increase revenue, intergovernmental loans, and deferred payments to vendors, taxpayers, and government agencies.
- Despite these actions, the Commonwealth ended fiscal year 2015 with a bank balance of approximately \$13.8 million in the TSA, and a book cash overdraft of \$428.8 million.
- The projected cash balance is negative throughout most of fiscal year 2016, prior to liquidity enhancement measures, due to the timing of revenue collections. The Commonwealth has implemented certain measures and budgetary reserves to improve liquidity throughout the year.
- After certain risk adjustments are taken into consideration, CM estimates that cash is projected to be negative in the month of June 2016. Although the Commonwealth will likely manage this liquidity constraint, the projected cash deficit starting in June 2016 will be more challenging to overcome.
- Key CM assumptions in this report include: (1) paying debt obligations approved within the fiscal year 2016 Budget as they become due, (2) payment of vendor obligations on a similar run-rate as fiscal year 2015 (i.e., not further stretching payables) and (3) making payments to the GDB based on negotiated debt schedules with OMB, so as not to jeopardize GDB's liquidity position. CM has also identified potential risk in revenue that will affect cash flow primarily during May 2016 and June 2016.
- Traditional measures that have been utilized by the Commonwealth to delay the payment of obligations are not sustainable over the long-term. The deferrals, if significant enough, may unfavorably affect the economy. Structural changes, longer-term cash management, and financing measures are needed as part of a long-term plan, potentially including changes to revenue, expenditures, debt obligations, and other liabilities of the Commonwealth.

More specifically, for fiscal year 2016 CM's baseline projections, made in August 2015, reflected a bank cash deficit in the TSA, before any risk adjustments and implementation of any additional cash management, revenue or expense initiative, of \$263.9 million in August 2015 and a peak bank cash deficit of \$795.5 million in December 2015. Given the timing of tax collections and other inflows to the TSA, CM projected a gradual improvement through the end of fiscal year 2016 to reach a bank cash surplus of \$50.7 million in June 30, 2016. However, risk adjusted projections identified additional liquidity risks of \$562.3 million for fiscal year 2016 due to revenue shortfall risk, expenditures risks and cash disbursements related to deferred fiscal year 2015 appropriations. As a result, the adjusted TSA cash flow projection reflected a bank cash deficit of approximately $29.8 million in November 2015 and a peak bank cash deficit of $511.6 million in June 2016.

In October 2015, the Treasury Department reduced its fiscal year 2016 General Fund revenue estimates to $9.446 billion, approximately $355 million lower than originally projected. The Treasury Department revised its fiscal year 2016 General Fund revenue estimates again in January 2016. As revised, total estimated revenues for fiscal year 2016 are $9.292 billion, which is approximately $508 million lower than originally projected. Due in part to such revenue shortfall, on January 18, 2016, the Commonwealth issued a revised adjusted TSA cash flow projection that reflected a bank cash deficit of approximately $923 million in June 2016

Another aspect of the Commonwealth's operations contributing to the aforementioned deficits and liquidity constraints relates to the Commonwealth's education costs, representing a very high percentage of its budgetary expenditures, and the Commonwealth's challenges in controlling such costs. The budget appropriation for the Commonwealth's Department of Education has historically represented a significant portion of the total General Fund budget. Therefore, the ability of the Commonwealth to control General Fund expenses depends on its ability to monitor and control the Department of Education's expenditures. However, the Commonwealth has historically had difficulties controlling such expenses. In addition, certain expenditures, such as those required to fund the Department of Education's special education program, can increase unexpectedly as a result of court orders issued in pending lawsuits by special education students.

In addition to the liquidity risks covered in the preceding paragraphs, the Commonwealth is also facing significant uncertainties. One of them involves the Commonwealth's dependence on federal grants, which potential reduction in the future may significantly affect the Commonwealth's ability to provide important services funded by these federal grants and may force the Commonwealth to allocate resources that would otherwise be used to pay debt service to the provision of such essential services. Each fiscal year, the Commonwealth receives a significant amount of grant funding from the U.S. government. A significant portion of these funds is utilized to cover operating costs of those Commonwealth's educational, social services and healthcare programs that are subsidized by the U.S. government. If the aggregate amount of federal grant funds transferred to the Commonwealth were to be reduced, the Commonwealth would have to make reductions to these federally-supported programs or fund these programs from the General Fund. Reductions in federal funding would also have an adverse impact on the Commonwealth's economy and on efforts to reduce its General Fund budget deficit. In addition, since the per capita income of the residents of Puerto Rico is substantially lower than those of the 50 states, a high percentage of the population of the Commonwealth benefits from these government programs. As a result, the impact on the Puerto Rico economy of any reduction in federal grant funds for such governmental programs would be greater than on the 50 states. Moreover, to the extent the Commonwealth is required to divert resources to continue providing essential services primarily funded through federal funds, the Commonwealth's ability to honor its other obligations as they come due may be further adversely affected. Another important factor is that certain federally funded programs are funded on a per capita basis and a reduction in the number of beneficiaries due to demographic trends or changes in program parameters could result in a lower amount of federal funds. For instance, the Department of Education has experienced a substantial reduction in student enrollment in recent years that is expected to continue for the foreseeable future. Such reduction has been and will continue to be accompanied by a corresponding reduction in federal funding for some educational grants. To the extent that the cost saving opportunities presented by the reduction in the number of students are not fully realized, the net budgetary effect on the Department of Education of the reduction in student enrollment could be negative.

The Commonwealth's dependence on a small number of corporate taxpayers to generate a significant amount of its tax revenues represents another source of significant uncertainty. The economic recession that has affected the Commonwealth since fiscal year 2007 and the income tax reduction program adopted in fiscal year 2011 have negatively affected Commonwealth income tax revenues. The special temporary excise tax imposed by Act No. 154-2010, as amended, has become one of the Commonwealth's principal sources of tax revenues. For fiscal years 2012, 2013 and 2014, the revenues produced by Act No. 154 represented approximately 21.6%, 19.7%, and 20.3%, respectively, of the Commonwealth's General Fund revenues. During fiscal year 2014, the special temporary excise tax was paid by 35 companies, eight of which accounted for approximately 85% of collections. To the extent that any of these taxpayers reduces its operations in Puerto Rico or moves its operations to a different jurisdiction, the Commonwealth's tax base would be reduced and its revenues would be adversely affected. Factors that can cause a reduction in the level of Act No. 154 revenues include a reduction in the level of local economic activity of the corporations that pay the Act No. 154 taxes, which might occur as a result of general economic conditions or factors affecting individual companies; any difficulties in the transition, after December 31, 2017, from the Act No. 154 temporary excise tax to the modified source of income rule under Act 154; and any action by the U.S. Treasury Department to reduce or eliminate the federal income tax credit available with respect to the Act No. 154 temporary excise tax. The excise tax of Act No. 154 is currently scheduled to expire on December 31, 2017 and to be replaced by the "modified source of income rule" provided under the same Act. However, it is unlikely that the level of tax collection under the "modified source of income rule" would be sufficient to replace the tax revenues currently received by the Commonwealth pursuant to the special temporary excise tax under Act No. 154. To the extent the Commonwealth is unable to extend the 4% excise tax beyond the year 2017 while maintaining its creditability for United States tax purposes, its revenues would be adversely affected.

The Commonwealth's frequent failures to meet its revenue projections have also been an area creating uncertainty in the Commonwealth's operations and difficulties in managing its cash flow needs. The Commonwealth's ability to implement measures to increase revenues depends on a number of factors, some of which are not wholly within its control, including its ability to project accurately its revenues in light of changing circumstances, and the performance of the Commonwealth's economy. The Treasury Department's projections for tax revenues involve many premises and assumptions, the effects of which are beyond its control, such as the impact of external factors and events on the economy that may, in turn, affect tax revenues. The projections also may require the forecasting of new revenue measures with no historical collections experience. In the past, the Commonwealth's projections of tax revenues have differed materially from what the Commonwealth has been able to achieve. As a result, there is no assurance that the Commonwealth will be able to achieve its tax revenue projections. As further discussed in note 22, the most recent revision, made during January 2016, of estimated revenues for fiscal year 2016 projected $9.297 billion in revenues, which is approximately $503 million lower than originally projected.

If the Commonwealth's financial condition does not improve, or it is not able to obtain financing in the very near term or address the aforementioned uncertainties, through a debt restructuring or other agreement with its creditors, the Commonwealth's management expects that the Commonwealth will not be able to honor all of its obligations as they come due while at the same time providing essential government services. The Commonwealth may therefore be forced to take emergency measures that may impact its obligations to bondholders and other creditors. GDB, as fiscal agent to the Commonwealth, together with its financial and legal advisors, has evaluated various such measures. In addition to Commonwealth 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, which have already been implemented, additional measures could include a moratorium on the payment of debt service of some or all of the debt obligations. Also, there are certain Commonwealth instrumentalities that offer basic and essential services to the population of Puerto Rico. To the extent that any of these instrumentalities is unable to continue to provide such essential services, the Commonwealth may be required to divert available Commonwealth resources to ensure that such services continue to be provided. Such action would further increase the Commonwealth's insufficiency of revenues to honor its obligations as they become due.

The Commonwealth's ability to reduce its General Fund deficit and to achieve a balanced budget in future fiscal years depends 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 (including those stemming from the newly enacted amendments to the Sales and Use Tax system further described in Note 22) 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

In response to the risks and uncertainties referred to above, Governor García Padilla issued an Executive Order to create the Puerto Rico Fiscal and Economic Recovery Working Group (the "Working Group"). The Working Group was created to consider the measures necessary, including the measures recommended in the Krueger Report, to address the economic and fiscal crisis of the Commonwealth. The Working Group was tasked with the responsibility for developing and recommending to the Governor of Puerto Rico the Puerto Rico Fiscal and Economic Growth Plan (the "FEGP"). The FEGP had to contain the plans and the administrative and legislative measures necessary to address the short, medium and long-term fiscal and economic challenges facing Puerto Rico, including measures to: (i) address the financing gaps and the debt load on the public sector, (ii) achieve the execution of its budgets, (iii) achieve greater transparency with respect to statistics and the government's financial information, and (iv) carry out the structural reforms necessary to promote the economic growth and competitiveness of the Commonwealth.

In preparing the FEGP, the Working Group was directed by the Governor to:

- Require that the budgets for each governmental entity be prepared with the goal of achieving balanced budgets;

- Require that each governmental entity annually reduce its budget deficit in a manner that by the end of the fiscal adjustment period the consolidated budget deficits of the Commonwealth have been completely eliminated, in accordance with the proposed Puerto Rico Fiscal and Economic Adjustment Plan;

- Ensure a material reduction in expenditures through the offering of efficient services by the Commonwealth and its instrumentalities;
- Identify such automatic budget stabilizers that ensure compliance with the proposed FEGP;
- Include specific proposals with the goal of improving and diversifying the Commonwealth's economy, reduce the cost of living and the cost of doing business, and achieve economic stability and development of the Commonwealth in the long term;
- Promote structural economic reforms designed to promote the economic development of the Commonwealth, which could include changes to labor and welfare laws;
- Require the adjustment of the aggregate debt load of the Commonwealth and its instrumentalities so that such debt can be repaid in sustainable terms;
- Ensure that pension obligations may be met in the long term;
- Require that financial controls and accounting systems be reformed to ensure compliance with the FEGP and the transparency of government data; and
- Ensure the long term financial stability of the Commonwealth, as evidenced by access to short and long term capital markets.

Fiscal and Economic Growth Plan

On September 9, 2015, the Working Group presented a draft of the FEGP to the Governor and it was made public on that same day. An update of the FEGP was published on January 18, 2016. The FEGP projects that, absent further corrective action, the Commonwealth's cumulative financing gap from fiscal year 2016 to 2025 will be approximately $63.4 billion. The FEGP contemplates that this financing gap could be reduced to approximately $23.9 billion through a combination of revenue increases (including the recent increase in sales and use taxes, which is already in effect), expense reductions and economic growth, but that the remaining financing gap will need to be addressed by debt restructuring. The FEGP also concludes that, absent certain emergency measures implemented by the Commonwealth, the Commonwealth Treasury Department's single cash Concentration Account (referred to as the "Treasury Single Account" or "TSA") would have exhausted its liquidity before the end of calendar year 2015. The implementation of the FEGP would require executive action by the Commonwealth and the United States governments and, as to certain matters, the approval of legislation by the Commonwealth's Legislative Assembly. For example, the FEGP proposed the implementation of a fiscal oversight board and new budgetary and accounting standards and procedures. Certain of these measures were approved by the Legislative Assembly pursuant to Act 208-2015. Several other measures recommended in the FEGP have not yet been presented to the Legislative Assembly.

Even if all the measures included in the FEGP were implemented, which the Working Group recognizes is subject to significant political and execution risks, the Working Group's projections suggest that the Commonwealth will not be able to meet all of its debt service requirements as currently scheduled. Therefore, the FEGP recommends that the Commonwealth's advisors begin working on a voluntary exchange offer to be made to creditors that would take into account the priority accorded to various debt instruments across the Commonwealth's debt complex. The FEGP recognizes that, even assuming the clawback of revenues supporting certain Commonwealth tax supported debt, available resources may be insufficient to service all principal and interest on debt that has a constitutional priority. Finally, the FEGP concludes that a consensual compromise of the creditors competing claims to the Commonwealth's revenues to support debt service will be required in order to avoid a disorderly default on the Commonwealth's debt and the further destabilization of the Commonwealth's economy and finances. Further details about the FEGP and the related legislation filed can be found in note 22.

The projections included in the FEGP include estimates and assumptions about economic growth and other variables that are inherently subject to significant political, economic and other uncertainties. Actual results may vary materially from such estimates and projections.

Restructure the Commonwealth's Debt Obligations

As a result of the fiscal crisis facing the Commonwealth, and following the release of the Krueger Report and the FEGP, the Commonwealth has proposed to seek a consensual debt restructuring of its outstanding debt and other tax-supported debt issued by certain Component Units. In January 2016, Commonwealth officials and advisors met with the advisors to the Commonwealth's creditors to present the Commonwealth's restructuring proposal, which was subsequently made public. The proposal seeks an orderly restructuring of the Commonwealth's tax-supported debt, amounting to approximately $49.2 billion, in order to provide the Commonwealth with the necessary debt relief to enable it to confront the significant shortfalls projected by the FEGP. The proposal seeks to: (1) preserve the ability of the Commonwealth to provide essential goods and services to the residents of Puerto Rico, (2) provide time, liquidity relief and capital necessary to implement the FEGP's structural reforms and "growth" initiatives, (3) provide financial flexibility to rebuild depleted cash resources and pay down suppliers whose payables are past due and taxpayers to whom refunds are owed, as well as making required pension contributions, (4) achieve a sustainable debt structure for the long term. The Commonwealth believes the proposal also offers creditor significant benefits, including improved liquidity and better collateral security for the restructured debt, as well as a structure to resolve potential inter-creditor disputes. There can be no assurance, however, that the Commonwealth will be able to successfully consummate its proposal or any other debt restructuring. If the Commonwealth is unable to complete such restructuring on voluntary basis with its creditors the Commonwealth and certain of its Component Units that are issuers of tax supported debt may need to seek relief under existing or potential future laws regarding receivership, insolvency, reorganization, moratorium and/or similar laws affecting creditors' rights, to the extent available, and may resort to other emergency measures including non-payment of debt obligations.

Other Administration Initiatives

Enhance the Commonwealth's Liquidity

In March 2014, as further described in note 12(c), the Commonwealth issued $3.5 billion of general obligation bonds, which allowed the Commonwealth and PBA to repay approximately $1.9 billion of outstanding GDB lines of credit. The Commonwealth also used the proceeds from this issuance to redeem or refund approximately $807 million in short-term obligations, cover approximately $47.7 million in interest rate swap terminations that could have caused a further deterioration of the Commonwealth's and GDB's liquidity position and provide for a portion of the payment of interest on these bonds through July 1, 2016. Then, on October 10, 2014, GDB issued short-term notes to fund the purchase of up to $900 million Commonwealth's tax and revenue anticipation notes for fiscal year 2015. Due to the Commonwealth's lack of market access, the tax and revenue anticipation notes for fiscal year 2016 were financed by certain intra-governmental transactions, as further discussed in note 22.

During fiscal years 2015 and 2016, the Commonwealth has sought additional liquidity through potential bond issues or private financings. Due to its deteriorated financial condition, however, the Commonwealth has been unable to complete these transactions and, as described above, is now pursuing a comprehensive debt restructuring that seeks to improve its liquidity position as a result of near-term debt service relief. While the Commonwealth pursues this strategy, it has taken a number of unsustainable emergency measures to stabilize its liquidity condition. These include, among others, requiring advance payments from the government retirement systems for payments of retirement benefits to participants, suspending for fiscal year 2016 the Commonwealth set-asides for the payment of its general obligation debt, delaying the payments to suppliers and amounts due to Component Units, deferring the disbursement of certain budgetary assignments, and delaying the payment of income tax refunds. Some of these measures are described in more detail in note 22.

Strengthen Central Government Finances

One of the main goals of the Commonwealth is to achieve a balance between recurring revenues and expenditures without resorting to deficit financing and in a manner that is sustainable over the long-term. The FEGP and the restructuring proposal described above seek to achieve such structural balance between revenues and expenditures and establish a sustainable level of debt service for the Commonwealth's tax-supported debt over the long-term.

The proposals included in the FEGP build upon a series of actions taken by the Commonwealth in recent years to reduce budgetary deficits by increasing the Commonwealth's revenues and reducing its expenses. Importantly, the Commonwealth 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). These acts were designed to achieve, among other things, an expansion of the revenue base of the General Fund of the Commonwealth in order to increase tax revenue and help address the structural deficit of the Commonwealth. The aforementioned amendments involved, among other changes, increases in the excise taxes on cigarette imports (Act No. 41); the establishment of a new national "volume of business" tax (also known as "patente nacional") 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) (this tax was later eliminated pursuant to Act 288-2014); the imposition of the sales and use taxes to certain business to business transactions and other procedural changes (Act No. 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). Some of these Acts also assigned funds for the enhancing and strengthening of the sales and use tax collection process (Act No. 46) and 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).

For fiscal year 2015, the Commonwealth implemented additional measures to increase General Fund revenues. The following is a list of the most significant of such measures:

- Adjustment to individual alternative minimum tax brackets ;
- Changes to taxation of passive income;
- A new 10% deemed dividend tax to foreign owners of non-exempt corporations;
- The elimination of earned income tax credit;
- Changes to the "patente nacional" to exclude such tax from the alternative minimum tax computation and to ensure its application to conduit entities, exempting corporations with annual sales of $3 million or less, reducing the tax rate for corporations with annual sales between $3 million and $100 million, providing for a special tax rate for corporations engaged in retail sale of foodstuffs and for an increase in the tax rate of corporations with sales in excess of $1.5 billion from 0.85% to 1.0% ;
- A special tax rate for prepayment of IRAs, retirement plans and annuities; and
- Changes to the sales and use tax collection system at the point of entry. Subsequent to June 2013, Act No. 117-2013 amended the mechanism for collection of the sales and use tax from certain merchants after July 1, 2014, which is expected to improve collection. With this Act, importers are now 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. Early in fiscal year 2015, the Commonwealth began implementing its "Integrated Merchant Portal" (PICO) system for the collection of sales and use tax from importers of merchandise at their point of entry into Puerto Rico and the filing of electronic returns under the new system. Despite certain setbacks with the initial implementation of the system, the Treasury Department never stopped collecting the sales and use tax, as the Treasury Department implemented certain processes to allow merchants to temporarily file paper returns.

On May 29, 2015, the Commonwealth enacted Act 72-2015, which, among other things, increased the sales and use tax ("SUT") by 4.5% SUT, in addition to the then-applicable 7% SUT, and which provided for a transition to a value added tax ("VAT") on the central government's portion of the SUT, subject to certain conditions. In addition, since October 1, 2015 and until March 31, 2016, taxable business to business transactions are subject to an aggregate 11.5% SUT and certain business to business services and designated professional services that were previously exempt from SUT are subject to a Commonwealth SUT of 4% (with no municipal SUT applying to these services). The new VAT will also apply on the introduction into Puerto Rico of taxable articles and on taxable transactions which relate to the sale in Puerto Rico of goods and services by a merchant, the rendering of a service by a nonresident to a person in Puerto Rico, and combined transactions.

The Treasury Department has also sought to improve tax collections, foster tax compliance, implement effective enforcement measures, and attack tax evasion. Act No. 159-2015 prohibits the Treasury

Department from granting payment plans or administrative determinations to delinquent taxpayers under certain conditions. In addition, the Treasury Department 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 Treasury Department has also integrated its databases and established a tax intelligence project to identify tax evasion and improve its audit selection process. The Treasury Department 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 Commonwealth also enacted legislation to reduce budgetary expenditures for fiscal years 2014 though fiscal year 2016. On February 28, 2014, Act No. 33 was enacted to reduce 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. Also, during June 2014, through Executive Order 29-2014, the Governor ordered additional cuts in appropriations totaling approximately $358.5 million consisting of a reduction in the appropriation for rent payments to PBA of approximately $24 million, a reduction in the appropriation to the ERS required by the pension reform of $84 million and a reduction in the appropriation for the payment of certain loans to GDB of $247 million. This Executive Order also required OMB to prepare a draft bill to recognize payables to GDB, ERS and PBA, and to appropriate sufficient funds over a multiple-year period to compensate for the adjustments in the appropriations executed as previously described.

On June 17, 2014, the Commonwealth enacted Act No. 66 (also known as the Fiscal Operation and Sustainability Act), which provided the legal basis to address certain cost escalators. Act No. 66 provides the following cost reduction measures: (i) reduction of at least 20% 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. This Act also provides the framework for the Commonwealth to receive contributions and dividends from certain Component Units with available balances or capacities, expected to arise from the savings to be achieved with the execution of this Act at such component unis. These Component Units are SIFC, ACAA and certain others related to the promotion of economic development and growth.

In addition to the cost reduction measures provided by Act No. 66, the Commonwealth also adopted corrective measures in order to offset or mitigate certain cost escalators (mostly increased debt service requirements) for fiscal year 2014. These measures included: (i) restructuring of lines of credit and other financing facilities by reducing the 2015 repayment appropriations assigned for these facilities; (ii) charging appropriations against non-General Fund sources, particularly unneeded capital improvements in the municipal improvement funds and the construction funds for the UPRCCC from the Science and Technology Fund; (iii) redirecting excess available balances from special state or revenue funds to cover costs of judgments, settlements and other contingencies; (iv) reducing overall teacher staffing levels, without layoffs, through voluntary attrition, changes in staffing policies, school consolidation and the overall more effective and efficient use of human resources at the Department of Education (this also included reductions in operating expenses for purchases, facilities and professional services due to the consolidation of approximately 70 schools in the Department of Education); (v) reductions in special appropriations for operating or program purposes, including certain phased-out and unnecessary programs identified; (vi) eliminating or deeply reducing special appropriations that were included in the fiscal year 2014 budget for contingencies and purposes that were estimated to be no longer relevant or needed in fiscal year 2015; (vii) freezing appropriations for revenue-based formulas and other pre-legislated increases in the operating subsidies to the UPR, the judicial branches and the municipalities; (viii) lowering the starting base headcount in central government agencies, in particular maintaining overall headcount levels for fiscal year 2015 at the levels in place at the time of the budget configuration; and (ix) reducing utility expenditures, including the freezing of the scheduled water rate increase and application of existing credits in the PBA rent invoices.

To ensure compliance with austerity policy and appropriations limits, OMB has maintained significant institutional spending controls, including review of contracts for professional services, purchases, authorization of individual personnel transactions for budgetary impact, and approval of various agency transactions with budgetary impact, such as rent or lease agreements. The Commonwealth is committed to expense reduction through strategic initiatives directed at government efficiency and OMB is currently evaluating several areas of opportunity.

PRMeSA's management adopted a fiscal stabilization plan that includes the following measures: (a) implementation of Act No. 66 referred to above, which is intended to reduce operational costs by $34 million within the next three fiscal years (part of the measures set forth in Act No. 66 consists of renegotiating and establishing new agreements with its unionized employees and related organizations); (b) establishment of a new financial model with AACA effective July 1, 2014 where AACA agreed to pay existing accumulated balances of $6 million and contracting a structure change from a "fee for service" platform to a monthly lump sum capitation payment of $700,000, which would represent an approximate 40% payment increase compared to contracts in place during previous years; (c) redefinition of contractual agreements with the government and commercial insurers; (d) improvement and implementation of an effective accounts receivable collection process; (e) deployment of a new management platform; and (f) transformation of the administrative structure. PRMeSA's repayment of its only loan with GDB (which amounted to approximately $278.3 million as of June 30, 2014) is highly dependent on the availability of funds of the Commonwealth for its appropriation, thus creating a substantial doubt about its ability to meet its schedule debt service payments when due.

Make the Commonwealth's Public Corporations Self-Sufficient

One of the most significant legacy fiscal challenges faced by the Commonwealth consists of the explicit and implicit subsidies provided by the Commonwealth and GDB to certain Component Units. These subsidies have historically consisted primarily of budgetary appropriations from the General Fund and loans and other forms of financial assistance provided by the GDB, which reduces funds available to provide other essential services. The Commonwealth has adopted various measures to turn the Commonwealth's Component Units into self-sufficient enterprises and address structural problems that threaten the Commonwealth's long-term fiscal stability. These measures are described in more detail on the remediation plans' sections below for specific Component Units.

In addition to the specific measures that may have been adopted by the individual Component Units to reduce their reliance on operating and financial subsidies, the Commonwealth's enactment of the Fiscal Operation and Sustainability Act (Act No. 66) sought to grant Component Units with tools to reduce their operating expenditures. In addition, the enactment of the Recovery Act on June 28, 2014 created a legal framework, non-existing then at both the Commonwealth level and at the Federal level (since Chapters 9 and 11 of the United States Bankruptcy Code are inapplicable to public corporations that are government instrumentalities of the Commonwealth), that would (1) allow certain public corporations to adjust their debts in a manner that protects the interests of all affected creditors; (2) provide procedures for the orderly enforcement and restructuring of the debts and obligations of eligible public corporations in a manner that is consistent with the United States and Commonwealth Constitution; and (3) maximize the return to such public corporation's stakeholders. On the same day that the Recovery Act was enacted, certain holders of bonds issued by PREPA filed a lawsuit in the United States District Court for the District of Puerto Rico seeking declaratory judgment that the Recovery Act violates multiple provisions of the United States Constitution. The Recovery Act was declared unconstitutional by the District Court on February 6, 2015, which decision was upheld by the United States Court of Appeals for the First Circuit. As previously mentioned, the Commonwealth is seeking review of this decision by the U.S. Supreme Court, which granted the Commonwealth's petition for certiorari. The U.S. Supreme Court will hear oral arguments in March 2016.

In addition, there are ongoing initiatives in Congress to make Chapter 9 applicable to Puerto Rico and/or otherwise provide a Commonwealth-wide restructuring regime. On July 31, 2014, the Puerto Rico Resident Commissioner introduced a bill in the U.S. Congress that would empower the Commonwealth to authorize Puerto Rico municipalities and public corporations to restructure their debt obligations under Chapter 9 of the United States Bankruptcy Code. Following the U.S. District Court of Puerto Rico's decision to declare the Recovery Act unconstitutional, the Commonwealth's public and elected officials along with the private sector of the economy have formed a united and bipartisan front to support this bill introduced in Congress and will continue to push and lobby for the approval of such bill into law. As further described below, on October 21, 2015, the Obama Administration also released a legislative proposal to address Puerto Rico's urgent fiscal crisis. Such proposal proposed that Congress extend the protections of Chapter 9 of the United States Bankruptcy Code to the Commonwealth's municipalities and authorize a broader legal framework to allow a comprehensive restructuring of all of Puerto Rico's liabilities. The Commonwealth supports the Administration Proposal.

Promote Economic Growth

In addition to the economic development measures being proposed as part of the FEGP, the Commonwealth already been implementing a number of initiatives to promote economic growth, diversify Puerto Rico's economic base, pursue niche strategies and leverage its human capital and fiscal autonomy to attract new investment opportunities. One of the immediate and anchor economic development initiatives from the administration was the Jobs Now Act, signed into law on February 10, 2013, which resulted in the creation of approximately 8,000 jobs out of 823 participating businesses. The

Commonwealth has also implemented several initiatives to foster the growth of the small and medium enterprises sector.

Further, the Commonwealth has developed a strategic priority plan encompassed under additional priority sectors, including:

- manufacturing, 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; Agriculture where the Government is focusing on reducing imports by investing in high-productivity agricultural production;
- a new Energy Policy intended to ensure the delivery of reliable electrical service and to diversify Puerto Rico's energy sources with the aim of lowering energy costs;
- continued use of public-private partnerships (PPPs) as an important tool for economic development; and
- other strategic projects.

Potential Federal Action

The Commonwealth has also been active in an effort to obtain some type of relief from the Federal front. On October 21, 2015, the Obama Administration released a legislative proposal to address Puerto Rico's urgent fiscal crisis titled "*Addressing Puerto Rico's Economic and Fiscal Crisis and Creating a Path to Recovery: Roadmap for Congressional Action"* (the "Administration Proposal"). The Administration Proposal states that Puerto Rico is in the midst of an economic and fiscal crisis that without Congressional action could become a humanitarian crisis. On October 22, 2015, a senior adviser to the United States Secretary of Treasury testified before Congress in support of the Administration Proposal. The Administration Proposal provided the following background to the need for Congressional action.

- 3.5 million Americans living in Puerto Rico have endured a decade of economic stagnation;
- Puerto Rico's Government is out of cash and is running out of options;
- Puerto Rico must further strengthen its fiscal discipline;
- Puerto Rico cannot solve its crisis alone;
- the Obama Administration is committed to continuing to work with Puerto Rico, but Congress must act to resolve this crisis; and
- without action by Congress and further fiscal discipline by Puerto Rico, the crisis will escalate.

The Administration Proposal made the following recommendations for Congressional action:

- ***Provide Puerto Rico the tools to comprehensively address its financial liabilities***. Puerto Rico's liabilities are unsustainable and need to be restructured. Congress should extend the protections of

Chapter 9 of the United States Bankruptcy Code to the Commonwealth's municipalities and authorize a broader legal framework to allow a comprehensive restructuring of all of Puerto Rico's liabilities. The Administration Proposal states that bankruptcy protection is not a federal bailout and provides a tested and fair process to all parties.

- ***Provide independent fiscal oversight to Puerto Rico's efforts to reform its fiscal governance and implement the fiscal reforms necessary to achieve financial stability***. This would be enacted as part of a comprehensive legislative package and access to the proposed bankruptcy restructuring regime would be conditioned on this oversight. The recommendation also calls for Congress to provide funding and authorization for technical assistance to help Puerto Rico make the necessary investments to modernize its accounting and disclosure practices.

- ***Provide a long-term solution to Puerto Rico's Medicaid treatment and funding***. Remove the cap on Puerto Rico's Medicaid program and increase the federal support Puerto Rico receives through the federal Medicaid match, after a sufficient transition period, to prevent Medicaid's unstable and insufficient funding from worsening Puerto Rico's fiscal crisis. The Administration Proposal also encourages Congress to improve the quality of Medicaid coverage in the Commonwealth by offering access to additional core services Medicaid beneficiaries would receive if they were living on the mainland.

- ***Reward work and support growth***. Extend the earned income tax credit ("EITC") to individuals in Puerto Rico, a tool proven to stimulate labor participation and employment. This would reward work and support economic growth by increasing participation in Puerto Rico's formal economy.

The Commonwealth supports the Administration Proposal. Congress, in its recent Omnibus Federal Budget deliberations late in December 2015, did not introduce any of the Obama Administration Proposals presented above. The only measures approved for the benefit of Puerto Rico were the increase to 100% of the federal base index for Medicare reimbursements to hospitals in Puerto Rico; the "Hitech" bonifications, also to hospitals in Puerto Rico for those hospitals that achieve a significant number of digitalization in patient records; extension until December 31, 2016 of the increase in the reimbursement rate of federal excise tax on rum shipments from Puerto Rico; and a reduction until December 31, 2016 in the tax rates to those domestic corporations from the U.S. operating in Puerto Rico.

Notwithstanding the failure of Congress in introducing the Obama Administration proposals, the Speaker of the U.S. House of Representatives made a commitment to continue studying the Puerto Rico situation and present legislation before the end of March 2016 to provide some type of relieve to Puerto Rico's financial crisis. The Secretary of the U.S. Treasury visited Puerto Rico during the week of January 18, 2016, met with key government officials and representatives of the private sector and pledged to continue monitoring Puerto Rico's fiscal situation and to continue evaluating alternatives to provide the necessary assistance to Puerto Rico. The outcome and extent of these potential federal actions and legislation to provide remedy to Puerto Rico's financial crisis is currently uncertain and unknown.

On January 29, 2016, Commonwealth officials and advisors met with the advisors to the Commonwealth's creditors to present the Commonwealth's restructuring proposal. Over the course of the day, six meetings were held with advisors representing the holders of all of the major tax-supported credits, including local and mainland mutual funds, cooperatives, hedge funds and monoline insurers. The proposal presented contemplates the restructuring of the Commonwealth's general obligation debt, and other tax supported debt issued by certain Component Units. The final outcome of this restructuring process is currently uncertain.

Risks and Uncertainties – Retirement Systems

The Pension Trust Funds' net pension liability (under the newly adopted GASB No. 67) and funded ratio as of June 30, 2014, are approximately $43.6 billion and 4.2%, respectively. In the opinion of management and based on information prepared by consulting actuaries, if measures are not taken to significantly increase contributions the JRS and the TRS, these retirement systems will be in a deficit position by fiscal years 2018 and 2019, respectively. ERS has been in a deficit position since fiscal year 2015. As described in note 22, future employers' contributions of the ERS are pledged for the payment of debt service on ERS bonds. Further depletion of the ERS' assets could result in the inability to pay benefits and bonds.

The estimate of when each of the Pension Trust Funds will become insolvent and when their assets will 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 Pension Trust Funds' administrative expenses to be paid each year. If each of the systems comprising the Pension Trust Funds becomes insolvent, each system would be operating solely on a "pay as you go" basis, which means that each system would be unable to pay benefits that exceed the actual employer and employee contributions received (net of administrative and other expenses), unless the Commonwealth and other participating employers provide the funding required to meet the "pay as you go" required benefits.

The Pension Trust Funds' funding requirements could have a direct negative effect on the Commonwealth's General Fund, since the Commonwealth is the principal 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 employer contributions to the Pension Trust for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and repayment of the ERS' bonds.

Remediation Plan – Retirement Systems

To improve the liquidity and solvency of the ERS, on July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, 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.

On April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3-2013 ("Act No. 3"), which adopted a comprehensive reform of the ERS, the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth's General Fund. Act No. 3, among other measures, reduced benefits, increased employee contributions and, in the case of active employees who were entitled to the defined benefit program, replaced most of the defined benefit elements of the system with a hybrid program similar to a defined contribution system. Special laws benefits were reduced for current retirees and eliminated for future retirees. The "Merit Annuity" available to participants who joined the ERS prior to April, 1, 1990 was eliminated. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the defined benefit program. Ceasing future defined benefit accruals and converting to a member-funded hybrid plan will result in lower benefit payments as these tiers wind down, and will make all future employer contributions available to pay benefits and bonds debt service.

Based on the statutory funding requirements prior to the reform, the annual benefit payments and administrative expenses of the ERS were significantly larger than the member and employer contributions. The reform was intended to address the Commonwealth's future cash flow needs and "pay-as-you-go" requirements, while recognizing that the ERS would continue to have a large unfunded actuarial accrued liability and a low funded ratio. As such, the reform was intended to provide enough cash flow for the ERS to be able to pay benefits (as amended through the reform) and debt service on the pension obligation bonds, while maintaining the projected ERS gross assets at no less than $1 billion at all times.

In order to achieve this goal, the Commonwealth enacted Act No. 32-2013, as amended, which provided for incremental annual contributions the (the "Additional Uniform Contribution") from the General Fund, public corporations and municipalities, beginning in fiscal year 2014 and up to the fiscal year 2033. The initial Additional Uniform Contribution was defined at $140 million and subsequent annual amounts will be determined annually based on actuarial studies to be performed by the ERS' actuaries as necessary for the ERS' gross assets to remain above $1 billion. An appropriation for such additional uniform contribution of approximately $98 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of the Commonwealth's General Fund revenue shortfall, compared to budget, the Commonwealth made certain adjustments to the fiscal year 2014 budgetary appropriations following the "priority norms" for the disbursement of public funds that apply during any fiscal year in which the resources available to the Commonwealth are insufficient to cover the appropriations approved for such year. These adjustments included the reduction in full of the portion of the Act No. 32 Additional Uniform Contribution by Executive Order 29-2014.

Timely payment of the Additional Uniform Contribution is a critical component of the reform in order for the ERS to be able to make payments as they come due without depleting all of its assets first. However, as a result of continued budget deficits in fiscal years 2014 and 2015, the Commonwealth and other participating employers have been unable to make the Additional Uniform Contribution required in full for these fiscal years (other than $14.9 million paid by the Commonwealth and $20.5 million paid by municipalities and public corporations in fiscal year 2014 and $27 million paid by the Commonwealth and $27 million paid by public corporations and municipalities in fiscal year 2015). In February 2015, the ERS's actuaries recalculated the Additional Uniform Contribution for fiscal year 2016 and subsequent years. Based on certain assumptions (which do not account for any fiscal adjustment that the Commonwealth may undertake to address its fiscal challenges), the projected Additional Uniform Contribution for fiscal year 2016 and subsequent years has increased to approximately $352 million (of which approximately $216 million corresponds to the Commonwealth's central government, to be funded from the General Fund and the remaining portion corresponds to the participating public corporations and municipalities). The ERS's actuaries are currently updating the projected Additional Uniform Contribution for fiscal year 2017 and beyond. The increase in the Additional Uniform Contribution from the initially projected levels is the result of multiple factors, but the most important ones are the decline in the number of active members and the associated payroll since June 30, 2012, and the three-year salary freeze implemented through Act No. 66 of 2014. While these factors result in payroll and related cost savings for the Commonwealth and other participating employers, from the perspective of the ERS, its projected long-term funding decreases since statutory contributions are based on a percentage of payroll and, thus, a lower level of payroll generates fewer contributions, causing the Additional Uniform Contribution to increase to compensate for the reduction. The actuarial valuation as of June 30, 2014, again emphasizes that if the Additional Uniform Contribution and the other statutorily prescribed employer contributions are not paid in full on an annual basis, the ERS will continue to rapidly exhaust its gross assets. The actuarial valuation as of June 30, 2014 again emphasizes that if the Additional Annual Contribution and other statutorily prescribed employer contributions are not paid in full on an annual basis, the ERS will continue to rapidly exhaust its gross assets. These funding requirements result in additional fiscal challenges for the Commonwealth.

During the first half of fiscal year 2014, the Commonwealth enacted legislation to reform the two other retirement systems of the Commonwealth, the TRS and the JRS, 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 TRS and the JRS are mature systems with significant retiree populations.

The more significant of these two retirement systems is the TRS. Based on statutory funding requirements, the annual benefit payments and administrative expenses paid by the TRS are significantly higher than the member and employer contributions made to the TRS. As a result, investment income and the TRS's assets are being used to cover the negative cash flow, and the TRS's assets are expected to continually decline until exhaustion. To improve the liquidity and solvency of the TRS, on July 5, 2011, the Commonwealth approved Act No. 114 (Act No. 114), which provides for an increase in employer's contributions to the TRS of 1% of covered payroll in each of the five fiscal years following enactment and by 1.25% of covered payroll in each of the following five fiscal years thereafter. The TRS is being reformed through the passage of Act No. 160 of December 24, 2013 (Act No. 160). 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. The legislation provides for two classes of additional contributions by the Commonwealth's General Fund to the TRS: (i) a Teacher's Justice Uniform Contribution (the Uniform Contribution) of $30 million in each of fiscal years 2017 and 2018 and $60 million thereafter until fiscal year 2042, and (ii) an Annual Additional Contribution commencing on fiscal year 2019 and continuing until fiscal year 2042 (the Annual Additional Contribution) equal to the amount determined by the actuaries as necessary to prevent the projected value of the TRS's gross assets from falling below $300 million during any subsequent fiscal year. In April 2015, the TRS's actuaries prepared an actuarial study to determine an estimate of the Annual Additional Contribution measured as of June 30, 2014 and, based on various assumptions, projected that the Annual Additional Contribution for fiscal year 2019 and each fiscal year thereafter would be approximately $450 million. The actuarial study notes that if the Annual Additional Contribution is not paid in full during the intended fiscal years, the amount would increase in the following years. The actuaries also noted that if the TRS was unable to sell certain illiquid assets (consisting primarily of loans to members), currently amounting to approximately $450 million, the TRS may face liquidity issues since its assets are projected to fall below the $450 million level during fiscal year 2018, one year before the first payment of the Annual Additional Contribution.

To help address the JRS's funded status situation, on December 24, 2013, the Governor of Puerto Rico signed into law Act No. 162 of 2013 (Act No. 162). Act No. 162 included various changes applicable to all participants and retirees, as modified by the February 21, 2014 decision of the Puerto Rico Supreme Court which limited the effect of the reform as follows: members hired prior to December 24, 2013 maintain the existing benefits; members hired from December 24, 2013 to June 30, 2014 will accrue a maximum pension of 60% of salary and will contribute 10% of salary; and members hired on or after July 1, 2014 will be covered by a contributory, hybrid program with defined benefit and defined contribution components. In addition, the Christmas bonus, summer bonus and medication bonus were eliminated. Section 17 of Act No. 162 enacted an additional employer contribution. Beginning with fiscal year 2015, the JRS will receive an additional contribution as necessary to avoid having the projected gross assets of the JRS, during any subsequent fiscal year, to fall below $20 million. The JRS shall commissioned an actuarial evaluation to determine an annual additional contribution. The first annual additional contribution which corresponds to fiscal year 2015 was determined at $11.6 million and due by June 30, 2015. The budget of the Commonwealth's General Fund for fiscal year 2015, does not include an appropriation for such additional contribution. Timely payment of the additional contribution is a critical component of the reform in order for the JRS to be able to make payments as they come due without depleting all of its assets first.

The success of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

Risks and Uncertainties – GDB

GDB has traditionally served as interim lender to the Commonwealth and its public entities in anticipation of the issuance of long-term bonds and notes by such entities in the municipal bond market. GDB has also provided financing to the Commonwealth and its public entities to finance their respective budget deficits, collateral requirements under swap agreements and to meet mandatory payments of obligations. As a result of this lending function, GDB serves as the principal source of short-term liquidity for the Commonwealth and its public entities. The amount of outstanding loans from 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.

Loans to the Commonwealth and its public entities constitute a significant portion of GDB's assets. As a result, GDB's liquidity and financial condition depends to a large extent on the repayment of loans made to the Commonwealth and its public entities, which face significant fiscal and financial challenges. A significant portion of these loans are payable from budgetary appropriations, which, as discussed above and in note 22, have been significantly reduced in recent years. Conditions that adversely affect the ability of the Commonwealth and its public entities to raise cash (including access to the bond market) and repay their interim and other loans to GDB have an adverse effect on GDB's liquidity and financial condition. Similarly, conditions that adversely affect the ability of GDB to raise cash (including access to the bond market) or otherwise finance its loan portfolio also have an adverse effect on the Commonwealth and its public entities, as GDB's ability to continue providing interim and deficit financing to the Commonwealth and its public entities is reduced.

Particular attention is being placed on loans payable from legislative appropriations from the Commonwealth and loans granted by GDB to PRHTA. As of June 30, 2014, GDB had extended various credit facilities to PRHTA for, among other, capital improvement programs, working capital, debt service and collateral posting requirements. The outstanding balance of such facilities amounted to approximately $2 billion, including accrued interest of approximately $187 million, which represent 17% and 65% of GDB's total assets and net position, respectively, as of June 30, 2014.

PRHTA has reported net operating losses during each of the six fiscal years in the period ended June 30, 2014, and, as a result, GDB has been partially financing its operations through credit facilities. In fiscal year 2010, PRHTA entered into a fiscal oversight agreement with GDB, whereby GDB, among other things, imposes conditions on the extensions of credit to PRHTA and continually monitors its finances.

As part of the measures taken by the Commonwealth to strengthen the source of repayment of GDB loans to PRHTA, Act No. 31-2013 were to fix the excise tax per barrel on crude oil, unfinished oil and derivative products at $9.25 from the minimum of $3 per barrel that existed prior to Act No. 31 and also to eliminate the limit of $120 million that PRHTA was receiving until then. Act No. 31 also allowed for the first $20 million raised from the excise tax on cigarettes' imports to be deposited in a special account in favor of PRHTA. Act No. 41 was later enacted effective July 1, 2013, and established an increase to the cigarettes and other tobacco derivatives tax. The new act imposed an additional tax of $11.15 for every 100 cigarettes. Starting on July 1, 2013, the total tax will be $16.15 for every 100 cigarettes and starting on July 1, 2015, it will reach $17.

On January 15, 2015, the Governor also signed into law Acts No. 1 and No. 2 of 2015, which sought to facilitate the refunding of loans made by GDB and other lenders to PRHTA, as well as fund a portion of the operations of the newly created Integrated Transit Authority ("ATI"). The legislation provides for a new petroleum products tax (the incremental increase from the existing $9.25 per barrel to $15 per barrel), with most of such increment to be assigned to PRIFA, and provides for the transfer to ATI of up to $36 million of existing cigarette taxes, subordinated to the first $20 million raised and deposited at PRHTA. ATI would use the proceeds of the cigarette tax assigned to it to fund the operations of Urban Train and other mass transit assets to be transferred to it by PRHTA. This legislation authorized the issuance of bonds and notes secured by this petroleum products tax, and provides that such bonds and notes will be guaranteed by the Commonwealth provided the aggregate principal amount thereof does not exceed $2.95 billion, the nominal annual interest rate does not exceed 8.50%, and the average sale price is not less than 93% of their par amount. Further amendments were subsequently enacted to eliminate some the aforementioned restrictions on the issuance's terms referred to above. PRIFA expected to issue before the end of fiscal year 2015 or early in fiscal year 2016 bonds secured by collections of the petroleum products tax assigned to it and to use the proceeds of such bonds to repay loans made by GDB to PRHTA and bond anticipation notes issued by PRHTA. In anticipation of such bond issuance, on March 17, 2015, PRIFA issued approximately $246 million of bond anticipation notes, the proceeds of which were used to purchase the outstanding PRHTA bond anticipation notes. However, given the prevailing market conditions, such PRIFA bond issuance did not materialize and has been abandoned.

The Commonwealth has recently reformed and amended GDB's lending practices, financing capacity and oversight powers of public funds through Act No. 24-2014 and Act No. 97-2015. Act No. 24-2014 prohibits 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 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 GDB obligations that can be guaranteed by the full faith and credit of the Commonwealth to provide GDB with greater flexibility in its role of granting interim financing to public corporations and agencies; (ii) grants GDB the ability to exercise additional oversight over certain public funds deposited at private financial institutions and grants 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 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 GDB, up to a maximum amount of $500 million.

Furthermore, on July 1, 2015, the Commonwealth enacted Act 97-2015, which prohibits GDB from lending to government entities (i) that are in default on any payment to GDB or (ii) in the case of entities other than the Commonwealth, if the principal outstanding on all loans of that governmental entity with GDB exceed 5% of GDB's total loan portfolio. Furthermore, the act provides that the use of proceeds of new GDB loans are limited to funding capital expenditures or working capital needs (in such case, with a maturity of one year or less), unless expressly authorized by law. In addition, the act requires GDB to meet certain capital to assets, loan to deposit and other ratios in order to continue granting loans and clarifies the standard for personal liability of directors, officers and employees. The act also creates the Public Debt Auditing Commission, which is charged with providing transparency and citizen participation in the review of the Commonwealth and public corporations' aggregate debt.

GDB's liquidity position improved materially in March 2014 as a result of the issuance of the $3.5 billion bonds described in more detail in note 12(c) and the repayment of approximately $1.9 billion of outstanding GDB lines of credit to the Commonwealth and PBA from the proceeds of such bonds. The Commonwealth also used the proceeds from this issuance to redeem or refund approximately $807 million in short-term obligations and cover approximately $47.7 million in interest rate swap termination payments that could have caused further deterioration of GDB's liquidity position to the extent it may have required to cover any payments due thereunder as a result of the Commonwealth's or a public corporation's inability to do so.

However, as a result of the fiscal, financial and economic condition of the Commonwealth and its Component Units, which are both the counterparties to GDB's loan portfolio, which is GDB's principal asset, and its clients as a depositary institution, GDB's financial condition and liquidity has materially deteriorated and it could become unable to honor all its obligations as they become due. Since GDB has historically served as the principal source of short-term liquidity for the Commonwealth and its instrumentalities and as the principal depositary of public funds, GDB's deteriorated financial condition and potential inability to comply with all of its legal and financial obligations could further adversely affect the Commonwealth and its instrumentalities. Although GDB has previously assisted the Commonwealth in satisfying its obligations, GDB may not be able to continue to provide such assistance in the near future. To the extent that GDB financing is unavailable, the Commonwealth will be required to seek other sources of funding in order to meet its obligations. There is no assurance that the Commonwealth will be able to access other sources of financing or funding sufficient at any one time to meet its obligations as they come due.

GDB also serves as the principal depositary of the funds of the Commonwealth and its instrumentalities. If GDB were to be placed in receivership or if its liquidity falls below a level necessary to operate in the ordinary course, the Commonwealth and its instrumentalities may have limited access to their funds deposited at GDB, which could in turn affect the provision of essential government services.

In order to continue honoring its obligations with third-party creditors and depositors while continuing its operations, GDB has taken certain liquidity enhancing and conservation measures and explored new financing opportunities and liability management transactions with respect to its outstanding notes. GDB, however, has so far been unsuccessful in consummating any such transaction. On October 21, 2015, GDB announced that informal discussions with certain of its bondholders regarding a potential financing and liability management transaction ended as they did not result in a mutually acceptable arrangement. The restructuring proposal presented by the Commonwealth to creditors in January 2016 includes the restructuring of GDB debt.

GDB is legally required by its enabling act to maintain reserves equal to 20% of its demand deposits. Recently, such provision was amended to allow GDB to request a 3-month waiver of this requirement from the Secretary of Treasury. GDB approved a resolution on December 1, 2015 authorizing management to request this waiver, if required. Internal GDB liquidity projections as of the date of the issuance of these financial statements suggest that, to the extent that GDB is not able to complete a transaction such as those discussed above, otherwise access other sources of funding, or receive requested debt service payments on its appropriation lines of credit, GDB would be unable to comply with its legal reserve requirement during the fourth quarter of fiscal year 2016. Liquidity levels during such period may be insufficient to operate in the ordinary course and honor its depositary and financial obligations in full.

During the remaining part of fiscal year 2016, GDB faces large debt service obligations, including approximately $400 million of principal payments with respect to debt maturing on May 1, 2016.

Because of the importance of GDB's functions to the operation of the Commonwealth, its public corporations and municipalities, if GDB's financial condition deteriorates further, the Commonwealth may amend the GDB Act or enact new emergency legislation (subject to applicable constitutional limitations), which could include a moratorium on the payment of debt service with respect to outstanding GDB indebtedness or other remedy that affects the rights of creditors. Such new legislation could also grant more powers to a conservator or receiver of GDB and further define the receivership process (including the powers to determine claims and provide for their priority of payment).

Risks and Uncertainties – Other Public Corporations with Financial Distress and Deficits

Certain of the Commonwealth's public corporations are currently in financial distress and are facing specific liquidity risks including PREPA, PRASA, UPR, PRHTA, PRHIA and PRPA. Others, although not as significant as compared to the Component Units' total assets in the aggregate, have accumulated deficits as shown in the table above listing the Commonwealth's activities and units with deficits as of June 30, 2014. These are: AEDA, CCCPRC, PRMBA, PRTC, PRMIMTA. (MAC and ETEC were excluded from evaluation given the immateriality of its net deficit when compared to the net deficit of the total Component Units combined). These public corporations are reported in the aggregate Discretely Presented Component Units column of the basic financial statements.

Management at these public corporations has implemented the provisions of Act No. 66, which provided for certain cost reduction measures, as well as the evaluation of measures to increase revenues.

Specific financial information regarding these public corporations follows:

PREPA – As of June 30, 2014, PREPA had a net deficit of $1.2 billion and sustained net decreases in its net position of approximately $430 million and $272 million in fiscal years 2014 and 2013, respectively. PREPA's operating results have been adversely affected in recent years by a decrease in electric energy demand caused in part by a declining population and prolonged recession, high fuel costs which result from reliance on oil for energy generation, high capital expenditure requirements associated with aging generating facilities and a high level of debt. As of June 30, 2014, PREPA's debt amounted to approximately $8.8 billion. Subsequent to June 30, 2014, 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.

As further discussed in note 22, subsequent to June 30, 2014, PREPA's revenue bonds have been downgraded several times by rating agencies.

PRASA – As of June 30, 2014, PRASA had a net position of $2.4 billion, which includes revenue bonds payable of $4.5 billion, notes payable of $763.3 million and lines of credit of $8.2 million. PRASA's net position decreased by $41 million during the year ended June 30, 2014 and had a working capital deficiency of $369.4 million as of June 30, 2014. As further discussed in note 22, subsequent to June 30, 2014, PRASA's revenue bonds have been downgraded several times by rating agencies.

UPR – As of June 30, 2014, UPR had a net position of $516.6 million, of which $398.0 million was invested in capital assets. UPR had operating losses (without considering depreciation, interest expense and Commonwealth grants and contracts) during fiscal years 2014, 2013 and 2012 of $1.041 billion, $995 million and $953 million, respectively. Balances payable to governmental entities increased from approximately $112 million as of June 30, 2012 to approximately $124 million as of June 30, 2014, $102 million of which represent lines of credit payable to GDB. UPR is highly reliant on the Commonwealth for operating revenues and liquidity and financial management support. Approximately 64% of the operating revenues and nonoperating revenues of UPR are Commonwealth appropriations, grants and contracts. The amount of the annual appropriation is based on a statutory formula, and equals 9.60% of the Commonwealth's average annual revenue from internal sources (subject to certain exceptions) for each of the two fiscal years immediately preceding the current fiscal year. However, Act No. 66 froze UPR's appropriations at their fiscal year 2014 level for three years. UPR's budgeted General Fund appropriations for fiscal years 2016, 2015, 2014 and 2013 were $873 million, $881 million, $888 million and $825 million respectively.

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's net position decreased by approximately $100.3 million during the year ended June 30, 2014 and had a working capital deficiency of $35.5 million as of June 30, 2014. Loans with GDB as of June 30, 2014 amounted to $1.8 billion. As further discussed in note 22, subsequent to June 30, 2014, PRHTA's revenue bonds have been downgraded several times by rating agencies.

PRHIA – As of June 30, 2014, PRHIA had a net deficit of $229.8 million. PRHIA's net deficit increased by approximately $59 million during the year ended June 30, 2014 and had a working capital deficiency (excluding lines of credit with GDB of approximately $183.3 million maturing between 2015 and 2023) of approximately $29 million. PRHIA's transition from a third party administrator model to a managed care organization model for its Government Public Health Insurance Plan (GHP) has exacerbated PRHIA's liquidity needs because, in the latter model, it is customary to pay related premiums during the first days of each month. This requirement, coupled with the need to fund legacy claims under the Third Party Administrator model, results in a financing need of approximately $150 million. In addition, the unpaid premiums of the current managed care model were approximately $220 million at the close of September 2015. If PRHIA is unable to secure funding or financing for this financing gap and/or if the Commonwealth's financial situation precludes it from continuing supporting the Commonwealth health insurance plan, PRHIA might be unable to fulfill its financial and contractual obligations.

The Commonwealth, through PRHIA provides health insurance coverage to approximately 1.6 million qualifying (generally low-income) residents of Puerto Rico. The cost of this health insurance program is very significant, totaling $2.5 billion for the year ended June 30, 2014. A substantial portion of this cost is currently paid by the federal government and funded principally by non-recurring funding provided pursuant to the federal Patient Protection and Affordable Care Act (the "Affordable Care Act" or "ACA"), as well as recurring Medicaid and Children's Health Insurance Program ("CHIP") funds, which in the case of the Commonwealth are capped at a level lower than that applicable to the states (which are not capped). Upon exhaustion of the non-recurring ACA funds, currently estimated to occur in March 2018, and absent Congressional action to renew this non-recurring funding, the amount of federal funds available for this health insurance program will revert to the recurring capped Commonwealth Medicaid and CHIP allocations, which would result in significantly higher requirements of Commonwealth funding, unless benefits or eligibility or both are reduced significantly. Although the Commonwealth can take various measures to address the imbalance, including reducing coverage and limiting eligible beneficiaries, federal regulations may prohibit or limit the application of these measures. If the availability of ACA funds is not renewed through Congressional action and if no changes to benefits, co-pays or eligibility are made, the annual deficit of the health insurance program (which the General Fund may be required to fund) could rise to as much as $2.0 billion by fiscal year 2019, from $59 million on fiscal year 2014. The fiscal stability of the Commonwealth's health insurance program is one of the most significant budgetary challenges facing the Commonwealth, especially if the availability of ACA funds is not renewed or Medicaid funds are not significantly increased. In addition, and on a much shorter term, reductions in Medicare Advantage funding for Puerto Rico will take place beginning in January 2016, as recently confirmed by the Centers for Medicaid and Medicare Services. Further information on these developments can be found in note 22.

PRPA – As of June 30, 2014, PRPA had a net position of approximately $53.7 million. PRPA's net position decreased by $61.5 million during the year ended June 30, 2014 and had a working capital deficiency of approximately $57.4 million as of June 30, 2014. PRPA also has over $255 million in lines of credit payable to GDB, mostly as a result of the drawing of certain letters of credit from GDB guaranteeing certain bonds, which PRPA could not honor.

AEDA – AEDA, which provides a wide variety of services and incentives to the agricultural sector, had a deficit of approximately $84.2 million as of June 30, 2014, and most of its outstanding debt ($105.4 million) due to GDB, which are exclusively dependent on appropriations from the Commonwealth's General Fund.

CCCPRC – CCCPRC had a deficit and a working capital deficiency of approximately $39.8 million and $51.9 million as of June 30, 2014, respectively. On the other hand, it has no significant financing either to GDB or to private institutions and its cash flows from operations have been positive for the past two years at approximately $2.6 million in 2014 and $888 thousand in 2013.

PRMBA – At June 30, 2014, PRMBA had a net deficit of $64.5 million. PRMBA's net deficit increased by approximately $4.1 million during the year ended June 30, 2014 and had a working capital deficiency of approximately $83 million, including a note payable of $32 million with a private bank which matured in March 2016. This note is secured by revenues from cigarette taxes that are assigned to PRMBA and which are being retained by the Commonwealth pursuant to Executive Order No. 46, as further discussed in note 22.

PRTC – As of June 30, 2014, PRTC had a net deficit of $16.9 million, but it is all attributed to PRTC's Business Type Activities which carry a net deficit of $37.8 million, all pertaining to its Hotel Development Corporation (HDC) operations. HDC carries a PFC Note obligation of $45.2 million, which, as discussed further below, missed its August 2015 required debt service, as the Commonwealth defaulted on the all PFC bonds payments due that date.

PRMIMTA – PRMIMTA, which operates the maritime transportation services between the municipalities of San Juan, Cataño, Fajardo, Vieques and Culebra, is funded principally through General Fund legislative appropriations and federal funds. PRMIMTA received approximately $28 million, $26 million, $24 million and $28 million during fiscal years 2015, 2014, 2013 and 2012, respectively, as financial support from the Commonwealth's General Fund. The fiscal year 2016 General Fund budget includes $34 million in appropriations for mass transit services, including $5 million under the custody of the Office of Management and Budget of Puerto Rico, to be used in part to subsidize PRMIMTA. Its operating revenues (principally passenger and cargo fares) for fiscal years 2014, 2013 and 2012 were $5.2 million, $5.9 million and $4.7 million, respectively. In the past, the PRHTA and the Puerto Rico Ports Authority have also been sources of funds to PRMIMTA. For fiscal years 2014, 2013 and 2012, the PRMIMTA had operating losses (without considering depreciation and interest expense) of $41.9 million, $45.3 million and $36.3 million, respectively. PRMIMTA has experienced significant increases in amounts due to suppliers and other governmental agencies from 2012 to 2014. The amounts due to suppliers and others increased from $11.8 million as of June 30, 2012 to $16.2 million as of June 30, 2014; and the balances payable to other governmental entities increased from $4.1 million as of June 30, 2012 to $7.7 million as of June 30, 2014. As of June 30, 2014, PRMIMTA had a deficit of approximately $30.4 million. PRMIMTA's deficit increased by $8.9 million during the year ended June 30, 2014 and had a working capital deficiency of approximately $22.8 million as of June 30, 2014.

Remediation Plan – Other Public Corporations with Financial Distress and Deficits

The following are significant actions taken by the other public corporations having significant financial distress to improve their operations and/or determinations taken as to their ability to continue as a going concern given the extent of their financial distress:

PREPA: On September 4, 2014, PREPA appointed a chief restructuring officer whose mandate includes providing overall leadership to PREPA's restructuring process, developing a business plan, implementing revenue improvement and cost reduction plans, overseeing and implementing cash and liquidity management activities, improving PREPA's ability to analyze, track and collect accounts receivable, improving the

PREPA's capital expenditure plan, and developing plans to improve PREPA's generation, transmission, distribution and other operations.

In addition, as discussed in note 22, PREPA is in the process of restructuring its indebtedness through a consensual process with its creditors.

The financial difficulties experienced by PREPA, including the uncertainty as to the ability to fully satisfy its obligations, raises substantial doubt about its ability to continue as a going concern.

PRASA: In July 2013, PRASA implemented a 60% rate increase, on average, that has provided additional revenues to cover operational expenses and improve debt service coverage. Subsequently, on December 18, 2013, PRASA amended the rate structure for non-residential customers, which included increases of the base and volume charges and incorporated a new monthly charge for environmental compliance and regulatory costs, which varies by customer class, consumption or meter size. Also, there is an additional $2 monthly charge for special projects, such as the protection and remediation of watersheds and improvements to systems not connected to PRASA. These increases were designed to generate enough revenues to cover PRASA's expenses and debt service until fiscal year 2018. As a result, in contrast with prior years, the Commonwealth does not anticipate having to appropriate funds to PRASA for its operational expenses.

PRASA owes approximately $399 million in PFC Notes, for which its August 2015 debt service requirements were not covered as a result of the Legislature not making the necessary appropriations which in turn would have allowed the payment of the PFC Bonds. These notes were being paid with Commonwealth's appropriations, which are not expected to recur for these purposes at the moment. However, as previously explained, these PFC bonds, which are obligations payable from the proceeds of the underlying notes when appropriated by the Commonwealth, are limited obligations of PFC and not of PRASA or the Commonwealth. Therefore, despite this nonpayment, bondholders have no recourse to other assets of the Commonwealth, PRASA or PFC. As a result, PRASA's management does not think this situation would cast any doubts as to PRASA's ability to continue as a going-concern, since the core of PRASA's operations has been self-sustained without assistance from the Commonwealth.

UPR: UPR derives additional revenues from other sources like tuition, student fees, auxiliary enterprises, interest income, federal grants (in particular, the Federal Pell Grant Program), and other sources. The UPR's capital improvements have been financed mainly by revenue bonds. Its operating revenues (principally tuition) for fiscal years 2014, 2013 and 2012 were $264 million, $299 million and $370 million, respectively. However, UPR has limited ability to raise operating revenues due to the economic and political challenges of maintaining enrollment and increasing tuition. During fiscal year 2016, the Commonwealth, due to its liquidity constraints, has been paying late its bi-weekly formula contributions to UPR. There is also a project in the Puerto Rico Legislature to cut the Commonwealth's formula contributions to the UPR in $200 million in a four year period ($50 million per year starting in fiscal year 2016).

In essence, given the high dependency of the UPR on Commonwealth appropriations and on GDB's potential credit extension to fund UPR's operational and short-term needs as they arise, as both Commonwealth's and GDB's liquidity continues to be challenged and their appropriations and financing ability become more uncertain, UPR's financial condition and liquidity could be similarly affected.

PRHTA: On June 25, 2013, the Legislature of the Commonwealth enacted Act No. 30 and Act No. 31 to raise additional annual revenues for PRHTA to repay its outstanding loans with GDB. The additional annual revenues consist of (i) the transfer to PRHTA of vehicle license fee revenues currently received by the Commonwealth's Department of the Treasury, which amount to approximately $62.5 million; (ii) an increase in the petroleum products tax assigned to PRHTA 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; (iii) the transfer to 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, approved legislation changed the governance structure of PRHTA by establishing a board of directors.

In August of 2014, legislation was adopted which created the Puerto Rico Integrated Transit Authority ("PRITA"). Under this legislation, the operations of the Urban Train (currently under PRHTA), the Puerto Rico Maritime Transportation Authority and the Metropolitan Bus Authority would be consolidated under the newly created Authority. This is expected to relieve PRHTA from further financial and cash flow strains and enhance its operating efficiency.

These remediation plans were intended to address PRHTA's liquidity situation and to maintain the continuity of its services. However, as described above, commencing in December 2015, certain of the revenues assigned by the Commonwealth to PRHTA were redirected for the payment of the Commonwealth's general obligation bonds, thus increasing PRHTA's liquidity constraints.

There can be no assurance that the Commonwealth will continue to provide adequate support, or to continue to allow PRHTA to operate as a separate entity or that affiliated and unaffiliated lenders will be able to refinance or modify the terms of PRHTA's obligations. Therefore, PRHTA does not currently have sufficient funds available to fully repay its various obligations as they come due or that are currently in default and, because its debt obligations are tax supported, the Comonwealth has included these debts in the proposed debt restructuring contemplated in the FEGP.

The financial difficulties experienced by PRHTA, including the uncertainty as to the ability to fully satisfy its obligations, raises substantial doubt about its ability to continue as a going concern.

PRHIA: PRHIA's management adopted a fiscal stabilization plan that includes the following measures: (i) maximization of discounts or rebates with respect to prescription drugs dispensed to beneficiaries; (ii) implementation of a monitoring program with all insurance companies through audits and imposition of penalties and fines for noncompliance; (iii) maximization of process of petitions of federal funds through more efficient segregation of Commonwealth and Federal beneficiaries; and (iv) improvement and implementation of an effective accounts receivable collection process. Also, in order to ensure continuity of services, PRHIA reached a preliminary agreement with the five private insurance providers, whereby PRHIA will be paying throughout the month the premiums owed to the insurers (as opposed to paying the entire amount during the first days of the month). Also, U.S. Congress, in its recent Omnibus Federal Budget deliberations late in December 2015, approved several measures for the benefit of Puerto Rico consisting of the elevation to 100% the federal base index for Medicare reimbursements to hospitals in Puerto Rico and the "Hitech" incentives, also to hospitals in Puerto Rico for those hospitals that achieve a significant number of digitalization in patient records.

Notwithstanding the above, in light of the current disparity in the treatment that the Commonwealth receives compared to the states with respect to the cap imposed on Medicaid matching funds, the Commonwealth is intensifying its efforts to have ACA funding renewed by Congress. The Resident Commissioner is also involved in these efforts and recently members of the private and public sector formed the Puerto Rico Healthcare Crisis Coalition. However, it is not possible to predict the likelihood that such efforts will succeed, and the Commonwealth will continue evaluating the fiscal structure of the program taking into consideration the current federal funding depletion estimates. To the extent these efforts are unsuccessful, it is unlikely that the Commonwealth would be able to assume a significantly higher portion of the cost of the health insurance program. If the Commonwealth is unable to reduce these costs, it may be required to adopt some additional emergency measures in 2016 and thereafter, which could include a moratorium on the payment of debt service or debt adjustment. In addition, PRHIA, as pointed above, is one of those Component Units with significant lines of credit obligations to GDB, which payments are contingent on the availability of funds for the Commonwealth to appropriate in its annual budget process.

The financial difficulties experienced by PRHIA, including the uncertainty as to the ability to fully satisfy its obligations, raises substantial doubt about its ability to continue as a going concern.

PRPA: In order instill stability in the PRPA's operations, 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 financial position and reduced both the PRPA's and GDB's risk position by repaying over $490 million of PRPA debt obligations. Several transaction currently being considered are expected to improve PRPA's financial condition and refocus the objectives of the PRPA into the future. One of such investment and enhancing activities consists of improvements to the Aguadilla regional airport for the establishment of Lufthansa's central operations of its fleet maintenance hub. Future completion of the established development plans for the regional airports is expected to add more space rental room opportunities and increase passenger flow.

The financial difficulties experienced by PRPA, including the uncertainty as to the ability to fully satisfy its obligations, raises substantial doubt about its ability to continue as a going concern.

AEDA – AEDA, which provides a wide variety of services and incentives to the agricultural sector, had a deficit of approximately $84.2 million as of June 30, 2014, and most of its outstanding debt ($105.4 million) due to GDB, which are exclusively dependent on appropriations from the Commonwealth's General Fund.

The financial difficulties experienced by AEDA, including the uncertainty as to the ability to fully satisfy its obligations, raises substantial doubt about its ability to continue as a going concern.

CCCPRC – CCCPRC's recent positive operating results and positive working capital position, tend to show that it can cover its current obligations as they come due without significant support from external sources. CCCPRC currently does not depend on Commonwealth's appropriations and does not carry any lines of credit payable to GDB. Therefore, this condition overcomes the substantial doubt about its ability to continue as a going concern.

PRMBA **–** As discussed in note 22, on August 3, 2014, the Governor of the Commonwealth signed Act No.

123-2014 to create the Integrated Transportation Authority of Puerto Rico ("ATI"), to establish its duties, powers and authorities and to authorize PRHTA to transfer the Urban Train System. According to this Act, ATI will be in charge of PRMBA and PRMIMTA. ATI's management has been working on the required federal approvals in order to transfer the PRMBA's operations to ATI. PRMBA's operations have a history of significant losses and is highly dependent on Commonwealth's appropriations for its subsistence. Although the enabling legislation of ATI assigns dedicated revenues to ATI, there is no assurance that the combined operations would be financially self-sufficient and that future Commonwealth's appropriations could be sustained.

The financial difficulties experienced by PRMBA, including the uncertainty as to the ability to fully satisfy its obligations, raises substantial doubt about its ability to continue as a going concern.

PRTC – One of the principal activities of PRTC is to administer and repay its $45.3 million PFC notes from Commonwealth appropriations, which proceeds are used in turn to repay PFC bonds. As previously discussed, PFC bonds and the underlying notes are payable solely from legislative appropriations. The Commonwealth's budget for fiscal year 2016 did not include such appropriations. As a result, the scheduled debt service payments on PFC bonds and the underlying bonds have not been made during fiscal year 2016. However, as previously discussed, despite this non-payment, bondholders have no recourse to other assets of the Commonwealth, PRTC or PFC. As a result, PRTC's management, hence, PRTC's management does not think this situation would cast any doubts as to PRTC's ability to continue as a going-concern, since the core of its operations has been self-sustained without assistance from the Commonwealth.

PRMIMTA – PRMIMTA is experiencing the same financial distress as PRMBA and is under the same plans of integrating its operations into ATI. PRMIMTA's operations have a history of significant losses and is highly dependent on Commonwealth's appropriations for its subsistence**.** Although the enabling legislation of ATI assigns dedicated revenues to ATI, there is no assurance that the combined operations would be financially self-sufficient.

The financial difficulties experienced by PRMIMTA, including the uncertainty as to the ability to fully satisfy its obligations, raises substantial doubt about its ability to continue as a going concern.

Summary-Going Concern Determination

In summary, even though management believes that there is substantial doubt as to the Primary Government's ability to continue as a going concern (including PBA, PRIFA, PRMSA, SCPT and PRMeSA), as evidenced by the discussions above, the financial information contained herein has been presented assuming that it will continue as a going concern in accordance with GASB Statement No. 56. These entities and activities have shown all the indicators for concluding that there is substantial doubt as to their ability to continue as a going concern: (i) negative trends for an extended period of time as evidenced by their significant deficits; (ii) other indicators of financial difficulties (such as the nonpayment of the PFC bonds, the non-appropriation of funds for the payment of loans to GDB and the activation of the clawback provisions of the Constitution); (iii) internal matters such as the Primary Government 's significant dependency on federal grants and on the tax revenues (Act No.154) from a few corporate sources carrying uncertain continuity and permanence as well as the frequent failure of the Commonwealth to meet its revenue projections; and (iv) external factors such as a contracting economy, contracting population, liquidity sources and debt restructuring alternatives that are currently dependent on US congressional legislation.

For similar reasons, and for the uncertainty in the future ability of the Commonwealth to make appropriations for the repayment of their loans with GDB, the Retirement Systems, GDB, PREPA, PRHTA, PRHIA, AEDA, PRMBA, PRMIMTA, PRCCDA, SWA, CIDPC, UPRCCC, NPCPR, PAA and IPRC carry substantial doubt about their ability to continue as a going concern in accordance with GASB Statement No. 56. This is the case even for those Component Units that do not currently have a deficit position at June 30, 2014 (PRCCDA, PRIDCO, UPRCCC, SWA, CIDPC, IPRC, PAA and NPCPR) because these were instead impacted by either the clawback provisions or the uncertainty of future Commonwealth's appropriations to repay their lines of credit with GDB.

There is one blended component unit, the Puerto Rico Sales Tax Financing Corporation ("COFINA"), and an enterprise fund of the Primary Government (the lottery fund), whose financial statements, despite their deficit position, do not contain going concern qualifications in accordance with GASB Statement No. 56.

Summary-Significant Commonwealth Appropriation Dependence

The following Component Units do not have a deficit position, loans outstanding with GDB as of June 30, 2014, and have not been impacted by the clawback provisions. For these reasons, as of the date of these financial statements, these entities do not raise substantial doubts as to their ability to continue as a going concern in accordance with GASB Statement No. 56. However, these entities are mainly funded by non-operating revenues, primarily Commonwealth appropriations, and are highly reliant on the Commonwealth and on GDB for liquidity and financial management support. These appropriations are contingent on the availability of funds from the Commonwealth and their legislative approval. A reduction in the amount of these appropriation could result in financial difficulties for these entities, including the uncertainty as to their ability to fully satisfy their obligations, which could raise doubts about their ability to continue as a going concern.

- UPR
- Puerto Rico Council on Education (PRCE)
- Puerto Rico Public Broadcasting Corporation (PRPBC)
- Puerto Rico Conservatory of Music Corporation (PRCMC)
- Fine Art Center Corporation (FACC)
- Corporation for the "Caño Martin Peña" ENLACE Project (CPECMP)
- Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico (CDASFIPR)
- Puerto Rico School of Plastic Art (PRSPA)
- Local Redevelopment Authority for Roosevelt Roads Puerto Rico (LRA)

(3) Restatements and Changes in Reporting Entity

During 2014, the Commonwealth identified various errors related to the prior year financial statements. In addition, the Commonwealth adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which resulted in a restatement of the beginning net position of the Commonwealth's Governmental Activities and certain Component Units. The impact of correcting these errors and the effect of the adoption of GASB Statement No.65 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 – July 1, 2013, as previously reported	$	(47,212,999)	792,268	(46,420,731)
Impact of GASB No. 65 Implementation:				
Central Government		(71,794)	—	(71,794)
COFINA		(182,258)	—	(182,258)
PRIFA		(32,732)	—	(32,732)
PBA		(30,924)	—	(30,924)
The Children's Trust		(6,690)	—	(6,690)
Public Housing Administration (PHA)		(3,507)	—	(3,507)
PRMSA		(1,608)	—	(1,608)
Impact of GASB No. 70 Implementation-Central Government		(220,392)	—	(220,392)
Correction of error:				
Office for the Improvement of Public Schools (OIPS)		2,228	—	2,228
911 Services		—	(228)	(228)
Net correction of immaterial errors:				
Central Government		278,830	—	278,830
Net position – July 1, 2013, as restated	$	(47,481,846)	792,040	(46,689,806)

The impact of adopting GASB No. 65 consisted of charging-off the applicable Primary Government agencies' or unit's existing unamortized debt issuance costs, other than prepaid insurance, against its beginning net position. The impact of adopting GASB No. 70 consisted of recognizing a liability for the obligation of guaranteeing the debt of PAA, as further described in note 13 (a).

The $278.8 million net correction in the central government's records responds to a combination of an understatement of receivable from the federal government of approximately $71.1 million; a miscalculation of the deferred portion of federal funds received, which resulted in an overstatement of deferred revenue of approximately $247.8 million; an understatement of a liability to the Rums of Puerto Rico program of approximately $52 million and an understatement of amounts receivable from the IRS of rum federal excise taxes in the amount of approximately $12 million. These were considered correction of immaterial errors. As a result of the adoption of GASB No. 65, the aforementioned deferred revenue is now reclassified as a deferred inflow of resources.

The correction of error in OIPS (reported within the General Fund) resulted from an understatement of accounts receivable in the amount of approximately $2.2 million.

The correction of error in 911 Services (reported within the Other Proprietary Funds) resulted from an overstatement of accounts receivable in the amount of $214 thousands and an understatement of termination benefits payable in the amount of $14 thousands.

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	Total Governmental Funds
Fund balances (deficit) – July 1, 2013, as previously reported	$	(2,011,026)	(391,642)
Net correction of immaterial errors:			
Central Government		225,371	225,371
Correction of error:			
OIPS		2,228	2,228
Fund balances (deficit) – July 1, 2013, as restated	$	(1,783,427)	(164,043)

The $225.4 million net correction in the central government's records responds to a combination of an understatement of receivable from the federal government of approximately $71.1 million; a miscalculation of the deferred portion of federal funds received, which resulted in an overstatement of deferred revenue of approximately $194.3 million; an understatement of a liability to the Rums of Puerto Rico program of approximately $52 million and an understatement of amounts receivable from the IRS of rum federal excise taxes in the amount of approximately $12 million. These were considered correction of immaterial errors. As a result of the adoption of GASB No. 65, the aforementioned deferred revenue is now reclassified as a deferred inflow of resources.

Enterprise 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 enterprise funds (expressed in thousands):

		Other Proprietary Funds	Total Proprietary Funds
Fund balances – July 1, 2013, as previously reported	$	326,555	792,268
Correction of error:			
911 Services		(228)	(228)
Fund balances – July 1, 2013, as restated	$	326,327	792,040

The correction of error in 911 Services (reported within the Other Proprietary Funds) resulted from an overstatement of accounts receivable in the amount of $214 thousands and an understatement of termination benefits payable in the amount of $14 thousands.

Fiduciary Funds

The following table summarizes the change to net position held in trust for pension benefits at the beginning of the year as previously reported in the statement of changes in fiduciary net position/pension trust (expressed in thousands):

		ERS	Total Pension Trust Funds
Net position – July 1, 2013, as previously reported	$	731,342	2,697,236
Impact of GASB No. 65 implementation		(29,981)	(29,981)
Net position – July 1, 2013, as restated	$	701,361	2,667,255

The impact of adopting GASB No. 65 consisted of eliminating the applicable unamortized debt issuance costs, other than prepaid insurance, against its beginning net position.

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, 2013, as previously reported	$	9,826,618
Impact of GASB No. 65 implementation:		
PRHTA		(77,707)
PRASA		(63,335)
PREPA		(55,810)
GDB		(7,617)
UPR		(4,819)
PRPA		(2,794)
PRMFA		(3,688)
PRCCDA		(3,120)
PRIDCO		(1,594)
PRTC		(414)
Error corrections:		
PRASA (a)		(56,115)
PRMBA (b)		(18,444)
PRPA (c)		(15,319)
UPR (d)		10,000
PRMIMTA (e)		7,032
AEDA (f)		3,227
PRTC (g)		(1,950)
PRSPA (h)		587
PRPBC (i)		(467)
ITNGPR (j)		(422)
NPCPR (k)		373
Net position – July 1, 2013, as restated	$	9,534,222

The impact of adopting GASB No. 65 consisted of eliminating the applicable component unit's existing unamortized debt issuance costs, other than prepaid insurance, and GDB's unamortized loan origination and commitment fees against its beginning net position.

The corrections of error resulted from the following:

a) PRASA had an understatement of accumulated depreciation, hence an overstatement of net capital asset, for approximately $56.1 million, due to a misclassification of depreciable assets as nondepreciable.

b) PRMBA had not recognized interests, fines, penalties and surcharges of approximately $12.9 million over income taxes withheld due to the Department of the Treasury and had not recognized approximately $1.8 million of insurance liabilities; reserve for legal claims was increased by approximately $4.1 million for cases that were already probable of losses since prior years; capital assets resulted in an overstatement of approximately $364 thousand when compared to its subsidiary ledgers; payments received in advance from another component unit for transportation services in the amount of approximately $100 thousands were erroneously recognized as income during fiscal year 2006; and, corrections in the amount of $786 thousands were made to an overstated calculation of a voluntary termination obligation established on prior years.

c) PRPA adjusted its beginning net position to reflect the effect of approximately $15.3 million of voluntary termination expense incurred by certain employees in the prior year but that has inadvertently remained unaccrued.

d) UPR identified an understatement of prepaid assets in previously issued financial statements for $10 million, resulting from special contributions made during fiscal year 2013 by the UPR to the UPR Retirement System, which should have been recognized as a prepaid balance and not as an expense.

e) PRMIMTA provided evidence that confirmed that certain revenues in the amount of approximately $7 million that had been deferred in prior years had been in fact realized at that time.

f) AEDA had an overstatement of liabilities in the amount of approximately $2.3 million and an understatement of net capital assets for approximately $887 thousands.

g) PRTC had an understatement of accrued expenditures of approximately $1.7 million; and, capital assets in the amount of approximately $226 thousands were overstated.

h) PRSPA restated its beginning net position to correct various accounts in the aggregated amount of approximately $587 thousand.

i) PRPBC had an understatement of liabilities in the amount of approximately $564 thousands and an understatement of accounts receivables for approximately $97 thousands.

j) ITNGPR has an overstatement of assets of approximately $422 thousands.

k) NPCPR had an overstatement of liabilities in the amount of approximately $373 thousands.

(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, among other functions, 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, which approximates fair value. 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, 2014, 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 $82.8 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, 2014 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):

		Outstanding balance	Percentage of total
Primary government:			
Commonwealth	$	80,725	45.23%
The Children's Trust		15,406	8.63
PRIFA		2,072	1.16
COFINA		553	0.31
Total for primary government		98,756	55.33%
Discretely presented component units:			
GDB		71,665	40.15%
PRASA		6,840	3.83
SIFC		1,039	0.58
PRHTA		179	0.10
PREPA		9	0.01
Total for discretely presented component units		79,732	44.67
Total for all participants	$	178,488	100.00%

The deposits at June 30, 2014 were invested in securities with a cost that approximates fair value, plus accrued interest, for approximately $178.5 million. The external portion of the PRGITF was not considered significant for separate reporting in the accompanying basic financial statements.

As June 30, 2014, 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, 2014, presented at amortized cost (expressed in thousands):

Securities purchased under agreements to resell	$	25,000
Commercial paper		80,579
U.S. government and sponsored agencies obligations		50,227
Certificates of deposit and time deposits		6,000
Money market		9,892
Corporate obligations		6,750
Total	$	178,448

(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, 2014 consists of the following (expressed in thousands):

Governmental Activities:		**Carrying amount**			**Bank**
		Unrestricted	**Restricted**	**Total**	**balance**
Commercial banks	$	152,202	486,589	638,791	655,944
Governmental banks		1,618,094	206,687	1,824,781	2,216,929
Total	$	1,770,296	693,276	2,463,572	2,872,873

Business-Type Activities:		**Carrying amount**			**Bank**
		Unrestricted	**Restricted**	**Total**	**balance**
Commercial banks	$	56,380	7,142	63,522	69,672
Governmental banks		115,646	28	115,674	208,226
Under the Custody of the U.S. Treasury		—	415,032	415,032	415,003
Total	$	172,026	422,202	594,228	692,901

At year-end, the Primary Government's bank balance of deposits in commercial banks amounting to approximately $726 million was covered by federal depository insurance and by collateral held by the Commonwealth's agent in the Commonwealth's name. Deposits of approximately $415 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 Primary Government's bank balance of deposits in governmental banks, which as of June 30, 2014 amounted to approximately $2.4 billion, is also uninsured and uncollateralized. Of the total bank balance in governmental banks, approximately $2.4 billion are in GDB and approximately $18 million are in EDB.

The bank balance of GDB's and EDB's deposits at June 30, 2014 is broken down as follows (expressed in thousands):

Primary government (including the fiduciary funds)	$	3,108,564
Discretely presented components units		1,357,628
Total pertaining to the Commonwealth		4,466,192
Municipalities of Puerto Rico		705,532
Other nongovernmental entities		101,360
Escrow accounts from municipalities		353,140
Total deposits per GDB and EDB	$	5,626,224

The Primary Government classified approximately $82.8 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.

The following table summarizes the type and maturities of investments held by the Governmental Activities at June 30, 2014 (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	$ 28,124	—	—	28,124
U.S. corporate bonds and notes	22,906	—	—	22,906
Commonwealth bonds and notes	—	—	134,844	134,844
Money market funds	10,600	—	—	10,600
PRGITF	15,959	—	—	15,959
External investment pools – fixed-income securities:				
Dreyfus Government Cash Management	355,958	—	—	355,958
Deutsche Bank	—	—	24,884	24,884
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	$ 433,547	—	247,178	680,725
Reconciliation to the government-wide statement of net position (deficit):				
Unrestricted investments				$ 26,176
Restricted investments				654,549
Total				$ 680,725

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, 2014 consist of the following (expressed in thousands):

	Rating				
Investment type	**AAA**	**A+**	**BBB+ to B-**	**Not Rated**	**Total**
U.S. corporate bonds and notes	$ 22,906	—	—	—	$ 22,906
Commonwealth bonds and notes	—	134,844	—	—	134,844
Money market funds	—	—	—	10,600	10,600
PRGITF	15,959	—	—	—	15,959
External investment pools – fixed-income securities:					
Dreyfus Government Cash Management	355,958	—	—	—	355,958
Deutsche Bank	24,884	—	—	—	24,884
Nonparticipating investment contracts:					
Vereinsbank AG	—	—	83,684	—	83,684
Calyon	3,766	—	—	—	3,766
Total debt securities and fixed-income investment contracts	$ 423,473	134,844	83,684	10,600	652,601

Approximately $28.1 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, 2014 (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 and agency securities	$ —	363	3,158	1,226	4,747
Mortgage and asset-backed securities:					
Government National Mortgtage Association (GNMA)	—	—	159	414	573
FNMA	—	—	—	2,489	2,489
Federal Home Loan Mortgage Corporation (FHLMC)	—	—	—	4,659	4,659
Commercial mortgages	—	—	—	1,712	1,712
Asset–backed securities	—	849	—	—	849
U.S. corporate bonds and notes	—	5,073	2,531	1,918	9,522
Foreign corporate and government bonds and notes	—	1,253	256	—	1,509
U.S. municipal notes	—	—	56	835	891
Total debt securities	$ —	7,538	6,160	13,253	26,951
External investment pools — equity securities:					
SPDR S&P 500 ETF Trust					9,820
MFC ISHARES TR Russell 2000 index Fund					986
MFC Vanguard FTSE Emergency MKTS ETF					875
MFC Vanguard FTSE Development Markets					103
Total					$ 38,735
Reconciliation to the government-wide statement of net position:					
Unrestricted investments					$ —
Restricted investments					38,735
Total					$ 38,735

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, 2014 consist of the following (expressed in thousands):

	Rating						
Investment type	**AAA**	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to BB-**	**Not rated**	**Total**
Mortgage and asset-backed securities:							
Commercial mortgages	$ 1,173	—	—	—	—	504	1,677
Asset-backed securities	486	—	—	—	—	363	849
U.S. corporate bonds and notes	128	1,034	4,573	3,423	365	—	9,523
Foreign corporate and government bonds and notes	—	229	991	197	92	—	1,509
U.S. municipal notes	447	388	56	—	—	—	891
Total debt securities	$ 2,234	1,651	5,620	3,620	457	867	14,449

Approximately $12.5 million of the total business-type activities' investments consist of U.S. government securities and mortgage-backed securities (GNMA, FNMA and FHLMC), 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, 2014 consist of the following (expressed in thousands):

	Carrying amount			
	Unrestricted	**Restricted**	**Total**	**Bank balance**
Commercial banks	$ 707,047	77,353	784,400	589,807
Governmental banks	360,425	21,299	381,724	495,674
Total	$ 1,067,472	98,652	1,166,124	1,085,481

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 received for securities lending transactions of the pension trust funds at June 30, 2014 amounting to approximately $142.6 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, 2014, the fiduciary funds had approximately $639 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, 2014 (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	$	1,013	25,122	29,037	—	55,172
U.S. Treasury note strips		—	—	75,081	—	75,081
U.S. Treasury bonds		—	—	—	659	659
U.S. Treasury Inflation-Protected Securities (TIPS)		—	500	1,766	—	2,266
U.S. government sponsored agencies notes:						
Federal Home Loan Bank (FHLB)		6,214	2,256	6,473	—	14,943
FNMA		—	4,942	3,377	—	8,319
FHLMC		—	9,756	3,486	—	13,242
Federal Farm Credit Bank (FFCB)		—	4,153	1,641	—	5,794
Mortgage and asset–backed securities:						
GNMA		—	44	—	11,066	11,110
FNMA		616	176	720	5,668	7,180
FHLMC		—	38	278	4,638	4,954
Collateralized mortgage obligations (CMO)		—	—	—	322	322
Commercial mortgages		—	—	—	22,663	22,663
Asset–backed securities		—	69	—	—	69
U.S. corporate bonds and notes		118,199	683,048	514,799	44,055	1,360,101
Non U.S. corporate bonds and notes		22,460	129,135	118,697	3,181	273,473
U.S. municipal bonds and notes		—	3,403	5,325	3,104	11,832
Commonwealth bonds		995	—	—	—	995
COFINA bonds		—	—	—	138,123	138,123
Total bonds and notes		149,497	862,642	760,680	233,479	2,006,298
Nonexchange commingled trust funds:						
Fixed income fund- SSgA Intermediate Fund:						
U.S.		—	141,878	—	—	141,878
Non-U.S.		—	75,325	—	—	75,325
Total bonds and notes and nonexchange commingled fixed-income trust funds	$	149,497	1,079,845	760,680	233,479	2,223,501
Stocks and equity and other nonexchange commingled trust funds:						
U.S. corporate stock						3,061
Non U.S. corporate stock						89,941
Nonexchange commingled trust funds:						
Equity and other funds:						
U.S.- SSgA Russell 3000 Fund						840,649
U.S.- SSgA S&P 500 Fund						25,962
Non-U.S.- SSgA MSCI ACWI Ex USA Fund						210,183
Total stocks and equity and other nonexchange commingled trust funds						1,169,796
Investments in limited partnerships						65,316
Totals						$ 3,458,613

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, 2014:

Custodial Risk – At June 30, 2014, 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. Securities lent are not exposed to custodial credit risk (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, 2014 are as follows (expressed in thousands):

Investment type	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B	CCC	Not Rated	Total
	Rating (1)								
Bonds and notes:									
U.S. government agencies obliations:									
FHLB	$ —	14,943	—	—	—	—	—	—	14,943
FNMA	—	8,319	—	—	—	—	—	—	8,319
FHLMC	—	13,242	—	—	—	—	—	—	13,242
FFCB	—	5,794	—	—	—	—	—	—	5,794
Mortgage and asset-backed securities:									
FNMA	—	7,180	—	—	—	—	—	—	7,180
FHLMC	—	4,954	—	—	—	—	—	—	4,954
Other collateralized mortgage obligations	36	—	—	—	—	—	—	286	322
Commercial mortgages	22,663	—	—	—	—	—	—	—	22,663
Asset-backed securities	—	69	—	—	—	—	—	—	69
U.S. corporate bonds and notes	20,810	153,523	641,085	493,070	39,775	—	—	11,838	1,360,101
Non U.S. corporate bonds	—	40,172	118,005	98,467	4,364	—	—	12,465	273,473
U.S. municipal bonds	3,712	4,864	3,256	—	—	—	—	—	11,832
Commonwealth bonds	—	—	—	—	995	—	—	—	995
COFINA bonds	—	—	138,123	—	—	—	—	—	138,123
Total bonds and notes	47,221	253,060	900,469	591,537	45,134	—	—	24,589	1,862,010
Nonexchange commingled trust funds:									
Fixed Income fund - SSgA Intermediate Fund	25,391	27,975	81,104	82,733	—	—	—	—	217,203
Total debt securities and fixed-income nonexchange commingled trust fund	$ 72,612	281,035	981,573	674,270	45,134	—	—	24,589	2,079,213

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

Approximately $144.3 million of the total fiduciary funds' investments at June 30, 2014 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, 2014. 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.

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, 2014, 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	7%
After one year to five years	49
After five years to ten years	34
After ten years	10
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.

The TRS's investments and deposits exposed to foreign currency risk as of June 30, 2014, are as follows:

Investment type	Local currency		Fair value (in thousands)
Cash and cash equivalents	Australian Dollar	$	12
Cash and cash equivalents	Euro		831
Cash and cash equivalents	Hong Kong Dollar		13
Cash and cash equivalents	Japanese Yen		12
Total cash and cash equivalents			868
Non-U.S. corporate stock	Australian Dollar		6,951
Non-U.S. corporate stock	British Sterling Pound		20,211
Non-U.S. corporate stock	Danish Krone		5,565
Non-U.S. corporate stock	Euro		11,617
Non-U.S. corporate stock	Hong Kong Dollar		3,465
Non-U.S. corporate stock	Japanese Yen		12,662
Non-U.S. corporate stock	New Turkish Lira		677
Non-U.S. corporate stock	New Zealand Dollar		943
Non-U.S. corporate stock	South Africa Rand		1,781
Non-U.S. corporate stock	Singapore Dollar		1,795
Non-U.S. corporate stock	South Korean Won		885
Non-U.S. corporate stock	Swedish Krona		8,434
Non-U.S. corporate stock	Swiss Franc		8,472
Total common stock			83,458
Nonexchange commingled trust funds - Ssga MCSI ACWI Ex USA			210,183
Total cash and cash equivalents and securities exposed to foreign currency risk		$	294,509

Nonexchange Commingled Trust Funds

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, 2014, 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
Information technology	19%	18%	7%
Financials	16	17	26
Healthcare	13	13	8
Consumer discretionary	12	13	11
Industrials	11	12	11
Energy	11	10	10
Consumer staples	10	8	10
Materials	3	4	8
Utilities	3	3	4
Telecommunication services	2	2	5
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, 2014, the investments underlying the SsgA Intermediate Fund had the following sector allocations:

Sector	Percentage
Corporate- Industrial	45%
Corporate- Finance	30
Noncorporates	21
Corporate- Utility	4
Total	100%

As of June 30, 2014, 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
United Kingdom	15%	3%
Japan	14%	2%
Canada	8%	5%
France	7%	1%
Germany	7%	4%
Australia	6%	2%
Switzerland	6%	-
China	4%	-
Korea	3%	-
Spain	3%	-
Taiwan	3%	-
Brazil	2%	2%
Hong Kong	2%	-
Italy	2%	-
Netherlands	2%	-
South Africa	2%	-
Sweden	2%	-
Denmark	1%	-
India	1%	-
Mexico	1%	1%
Russia	1%	-
Singapore	1%	-
U.S.	-	65%
Other	7%	15%
Total	100%	100%

Investments in Limited Partnerships

Pursuant to the Commonwealth's General Investment Policy, the pension trust funds invested approximately $1.4 million in limited partnerships during the year ended June 30, 2014.

The fair value of investments in limited partnerships at June 30, 2014 amounted to approximately $65.3 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, 2014, 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	52
Puerto Rico System of Annuities and Pensions for Teachers		20,000	—	19,056	42
Subtotal		45,000	—	42,876	94
Guayacán Fund of Funds II, L.P.:					
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico		25,000	—	23,681	2,907
Puerto Rico System of Annuities and Pensions for Teachers		25,000	—	23,681	2,907
Subtotal		50,000	—	47,362	5,814
Guayacán Private Equity Fund, L.P.					
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico		5,000	—	4,645	3,516
Puerto Rico System of Annuities and Pensions for Teachers		5,000	—	4,645	3,516
Subtotal		10,000	—	9,290	7,032
Guayacán Private Equity Fund II, L.P.:					
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico		25,000	892	19,922	20,343
Subtotal		25,000	892	19,922	20,343
Other Funds:					
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico		47,596	255	47,382	27,328
Puerto Rico System of Annuities and Pensions for Teachers		28,714	—	26,498	4,705
Subtotal		76,310	255	73,880	32,033
Total	$	206,310	1,147	193,330	65,316

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, 2014 consist of (expressed in thousands):

Major Component Units

	Carrying amount			
	Unrestricted	**Restricted**	**Total**	**Bank balance**
Commercial banks	$ 1,644,379	1,089,661	2,734,040	2,768,698
Governmental banks	161,081	122,841	283,922	319,689
Total	$ 1,805,460	1,212,502	3,017,962	3,088,387

As of June 30, 2014, the Component Units had approximately $320 million of cash and cash equivalents that were exposed to custodial credit risk as uninsured and uncollateralized.

Nonmajor Component Units

	Carrying amount			
	Unrestricted	**Restricted**	**Total**	**Bank balance**
Commercial banks	$ 112,441	69,809	182,250	200,460
Governmental banks	117,893	108,434	226,327	334,761
Total	$ 230,334	178,243	408,577	535,221

As of June 30, 2014, the Component Units had approximately $335 million of cash and cash equivalents that were exposed to custodial credit risk as uninsured and uncollateralized.

Of the total bank balance in governmental banks, approximately $261 million are in GDB and approximately $394 million are in EDB.

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, 2014 (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.

Major Component Units

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	$ 159,419	236,146	33,026	3,239	431,830
U.S. government sponsored agencies notes:					
FHLB	328,531	276,917	36,680	—	642,128
FNMA	105,605	127,567	27,661	1,453	262,286
FHLMC	112,266	204,063	79,439	275	396,043
FFCB	529	55,363	1,787	—	57,679
Other	—	2,292	—	—	2,292
Mortgage and asset–backed securities:					
GNMA	523	252	3,571	127,468	131,814
FNMA	10,063	32,048	3,426	206,078	251,615
FHLMC	44,337	36,579	26,903	49,713	157,532
Commercial mortgages	—	—	—	3,257	3,257
Asset–backed securities	—	5,636	2,168	—	7,804
Other	—	159	20,016	65,623	85,798
U.S. corporate bonds and notes	406,647	267,438	152,939	39,253	866,277
Foreign government bonds and notes	—	2,788	1,671	—	4,459
U.S. municipal notes	14,184	8,608	8,189	2,137	33,118
Commonwealth agency bonds and notes	6,351	108,291	—	—	114,642
Money market funds	47,127	—	—	—	47,127
Negotiable certificates of deposit	318,565	—	—	—	318,565
PRGITF	1,039	71,665	—	—	72,704
External investment pools – fixed–income securities	126,556	430	—	6,403	133,389
Nonparticipating investment contracts	13,442	44,140	—	229,142	286,724
Others	254,147	43,682	—	—	297,829
Total debt securities and fixed–income investment contracts	$ 1,949,331	1,524,064	397,476	734,041	4,604,912
Equity securities:					
U.S. corporate stocks					381,901
Non U.S. corporate stocks					42,517
External investment pools – equity securities					324,656
Limited partnership/private equity					47,122
Total					5,401,108
Reconciliation to the government-wide statement of net position (deficit):					
Unrestricted investments					3,092,818
Restricted investments					2,308,290
Total					$ 5,401,108

Nonmajor Component Units

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	$ 12,431	29,533	13,010	6,900	61,874
U.S. government sponsored agencies notes:					
FHLB	251	4,065	4,216	1,262	9,794
FNMA	—	6,239	1,968	2,402	10,609
FHLMC	3,219	3,358	—	1,027	7,604
FFCB	—	1,976	9,319	739	12,034
Other	—	—	1,818	1,529	3,347
Mortgage and asset–backed securities:					
GNMA	—	181	—	24,534	24,715
FNMA	15,233	24,367	2,997	161,255	203,852
FHLMC	3,780	22,292	2,118	16,224	44,414
Commercial mortgages	—	11,197	—	4,938	16,135
Asset–backed securities	37	7,425	2,134	4,396	13,992
Other	1,637	—	1,296	—	2,933
U.S. corporate bonds and notes	30,117	43,860	29,538	4,561	108,076
Foreign government bonds and notes	—	—	—	—	—
U.S. municipal notes	155	8,535	59,332	467,096	535,118
Commonwealth agency bonds and notes	215,404	353,439	236,367	157,305	962,515
Money market funds	88,464	33,365	—	—	121,829
Negotiable certificates of deposit	58,447	11,800	—	—	70,247
PRGITF	—	—	—	—	—
External investment pools – fixed–income securities	51,438	—	—	—	51,438
Nonparticipating investment contracts	—	—	15,863	20,845	36,708
Others	26,034	8,417	1,196	252	35,899
Total debt securities and fixed–income investment contracts	$ 506,647	570,049	381,172	875,265	2,333,133
Equity securities:					
U.S. corporate stocks					62,934
Non U.S. corporate stocks					2,120
External investment pools – equity securities					40,280
Limited partnership/private equity					22,616
Total					2,461,083
Reconciliation to the government-wide statement of net position (deficit):					
Unrestricted investments					1,166,304
Restricted investments					1,294,779
Total					$ 2,461,083

PRASA and PRHTA (major Component Units) classified approximately $6.8 million and $200 thousands, respectively, of investments presented in the PRGITF as cash equivalents.

Custodial Credit Risk – The Component Units had approximately $264 million (approximately $257 million and $7 million at major and nonmajor Component Units respectively) 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 (a major component unit) limits its exposure to foreign currency risk by limiting the total amount invested to 5% of the portfolio. As of June 30, 2014, the SIFC had the following investments denominated in foreign currency (expressed in thousands):

Description	Currency		Fair value
Preferred stock and other equities	Euro	$	12,526
	Japanese Yen		8,546
	British Pound		8,045
	Swiss Franc		4,020
	Singapore Dollar		2,202
	Australian Dollar		1,159
	Swedish Krona		943
	Norwegian Krone		900
	Hong Kong Dollar		875
	South African Rand		431
	Indonesian Rupiah		373
	Euro		2,499
Government and foreign corporate bonds	Mexican Peso		949
	Brazilian Real		385
	Colombian Peso		383
Total		$	44,236

Subsequent Downgrades in Credit Ratings of Commonwealth's Bonds

As explained in note 22, during fiscal year 2015, several bonds of the Commonwealth and its instrumentalities were downgraded several times and several notches by the principal credit rating agencies in the United States. However, 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 85% and 75% of the investments at the Primary Government and component unit level, respectively, with credit ratings no lower than A- or without risks at June 30, 2014, overall average credit ratings on the entire investment portfolio have remained within the Commonwealth's required investment policies, even after the several 2015 downgrades. The remaining percentage of investments is either rated throughout the B spectrum or not rated.

(6) Securities Lending and Repurchase Agreement Transactions

During the year, the pension trust funds, included within the fiduciary funds; the GDB, the EDB, and the 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 investment 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, 2014, 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, 2014, consisted of the following (expressed in thousands):

Description		Fair value of underlying securities
U.S. government securities:		
U.S. Treasury bill	$	2,000
U.S. Treasury notes		24,363
U.S. Treasury note strips		12,492
U.S. Treasury bonds		242
U.S. Treasury Inflaction-Proctected Securities (TIPS)		568
U.S. government sponsored`agencies notes:		
FNMA		1,474
FHLMC		4,134
U.S. corporate bonds and notes		92,415
U.S. corporate stock		280
Non U.S. corporate stock		1,250
Total	$	139,218

The underlying collateral for these securities had a fair value of approximately $142.6 million as of June 30, 2014. 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, 2014, 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	$	141,800
Commercial paper		247
Certificates of deposit		580
Total	$	142,627

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, 2014	$	50,000
Maximum amount outstanding at any month-end		1,236,413
Average amount outstanding during the year		572,737
Weighted average interest rate for the year		0.18%
Weighted average interest rate at year-end		0.03%

The following summarizes the activity of securities sold under agreements to repurchase for the year ended June 30, 2014 (expressed in thousands):

		Beginning balance	Issuances	Maturities	Ending balance	Within one year
GDB Operating Fund	$	634,301	9,942,712	(10,527,013)	50,000	—

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. As of 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, 2014	$	45,690
Average amount outstanding during the year		59,824
Maximum amount outstanding at any month-end		75,750
Weighted average interest rate for the year		1.07%
Weighted average interest rate at year-end		0.35%

As of June 30, 2014, securities sold under agreements to repurchase were collateralized with mortgage-backed securities, other government agencies securities, and other investments with a market value of approximately $50 million.

The activity for securities sold under agreements to repurchase during 2014 was as follows (expressed in thousands):

		Beginning balance	Issuances	Maturities	Ending balance	Within one year
Securities sold under agreements to repurchase	$	76,200	248,690	(279,200)	45,690	45,690

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, 2014 had a fair value of $109.6 million and were secured with collateral received with a fair value of $112.1 million. Securities lent for which cash was received as collateral as of June 30, 2014 consist of the following (expressed in thousands):

Description		Fair value of underlying securities
Corporate bonds and notes	$	6,233
Equity securities		76,366
U.S. sponsored agencies bonds and notes		15,627
U.S. Treasury notes and bonds		2,597
	$	100,823

Cash collateral received as of June 30, 2014 amounted to $103.1 million and was invested as follows (expressed in thousands):

Description		Fair value of underlying securities
Resell agreements	$	49,605
Commercial paper		2,999
Certificates of deposit with other banks		50,503
	$	103,107

In addition, the SIFC had the following lending obligations as of June 30, 2014 for which securities were received as collateral (expressed in thousands):

		Fair value	
Description		Securities lent	Investment collateral received
U.S. Treasury bonds and notes	$	3,938	4,032
Corporate bonds and notes		778	795
U.S. sponsored agencies bonds and notes		4,052	4,169
	$	8,768	8,996

(7) Receivables and Payables

Governmental and Propriety Funds

Receivables in the governmental funds include approximately $1.9 billion of accrued income, excise and sales and use taxes. Intergovernmental receivables include approximately $541.4 million from the federal government and $56.3 million from CRIM. In addition, the enterprise funds include $63.7 million of unemployment, disability, and drivers' insurance premium receivables; and approximately $40.5 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

$1.3 billion of trade accounts due to suppliers for purchase of merchandise and services rendered, approximately $469 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 $220 million of excess of outstanding checks over bank balance and approximately $1 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 $42.2 million was recorded as other receivable in the government-wide financial statements for estimated shipments from January 1 to June 30, 2014, 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, 2014, 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 year ended June 30, 2014, personal loans with principal balances amounting to approximately $147 million, 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, 2014, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable from plan members:		
Personal	$	634,630
Mortgage		323,408
Cultural trips		46,737
Total loans to plan members		1,004,775
Accrued interest receivable		40,060
Total loans and interest receivable from plan members		1,044,835
Less allowance for adjustments and losses in realization		(4,370)
Total loans and interest receivable from plan members – net	$	1,040,465

As of June 30, 2014, 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	$	3,790
Special laws		104,572
Employer and employee contributions		154,578
Interest on late payments		15,994
Other		25,752
Total accounts receivable from employers		304,686
Less allowance for doubtful accounts receivable		(82,848)
Accounts receivable from employers – net	$	221,838

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 and municipalities, 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.

As of June 30, 2014, ERS recorded an allowance of $82.8 million for adjustments and losses in realization related to the additional uniform contribution due from the Commonwealth because its collectability is uncertain at this moment.

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. Management is of the opinion that, except for the additional uniform contribution of the Commonwealth of $82.8 million, other amounts due from employers are collectible; however this situation could ultimately affect the payment of benefits to members or repayment of ERS's bonds payable, should any such amounts become uncollectible in the future.

As of June 30, 2014, accounts receivable from employers include amounts due from PRMeSA of approximately $30 million, as follow (in thousands):

Employer and employee contributions	$	14,087
Interest		15,863
Total accounts receivable from PRMeSA	$	29,950

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 (3) years are as follows (in thousands):

Year		Amount
2015		3,068
2016		3,068
2017		1,023
Total	$	7,159

Component Units – GDB

At June 30, 2014, loans to public corporations and agencies of the Commonwealth (excluding municipalities) amounting to $6.2 billion are repayable from the following sources (in thousands):

		Amount
Repayment source:		
Proceeds from future bond issuances	$	2,276,522
Operating revenues of public entities other than the Commonwealth		427,897
General fund and/or legislative appropriations		3,532,268
Other		12,740
Total	$	6,249,427

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, 2014, 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, 2014, the outstanding principal amount of these loans was $200 million.

During fiscal year 2014, disbursements and collections of principal of public sector loans with future bond issuances as source of repayment amounted to approximately $1.742 billion and $2.454 million, respectively. Public sector loans with Commonwealth appropriations as source of repayment had disbursements and collections of principal amounting to approximately $65.9 million and $309.5 million, respectively during the year ended June 30, 2014. Public sector loans with operating income and other as source of repayment had disbursements and collections of principal amounting to approximately $280.4 million and $270.1 million, respectively during the year ended June 30, 2014. 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 25-40 years each, at contractual interest rates. During the 2014 fiscal year, Executive Order No. 2014-029 (the "EO") was signed by the Governor, issued and implemented. The EO modified the debt service appropriation originally approved by the Legislature and thus modified the principal and/or interest payments actually received by the GDB. The amount of the appropriation decreased from approximately $270 million to $30.1 million. The GDB annually submits 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.

As of June 30, 2014, public sector loans amounting to approximately $6.105 billion were identified as non-accrual, including approximately $39.9 million of a loan granted to PREPA and the total outstanding lines of credit to the PRHTA approximating $1.814 million (excluding variable rate debt obligations "VRDOs" of approximately $200 million) for which specific impairment reserves totaling approximately $254 million ($39.9 and $215 million, respectively) have been established. GDB's recorded investment in loans classified as impaired was $1.854 billion at June 30, 2014 and represents the outstanding balance on a loans granted to PREPA to finance the shortfall on the cancellation of interest rate swap and to PRHTA. In the case of

PREPA, as per the forbearance agreement reached between GDB and such public corporation, GDB will collect upon the consummation of certain events some of which are uncertain at the time. Due to the unsecured nature and the reasons stated, GDB's management has established an impairment reserve for the total of the outstanding amount of the loan.

As of June 30, 2014, 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 $186 million, which represent 16% of GDB's total assets, at June 30, 2014. 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, 2014, 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. Currently, the credit rating of PRHTA is non-investment grade. In note 2, there is a further discussion on management plans to repay the outstanding borrowings with the GDB, which included the potential transfer to PRIFA of all of PRHTA's debt with GDB. Such debt under PRIFA would have been assigned a repayment source coming from the added petroleum tax enacted early in 2015. Currently, since the transfer to PRIFA of the outstanding credit facilities of PRHTA has not occurred, there has been a significant delay in the collection of principal which has impacted the payment performance over a sustainable period. These factors led management to classify all of PRHTA's credit facilities as non-accrual and establish an impairment reserve of $215 million.

Loans to municipalities amounted to approximately $2.28 billion or 18% of the GDB total assets at June 30, 2014. For the year ended June 30, 2014, municipal sector loan disbursements and collections amounted to approximately $165 million and $170 million, respectively. These loans include approximately $1.37 billion at June 30, 2014, which are collateralized by a pledge of a portion of property tax assessments of each municipality. Loans pledged with property tax assessments include bonds and notes issued by Puerto Rico municipalities which are originated by GDB as bridge financing until such financings can be packaged and securitized. Loans to municipalities include $580 million at June 30, 2014, which are collateralized by a pledge of a portion of the municipal sales and use tax, which is deposited in special accounts with GDB for the purpose of granting such loans to municipalities. The funds available in such accounts increase the borrowing capacity of the corresponding municipality. Loans to municipalities include $260 million at June 30, 2014, which were provided mainly as interim loans to finance capital expenditures that are payable from revenues to be generated from a specific revenue generating project associated with the loan or to cover operating losses. Once operating loans are approved and if the municipality is not servicing the debt with its own funds, GDB informs the Municipal Revenue Collection Center (CRIM for its Spanish acronym) in order to withhold property taxes revenues and remit them directly to GDB before they are distributed to the municipalities. These loans include approximately $7 million which were previously payable from future issuances of the Commonwealth's general obligations and are currently payable from legislative appropriations. Municipality loans amounting to approximately $1.5 million as of June 30, 2014, were identified as delinquent. No interest was collected on these loans during the year ended June 30, 2014.

Loans to the private sector include the outstanding principal balance of credit facilities granted by GDB and its different subsidiaries to private enterprises in Puerto Rico, the activities of which are deemed to further the economic and tourism development of Puerto Rico. Loans to the private sector also include the outstanding principal balance of mortgage loans granted to low and moderate-income families for the acquisition of single-family housing units and to developers of low and moderate-income multifamily housing units in Puerto Rico. These credit facilities, net of allowance for loan losses, amounted to approximately $496 million at June 30, 2014, of which approximately $270 million are mortgage loans for low and moderate-income housing units and approximately $168 million are for tourism projects. Private sector loans classified as nonaccrual amounted to approximately $281 million at June 30, 2014.

For the public sector loan portfolio, collective evaluation of the collectability is performed. Historically, virtually all the public sector loan portfolio has been performing and as a result GDB has not written off any loan, and has no expectation of writing off any such loans. However, the experienced significant delays in the receipt of debt service payments, sometimes for more than the GDB's normal lending and collection cycle, has led management to establish a collective or general allowance based on probabilities and loss given defaults used and published by external credit rating agencies and it is accomplished in two steps:(i) mapping the probabilities of default related to GDB's segmented loan portfolio to probabilities of default published by the external credit agencies; (ii) an estimated loss (loss given default) rate is generally determined based upon the GDB's management's best estimate of incurred losses, which takes into account GDB's knowledge of repayment capacity of the ultimate source of repayment; or by the loss given default ratios calculated by external credit agencies for similar type of exposures in areas where GDB has not experienced actual losses. Based upon (i) the probability of default rate for each source of repayment category, (ii) the amount of credit exposure in each of these categories and (iii) the loss given default ratio, the required level of the collective loss allowance is determined. GDB has also specific loss allowances for impaired loans which are individually evaluated. Thus, the estimated range of possible loss is based on currently available information, significant judgment and assumptions, all of which are subject to change. GDB's management is currently evaluating the methodology and allowance in the context on the ongoing audit of GDB's financial statements.

(8) Pledges of Receivables and Future Revenues

COFINA Revenues

Act 91-2006, as amended, establishes the Dedicated Sales Tax Fund, a special fund held by COFINA. The Act requires that the greater of the following amounts be deposited in the Dedicated Sales Tax Fund each fiscal year for the payment of COFINA bonds: (i) a minimum fixed amount, referred to as the "Base Amount" and (ii) the revenues generated by up to 2.75% of the Commonwealth's sales and use tax. The Base Amount in fiscal year ended June 30, 2014 amounted to approximately $643.7 million. For fiscal year 2014, debt service paid by COFINA amounted approximately to $652.8 million.

PRIFA Assigned Revenues

The following revenues (collectively, the "PRIFA Assigned Revenues") have been assigned by the Commonwealth to PRIFA and are pledged for the payment of certain of PRIFA's bonds and notes, subject to the provisions of Article VI, Section 8 of the Puerto Rico Constitution. As further discussed in notes 2 and 22, the PRIFA Assigned Revenues are currently being retained by the Commonwealth and redirected to the payment of the Commonwealth's general obligation bonds pursuant to Executive Order No. 46.

(i) Federal Excise Taxes

Rum manufactured in Puerto Rico is subject to federal excise taxes once exported to the U.S.; however, the revenues generated by such excise taxes are returned by the U.S. Internal Revenue Service (IRS) to the Commonwealth. Act No. 44 of June 21, 1988, as amended (the "PRIFA Act"), requires that the first $117 million of certain federal excise taxes received by the Commonwealth be transferred to PRIFA, a blended component unit of the Commonwealth, each fiscal year. Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States. PRIFA has pledged these taxes for the repayment of PRIFA's Special Tax Revenue Bonds. Receipt of the federal excise taxes securing the bonds is 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 amount 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 less than $117 million, the PRIFA Act 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 sufficient to cover such deficiency. The Commonwealth's Legislative Assembly, however, is not required to make such appropriation. For the year ended June 30, 2014, 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 2014, debt service paid on Special Tax Revenue Bonds by PRIFA amounted to $115.4 million.

(ii) Petroleum Products Tax

Recently, the PRIFA Act and the Puerto Rico Internal Revenue Code of 2011, as amended (the "Puerto Rico Code") were amended by Act 1-2015, as amended, in order to impose a new petroleum products tax on non-diesel products ($6.25 initially) and to assign the revenues therefrom to PRIFA to secure the payment of certain of its bonds and notes.

PRHTA Assigned Revenues

The following revenues (collectively, the "PRHTA Assigned Revenues") have been assigned by the Commonwealth to PRHTA and are pledged for the payment of certain of PRHTA's bonds, subject to the provisions of Article VI, Section 8 of the Puerto Rico Constitution. As further discussed in notes 2 and 22, the PRHTA Assigned Revenues are currently being retained by the Commonwealth and redirected to the payment of the Commonwealth's general obligation bonds pursuant to Executive Order No. 46.

(i) Gasoline and Gas Oil Taxes

The Puerto Rico Code currently imposes a $0.16 per gallon tax on gasoline and a $0.04 per gallon tax on gas oil and diesel oil. By law the Commonwealth has assigned the entire $0.16 tax on gasoline and $0.04 of the tax on gas oil and diesel oil to PRHTA as a source of revenues and has authorized PRHTA to pledge such amounts to the payment of the principal of and interest on its bonds.

(ii) License Fees

Under Act 22-2000, as amended, known as the "Vehicle and Traffic Law," the Commonwealth imposes annual license fees on various classes of motor vehicles. Fifteen dollars ($15) of each such annual license fees have been assigned to PRHTA to be used as a source of revenues, and PRHTA has been authorized to pledge such revenues as security for the payment of debt service on obligations of PRHTA or any other legal purpose of PRHTA.

(iii) Petroleum Products Tax

The Puerto Rico Code also allocates to PRHTA the total amount of excise taxes imposed by the Commonwealth on petroleum products (which include crude oil, unfinished oil and derivative products) and authorizes PRHTA to pledge such amounts to the payment of principal and interest on its bonds. The tax is imposed on any petroleum product introduced, consumed, sold or transferred in the Commonwealth. The petroleum products tax rate is currently $9.25 per barrel or fraction thereof.

CCDA Assigned Revenues

Article 24 of Act No. 272-2003, as amended, imposes a hotel occupancy tax on all hotels and motel accommodations on the island (the "Hotel Occupancy Tax"). A portion of the proceeds of the Hotel Occupancy Tax (the "CCDA Assigned Revenues") has been assigned to CCDA and pledged for the payment of CCDA's bonds, subject to the provisions of Article VI, Section 8 of the Puerto Rico Constitution. As further discussed in notes 2 and 22, the CCDA Assigned Revenues are currently being retained by the Commonwealth and redirected to the payment of the Commonwealth's general obligation bonds pursuant to Executive Order No. 46.

PRMBA Assigned Revenues

A portion of the proceeds of the cigarette tax imposed by Section 3020.05 of the Puerto Rico Code (the "PRMBA Assigned Revenues") has been assigned to PRMBA and pledged for the payment of certain PRMBA debt obligations, subject to the provisions of Article VI, Section 8 of the Puerto Rico Constitution. As further discussed in notes 2 and 22, the PRMBA Assigned Revenues are currently being retained by the Commonwealth and redirected to the payment of the Commonwealth's general obligation bonds pursuant to Executive Order No. 46.

Children's Trust Revenues

The Children's Trust is a public trust ascribed to GDB, created pursuant to Act No. 173-1999 ("Act 173"). Through Act 173, the Commonwealth assigned and transferred to the Children's Trust all of its rights, title and interest in and to a settlement agreement entered into by and among the Commonwealth, 46 states and several cigarette manufacturers (the "Tobacco Settlement Agreement"), including the Commonwealth's right to receive certain annual payments from such cigarette manufacturers (the "Pledged TSRs"). The Pledged TSRs, otherwise deliverable to the General Fund, were assigned to the Children's Trust in consideration of the issuance of bonds by the Children's Trust and the application of the proceeds thereof to fund certain social programs.

(9) Interfund and Intraentity Transactions

Interfund receivables and payables at June 30, 2014 are summarized as follows (expressed in thousands):

Receivable Fund	Payable Fund		
Puerto Rico Medical Service Administration	General	$	22,036
Other proprietary	General		19,588
Lotteries	General		19,017
General	Unemployment insurance		10,832
General	Other proprietary		5,281
Other governmental	General		3,135
Other governmental	Puerto Rico Medical Service Administration		2,394
General	Other governmental		1,703
		$	83,986

Transfers from (to) other funds for the year ended June 30, 2014 are summarized as follows (expressed in thousands):

Transferee Fund	Transferor Fund		
General (a)	Debt service	$	1,441,433
Debt service (b)	General		737,639
Other governmental (c)	General		612,174
Other governmental (d)	Debt service		454,639
COFINA Special Revenue (e)	Debt service		333,300
General (f)	Lotteries		206,150
General (g)	COFINA Special Revenue		84,880
Puerto Rico Medical Services Administration (h)	General		50,534
General (i)	Unemployment Insurance		41,719
COFINA Special Revenue (j)	COFINA Debt Service		41,641
General (k)	Other proprietary		16,103
COFINA Debt Service (l)	Debt service		9,066
General (m)	Puerto Rico Medical Services Adminitration		2,250
Other proprietary (n)	General		1,801
General (o)	Other governmental		956
Puerto Rico Water Pollution Control Revolving Loan Fund (p)	General		106
		$	4,034,391

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

a. Transfer of $1,441,433 from the debt service fund to the General Fund for the payment of principal and interests on notes payable.

b. Transfer of $737,639 from the General Fund to the debt service fund to make funds available for debt service payments on general obligation bonds.

c. 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 ($416,701); ($72,130) related to the revenues received from the Tobacco Settlement Agreement managed by The Children's Trust, a blended component unit of the Commonwealth; ($164) related to the SCPT for its operations; ($123,044) to the PRIFA for the payment of debt and capital projects and ($135) to PRMSA for the payment of interests on appropriation debts.

d. Transfer from the debt service fund to the Commonwealth capital project fund ($228,848); to PBA, a blended component unit of the Commonwealth ($193,079) and to SCPT ($32,712) for the payment of principal and interests on short-term bond anticipation notes (at the Commonwealth capital project fund) and notes payable (at PBA and SCPT).

e. Transfer from the debt service fund to COFINA Special Revenue Fund ($333,300) for the repayment of principal on bond anticipation notes.

f. Transfer of $206,150 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.

g. Transfer of $84,880 from the COFINA Special Revenue Fund to the General Fund to finance the General Fund's operational expenditures.

h. Transfer of $50,534 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 Unemployment Insurance Fund related to the distribution of surplus cash corresponding to the General Fund for the payment of administrative expenses ($41,719).

j. Transfer from Disability Insurance Funds related to the distribution of surplus cash to the General Fund ($4,488) and from 9-1-1 Services ($11,615) to reimburse the General Fund for expenses assistance provided on emergency calls services.

k. Transfer from the debt service fund to COFINA Debt Service Fund ($9,066) for the repayment of interests on bond anticipation notes.

l. Transfer of $2,250 from the PReMSA to the General Fund to make funds available for operating expenses.

m. 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 ($1,801).

n. Transfer from the Commonwealth's capital projects fund to the General Fund for public improvements in municipalities and corporations ($956).

o. 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 ($106).

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

Due to the Primary Government from Component Units are as follows (expressed in thousands):

		Receivable Entity				
Payable Entity		General fund	Public Building Authority	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total Due from Component Units
Puerto Rico Aqueduct and Sewer Authority	$	-	-	331,932	158,984	490,916
Puerto Rico Health Insurance Administration		7,239	-	-	-	7,239
Cardiovascular Center Corporation of Puerto Rico and the Caribbean		-	17,698	-		17,698
National Parks Company of Puerto Rico		13,322	-	-		13,322
Puerto Rico Land Administration		1,151	-	-	-	1,151
Puerto Rico and Municipal Island Maritime Transport		1,471	-		-	1,471
Puerto Rico Metropolitan Bus Authority		30,474	-	-		30,474
Puerto Rico Ports Authority		37,483	-	-	-	37,483
Puerto Rico Tourism Company		2,583	-	-	-	2,583
Puerto Rico Highway and Transportation		9,484	-	-	-	9,484
Puerto Rico Industrial Development Company		7,825	-	-	-	7,825
Total due to	$	111,032	17,698	331,932	158,984	619,646

Due to Component Units from the Primary Government are as follows (expressed in thousands):

Receivable Entity	Payable Entity: General fund	Public Building Authority	Puerto Rico Medical Services Administration	Total Due to Component Units
Government Development Bank for Puerto Rico	$ -	-	-	-
Puerto Rico Electric Power Authority	57,718	1,774	18,627	78,119
Puerto Rico Aqueduct and Sewer Authority	50,850	-	4,005	54,855
University of Puerto Rico	11,060	-	6,408	17,468
Puerto Rico Highway and Transportation Authority	34,641	-	-	34,641
State Insurance Fund Corporation	-	-	1,882	1,882
Puerto Rico Health Insurance Administration	30,020	-	-	30,020
Agricultural Enterprises Development Administration	46,061	-	-	46,061
Solid Waste Authority	1,130	-	-	1,130
Land Authority of Puerto Rico	11,603	-	-	11,603
National Parks Company of Puerto Rico	8,805	-	-	8,805
Puerto Rico Metropolitan Bus Authority	1,600	-	-	1,600
Puerto Rico Ports Authority	14,750	-	-	14,750
Puerto Rico Council on Education	5,183	-	-	5,183
Company for the Integral Development of the "Península de Cantera	38,642	-	-	38,642
Total due to	$ 312,063	1,774	30,922	344,759

The amount owed by PRASA of approximately $491 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 $5 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):

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements (Unaudited)

June 30, 2014

	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	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	Total Due to Component Units
Puerto Rico Trade and Export Company	$ -	-	1,442	-	-	-	-	-	-	-	-	-	1,442
Puerto Rico Conservatory of Music Corporation	1,114	-	-	-	-	-	-	-	-	-	-	-	1,114
Institute of Puerto Rican Culture	3,291	-	-	-	-	-	-	-	-	-	-	-	3,291
Farm Insurance Corporation of Puerto Rico	-	-	-	-	-	-	4,992	-	-	-	-	-	4,992
Puerto Rico Metropolitan Bus Authority	-	-	5,703	-	-	-	-	-	-	-	-	1,341	7,044
Puerto Rico Electric Power Authority	40,406	3,214	-	-	-	-	-	-	-	-	-	-	43,620
Economic Development Bank for Puerto Rico	8,923	-	-	-	-	-	-	-	-	-	-	-	8,923
Puerto Rico Tourism Company	-	-	-	-	5,219	-	-	4,471	-	-	1,515	-	11,205
National Parks Company of Puerto Rico	10,095	-	3,105	-	-	-	-	-	-	-	-	-	13,200
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	-	-	17,279	-	-	-	-	-	-	-	-	-	17,279
Company for the Integral Development of the	34,875	-	-	-	-	-	-	-	-	-	-	-	34,875
University of Puerto Rico Comprehensive Cancer Center	28,185	-	-	-	4,844	-	-	-	-	-	-	-	33,029
Puerto Rico and Municipal Islands Maritime Transport Authority	-	1,593	1,661	-	-	-	-	-	-	-	38,545	-	41,799
Land Authority of Puerto Rico	34,409	-	-	-	-	-	-	-	-	-	-	-	34,409
Solid Waste Authority	71,012	-	5,629	-	-	-	-	-	-	-	-	-	76,641
Puerto Rico Industrial Development Company	87,325	-	-	-	-	-	-	-	1,306	-	-	-	88,631
Agricultural Enterprises Development Administration	100,968	-	-	-	-	4,958	8,229	-	-	-	-	-	114,155
University of Puerto Rico	101,628	2,456	15,868	-	-	-	-	-	-	-	-	-	119,952
Puerto Rico Aqueduct and Sewer Authority	81,083	-	20,711	-	-	-	-	-	-	-	-	-	101,794
Puerto Rico Convention Center District Authority	145,448	-	1,940	-	-	-	-	-	-	-	-	-	147,388
Puerto Rico Health Insurance Administration	183,251	-	-	-	-	-	-	-	-	-	-	-	183,251
Port of the Americas Authority	226,564	-	-	-	-	-	-	-	-	-	-	-	226,564
Puerto Rico Ports Authority	262,974	12,868	24,760	-	-	-	-	-	-	-	-	1,117	301,719
Puerto Rico Highways and Transportation Authority	2,013,902	-	11,546	-	-	-	-	-	-	3,938	6,088	-	2,035,474
Subotal due from component units	3,435,453	20,131	109,644	-	10,063	4,958	13,221	4,471	1,306	3,938	46,148	2,458	3,651,791
Allowance for uncollectible balances	(515,318)	-	-	-	-	-	-	-	-	-	-	-	(515,318)
Total due from component units	$ 2,920,135	20,131	109,644	-	10,063	4,958	13,221	4,471	1,306	3,938	46,148	2,458	3,136,473

The amount due from Component Units presented by the GDB of $2,920,135 represents loan balances owed to GDB by other Commonwealth's Component Units. The rest of the loans receivable reported by the GDB consists of the following (expressed in thousands):

Primary government – governmental activities	$	2,365,647
Primary government-business-type activities		278,292
Other governmental entities and municipalities		2,384,917
Private sector, net of allowance for loan losses		422,059
Total loans receivable reported by GDB		5,450,915
Less allowance for public sector loans		(378,666)
	$	5,072,249

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 $2.4 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	$	894,657
University of Puerto Rico		873,570
Puerto Rico Highways and Transportation Authority		440,727
Puerto Rico Aqueduct and Sewer Authority		5,856
Nonmajor components units		219,767
Total contributions made by primary government to component units	$	2,434,577

(10) Capital Assets

Capital assets activity for the year ended June 30, 2014 is as follows (expressed in thousands):

Primary Government

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 909,748	1,803	253	911,298
Construction in progress	1,157,593	170,929	375,078	953,444
Total capital assets, not being depreciated	2,067,341	172,732	375,331	1,864,742
Buildings and building improvements	9,056,017	370,565	52,019	9,374,563
Equipment, furniture, fixtures, vehicles, and software	610,733	18,901	3,266	626,368
Infrastructure	605,846	—	—	605,846
Total capital assets, being depreciated and amortized	10,272,596	389,466	55,285	10,606,777
Less accumulated depreciation and amortization for:				
Buildings and building improvements	3,472,600	249,657	24,770	3,697,487
Equipment, furniture, fixtures, vehicles, and software	429,214	37,097	1,200	465,111
Infrastructure	156,420	12,539	—	168,959
Total accumulated depreciation and amortization	4,058,234	299,293	25,970	4,331,557
Total capital assets, being depreciated and amortized, net	6,214,362	90,173	29,315	6,275,220
Governmental activities capital assets, net	$ 8,281,703	262,905	404,646	8,139,962

	Beginning balance (as restated)	Increases	Decreases	Ending balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	6,872	—	—	6,872
Construction in progress	—	—	—	—
Total capital assets, not being depreciated	6,872	—	—	6,872
Building and building improvements	97,022	7,948	—	104,970
Equipment	89,090	4,407	2,248	91,249
Total capital assets being depreciated	186,112	12,355	2,248	196,219
Less accumulated depreciation and and amortization for:				
Building and building improvements	62,858	1,735	—	64,593
Equipment	70,921	4,123	1,976	73,068
Total accumulated depreciation and amortization	133,779	5,858	1,976	137,661
Total business-type activities capital assets, being depreciated, net	52,333	6,497	272	58,558
Total business-type activities capital assets, net	$ 59,205	6,497	272	65,430

Depreciation and amortization expense was charged to functions/programs of the Primary Government for the year ended June 30, 2014 as follows (expressed in thousands):

Governmental activities:	
General government	$ 102,042
Public safety	28,622
Health	7,846
Public housing and welfare	114,301
Education	29,485
Economic development	16,997
Total depreciation and amortization expense – governmental activities	$ 299,293

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 approximately $48 million of impairments recognized in the statement of activities for the year ended June 30, 2014.

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. On March 21, 2014, the debt agreement with the U.S. Army Corps of Engineers was modified to reduce the interest rate and the annual payment for the remaining term of the debt. The Commonwealth's unpaid allocated share of these construction costs associated with the Cerrillos Dam and Reservoir Project amounted to $214 million at June 30, 2014. The Commonwealth also recorded a payable to the U.S. Army Corp of Engineers, amounting to approximately $15 million, for 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 $5 million (see note 12(n)). The depreciation on the Cerrillos Dam and Reservoir Project is computed using the straight-line method over an estimated useful life of 50 years from the transfer date of the property.

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, 2014, PRIFA incurred approximately $6.3 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 at June 30, 2014 includes $97.2 million related to this program. The program consists of remodeling of over 100 schools throughout Puerto Rico. 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 $148 million are deposited in construction funds at June 30, 2014.

Discretely Presented Component Units

Capital assets activity for Discretely Presented Component Units for the year ended June 30, 2014 is as follows (expressed in thousands):

Major Component Units:		Balance (as restated)	Increases	Decreases	Ending balance
Capital assets not being depreciated/amortized:					
Land	$	2,245,782	28,816	82,581	2,192,017
Art works		—	—	—	—
Construction in progress		2,360,256	997,147	1,342,449	2,014,954
Total capital assets not being depreciated/amortized		4,606,038	1,025,963	1,425,030	4,206,971
Capital assets being depreciated/amortized					
Buildings and building improvements		2,506,568	400,094	26,679	2,879,983
Equipment, furniture, fixtures, vehicles and software		10,690,430	128,117	20,359	10,798,188
Infrastructure		28,738,005	832,103	77,888	29,492,220
Intangibles, other than software		4,969	—	—	4,969
Total capital assets, being depreciated/amortized		41,939,972	1,360,314	124,926	43,175,360
Less accumulated depreciation/amortization for:					
Buildings and building improvements		1,317,895	378,450	20,725	1,675,620
Equipment, furniture, fixtures, vehicles and software		2,333,985	75,336	13,500	2,395,821
Infrastructure		16,363,264	652,486	7,581	17,008,169
Intangibles, other than software		—	—	—	—
Total accumulated depreciation/amortization		20,015,144	1,106,272	41,806	21,079,610
Total capital assets, being depreciated/amortized (net)		21,924,828	254,042	83,120	22,095,750
Capital assets (net)	$	26,530,866	1,280,005	1,508,150	26,302,721

Nonmajor Component Units:		**Balance (as restated)**	**Increases**	**Decreases**	**Ending balance**
Capital assets not being depreciated/amortized:					
Land	$	1,074,816	10,010	17,383	1,067,443
Art works		3,155	—	—	3,155
Construction in progress		544,305	104,796	87,784	561,317
Total capital assets not being depreciated/amortized		1,622,276	114,806	105,167	1,631,915
Capital assets being depreciated/amortized					
Buildings and building improvements		2,976,058	74,565	26,311	3,024,312
Equipment, furniture, fixtures, vehicles and software		630,603	7,248	10,524	627,327
Infrastructure		598,962	13,345	3,228	609,079
Intangibles, other than software		2,293	—	—	2,293
Total capital assets, being depreciated/amortized		4,207,916	95,158	40,063	4,263,011
Less accumulated depreciation/amortization for:					
Buildings and building improvements		1,134,973	70,727	2,968	1,202,732
Equipment, furniture, fixtures, vehicles and software		469,758	25,169	6,339	488,588
Infrastructure		359,879	12,172	—	372,051
Intangibles, other than software		980	57	—	1,037
Total accumulated depreciation/ amortization		1,965,590	108,125	9,307	2,064,408
Total capital assets, being depreciated/ amortized (net)		2,242,326	(12,967)	30,756	2,198,603
Capital assets (net)	$	3,864,602	101,839	135,923	3,830,518

(11) Short-Term Obligations

Short term obligations at June 30, 2014 and changes for the year then ended are as follows (expressed in thousands):

		Balance at June 30, 2013	**Debt issued**	**Debt paid**	**Other increases**	**Other (decreases)**	**Balance at June 30, 2014**	**Due within one year**
Governmental activities:								
Notes payable to GDB	$	186,710	1,367,455	(1,269,819)	28,790	—	313,136	313,136
Tax revenue anticipation notes		—	900,000	(900,000)	—	—	—	—
Bond anticipation notes		204,866	642,614	(839,089)	—	—	8,391	8,391
	$	391,576	2,910,069	(3,008,908)	28,790	—	321,527	321,527

(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, 2014 (expressed in thousands):

Agency	Purpose	Interest rate	Line of credit	Outstanding balance
Department of the Treasury	To cover temporary cash deficiencies	150 bp over prime rate	$ 300,000	200,000
Department of the Treasury	To pay several central government agencies' debt	125 bp over 3 months LIBOR	100,000	69,342
Department of the Treasury	To cover operational needs of catastrophic disaster funds	125 bp over 3 months LIBOR	37,388	27,737
Department of the Treasury	To fund information technology project	125 bp over GDB's commercial paper rate	44,868	13,601
Department of the Treasury	Purchase of mobile X-ray machines	125 bp over 3 months LIBOR	12,000	2,456
			$ 494,256	313,136

Other increases include an increase of approximately $28.8 million in notes payable to the GDB-short term, which were classified as long term at June 30, 2013, but which matured during fiscal year 2014 and became due and payable at June 30, 2014 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 2014 amounted to $900 million at interest rates ranging from 1.50% to 6.25%. 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, 2014, 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 or thereafter. 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, 2014, $8.4 million of bond anticipation notes were outstanding, all payable to GDB.

(12) Long-Term Obligations

(a) *Primary Government*

Long-term obligations at June 30, 2014 and changes for the year then ended are as follows (expressed in thousands):

	Balance at June 30, 2013 (as restated)	Debt issued	Debt paid	Original Issue Discount	Debt Refunded	Other increases	Other (decreases)	Balance at June 30, 2014	Due within one year
Governmental activities:									
General obligation and revenue bonds	$ 35,623,204	3,500,000	(1,169,925)	(245,000)	(460,840)	367,486	(57,066)	37,557,859	522,400
Commonwealth appropriation bonds	571,945	—	—	—	—	—	(709)	571,236	—
Notes payable to component units:									
GDB	2,812,214	1,056,503	(1,824,597)	—	—	—	—	2,044,120	—
Other	11,920	—	(6,920)	—	—	—	—	5,000	5,000
Liability under guaranteed obligation	220,392	—	—	—	—	6,391	(1,919)	224,864	949
Capital leases	177,342	—	(5,524)	—	—	—	—	171,818	5,224
Total bonds, notes, and and capital leases payable	39,417,017	4,556,503	(3,006,966)	(245,000)	(460,840)	373,877	(59,694)	40,574,897	533,573
Compensated absences	1,530,318	—	—	—	—	721,967	(774,764)	1,477,521	833,235
Net pension obligation	13,072,665	—	—	—	—	2,433,989	(861,383)	14,645,271	—
Net postemployment benefit obligation	278,372	—	—	—	—	128,741	(138,279)	268,834	—
Voluntary termination benefits payable	1,094,441	—	—	—	—	76,665	(92,920)	1,078,186	98,352
Other long-term liabilities	2,096,672	—	—	—	—	362,982	(232,499)	2,227,155	177,811
Total governmental activities	57,489,485	4,556,503	(3,006,966)	(245,000)	(460,840)	4,098,221	(2,159,539)	60,271,864	1,642,971
Business-type activities:									
Notes payable to GDB	273,344	4,948	—	—	—	—	—	278,292	—
Net postemployment benefit obligation	1,572	—	—	—	—	262	—	1,834	—
Compensated absences	17,997	—	—	—	—	102	—	18,099	2,199
Obligation for unpaid lottery prizes	176,192	—	—	—	—	590,525	(580,160)	186,557	55,343
Voluntary termination benefits	6,392	—	—	—	—	222	(738)	5,876	732
Claims liability for insurance benefits	69,386			—	—	274,602	(280,327)	63,661	63,661
Other long-term liabilities	21,483	—	—	—	—	15,016	(3,749)	32,750	25,859
Total business-type activities	566,366	4,948	—	—	—	880,729	(864,974)	587,069	147,794
Total primary government	$ 58,055,851	4,561,451	(3,006,966)	(245,000)	(460,840)	4,978,950	(3,024,513)	60,858,933	1,790,765

As discussed in note 1(cc), the beginning balance of general obligation and revenue bonds and Commonwealth appropriation bonds was restated due to the impact of the adoption of GASB statement No.65; where the beginning unamortized deferred refunding loss and/or gain on certain of such bonds, which had previously been reported as a deduction of debt, were reclassified as a deferred outflow and/or inflows of resources. The amount of such reclassification amounted to approximately $372 million and $33.4 million increasing the beginning balance of general obligation bonds/revenue bonds and Commonwealth appropriation bonds, respectively. The composition of such unamortized deferred bond refunding losses and gains reclassified out of debt into the new deferred outflows/inflows of resources category at the beginning of the year and its corresponding balances at June 30, 2014 were as follows:

Primary Government Entity/Agency		Deferred Outflows (Inflows) Beginning Balance June 30, 2013	Deferred Outflows (Inflows) Ending Balance June 30, 2014
GENERAL OBLIGATION AND REVENUE BONDS:			
Department of the Treasury	$	220,863	235,540
PBA		125,151	116,376
PRIFA		54,477	50,874
COFINA		50,003	46,642
The Children's Trust		27,491	24,527
Total deferred outflows		477,985	473,959
Department of the Treasury		(968)	(24,135)
COFINA		(104,997)	(102,617)
Total deferred inflows		(105,965)	(126,752)
Net impact on general obligation and revenue bonds	$	372,020	347,207
COMMONWEALTH APPROPRIATION BONDS:			
Department of the Treasury-Act 164	$	19,846	17,880
PRMSA		13,526	12,474
Total deferred outflows	$	33,372	30,354

Presentation in Statement of Net Position at June 30, 2014:	
Deferred outflows of resources-deferred loss on bonds refunding	$504,313
Deferred inflows of resources-deferred gain on bonds refunding	($126,752)

Also as discussed in note 1(cc), the liability under guaranteed obligation was recorded upon adoption of GASB Statement No. 70 in relation to the Commonwealth's guaranty of certain PAA bonds, which required the recording of a beginning balance in the amount of $220.4 million (see further information on this guaranty in note 13 (a)).

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, 2013 on general obligation and revenue bonds amounting to approximately $456.8 million, which was accrued at June 30, 2013 as a fund liability. Also, during fiscal year 2014 the amount of approximately $474 million of debt principal paid on July 1, 2014 was accrued as a fund liability at June 30, 2014, but not included as payments in the table above. The net effect of approximately $17.2 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.

The other decrease of $1.9 million in the liability under guaranteed obligation represents the payment by the Commonwealth under the aforementioned guaranty of the required debt service of certain PAA bonds for fiscal year 2014. Such payment is reflected as an economic development grant expenditure in the statement of revenues, expenditures, and changes in fund balances (deficit) –General Fund. 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); additional bond financing by PAA under the Commonwealth's guaranty (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 fiscal year 2014 to agree these obligations to their new estimated balances at June 30, 2014, and other decreases resulting from payments on these obligation made during fiscal year 2014. 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 of the Commonwealth does not limit the amount of debt that the Commonwealth may guarantee as long as the Commonwealth is in compliance with the 15% limitation at the time of issuance of 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, 2014, 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 obligation bonds and debt guaranteed by the Commonwealth. The full faith, credit, and taxing power of the Commonwealth is 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 obligation bonds. During the year ended June 30, 2014, the total revenue and receivable reported by the Commonwealth amounted to approximately $119.3 million and $56.3 million, respectively, which are included in the debt service fund.

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

Bonds payable outstanding at June 30, 2014, 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 3% to 8%	$	8,269,588	8,218,820	16,488,408
Serial bonds payable through 2042; interest payable monthly or semiannually at rates varying from 2.04% to 6.75%		4,901,985	1,808,687	6,710,672
Fixed rate bonds payable through 2057; interest payable at rates varying from 3.38% to 6.50%		—	5,541,646	5,541,646
Capital appreciation bonds payable through 2056; no interest rate, yield ranging from 4.85% to 5.80%. (1)		183,395	5,192,620	5,376,015
Special Tax Revenue Bonds payable through 2046; interest payable or accreted semiannually at rates varying from 4% to 5.5%		—	1,822,032	1,822,032
Mental Health Infrastructure Revenue Bonds payable through 2038; interest payable semiannually at rates varying from 5.6% to 6.5%		—	37,100	37,100
The Children's Trust Fund tobacco settlement asset-backed bonds payable through 2057; interest payable or accreted semiannually at rates varying from 5.375% to 8.375%		—	1,409,087	1,409,087
Capital Fund Program Bonds, maturing in various dates payable through 2025; interest payable semiannually at rates varying from 2.00% to 5.00%		—	151,085	151,085
LIBOR-Based Adjustable Rate Bonds due on August 1, 2057; interest payable quarterly (1.11% at June 30, 2014)		—	136,000	136,000
Total		13,354,968	24,317,077	37,672,045
Unamortized premium		103,752	219,961	323,713
Unamortized discount		(276,724)	(161,175)	(437,899)
Total bonds payable	$	13,181,996	24,375,863	37,557,859

(1) Revenue bonds include $969 million capital appreciation bonds convertible to fixed rate interest bonds on August 1, 2031; August 1, 2032; and August 1, 2033.

As of June 30, 2014, 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
2015	$	522,400	1,701,968	3,835	2,228,203
2016		573,035	1,731,731	3,835	2,308,601
2017		626,390	1,703,801	3,835	2,334,026
2018		560,770	1,720,135	3,835	2,284,740
2019		524,885	1,727,260	3,835	2,255,980
2020 – 2024		3,463,801	8,311,698	19,173	11,794,672
2025 – 2029		6,099,745	7,584,478	19,173	13,703,396
2030 – 2034		7,740,303	5,483,731	19,173	13,243,207
2035 – 2039		9,265,900	3,453,384	19,173	12,738,457
2040 – 2044		10,538,095	1,286,800	12,462	11,837,357
2045 – 2049		6,865,065	341,818	—	7,206,883
2050 – 2054		5,525,061	313,365	—	5,838,426
2055 – 2059		13,087,730	211,862	—	13,299,592
Total		65,393,180	35,572,031	108,329	101,073,540
Less unaccreted interest		(27,721,135)			
Plus unamortized premium, net		323,713			
Less unamortized discount		(437,899)			
Total	$	37,557,859			

(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 revenue variable-rate bonds and the net payments on associated hedging derivative instruments (see note 20) as of June 30, 2014 (all pertaining to COFINA). 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, 2014 will remain the same for their term.

Year ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Hedging Derivative Instruments, Net	Total
2015	$ —	1,481	5,210	6,691
2016	—	1,470	5,221	6,691
2017	—	1,470	5,221	6,691
2018	—	1,470	5,221	6,691
2019	—	1,470	5,221	6,691
2020-2024	—	7,350	26,106	33,456
2025-2029	—	7,350	26,106	33,456
2030-2034	—	7,350	26,106	33,456
2035-2039	—	7,350	26,106	33,456
2040-2044	—	7,350	26,106	33,456
2045-2049	—	7,350	26,106	33,456
2050-2054	—	7,350	26,106	33,456
2055-2058	136,000	6,616	23,495	166,111
Total	$ 136,000	65,427	232,331	433,758

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, 2014, was $643,731,051. 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, 2014, the Pledged Sales Tax Base Amount, by year, is as follows (expressed in thousands):

Year ending June 30	Amount
2015	$ 669,480
2016	696,260
2017	724,110
2018	753,074
2019	783,197
2020-2024	4,411,731
2025-2029	5,367,545
2030-2034	6,530,439
2035-2039	7,945,278
2040-2044	9,184,725
2045-2049	9,250,000
2050-2054	9,250,000
2055-2059	7,400,000
Total	$ 62,965,839

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, 2014, 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, 2014, 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, 2014, such reserve was maintained in the Partnership. The amount owed to the DOH for the assurance reserve fund as of June 30, 2014, 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, 2014, the principal balance outstanding on the deferred purchase price note was approximately $8.8 million and accrued interest was approximately $883 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, 2014, the LLC owed the DOH the amount of approximately $74.8 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, 2014.

(d) ***Commonwealth Appropriation Bonds***

Over the years, 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 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 2014, other than the annual amortization of corresponding premiums and their related deferred inflows and outflows of resources in the form of deferred refunding gains and losses.

At June 30, 2014, 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	$	439,542
Puerto Rico Maritime Shipping Authority (PRMSA)		131,694
Total Commonwealth appropriation bonds	$	571,236

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 $439.5 million of the Commonwealth Appropriation bonds outstanding at June 30, 2014, 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, a blended component unit of the Commonwealth. 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:				
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		22,361	19,374	41,735
2020 – 2024		107,035	81,529	188,564
2025 – 2029		181,258	55,830	237,088
2030 – 2034		57,507	3,206	60,713
Total		436,235	$ 245,463	681,698
Plus unamortized premium		3,307		
Total	$	439,542		

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:				
2015	$	—	6,837	6,837
2016		—	6,837	6,837
2017		—	6,837	6,837
2018		—	6,837	6,837
2019		—	6,837	6,837
2020 – 2024		27,999	32,996	60,995
2025 – 2029		55,385	16,462	71,847
2030 – 2032		48,310	5,600	53,910
Total	$	131,694	89,243	220,937

(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, 2014, approximately $455.2 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, 2014, approximately $608.3 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 $91.3 million at June 30, 2014.

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

The Commonwealth financed certain long term liabilities through GDB and other Component Units, mostly within Governmental Activities. The outstanding balance at June 30, 2014 on the financing provided by GDB and other Component Units within Governmental Activities comprises the following (expressed in thousands):

GDB:		
Department of the Treasury	$	722,178
Special Communities Perpetual Trust		345,841
Office of Management and Budget		229,529
Public Buildings Authority		175,453
Department of Education		106,308
Department of Transportation and Public Works		81,080
Correction Administration		72,575
Department of Agriculture		65,079
Department of Justice		49,846
Department of Health		44,005
Puerto Rico Infrastructure Financing Authority		48,948
Police Department		31,679
Department of Housing		26,007
Office of the Superintendent of the Capitol		23,634
Puerto Rico Court Administration Office		12,398
Department of Recreation and Sports		9,268
Office of Veterans' Affairs		292
Notes payable to GDB	$	2,044,120

Other components units:		
Health facilities agreement payable to the UPR's Medical Sciences Campus	$	5,000
Notes payable to other component units	$	5,000

As of June 30, 2014, the Department of the Treasury of the Commonwealth has entered into various lines of credit agreements with GDB amounting to approximately $3.2 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, 2014 consist of the following (expressed in thousands):

Purpose	Interest rate	Maturity	Lines of credit	Outstanding balance
To finance payroll and operational expenditures of the Commonwealth for fiscal year 2006	5.50%	June 30, 2036	741,000	170,515
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	145,504
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	111,205
To finance capital improvements projects of agencies and municipalities	150 bp over GDB's commercial paper rate	June 30, 2019	130,000	83,548
To finance capital improvements of several governmental agencies	7.00%	June 30, 2018	105,000	68,834
To fund monthly principal and interest deposits required for the 2013 debt service of the outstanding public improvement bonds and public improvement refunding bonds	150 bp over PRIME, but not less than 6%	June 30, 2042	$ 600,433	$ 63,135
To fund monthly principal and interest deposits required for the 2014 debt service of the outstanding public improvement bonds and public improvement refunding bonds	6.00%	June 30, 2043	738,320	50,419
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	42,542	14,806
Acquisition of Salinas Correctional Facilities	125 bp over 3 month LIBOR	June 30, 2018	15,000	7,141
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	5,083
To finance certain capital improvement projects	150 bp over PRIME, but not less than 6%	June 30, 2018	100,000	1,988
Total			$ 3,294,395	722,178

Note:

On February 27, 2014 and November 13, 2013, the Department of the Treasury entered into loan agreements with GDB for up to a maximum of $418.7 million and $92.5 million, respectively, as amended, for operational and public improvement bonds refinancing purposes. These loans, maturing on June 30, 2043 and bearing a 6% . interest rate with no balance outstanding at June 30, 2014, were fully drawn and repaid during fical year 2014.

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, 2014 amounted to approximately $345.8 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, 2014, $81.1 million were outstanding. On June 5, 2006, the OMB 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, OMB 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, 2014, approximately $148.4 million were outstanding.

On August 18, 2010, 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 GDB. The proceeds of the facility were used for construction projects development. The line is due on June 30, 2044 and payable from the proceeds of future revenue refunding bond issuance of the PBA. As of June 30, 2014, $48.2 million were outstanding. The PBA also maintains a $75 million line of credit agreement with 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, 2014, $64.7 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 are payable 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, 2014, $62.5 million remains outstanding.

On February 6, 2003, the Department of Education of the Commonwealth entered into a $25 million line of credit agreement with 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, 2014, $4.6 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 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, 2014, $101.7 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 five line of credit agreements with GDB amounting to $104 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, 2014, $81.1 million was outstanding.

On May 12, 2004, the Correction Administration of the Commonwealth entered into a $60 million line of credit agreement with 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, 2014, $15.1 million were outstanding. In addition, on November 24, 2010, Correction Administration of the Commonwealth entered into an $80 million line of credit agreement with 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, plus 150 basis points, 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 June 30, 2040. As of June 30, 2014, $57.5 million were 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, 2014, $65.1 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, 2014, $17.7 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, 2014, the balance outstanding under this amended line of credit agreement amounted to $32.1 million.

In August 2003, the Department of Health of the Commonwealth entered into a $30 million line of credit agreement with 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, 2014, $21.3 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 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, 2014, the outstanding balance of this line of credit agreement amounted to $19.4 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, 2014, the outstanding balance of this line of credit agreement amounted to $3.3 million.

On February 18, 2005, PRIFA entered into a $40 million credit agreement with 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, 2014, $4.7 million related to this credit agreement were outstanding. On June 1, 2009, PRIFA entered into an additional revolving line of credit agreement with 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, 2016. 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, 2014, the outstanding balance of this line of credit agreement amounted to $6.8 million. On March 8, 2012, PRIFA also entered into an additional $35 million line of credit agreement with 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, 2014, the outstanding balance of this line of credit agreement amounted to $37.4 million.

On July 29, 2004, the Police Department of the Commonwealth entered into a $48 million line of credit agreement with 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 $31.7 million at June 30, 2014.

On March 8, 2007, the Department of Housing of the Commonwealth 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, 2014, 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 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, 2014, $17.9 million related to this line of credit agreement 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, 2014, $15.5 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, 2014, $8.1 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 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, 2014, approximately $10.2 million remains outstanding. On February 27, 2014, the Office entered into an additional $50 million line of credit agreement with GDB for the development of several priority projects pursuant its strategic plan and to fund additional operational commitments. 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 July 31, 2027. As of June 30, 2014, $2.2 million were 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 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, 2014, $0.5 million were outstanding. Also, on February 9, 2004, the DRS entered into a $16 million line of credit agreement with 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, 2014, $0.5 million were outstanding. An additional line of credit agreement was entered into between 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, 2014, $8.2 million were outstanding.

On February 14, 2012, the Office of Veterans' Affairs entered into a $7.5 million line of credit agreement with 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, 2014, $292 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. The outstanding balance of $1.9 million existing at June 30, 2013 under this arrangement was fully repaid during fiscal year 2014. 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, 2014, one last installment of $5 million remains outstanding.

The Commonwealth has also financed a long term liability through 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, 2014, $278.3 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, 2014.

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

The amount reported as net pension obligation in the Governmental Activities of approximately $14.6 billion at June 30, 2014, 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 $268.8 million and $1.8 million, respectively, at June 30, 2014 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, 2014. The minimum annual payments related to unpaid awards of both lotteries are as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2015	$	55,343	10,013	65,356
2016		19,173	10,158	29,331
2017		17,075	10,111	27,186
2018		14,905	9,698	24,603
2019		12,728	8,935	21,663
2020 – 2024		42,051	34,361	76,412
2025 – 2029		19,132	15,693	34,825
2030 – 2032		6,150	5,168	11,318
Total	$	186,557	104,137	290,694

The minimum annual payments related to unpaid awards of Lotto include an unclaimed prizes liability (not lapsed) of approximately $5.7 million at June 30, 2014, 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	
		2014	**2013**	**2014**	**2013**	**2014**	**2013**
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$	68,565	72,161	821	833	69,386	72,994
Total incurred benefits		271,749	387,336	2,853	3,229	274,602	390,565
Total benefit payments		(277,399)	(390,932)	(2,928)	(3,241)	(280,327)	(394,173)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$	62,915	68,565	746	821	63,661	69,386

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, 2014, amounts to approximately $63.7 million.

(l) *Obligations under Capital Lease Arrangements*

The Commonwealth is obligated under capital leases with third parties that expire through 2039 for land, buildings, and equipment.

The present value of future minimum capital lease payments at June 30, 2014 reported in the accompanying government-wide statement of net position is as follows (expressed in thousands):

Year ending June 30:		
2015	$	19,255
2016		19,202
2017		19,115
2018		18,106
2019		17,141
2020 – 2024		85,707
2025 – 2029		85,707
2030 – 2034		53,959
2035 – 2039		11,509
Total future minimum lease payments		329,701
Less amount representing interest costs		(157,883)
Present value of minimum lease payments	$	171,818

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2014, include the following (expressed in thousands):

Land	$	7,960
Buildings		254,886
Equipment		4,215
Subtotal		267,061
Less accumulated amortization		(70,195)
Total	$	196,866

Amortization charge applicable to capital leases and included within depreciation expense of capital assets amounted to $6.3 million in 2014.

(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, 2014 (expressed in thousands):

Accrued voluntary termination		Primary government: Governmental activities	Primary government: Business-type activities	Primary government: Totals primary government	Component units
Benefits as of June 30, 2014:					
Current liabilities	$	98,352	732	99,084	22,858
Noncurrent liabilities		979,834	5,144	984,978	199,465
Total	$	1,078,186	5,876	1,084,062	222,323
Expenses for the year ended June 30, 2014	$	76,665	223	76,888	35,021

At June 30, 2014, unpaid long term benefits granted on Act No. 70 were discounted at interest rates that ranged from 0.63% to 2.77% at the Primary Government level and from 0.90% to 3.00% 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 $80 million as of June 30, 2014.

(n) ***Other Long Term Liabilities***

The remaining long term liabilities of Governmental Activities at June 30, 2014 include (expressed in thousands):

Liability for legal claims and judgments (note 16)	$	1,826,727
Liability to U.S. Army Corps of Engineers (note 10)		193,986
Accrued Employees' Christmas bonus		94,652
Liability for federal cost disallowances (note 16)		69,683
Liability to the Puerto Rico System of Annuities and Pensions for Teachers		10,764
Other		31,343
Total	$	2,227,155

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. On October 10, 2012, the U.S. Army Corps of Engineers placed such debt into the U.S. Treasury Department Offset Program (the Offset Program). Upon placing this debt under the Offset Program, the U.S. Treasury Department 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. During the seven months period ended in May 2013 (month in which the Offset Program was stopped), the Offset Program impacted certain federal programs by approximately $158 million. On March 21, 2014, the U.S. Army Corps of Engineers granted certain concessions on this obligation of the Commonwealth by forgiving the balance already due and payable in the amount of $35.4 million and approving a new payment plan proposed by the Secretary of the Treasury for the remaining debt obligation. This new payment plan reduced the interest rate from 6.063% to 1.50% and waived all cumulative penalty interest and fees, which reduced the annual payment from approximately $12.9 million to approximately $7.1 million for the remaining term of the debt. The new payment plan consists of 33 annual payments of $7,076,760, including interests, from June 7, 2014 until June 7, 2046. These concessions qualified as a troubled debt restructuring, where the total future cash payments specified by the new terms exceeded the carrying value of the old debt, including the accrued balance matured and payable of $35.4 million. Under such circumstances, the effects of the new terms are accounted for prospectively without modifying the carrying amount of the debt in the statement of net position. On the other hand, the balance forgiven that had been accrued as due and payable in the General Fund, was eliminated against other revenue, to reflect the conversion of such matured debt into a long-term liability payable now under aforementioned new terms.

The unpaid allocated share of the construction costs associated with the Cerrillos Project amounted to approximately $179 million at June 30, 2014. Debt service requirements on this debt obligation with fixed maturities at June 30, 2014 were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
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		4,664	2,413	7,077
2020 – 2043		24,392	10,992	35,384
2025 – 2029		26,277	9,107	35,384
2030 – 2034		28,308	7,076	35,384
2035 – 2039		30,496	4,888	35,384
2040 – 2044		32,853	2,531	35,384
2045 – 2049		13,841	310	14,151
Total	$	178,809	47,647	226,456

In addition, the Commonwealth has a debt obligation of $15.2 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 $5 million, at June 30, 2014. 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.

The remaining other long-term liabilities within business-type activities at June 30, 2014 are composed primarily of accrued pension costs and legal claims for approximately $30 million and $2.8 million, respectively, all corresponding to PRMeSA.

(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).

As of June 30, 2014, 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%	$	66,657
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		1,610,427
Series B Bonds:		
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%		207,034
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%		149,353
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		1,172,487
Series C Bonds:		
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%		3,235
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		301,235
Total bonds outstanding		3,084,149
Less bonds discount		(6,562)
Bonds payable – net	$	3,077,587

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, 2014.

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	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, 2014. Debt service requirements in future years on ERS's bonds as of June 30, 2014 are as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2015	$	—	166,519	166,519
2016		—	166,519	166,519
2017		—	166,519	166,519
2018		—	166,519	166,519
2019		—	166,519	166,519
2020 – 2024		200,000	811,924	1,011,924
2025 – 2029		387,250	753,416	1,140,666
2030 – 2034		904,490	716,791	1,621,281
2035 – 2039		1,045,100	548,184	1,593,284
2040 – 2044		543,270	285,615	828,885
2045 – 2049		—	247,568	247,568
2050 – 2054		—	247,568	247,568
2055 – 2059		761,000	131,562	892,562
		3,841,110	4,575,223	8,416,333
Less unaccreted interest		(756,961)		
Less unamortized discount		(6,562)		
Total	$	3,077,587		

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.

(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, 2014 is as follows (expressed in thousands):

	Interest rates	Maturity through	Balance at June 30, 2013	Additions	Reductions	Balance at June 30, 2014	Due within one year
Government Development Bank for Puerto Rico	1.59% – 6.97%	2040	$ 4,840,739	110,000	423,548	4,527,191	209,575
Economic Development Bank for Puerto Rico	2.25% – 7.23%	2031	703,048	—	261,833	441,215	—
Puerto Rico Ports Authority	Variable	2027	18,573	1,571	6,789	13,355	2,923
Puerto Rico Highway and Transportation Authority	8.75%	2016	—	400,000	—	400,000	150,000
Puerto Rico Health Insurance Administration	3.00%	2015	—	82,999	—	82,999	82,999
Puerto Rico Electric Power Authority	3.25% – 7.25%	2015	762,216	60,313	113,638	708,891	708,891
Puerto Rico Aqueduct and Sewer Authority	6.98%	2015	—	200,000	—	200,000	200,000
Puerto Rico Trade and Export Company	4.51% – 6.48%	2034	371,412	—	105,360	266,052	541
University of Puerto Rico	4.00%	2017	2,273	—	851	1,422	514
Puerto Rico Industrial Development Company	5.10% – 8.45%	2024	86,158	7,636	14,612	79,182	7,554
Puerto Rico Tourism Company	Variable	2013	16,114	—	16,114	—	—
State Insurance Fund Corporation	Variable	2028	275,162	—	21,475	253,687	21,426
Puerto Rico Metropolitan Bus Authority	2.62%	2015	34,545	—	2,503	32,042	32,042
Agricultural Enterprises and Development Administration	4.54%	2015	19,399	53,228	54,072	18,555	18,555
			$ 7,129,639	915,747	1,020,795	7,024,591	1,435,020

Debt service requirements on Component Units' notes payable with fixed maturities at June 30, 2014 were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2015	$	1,435,020	363,669	1,798,689
2016		1,183,352	249,895	1,433,247
2017		301,931	207,061	508,992
2018		320,406	185,498	505,904
2019		874,297	167,031	1,041,328
2020 – 2024		2,040,268	426,561	2,466,829
2025 – 2029		492,351	122,928	615,279
2030 – 2034		331,696	48,353	380,049
2035 – 2039		31,433	10,399	41,832
2040 – 2044		13,837	1,260	15,097
Total	$	7,024,591	1,782,655	8,807,246

Commonwealth appropriation bonds payable outstanding at June 30, 2014 are as follows (expressed in thousands):

Component Unit	Interest rates	Maturity through	Balance at June 30, 2013 (as restated)	Additions	Reductions	Balance at June 30, 2014	Amounts due within one year
Puerto Rico Aqueduct and Sewer Authority	3.10% – 6.15%	2032	$ 417,016	—	218	416,798	—
Puerto Rico Tourism Company	3.10% – 6.15%	2032	45,356	—	58	45,298	—
Land Authority of Puerto Rico	3.10% – 6.50%	2032	56,771	—	953	55,818	—
Government Development Bank for Puerto Rico	3.10% – 6.50%	2032	3,431	3	—	3,434	—
Solid Waste Authority	3.10% – 6.50%	2032	7,880	—	59	7,821	—
Total Commonwealth appropriation bonds – component units			$ 530,454	3	1,288	529,169	—

Debt service requirements on the Commonwealth's appropriation bonds payable with fixed maturities at June 30, 2014 were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2015	$	—	29,123	29,123
2016		10,600	28,925	39,525
2017		8,600	28,615	37,215
2018		8,895	31,748	40,643
2019		15,573	36,694	52,267
2020 – 2024		56,970	129,512	186,482
2025 – 2029		268,979	99,688	368,667
2030 – 2034		153,192	13,969	167,161
Premium		6,426	—	6,426
Discount		(66)	—	(66)
Total	$	529,169	398,274	927,443

Bonds payable outstanding at June 30, 2014 are as follows (expressed in thousands):

Component Unit	Interest rates	Maturity through	Balance at June 30, 2013 (as restated)	Additions	Reductions	Balance at June 30, 2014	Amount due within one year
Government Development Bank for Puerto Rico	2.96% – 6.56%	2039	$ 473,725	—	23,405	450,320	305,941
University of Puerto Rico	5.0% – 5.75%	2036	584,933	—	21,914	563,019	21,090
Puerto Rico Municipal Finance Agency	3.80% – 6.00%	2031	915,100	—	97,456	817,644	91,615
Puerto Rico Ports Authority	2.75% – 6.0%	2027	240,889	—	40,147	200,742	550
Puerto Rico Aqueduct and Sewer Authority	2.0% – 6.15%	2050	4,145,053	170	21,237	4,123,986	48,744
Puerto Rico Highways and Transportation Authority	2.25% – 6.50%	2046	4,879,730	6,392	319,854	4,566,268	107,600
Puerto Rico Industrial Development Company	5.10% – 6.75%	2029	197,169	482	8,292	189,359	10,020
Puerto Rico Convention Center District Authority	4.00% – 5.00%	2036	436,082	—	10,748	425,334	10,275
Puerto Rico Electric Power Authority	2.00% – 6.25%	2042	8,218,912	658,340	208,827	8,668,425	432,281
Total bonds payable-component units			$ 20,091,593	665,384	751,880	20,005,097	1,028,116

Debt service requirements on Component Units' bonds payable with fixed maturities at June 30, 2014 were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2015	$	1,028,116	1,014,582	2,042,698
2016		546,187	991,068	1,537,255
2017		570,350	959,488	1,529,838
2018		565,682	936,499	1,502,181
2019		594,290	897,782	1,492,072
2020 – 2024		3,242,424	4,012,555	7,254,979
2025 – 2029		3,903,582	3,141,941	7,045,523
2030 – 2034		3,345,019	2,186,599	5,531,618
2035 – 2039		3,172,998	1,280,430	4,453,428
2040 – 2044		2,047,922	468,875	2,516,797
2045 – 2049		567,194	69,684	636,878
2050 – 2054		15,183	941	16,124
Premium		489,179	—	489,179
Discount		(83,029)	—	(83,029)
Total	$	20,005,097	15,960,444	35,965,541

As discussed in note 1(cc), the beginning balance of the Discretely Presented Component Units' bonds and Commonwealth appropriation bonds was restated due to the impact of the adoption of GASB statement No.65; where the beginning unamortized deferred refunding loss and/or gain on certain of such bonds, which had previously been reported as a deduction of debt, were reclassified as a deferred outflow and/or inflows of resources. The amount of such reclassification amounted to approximately $111.2 million and $21 million increasing the beginning balance of bonds and Commonwealth appropriation bonds, respectively. The composition of such unamortized deferred bond refunding losses and gains reclassified out of debt into the new deferred outflows/inflows of resources category at the beginning of the year and its corresponding balances at June 30, 2014 was as follows:

Discretely Presented Component Unit		Deferred Outflows (Inflows) Beginning Balance June 30, 2013	Deferred Outflows (Inflows) Ending Balance June 30, 2014
BONDS:			
GDB	$	3,161	2,872
UPR		3,125	2,818
MFA		6,568	4,884
PRPA		25,997	14,623
PRASA		20,874	35,598
PREPA		92,279	77,948
PRHTA		146,904	132,042
Net impact on bonds	$	298,908	n/a
COMMONWEALTH APPROPRIATION BONDS:			
PRASA		18,469	n/a
PRTC		1,794	1,677
LAPR		495	n/a
SWA		51	n/a
Total deferred outflows	$	20,809	

Presentation in Statement of Net Position at June 30, 2014:	
Deferred outflows of resources-deferred loss on bonds refunding	$272,462

The table that follows represents debt service payments on PREPA's variable-rate bonds and the net payments on associated hedging derivative instrument as of June 30, 2014 (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, 2014 will remain the same for their term (expressed in thousands).

		Variable-Rate Bonds		Hedging derivative instruments,	
		Principal	Interest	net	Total
Year ending June 30:					
2015	$	—	2,108	8,209	10,317
2016		—	2,108	8,209	10,317
2017		—	2,108	8,209	10,317
2018		—	2,108	8,209	10,317
2019		—	2,108	8,209	10,317
2020-2024		—	2,108	8,209	10,317
2025-2029		—	2,108	8,209	10,317
2030-2034		252,875	16,865	65,674	335,414
2035-2039		—	—	—	—
2040-2044		—	—	—	—
2045-2049		—	—	—	—
Total	$	252,875	31,621	123,137	407,633

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, 2014, the following bonds are considered defeased (expressed in millions):

		Amount outstanding
Puerto Rico Electric Power Authority	$	3,700
Puerto Rico Highways and Transportation Authority		1,600
Puerto Rico Municipal Finance Agency		257
Total	$	5,557

(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, 2014, 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	4,246,144
Discretely presented component units:			
Government Development Bank for Puerto Rico		2,000,000	377,000
Puerto Rico Aqueduct and Sewer Authority		1,177,320	1,177,320
Port of the Americas Authority		250,000	224,864
Total	$	8,148,320	6,025,328

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 enabling Act that created the PBA (Act No. 56 of June 19, 1958, as amended). 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. Act No. 56 also provides that the Department of the Treasury of the Commonwealth will make advances to PBA for any unpaid portion of rent payable to PBA by any agency or instrumentality of the Commonwealth that has entered into lease agreements with PBA. Such advances are recorded as reductions of rent receivable since the responsibility of reimbursement belongs to the corresponding agency or instrumentality according to the enabling Act. There is no time limit on this guaranty as long as there are applicable underlying PBA bonds outstanding. The enabling Act is silent as to whether there are arrangements established for recovering payments from PBA if the guaranty were to be claimed; however, there is no intention from the Commonwealth to request a recovery of any such eventual payments. The rental commitment to cover principal and interest on the guaranteed debt (excluding premiums and discounts) as of June 30, 2014 and for the next five years and thereafter follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2015	$	76,760	194,490	271,250
2016		82,000	190,244	272,244
2017		86,125	185,685	271,810
2018		90,905	179,678	270,583
2019		66,235	205,774	272,009
2020-2024		446,665	981,060	1,427,725
2025-2029		1,255,044	1,184,877	2,439,921
2030-2034		750,353	527,903	1,278,256
2035-2039		756,775	269,190	1,025,965
2040-2043		619,735	65,734	685,469
	$	4,230,597	3,984,635	8,215,232
Less unamortized discounts on bonds outstanding		(27,950)		
Plus unamortized premium		43,497		
Total	$	4,246,144		

Rental income of the PBA funds amounted to approximately $413 million during the year ended June 30, 2014, of which $272.6 million was used to cover debt service obligations.

Government Development Bank for Puerto Rico Remarketed Refunding Bonds –

On February 13, 2014, the Commonwealth enacted Act No. 24 which, among other provisions, increased from $550 million to $2 billion the amount of GDB's obligations that can be guaranteed by the full faith and credit of the Commonwealth.

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. As disclosed in note 22, these bonds were fully repaid upon its maturity on December 1, 2015.

On December 13, 2013, the GDB issued Senior Guaranteed Notes 2013 Series B (guaranteed by the Commonwealth). The 2013 Series B Notes consist of term notes maturing on various dates from December 1, 2017 to December 1, 2019, and carrying and interest rate of 8.00%, payable monthly on the first day of each month. The outstanding balance of these notes amounted to $110 million at June 30, 2014.

The enabling Act is silent as to whether there are arrangements established for recovering payments from GDB if these guarantees should be claimed, however, there is no intention from the Commonwealth to request a recovery of any such eventual payments.

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, a discretely presented component unit. 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. Pursuant to Act No. 96 of June 30, 2015, the Commonwealth guaranty on the payment of principal and interest on most of the outstanding Revolving Fund loans granted to PRASA was extended to cover such loans issued through June 30, 2020. All these Acts, as amended, are silent as to whether there are arrangements established for recovering payments from PRASA if the guaranty were to be claimed; however, there is no intention from the Commonwealth to request a recovery of any such eventual payments.

United States Department of Agriculture (USDA) Rural Development Program assists PRASA in the financing and construction of aqueduct and sewer facilities in rural areas by purchasing revenue bonds from PRASA, the proceeds of which are used by PRASA to finance such projects. GDB provides interim financing for these projects through short-term lines of credit. On June 12, 2013, PRASA 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, 2014, 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, 2014 was approximately $402 million. The USDA Rural Development Program Serial Bonds are guaranteed by the Commonwealth, pursuant to Law No. 140 of 2000 as amended and PRASA'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, 2014, PRASA had outstanding approximately $490.9 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, 2014 amounted $284.8 million.

Port of the Americas Authority (PAA) – At various times during fiscal years ended 2005 and 2006, the PAA, a component unit of the Commonwealth, entered into bond purchase agreements with the GDB, whereby the GDB agreed to disburse to the PAA 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). These bonds are guaranteed by the Commonwealth by Act No. 409 of September 22, 2004, which authorized the issuance of these financing arrangements. The proceeds of the bonds were used to finance the cost of development and construction of the PAA. At June 30, 2014, the aggregate unpaid principal balance of all outstanding bond principal advances was set to be payable on January 1, 2015 and January 15, 2015, carrying an interest rate determined annually by GDB based on a spread ranging between 150 and 175 basis points over the interest rate of underlying commercial paper issued by GDB in connection with these facilities. Just before the maturity of the bond advances, these were refinanced for a period of 30 years, with the first payment of principal and interest to commence on August 1, 2016, with interest rates based on the rates borne by the general obligation of the Commonwealth. These rates shall be revised on a quarterly basis. 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 PAA; (iii) or legislative appropriations as established in Act No. 409 of September 22, 2004 (Act No. 409), honoring the guaranty agreement referred to above. The Commonwealth paid during fiscal year 2014 the debt service on these bonds, under its guaranty. Therefore, upon adoption of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, the Commonwealth recognized against its beginning net position a liability on this guaranteed obligation in the amount of $220.4 million. This measurement was based on the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. As these bond advances carry a variable market interest rate, the Commonwealth estimated that such discounted present value at adoption date approximated the carrying amount outstanding of these bonds at June 30, 2013. Similarly, the liability under guaranteed obligation at June 30, 2014 also approximated the carrying amount of these bonds at the same date. The activity of the newly recognized liability under guaranteed obligation during fiscal year 2014 consisted as follows:

	Beginning balance June 30, 2013 (At Adoption)	Increases	Guaranty payments	Ending balance June 30, 2014	Due Within One Year
Liability under guaranteed obligation	$ 220,392	6,391	(1,919)	224,864	949

Act No. 409, as amended, is silent as to whether there are arrangements established for recovering payments from PAA for guaranty payments made; however, there is no intention from the Commonwealth to request a recovery of any such payments.

Upon the refinancing referred to above, accrued interest through the date of the refinancing amounting to approximately $8.8 million was capitalized into the principal balance then outstanding for a refinanced amount of approximately $233.6 million. The table that follows represents the future debt service payments on the refinanced amount. Although interest rates on the refinancing change over time, the calculations included in the table below are based on the assumption that the variable rate and at the refinancing date will remain the same for the rest of the term.

Year ending June 30:	Principal	Interest	Total
2016	$ 7,788	9,785	17,573
2017	7,788	16,216	24,004
2018	7,788	15,656	23,444
2019	7,788	15,097	22,885
2020	7,788	14,538	22,326
2021-2025	38,938	64,303	103,241
2026-2030	38,938	50,324	89,262
2031-2035	38,938	36,345	75,283
2036-2040	38,938	22,366	61,304
2041-2045	38,938	8,387	47,325
	$ 233,630	253,017	486,647

(b) ***Debt Supported by Appropriations***

At June 30, 2014, 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 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	$	416,798	—	416,798
Puerto Rico Health Insurance Administration			183,251	183,251
Puerto Rico Convention Center District Authority		—	140,951	140,951
University of Puerto Rico		—	63,208	63,208
Solid Waste Authority		7,821	74,027	81,848
Agricultural Services Development Administration		—	105,371	105,371
Land Authority of Puerto Rico		55,818	—	55,818
Puerto Rico Tourism Company		45,298	—	45,298
Puerto Rico Industrial Development Company		—	41,653	41,653
Company for the Integral Development of the “Península de Cantera”		—	36,278	36,278
University of Puerto Rico Comprehensive Cancer Center		—	28,184	28,184
Government Development Bank		3,434	13,340	16,774
National Parks Company of Puerto Rico		—	5,605	5,605
Institute of Puerto Rican Culture		—	3,291	3,291
Puerto Rico Electric Power Authority		—	713	713
Total	$	529,169	695,872	1,225,041

Notes payable to 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, 2014, the mortgage loan insurance program covered loans aggregating to approximately $546 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, 2014, 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	155,100
Government Development Bank for Puerto Rico	1,147,475	458,900
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	6,353,000	982,742
Total	$ 7,925,885	1,752,152

(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, 2014.

(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, 2014 amounted to approximately $155.1 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 $151.1 million at June 30, 2014.

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 $307.8 million at June 30, 2014. 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.

(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 full 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, 2014, AFICA has issued revenue bonds aggregating to $6,353 million, $983 million of which was outstanding as of June 30, 2014. Of the revenue bonds outstanding at June 30, 2014, $409 million represent industrial and commercial revenue bonds; $97 million, tourism related revenue bonds; $163 million, hospital revenue bonds; and $313 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 2014 and 2013 were as follows (expressed in thousands):

		2,014	2,013
Claims payable – July 1	$	9,572	11,956
Incurred claims and changes in estimates		1,091	(1,084)
Payments for claims and adjustments expenses		(2,786)	(1,300)
Claims payable – June 30	$	7,877	9,572

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 $9.6 million as of June 30, 2014 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 2014 and 2013 were as follows (expressed in thousands):

		2014	2013
Claims payable – July 1	$	5,270	7,188
Incurred claims		89,332	100,889
Claim payments		(88,870)	(102,807)
Claims payable – June 30	$	5,732	5,270

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.

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):

		2014	2013
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$	150,005	213,173
Total incurred benefits		1,949,344	1,262,982
Total benefit payments		(1,817,635)	(1,326,150)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$	281,714	150,005

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):

		2014	2013
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$	820,934	820,012
Total incurred benefits		447,909	481,743
Total benefit payments		(456,847)	(480,821)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$	811,996	820,934

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 3.83% in 2014. 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, 2014, 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):

		2014	2013
Liability for incurred but unpaid benefits and benefit adjustment expenses at beginning of year	$	104,912	97,111
Total incurred benefits		42,852	41,165
Total benefit payments		(53,785)	(33,364)
Liability for incurred but unpaid benefits and benefit adjustment expenses at end of year	$	93,979	104,912

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 2014 and 2013 in the estimated reserves (expressed in thousands):

		2014	2013
Liability for estimated losses on insured stocks and deposits at beginning of year	$	27,881	26,975
Provision for losses		—	825
Payment of claims		—	(2)
Recoveries		62	83
Liability for estimated losses on insured stocks and deposits at end of year	$	27,943	27,881

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 $321 million as an amount to cover for awarded and anticipated unfavorable judgments at June 30, 2014. 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 regarding an alleged inappropriate withholding of Medicaid funds, 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. The Commonwealth is still contesting several provisions of this determination and amounts to be returned are still in the process of estimation. As of June 30, 2014, the Commonwealth accrued $500 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, 2014, the Commonwealth accrued $650 million for this legal contingency.

The Commonwealth is a defendant in two lawsuits instituted in 2007 and 2009 by a large group of employees from the Department of Family, the Administration of Vocational Rehabilitation and the Administration of Juvenile Institutions claiming that wages in an aggregate amount of $215 million are owed to them. The plaintiffs claim for loss of earnings due to the failure of compliance by the applicable agencies of the equal payment for equal work under different laws. The plaintiffs claim that they have been adversely affected by reason of the agencies failure to revise the scales of remuneration each time the federal minimum wage changed. All parties have filed petitions for summary judgment which are pending. As of June 30, 2014, this legal contingency has an estimated exposure of $215 million plus an undetermined amount for interest. The Commonwealth has accrued $215 million to cover for this 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, 2014, the Commonwealth accrued $95 million for this legal contingency.

PBA is defendant or co-defendant in various lawsuits for alleged damages and breach of contracts in cases related to construction projects. In addition, PBA is defendant or co-defendant in other cases related to public liability and labor related matters. PBA, based on legal advice, has recorded an accrual approximating $20.2 million to cover probable losses on these claims. In the opinion of legal counsel, any liability in excess of the insurance coverage and/or the recorded accrual that may arise from such claims would not be significant to affect PBA's financial position or results of operations.

The SCPTis a defendant and a party in numerous legal proceedings and extrajudicial claims pertaining to matters incidental to the performance of its normal operations. SCPT has recognized approximately $8.7 million to cover for awarded and anticipated unfavorable judgments at June 30, 2014.

PRIFA, a component unit blended as a governmental activity, is a defendant in various legal proceedings arising from its normal operations. Management, based on the advice of legal counsel is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on PRIFA's financial statements. However, management is of the opinion that they will reach settlements in certain cases. A liability to cover these potential settlements in the amount of approximately $7.6 million has been established at June 30, 2014.

PHA is a defendant and a party in numerous legal proceedings and extrajudicial claims pertaining to matters incidental to the performance of its normal operations, including cases arising out of alleged torts, alleged breach of contracts, alleged violation of law, discrimination against employees, unlawful discharge and condemnation proceedings, among others. PHA has recognized $6.0 million to cover for awarded and anticipated unfavorable judgments at June 30, 2014.

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, 2014. The amount claimed in excess of that accrued at June 30, 2014 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, 2014, 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 for claim losses in the amount of $2.8 million at June 30, 2014 under business-type activities.

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 was 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 fiscal year 2016, the Commonwealth appropriated $20 million pursuant Act No. 105 of July 2, 2015. 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. Under the settlement agreement, the court dismissed the claim, but retained jurisdiction to ensure compliance with the agreement, through the appointment of a Technical Compliance Advisor. 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.

The United States Department of Justice (USDOJ), acting on behalf of the United States Environmental Protection Agency (EPA), has filed a complaint alleging unauthorized discharges of pollutants from the storm sewer systems owned and/or operated by the Municipality of San Juan ("MSJ"), the Department of Transportation and Public Works (DTPW) and the Puerto Rico Highways and Transportation Authority (PRHTA) through certain flood control pump stations owned and operated by the Department of Natural and Environmental Resources (DNER), into the waters of the United States, in violation of the Federal Clean Water Act. The complaint seeks the assessment of civil penalties against MSJ, DTPW/PRHTA, DNER and the Commonwealth of Puerto Rico for past and present violations of up to $32,500.00 per day per violation, for those violations that occurred between February 5, 2007 and January 12, 2009; and $37,500.00 per day per violation, for those violations that occurred from January 13, 2009 to the present. The complaint further seeks injunctive relief to bring the defendants into compliance with the Municipal Separate Storm Sewer Systems Permit. DNER and DTPW/PRHTA are currently individually engaged in settlement negotiations with USDOJ/EPA to resolve the matter by entering into separate Consent Decrees to be filed with the U.S. District Court for the District of Puerto Rico. Ongoing settlement negotiations entail discussing the terms and conditions to be incorporated into such Consent Decrees. Pursuant to the settlement negotiations, and taking into consideration the economic impact of a civil penalty and the Puerto Rico Defendants' documented inability to pay a penalty, USDOJ/EPA have agreed to waive the monetary civil penalty associated with the violations alleged in the complaint. Thus, the Consent Decrees will focus on injunctive relief (i.e., compliance measures) to enable the Puerto Rico Defendants to attain compliance with applicable statutory and regulatory provisions. At this time DNER and DTPW/HTA are involved in finalizing the terms and conditions of the respective Consent Decrees, so that they can be executed by the appropriate representatives of each party and filed with the court.

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 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 had recorded the $230 million upon execution of the closing agreement and it remained recorded through June 30, 2013. In June 2014, the taxpayer filed a lawsuit before the Court of First Instance (the trial court) against the Commonwealth requesting a declaratory judgment to enforce the validity of the closing agreement. On October 10, 2014, the trial court ruled in favor of the taxpayer, holding that the closing agreement was valid. The Commonwealth appealed this judgment, and on February 25, 2015, the Appellate Court ruled in favor of the Commonwealth by declaring null and void the final agreement subscribed on March 26, 2012 between the Department of the Treasury and the taxpayer. The taxpayer immediately filed a certiorari petition and an urgent motion for relief before the Puerto Rico Supreme Court, which was denied by said court on February 27, 2015, finally closing the case in favor of the Commonwealth. As a result of this favorable judgment, the Commonwealth reversed from its books at June 30, 2014 the $230 million refund accrual that it had previously recorded upon execution of the original closing agreement.

On June 28, 2014, certain holders of bonds issued by PREPA filed a lawsuit in the United States District Court for the District of Puerto Rico (*Franklin California Tax Free Fund v. Commonwealth of Puerto Rico*) seeking a declaratory judgment that the Recovery Act violates several provisions of the United States Constitution. The complaint alleges that the Recovery Act is a law dealing with "bankruptcy matters" and that the Commonwealth is precluded by the United States Constitution from enacting this law since only the United States Congress can do so under the "bankruptcy clause" of the United States Constitution. The complaint further alleges that certain provisions of the Recovery Act, if enforced, would violate several provisions of the United States Constitution because they would constitute an unconstitutional impairment of the contract between PREPA and its bondholders or a "taking" of the bondholders' property without just compensation. On July 22, 2014, an investment manager, on behalf of investment funds which purportedly hold bonds issued by PREPA, filed another lawsuit in the United States District Court for the District of Puerto Rico (*Bluemountain Capital Management, LLC v. Alejandro Garcia Padilla, et. al.*) seeking a declaratory judgment that the Recovery Act violates the bankruptcy clause of the United States Constitution and other provisions of the United States and Commonwealth Constitutions, asserting similar arguments as the *Franklin California Tax Free Fund* complaint. On August 20, 2014, the District Court issued an order consolidating both actions. The Commonwealth, PREPA and GDB have filed motions to dismiss both lawsuits for failure to state a claim. The motions to dismiss assert, among other things, that since the Recovery Act has never been invoked, the lawsuits are not ripe, and that there is no preemption by federal law, because there is no federal law applicable to the enforcement of the debts of Puerto Rico public corporations. On February 6, 2015, the United States District Court issued a declaratory judgment and permanent injunction holding that the Recovery Act is unconstitutional because it is preempted by the United States Bankruptcy Code. The Commonwealth filed an expedited appeal before the United States Court of Appeals for the First Circuit. The parties have filed their briefs and oral arguments were held on May 6, 2015. The Commonwealth, PREPA and GDB will continue to defend vigorously the constitutionality of the Recovery Act. They believe that the provisions of the Recovery Act can be enforced in a manner that complies with the requirements of both the United States Constitution and the Commonwealth Constitution.

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, 2014, based on an evaluation of pending federal disallowances, the Commonwealth has recorded approximately $69.7 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 (DOE) 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. In addition, pursuant to the provisions of the ARRA Act, PRIFA entered into sub-grant agreement with the EAA to assist in the administration of approximately $27 million of a grant to be received from the DOE under the State Energy Program (SEP). SEP was established to advance energy efficiency and renewable energy technologies throughout Puerto Rico with various initiatives for government, commercial and residential sectors. The ARRA programs concluded during fiscal year ended June 30, 2012; however, extensions were provided to grantees for fiscal years ended June 30, 2013 and 2014, in order to complete the projects by which grants were provided. The remaining activity reflected ARRA programs is related to the conclusion of pending and administrative matters related to such program.

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 Trust (a blended component unit), the Commonwealth assigned and transferred to the Children's Trust Children's 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, 2014, amounted to approximately $72.1 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, 2014, the approximate amount of the pledge is $2.5 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.

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, a blended component unit, 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 (I) adoption in the health system as a critical national goal and incentivized the I 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 I and that also, comply with certain specific requirements. CMS' I Incentive Programs provide incentive payments to eligible hospitals as they adopt, implement, upgrade or demonstrate meaningful use, as defined by CMS, of certified I technology. As of June 30, 2014, PRMeSA is under the implementation of its I 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, 2014, the Trust's accumulated budgeted balances on these agreements amounted to approximately $1,006 million, from which a total of approximately $963.7 million had been disbursed.

Construction commitments at June 30, 2014, entered into by the PBA, amounted to approximately $5.1 million. In addition, PBA's construction commitments to honor the cost of the uncompleted public schools under the 21st Century Program amounted to approximately $81.8 million at June 30, 2014. PRIFA has active construction projects at June 30, 2014, representing construction commitments amounting to $36.6 million. At June 30, 2014, the Children's Trust had approved commitments to provide assistance to several entities through twenty-four contracts with balances amounting to approximately $16 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, 2014 under such operating leases was approximately $185 million.

The future minimum lease payments for these leases are as follows (expressed in thousands):

Year ending June 30:		
2015	$	87,671
2016		66,368
2017		46,995
2018		32,589
2019		21,976
2020 – 2024		61,939
2025 – 2029		24,586
2030 – 2034		4,891
Total future minimum lease payments	$	347,015

Fiduciary Funds – The ERS is a defendant in a lawsuit brought by pensioners of the ERS. They filed the claim on behalf of the ERS against the underwriters of certain ERS pension bonds and some of the former members of the Board of Trustees of the ERS. The complaint requested $800 million in damages resulting from the $3 billion bond issuance in 2008 that according to the plaintiffs compromised the solvency of the ERS. 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 ERS in its fiduciary funds.

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, 2014, GDB has financial guarantees for the private sector of approximately $592 million. In addition, at June 30, 2014, standby letters of credit to the public sector were approximately $1.3 billion. Commitments to extend credit to the public sector were approximately $1.4 billion, while there were no commitments to extend credit to the private sector.

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, 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 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 GDB up to $25 million to be matched by cooperative entities. As of June 30, 2014, GDB has contributed $20.4 million to the Cooperative Development Investment Fund, $1.1 million of which were contributed during the year ended June 30, 2014.

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, 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, 2014 guarantees amounted to approximately $15 million. At June 30, 2014, the outstanding balance of loans guaranteed by the Development Fund amounted to approximately $4.5 million, and the allowance for losses on guarantees amounted to approximately $243 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, 2014, the principal balance of the mortgage loans serviced for others is approximately as follows (expressed in thousands):

Puerto Rico Community Development Fund I	$	40,099
R-G Mortgage, Inc. or its successor		1,256
Office for the Administration of the Assets of the Urban Renovation and Housing Corporation or its successor without guaranteed mortgage loan payments		24
	$	41,379

The U.S. Office of Inspector General (OIG) has performed various examinations of the HOME Program covering fiscal years ended prior to July 1, 2010. These examinations covered periods in which the HOME Program was under the administration of the Department of Housing. These examinations identified instances of noncompliance with terms and conditions of the grant agreements, applicable federal law, and the HOME Program's regulations, including but not limited to the expenditure of resources for ineligible purposes. OIG identified in its examinations disallowed costs amounting to approximately $18.3 million. The Housing Finance Authority recorded a contingency for such disallowed costs, and additional amounts identified internally as potential disallowances, amounting to approximately $20.4 million. On May 2013, the Housing Finance Authority entered into a three year repayment plan, starting on August 1, 2013, with HUD to return HOME funds amounting to approximately $1.8 million that were determined to be disallowed costs within the $18.3 million discussed above. On July 31, 2014, the Governor of the Commonwealth signed the HOME Voluntary Repayment Settlement Agreement (The Voluntary Settlement Agreement) with HUD. The Voluntary Settlement Agreement establishes the reimbursement to the HOME program of $14.2 million, from nonfederal funds, for disallowed expenditures in connection with HUD-funded projects, as defined and described in the Voluntary Settlement Agreement, in two installments of $10 million and $4.2 million due on October 1, 2014 and October 1, 2015, respectively. During the year ended June 30, 2014, the Affordable Housing Subsidy Program paid $624,403 to the Home Program to cover the installment payments due under the $1.8 million repayment plan. At June 30, 2014 the total liability amounted to approximately $16 million and is included in accounts payable and accrued liabilities.

Other federal programs are also subject to audits. Such audits could result in claims against the resources of the Housing Finance Authority. No provision has been made for any liabilities that may arise from such amounts since the amount, if any, cannot be determined at this date.

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. As of June 30, 2014, the PRHTA, based on legal advice, has recorded a liability of approximately $216 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 2014 was approximately $91.2 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 notes 2 and 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 in a lawsuit presented by customers alleging that PRASA has over billed them due to the methodology used to estimate consumption. There is one case 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. PREPA understands that it has significant probabilities of prevailing on the merits of its counterclaim for wrongful termination against Abengoa and its surety.

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. 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. The motions are pending adjudication by the court.

Fifty-four 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 under the Workers' Compensation Law. An evidentiary hearing on the issue took place. After trial, the Court entered judgment dismissing the claims in their entirety. The plaintiffs filed an appeal before the Puerto Rico Appeals Court. PREPA filed a motion to dismiss the appeal. The Appeals Court denied PREPA's motion to dismiss and PREPA filed its appellate brief. The case is pending adjudication by the Appeals Court.

On November 21, 2013, Tropical Solar Farms, LLC; New Horizon Solar, LLC; Jonas Solar Energy, LLC and Roberto Torres Torres (collectively the "Plaintiffs") filed a 58-page suit in the Commonwealth of P.R. Court of First Instance, Ponce Section, against 29 defendants and several John Does. The complaint contains a plethora of claims against multiple defendants arising from an alleged multiplicity of sources of obligations: contractual, in tort, and in breach of fiduciary duties and the law. It encompasses private entities, a public corporation, PREPA and former public officers, among others. The complaint claims monetary compensation in excess of $705 million. The complaint alleges that the defendants negotiated several Renewable Power Purchase Agreements to provide up to 40 megawatts to PREPA, all of which were assigned by the plaintiffs to various other defendants. The Plaintiffs allege that the defendants never intended to comply with their obligations under the agreements, and were only buying time to advance their other renewable energy projects with PREPA.

PREPA filed its answer to the complaint on January 7, 2014. As of this date not all the defendants have answered the complaint, and the discovery proceedings are in a very early stage. Although it is anticipated that the litigation may become a protracted one as a result of the plethora of allegations and defendants, it is our professional evaluation at this early stage of the proceedings that PREPA should not be held liable to plaintiffs.

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.

Medical malpractice claims have been asserted against the UPR hospital and are currently at various stages of litigations. It is the opinion of the UPR hospital's legal counsel and management that recorded accruals are adequate to provide for potential losses resulting from pending or threatened litigations, as well as claims from unknown incidents that may be asserted arising from services provided to patients.

In September 2013, the Federal Center for Disease Control and Prevention (CDC) issued a preliminary report, which indicated that bacteria affected several patients in the UPR hospital's intensive care unit during a period of time. The UPR hospital may be subject to penalties or sanctions as a result of this situation. Also, as of June 30, 2014, 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 UPR 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 UPR hospital's management and its legal counsel that the outcome of these claims would not have a material effect on the UPR or the hospital's operations.

(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.

PRHIA is a defendant and co-defendant in legal proceedings pertaining to matters incidental to the performance of its operations. With respect to the pending and threatened litigations, PRHIA, in consultation with legal counsel, has advised that at this stage of the proceedings they cannot offer an opinion as to the probable outcome. Accordingly, management does not consider necessary making any provision in its books for these cases and intends to contest them vigorously.

(g) ***PCSDIPRC***

PCSDIPRC provides insurance coverage over the stocks and deposits of all cooperatives in Puerto Rico. The deposit base of the cooperatives approximates $7.3 billion at June 30, 2014.

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, 2014 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 February 1992, the Environmental Protection Agency (EPA) conducted a multimedia inspection of PREPA's facilities and identified several alleged instances of non-compliance related to the PREPA's air, water and oil spill prevention control and countermeasures compliance programs. PREPA and the EPA negotiated to resolve the issues regarding the deficiencies observed during the inspection and to ensure future compliance with all applicable laws and regulations. As a result of the negotiations, PREPA and the EPA reached an agreement that resulted in a consent decree (the Consent Decree) approved by the United States federal court in March 1999. Under the terms and conditions of the Consent Decree, PREPA paid a civil penalty of $1.5 million, and implemented additional compliance measures amounting to $4.5 million. In addition, the Consent Decree requires that PREPA improve and implement compliance programs and operations in order to assure compliance with environmental laws and regulations.

In 2004, the United States federal court approved a modification to the Consent Decree agreed by PREPA and the EPA under which PREPA reduced, in two steps, the sulfur content in the No. 6 fuel oil used in certain generating units of its Costa Sur and Aguirre power plants (to 0.75% or less by March 1, 2005 and to 0.5% or less by March 1, 2007), and used No. 6 fuel oil with sulfur content of not more than 0.5% through July 18, 2009 at its Palo Seco and San Juan power plants. Additionally, PREPA has completed a nitrogen oxide emissions reduction program and modified the optimal operating ranges for all its units under the Consent Decree. PREPA also paid a $300,000 civil fine and reserved $200,000 to fund certain supplemental environmental projects and programs under the Consent Decree.

PREPA has audited several instances for compliance with the Consent Decree programs, and understands that a considerable number of them can be closed since their requirements have been completed. PREPA has formally requested to meet with EPA on August 20, 2010; February 25, 2011; May 23, 2012 and June 15, 2012 to begin the process conducive to the partial termination of certain provisions of the Consent Decree and its Modification. On July 22, 2014, representatives from PREPA, EPA and United States Department of Justice (DOJ) met to begin the discussion towards the termination of some of the programs. As a result, the EPA and the DOJ requested PREPA to submit information regarding PREPA's compliance with the Programs for their review and evaluation. On September 25, 2014, PREPA met again with EPA and DOJ representatives and submitted the information requested, along with a letter where PREPA formally requested the EPA to review and approve the termination of those programs provisions of the Consent Decree and its Modification of 2004 presented, as well as begin the process toward jointly filing in the Court a stipulation for Partial Termination of such programs. To accomplish this goal, PREPA suggested to appoint a task force composed of EPA and PREPA representatives to schedule and meet to address the details which EPA agreed to. On May 27 and 28, 2015, PREPA, EPA and DOJ legal representatives met to begin discussions about PREPA's termination claims, as well as define any additional documentation requested to support and demonstrate PREPA's determination of compliance with the different programs obligations. Future meetings with DOJ and EPA are expected to be held in August 2015.

Since September 2004, there has been no legal action in the United States federal court or any administrative proceeding against PREPA regarding the Consent Decree or its modification. The Consent Decree includes stipulated penalties for certain events of non-compliance. Non-compliance events must be disclosed to EPA in the corresponding report. Ordinarily, when a covered non-compliance event occurs, PREPA pays the stipulated penalty in advance in order to benefit from a 50% discount of the applicable stipulated penalty.

In 1997, as a result of an inspection carried out by the EPA and the Puerto Rico Environmental Quality Board (the EQB) at PREPA's Palo Seco power plant, the EPA issued an Administrative Order for the investigation and possible remediation of seven areas identified by the EPA at the Palo Seco power plant and the Palo Seco General Warehouse (Depot). The Administrative Order required PREPA to carry out a Remedial Investigation/Feasibility Study (RI/FS). The RI/FS required under the order was designed to: (1) determine the nature and extent of contamination and any threat to the public health, welfare or environmental caused by any release or threatened release of hazardous substances, pollutants, or contaminants at or from the site; and (2) determine and evaluate alternatives for the remediation or control of the release or threatened release of hazardous substances, pollutants, or contaminants at or from the site. The RI was completed and a final report was submitted to EPA for evaluation. The information gathered under the RI reflected the presence of free product (Separate Phase Hydrocarbons) in several monitoring wells. The analysis of this product also reflected a low concentration of polychlorinated biphenyls (PCBs). PREPA and EPA entered into an Administrative Order on Consent (AOC) (CERCLA-02-2008-2022) requiring PREPA to complete a removal plan that consisted of determining if the underground water had been impacted by PCBs, the extent of the contamination and the implementation of a work plan for free product removal. Analytical data collected during this activity reflected that underground water had not been impacted by PCBs. Nevertheless, water/oil mix was found in seven monitoring wells (MWs). PCBs concentrations between 1.36-2.36 parts per million were detected in the oil found in 3 of the 7 MWs. Multiphase extraction (MPE) activities in the MWs where water/oil phases were found, has been performed on a weekly basis. After several MPE, this activity was discontinued under the USEPA's recommendations.

On April 19, 2012, PREPA submitted for EPA's review and approval the final report letter for the AOC. On August 13, 2012, EPA notified PREPA by certified mail, that the final report was reviewed and determined that the work required pursuant the AOC has been fully carried out in accordance with its terms. Also the letter indicated that the notification shall not affect any continuing obligation of respondents, including but not limited to the reimbursement of EPA response costs, as specified in the AOC.

Based the findings of the RI, the Human Health Risk Assessment, the Screening Level Ecological Risk Assessment and the AOC, "no action" recommendation under CERCLA for the PREPA Palo Seco site is believed to be protective of human health and environment. The risk assessments indicate that the levels of residual contaminants present at the site fall within EPA's acceptable risk range. This non-action remedy complies with the federal and commonwealth requirements. "Both Orders" with Both AOC's established a Reimbursement of Costs condition in which PREPA agreed to reimburse EPA for all costs incurred by EPA in connection to the site. PREPA has not been charged for these costs to date and therefore there is no amount recorded in the financial statements for these cost reimbursements.

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. On June 24, 2013, PREPA deposited $400,000 into the escrow as provided in the Consent Decree.

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 2014 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 and the EPA decided to select the Lago La Plata community for 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 2014 was approximately $600,000. 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.

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, 2014, the penalties amounted to approximately $100,000. PRASA deposited $100,000 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 2014 was approximately $200,000. 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.

- *SWA* – SWA initiated in years prior to the year ended June 30, 2014, 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, 2014, 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	$	551,100
Puerto Rico Aqueduct and Sewer Authority		124,200
University of Puerto Rico Comprehensive Cancer Center		184,987
Puerto Rico Electric Power Authority		47,000
University of Puerto Rico		34,900
Solid Waste Authority		30,369
Company for the Integral Development of the Peninsula de Cantera		8,909
Puerto Rico Ports Authority		7,900
Puerto Rico Land Administration		7,000
Puerto Rico and Municipal Islands Maritime Transport Authority		2,200
Port of the Americas Authority		1,466
Institute of Puerto Rican Culture		861
Total	$	1,000,892

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, 2014 amounted to approximately $90.7 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 $109.5 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, 2014 and 2013 consisted of (in thousands):

		2014	2013
Toll Roads Concession	$	90,740	90,740
Toll Roads Concession Improvements		16,175	11,334
Bridge Concession		65,883	67,890
Total	$	172,798	169,964

The deferred inflows of resources at June 30, 2014 and 2013 consisted of (in thousands):

		2014	2013
Toll Roads Concession	$	1,058,049	1,097,784
Bridge Concession		81,872	67,890
Total	$	1,139,921	1,165,674

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, 2014, approximately $20.7 million of the deferred inflow of resources have been amortized into revenue, $15.6 million of which belonged to fiscal year 2014 and approximately $15.6 million will be amortized annually until the term of the agreement. As of June 30, 2014, the PRPA has satisfied approximately $2.8 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, in several phases, all aggregating an estimated investment ranging from $246 million to $290 million. At June 30, 2014, approximately $42.4 million have been invested in capital expenditures by Aerostar, $1.6 million of which have been completed and placed in operations. 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 $476.2 million at June 30, 2014; while the deferred inflows of resources at June 30, 2014 amounted to $605.4 million.

(17) Retirement Systems

As further described in note 1(b), the Commonwealth implemented GASB Statement No. 67, *Financial Reporting for Pension Plans- an Amendment of GASB Statement No. 25*, during fiscal year 2014, and new Required Supplementary Information schedules are included herein. 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). It is a trust created by Act No. 447 on May 15, 1951 (Act No. 447), as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities of Puerto Rico. 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 consists of different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a defined contribution hybrid program. The pension plan is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the ERS) are covered by the ERS. Membership is mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment. Membership is optional for the Governor of the Commonwealth, Commonwealth secretaries, head of public agencies and instrumentalities, among others.

The benefits provided to members of the ERS are established by Commonwealth law and may be amended only by the Legislature with the Governor’s approval. Benefit provisions vary depending on date of membership.

On April 4, 2013, the Legislature enacted Act No. 3 which amended Act No. 447, Act No. 1 of February 16, 1990 (“Act No. 1”) and Act. No. 305 of September 24, 1999 (“Act No. 305 or System 200”) to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the ERS. Act No. 3 of

2013, in conjunction with other recent funding and design changes, provided for a comprehensive pension design of the ERS. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, became members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants. Ceasing future defined benefit accruals under Act 447 and Act 1 and converting to a member-funded hybrid plan will result in lower benefit payments as these tiers wind down, and will make all future employer contributions available to pay benefits and bonds payable debt service.

Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990 (Defined Benefit Program).
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (Defined Program).
- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Defined Contribution Program). Each member has a nonforfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the defined contribution hybrid program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs will become part of the Defined Contribution Hybrid Program. Each member has a nonforfeitable right to the value of his/her contributions to the Defined Contribution Hybrid account.

The assets of the defined benefit program, the defined contribution program and the defined contribution hybrid program are pooled and invested by the ERS. Future benefit payments will be paid from the same pool of assets. In addition, employers' contributions for members hired on or after January 1, 2000 will be used by the ERS to reduce the unfunded status of the Defined Benefit Program.

This summary of plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

1) Service Retirements

(a) ***Eligibility for Act No. 447 Members*** – Act No. 447 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who would attain 30 years of credited service by December 31, 2013 would be eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 would be eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(b) Eligibility for Act No. 1 Members – Act No. 1 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 members who were not eligible to retire as of June 30, 2013 would be eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(c) ***Eligibility for System 2000 Members*** – System 2000 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013 would be eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

(d) ***Eligibility for Members Hired after June 30, 2013*** – Attainment of age 58 if a Public Officer in a High Risk Position and attainment of age 67 otherwise.

2) ***Service Retirement Annuity Benefits***

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the Accrued Benefit determined as of June 30, 2013. If the balance in the Defined Contribution Hybrid Contribution Account is $10,000 or less, the balance in the Defined Contribution Hybrid Contribution Account shall be paid as a lump sum instead of as an annuity.

(a) ***Accrued Benefit as of June 30, 2013 for Act No. 447 Members*** – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to $6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(b) Accrued Benefit as of June 30, 2013 for Act No. 1 Members – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 Commonwealth Police or Commonwealth Firefighter had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

3) Compulsory Retirement

All Act No. 447 and Act No. 1 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

4) Termination Benefits

(a) Lump Sum Withdrawal

Eligibility: A Member is eligible upon termination of service prior to 5 years of service or if the balance in the Defined Contribution Hybrid Contribution Account is $10,000 or less.

Benefit: The benefit equals a lump sum payment of the balance in the Defined Contribution Hybrid Contribution Account as of the date of the permanent separation of service.

(b) Deferred Retirement

Eligibility: A Member is eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447 and Act No. 1 members) prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal of the Accumulated Contributions and the Defined Contribution Hybrid Contribution Account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the Accrued Benefit determined as of June 30, 2013.

5) Death Benefits

(a) Pre-Retirement Death Benefit

Eligibility: Any current nonretired member is eligible.

Benefit: A refund of the Defined Contribution Hybrid Contribution Account, plus the Accumulated Contributions for Act No. 447 and Act No. 1 members.

(b) High-Risk Death Benefit under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127 of 1958, as amended.

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's Compensation at date of death, payable as an annuity, and allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member shall each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Post-death Increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years.

The cost of these benefits is paid by the Commonwealth's General Fund.

(c) Post-Retirement Death Benefit for Members who Retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Law No. 105, as amended by Law No. 4):

(i) For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan – 30% prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees.

(ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of Accumulated Contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case shall the benefit be less than $1,000. Either the Commonwealth's General Fund for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the Accumulated Contributions less the lifetime annual income paid and (2) $1,000. The ERS pays for the rest.

(d) Post-Retirement Death Benefit for Members who Retired after June 30, 2013

Eligibility: Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the Defined Contribution Hybrid Contribution Account, plus the Accumulated Contributions for Act No. 447 and Act No. 1 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the member's estate.

(e) Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits.

6) Disability Benefits

(a) Disability

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the Defined Contribution Hybrid Contribution Account payable as lump sum distribution, an immediate annuity or a deferred annuity at the election of the participant. Act No. 447 and Act No. 1 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

(b) High Risk Disability under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127 of 1958 (as amended).

Benefit: 80% (100% for Act No. 447 members) of compensation as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years (Act No. 127 of 1958, as amended). The cost of these benefits is paid by the Commonwealth's General Fund.

(c) Members who qualified for occupational or nonoccupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.

7) Special Benefits

(a) Minimum Benefits

(i) Past Ad hoc Increases

The Legislature, from time to time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983. The benefits are paid 50% by the Commonwealth's General Fund and 50% by the ERS.

(ii) Minimum Benefit for Members who Retired before July 1, 2013 (Act No. 156 of 2003, Act No. 35 of 2007, and Act No. 3 of 2013.)

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month is paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from $300 per month to $400 per month is to be paid by the ERS for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(iii) Coordination Plan Minimum Benefit

A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

(b) Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act No. 35). The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the ERS. All other COLAs granted in 1995 and later shall be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(c) Special "Bonus" Benefits

(i) Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the Supplemental Contributions received from the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(ii) Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. This benefit is paid from the Supplemental Contributions received from the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

The special benefits contributions of approximately $175 million in 2014 mainly represent contributions from the Commonwealth's General Fund for the special benefits identified above 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.

8) Contributions

The contribution requirement to the ERS is established by law and is not actuarially determined.

(a) Member Contributions

Effective July 1, 2013, contributions by members are 10% of compensation. However, for Act No. 447 Members who selected the Coordination Plan, the member contributions are 7% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Members may voluntarily make additional contributions to their Defined Contribution Hybrid Contribution Account.

Prior to July 1, 2013, contributions by Act No. 447 Members selecting the Coordination Plan were 5.775% of compensation up to $6,600 plus 8.275% of compensation in excess of $6,600. Contributions by all other Members were 8.275% of compensation. System 2000 members may also have made voluntary contributions of up to 1.725% of compensation prior to July 1, 2013.

(b) Employer Contributions (Article 2-116, as Amended by Law No. 116 of 2010 and Act No. 3 of 2013)

Prior to July 1, 2011, employer contributions were 9.275% of compensation. Effective July 1, 2011, employer contributions are 10.275% of compensation. For the next four fiscal years effective July 1, employer contributions will increase annually by 1% of compensation. For the next five fiscal years, employer contributions will increase annually by 1.25% of compensation, reaching an employer contribution rate of 20.525% of compensation effective July 1, 2020.

(c) Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3 of 2013)

Effective July 1, 2013, the ERS will receive a supplemental contribution of $2,000 each year for each pensioner (including beneficiaries receiving survivor benefits) was previously benefitting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(d) Additional Uniform Contribution (Act No. 32 of 2013, as Amended)

During the fiscal year 2014, the ERS will receive an Additional Uniform Contribution of $120 million. During each fiscal year from 2015 through 2033, the ERS will receive an Additional Uniform Contribution certified by the external actuary of the ERS as necessary to avoid having the projected gross assets of the ERS, during any subsequent fiscal year, to fall below $1 billion. The Additional Uniform Contribution will be paid by the Commonwealth's General Fund, public corporations with own treasuries, and municipalities.

9) Early Retirement Programs

The Municipality of San Juan issued the Resolution No. 41, dated May 5, 2008, which provided an early retirement program for the municipality's 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 the Law 224 Act No. 7 dated August 9, 2008. 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.

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 also established 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 (the General Fund) 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 No. 1, or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the public corporations will also be required to continue making the required employee and employer contributions to the ERS. The General Fund will be required to continue making its required employer contributions. The ERS will be responsible for benefit payments afterwards.

(b) *JRS*

Plan Description – The JRS is a single-employer defined benefit pension plan administered by the ERS and JRS Administration. It is a trust created by Act No. 12 on October 19, 1954 (Act No. 12 of 1954), as amended, to provide pension and other benefits to retired judges of the Judiciary Branch of the Commonwealth, through the Office of the Administration of Court Facilities (the Employer). The JRS is a pension trust fund of the Commonwealth and is not an employer.

The ERS and JRS Administration allocated 1.57% of its general and administrative expenses to the JRS during the year ended June 30, 2014. The methodology used to determine the allocation of the ERS and JRS 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 ERS and the JRS, combined.

The JRS consists of two benefit structures pursuant to Act No. 12 of 1954, as amended by Act No. 162 of 2013. Benefit provisions vary depending on member's date of hire as follows:

- Judges hired on or before June 30, 2014 with certain distinctions for judges hired December 24, 2013 to June 30, 2014 (contributory, defined benefit program).
- Judges hired July 1, 2014 or later (contributory, hybrid defined benefit program).

All judges of the Judiciary Branch of the Commonwealth are members of the JRS. Members include all persons holding a position as Judge of the Puerto Rico Supreme Court, Judge of the Court of Appeals, Superior Judges of the Court of First Instance, and Municipal Judges of the Court of First Instance in the Commonwealth.

The benefits provided to members of the JRS are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval.

This summary of plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

Pension Plan Provisions Applicable to Judges Hired on or before June 30, 2014 (Pre – Act No. 162 Members)

1) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the applicable benefit detailed below.

(a) Normal Retirement

Basic Eligibility: Age 60 with 10 years of credited service.

Basic Benefit: 25% of highest salary, as defined, plus 5% of highest salary, as defined, for each year of credited service in excess of 10 years, subject to a maximum of 75% of highest salary if hired before December 24, 2013 and 60% of highest salary if hired between December 24, 2013 and June 30, 2014.

Eligibility for Judges who serve without a Fixed Tenure: 10 years of credited service. This enhanced eligibility is not available to judges who are appointed after June 28, 2007 to an unlimited term.

Benefit for Judges who serve without a Fixed Tenure: 25% of the salary corresponding to the office during the retirement period, plus 5% of such salary for each year of credited service in excess of 10 years, subject to a maximum of 100% of such salary. If the judge has served in a position without a fixed tenure for a total of at least 8 years, the 25% increases to 50% in the preceding formula. This enhanced benefit is not available to judges who are appointed after June 28, 2007 to an unlimited term.

Optional Eligibility: Age and credited service as shown in the table below, provided at least 8 years of credited service were earned in office as a judge.

Age	Years of Credited Services
Less than 60	30
62	20
61	21
60	22
59	23
58	24
57	25
56	26
55	27

Optional Benefit: 75% of highest salary if hired before December 24, 2013 and 60% of highest salary if hired between December 24, 2013 and June 30, 2014.

Enhanced Eligibility: Any judge who has served without a fixed tenure for at least 3 years and has at least 25 years of credited service. This enhanced benefit is not available to judges who are appointed after June 28, 2007 to an unlimited term.

Enhanced Benefit: 75% of the salary earned at the time of retirement.

Compulsory Retirement: All judges must retire by age 70. If the judge has less than 10 years of credited service, the judge can elect a refund of accumulated contributions or a proportional part of the basic benefit based on completed years and months of credited service.

(b) Early Retirement

Basic Eligibility: 20 years of credited service before age 60.

Basic Benefit: The basic benefit payable under Normal Retirement, reduced on an actuarial equivalent basis for each month that early retirement date precedes age 60. However, no actuarial reduction is applied for judges who serve without a fixed tenure.

Optional Eligibility: 20 years of credited service, provided at least 8 years of credited service were earned in office as a judge.

Optional Benefit: 75% of highest salary if hired before December 24, 2013 and 60% of highest salary if hired between December 24, 2013 and June 30, 2014, reduced on an actuarial equivalent basis for each month that early retirement date precedes the age specified in the table under Optional Eligibility under Normal Retirement for the applicable years of credited service.

2) Termination Benefits

(a) Lump Sum Withdrawal

Eligibility: A member is eligible upon termination of service.

Benefit: The benefit equals a refund of accumulated contributions.

(b) Deferred Retirement

Eligibility: A member is eligible upon termination of service prior to age 60 and after 10 years of credited service, provided the member has not taken a lump sum withdrawal.

Benefit: The benefit, commencing at age 60, is equal to the benefit payable upon Normal Retirement.

3) Death Benefits

(a) Occupational Death Benefit

Eligibility: The beneficiaries of any active participant who dies from an employment-related cause under the Workmen's Accident Compensation Act.

Spouse's Benefit: 50% of the participant's salary at date of death, payable as an annuity until death or remarriage.

Children's Benefit: $10 ($20 if full orphan) for each child payable monthly until child's age 18 or completion of studies, if later. The maximum family benefit is 75% of the participant's salary at date of death.

Benefit if No Spouse or Children: Refund of accumulated contributions, plus an amount equal to one year of compensation, as defined, in effect at the time of death.

(b) Pre-retirement Death Benefit

Eligibility: Any current non-retired member is eligible, provided not eligible for the Occupational Death Benefit.

Benefit:

(i) While in active service, the benefit equals a refund of accumulated contributions; plus an amount equal to one year of compensation in effect at the time of death.

(ii) While not in active service, the benefit equals a refund of accumulated contributions.

(c) Special Pre-retirement Death Benefit

Eligibility: An active participant who was eligible to retire at the date of death with a surviving spouse or dependent children.

Benefit: The post-retirement death benefits described below assuming the active participant retired the day before the date of death.

(d) Post-retirement Death Benefit

Eligibility: Any retiree or disabled member receiving a monthly benefit.

Benefit:

(i) For those married or with dependent children at the time of death, an annual income equal to 60% of the retirement benefit at time of death, 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.

(ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case shall the benefit be less than $1,000. The Commonwealth's General Fund pays the difference, up to $500, between (1) the accumulated fees, as defined, with interest less the lifetime annual income paid and (2) $1,000. The JRS pays for the rest.

4) Disability Benefits

(a) Non-occupational Disability

Eligibility: All members are eligible for Non-occupational Disability upon 10 years of credited service and the occurrence of disability.

Benefit: 30% of average compensation, plus 1% of average compensation for each year of credited service in excess of 10 years, payable as an annuity; subject to a maximum of 50% of average compensation.

(b) Occupational Disability

Eligibility: All members disabled while in the course and as a consequence of their work, as certified by two physicians appointed by the Plan Administrator, and provided the member is receiving compensation from the Workmen's Accident Compensation Act.

Benefit: 50% of Salary at date of disability, payable as an annuity, reduced by any payments received from the State Insurance Fund under the Workmen's Accident Compensation Act.

5) Special Benefits

(a) Cost-of-Living Adjustments (COLA) to Pension Benefits

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.

These COLAs are paid by the Commonwealth's General Fund. In addition, an ad-hoc 3% COLA was granted effective January 1, 1999 and is paid by the JRS.

(b) Special "Bonus" Benefits

(i) ***Christmas Bonus (Act No. 144)*****:** An annual bonus of $600 for each retiree, beneficiary, and disabled member paid in December provided the judge was hired before December 24, 2013. The JRS pays $150 per retiree, beneficiary, and disabled member and the balance is paid by the Commonwealth's General Fund.

(ii) ***Summer Bonus (Act No. 37)*****:** An annual bonus of $100 for each retiree, beneficiary, and disabled member paid in July provided the judge was hired before December 24, 2013. The amount is prorated if there are multiple beneficiaries. This benefit is paid by the Commonwealth's General Fund.

(iii) ***Medication Bonus (Act No. 155)*****:** An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the judge was hired before December 24, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. This benefit is paid by the Commonwealth's General Fund.

Judges hired on December 24, 2013 and thereafter are not eligible for these special "bonus" benefits.

The special benefits contributions of approximately $1.2 million in 2014 represent contributions from the Commonwealth's General Fund for the special benefits identified above 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.

6) Contributions

The contribution requirement to the JRS is established by law and is not actuarially determined.

(a) Member Contributions**:** Contributions by members are 8.0% of compensation if hired before December 24, 2013 and 10.0% of compensation if hired between December 24, 2013 and June 30, 2014.

(b) Employer Contributions:

- *Payroll-based Employer Contributions*: Contributions by the Commonwealth are 30.34% of compensation. Prior to July 1, 2008, the employer contribution rate was 20.0% of compensation.
- *Additional Uniform Contribution (Act No. 162 of 2013)*: Beginning with the fiscal year 2015, the JRS will receive an additional uniform contribution as necessary to avoid having the projected gross assets of the JRS, during any subsequent fiscal year, to fall below $20 million.

Pension Plan Provisions Applicable to Judges Hired on or after July 1, 2014 (Act No. 162 Members)

Members hired on or after July 1, 2014 will be covered by a contributory, hybrid plan with defined benefit and defined contribution components as follows:

(a) Defined Benefit (DB) provisions:

- DB accrued benefit of 1.5% of the last 5-year final average earnings for each year of service.
- Only judicial service counts towards service; prior government service is not included and cannot be transferred.

- Normal retirement age of 65 with 12 years of service.
- Early retirement age of 55 with 12 years of service, with an actuarial reduction of the DB accrued benefit if benefits commence early.
- Deferred vested benefit after 12 years of service with benefits commencing at normal retirement age, provided member has not taken a lump sum withdrawal of DC component. Benefits may begin at early retirement age but would be reduced as specified above.
- The monthly DB component benefit will be paid as a single life annuity.

(b) Defined Contributions (DC) provisions:

- Member contributions of 12% of pay.
- The member contributions are credited to a notional account each year.
- Normal retirement age of 65 with 12 years of service.
- Early retirement age of 55 with 12 years of service.
- Members who separate from employment with less than 12 years of service would receive their notional account as a lump sum.
- Members who separate from employment with 12 or more years of service would receive their benefit in the form of a mandatory annuity.
- Members who separate at or after early or normal retirement age would receive an immediate annuity.
- Members who separate prior to early retirement age for reasons other than disability would receive a deferred annuity commencing at early or normal retirement age, with interest credits continuing to accrue to the account during the deferral period.
- The mandatory annuity would be in the form of a "modified cash refund" of the member's notional account balance – which means that if the accumulated annuity payments at the time of post-retirement death are less than the account balance at the time of retirement, then the beneficiary would receive the remainder of the account balance.

(c) The death and disability benefits for these members are as follows:

- Beneficiaries of members who die while actively employed would receive a lump sum payment of the members' accumulated account balance at the time of death. No monthly benefit would be payable.
- Upon disability after 5 years of service and before age 65, the disability benefit, payable immediately, equals the smaller of (1) 33% of last 5-year final average compensation or (2) the sum of the DB accrued benefit (without reduction for

early commencement) and the annuity derived from an immediate annuitization of the DC notional account.

(c) *TRS*

Plan Description – The Puerto Rico System of Annuities and Pensions for Teachers (TRS) is a single-employer defined benefit pension plan administered by the Puerto Rico Teachers Retirement System. It is a trust created by Act No. 218 of May 6, 1951, as superseded by Act No. 91 of March 29, 2004, to provide pension and other benefits mainly to retired teachers of the Puerto Rico Department of Education (Department of Education), an agency of the Commonwealth, and the employees of the TRS. 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 administers two benefit structures pursuant to Act No. 160 of December 24, 2013 (Act No. 160), as modified by the April 11, 2014 decision of the Puerto Rico Supreme Court. Benefit provisions vary depending on member's date of hire as follows:

- Members hired on or before July 31, 2014 with certain distinctions for members who retire August 1, 2014 or later.
- Members hired August 1, 2014 or later.

All active teachers of the 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 benefits provided to members of the TRS are established by Commonwealth of Puerto Rico law and may be amended only by the Legislature with the Governor's approval.

This summary of plan description is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

As part of the plan description information, the most important aspects of Act No. 160, as modified by the April 11, 2014 decision of the Puerto Rico Supreme Court, are as follows: (i) active participants as of July 31, 2014 will continue to participate in the defined benefit pension program; (ii) starting August 1st, 2014, the defined benefit pension program will be closed for future participants and they will contribute to a contributory hybrid program; (iii) the retirement age for employees hired on or after August 1st, 2014 will increase to age 62; (iv) the employee contribution for employees hired on or after August 1st, 2014 will increase to 10% from August 1st, 2014 to June 30, 2017, 13.12% from July 1st, 2017 to June 30, 2020, and 14.02% from July 1st, 2020 and thereafter; (v) special benefits payable to active participants that retire on or before July 31st, 2014 will be reduced and (vi) special benefits and postemployment healthcare benefits will be eliminated for future retirees.

I. Defined Benefit Pension Program

The members of the TRS hired on or before July 31, 2014 are eligible for the benefits described below:

1) Retirement Annuity

Members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the TRS. The monthly annuity for which a member is eligible is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

Members are eligible for retirement annuity benefits upon complying with the following:

Age	Years of creditable services	Retirement annuity compensation
55	30 or more	75% of average compensation
50	30 or more	75% of average compensation (1)
Under 50	30 or more	65% of average compensation
50	At least 25, but less than 30	1.8% of average compensation times 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
60 or more	At least 10, but less than 25	1.8% of average compensation times years of service

(1) Refer to subsection (7) under Defined Benefit Pension Program.

2) Deferred Retirement Annuity

A participating employee who terminates service before age 60, after having accumulated a minimum of 10 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 or her contributions to the TRS are left within the TRS until the attainment of the respective retirement age.

3) Occupational Disability Annuity

A participating employee, who as a direct result of the performance of his or 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 5 years, recognized by the TRS, times years of creditable services; but not less than $400 per month.

4) Nonoccupational Disability Annuity

A participating employee disabled for causes not related to his or 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.

5) Death Benefits

Preretirement – The beneficiaries receive the contributions made plus 2% interest accumulated as of the date of death (after discounting debts with the TRS). Additionally, for active participants that die on or before July 31, 2014, their beneficiaries will receive an amount equal to the annual compensation of the member at the time of death.

Postretirement – For members who retire on or before July 31, 2014: 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. Full pension for the month in which the pensioner died plus an additional fifteen-day pay period payable to the member's eligible beneficiaries, but in no case shall the benefit be less than $1,000 (prior to discounting any debts with the TRS).

Postretirement – For members who retire August 1, 2014 or later: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent option form of payment, the applicable survivor benefit will be granted. Otherwise, the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death payable to the beneficiaries or to the member's estate.

6) Refunds

A participating employee who ceases his or her employment with the Commonwealth on or before July 31, 2014 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. Refer to subsection (e) under Contributory Hybrid Program with respect to a participating employee who ceases his or her employment on or after August 1, 2014.

7) Early Retirement Program

On January 27, 2000, Act No. 44 was approved, which provided that effective March 9, 2000, members were eligible for early retirement upon attaining the age of 50 and 28 years of service in the first year of implementation and age 50 and 25 years of service in subsequent years. Those who selected early retirement under these conditions 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. On January 27, 2001, Act No. 45 was approved, which established 50 years as the minimum age requirement to obtain a pension benefit equal to 75% of average compensation with 30 years of service. In these cases, the retiree will pay the participating employee contribution until attaining 55 years of age. Act No. 160 imposes the same obligation to the employer.

II. Contributory Hybrid Program

A hybrid plan, such as a cash balance plan, determines the benefit amount based on a formula using contributions and earning credits, has notional individual accounts for members, and provides lifetime annuity benefits. Each member has a defined contribution account which is credited with member contributions and investment yield. Upon retirement, the balance in the account is paid as a lifetime annuity. The program is defined as hybrid given that it has some features that are commonly found in defined benefit (DB) plans and other features that are commonly found in defined contribution (DC) plans, as follows:

- The members contribute a fixed percent of payroll to their account. In DB plans the percent is usually fixed. In DC plans the percent is usually elected by the member.
- The defined contribution account is credited each semester with the JRS's investment portfolio's net rate of return. The return is determined by the Board and will not be less than 80% of the TRS's investment portfolio net rate of return. Account growth via the application of investment earnings is a common feature of DC plans.
- Assets are invested by the TRS. This feature is more commonly found in DB plans. DC plans most commonly allow for the members to elect their investments on an individual basis and the member contributions are then actually invested in the options selected by the member.
- Upon retirement, the balance in the account is paid to the member in the form of a lifetime annuity with optional survivor benefits, with the TRS responsible for investment and longevity risk during retirement. The annuity feature is common to DB plans.

Members of the TRS hired on or after August 1, 2014 are eligible for the benefits described below:

1) Retirement Annuity

Members with five or more years of service and $10,000 or more in contributions at the age of 62 will qualify for an annuity of the percentage acquired by contributions based on actuarial formula.

The pension of each participant shall be computed upon retirement as follows: (i) the accumulated balance of his/her contributions to the defined contribution account on the date of retirement, divided by (ii) a factor, established by the Board in consultation with its actuaries and to be determined on the basis of the actuarial life expectancy of the participant and a specific interest rate.

2) Deferred Retirement Annuity

Members with five or more years of service and $10,000 or more in contributions will qualify for an annuity calculated based on the balance of the defined contribution account. If separated from service with the requirements but with less than 62 years of age, the annuity will be deferred until reaching 62 years of age.

3) Disability Annuity

Any participant who enrolled in the TRS after August 1st, 2014, and after five years in the public service suffers a disability, whether work related or not, he/she shall be granted a disability pension by the TRS computed on the basis of his/her individual contributions, as determined by the TRS through regulations.

4) Death Benefits

New members starting August 1st, 2014 that eventually retire and die, their beneficiaries have two options: (i) continue to receive the monthly annuity payments until the balance, if any, of the contributions to the defined contribution account is exhausted or (ii) request reimbursement in one global payment on the balance, if any.

5) Refunds

A participant with less than five years of service or less than $10,000 in contributions qualifies for a reimbursement. Specifically, a refund of contributions and earnings in his/her defined contribution account.

III. Special Benefits

Act No. 160 contemplates a reduction in the special laws for pensioners as of July 31, 2014 and the elimination of special laws for future pensioners who retire starting August 1, 2014. 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. After August 1, 2014, for active participants that retire on or before July 31, 2014 the bonus will be $200 and 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. Act No. 160 kept this benefit for active participants that retire on or before July 31st, 2014.
- 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. Act No. 160 eliminated this benefit for all retirees.

- 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 members with three or more years of retirement. In years 1995, 1998, 2001, 2004, and 2007, the Legislature replicated the benefit granted per Act No. 62 of September 4, 1992. This benefit is funded by the Commonwealth. Act No. 160 did not alter this benefit.
- 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. Act No. 160-2013 did not alter this benefit.
- Cultural Loans – Act No. 22 of June 14, 1965, provides a 50% repayment of the interest that would be paid by the actives teachers and retirees. This benefit is funded by the Commonwealth. Act No. 160 did not alter this benefit.
- 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. As per Act No. 160, this benefit will only apply to pensioners as of July 31st, 2014 that eventually die.

The special benefits contributions of approximately $49.9 million in 2014 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 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.

IV. Contributions

The contribution requirement to the TRS is established by law and is not actuarially determined.

1) Member Contributions

(a) Contributions by members hired on or before July 31, 2014 are 9% of compensation.

(b) Contributions by members hired on or after August 1, 2014 are as follows: 10% of compensation for fiscal years 2015 through 2017, 13.12% of compensation for fiscal years 2018 through 2020, and 14.02% of compensation for fiscal year 2021 and each year thereafter.

2) Employer Contributions

(a) *Payroll-based Employer Contributions*: Contributions by the Commonwealth and the TRS, as applicable, are 9.5% of compensation for the fiscal year beginning July 1, 2011. For the next four fiscal years effective July 1, employer contributions will increase annually by 1%. For the next five fiscal years, employer contributions will increase annually by 1.25%, reaching an employer contribution rate of 19.75% effective July 1, 2020. Effective July 1, 2021 and later fiscal years, the employer contribution rate will be 20.525%.

(b) *Supplemental Contributions*: From fiscal year 2015 and each subsequent fiscal year, the TRS will receive from the General Fund of the Commonwealth a contribution of $1,675 per pensioner, regardless if the pensioner retired before or after August 1, 2014, to pay for special benefits (i.e. Christmas and medication bonuses) and medical insurance plan contribution; and therefore contribute to the solvency of the TRS.

(c) *Teacher's Justice Uniform Contribution*: The annual contribution to be made to the TRS equal to $30 million in fiscal year 2017, $30 million in fiscal year 2018, and $60 million in fiscal year 2019, and subsequent years, until fiscal year 2042. The Teacher's Justice Uniform Contribution is to be funded by the Commonwealth's General Fund.

(d) *Annual Additional Contribution*: The annual contribution certified by the external actuary of the TRS as necessary to prevent the value of the projected gross assets of the TRS from falling below $300 million during any subsequent fiscal year. The Annual Additional Contribution is to be funded by the Commonwealth's General Fund from fiscal year 2019 through fiscal year 2042.

Other relevant information on the Commonwealth's Retirement Systems is presented below:

(d) ***Membership as of June 30, 2013***

	ERS	JRS	TRS	Total
Retirees,beneficiaries and disabled members currently receiving benefits	124,497	430	38,367	163,294
Current participating employees	125,671	364	41,553	167,588
Terminated vested participants not yet receiving benefits	—	59	698	757
Total	250,168	853	80,618	331,639

(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, 2014 were as follows (expressed in thousands):

	ERS	JRS	TRS	Total
Annual required contributions	$ 1,822,675	40,758	748,569	2,612,002
Interest on net pension obligation	636,543	6,286	189,181	832,010
Adjustment to annual required sponsors' contributions	(822,014)	(9,791)	(178,218)	(1,010,023)
Annual pension cost	1,637,204	37,253	759,532	2,433,989
Statutory sponsors' contributions made	(660,024)	(11,992)	(189,367)	(861,383)
Increase in net pension obligation	977,180	25,261	570,165	1,572,606
Net pension obligation at beginning of year	9,945,982	99,788	3,026,895	13,072,665
Net pension obligation at end of year	$ 10,923,162	125,049	3,597,060	14,645,271

The net pension obligation at June 30, 2014 for ERS, JRS and TRS of approximately $14.6 billion, is recorded in the accompanying statement of net position.

The annual pension cost for the year ended June 30, 2014 was determined by an actuarial valuation with beginning-of-year census data as of July 1, 2013 that was updated to roll forward the pension cost for the year ended June 30, 2014 and assumed no liability gains or losses. Prior year actuarial valuations were made using end-of-year census data.

The following tables show the most significant actuarial methods and assumptions used to estimate the net pension obligation:

	ERS	JRS	TRS
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	23 years	12 years	23 years

The annual required contribution for the year ended June 30, 2014, 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, 2014	36.2%	29.4%	25.3%
Year ended June 30, 2013	29.1%	29.6%	25.5%
Year ended June 30, 2012	29.2%	34.2%	26.8%

(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, 2014	$	1,637,204	37,253	759,532
Year ended June 30, 2013		1,962,083	36,096	752,107
Year ended June 30, 2012		1,903,046	32,274	673,891
Percentage of APC contributed:				
Year ended June 30, 2014		40.3%	32.2%	24.9%
Year ended June 30, 2013		32.5	31.6	24.9
Year ended June 30, 2012		31.0	35.5	25.9
Net pension obligation:				
At June 30, 2014	$	10,923,162	125,049	3,597,060
At June 30, 2013		9,945,982	99,788	3,026,895
At June 30, 2012		8,621,475	75,094	2,462,232

(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

As further described in note 1(b), 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 is an unfunded cost-sharing, multiple-employer defined benefit other postemployment (OPEB) plan sponsored by the Commonwealth. JRS MIPC and TRS MIPC are 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.

For ERS MIPC and TRS MIPC, Commonwealth employees became plan members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages. Act No. 3 eliminated this healthcare benefit to ERS MIPC members retired after June 30, 2013. Act No. 160-2013 eliminated this healthcare benefit to TRS MIPC members retired after July 31, 2014.

For JRS MIPC, judges of the Judiciary Branch of the Commonwealth become plan members upon their date of employment. Plan members are eligible for benefits upon reaching the age of 60 with 10 years of 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 or disabled member. 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 July 1, 2013, as adjusted by changes in ERS MIPC participants established by Act No. 3 and by changes in TRS MIPC participants established by Act No. 160-2013 and for its outsized retirement activity (2,234 retirees)***

	ERS	JRS	TRS	Total
Retirees, disabled members and beneficiaries currently receiving benefits	111,044	489	38,202	149,735
Current participating employees	—	364	1,391	1,755
Total	111,044	853	39,593	151,490

(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 beginning-of-year census (demographic) data as of July 1, 2013, as adjusted. Prior year actuarial valuations were made using end-of-year census 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, 2014 were as follows (expressed in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Annual OPEB cost:				
ARC	$ 88,508	684	46,403	135,595
Interest on net OPEB obligation	7,258	45	1,744	9,047
Adjustment to annual required contribution	(13,544)	(112)	(2,245)	(15,901)
Annual OPEB cost	82,222	617	45,902	128,741
Statutory sponsor's contributions made	(102,085)	(302)	(35,892)	(138,279)
Increase (decerase) in net OPEB obligation	(19,863)	315	10,010	(9,538)
Net OPEB obligation at beginning of year	223,317	1,387	53,668	278,372
Net OPEB obligation at year end	$ 203,454	1,702	63,678	268,834

The net OPEB obligation at June 30, 2014 for ERS MIPC, JRS MIPC, and TRS MIPC totaling $268.8 million is recorded in the accompanying statement of net position.

Actuarial Methods and Assumptions

The OPEB funded status as of June 30, 2014 was determined by the actuarial valuation with beginning-of-year census data as of July 1, 2013, as adjusted by Act No. 3 for ERS MIPC (eliminating the medical insurance plan contributions for members retired after June 30, 2013) and by Act No. 160-2013 for TRS MIPC (eliminating the medical insurance plan contributions for members retired after July 31, 2014) , that was updated to roll forward the funded status to June 30, 2014 and assumed no liability gains or losses. In addition, for TRS MIPC, the census data as of July 1, 2013 was updated to reflect its outsized retirement activity during the year ended June 30, 2014 (2,234 retirees).

For ERS MIPC and JRS MIPC, the actuarial cost method was revised in fiscal year 2014 from the projected unit credit method (used in the actuarial valuations for fiscal year 2013 and before) to the entry age normal method to conform with the requirements of the pension benefits. For ERS MIPC, the amortization period for GASB No. 45 has been reduced to the expected future lifetime of current in pay members.

For TRS MIPC, the actuarial cost method was changed from the level dollar variation of the entry age normal method to the level percentage of payroll variation of the entry age normal method.

As a result of the elimination of the medical insurance plan contributions for ERS MIPC members retired after June 30, 2013 and for TRS MIPC members retired after July 31, 2014, the amortization period of GASB Statement No. 45 was reduced from 30 years to 18 years for ERS MIPC and 20 years for TRS MIPC.

The following are the most significant actuarial methods and assumptions used to estimate the net OPEB obligation at June 30, 2014 and the OPEB required annual contribution for the year ended June 30, 2014:

	ERS MIPC	**JRS MIPC**	**TRS MIPC**
Actuarial-cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	18 years closed (beginning July 1, 2014), level dollar	30 years closed, level percentage of payroll	20 years closed (beginning July 1, 2014), level dollar
Remaining amortization period	18 years	12 years	20 years
Discount rate	3.10%	3.10%	3.10%
Projected payroll growth	N/A	0% until June 30, 2017; 3% thereafter	N/A
Projected salary increases	N/A	N/A	N/A
Inflation	N/A	N/A	N/A

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, 2014	115.3%	44.1%	77.3%
Year ended June 30, 2013	59.2	45.3	75.0
Year ended June 30, 2012	70.8	53.1	83.9

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.

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.

(d) ***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, 2014	$	82,222	617	45,902
Year ended June 30, 2013		148,383	731	40,367
Year ended June 30, 2012		130,704	530	40,962
Percentage of annual OPEB cost contributed:				
Year ended June 30, 2014		124.2%	48.9%	78.2%
Year ended June 30, 2013		61.9	39.8	84.8
Year ended June 30, 2012		72.4	58.9	90.0
Net OPEB obligation:				
At June 30, 2014	$	203,454	1,702	63,678
At June 30, 2013		223,317	1,387	53,668
At June 30, 2012		166,757	947	47,540

(e) *Funded Status*

Funded status of the postemployment healthcare benefit plans as of June 30, 2013, the most recent actuarial valuation date, is as follows (dollars expressed in thousands):

		ERS MIPC	JRS MIPC	TRS MIPC	Total
Actuarial accrued liability (AAL)	$	1,438,475	6,540	543,205	1,988,220
Actuarial value of assets		—	—	—	—
Unfunded actuarial accrued liability	$	1,438,475	6,540	543,205	1,988,220
Funded ratio		—%	—%	—%	—%
Covered payroll	$	3,489,096	31,707	1,171,154	4,691,957
Unfunded actuarial accrued liability as a percentage of covered payroll		41.2%	20.6%	46.4%	42.4%

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 U.S. 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 $22.1 million and is a component of unearned revenue at June 30, 2014. During fiscal year 2014, approximately $3.4 million was amortized into other revenue in the accompanying statement of activities. For additional information regarding potential claims with respect to the debt service deposit agreements refer to note 22.

(20) Derivative Instruments

Hedging Derivative Instruments

The sole hedging derivative instrument at the Primary Government at June 30, 2014 resides at COFINA, which has entered into an interest rate exchange agreement (swap) with a counterparty in connection with the issuance of $136,000,000 LIBOR-based adjustable rate bonds within the Sales Tax Revenue Bonds Series 2007A (the “Adjustable Rate Bonds”) maturing August 1, 2057. The Adjustable Rate Bonds expose COFINA to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of interest payments on the Adjustable Rate Bonds. To meet this objective, management entered into a $136,000,000 interest rate swap agreement to manage fluctuations in cash flows resulting from interest rate risk. This swap effectively changes the variable rate cash flow exposure on the Adjustable Rate Bonds to fixed cash flows. Under the terms of the interest rate swap, COFINA receives variable interest rate payments equal to the interest payment on the Adjustable Rate Bonds, and makes fixed interest rate payments at 4.92% through August 1, 2057, thereby creating the equivalent of a fixed rate debt.

The fair value and notional amount of the derivative instrument (pay-fixed interest rate swap) outstanding at June 30, 2014, designated as cash flow hedge, was as follows (in thousands):

Notional Amount	Fair Value (1)	Change in Fair Value from June 30, 2013 (2)	Effective Date	Floating Rate Indicator	Maturity Date	Receives		Pays		Counterparty Credit Rating Moody's/S&P
						Type	Rate	Type	Rate	
$ 136,000	$ (56,530)	$ (3,354)	7/31/2007	67% 3M LIBOR +0.93%	8/1/2057	Variable	1.09%	Fixed	4.92%	A2/A

(1) Negative value indicates that the Commonwealth is in a payable position. The fair value excludes the accrued interest receivable or payable at year-end.

(2) Negative value represents an increase in the liability’s fair value.

The fair value of the interest rate swap was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rate 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 $ 2.5 million at June 30, 2014.

The COFINA swap does not have significant embedded options.

During the year ended June 30, 2014, the Commonwealth terminated all its hedging derivative instruments. The Commonwealth terminated various hedging derivative instruments with notional amount of $263.5 million and recorded a deferred refunding loss of $34.6 million, which approximates the fair value of the swaps at the refunding date. In addition, the Commonwealth terminated various hedging derivative instruments with notional amount of $126.7 million and recorded an investment loss of $8.9 million during the year ended June 30, 2014.

Risks on Hedging Derivative Instruments:

By using derivative financial instrument to hedge the exposure to changes in interest rates, COFINA exposes itself to interest rate risk, credit risk, and termination risk.

Credit or Counterparty Risk — Credit risk is the failure of the counterparty (or its guarantor) to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes COFINA, which creates credit risk for COFINA. When the fair value of a derivative contract is negative, COFINA owes the counterparty and, therefore, does not possess credit risk. COFINA minimizes the credit risk in derivative instruments by entering into transactions with counterparties whose credit rating is acceptable under the investment policies of COFINA. At June 30, 2014, there is no credit risk since the fair value of the derivative instrument is negative.

Interest Rate Risk — Interest rate risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. COFINA is exposed to interest rate risk on its pay-fixed, receive-variable swap; as LIBOR decreases, COFINA's net payment on the swap increases. At the same time, interest payments on the hedged adjustable rate bonds decrease. The interest rate risk associated with interest rate swap contracts is managed by establishing and monitoring parameters that limit the types and degree of interest rate risk that may be undertaken.

Termination Risk — Termination risk is the possibility that a hedging derivative instrument's unscheduled end will affect COFINA's liability strategy or will present COFINA with potentially significant unscheduled termination payments to the counterparty. COFINA or its counterparty may terminate a derivative instrument if the other party fails to perform under the terms of the contract. COFINA is at risk that counterparty will terminate a swap at a time when COFINA owes it a termination payment. COFINA has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by COFINA; insolvency of COFINA (or similar events); or a downgrade of COFINA's credit rating below BBB+ or Baa1. If at the time of termination, an investment derivative instrument is in a liability position, COFINA would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Investment Derivative Instruments

During the year ended June 30, 2014, the Commonwealth terminated all of its investment derivative instruments with notional amount of $1.5 billion for $58.0 million, and recorded an investment loss of $1 million. One of the counterparties to these terminated swaps waived its right to receive the entire termination payment on July 3, 2014 provided that the Commonwealth pays to it as follows: $4 million on July 3, 2014; $1 million on October 1, 2014; $1 million on January 7, 2015; and $1 million on April 1, 2015. The Commonwealth made these payments as agreed.

Collateral Posting Requirements and Contingencies — At June 30, 2014, no collateral posting requirement applied to the COFINA's derivative instrument.

In connection with the COFINA swap agreement, Moody's issued a downgrade on its LIBOR 2007 A Bonds to a rating of Ba3. On September 24, 2014, rather than terminate the swap agreement, COFINA and the counterparty entered into a new credit support annex, as well as an amendment to the ISDA Master Agreement, to permit COFINA to collateralize its obligations under the swap agreement and to amend the termination events thereunder. The impact of the new swap agreement was for COFINA to post $12 million in collateral to the counterparty, as well as set up a restricted account in which a portion of the collateral be deposited for the benefit of the counterparty. See further subsequent events disclosures on Note 22.

(21) Fund Balance (Deficit)

Below is the detail included in the fund balance (deficit) classifications for the governmental funds at June 30, 2014 (expressed in thousands):

		General	Debt service	COFINA Special revenue	COFINA Debt service	Other governmental	Total governmental
Nonspendable:							
Endowment	$	5,000	—	—	—	134,844	139,844
Spendable:							
Restricted for:							
General government		476,005	—	—	—	—	476,005
Education		64,119				190,696	254,815
Health		40,494				109,404	149,898
Economic Development		78,601				884,979	963,580
Public housing and welfare		31,047	—	—	—	262,333	293,380
Public Safety		31,363				251,812	283,175
Capital projects		—	—	—	—	143,160	143,160
Debt service		—	—	—	540,434	197,665	738,099
Subtotal		721,629	—	—	540,434	2,040,049	3,302,112
Committed to:							
General government		2,409,470					2,409,470
Education		101					101
Public housing and welfare		29,467	—	—	—	26,420	55,887
Natural Resource Reservation		4,278					4,278
Health		2,127	—	—	—	—	2,127
Economic Development		12,664					12,664
Public Safety		16,342					16,342
Debt service		—		—	—	—	—
Subtotal		2,474,449	—	—	—	26,420	2,500,869
Assigned to:							
General government		140,767,332	—	5,441	—	—	140,772,773
Education		653					653
Health		42,073					42,073
Economic Development		37,306					37,306
Public housing and welfare		15,044	—	—	—	6,867	21,911
Capital projects		—	—	—	—	144,796	144,796
Public Safety		63,464					63,464
Debt service		—	433,133	—	—	1,497	434,630
Subtotal		140,925,872	433,133	5,441	—	153,160	141,517,606
Unassigned		(146,208,591)	—	—	—	(1,505,730)	(147,714,320)
Total fund balance (deficit)	$	(2,081,641)	433,133	5,441	540,434	848,743	(253,889)

(22) Subsequent Events

Subsequent events were evaluated through February 15, 2016 to determine if any such events should either be recognized or disclosed in the 2014 basic financial statements. The subsequent events disclosed below are principally those related to debt activities, including credit rating downgrade events, and other revenue and/or budget related matters that management believes are of sufficient public interest for disclosure.

Primary Government

Tax Revenue Anticipation Notes and Other Notes and Bonds Issued after Year End

2015 Tax and Revenue Anticipation Notes

On October 10, 2014, GDB entered into a Note Purchase, Revolving Credit and Term Loan Agreement providing for the issuance of up to $900 million aggregate principal amount of 2015 Series B Senior Notes guaranteed by the Commonwealth (the "GDB Notes"). The proceeds of the GDB Notes were used to make a loan to the Commonwealth evidenced by $900 million aggregate principal amount of Tax and Revenue Anticipation Notes of the Commonwealth of Puerto Rico, Series B (2015) (the "2015 Series B TRANs"). The GDB also purchased an additional $300 million aggregate principal amount of Tax and Revenue Anticipation Notes of the Commonwealth of Puerto Rico, Series C (2015) (the "2015 Series C TRANs" and, collectively with the 2015 Series B TRANs, the "2015 TRANs"). The 2015 TRANS and the underlying GDB Notes have been paid in full.

2016 Tax and Revenue Anticipation Notes

On July 2, 2015, the Legislative Assembly approved Act No. 102-2015, which required SIFC, ACAA and the Disability Insurance Fund to purchase in the aggregate $400 million TRANs from the Commonwealth. On August 17, 2015, the Commonwealth issued $400 million TRANs (the "2016 TRANs") to SIF, ACAA and the Disability Insurance Funds. The 2016 TRANs bear interest at a rate of 6% and are payable in full on or before June 30, 2016.

PRIFA Bond Anticipation Notes

On March 17, 2015, PRIFA issued $245,955,000 of bond anticipation notes payable from the increase in the petroleum products tax imposed by Act 1-2015 (the "PRIFA BANs"), the proceeds of which were used to refinance certain outstanding PRHTA bond anticipation notes and pay related expenses. The PRIFA BANs were originally expected to be refinanced through a long-term bond issuance by PRIFA. However, this proposed transaction has been abandoned.

Budgetary Events and Related Legislation

The Legislative Assembly of the Commonwealth approved a $9.8 billion budget for fiscal year 2016. As part of the 2016 budget legislation, the Legislative Assembly created the Economic Development and Obligations Payment Fund (the "Payment Fund") and appropriated $275 million to such fund. The Payment Fund may only be used to fund economic development initiatives and for the payment of the Commonwealth's debt obligations, if authorized by Joint Resolution of the Legislative Assembly. The approved budget did not include an appropriation for the payment of PFC bonds. The budgetary appropriation for the payment of debts of the Commonwealth and its instrumentalities with GDB was reduced from approximately $261.6 million, the amount included in the budget submitted by OMB to the Legislative Assembly, to approximately $17.5 million.

On July 24, 2015, the Secretary of the Treasury announced that the total revenues of the Commonwealth's General Fund (budgetary basis) for fiscal year 2015 were $8.961 billion, which were $76 million less than the revenues for fiscal year 2014 and approximately $604 million below the original revenue estimate.

In October 2015, the Treasury Department reduced its fiscal year 2016 General Fund revenue estimate to $9.446 billion, approximately $354 million lower than originally projected. The Treasury Department revised its fiscal year 2016 General Fund revenue estimates again in January 2016. As revised, total estimated revenues for fiscal year 2016 are $9.292 billion, which is approximately $508 million lower than originally projected.

In order to address its liquidity constraints and the decrease in estimated revenues, the Commonwealth has implemented, among others, the following measures: (a) requiring advance payment to the Treasury Department from the two largest government retirement systems of funds required for the payment of retirement benefits to participants (instead of the usual reimbursements made by the retirement systems to the Treasury Department for pension benefits payments made by the Treasury Department on behalf of the retirement systems), (b) suspending during fiscal year 2016 Commonwealth set-asides required by Act No. 39 of May 13, 1976, as amended, for the payment of its general obligation debt, (c) delaying the payment of third-party payables or amounts due to public corporations, (d) deferring the disbursement of certain budgetary assignments, (e) delaying the payment of income tax refunds, and (f) retaining certain tax revenues assigned by the Commonwealth to PRHTA, PRIFA, CCDA and PRMBA and redirecting them to the payment of the Commonwealth's general obligation debt. The Commonwealth also has not paid debt service on PFC bonds, since these amounts were not appropriated in the fiscal year 2016 budget as a result of continuing liquidity constraints.

OMB has implemented $233 million in aggregate reductions to budgetary appropriations through the elimination of certain contingency accounts, reductions in non-priority program appropriations, and a decrease in the operating budgets of various agencies funded by the General Fund, including government's operational programs in health, security, social well-being, and additional cuts in the special additional contributions to the Retirement Systems.

Significant Legislation and Other Events after Year End

Implementation of New Petroleum Products Tax

Act 1-2015, as amended, amends PRIFA's enabling act to impose a new petroleum products tax and assign the revenues therefrom to PRIFA to secure the payment of bonds and notes issued by PRIFA. The PRIFA bonds and notes may be guaranteed by the Commonwealth provided the aggregate principal amount of such guaranteed bonds does not exceed $2.95 billion, the nominal annual interest rate does not exceed 8.50% and the maturity does not exceed 30 years.

PRIFA originally planned to issue bonds secured by collections of the new petroleum products tax and use the proceeds therefrom to, among other uses, repay the PRIFA BANs, loans made by GDB to PRHTA and PRHTA's outstanding variable rate debt obligations owned by GDB. PRIFA and GDB recently abandoned such plans.

Transition to Value Added Tax

On May 29, 2015, the Commonwealth enacted Act 72-2015 ("Act 72"), which, among other things, increased the sales and use tax ("SUT") by 4.5%, in addition to the then-applicable 7% SUT, and provided for a transition to a value added tax ("VAT"), subject to certain conditions.

Since July 1, 2015, transactions subject to the 7% SUT are now subject to an aggregate 11.5% SUT (10.5%, of which 0.5% goes to a special fund for the benefit of the municipalities, and 1% separately collected by the municipalities). The transition from the SUT to the VAT is scheduled for March 31, 2016; Act 72 permits the Secretary of Treasury to extend the implementation date for up to 60 days.

In addition, since October 1, 2015 and until March 31, 2016, taxable business to business transactions are subject to an aggregate 11.5% SUT and certain business to business services and designated professional services that were previously exempt from SUT are subject to a Commonwealth SUT of 4% (with no municipal SUT applying to these services).

After March 31, 2016 (or the extended implementation date for the VAT at the discretion of the Secretary of Treasury), all transactions subject to the SUT will be subject to a new aggregate VAT of 10.5% plus a 1% municipal SUT. The new VAT will also apply to the introduction into Puerto Rico of taxable articles and on taxable transactions which relate to the sale in Puerto Rico of goods and services by a merchant, the rendering of a service by a nonresident to a person in Puerto Rico, and combined transactions.

Act No. 72 exempted the following services, among other exemptions, from the business to business SUT: (i) services offered by the Commonwealth government and instrumentalities, (ii) education, (iii) interest and other financing charges, (iv) insurance, (v) health and hospital services, and (vi) services offered by merchants with a volume of business not exceeding $50,000.

On September 30, 2015, the Governor signed into law Act 159-2015, which expanded the services exempt from the 4% SUT to include certain legal services, advertising services, services rendered to a person engaged exclusively in the storage or handling of fuel in a foreign trade zone, services rendered to bona fide farmers, designated professional services rendered to labor unions, and ocean, air and ground transportation of goods, among other services.

Act 80-2015

Act No. 80-2015 was approved with the objective of addressing the Commonwealth's projected cash flows deficiencies for fiscal year 2015. This Act, among other provisions, specifically authorized the SIFC, PRTC, AACA, EDB, PRIDCO and the Department of Economic Development and Commerce to grant a loan and/or a special contribution to the Department of the Treasury, in the aggregate, in the amount of $125 million. On June 5, 2015, SIFC and AACA granted loans to the Department of the Treasury under the provisions of this Act in the amounts of $100 million and $2 million, respectively. These loans bear interest at a rate of 1%, and will be payable on an annual basis, effective July 31, 2017. The loan granted by ACAA matures on July 31, 2022 and that granted by SIFC matures on July 31, 2032.

Non-Payment of PFC Bonds

On July 15, 2015, PFC filed a notice with Electronic Municipal Market Access (EMMA) indicating that the Legislative Assembly had not included in the approved budget for fiscal year 2016 the funds necessary to pay principal and interest on all outstanding PFC bonds. Such appropriation is the sole source of payment of principal and interest on PFC bonds. The first payment of debt service on PFC bonds for fiscal year 2016 came due on August 3, 2015, on which date PFC made a partial payment of interest in the amount of $628,000 (of the approximately $58 million payment due on that date) from funds held by PFC representing funds remaining from prior legislative appropriations. As of February 1, 2016, PFC had missed payments of debt service on its bonds in the aggregate amount of approximately $86.5 million.

Creation of the Bureau of Internal Revenue

On September 18, 2015, the Commonwealth enacted Act No. 156-2015 to create the Bureau of Internal Revenue, an autonomous entity ascribed to the Treasury Department, with the mission of reducing tax evasion and avoidance, increasing collections, enhancing the professional development of its staff, improving systems technology, and improving the quality of services to taxpayers. The Secretary of Treasury is currently working on developing a structural and organizational plan for the implementation of the Bureau of Internal Revenue and cannot provide at this time an estimate of when the Bureau of Internal Revenue will be in full operation.

The Commonwealth's Fiscal and Economic Growth Plan

In reaction to the Krueger Report, on June 29, 2015, the Governor of Puerto Rico created the Puerto Rico Fiscal and Economic Recovery Working Group (the "Working Group") to evaluate the measures necessary to address the fiscal crisis of the Commonwealth, including the measures recommended in the Krueger Report. The Working Group was responsible for developing and recommending to the Governor of Puerto Rico the Puerto Rico Fiscal and Economic Growth Plan (the "FEGP"). The FEPG was released on September 8, 2015 and updated on January 18, 2015.

The FEGP proposes the implementation of the following measures, among others:

Labor Reform

- Extend the probation period for an employee from three months to one year.
- Limit the compensation to an employee in case of lay-off to a maximum of six months salary.
- Base compensation rules for overtime on the excess of 40 hours worked per week, rather than the existing excess of 8 hours worked per day.

- Make employee productivity and performance a basis for personnel reduction.
- Simplify process to exempt an employer from the payment of the Christmas Bonus.
- Pursue efforts to prevent the application of the increases in federal minimum wage to employees under 25 years old.

Energy Rates Stabilization

- Complete of PREPA's restructuring plan
- Facilitate private investment to upgrade PREPA's existing generation plants and construct new and modern installations.
- Remove political influence from PREPA's structures
- Invest over $2 billion in infrastructure.

Corporate Taxes Fostering Growth

- Establish simpler corporate tax system for new and existing enterprises.
- Extend past the year 2017, its current expiration date, the existing temporary excise tax of 4% of Act No. 154-2010 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; replace excise tax over time with new corporate tax system.
- Eliminate tax credits determined to be ineffective and unproductive; reduce or eliminate the Alternative Minimum Tax.
- Request U.S. Congress to provide Puerto Rico with tax treatment that encourages U.S. investment on the island.

Reduction of the Cost of Doing Business in Puerto Rico

- Simplify the permits granting process.
- Require municipalities to adopt uniform permit guidelines.
- Upgrade property registry.
- Request U.S. Congress to exempt Puerto Rico from Jones Act.
- Revise regulations governing ground transportation.

Investment in Infrastructure

- Invest approximately $3.3 billion over a five-year span for infrastructure improvements.
- Extend PR-10, extend Northwest Highway Corridor; improve various piers in San Juan and Aguadilla airport; resume development of the Port of Americas and Roosevelt Roads; construct Science District; invest in other strategic sectors.

Transition to the Value Added Tax System

- Expand, effective October 1, 2015 the sales and use tax system to transactions between businesses at the rate of 4%.
- Complete the transition to VAT, including over between businesses to business transactions.

Improving Supervision and Monitoring of Taxpayers

- Revamp information systems and training to improve the Department of the Treasury's tax collections.
- Restrict use of tax amnesties and other special tax deals to improve the certainty of the Commonwealth's tax projections.
- Address the issue of the proliferation of illegal video-lottery machines by implementing and enforcing a tax on, and regulation of, video lottery games.

Reduction in Governmental Operational Costs

- Extend until 2021 the provisions of Act No. 66.
- Reduce the government's labor costs by targeting a 2% annual reduction in head count, mostly through the use of early retirement windows, among other initiatives.

Reduction of Government Subsidies

- Beginning in fiscal year 2018, initiate a gradual phase out of government subsidies to the Municipalities while providing them the legal, administrative and operational tools necessary for them to offset these reductions.
- Implement reductions in General Fund subsidies to the UPR, which may be compensated with a more cost-effective operation, means-testing tuition, operational efficiencies and maximization of federal funds.

Downsizing of the Public Education System

- Consolidate public schools.
- Reduce of the Department of Education's payroll by 2% a year through attrition.
- Consider the sale of government assets, including real estate, in order to finance early retirement of teachers and capitalize the existing financing deficit at the Puerto Rico Teachers' Retirement System.

Cost Control of the Commonwealth's Health Program

- Implement provider payment scale based on performance.
- Implement functional public-private partnership arrangements (invoicing, maintenance and food supply), among other service support initiatives at state hospitals in order to bring best practices, centralization of duties and processes efficiencies.
- Standardize health protocols and health service rates.

Promotion of Public-Private Partnerships

- Consolidate PBA and the Office for the Improvement of Public Schools.
- Consider transfer of the operations of the PRMBA to municipalities.
- Consider establishment of a service concession arrangement for a minimum of five years for the operation and maintenance of the public maritime transportation system.

Installation of New Accounting Systems

- Implement new financial, accounting and payroll systems to unify the current segmented public platforms, which hamper the Commonwealth capacity to adequately supervise and monitor its fiscal condition.
- Contract information technology supplier that would develop and install this new system.

Centralization of the Department of the Treasury's Functions

- Establish a centralized treasury function for state agencies and public corporations in order to improve and maximize cash flow.
- Construct the infrastructure necessary for cash flows projection and monitoring.

Betterment of the Fiscal and Economic Decision Making Systems

- Implement five-year plan by the Statistics Institute and the Planning Board to strengthen, upgrade and modernize the system of economic statistics and its analyses.
- Consolidate the non-banking functions of the Department of the Treasury, OMB and GDB into a new department.

Enactment of New Budgetary Rules and Creation of a Fiscal Oversight Board

- Require five-year projection of revenues and expenditures.
- Require that Commonwealth annual projection of revenues be validated by a third and/or independent party.
- Involve OMB in the supervision of all purchase orders and contracts.
- Create a special fund that can only be utilized for the payment of past-due accounts, including tax refunds.
- The creation, through legislation, of a fiscal oversight board to ensure budget compliance and to oversee the implementation of the FEGP.

On January 18, 2016, the Working Group released an update to the FEGP. The update: (i) revised projections from fiscal year 2016 to fiscal year 2020 to account for year-to-date actual results; and (ii) at the request of creditors, extended the updated FEGP projections by another five years to fiscal year 2025.

Refer to Note 2 for additional discussion regarding the Krueger Report and the FEGP. The Krueger Report and the FEGP are available in GDB's website at www.gdbpr.com.

<u>Organic Act of the Fiscal Oversight and Economic Recovery Board</u>

Act 208-2015, approved on December 8, 2015, creates a five-member fiscal and economic oversight board, to be known as the "Puerto Rico Fiscal Oversight and Economic Recovery Board" (the "Board"). The Board will have fiscal oversight authority over each public entity of the Commonwealth, other than: the Judicial Branch, the Legislative Assembly and its dependencies, municipalities, the Office of the Comptroller, the Office of Government Ethics, the Office of the Special Independent Prosecutor's Panel, the Puerto Rico Electric Power Authority, and PRASA.

The Board will be charged with (a) reviewing and approving the FEGP, (b) reviewing the annual budgets of the public entities subject to its fiscal oversight authority, and (c) monitoring compliance with such budgets. The Board shall issue warnings to such public entities that approve budgets that are not in compliance with the Fiscal Adjustment Plan or that fail to adhere to their approved budgets. The effectiveness of the provisions of the Act pertaining to the review and approval of annual budgets and the monitoring of compliance with such budgets is suspended until the FEGP is submitted to and approved by the Board. The Act provides that the Governor shall submit the FEGP to the Board for approval after all of the members of the Board shall have taken office. As of the date of these financial statements, no Board members have been appointed.

The Act requires that an amount equal to 2.5% of the operating expenses and special appropriations included in the Commonwealth's budget be transferred to an account to be administered by the Office of Management and Budget of the Commonwealth. The Director of Office of Management and Budget of the Commonwealth would only be allowed to authorize the expenditure of specified percentages of such funds at the end of each fiscal quarter if the Board concludes that the Commonwealth has adhered to its budget during such fiscal quarter. Finally, the legislation also provides for automatic across-the-board reductions in appropriations in an amount sufficient to reduce projected budget deficits.

Restructuring Process and Principles

On September 24, 2015, the Working Group released a document titled "*Restructuring Process and Principles*", which outlines the Working Group's plan of engagement with creditors to seek financial relief in the near term. The restructuring principles that will guide the Working Group's efforts include the following:

- achieve the needed debt relief in a timely manner in order to avoid a default on the Commonwealth's debt;
- ensure that the Commonwealth can continue to make payments on its restructured debt while providing essential services to residents;
- reflect, and seek to respect, the Constitutional priorities for payment of the Commonwealth's public debt;
- create a long-term financing solution to the patchwork complex of issuers and indebtedness;
- design a structure that is attractive to existing creditors; and
- restore market access on sustainable terms.

<u>Commonwealth's Restructuring Proposal</u>

On January 29, 2016, Commonwealth officials and advisors met with the advisors to the Commonwealth's creditors to present the Commonwealth's restructuring proposal. Over the course of the day, six meetings were held with advisors representing the holders of all of the major tax-supported credits, including local and mainland mutual funds, cooperatives, hedge funds and monoline insurers. The proposal presented contemplates the restructuring of the Commonwealth's general obligation debt, and other tax-supported debt issued by certain Component Units. The final outcome of this restructuring process is currently uncertain.

On February 1, 2016, the Working Group for the Fiscal and Economic Recovery of Puerto Rico released details of the comprehensive voluntary exchange proposal previously presented to the advisors to the Commonwealth's creditors. A summary of the Commonwealth's restructuring proposal is available in GDB's website at www.gdbpr.com.

<u>Obama Administration's Proposal to Help Puerto Rico Solve its Economic and Fiscal Crisis</u>

On October 21, 2015, the Obama Administration released a proposal to address Puerto Rico's urgent fiscal crisis. The proposal makes the following recommendations: (i) Congress should extend Chapter 9 of the U.S. Bankruptcy Code to Puerto Rico, and also provide a broader legal framework to allow for a comprehensive restructuring of Puerto Rico's liabilities, (ii) Congress should provide independent fiscal oversight to ensure Puerto Rico adheres to its recovery plan and fully implements proposed reforms, (iii) Congress should provide a long-term solution to Puerto Rico's historically inadequate Medicaid treatment, and (iv) Congress should extend to Puerto Rico certain proven measures to reward work and stimulate growth, such as the Earned Income Tax Credit. Both houses of U.S. Congress have conducted hearings on Puerto Rico's fiscal crisis and are evaluating various alternatives that include establishing a fiscal oversight board and providing a Commonwealth-wide restructuring regime.

<u>Retention by the Commonwealth of Tax Revenues Assigned to Certain Public Corporations and Priority of Payment Provisions</u>

On December 1, 2015, the Governor signed Executive Order No. OE-2015-46 (the "Executive Order No. 46"), which orders the Secretary of Treasury to retain certain revenues in light of recently revised revenue estimates and the Commonwealth's deteriorating liquidity situation. Pursuant to Executive Order No. 46, certain available resources of the Commonwealth assigned to PRHTA, PRIFA, CCDA and PRMBA to pay debt service on their obligations were, and continue to be, retained by the Commonwealth and redirected to pay the Commonwealth's general obligation debt (commonly referred to as the "clawback"), pursuant to Article VI, Section 8 of the Constitution of the Commonwealth and the statutory provisions pursuant to which such revenues were assigned to the applicable public corporations. As a result of the clawback of revenues mentioned above, PRIFA and PRMBA were not able to meet their debt service obligations due on January 1, 2016 in full and PRHTA and CCDA did so using moneys previously held by the bond indenture trustees in reserves or other accounts.

On December 8, 2015, the Governor signed Executive Order No. OE-2015-49 ("Executive Order No. 49") to delegate to the Director of the OMB the power to implement the priority norms established in the enabling act of the OMB, Act No. 147 of June 18, 1980, as amended, for the disbursement of the Commonwealth's available revenues.

On January 8, 2016, the clawback of revenues referred to above was challenged in the Puerto Rico Federal District Court by the insurance companies of the PRIFA' bonds impacted by the clawback, claiming such action violates certain clauses of the US Constitution. The Commonwealth intends to contest this case vigorously.

Voluntary Pre-Retirement Program

On December 8, 2015, Act No. 211-2015 was approved to create a Voluntary Pre-retirement Program. This Act, among other provisions, establishes that employees who started contributing to the ERS before April 1, 1990 with at least 20 years of service may be eligible to participate in the program. Those who participate in the program would be paid 50% of their average salary (except police officers, which would be paid 60%). These payments will be made until the employee becomes eligible to receive payments from the ERS. Other benefits would include the payment of the participant's health care plan during the first two years of the program.

Civil Action Filed by Walmart Puerto Rico, Inc. Against the Commonwealth

On December 4, 2015, Walmart Puerto Rico, Inc. filed a civil action lawsuit against the Commonwealth challenging the legality of certain new Puerto Rico tax laws, particularly Act No. 72-2015, claiming it violates the Commerce Clause, the Equal Protection Clause and the Bill of Attainder Clause of the U.S. Constitution, as well as the Federal Relations Act. Act No. 72-2015 imposed a 6.5% tax rate (an increase from the then-existing 2%) on purchases made by P.R. businesses (including Walmart) to their subsidiaries in the United States. A trial was held and ended on February 5, 2016. As of the date of these financial statements, the court has not ruled on this case.

Counterparty Claims with Respect to Terminated Swaps and Debt Service Deposit Agreements

The Commonwealth and COFINA face claims from a swap counterparty with respect to certain debt service deposit agreements that were terminated in 2008. In 2010, the counterparty, which is in bankruptcy, claimed that the termination payment amounts had been calculated using incorrect termination dates (due to arguments concerning the method of notice of termination) and that it was owed substantial additional termination payments, default interest on such payments, and an adjustment for supposedly excessive fees. The Commonwealth believes that if any additional amounts are owed with respect to these swaps, such amounts would be significantly lower than the amounts claimed. The parties were ordered by the bankruptcy court to conduct a mediation process with respect to these disputes, which process is continuing.

In addition, the Commonwealth and COFINA are parties to debt service deposit agreements with affiliates of the counterparty that has asserted the swap termination claims. Under the debt service deposit agreements, the Commonwealth and COFINA (or their predecessors in interest) received upfront payments and in exchange granted the counterparty the right to sell securities to the Commonwealth and COFINA in advance of specified bond payments at their maturity amount rather than market price at the time of sale.

The agreements provide the counterparty the right to terminate upon the occurrence of various events. The counterparty has asserted that it currently has the right to terminate both agreements, in which case it would be owed termination payments equal to the cost of replacement agreements that would provide the counterparty with the economic benefits of the agreements, as determined through market quotations or otherwise in accordance with the agreements. Although the termination payments have not been calculated in accordance with the agreements, the Commonwealth estimates that if the agreements were terminated in accordance with their terms, the termination amounts could be material. GDB is also jointly and severally liable with the Commonwealth with respect to the Commonwealth debt service deposit agreement.

Bonds Credit Rating Downgrade

After a series of credit downgrades during July 2014 and February 2015, a further downgrade was announced by Standard & Poor's Ratings Services (S&P) on April 24, 2015, when it lowered its rating on the general obligation bonds of the Commonwealth from "B to "CCC+", maintaining a negative credit watch, and noted that further downgrades were possible. Similarly, on May 21, 2015, Moody's Investors Service ("Moody's") also lowered its rating on the general obligation bonds of the Commonwealth one more notch, from "Caa1" to "Caa2", and maintained a "negative" outlook on all these bonds. On March 26, 2015, Fitch Ratings ("Fitch") lowered its rating on the general obligation bonds of the Commonwealth by two notches from "BB-" to "B", and placed them on Rating Watch negative. During these same dates, S&P downgraded the COFINA's senior and junior-lien bonds to CCC+ from B and maintained their negative outlook. Moody's also downgraded the COFINA's senior lien bonds on May 21, 2015 to Caa2 from B3 and its junior-lien bonds to Caa3 from Caa1. During these same dates, S&P, Moody's and Fitch, also downgraded PBA's bonds to a rating of CCC+, Caa2 and B, respectively, while S&P and Moody's have lowered the credit ratings of PRIFA's Special Tax Revenue Bonds various notches since February 2014 from Ba2 (at both rating agencies) to CCC+ and Ca, respectively, during April and May 2015. 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, their financial stability depends directly on the financial well-being of the Commonwealth and the continuity of the referenced federal excise taxes, respectively.

On June 29 and July 1, 2015, all three credit rating agencies further downgraded the Puerto Rico bonds given the likelihood of a default or a distressed exchange. Fitch downgraded from B to CC the general obligation bonds of the Commonwealth, COFINA's senior and junior-lien bonds and PBA's bonds. S&P downgraded from CCC+ to CCC- the general obligation bonds of the Commonwealth, COFINA's senior and junior-lien bonds and PRIFA's Special Tax Revenue Bonds and placed them in negative outlook. Finally, Moody's downgraded the general obligation bonds of the Commonwealth from Caa2 to Caa3. Then on September 10, 2015, S&P lowered again its ratings on the general obligation bonds of the Commonwealth, on COFINA's senior and junior-lien bonds and on PRIFA's Special Tax Revenue Bonds to CC from CCC- and removed the ratings from CreditWatch, where they had been placed with negative implications July 20. The outlook is still negative. PBA's bonds have also been downgraded to CC by S&P. These recent rating actions by S&P follow the September 9, 2015 release by the Working Group of the FEGP, recommending restructuring all tax-backed debt, including general obligation (GO) and COFINA debt.

Component Units

On June 28, 2014, the Commonwealth enacted Act 71-2014, known as the Puerto Rico Public Corporation Debt Enforcement and Recovery Act ("Recovery Act"). The Recovery Act was 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 Recovery Act was 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 Recovery Act does not apply to the Commonwealth. It applies solely to public corporations, other than the following: 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 any 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.

On February 6, 2015, the United States District Court for the District of Puerto Rico issued an opinion and order declaring the Recovery Act unconstitutional and stating that it was preempted by the United States Bankruptcy Code. The District Court's decision was upheld by the United States Court of Appeals for the First Circuit. The Commonwealth is seeking review of this decision by the U.S. Supreme Court, which granted the Commonwealth's petition for certiorari. Oral arguments before the U.S. Supreme Court are scheduled for March 22, 2016. In addition, although the Commonwealth and its instrumentalities are not currently eligible to seek relief under Chapter 9 of the United States Bankruptcy Code, there are ongoing initiatives in the U.S. Congress to make Chapter 9 applicable to the Commonwealth and/or to otherwise provide a Commonwealth-wide restructuring regime.

In addition, there are ongoing initiatives in Congress to make Chapter 9 applicable to Puerto Rico and/or otherwise provide a Commonwealth-wide restructuring regime. On February 11, 2015, Puerto Rico Resident Commissioner, introduced a bill in the U.S. Congress (H.R. 870) that would empower the Commonwealth to authorize Puerto Rico municipalities and public corporations to restructure their debt obligations under Chapter 9 of the United States Bankruptcy Code, which currently applies to municipalities and public corporations of the 50 states, but excludes those of Puerto Rico. As further described above, on October 21, 2015, the Obama Administration also released a legislative proposal to address Puerto Rico's urgent fiscal crisis (the "Administration Proposal"). Such proposal proposed that Congress extend the protections of Chapter 9 of the United States Bankruptcy Code to the Commonwealth's municipalities and authorize a broader legal framework to allow a comprehensive restructuring of all of Puerto Rico's liabilities. The Commonwealth supports the Administration Proposal.

Further specific subsequent events for Component Units follow:

(a) ***GDB***

On December 1, 2015, GDB met its scheduled principal and interest debt service payments on its notes, including the payment of $267 million of principal on outstanding GDB notes guaranteed by the Commonwealth, described in note 13(a).

As of June 30, 2015, Puerto Rico municipalities maintained approximately $515 million on deposit at GDB in special debt service deposit accounts which are funded primarily from the proceeds of a special property tax ("Special Additional Tax"). As of July 31, 2015, after the July debt service payment, the aggregate balance of debt service deposits related to the Special Additional Tax was $266 million. These funds are collected by the CRIM and used for debt service payments of general obligations bonds issued by the municipalities and, by law, have to be deposited in trust at the GDB. On June 29, 2015, the CRIM filed suit requesting that GDB execute a deed of trust pursuant to Puerto Rico law. The CRIM also stopped transferring collected revenues to GDB until the deed of trust was executed. GDB opposed the CRIM's suit asserting that the law already provided a statutory trust and, hence, there was no need for a deed of trust as requested by the CRIM. On October 23, 2015, the parties announced that a settlement had been reached, that a deed of trust would be executed and that new investment guidelines for the municipalities' funds would be approved and applied thereon. On November 2, 2015, the parties executed the deed of trust and on November 4, 2015 judgment was entered by the Court ending the litigation. The execution of the deed of trust and the new investment guidelines are not expected to have a material adverse effect on GDB's current liquidity or financial position.

GDB is legally required by Act No. 17 of September 23, 1948, as amended (the "Act 17"), to maintain reserves equal to 20% of its demand deposits. This requirement is met by investing in securities with maturities of up to 90 days and as of November 30, 2015 amounted to approximately $310 million. Recently, Act 17 was amended to allow GDB to request a 3-month waiver of this requirement from the Secretary of Treasury. GDB approved a resolution on December 1, 2015 authorizing management to request this waiver, if required.

The Commonwealth has also recently reformed and amended GDB's lending practices, financing capacity and oversight powers of public funds through Act No. 24-2014 and Act No. 97-2015. Act No. 24-2014 prohibits 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 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 GDB obligations that can be guaranteed by the full faith and credit of the Commonwealth to provide GDB with greater flexibility in its role of granting interim financing to public corporations and agencies; (ii) grants GDB the ability to exercise additional oversight over certain public funds deposited at private financial institutions and grants 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 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 GDB, up to a maximum amount of $500 million.

Furthermore, on July 1, 2015, the Commonwealth enacted Act 97-2015, which prohibits GDB from lending to government entities (1) that are in default on any payment to GDB or (2) in the case of entities other than the Commonwealth, if the principal outstanding on all loans of that governmental entity with GDB exceed 5% of GDB's total loan portfolio. Furthermore, the Act provides that the use of proceeds of new GDB loans are limited to funding capital expenditures or working capital needs (in such case, with a maturity of one year or less), unless expressly authorized by law. In addition, the Act requires GDB to meet certain capital to assets, loan to deposit and other ratios in order to continue granting loans and clarifies the standard for personal liability of directors, officers and employees. The Act also creates the Public Debt Auditing Commission, which is charged with providing transparency and citizen participation in the review of the Commonwealth and public corporations' aggregate debt.

(b) *PRASA*

On March 3, 2015, PRASA executed an amendment a Credit Agreement originally executed on October 24, 2013, by and among PRASA and two other banks, whereby the banks agreed to extend the maturity date on $200 million of loans incurred under the Credit Agreement through May 29, 2015. Concurrently with the execution of the amendment, PRASA paid the banks $40 million of the principal due and agreed to make two additional principal payments of $5 million each on April 1 and May 1, 2015, which were made. These loans constituted senior indebtedness under PRASA's Master Agreement of Trust, ranking on parity with PRASA's senior bonds and collateralized with a gross pledge of PRASA's revenues.

On May 29, 2015, PRASA entered into a Credit Agreement with a depository institution pursuant to which PRASA borrowed $90 million on a short-term basis. These funds were used, together with other funds from PRASA's operations, to repay in full the existing loans due to other banks, which were due on that date. To secure the new loan, PRASA used $90 million from the Rate Stabilization Account under its Master Trust Agreement and pledged such funds to the depository institution under an Escrow Deposit Agreement. The new loan was issued as "Senior Indebtedness" under the Master Trust Agreement, on parity with the senior bonds issued thereunder. The loan was due on September 15, 2015.

On September 15, 2015, PRASA issued $75 million of its Series 2015A Bonds under the Master Trust Agreement, as supplemented by a Fifth Supplemental Agreement of Trust. The proceeds of the purchase of the Series 2015A Senior Bonds were used to repay a portion of the outstanding balance of the $90 million term loan extended under the Credit Agreement referred above. The Series 2015A Bonds were due on November 30, 2015. Also on September 15, 2015, the Credit Agreement was amended to reflect the reduction of its outstanding balance and extend the maturity date of the remaining $15 million term loan through November 30, 2015. In August 2015, PRASA commenced an offering of $750 million of revenue bonds, the proceeds of which would have been used, in part, to repay the amounts due under the Credit Agreement and refund the 2015A Bonds, thereby releasing the $90 million presently securing such facilities and permitting their deposit to the Rate Stabilization Account of the Surplus Fund used to fund the escrow accounts relating thereto. The bond issuance was also intended to finance a portion of PRASA's capital improvement program and reimburse itself for certain capital costs incurred. PRASA was unable to complete the transaction.

On November 30, 2015, PRASA extended through February 29, 2016 the maturity date of its Series 2015A Bonds. On that date, PRASA also extended the maturity date of the remaining $15 million term loan to February 29, 2016, provided PRASA made a $5 million principal payment on January 31, 2105, which was made. If PRASA were unable to pay either of the Series 2015A Bonds or the term loan when due, or the same were not extended, the escrowed funds securing such financings would be used to repay amounts due to the respective bondholders or lenders. If this were to occur, PRASA will not have sufficient available funds in its Rate Stabilization Account to cover projected budgetary deficits for fiscal year 2017, and therefore would have to undertake other remedial actions in order to reduce such deficits, including the possibility of a rate increase to be implemented during such fiscal year.

PRASA continues to work on alternatives to achieve a long-term financing. If PRASA is not able to achieve such a financing, however, PRASA will be forced to re-evaluate the financing structure for its capital improvement program and may be required under its Master Agreement of Trust to implement additional increases in its service rates.

On April 24, 2015, S&P lowered its rating on the bonds of PRASA two notches to CCC+ and kept this rating on Credit Watch with negative implications. On May 21, 2015, Moody's lowered the ratings on the bonds of PRASA from Caa1 to Caa2. On June 29, 2015, Fitch lowered its rating on the bonds of PRASA from B to CC, given its perception of a likelihood of default or distressed exchange. On July 1, 2015, Moody's lowered again its rating on PRASA bonds to Caa3 from Caa2. On July 2, 2015, S&P downgraded again its rating on PRASA bonds two notches to CCC- from CCC+, and removed it from CreditWatch with negative implications. The outlook is still 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 September 15, 2015 the United States Department of Justice ("DOJ"), acting at the request of the Administrator of EPA, filed a complaint (the "Complaint") against PRASA and the Commonwealth, as a required party under the Clean Water Act (defined below), in the United States District Court for the District of Puerto Rico (the "District Court"). The Complaint seeks injunctive relief and the assessment of civil penalties against PRASA for alleged violations of the Federal Water Pollution Control Act enacted in 1956, as amended by the federal Water Pollution Control Act Amendments of 1972, the Clean Water Act of 1977, and the Water Quality Act of 1987, as amended (the "Clean Water Act"). Concurrently with the filing of the Complaint, DOJ also filed a consent decree (the "2015 EPA Consent Decree") executed among EPA, PRASA and the Commonwealth settling the matters addressed in the Complaint, under the terms agreed upon by PRASA and EPA. The 2015 EPA Consent Decree is the result of an extensive negotiation process aimed, among other things, at resolving the claims addressed in the Complaint and the requirements of PRASA IV, the 2006 EPA Consent Decree and the 2010 EPA Consent Decree (collectively the "EPA Consent Decrees") related to the allegations included in the Complaint. EPA and PRASA acknowledged in the 2015 EPA Consent Decree the work to be undertaken thereunder will enable PRASA to better understand its sewer systems, but will not resolve all of PRASA's Clean Water Act obligations with respect to such systems. The Commonwealth will incur liability under the 2015 EPA Consent Decree only to the extent that the laws of the Commonwealth prevent PRASA from raising revenues needed to comply with the 2015 EPA Consent Decree. In this connection, the Commonwealth has represented under the 2015 EPA Consent Decree that its present laws do not prevent PRASA from raising the revenues needed to comply with the obligations it has incurred thereunder.

Negotiations leading to the execution of the 2015 EPA Consent Decree were commenced by PRASA in order to mitigate the high construction in progress (CIP) costs mandated by the Existing Consent Decrees, representing 60% of CIP and an approximate cost of $1.4 billion during fiscal years 2006-2014. Another $1.7 billion of mandatory compliance projects would be required under the Existing Consent Decrees, in their current form, through fiscal year 2025. Despite being in material compliance with the capital improvement project requirements of the Existing Consent Decrees, PRASA began discussions with the DOJ, on behalf of EPA, EPA and Department of Health (DOH) seeking to amend the Existing Consent Decrees, in order to, among other things: (i) reduce required annual project expenditures and extend compliance deadlines, (ii) incorporate other regulatory projects included in PRASA's CIP not currently covered by the Existing Consent Decrees, and (iii) include the operation, maintenance and capital improvement program requirements related to the Puerto Nuevo wastewater collection system, including alleged combined sewer overflows. The resulting 2015 EPA Consent Decree is expected to realign the cost of these projects and activities with PRASA's current financial condition and economic prospects. The 2015 EPA Consent Decree will be subject to the approval of the Federal District Court after the thirty (30) day public comment period commenced on October 8, 2015 with the publication of the corresponding notice in the Federal Register. Once final approval is granted, the 2015 EPA Consent Decree will consolidate and supersede the EPA Consent Decrees. As of the date of these financial statements, such approval has not occurred.

PRASA also expects that after final approval of the 2015 EPA Consent Decree, it will be able to finalize the and amendment to the DWSA (the "Proposed DWSA Amendment") under terms substantially similar to those currently being negotiated with DOH. Although the Proposed DWSA Amendment remains to be finalized, on May 22, 2015 the Superior Court of Puerto Rico approved a joint motion submitted by PRASA and DOH on May 12, 2015 to amend the 2006 Drinking Water Settlement Agreement to incorporate certain regulatory projects that were not originally included under its provisions. The final approval by the District Court of the 2015 EPA Consent Decree and the culmination of the negotiations of the Proposed DWSA Amendment will permit PRASA to significantly reduce annual capital expenditure levels for mandated projects under the Existing Consent Decrees, based on a new comprehensive and holistic prioritization system (the "Prioritization System") for the scheduling and management of CIP projects, which would be applied to capital improvement project requirements under the 2015 EPA Consent Decree and the Proposed DWSA Amendment, as well as other CIP projects that may arise in the future under the Clean Water Act and the Safe Drinking Water Act. The 2015 EPA Consent Decree and the Proposed DWSA Amendment are expected to extend the compliance date of certain capital improvement projects through 2034 at a cost of approximately $1.7 billion. No assurance, however, can be given that the 2015 EPA Consent Decree will be approved by the District Court in the form filed on September 15, 2015 and that the Proposed DWSA Amendment will be concluded under terms substantially similar to those currently being negotiated with DOH. If the 2015 EPA Consent Decree is not approved under terms substantially similar to those filed on September 15, 2015 or the Proposed DWSA Amendment is not approved as anticipated, PRASA would have to significantly increase its Five-Year CIP expenditures from currently projected levels or, if 2015 EPA Consent Decree and the Proposed DWSA Amendment are approved but PRASA fails to comply with such decrees, PRASA's financial and operating condition may be significantly adversely affected.

On April 24, 2015, S&P lowered its rating on the bonds of PRASA two notches to CCC+ and kept this rating on Credit Watch with negative implications. On May 21, 2015, Moody's lowered the ratings on the bonds of PRASA from Caa1 to Caa2. On June 29, 2015, Fitch lowered its rating on the bonds of PRASA from B to CC, given its perception of a likelihood of default or distressed exchange. On July 1, 2015, Moody's lowered again its rating on PRASA bonds to Caa3 from Caa2. On July 2, 2015, S&P downgraded again its rating on PRASA bonds two notches to CCC- from CCC+, and removed it from CreditWatch with negative implications. The outlook is still 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.

(c) *PREPA*

Forbearance Agreements

On August 14, 2014, PREPA entered into Forbearance Agreements with certain insurers (the "monoline bond insurers") and beneficiary owners of Power Revenue Bonds, banks that provide fuel lines of credit (the "Forbearing Lenders"), and the GDB (the Forbearing Creditors). As provided in the Forbearance Agreements, the Forbearing Creditors agreed not to exercise certain rights and remedies under their financing agreements and to amend the 1974 Trust Agreement to permit the use of a portion of the construction fund moneys to pay operational expenses. PREPA also agreed to prepare a new business plan and a recovery plan that would be acceptable to the Forbearing Creditors.

PREPA did not make monthly cash deposits to the 1974 Sinking Fund Principal and Interest during the six months ending on December 31, 2014 and a specified fractional amount of interest on Power Revenue Bonds due on October 1, 2014 and January 1, 2015 was transferred from the 1974 Reserve Account in the Sinking Fund to a separate account. The Forbearance Agreements were scheduled to terminate originally on or before March 31, 2015, but were extended on numerous occasions, most recently through November 5, 2015. The Forbearance Agreements expired on November 5, 2015, but the agreement of the Forbearing Creditors to refrain from exercising certain rights and remedies was extended under the RSA (as defined below).

On July 1, 2015, PREPA paid, as required by the Forbearance Agreement, $415.8 million, to satisfy the principal and interest payments on the bonds due on that date. This payment was funded with moneys in the 1974 Sinking Fund, including reserves, and a $153.0 million transfer from PREPA's General Fund.

On July 31, 2015, pursuant to the Trust Agreement and as agreed with Forbearing Creditors, PREPA issued Power Revenue Bonds Series 2015 A, in a par amount of $130.7 million, to be used as working capital. The Series 2015 A was bought in its entirety by current bond insurers, and the maturity date of this issue was January 1, 2016.

On December 15, 2015, PREPA deposited $103.5 million in escrow to satisfy the remaining principal and interest requirements on the Series 2015 A Bonds, which deposit was funded by $100.9 million from PREPA's self-insurance fund and $2.6 million from PREPA's General Fund. These amounts were paid to holders of the 2015 A Bonds on January 4, 2016 in accordance with their terms.

On January 4, 2016, PREPA paid $198.0 million, to satisfy the interest payments on its other Bonds due on that date. This payment was funded with moneys in the 1974 Sinking Fund, and a $171.0 million transfer from the General Fund.

In accordance with the Forbearance Agreements, PREPA delivered a recovery plan proposal to the Forbearing Creditors on June 1, 2015 that included a proposal for PREPA's financial and operational transformation. Since that date, PREPA engaged in discussions with the Forbearing Creditors regarding the terms of a consensual agreement on a recovery plan, culminating in the agreements described below.

Agreements in Principle with Certain Creditors

On September 2, 2015, PREPA announced an agreement in principle regarding the economic terms of a restructuring with an ad hoc group of bondholders that were Forbearing Bondholders (the "Ad Hoc Group Agreement") and which group held, at that time, approximately 35% in principal amount of the outstanding Bonds (the "Ad Hoc Group"). Under that agreement, the Ad Hoc Group will have the option to receive securitization bonds that will pay cash interest at a per annum rate of 4.0% - 4.75% (depending on the rating obtained) ("Option A Bonds") or convertible capital appreciation securitization bonds that will accrete interest at a per annum rate of 4.5% - 5.5% for the first five years and pay current interest in cash thereafter at those per annum rates ("Option B Bonds"). Option A Bonds will not pay principal for the first five years (interest only), and Option B Bonds will accrete interest but not receive any cash interest or principal during the first five years. All of PREPA's uninsured bondholders will have an opportunity to participate in the exchange. Both Option A and Option B Bonds would be issued at an exchange ratio of 85% (i.e., with a 15% reduction in principal amount of current holdings of outstanding Bonds). Under the extension to the Forbearance Agreement with the Ad Hoc Group executed on September 1, 2015, PREPA agreed to work collaboratively and in full faith with the Ad Hoc Group to reach agreement on a recovery plan incorporating these terms. The Ad Hoc Group Agreement was included in the RSA.

On September 22, 2015, PREPA announced an agreement in principle regarding economic terms with its Forbearing Lenders (the "Fuel Line Agreement").

Under that Agreement, the Forbearing Lenders, which hold all of the approximately $696 million of matured debt (Notes Payable), will have the option to either (1) convert their existing credit agreements into term loans, with a fixed interest rate of 5.75% per annum, to be repaid over six years in accordance with an agreed amortization schedule or (2) exchange all or part of principal due under their existing credit agreements for new securitization bonds to be issued on the same terms as the Ad Hoc Group.

Under the extensions to the Forbearance Agreements with the Forbearing Lenders executed on September 22, 2015, PREPA agreed to work collaboratively and in good faith with the Forbearing Lenders to reach agreement on a recovery plan incorporating these terms. The Fuel Line Agreement was included in the RSA.

Restructuring Support Agreement

On November 5, 2015, PREPA announced its entry into a restructuring support agreement (the "Initial RSA") with both the Ad Hoc Group (representing at that time approximately 40% in principal amount of the outstanding Bonds) and the Forbearing Lenders setting forth the agreed upon terms of PREPA's recovery plan which terms were amended to extend the milestone dates therein on numerous occasions. The economic terms set forth in the Initial RSA are consistent with the Ad Hoc Group Agreement and the Fuel Line Agreement. In addition, pursuant to the Initial RSA, GDB would receive substantially the same treatment on $35.9 million owed by PREPA to it as the Forbearing Lenders will receive. The monoline bond insurers were not party to the Initial RSA.

On December 23, 2015, certain of the monoline bond insurers along with the Ad Hoc Group (representing together at that time approximately 66% in principal amount of the outstanding Bonds), the Forbearing Lenders and GDB, all signed an amended and restated restructuring support agreement (the "A&R RSA" and together with the Initial RSA and the Revised RSA (as defined below), the "RSA," and the Ad Hoc Group, the monoline bond insurers, the Forbearing Lenders and the GDB, together the "Supporting Creditors") with terms and conditions substantially similar to those in the Initial RSA outlined above (including the agreement to exchange Bonds held by the Ad Hoc Group for new securitization bonds at an 85% exchange ratio with a 5-year principal holiday and fixed interest rates).

Significant uncertainty remains as to the potential consummation of the transactions set forth in the RSA, which is subject to a number of material conditions, including without limitation, (1) obtaining legislative authority for the assessment of a special, transition charge on PREPA's customers and other terms to facilitate the issuance of the securitization bonds as well as organizational reforms at PREPA; (2) receipt of an investment grade rating on the new securitization bonds from any credit rating agency that will rate the securitization bonds; (3) obtaining an agreed upon level of participation from holders of PREPA's uninsured Bonds in the exchange offer described above such that no more than $700 million in principal amount of uninsured Bonds shall remain outstanding following the exchange offer, or such higher amount determined by PREPA after consulting with its advisors; (4) amending the PREPA Trust Agreement to increase to at least a majority the percentage of Bondholders required to direct the Trustee to take certain actions under the Trust Agreement, including upon a default by PREPA and continue the waiver of PREPA's obligation to make monthly Sinking Fund deposits, among other things; and (5) obtaining approval and reaching agreement with all Supporting Creditors regarding the definitive documentation of the various restructuring transactions.

The RSA contains a number of termination or withdrawal events in favor of the Supporting Creditors, including if there is a material amendment to certain terms of the recovery plan, if PREPA commences any proceeding under bankruptcy or insolvency law or the Recovery Act (except to implement the recovery plan in accordance with the RSA), as well as the failure to achieve certain milestones by specific dates, including the enactment of legislation containing substantive provisions to implement the recovery plan contemplated by the RSA, among other events, which would result in termination of the RSA or withdrawal from the RSA by individual Supporting Creditors.

On January 23, 2016, the RSA terminated when the PREPA Revitalization Act was not enacted into law and the Ad Hoc Group did not agree to PREPA's request to extend the related RSA milestone. PREPA continued to engage in discussions with the Ad Hoc Group and the other Supporting Creditors regarding a potential extension of the RSA and the transactions contemplated therein and described below.

Under the RSA, certain of the Supporting Creditors agreed to purchase approximately $115 million in Bonds to refund a portion of the interest payments on the Bonds made on January 4, 2016, subject to certain conditions including enactment of the PREPA Revitalization Act in acceptable form. This agreement was formalized in a Bond Purchase Agreement (the "Initial Bond Purchase Agreement") executed on December 29, 2015. The Initial Bond Purchase Agreement also terminated on January 23, 2016 when the A&R RSA terminated. PREPA continued to engage in discussions with the Supporting Creditors regarding the transactions contemplated by the Initial Bond Purchase Agreement.

On January 23, 2016, certain of the Forbearing Lenders agreed to enter into a short form forbearance agreement by which they agreed to forbear from exercising enforcement rights against PREPA under the applicable fuel line agreements through February 12, 2016.

On January 27, 2016, PREPA and the Supporting Creditors executed a revised RSA ("Revised RSA") and a revised Bond Purchase Agreement (the "Revised Bond Purchase Agreement"). The Revised RSA is substantially the same as the A&R RSA, with minor adjustments to address delays in legislative consideration of the PREPA Revitalization Act. The milestone date for legislative approval of the PREPA Revitalization Act was extended to February 16, 2016, and other related milestones were also adjusted accordingly. The Revised Bond Purchase Agreement is substantially the same as the Initial Bond Purchase Agreement, except for certain changes to the timing, conditions and total amount of the contemplated Bond purchase. Under the Revised Bond Purchase Agreement, 50% of the total purchased Bonds will be purchased upon a determination by the applicable Supporting Creditors that the PREPA Revitalization Act satisfies the standards set forth in the RSA and 50% of the total purchased Bonds will be purchased upon the filing of a petition with the Energy Commission seeking approval of a securitization charge that satisfies the standards under the RSA. Under the Revised Bond Purchase Agreement, the total amount of purchased Bonds is approximately $111 million. There can be no assurance, however, that the transactions contemplated by the Revised Bond Purchase Agreement will be consummated.

Under the RSA, the Ad Hoc Group has agreed to exchange 100% of its uninsured Bonds for securitization bonds at an 85% exchange ratio. The monoline bond insurers agreed to provide up to

$462 million of reserve surety bonds at the time the transaction closes and forward commitments for additional surety capacity to be provided at a later time during the term of the transaction, as credit support for the securitization bonds, that would be available to be drawn upon in the event certain cash reserves and transition payments from PREPA's customers are insufficient to pay current debt service on the securitization bonds. In return for this, (1) the SPV (defined below – see PREPA Revitalization Act) would issue $2.086 billion additional securitization bonds, which amount is subject to adjustment in accordance with the RSA, as credit support for outstanding PREPA insured Bonds to be held in escrow for the benefit of holders of PREPA's insured Bonds and (2) PREPA and the SPV would attempt to refinance certain outstanding Bonds insured by such insurers with securitization bonds during a 6-month period starting 3 years after the date the above exchange closes. The surety bonds provided by the monoline bond insurers would be replaced by SPV cash (derived from transition payments) beginning in FY2019 over a period of nine years, subject to earlier replacement in accordance with certain conditions set forth in the RSA. Among the primary purposes for this transaction are to refinance at a lower cost a portion of PREPA's outstanding Bonds and to improve PREPA's liquidity position during the first five years after issuance. There can be no assurance, however, that the transactions contemplated by the RSA will be consummated.

PREPA Revitalization Act

On November 4, 2015, the Governor submitted the PREPA Revitalization Act to the Legislative Assembly to facilitate PREPA's ongoing transformation and recovery plan. The PREPA Revitalization Act sets forth a framework for PREPA to execute on the agreements with creditors reached to that date. Among other things, the PREPA Revitalization Act would (1) enhance PREPA's governance processes; (2) adjust PREPA's practices for hiring and managing personnel; (3) change PREPA's processes for collecting outstanding bills from public and private entities; (4) improve the transparency of PREPA's billing practices; (5) implement a competitive bidding process for soliciting third party investment in PREPA's infrastructure; (6) allow for the refinancing of existing PREPA bonds through a securitization that would reduce PREPA's indebtedness and cost of borrowing; and (7) set forth a process for the Energy Commission to address PREPA's proposal for a new rate structure that is consistent with its recovery plan. The PREPA Revitalization Act was approved by the Senate of Puerto Rico on February 10, 2016 and by the House of Representatives, with amendments, on February 15, 2016. To the extent that the Senate concurs with these amendments, the bill would be submitted to the Governor for his signature. To the extent, however, that the Senate does not concur with these amendments, the bill would go to conference committee for reconciliation.

Bond Ratings Downgrade

Since June of 2014, the credit ratings of PREPA's Power Revenue Bonds, already within non-investment grade, have been lowered (more than once in most cases) by Moody's and S&P. The latest downgrade made by Moody's was on September 17, 2014, when PREPA's bond rating was lowered from Caa2 to Caa3. On July 2, 2015, S&P lowered PREPA's bonds from CCC- to CC. Fitch has maintained its rating on PREPA's bonds at CC since June of 2014. These downgrades consider the uncertainty that persists regarding the details of the expected restructuring plan by PREPA, the implementation risk that continues regarding PREPA's ability to execute on its multi-year fuel conversion plan as well the rating agencies' belief that any such debt restructuring will involve some degree of impairment for bondholders. The downgrades also reflect the concerns raised by: the repeated draws on the debt reserve fund and uncertainty regarding any future draws that could result in its depletion; the structural imbalance between revenues and expenses without a pathway to meeting debt service obligations if and when the debt service reserve is depleted; and inability of PREPA to access the capital markets.

(d) ***PRHTA***

On August 3, 2014, the Governor of the Commonwealth signed Act No. 123-2014 to create the Integrated Transportation Authority of Puerto Rico ("ATI"), to establish their purposes, duties, powers and authorities and to authorize the PRHTA to transfer the Urban Train System during the fiscal year 2016. According to this Act, ATI will be in charge of the PRMBA and the PRHTA of the PRMIMTA. As of the date of these financial statements, the transfers contemplated by Act No. 123-2014 have not been executed and there is no timetable for their completion.

All the lines of credit with GDB expiring on August 31, 2014 and January 31, 2015, were extended for one year as approved by GDB's Board of Directors. No further extensions have been made on these lines of credit as of the date of these financial statements.

On January 15, 2015, Act No. 1-2015 was enacted by the Commonwealth to increase the petroleum products tax rate from $9.25 to $15.50 per petroleum products barrel, starting on March 15, 2015. The new tax rate of the petroleum products tax was distributed as follows: $6.00 per barrel to the PRHTA; and $9.25 per barrel to PRIFA. The $9.25 per barrel to be received by PRIFA was originally to serve as the source of repayment of bonds to be issued by PRIFA, which would have refinanced twenty-four lines of credit with GDB, the $200 million in PRHTA Variable Rate Bonds held by GDB and certain Bonds Anticipation Notes issued by PRHTA.

On March 16, 2015, PRIFA issued certain Bond Anticipation Notes (the "PRIFA BANs") secured by the petroleum products tax assigned to PRIFA to refinance the outstanding balance of $227.6 million on the Bonds Anticipation Notes issued by PRHTA, along with associated costs.

On June 5, 2015, PRHTA extended the contract for the operation and maintenance of the Urban Train for one (1) additional year ending on June 6, 2016.

On February 24, 2015, S&P lowered various ratings on the PRHTA's bonds to CCC+ from B. On May 21, 2015, Moody's downgraded the PRHTA's bonds from Caa2 to Ca, based on expectations of continued stagnation or decline in the Commonwealth economy. On September 2, 2015, S&P downgraded furthermore the rating on the PRHTA's bonds to CC from CCC+. The rating changes were driven by the downgrade of the Commonwealth's general obligation bonds effected at the same date. 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. 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%.

(e) ***UPR***

On July 1, 2014, Moody's downgraded the UPR's revenue bonds from Ba3 to Caa1 and the Desarrollos Universitarios, Inc. (DUI), AFICA bonds from Ba1- to Caa2. On July 14, 2014, S&P

downgraded the UPR's revenue bonds and the DUI's AFICA bonds from BB+ to BB. On February 13, 2015, S&P downgraded again the UPR's revenue bonds and the DUI's AFICA bonds from BB to B, while on March 12, 2015, Moody's downgraded the UPR's revenue bonds from Caa1 to Caa2 and the Desarrollos Universitarios, Inc. (DUI), AFICA bonds from Caa2 to Caa3. On April 24, 2015, S&P downgraded furthermore the UPR's revenue bonds and the DUI's AFICA bonds from B to CCC+; while on May 21, 2015, Moody's downgraded furthermore the UPR's revenue bonds from Caa2 to Caa3 and the Desarrollos Universitarios, Inc. (DUI), AFICA bonds from Caa3 to Ca. On July 2, S&P downgraded again the UPR's revenue bonds from CCC+ to CCC- and later on September 11, 2015 they were further lowered to a rating of CC. Moody's lowered furthermore on July 1, 2015 the ratings on the UPR's revenue bonds from Caa3 to Ca. These rating downgrades have followed each downgrades being made on the Commonwealth's general obligation bonds and certain other public corporations' bonds, which they have generally mirrored given the UPR's significant dependence on Commonwealth's appropriations, plus its constrained ability and willingness to raise tuition and other auxiliary revenues sufficient to mitigate cuts. The UPR is highly reliant on the Commonwealth for operating revenues, coupled with reliance on GDB for liquidity and financial management support.

(f) ***PRHIA***

On October 14, 2014, the Board of Directors of PRHIA awarded new contracts for the GHP, which replaced the former "Mi Salud" plan, to five private insurance providers pursuant to a bidding process. The new contracts became effective on April 1, 2015. Under the new contracts, the Commonwealth public health model changed from a third party administrator model (TPA), in which the Commonwealth was ultimately responsible for the cost of the health services provided, to a managed care organization model (MCO), in which PRHIA will pay the insurers a fixed premium for each insured beneficiary and the insurers will be responsible for the cost of such services.

PRHIA owes approximately $186 million in recorded and unpaid claims under the previous Third Party Administrator model. Furthermore, as of June 30, 2014, the actuarially determined incurred but not reported liability for claims not yet received is approximately $128 million. In addition, the unpaid premiums under the current MCO model were approximately $220 million as of September 2015. On October 8, 2015, Act No. 172 was approved, which seeks to amend PRHIA's enabling act in order to authorize PRHIA to incur into additional indebtedness, including the issuance of bonds, for an amount up to $400 million. The objective of this Act is to use the proceeds from this potential new indebtedness to substantially repay the amounts mentioned above. However, there are no assurances that even with the enactment of this legislation that PRHIA will be able to obtain such financing.

On June 8, 2015, the Centers for Medicaid and Medicare services confirmed that, as had been previously reported, the Medicare Advantage funding for Puerto Rico in 2016 will be reduced by approximately 11%. Such reductions to the Medicare Advantage rates would impact the ability of the Medicare Advantage plans to assume the costs of covering the higher-need dual eligible population (approximately 250,000 beneficiaries) covered through PRHIA's "Platino" program. Medicare Advantage subsidizes the costs of the "Platino" program from the rates paid through Medicare. If the Medicare Advantage plans cannot subsidize the costs of covering the "Platino" program, PRHIA's costs for calendar year 2016 for this population would increase from the current $20 to $30 million per year to $120 to $150 million per year unless benefit reductions are made.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Funding Progress – Defined Benefit Pension Plans

Year ended June 30, 2014

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 notes to required supplementary information.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Funding Progress – Postemployment Healthcare Plans

Year ended June 30, 2014

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 (amounts in thousands, except for percentages):

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, 2014 [1]	$ —	1,438,475	1,438,475	-%	$ 3,489,096	41%
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

Puerto Rico System of Annuities and Pensions for Teachers (amounts in thousands, except for percentages):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2014 [2]	$ —	543,205	543,205	-%	$ 1,171,154	46%
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	—	1,370,344	51
June 30, 2009	—	750,382	750,382	—	1,418,304	53
June 30, 2008	—	N/D	N/D	—	N/D	N/D

Retirement System for the Judiciary of the Commonwealth of Puerto Rico (amounts in thousands, except for percentages):

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, 2014 [1]	$ —	6,540	6,540	-%	$ 31,707	21%
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

N/D= Not determined.

(1) The System's OPEB funded status as of June 30, 2014 was determined by the actuarial valuation as of June 30, 2013 that was updated to roll forward the funded status to June 30, 2014 and assuming no liability gains or losses.

(2) The System's OPEB funded status as of June 30, 2014 was determined by the actuarial valuation as of June 30, 2013 that was updated to roll forward the funded status to June 30, 2014 and assumed no liability gains or losses. However, due to the large number of retirements during fiscal year 2014 (about 2,234 retirees), census data for new retired members was updated as of June 30, 2014. In addition, the System's OPEB funded status as of June 30, 2014 reflects an estimate of the changes required by Act No. 160, specifically, the elimination of the medical insurance plan contributions for members retiring on or after August 1, 2014.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Employer's Contribution

Year ended June 30, 2014

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, 2014	$ 1,822,675	36	40,758	29	$ 748,569	25
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

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, 2014	$ 88,508	115	684	44	$ 46,403	77
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 notes to required supplementary information.

COMMONWEALTH OF PUERTO RICO
Required Supplementary Information (Unaudited)
Pension Benefits Schedule of Changes in Discount Rate (1)
June 30, 2014
(Amounts in thousands, except for percentages)

		Employers' Net Pension Liability		
		1% Decrease (3.29%)	Current Discount Rate (4.29%)	1% Increase (5.29%)
ERS	$	34,144,354	30,092,029	26,736,296

		Employer's Net Pension Liability		
		1% Decrease (3.33%)	Current Discount Rate (4.33%)	1% Increase (5.33%)
TRS	$	15,173,401	13,103,924	11,396,544

		Employer's Net Pension Liability		
		1% Decrease (3.30%)	Current Discount Rate (4.30%)	1% Increase (5.30%)
JRS	$	508,246	442,296	387,795

(1)
The Commonwealth implemented GASB Statement No. 67, Financial Reporting for Pension Plans- an Amendment of GASB Statement No. 25, during fiscal year 2014, and this schedule is now required.

See accompanying notes to required supplementary information.

COMMONWEALTH OF PUERTO RICO
Required Supplementary Information (Unaudited)

Schedule of Changes in the Employers' Net Pension Liability and Related Ratios (1)

Year Ended June 30, 2014

(Amounts in thousands, except for percentages)

	ERS	TRS	JRS
Total pension liability:			
Service cost	$ 419,183	354,159	16,729
Interest	1,321,478	690,742	22,641
Changes in benefit terms	-	(599,560)	-
Differences between expected and annual experience	(61,854)	169,851	(2,489)
Changes in assumptions	1,198,307	83,560	8,177
Benefit payments, including refunds of contributions	(1,598,965)	(683,698)	(21,837)
Net change in total pension liability	1,278,149	15,054	23,221
Total pension liability – beginning	28,941,368	14,792,649	481,154
Total pension liability – ending (a)	30,219,517	14,807,703	504,375
Plan's fiduciary net position:			
Contributions – employers, net of provision	660,024	189,367	11,992
Contributions – participating employees	359,862	115,461	3,804
Contributions – transfers	—	4,131	—
Net investment income	225,005	190,023	9,713
Other income	29,413	1,416	210
Benefit payments, including refunds of member contributions	(1,598,965)	(683,698)	(21,837)
Administrative expenses	(29,530)	(19,803)	(815)
Interest on bonds payable	(192,947)	—	—
Other expenses	(26,735)	—	—
Net change in plan fiduciary net position	(573,873)	(203,103)	3,067
Total fiduciary net position – beginning, as adjusted	701,361	1,906,882	59,012
Total fiduciary net position – ending (b)	$ 127,488	1,703,779	62,079
Employers' net pension liability – ending (a)-(b)	$ 30,092,029	13,103,924	442,296
Plan's fiduciary net position as a percentage of the total pension liability	0.42%	11.51%	12.31%
Covered employee payroll	$ 3,489,096	[1] 1,171,154	31,707
Employer's net pension liability as a percentage of covered employee payroll	862.46%	1,118.89%	1,394.95%

[1] Projected employee payroll at time 1.0 under one-year lag methodology.

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

(1) The Commonwealth implemented GASB Statement No. 67, *Financial Reporting for Pension Plans- an Amendment of GASB Statement No. 25* , during fiscal year 2014, and this schedule is now required.

See accompanying notes to required supplementary information.

COMMONWEALTH OF PUERTO RICO
Required Supplementary Information (Unaudited)

Pension Benefits Schedule of the Employers' Contributions (1)

Last Seven Fiscal Years

(Amounts in thousands, except for percentages)

		2014	2013	2012	2011	2010	2009	2008
ERS								
Annual required contribution	$	1,822,675	2,192,821	2,019,467	1,734,979	1,459,774	1,258,695	1,191,275
Contributions in relation to annual required contribution (a)		660,024	628,647	589,767	701,399	531,136	595,863	662,275
Contribution deficiency	$	1,162,651	1,564,174	1,429,700	1,033,580	928,638	662,832	529,000
Covered employee payroll (b)	$	3,489,096 [1]	3,489,096	3,570,339	3,666,402	3,818,332	4,292,552	N/D
Contribution as a percentage of covered employee payroll (a)/(b)		18.92%	18.02%	16.52%	19.13%	13.91%	13.88%	N/D
TRS								
Annual required contribution	$	748,569	736,591	659,334	528,170	477,213	393,871	341,495
Contributions in relation to annual required contribution (a)		189,367	187,444	176,970	159,754	164,650	171,331	156,835
Contribution deficiency	$	559,202	549,147	482,364	368,416	312,563	222,540	184,660
Covered employee payroll (b)	$	1,171,154	1,248,674	1,292,975	1,320,400	1,370,344	1,418,304	N/D
Contribution as a percentage of covered employee payroll (a)/(b)		16.17%	15.01%	13.69%	12.10%	12.02%	12.08%	N/D
JRS								
Annual required contribution	$	40,758	38,501	33,544	29,684	28,127	22,195	19,803
Contributions in relation to annual required contribution (a)		11,992	11,402	11,466	11,012	11,045	11,132	7,262
Contribution deficiency	$	28,766	27,099	22,078	18,672	17,082	11,063	12,541
Covered employee payroll (b)	$	31,707	32,138	33,066	31,811	32,061	30,587	N/D
Contribution as a percentage of covered employee payroll (a)/(b)		37.82%	35.48%	34.68%	34.62%	34.45%	36.39%	N/D

[1] Projected employee payroll at time 1.0 under one-year lag methodology.

N/D = Not determined.

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

(1) The Commonwealth implemented GASB Statement No. 67, *Financial Reporting for Pension Plans- an Amendment of GASB Statement No. 25*, during fiscal year 2014, and this schedule is now required.

See accompanying notes to required supplementary information.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Pension Benefits Schedule of Investment Return (1)

Year Ended June 30, 2014

	ERS	TRS	JRS
Annual money-weighted rate of return, net of investment expenses	88.15%	11.00%	17.85%

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

(1) The Commonwealth implemented GASB Statement No. 67, *Financial Reporting for Pension Plans- an Amendment of GASB Statement No. 25* , during fiscal year 2014, and this schedule is now required.

See accompanying notes to required supplementary information.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information - Unaudited
Schedule of Revenues and Expenditures – Budget and Actual –
Budgetary Basis – General Fund
Year ended June 30, 2014
(In thousands)

	Original budget	Amended budget	Actual
Revenues:			
Income taxes	$ 5,079,000	5,392,000	4,700,678
Sales and use taxes	865,000	614,000	645,254
Excise taxes	2,959,000	2,900,000	2,815,029
Property taxes	—	16,000	58,535
Other taxes	17,000	30,000	20,506
Charges for services	100,000	102,000	108,579
Revenues from component units	39,000	31,000	23,673
Intergovernmental	222,000	220,000	237,159
Other	124,000	134,000	116,581
Total revenues	9,405,000	9,439,000	8,725,994
Expenditures – current:			
General government	1,414,249	1,327,064	1,281,494
Public safety	2,041,943	1,997,347	1,979,809
Health	1,367,775	1,361,762	1,319,724
Public housing and welfare	454,164	448,796	430,407
Education	3,422,122	3,479,584	3,382,133
Economic development	425,353	450,533	407,220
Intergovernmental	482,157	390,177	364,763
Total expenditures	9,607,763	9,455,263	9,165,550
Deficiency of revenues under expenditures	(202,763)	(16,263)	(439,556)
Other financing sources (uses):			
Notes payable issued for debt service	245,000	92,500	667,902
Transfer in from Debt Service Fund and Lotteries Fund	120,000	99,000	220,574
Transfer out and other payments for debt service	(162,237)	(162,237)	(737,639)
Total other financing sources	202,763	29,263	150,837
Deficiency of revenues and other financing sources under expenditures and other financing uses	$ —	13,000	(288,719)

(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, 2014.

(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, 2014.

(3) Schedule of Changes in the Employers' Net Pension Liability and Related Ratios and Pension Benefit Schedule of the Employers' Contributions

Pension Benefits

Changes in Benefits Terms

There have not been any changes in plan provisions since the prior valuation. However, there have been significant changes in recent years as discussed below.

On April 4, 2013, the Legislature enacted Act. No. 3 which amended Act No. 447, Act No. 1 and Act. No. 305 to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 frozen all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants. Ceasing future defined benefit accruals under Act 447 and Act 1 and converting to a member-funded hybrid plan will result in lower benefit payments as these tiers wind down, and will make all future employer contributions available to pay benefits and bonds payable debt service.

Participants in the Defined Benefit Program who as of June 30, 2013, were entitled to retire and receive some types of pensions, may retire on any later date and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants who as of June 30, 2013, were not entitled to retire and receive some types of pensions can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program.

Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants in the System 2000 Program who as of June 30, 2013, have not reach the age of 60 can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program.

In addition, Act No. 3 amended the provisions of the different benefit structures under the Retirement System, including, but not limited to, the following:

- Retirement age – The retirement ages for the frozen accrued benefits of Act No. 447 are gradually increased from age 58 to age 61, which results in a delay in cash outflow and thus lower cumulative future benefit payments to these members. Reduced early retirement was eliminated for Act No. 1, which results in a delay in cash outflow. The retirement age is also gradually increased from age 60 to age 65 for System 2000 Program general members as well as all future members, which results in a delay in cash outflow. The retirement age for new employees was increased to age 67
- Member contributions – The prior member contribution rate of 8.275% (varying for some members) is increased to 10% of pay. While this will result in higher hybrid plan benefits in the future, it will provide more assets in the near term that can support current benefit payments and bonds payable debt service.
- Mandated annuitization – System 2000 Program notional accounts were available as lump sum payments at termination/retirement. With a full cohort of active System 2000 Program members completing careers at roughly the same time that bonds payable principal payments begin, lump sum payments would have had a deleterious effect on the ERS's assets. Act No. 3 hybrid accounts, which include the System 2000 Program accounts, are subject to mandatory annuitization, which will benefit the ERS on a cash flow basis by stretching out payments over time, thus providing the ERS "catch-up" time. The ERS has the authority for determining the annuitization factors and for updating the factors in future years.
- Survivor benefits – Act No. 447 and Act No. 1 offered survivor benefits at no cost to the retiree. For future retirees, the defined benefit portion of the Act No. 447 or Act No. 1 frozen annuity and the hybrid plan Act No. 3 annuity will be subject to an actuarially determined reduction if the member elects an annuity with a survivor benefit, resulting in lower future cash outflow.
- The occupational death benefit and the one year of salary death benefit were eliminated for Act No. 447 and Act No. 1 members, resulting in lower future cash outflow.
- Disability benefits, other than those provided under Law No. 127, were eliminated, resulting in lower future cash outflow. (A member who becomes disabled may receive their Defined Contribution Hybrid Contribution Account balance and their accrued benefit if applicable under Act No. 447 or Act No. 1).
- Special law benefits – Special law benefits are reduced for current retirees and eliminated for future retirees. The Christmas bonus payable to current retirees was reduced from $600 to $200. The summer

bonus was eliminated. The employers will continue making contributions to the ERS as if all special law benefits were still in place for current and future Act No. 447 and Act No. 1 retirees, which will result in additional cash that can be applied to benefit payments and bonds payable debt service.

- Minimum benefits – The minimum pension payable was increased from $400 to $500 per month for current retirees only.
- Merit Annuity – The "Merit Annuity" available to participants who joined the ERS prior to April 1, 1990 was eliminated.

Changes in Assumptions

Actuarial assumptions are revised periodically to more closely reflect actual, as well as anticipated future experience.

Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations. In fiscal year 2014, this difference resulted in a gain of $62 million.

Under GASB Statements No. 25 and No. 27, the investment return assumption was used to discount all projected Basic System Pension Benefits and System Administered Pension Benefits to determine the Actuarial Accrued Liability. Under GASB Statement No. 67, the investment return assumption is an input that is used in the calculation of the single equivalent interest rate that is used to discount these benefits to determine the Total Pension Liability. As a result, the discount rate used to determine the annual required contribution decreased from 6.40% at June 30, 2013 to 4.29% at June 30, 2014. For fiscal years 2008 to 2010 and for fiscal years 2011 and 2012, the discount rates were 7.50%, 6.40% and 6.00%, respectively.

Also, the fiscal year valuation reflects a salary freeze until July 1, 2017 due to Act No. 66 and the current economic conditions in Puerto Rico.

The asset basis for the date of depletion projection is the ERS's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the ERS's fiduciary net position will be exhausted in the fiscal year 2015.

The ERS's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 4.29% as of June 30, 2014.

The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties with continued budget deficits and liquidity risks of the Commonwealth and the municipalities and in the event that their financial condition do not improve in the near term.

Changes in Actuarial Methods since the prior Valuation

The results of the actuarial valuation as of June 30, 2014 are based on projecting the ERS obligations determined as of the census data collection date of July 1, 2013 for one year using rollforward methods, assuming no liability gains or losses. However, the amount of the return of contributions due to former members was provided by the System as of June 30, 2014. Prior to June 30, 2014 actuarial valuation, its results were determined using the census data at year end.

The actuarial cost method was revised in fiscal year 2014 from projected unit credit (used in the actuarial valuations for fiscal year 2013 and before) to the entry age normal method to comply with the requirements of GASB Statement No. 67.

The June 30, 2014, actuarial valuation reflects an increase of $1,198 million in the total pension liability as a result of the changes in assumptions as required by GASB Statement No. 67.

Method and Assumptions Used in Calculation of the ERS's Annual Required Contributions

Unless otherwise noted above, the following actuarial methods and assumptions were used to determine contribution rates reported in the Pension Benefits Schedule of the Employers' Contributions:

Asset valuation method	Market value of assets
Inflation	2.50%
Investment rate of return	6.75%, net of investment expenses, including inflation
Municipal bond index	4.29%, as per Bond Buyer General Obligation 20 – Bond Municipal Bond Index
Discount rate	4.29%
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66 and the current general economy.
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act No. 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. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127. 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. 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.

Puerto Rico System of Annuities and Pensions for Teachers (TRS)

Changes in Benefits Terms

On December 24, 2013, the Commonwealth enacted Act No. 160 (Act No. 160) as new legislation for the System, which superseded Act No. 91 of March 29, 2004 (Act No. 91) and was modified by the Puerto Rico Supreme Court on April 11, 2014. Pursuant to Act No. 160, the TRS administers two benefit structures. Benefit provisions vary depending on member's date of hire as follows:

i. Members hired on or before July 31, 2014 with certain distinctions for members who retire August 1, 2014 or later.

ii. Members hired August 1, 2014 or later.

The most important aspects of Act No. 160, as modified by the April 11, 2014 decision of the Puerto Rico Supreme Court, are as follows:

a) Active participants as of July 31, 2014 will continue to participate in the defined benefit pension program;

b) Starting August 1st, 2014, the defined benefit pension program will be closed for future participants and they will contribute to a contributory hybrid program;

c) The retirement age for new employees hired on or after August 1st, 2014 is increased to age 62;

d) The employee contributions for new employees hired on or after August 1st, 2014 is increased to 10% from August 1st, 2014 to June 30, 2017, 13.12% from July 1st, 2017 to June 30, 2020, and 14.02% from July 1st, 2020 and thereafter;

e) Special benefits payable to active participants that retire on or before July 31st, 2014 will be reduced;

f) Special benefits and Postemployment Healthcare Benefits will be eliminated for members that retire on or after August 1, 2014;

g) Act No. 160 maintains the same structure set forth in Act 114 of 2011 and further provides for an ultimate employer contribution rate of 20.525%, effective July 1, 2021;

h) Act No. 160 provides for two classes of additional contributions by the Commonwealth's General Fund to the TRS: (i) a Teacher's Justice Uniform Contribution (the Uniform Contribution) of $30 million in each of fiscal years 2017 and 2018 and $60 million thereafter until fiscal year 2042, and (ii) an Annual Additional Contribution commencing on fiscal year 2019 and continuing until fiscal year 2042 (the Annual Additional Contribution) equal to the amount determined by the actuaries as necessary to prevent the projected value of the gross assets of the TRS from falling below $300 million during any subsequent fiscal year;

i) Effective July 1, 2014, the TRS will receive a supplemental contribution of $1,675 each fiscal year from the General Fund for each pensioner notwithstanding if the pensioner retired prior to or on or after August 1, 2014. This contribution will pay for the Medical Insurance Plan Contribution (up to $1,200 per member), the Christmas Bonus ($200 per member), and Medication Bonus ($100 per member) payable to members who retired prior to August 1, 2014. The excess amount of the supplemental contribution will remain in the System to pay down the unfunded liability.

Changes in Assumptions

Actuarial assumptions are revised periodically to more closely reflect actual, as well as anticipated future experience.

Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the update of the census data to reflect outsized retirement activity during the year, plus the difference between actual and expected benefit payments, which rise from the differences in retirement activity and also actual mortality versus expectations. During fiscal year 2014, these differences resulted in a loss of $170 million.

The asset basis for the date of depletion projection is the TRS's fiduciary net position. On this basis, the TRS's fiduciary net position is expected to be exhausted during fiscal year 2019. This projection assumes that certain illiquid assets (consisting primarily of loans to members), currently amounting to approximately $450 million as of June 30, 2014, will be converted to cash when needed.

In addition, the date of depletion projection of the actuarial report does not include any amounts from the additional contributions required by Act No. 160 because of actual fiscal and budgetary financial difficulties with continued budget deficits and liquidity risks of the Commonwealth and in the event that their financial condition do not improve in the near term.

The TRS's fiduciary net position is not expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the discount rate for calculating the total pension liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the tax free municipal bond index rate (Bond Buyer General Obligation 20-Bond Municipal Bond Index) applied to benefit payments, to the extent that the plan's fiduciary net position is not projected to be sufficient.

This valuation reflects an increase in the investment return assumption from 6.25% as of June 30, 2013 to 6.65% as of June 30, 2014. Under GASB Statements No. 25 and No. 27, the investment return assumption was used to discount all projected Basic System Pension Benefits and System Administered Pension Benefits to determine the Actuarial Accrued Liability. Under GASB No. 67, the investment return assumption is an input that is used in the calculation of the single equivalent interest rate that is used to discount these benefits to determine the Total Pension Liability. GASB No. 67 also requires that the plan sponsor select a municipal bond index for use in developing the single equivalent interest rate. The index selected for the System is the Bond Buyer General Obligation 20-Bond Municipal Bond Index. The index rate decreased from 4.63% as of June 30, 2013 to 4.29% as of June 30, 2014. Therefore, the discount rates used to determine the annual required contribution and the total pension liability decreased from 6.25% at June 30, 2013, in accordance with GASB Statement No. 25, to 4.33% at June 30, 2014, in accordance with GASB Statement No. 67. For fiscal years 2008 to 2010, 2011 and 2012, the discount rates were 8.00%, 6.40%, and 5.95%, respectively.

Also, the fiscal year valuation reflects a salary freeze from July 1, 2014 until July 1, 2017 due to Act No. 66-2014 and a reduction in the general wage inflation assumption from 3.5% to 2.5%.

Changes in Actuarial Methods since the Prior Valuation

The census data collection date has changed from end-of-year to beginning-of-year. For this switchover year, the June 30, 2013 census data used in the prior valuation is also used as the July 1, 2013 census data for the current valuation. Due to outsized retirement activity during the 2014 fiscal year, 2,234 reported retirements were reflected. The liability results as of June 30, 2014 are based on projecting the TRS obligations determined as of the census data collection date of July 1, 2013 for one year, using roll-forward methods and assuming no liability gains or losses.

The Plan's actuarial method is the entry age normal method (level of percentage of payroll). In fiscal year 2014, the actuarial cost method used for the special bonus benefits administered by the TRS and paid by the Commonwealth's General Fund was revised from the level dollar variation of the entry age normal method to the level percentage of payroll variation of the entry age normal method to comply with the requirements of GASB Statement No. 67.

The June 30, 2014 actuarial valuation reflects an increase of approximately $83.6 million in the total pension liability as a result of the changes in assumptions including the change in the discount rate as required by GASB Statement No. 67.

(Continued)

Method and Assumptions Used in Calculation of the TRS's Annual Required Contributions

Unless otherwise noted above, the following actuarial methods and assumptions were used to determine contribution rates reported in the Schedule of the Employer's Contributions:

Inflation	2.50%
Investment rate of return	6.65%, net of investment expenses, including inflation
Municipal Bond Index	4.29%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Discount rate	4.33%
Projected salary increases	2.50% general wage inflation plus service-based merit increases. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66-2014.
Mortality	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: 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. 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 the rates in the UP-1994 Mortality Table for males and females. No provision was made for future mortality improvement for disabled retirees.

Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS)

Pension Benefits

Changes in Benefits Terms

On December 24, 2013, the Governor of Puerto Rico signed into law Act No. 162 of 2013 (Act No. 162). The Act included various changes applicable to all participants and retirees, as modified by the February 21, 2014 decision of the Puerto Rico Supreme Court which limited the effect of the reform as follows:

1. Members hired prior to December 24, 2013 maintain the existing benefits.

2. Members hired from December 24, 2013 to June 30, 2014 will accrue a maximum pension of 60% of salary and will contribute 10% of salary. In addition, the Christmas bonus, summer bonus and medication bonus were eliminated.

3. Members hired on or after July 1, 2014 will be covered by a contributory, hybrid plan with defined benefit and defined contribution components as follows:

   (a) Defined Benefit (DB) Provisions:

   - DB accrued benefit of 1.5% of the last 5-year final average earnings for each year of service.
   - Only judicial service counts towards service; prior government service is not included and cannot be transferred.
   - Normal retirement age of 65 with 12 years of service.
   - Early retirement age of 55 with 12 years of service, with an actuarial reduction of the DB accrued benefit if benefits commence early.
   - Deferred vested benefit after 12 years of service with benefits commencing at normal retirement age, provided member has not taken a lump sum withdrawal of DC component. Benefits may begin at early retirement age but would be reduced as specified above.
   - The monthly DB component benefit will be paid as a single life annuity.

   (b) Defined Contributions (DC) Provisions:

   - Member contributions of 12% of pay.
   - The member contributions are credited to a notional account each year.
   - Normal retirement age of 65 with 12 years of service.
   - Early retirement age of 55 with 12 years of service.

- Members who separate from employment with less than 12 years of service would receive their notional account as a lump sum.
- Members who separate from employment with 12 or more years of service would receive their benefit in the form of a mandatory annuity.
- Members who separate at or after early or normal retirement age would receive an immediate annuity.
- Members who separate prior to early retirement age for reasons other than disability would receive a deferred annuity commencing at early or normal retirement age, with interest credits continuing to accrue to the account during the deferral period.
- The mandatory annuity would be in the form of a "modified cash refund" of the member's notional account balance – which means that if the accumulated annuity payments at the time of post-retirement death are less than the account balance at the time of retirement, then the beneficiary would receive the remainder of the account balance.

(c) The death and disability benefits for these members are as follows:

- Beneficiaries of members who die while actively employed would receive a lump sum payment of the members' accumulated account balance at the time of death. No monthly benefit would be payable.
- Upon disability after 5 years of service and before age 65, the disability benefit, payable immediately, equals the smaller of (1) 33% of last 5-year final average compensation or (2) the sum of the DB accrued benefit (without reduction for early commencement) and the annuity derived from an immediate annuitization of the DC notional account.

In addition, Section 17 of Act No. 162 enacted an additional employer contribution. Beginning with fiscal year 2015, the JRS will receive an additional contribution as necessary to avoid having the projected gross assets of the System, during any subsequent fiscal year, to fall below $20 million. The JRS shall commission an actuarial evaluation to determine an annual additional contribution. The first annual additional contribution which corresponds to fiscal year 2015 was determined at $11.6 million and due by June 30, 2015.

Changes in Assumptions

Actuarial assumptions are revised periodically to more closely reflect actual, as well as anticipated future experience.

Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations. In fiscal year 2014, this difference resulted in a gain of $2 million.

Under GASB Statements No. 25 and No. 27, the investment return assumption was used to discount all projected Basic System Pension Benefits and System Administered Pension Benefits to determine the Actuarial Accrued Liability. Under GASB Statement No. 67, the investment return assumption is an input that is used in the calculation of the single equivalent interest rate that is used to discount these benefits to determine the Total Pension Liability.

The asset basis for the date of depletion projection is the JRS's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the JRS's fiduciary net position will be exhausted in the fiscal year 2018.

In addition, the date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 162 because of actual fiscal and budgetary financial difficulties with continued budget deficits and liquidity risks of the Commonwealth and in the event that their financial condition do not improve in the near term.

The JRS's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the discount rate for calculating the total pension liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the tax free municipal bond index rate (Bond Buyer General Obligation 20-Bond Municipal Bond Index) applied to benefit payments, to the extent that the JRS's fiduciary net position is not projected to be sufficient. The discount rates used to determine the annual required contribution and the total pension liability decreased from 6.30% at June 30, 2013 to 4.30% at June 30, 2014. For fiscal years 2008 to 2010 and for fiscal years 2011 and 2012, the discount rates were 7.50%, 6.60% and 6.10%, respectively.

Also, the fiscal year valuation reflects a salary freeze until July 1, 2017 due to Act No. 66.

Changes in Actuarial Methods since the Prior Valuation

The results of the actuarial valuation as of June 30, 2014 are based on projecting the JRS obligations determined as of the census data collection date of July 1, 2013 for one year using rollforward methods, assuming no liability gains or losses. However, the amount of the return of contributions due to former members was provided by the JRS as of June 30, 2014. Prior to June 30, 2014 actuarial valuation, its results were determined using the census data at year end.

The actuarial cost method was revised in fiscal year 2014 from projected unit credit (used in the actuarial valuations for fiscal year 2013 and before) to the entry age normal method to comply with the requirements of GASB Statement No. 67.

Method and Assumptions Used in Calculation of the JRS's Annual Required Contributions

Unless otherwise noted above, the following actuarial methods and assumptions were used to determine contribution rates reported in the Pension Benefits Schedule of the Employer's Contributions:

Asset valuation method	Market value of assets
Inflation	2.50%
Investment rate of return	5.35%, net of investment expenses, including inflation
Municipal bond index	4.29%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Discount rate	4.30%
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66.
Mortality	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 generational tables, it reflects mortality improvements both before and after the measurement date. Among deaths while in active service, 50% are assumed to be occupational and 50% are assumed to be nonoccupational. 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 generational tables, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: RP-2000 Disabled Annuitant Mortality Rates, without projection. No provision was made for future mortality improvement for disabled retirees.

(4) 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 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 2014 (including other financing uses) amounted to approximately $9.6 billion, including several special budget appropriations to the General Fund made by the Legislature throughout the year which amounted to approximately $4.2 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 U.S. 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 U.S. 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.

(5) Statutory (Budgetary) Accounting

The Commonwealth's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with U.S. 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 U.S. 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.

(6) Budget/U.S. 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, 2014 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	$	(288,719)
Entity differences-excess of revenues and other financing sources over expenditures and other financing uses		485,510
Timing differences:		
Adjustment for encumbrances		190,263
Current year expenditures against prior year encumbrances		(150,687)
Basis of accounting differences:		
Revenue accrual adjustment		(116,198)
Expenditures accrual adjustments		(418,383)
Deficiencies of revenues and other financing sources under expenditures and other financing uses – US GAAP basis	$	(298,214)

See accompanying independent auditor's report.

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

COMMONWEALTH OF PUERTO RICO

General Fund

Year ended June 30, 2014

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, 2014

(In thousands)

		Original budget	Amended budget	Actual
Expenditures - Current:				
General government:				
Senate of Puerto Rico	$	44,499	44,499	44,499
House of Representatives of Puerto Rico		52,875	52,875	52,875
Comptroller’s Office		43,000	43,000	43,000
Governor’s Office		19,351	21,005	20,505
Office of Management and Budget (1)		34,700	73,277	49,583
Planning Board		12,298	10,924	11,242
Department of State		5,863	5,457	4,773
Department of the Treasury (1)		479,473	413,646	426,430
Central Office of Personnel Administration		4,007	3,859	3,861
Commonwealth Elections Commission		41,245	35,514	52,305
Federal Affairs Administration		4,838	4,685	4,194
General Services Administration		200	200	268
Municipal Complaints Hearing Commission		4,945	4,854	5,693
Civil Rights Commission		1,193	1,157	1,003
Office of the Citizen’s Ombudsman		5,408	5,443	4,580
Government Ethics Board		10,290	10,290	10,290
Legislative Affairs Office		200	200	150
Office of the Superintendent of the Capitol		19,105	15,855	15,855
Legislative Affairs Office		18,172	17,972	18,022
Comptroller’s Special Reports Joint Commission		691	691	644
Legislative Donation Commission		22,707	1,107	1,298
Coordination Office for Special Communities of Puerto Rico		4,163	3,960	3,818
Corporation “Enlace” Caño Martín Peña		1,388	1,346	1,346
Puerto Rico Statistics Institute		1,861	1,831	1,831
Office for the Governmental’s Integrity and Efficiency		5,425	1,236	907
Permits Management Office		5,115	4,799	4,804
Permits Inspector General Office		5,178	4,729	4,283
Board for the Review of Permits and Use of Lands		1,201	1,301	1,278
Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico		391,773	391,773	334,650
Puerto Rico System of Annuities and Pensions for Teachers		126,692	126,692	132,864
Contributions to Political Parties		1,200	1,200	1,200
Public Buildings Authority		6,000	6,000	6,000
Procurement Administration Offices		1,724	843	618
Office of Elections Comptroller		4,179	4,179	4,262
Labor Development Administration		4,095	4,095	6,351
Telecomunication Board		2,000	2,000	2,000
Information and Technology Communication Office		23,183	731	530
Apellative Board of the Personnel System Administration		4,012	3,839	3,682
Total general government		1,414,249	1,327,064	1,281,494
Public safety:				
Puerto Rico General Court of Justice		348,798	348,798	351,341
Civil Defense		7,444	19,344	6,979
Commission of Investigation, Processing and Appeals Board		523	507	481
Department of Justice		140,120	123,117	121,278
Puerto Rico Police Department		829,857	807,094	817,075
Puerto Rico Firefighters Corps		69,918	66,058	66,639
Puerto Rico National Guard		22,406	19,491	18,481
Public Service Commission		6,069	5,873	5,749
Consumer Affairs Department		9,884	9,672	9,622
Natural Resources Administration		35,032	34,377	34,783
Department of Correction and Rehabilitation		443,877	431,612	430,383
Parole Board		2,551	2,480	2,521
Forensic Sciences Institute		16,678	16,194	16,281
Special Prosecutor Panel		2,859	2,859	2,815
Pre-Trial Services Office		7,491	7,435	7,290
Correctional Health		70,973	74,486	59,360
Medical Emergencies Service		24,821	25,382	26,295
Criminal Justice College		2,642	2,568	2,436
Total public safety		2,041,943	1,997,347	1,979,809

(Continued)

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2014

(In thousands)

	Original budget	Amended budget	Actual
Health:			
Environmental Quality Board	7,121	6,916	12,121
Department of Health	300,241	294,378	281,038
Mental Health and Drug Addiction Services Administration	102,935	103,627	104,591
Puerto Rico Solid Waste Authority	7,696	6,827	6,717
Puerto Rico Health Insurance Administration	906,130	905,960	894,553
Medical Services Administration	38,078	38,480	20,704
University of Puerto Rico Comprehensive Cancer Center	5,574	5,574	—
Total health	1,367,775	1,361,762	1,319,724
Public housing and welfare:			
Office of Youth Affairs	9,654	7,723	7,219
Department of Labor and Human Resources	16,584	21,602	13,912
Labor Relations Board	832	793	793
Department of Housing	18,294	17,574	17,389
Department of Recreation and Sports	37,038	39,512	39,709
Administration for the Horse Racing Sport and Industry	2,517	2,414	2,426
Women's Affairs Commission	4,564	4,475	3,880
Public Housing Administration	1,500	1,300	1,298
Office of the Veteran's Ombudsman	3,552	3,508	3,396
Department of Family	35,746	38,563	38,680
Family and Children Administration	175,922	174,725	170,656
Minors Support Administration	16,383	14,776	11,921
Vocational Rehabilitation Administration	17,902	17,583	17,755
Social Economic Development Administration	87,712	79,673	77,105
Office of the Disabled Persons Ombudsman	1,618	1,454	1,466
Office for Elderly Affairs	3,394	3,543	3,663
Company for the Integral Development of the Península de Cantera	574	564	564
Industries for the Blind, Mentally Retarded, and Other Disabled Persons of Puerto Rico	500	485	485
Patient Ombudsman	3,485	2,851	2,633
Administration for the Care and Development of the Childhood	16,393	15,678	15,457
Total public housing and welfare	454,164	448,796	430,407
Education:			
Department of Education	2,445,326	2,497,818	2,402,256
Institute of Puerto Rican Culture	27,044	29,345	29,899
Puerto Rico School of Plastics Arts	2,651	2,516	2,533
State Office for Historic Preservation	1,827	1,788	1,765
University of Puerto Rico	887,727	887,727	888,328
Musical Arts Corporation	8,204	7,987	8,004
Fine Arts Center Corporation	4,299	4,170	4,240
Puerto Rico Public Broadcasting Corporation	13,176	16,496	13,527
Athenaeum of Puerto Rico	1,200	1,200	1,200
Puerto Rico Conservatory of Music Corporation	7,672	7,472	7,472
Puerto Rico Council on Education	22,996	23,065	22,909
Total education	3,422,122	3,479,584	3,382,133

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2014

(In thousands)

		Original budget	Amended budget	Actual
Economic development:				
Department of Transportation and Public Works		52,506	60,544	57,916
Department of Natural and Environmental Resources		6,787	6,922	6,001
Department of Agriculture		31,450	51,380	19,364
Cooperative Enterprises Development Administration		3,063	3,233	3,234
Department of Economic Development and Commerce		2,000	2,000	1,901
Rural Development Corporation		—	—	—
Agricultural Enterprises Development Administration		93,190	91,860	82,797
Energy Affairs Administration		1,157	1,095	1,107
Puerto Rico Infrastructure Financing Authority		117,000	117,000	117,000
Puerto Rico Ports Authority		5,500	1,750	1,750
Puerto Rico Metropolitan Bus Authority		42,197	42,197	41,398
Puerto Rico Tourism Company		—	3,790	3,790
Culebra Conservation and Development Authority		324	324	313
National Parks Company of Puerto Rico		22,219	21,603	21,717
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico		535	510	430
Ports of Americas Authority		19,258	17,258	17,258
Local Redevelopment Authority for Roosevelt Roads Puerto Rico		910	1,810	900
Puerto Rico Maritime Transportation Authority		27,257	27,257	30,344
Total economic development		425,353	450,533	407,220
Intergovernmental – Municipal Services Administration		482,157	390,177	364,763
Total expenditures	$	9,607,763	9,455,263	9,165,550
Operating Transfer-out to Other Funds:				
Department of the Treasury – transfer to Debt Service Fund and other funds	$	162,237	162,237	737,639

(1) As a department and a fiscal agent.

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 under privileged 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, 2014

(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	$ 22,850	—	—	67	—	15,080	—	—	—	—	—	—	—	37,997
Cash and cash equivalents in governmental banks	97,128	5,085	—	18,383	—	—	—	—	1,602	71,052	—	—	—	193,250
Cash equivalents in PRGITF	—	—	—	—	—	—	—	—	—	80,725	—	—	—	80,725
Investments	—	—	—	15,406	—	—	—	—	—	—	—	—	—	15,406
Receivables – net of allowance for uncollectibles:														
Intergovernmental	8,713	—	—	—	—	—	—	—	—	—	—	3,530	—	12,243
Accounts	—	576	—	—	—	—	—	—	—	671	—	2,035	—	3,282
Loans	—	—	—	—	—	—	—	—	—	39	—	—	—	39
Accrued interest	—	—	73	1	442	—	2	—	—	—	—	—	—	518
Other	4,549	—	—	—	42,193	—	—	—	—	—	—	—	—	46,742
Due from:														
Other funds	—	3,638	641	—	—	—	22	—	—	—	—	27,296	(26,638)	4,959
Component units	17,698	—	—	—	—	—	—	—	—	—	—	—	—	17,698
Other governmental entities	13,072	49	—	—	—	—	—	—	—	—	—	—	—	13,121
Other assets	2,155	—	—	—	—	—	—	—	—	—	—	—	—	2,155
Restricted assets:														
Cash and cash equivalents in commercial banks	—	—	—	—	—	192,285	75,606	—	—	—	134,374	33,197	—	435,462
Cash and cash equivalents in governmental banks	—	14,453	107,148	—	—	—	—	—	37	—	15,140	34,473	—	171,251
Investments	—	134,844	—	—	108,568	—	3,138	—	—	—	—	628	—	247,178
Due from other funds	—	—	—	—	—	—	—	—	570	—	—	—	—	570
Due from other governmental entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Real estate held for sale or future development	198	—	—	—	—	—	—	—	—	1,854	—	—	—	2,052
Total assets	$ 166,363	158,645	107,862	33,857	151,203	207,365	78,768	—	2,209	154,341	149,514	101,159	(26,638)	1,284,648
Liabilities, Deferred Outflow of Resources and Fund Balances:														
Liabilities:														
Accounts payable and accrued liabilities	$ 11,042	15,543	22,908	570	—	—	—	—	142	36,026	23,032	34,285	—	143,548
Due to:														
Other funds	1,703	—	1,384	—	—	—	—	—	—	—	22,374	2,880	(26,638)	1,703
Other governmental entities	5,475	—	—	—	—	—	—	—	—	—	—	24,942	—	30,417
Component units	1,774	—	—	—	—	—	—	—	—	—	—	—	—	1,774
Bond anticipation notes payable	—	—	—	—	—	—	—	—	—	8,391	—	—	—	8,391
Bonds payable	—	—	—	—	—	76,760	—	—	—	—	—	—	—	76,760
Interest payable	—	—	—	—	—	120,718	—	—	570	—	—	—	—	121,288
Unearned revenue	9,831	—	—	—	—	—	—	—	—	—	—	—	—	9,831
Total liabilities	29,825	15,543	24,292	570	—	197,478	—	—	712	44,417	45,406	62,107	(26,638)	393,712
Deferred Intflow of Resources:														
Global tobacco setlement agreement	—	—	—	—	42,193	—	—	—	—	—	—	—	—	42,193
Total deferred intflow of resources	—	—	—	—	42,193	—	—	—	—	—	—	—	—	42,193
Fund balances:														
Non-spendable	—	134,844	—	—	—	—	—	—	—	—	—	—	—	134,844
Restricted for:														
Public housing and welfare	—	—	83,570	—	—	—	—	—	—	178,763	—	—	—	262,333
Debt service	—	—	—	—	109,010	9,887	78,768	—	—	—	—	—	—	197,665
Helath	—	—	—	—	—	—	—	—	—	109,404	—	—	—	109,404
Education	—	—	—	—	—	—	—	—	—	190,696	—	—	—	190,696
Economic development	—	—	—	—	—	—	—	—	—	884,979	—	—	—	884,979
Public safety	—	—	—	—	—	—	—	—	—	251,812	—	—	—	251,812
Capital projects	—	—	—	—	—	—	—	—	—	—	104,108	39,052	—	143,160
Committed to:														
Public housing and welfare	—	—	—	26,420	—	—	—	—	—	—	—	—	—	26,420
Assigned to:														
Public housing and welfare	—	—	—	6,867	—	—	—	—	—	—	—	—	—	6,867
Capital projects	136,538	8,258	—	—	—	—	—	—	—	—	—	—	—	144,796
Debt service	—	—	—	—	—	—	—	—	1,497	—	—	—	—	1,497
Unassigned	—	—	—	—	—	—	—	—	—	(1,505,730)	—	—	—	(1,505,730)
Total fund balances (deficit)	136,538	143,102	83,570	33,287	109,010	9,887	78,768	—	1,497	109,924	104,108	39,052	—	848,743
Total liabilities, deferred intflow of resources and fund balances	$ 166,363	158,645	107,862	33,857	151,203	207,365	78,768	—	2,209	154,341	149,514	101,159	(26,638)	1,284,648

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

Year ended June 30, 2014

(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	$ 1,652	(90,251)	421	23	3,384	—	168	—	2	—	—	117	—	(84,484)
Intergovernmental	—	—	—	—	—	35,883	—	—	—	—	—	—	—	35,883
Other	1,292	2,406	1,113	—	—	—	2,946	—	—	—	—	134	—	7,891
Total revenues	2,944	(87,845)	1,534	23	3,384	35,883	3,114	—	2	—	—	251	—	(40,710)
Expenditures:														
Current:														
General government	138,420	7,077	—	301	—	—	—	—	—	8,443	—	—	—	154,241
Public safety	—	—	—	—	—	—	—	—	—	723	—	—	—	723
Health	—	—	—	303	—	—	—	—	—	3,645	—	—	—	3,948
Public housing and welfare	—	—	11,587	2,179	—	—	—	—	—	3,358	—	—	—	17,124
Education	—	—	—	10	—	—	—	—	—	227	—	1,619	—	1,856
Economic development	—	—	—	—	—	—	—	—	98	35,320	—	4,714	—	40,132
Intergovernmental	—	—	—	147	—	—	—	—	—	4,511	—	—	—	4,658
Capital outlays	—	41	—	—	—	—	—	—	—	21,474	76,127	4,973	—	102,615
Debt service:														
Principal	177,257	—	—	—	26,480	76,760	35,895	14,562	—	—	—	—	—	330,954
Interest and other	15,858	—	—	—	50,569	228,796	79,489	18,150	6,836	—	—	—	—	399,698
Total expenditures	331,535	7,118	11,587	2,940	77,049	305,556	115,384	32,712	6,934	77,701	76,127	11,306	—	1,055,949
Deficiency of revenues under expenditures	(328,591)	(94,963)	(10,053)	(2,917)	(73,665)	(269,673)	(112,270)	(32,712)	(6,932)	(77,701)	(76,127)	(11,055)	—	(1,096,659)
Other financing sources (uses):														
Transfers in	630,670	118,049	164	4	72,130	259,565	113,293	32,712	135	228,848	—	4,795	(393,552)	1,066,813
Transfers out	(259,565)	(112,960)	—	—	(4)	—	—	—	—	(956)	(20,890)	(133)	393,552	(956)
Proceeds from long term debt issued	—	3,151	—	—	—	—	—	—	—	25,383	16,566	217	—	45,317
Total other financing sources	371,105	8,240	164	4	72,126	259,565	113,293	32,712	135	253,275	(4,324)	4,879	—	1,111,174
Net change in fund balances	42,514	(86,723)	(9,889)	(2,913)	(1,539)	(10,108)	1,023	—	(6,797)	175,574	(80,451)	(6,176)	—	14,515
Fund balances (deficit) – beginning of year (as restated)(note 3)	94,024	229,825	93,459	36,200	110,549	19,995	77,745	—	8,294	(65,650)	184,559	45,228	—	834,228
Fund balances (deficit) – end of year	$ 136,538	143,102	83,570	33,287	109,010	9,887	78,768	—	1,497	109,924	104,108	39,052	—	848,743

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, 2014

(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	$	—	—	176	—	176
Cash and cash equivalents in governmental banks		—	51,811	9,895	—	61,706
Insurance premiums receivables, net		—	3,005	1,164	—	4,169
Accrued interest receivable		—	49	—	—	49
Accounts Receivable		2,132	—	—	—	2,132
Other receivables		27	246	—	—	273
Due from other funds		—	—	2,999	—	2,999
Other assets		221	—	—	—	221
Investments		—	—	—	—	—
Restricted assets:						
Cash and cash equivalents in commercial banks		—	535	—	—	535
Cash and cash equivalents in governmental banks		31,464	—	—	33,220	64,684
Receivables		—	—	—	—	—
Accrued interest receivable		—	—	—	1,552	1,552
Loans receivable from component unit		—	—	—	7,258	7,258
Total current assets		33,844	55,646	14,234	42,030	145,754
Noncurrent assets:						
Loans receivable from component unit – restricted		—	—	—	151,726	151,726
Due from other funds		—	—	16,589	—	16,589
Restricted investments		—	38,735	—	—	38,735
Depreciable assets		4,060	156	—	—	4,216
Total assets		37,904	94,537	30,823	193,756	357,020
Liabilities and Net Position:						
Current liabilities:						
Accounts payable and accrued liabilities		2,158	609	183	190	3,140
Due to other funds		4,478	803	—	—	5,281
Due to other governmental entities		3,862	—	4	—	3,866
Unearned revenue		—	2,699	18	—	2,717
Compensated absences		624	438	255	—	1,317
Voluntary termination benefits payable		180	—	—	—	180
Insurance benefits payable		—	600	146	—	746
Total current liabilities		11,302	5,149	606	190	17,247
Noncurrent liabilities:						
Compensated absences		990	658	383	—	2,031
Voluntary termination benefits payable		557	—	—	—	557
Total liabilities		12,849	5,807	989	190	19,835
Net position:						
Net investment in capital assets		3,860	156	—	—	4,016
Restricted for lending activities			—	—	193,566	193,566
Restricted for payment of insurance benefits		—	38,669	—	—	38,669
Restricted for emergency services		10,173	—	—	—	10,173
Unrestricted		11,022	49,905	29,834	—	90,761
Total net position	$	25,055	88,730	29,834	193,566	337,185

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenues, Expenses, and Changes in Net Position Nonmajor Proprietary Funds

Year ended June 30, 2014

(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	$ 20,838	—	—	—	20,838
Insurance premiums	—	11,787	4,663	—	16,450
Interest	—	—	—	3,122	3,122
Total operating revenues	20,838	11,787	4,663	3,122	40,410
Operating expenses:					
Insurance benefits	—	1,968	885	—	2,853
General, administrative, and other operating expenses	12,031	6,029	3,584	843	22,487
Total operating expenses	12,031	7,997	4,469	843	25,340
Operating income (loss)	8,807	3,790	194	2,279	15,070
Nonoperating revenues (expenses):					
Contributions from U.S. government	—	—	—	9,084	9,084
Contributions to component unit	—	—	—	(3,580)	(3,580)
Interest and investment earnings	386	3,716	484	—	4,586
Total nonoperating revenues	386	3,716	484	5,504	10,090
Income (loss) before transfers	9,193	7,506	678	7,783	25,160
Transfers from other funds	—	—	—	1,801	1,801
Transfers to other funds	(11,615)	(4,488)	—	—	(16,103)
Net change in net position	(2,422)	3,018	678	9,584	10,858
Net position – beginning of year, as restated (see note 3 to the financial statement)	27,477	85,712	29,156	183,982	326,327
Net position – end of year	$ 25,055	88,730	29,834	193,566	337,185

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows – Nonmajor Proprietary Funds

Year ended June 30, 2014

(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	$ 20,532	11,832	4,590	—	36,954
Payments to suppliers and employees	(8,937)	(6,135)	(3,721)	(923)	(19,716)
Payments of insurance benefits	—	(2,026)	(902)	—	(2,928)
Net cash provided by (used in) operating activities	11,595	3,671	(33)	(923)	14,310
Cash flows from noncapital financing activities:					
Intergovernmental grants and contributions	—	—	—	9,084	9,084
Contributions to component unit	—	—	—	(3,580)	(3,580)
Transfers from other funds	—	—	—	1,801	1,801
Transfers to other funds	(13,002)	(4,488)	—	—	(17,490)
Net cash provided by (used in) noncapital financing activities	(13,002)	(4,488)	—	7,305	(10,185)
Cash flows from capital and related financing activities – capital expenditures	(306)	(50)	—	—	(356)
Cash flows from investing activities:					
Interest collected on deposits, investments and loans	386	2,239	9	3,062	5,696
Loans originated	—	—	—	(10,317)	(10,317)
Issuance of long-term debt	—	—	—	—	—
Principal collected on loans	—	—	5,000	5,743	10,743
Proceeds from sales and maturities of investments	12,180	9,634	—	—	21,814
Purchases of investments	—	(11,741)	—	—	(11,741)
Net cash provided by (used in) investing activities	12,566	132	5,009	(1,512)	16,195
Net decrease in cash and cash equivalents	10,853	(735)	4,976	4,870	19,964
Cash and cash equivalents – beginning of year	20,611	53,081	5,095	28,350	107,137
Cash and cash equivalents – end of year	$ 31,464	52,346	10,071	33,220	127,101
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ 8,807	3,790	194	2,279	15,070
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Interests earned on deposits, loans and investments	—	—	—	(3,123)	(3,123)
Depreciation	967	45	—	—	1,012
Provision for bad debts	—	—	—	—	—
Loss on disposition of capital assets	195	—	—	—	195
Changes in operating assets and liabilities:					
Increase in accounts receivable	(123)	(330)	(71)	—	(524)
Increase in other assets	(183)	—	—	—	(183)
Increase (decrease) in accounts payable and accrued liabilities	43	(72)	(1)	(79)	(109)
Increase (decrease) in due to other governmental entities	2,123	(38)	(46)	—	2,039
Increase in deferred revenues	—	375	(2)	—	373
Decrease in compensated absences	(59)	(41)	(90)	—	(190)
Decrease in termination benefits payable	(175)	—	—	—	(175)
Decrease) in liability for insurance benefits payable	—	(58)	(17)	—	(75)
Total adjustments	2,788	(119)	(227)	(3,202)	(760)
Net cash provided by (used in) operating activities	$ 11,595	3,671	(33)	(923)	14,310

Cash at en of year	—	—	—	—	—
Operating income (loss)	—	—	—	—	—
Net cash provided by operating activities	—	—	—	—	—

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.

(Continued)

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, 2014

(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	$ 117,161	—	14,205	—	2,545	—	133,911
Restricted	77,353	—	—	—	—	—	77,353
Cash and cash equivalents in governmental banks:							
Unrestricted	56,980	—	—	—	3,143	—	60,123
Restricted	17,998	—	3,301	—	—	—	21,299
Collateral from securities lending transactions	126,648	—	15,152	—	827	—	142,627
Investments at fair value:							
Bonds and notes	1,337,292	—	649,774	—	19,232	—	2,006,298
Nonexchange commingled trust funds	750,482	—	503,619	—	39,896	—	1,293,997
Stocks	102	—	92,900	—	—	—	93,002
Investments in limited partnerships	54,146	—	11,170	—	—	—	65,316
Receivables – net:							
Accounts	221,555	—	—	—	283	—	221,838
Loans and advances	619,379	—	420,544	—	542	—	1,040,465
Accrued interest and dividends	20,476	—	10,457	—	175	—	31,108
Other	23,929	—	14,704	—	26	—	38,659
Capital assets – net	11,211	—	17,325	—	—	—	28,536
Other assets	5,695	—	846	—	—	—	6,541
Total assets	3,440,407	—	1,753,997	—	66,669	—	5,261,073
Liabilities:							
Accounts payable and accrued liabilities	31,245	—	25,572	—	190	—	57,007
Securities lending obligations	126,648	—	15,152	—	827	—	142,627
Interest payable	13,876	—	—	—	—	—	13,876
Other liabilities	63,563	—	9,494	—	3,573	—	76,630
Bonds payable	3,077,587	—	—	—	—	—	3,077,587
Total liabilities	3,312,919	—	50,218	—	4,590	—	3,367,727
Net position – held in trust for pension benefits	$ 127,488	—	1,703,779	—	62,079	—	1,893,346

COMMONWEALTH OF PUERTO RICO

Combining Statement of Changes in Fiduciary Net Position – Pension Trust Funds

Year ended June 30, 2014

(In thousands)

	Pension Trust Funds						
	ERS		TRS		JRS		
	Pension	Postemployment healthcare benefits	Pension	Postemployment healthcare benefits	Pension	Postemployment healthcare benefits	Total
Additions:							
Contributions:							
Sponsor	$ 485,114	—	139,453	—	10,762	—	635,329
Participants	359,862	—	119,592	—	3,804	—	483,258
Special	174,910	102,085	49,914	35,892	1,230	302	364,333
Total contributions	1,019,886	102,085	308,959	35,892	15,796	302	1,482,920
Investment income and investment expense:							
Interest	103,005	—	64,011	—	842	—	167,858
Dividends	75	—	2,148	—	—	—	2,223
Net change in fair value of investments	125,205	—	126,992	—	8,871	—	261,068
Investment expenses	(3,280)	—	(3,128)	—	—	—	(6,408)
Net investment income	225,005	—	190,023	—	9,713	—	424,741
Other income	29,413	—	1,416	—	210	—	31,039
Total additions	1,274,304	102,085	500,398	35,892	25,719	302	1,938,700
Deductions:							
Pension and other benefits	1,432,630	102,085	672,991	35,892	21,607	302	2,265,507
Refunds of contributions	166,335	—	10,707	—	230	—	177,272
General and administrative	56,265	—	19,803	—	815	—	76,883
Interest on bonds payable	192,947	—	—	—	—	—	192,947
Total deductions	1,848,177	102,085	703,501	35,892	22,652	302	2,712,609
Net change in net position held in trust for pension benefits	(573,873)	—	(203,103)	—	3,067	—	(773,909)
Net position held in trust for pension benefits:							
Beginning of year as previously reported	731,342	—	1,906,882	—	59,012	—	2,697,236
Effect of adoption of GASB							
Statement No. 65 (see note 3)	(29,981)	—	—	—	—	—	(29,981)
Beginning of year as adjusted	701,361	—	1,906,882	—	59,012	—	2,667,255
End of year	$ 127,488	—	1,703,779	—	62,079	—	1,893,346

COMMONWEALTH OF PUERTO RICO

Combining Statement of Changes in Assets and Liabilities – Agency Funds

Year ended June 30, 2014

(In thousands)

Assets		**Balance at June 30, 2013**	**Additions**	**Deletions**	**Balance at June 30, 2014**
Cash and cash equivalents in commercial banks	$	666,244	1,229,900	1,323,008	573,136
Cash and cash equivalents in governmental banks		433,944	14,247,030	14,380,672	300,302
Total assets	$	1,100,188	15,476,930	15,703,680	873,438
Liabilities					
Accounts payable and accrued liabilities	$	1,100,188	15,476,930	15,703,680	873,438
Total liabilities	$	1,100,188	15,476,930	15,703,680	873,438

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Year ended June 30, 2014

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, 2014

(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	$ —	15,890	10,163	1,706	498	46
Cash and cash equivalents in governmental banks	—	—	—	—	—	972
Investments	—	155,265	—	—	—	528
Collateral from securities lending transactions	—	—	—	—	—	—
Receivables – net:						
Insurance premiums	—	1,087	—	—	—	—
Intergovernmental	—	—	—	—	—	—
Accounts	2,142	—	2,507	—	—	—
Loans and advances	—	—	—	5,676	—	733
Accrued interest	—	654	—	—	—	—
Other governmental entities	68	639	1,681	687	573	553
Other	62	1,631	974	23	—	—
Due from:						
Primary government	46,061	—	—	38,642	—	—
Component units	—	—	—	—	—	—
Inventories	6,706	—	2,396	—	—	—
Prepaid expenses	962	—	427	34	—	75
Restricted assets:						
Cash and cash equivalents in commercial banks	24,454	515	—	—	86	1,338
Cash and cash equivalents in governmental banks	16,900	—	—	—	—	11,742
Investments	—	—	—	—	—	—
Other restricted assets	—	—	—	497	—	—
Deferred expenses and other assets	—	248	—	—	—	—
Real estate held for sale or future development	—	—	—	847	—	—
Capital assets, not being depreciated	3,739	1,026	103	80	1,073	—
Capital assets, depreciable – net	23,503	5,002	17,064	44	1,424	51
Total assets	124,597	181,957	35,315	48,236	3,654	16,038
Deferred outflows of resources:						
Accumulated decrease in fair value of hedging derivatives	—	—	—	—	—	—
Loss on bonds refunding	—	—	—	—	—	—
Total assets and deferred outflows of resources	124,597	181,957	35,315	48,236	3,654	16,038
Liabilities:						
Accounts payable and accrued liabilities	39,769	5,799	27,394	2,245	400	144
Deposits and escrow liabilities	—	—	—	—	—	—
Due to:						
Primary government	—	—	17,698	—	—	—
Component units	114,155	—	17,279	34,875	—	—
Other governmental entities	4,403	317	1,382	1,402	—	302
Securities lending obligations and reverse repurchase agreements	—	—	—	—	—	—
Interest payable	—	—	—	2,364	—	—
Unearned revenue	854	37,840	—	—	—	—
Liability for automobile accident insurance, workmen compensation and medical claims	—	93,979	—	—	—	—
Liabilities payable within one year:						
Notes payable	18,555	—	—	—	—	—
Bonds payable	—	—	—	—	—	—
Accrued compensated absences	2,555	3,327	3,492	72	97	81
Voluntary termination benefits payable	2,650	—	—	—	—	—
Capital leases	—	—	—	—	—	—
Other long-term liabilities	744	—	2,847	—	—	—
Liabilities payable after one year:						
Notes payable	—	—	—	—	—	—
Commonwealth appropriation bonds	—	—	—	—	—	—
Bonds payable	—	—	—	—	—	—
Accrued compensated absences	2,805	—	—	—	54	—
Voluntary termination benefits payable	22,286	—	—	—	—	—
Capital leases	—	—	—	—	—	—
Other long-term liabilities	—	5,311	5,038	—	—	—
Total liabilities	208,776	146,573	75,130	40,958	551	527
Deferred inflows of resources:						
Service concession arrangements	—	—	—	—	—	—
Total liabilities and deferred inflows of resources	208,776	146,573	75,130	40,958	551	527
Net Position:						
Net Investment in capital assets	27,242	6,028	17,167	124	2,498	—
Restricted for:						
Trust – nonexpendable	—	—	—	—	—	—
Capital projects	191,660	—	—	—	—	—
Debt service	—	—	—	—	—	—
Student loans and other educational purpose	—	—	—	—	—	—
Other specified purposes	—	—	—	497	85	16,551
Unrestricted (deficit)	(303,081)	29,356	(56,982)	6,657	520	(1,040)
Total net position	$ (84,179)	35,384	(39,815)	7,278	3,103	15,511

(Continued)

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2014

(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	$ 4,224	654	948	—	2,824	620	—
Cash and cash equivalents in governmental banks	—	1,121	27,873	219	485	642	56
Investments	—	—	—	—	—	—	—
Collateral from securities lending transactions	—	—	—	—	—	—	—
Receivables – net:							
Insurance premiums	—	—	—	—	—	—	—
Intergovernmental	482	—	—	—	—	—	—
Accounts	223	1,118	17,608	89	43	182	1
Loans and advances	—	—	—	—	—	—	—
Accrued interest	—	628	—	—	—	—	—
Other governmental entities	—	—	1,081	480	118	22	—
Other	—	158	339	—	—	—	—
Due from:							
Primary government	—	—	11,603	—	—	8,805	—
Component units	—	—	13,221	—	—	—	—
Inventories	1,948	—	—	—	—	—	—
Prepaid expenses	—	55	17	402	—	54	—
Restricted assets:							
Cash and cash equivalents in commercial banks	7,812	—	—	27	114	46	—
Cash and cash equivalents in governmental banks	1,974	—	—	—	576	11,092	500
Investments	—	37,177	—	—	—	—	—
Other restricted assets	—	—	—	—	—	—	—
Deferred expenses and other assets	—	—	7,673	—	—	—	—
Real estate held for sale or future development	—	—	—	—	—	—	—
Capital assets, not being depreciated	916	7,887	88,330	16,545	568	18,558	356,844
Capital assets, depreciable – net	55,233	12,770	8,512	4	136	138,779	—
Total assets	72,812	61,568	177,205	17,766	4,864	178,800	357,401
Deferred outflows of resources:							
Accumulated decrease in fair value of hedging derivatives	—	—	—	—	—	—	—
Loss on bonds refunding	—	—	—	—	—	—	—
Total assets and deferred outflows of resources	72,812	61,568	177,205	17,766	4,864	178,800	357,401
Liabilities:							
Accounts payable and accrued liabilities	953	1,599	4,539	907	359	1,560	5,681
Deposits and escrow liabilities	—	—	2,252	650	—	—	—
Due to:							
Primary government	—	—	—	—	—	13,322	—
Component units	3,291	—	34,409	—	—	13,200	226,564
Other governmental entities	—	—	16,700	16,345	486	581	84
Securities lending obligations and reverse repurchase agreements	—	—	—	—	—	—	—
Interest payable	66	—	1,719	—	—	323	14,475
Unearned revenue	75	—	3,948	—	579	210	—
Liability for automobile accident insurance, workmen compensation and medical claims	—	—	—	—	—	—	—
Liabilities payable within one year:							
Notes payable	—	—	—	—	—	—	—
Bonds payable	—	—	—	—	—	—	—
Accrued compensated absences	73	25	965	104	584	247	8
Voluntary termination benefits payable	609	—	—	—	62	1,396	—
Capital leases	—	—	—	—	—	—	—
Other long-term liabilities	—	—	2,817	—	—	—	—
Liabilities payable after one year:							
Notes payable	—	—	—	—	—	—	—
Commonwealth appropriation bonds	—	—	55,818	—	—	—	—
Bonds payable	—	—	—	—	—	—	—
Accrued compensated absences	1,480	—	1,110	—	216	4,693	—
Voluntary termination benefits payable	4,709	—	—	—	782	10,291	—
Capital leases	—	—	—	—	—	—	—
Other long-term liabilities	—	—	37,950	—	6,602	2,621	—
Total liabilities	11,256	1,624	162,227	18,006	9,670	48,444	246,812
Deferred inflows of resources:							
Service concession arrangements	—	—	—	—	—	—	—
Total liabilities and deferred inflows of resources	11,256	1,624	162,227	18,006	9,670	48,444	246,812
Net Position:							
Net Investment in capital assets	52,858	20,657	96,842	203	704	151,731	110,602
Restricted for:							
Trust – nonexpendable	—	—	—	—	—	—	—
Capital projects	4,333	—	—		—	9,417	—
Debt service	—	—	—	—	—	—	—
Student loans and other educational purpose	—	—	—	—	—	—	—
Other specified purposes	5,058	32,465	—	270	690	—	—
Unrestricted (deficit)	(693)	6,822	(81,864)	(713)	(6,200)	(30,792)	(13)
Total net position	$ 61,556	59,944	14,978	(240)	(4,806)	130,356	110,589

(Continued)

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2014
(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	$ 34	75	3,715	1	7,027	3,235
Cash and cash equivalents in governmental banks	578	—	1,517	232	—	—
Investments	—	—	691,309	—	—	—
Collateral from securities lending transactions	—	—	55,727	—	—	—
Receivables – net:						
Insurance premiums	—	—	—	—	—	—
Intergovernmental	—	—	—	—	—	—
Accounts	20	1	—	—	—	111
Loans and advances	—	—	304,053	—	—	—
Accrued interest	—	—	9,310	—	—	—
Other governmental entities	96	—	776	166	3,095	110
Other	—	—	—	—	64	—
Due from:						
Primary government	—	—	—	—	—	—
Component units	—	—	—	—	4,958	—
Inventories	198	—	—	86	—	—
Prepaid expenses	—	—	—	—	18	107
Restricted assets:						
Cash and cash equivalents in commercial banks	—	24	924	—	213	—
Cash and cash equivalents in governmental banks	117	—	—	—	—	—
Investments	—	—	—	—	—	—
Other restricted assets	—	—	6,534	—	—	—
Deferred expenses and other assets	—	—	7,568	—	—	—
Real estate held for sale or future development	—	—	—	—	—	—
Capital assets, not being depreciated	—	640	2,735	—	—	3,179
Capital assets, depreciable – net	247	249	6,078	43	146	14,355
Total assets	1,290	989	1,090,246	528	15,521	21,097
Deferred outflows of resources:						
Accumulated decrease in fair value of hedging derivatives	—	—	—	—	—	—
Loss on bonds refunding	—	—	—	—	—	—
Total assets and deferred outflows of resources	1,290	989	1,090,246	528	15,521	21,097
Liabilities:						
Accounts payable and accrued liabilities	199	68	2,855	707	321	536
Deposits and escrow liabilities	—	—	411,684	—	—	140
Due to:						
Primary government	—	—	—	—	—	—
Component units	—	—	8,923	—	4,992	—
Other governmental entities	—	—	—	—	1,974	—
Securities lending obligations and reverse					—	
repurchase agreements	—	—	45,690	—	—	—
Interest payable	—	—	7,541	—	—	—
Unearned revenue	364	—	—	87	3,668	
Liability for automobile accident insurance, workmen compensation and medical claims	—	—	—	—	—	—
Liabilities payable within one year:						
Notes payable	—	—	—	—	—	—
Bonds payable	—	—	—	—	—	—
Accrued compensated absences	120	62	—	217	508	233
Voluntary termination benefits payable	—	12	—	—	—	254
Capital leases	—	2	—	—	—	—
Other long-term liabilities	—	—	—	2,018	—	—
Liabilities payable after one year:						
Notes payable	—	—	441,215	—	—	—
Commonwealth appropriation bonds	—	—	—	—	—	—
Bonds payable	—	—	—	—	—	—
Accrued compensated absences	—	—	2,050	—	—	300
Voluntary termination benefits payable	—	125	—	—	—	2,418
Capital leases	—	1	—	—	—	—
Other long-term liabilities	—	—	4,291	—	—	—
Total liabilities	683	270	924,249	3,029	11,463	3,881
Deferred inflows of resources:						
Service concession arrangements	—	—	—	—	—	—
Total liabilities and deferred inflows of resources	683	270	924,249	3,029	11,463	3,881
Net Position:						
Net Investment in capital assets	247	889	(110)	42	146	16,963
Restricted for:						
Trust – nonexpendable	—	—	—	—	—	—
Capital projects	—	—	—	—	—	—
Debt service	—	—	—	—	—	—
Student loans and other educational purpose	—					—
Other specified purposes	—	18	18,077	—	—	—
Unrestricted (deficit)	360	(188)	148,030	(2,543)	3,912	253
Total net position	$ 607	719	165,997	(2,501)	4,058	17,216

(Continued)

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2014
(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	$ 2,932	166	8,127	106	16,440	—
Cash and cash equivalents in governmental banks	582	—	5,121	1,646	26,766	—
Investments	229,617	—	—	—	4,093	—
Collateral from securities lending transactions	—	—	—	—	—	—
Receivables – net:						
Insurance premiums	—	—	—	—	—	—
Intergovernmental	—	—	—	—	897	—
Accounts	—	—	12,288	—	14,802	—
Loans and advances	3,300	—	1,356	—	29	—
Accrued interest	2,328	—	—	—	—	1
Other governmental entities	40	37	767	—	6,612	—
Other	281	906	—	764	—	—
Due from:						
Primary government	—	—	—	5,183	—	—
Component units	—	—	4,471	—	—	—
Inventories	—	—	—	—	—	—
Prepaid expenses	—	6	1,345	—	2,169	—
Restricted assets:						
Cash and cash equivalents in commercial banks	—	2,676	161	—	—	—
Cash and cash equivalents in governmental banks	—	—	476	4,930	—	9,541
Investments	—	—	57,548	—	31,718	—
Other restricted assets	—	—	—	—	—	—
Deferred expenses and other assets	—	—	9,827	—	—	—
Real estate held for sale or future development	—	—	—	—	—	—
Capital assets, not being depreciated	—	5,157	289,710	—	250,235	—
Capital assets, depreciable – net	2,694	78,223	405,623	178	409,656	—
Total assets	241,774	87,171	796,820	12,807	763,417	9,542
Deferred outflows of resources:						
Accumulated decrease in fair value of hedging derivatives	—	—	—	—	—	—
Loss on bonds refunding	—	—	—	—	—	—
Total assets and deferred outflows of resources	241,774	87,171	796,820	12,807	763,417	9,542
Liabilities:						
Accounts payable and accrued liabilities	29,703	2,042	7,787	462	35,869	75
Deposits and escrow liabilities	—	—	2,131	—	7,073	—
Due to:						
Primary government	—	—	—	—	7,825	—
Component units	—	1,114	147,388	—	88,631	—
Other governmental entities	651	45	—	—	—	—
Securities lending obligations and reverse repurchase agreements	—	—	—	—	—	—
Interest payable	—	11	13,203	—	3,405	—
Unearned revenue	—	850	6,766	—	—	—
Liability for automobile accident insurance, workmen compensation and medical claims	—	—	—	—	—	—
Liabilities payable within one year:						
Notes payable	—		—	—	7,554	—
Bonds payable	—	—	10,275	—	10,020	—
Accrued compensated absences	1,907	309	172	116	5,634	—
Voluntary termination benefits payable	—	20	—	117	939	—
Capital leases	—	—	—	—	76	—
Other long-term liabilities	—	702	—	—	—	—
Liabilities payable after one year:						
Notes payable	—	—	—	—	71,628	—
Commonwealth appropriation bonds	—	—	—	—	—	—
Bonds payable	—	—	415,059	—	179,339	—
Accrued compensated absences	—	555	—	560	—	—
Voluntary termination benefits payable	—	94	—	1,423	8,015	—
Capital leases	—	—	—	—	146	—
Other long-term liabilities	—	—	—	—	—	—
Total liabilities	32,261	5,742	602,781	2,678	426,154	75
Deferred inflows of resources:						
Service concession arrangements	—	—	—	—	—	—
Total liabilities and deferred inflows of resources	32,261	5,742	602,781	2,678	426,154	75
Net Position:						
Net Investment in capital assets	2,694	83,423	111,358	178	393,732	—
Restricted for:						
Trust – nonexpendable	—	—	—	—	—	—
Capital projects	—	1,085	4,352			
Debt service	—	—	53,832	—	19,577	—
Student loans and other educational purpose	—	1,023	—	5,320	—	—
Other specified purposes	85,532	—	—	—	—	—
Unrestricted (deficit)	121,287	(4,102)	24,497	4,631	(76,046)	9,467
Total net position	$ 209,513	81,429	194,039	10,129	337,263	9,467

(Continued)

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2014

(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	$ —	16	—	9,756	2,907	—
Cash and cash equivalents in governmental banks	584	14	—	5,161	7,214	3,991
Investments	—	—	—	40,255	—	18,583
Collateral from securities lending transactions	—	—	—	—	—	—
Receivables – net:						
Insurance premiums	—	—	—	—	—	—
Intergovernmental	—	—	—	—	—	159
Accounts	—	132	—	9,794	1,749	—
Loans and advances	—	—	—	1,200	—	—
Accrued interest	—	—	1	—	3,414	—
Other governmental entities	—	—	—	877	433	1,334
Other	—	—	—	525	—	528
Due from:						
Primary government	—	—	—	—	—	1,130
Component units	—	—	—	—	—	—
Inventories	—	—	—	—	—	—
Prepaid expenses	—	—	—	127	93	—
Restricted assets:						
Cash and cash equivalents in commercial banks	—	3	—	—	7,398	—
Cash and cash equivalents in governmental banks	—	597	11,979	—	1,276	9,361
Investments	—	2,407	—	—	251,426	—
Other restricted assets	—	—	—	—	—	—
Deferred expenses and other assets	40	—	—	—	—	556
Real estate held for sale or future development	—	—	—	—	—	—
Capital assets, not being depreciated	—	—	—	12,542	60,275	21,797
Capital assets, depreciable – net	17	7,598	—	18,742	51,752	98,047
Total assets	641	10,767	11,980	98,979	387,937	155,486
Deferred outflows of resources:						
Accumulated decrease in fair value of hedging derivatives	—	—	—	—	—	—
Loss on bonds refunding	—	—	—	1,677	—	—
Total assets and deferred outflows of resources	641	10,767	11,980	100,656	387,937	155,486
Liabilities:						
Accounts payable and accrued liabilities	2,637	947	14	35,918	3,713	3,911
Deposits and escrow liabilities	—	—	—	—	—	—
Due to:						
Primary government	—	—	—	2,583	—	—
Component units	—	—	—	11,205	1,442	76,641
Other governmental entities	1,722	—	—	—	—	8,129
Securities lending obligations and reverse repurchase agreements	—	—	—	—	—	—
Interest payable	—	—	—	1,032	3,173	5,241
Unearned revenue	—	—	—	7,504	—	—
Liability for automobile accident insurance, workmen compensation and medical claims	—	—	—	—	—	—
Liabilities payable within one year:						
Notes payable	—	—	—	—	541	—
Bonds payable	—	—	—	—	—	—
Accrued compensated absences	52	167	—	2,253	559	295
Voluntary termination benefits payable	—	120	—	646	353	464
Capital leases	—	—	—	68	53	—
Other long-term liabilities	—	—	—	—	—	—
Liabilities payable after one year:						
Notes payable	—	—	—	—	265,511	—
Commonwealth appropriation bonds	—	—	—	45,298	—	7,821
Bonds payable	—	—	—	—	—	—
Accrued compensated absences	—	285	—	4,818	1,409	340
Voluntary termination benefits payable	—	213	—	6,144	2,005	5,210
Capital leases	—	—	—	—	96	—
Other long-term liabilities	—	—	6,754	50	4,593	—
Total liabilities	4,411	1,732	6,768	117,519	283,448	108,052
Deferred inflows of resources:						
Service concession arrangements	—	—	—	—	—	—
Total liabilities and deferred inflows of resources	4,411	1,732	6,768	117,519	283,448	108,052
Net Position:						
Net Investment in capital assets	17	7,598	—	31,216	97,401	45,817
Restricted for:						
Trust – nonexpendable			—	—	—	
Capital projects	—	—				—
Debt service	—	—	—	3,000	—	—
Student loans and other educational purpose	—	2,407	—	—	—	—
Other specified purposes	—	—	—	—	7,297	1,357
Unrestricted (deficit)	(3,787)	(970)	5,212	(51,079)	(209)	260
Total net position	$ (3,770)	9,035	5,212	(16,863)	104,489	47,434

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2014

(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	$ 791	1,373	2,756	—	2,569	$ 1,950
Cash and cash equivalents in governmental banks	22,782	—	4,188	3,333	2,042	—
Investments	26,654	—	—	—	—	—
Collateral from securities lending transactions	—	—	—	—	—	—
Receivables – net:						
Insurance premiums	—	—	—	—	—	—
Intergovernmental	—	17	—	—	—	97
Accounts	343	51	2,442	—	31,014	267
Loans and advances	—	—	—	—	—	—
Accrued interest	—	—	—	—	—	—
Other governmental entities	815	288	—	—	—	179
Other	—	—	11	—	271	29
Due from:						
Primary government	—	—	1,600	—	14,750	—
Component units	1,306	—	3,938	—	46,148	—
Inventories	—	59	3,876	—	—	—
Prepaid expenses	817	2,285	1,355	43	5,008	—
Restricted assets:						
Cash and cash equivalents in commercial banks	—	—	—	16,520	5,965	1,486
Cash and cash equivalents in governmental banks	399	—	—	—	26,579	—
Investments	—	—	—	884,481	30,022	—
Other restricted assets	—	—	—	20,550	25,351	—
Deferred expenses and other assets	—	—	542	5,186	4,078	83
Real estate held for sale or future development	160,586	—	—	—	—	—
Capital assets, not being depreciated	30,312	1,069	2,500	—	427,483	83
Capital assets, depreciable – net	8,180	66,245	34,844		704,017	8,485
Total assets	252,985	71,387	58,052	930,113	1,325,297	12,659
Deferred outflows of resources:						
Accumulated decrease in fair value of hedging derivatives	—	—	—	—	—	—
Loss on bonds refunding	—	—	—	4,884	14,623	—
Total assets and deferred outflows of resources	252,985	71,387	58,052	934,997	1,339,920	12,659
Liabilities:						
Accounts payable and accrued liabilities	1,069	10,116	12,538	569	77,381	2,979
Deposits and escrow liabilities	33,945	—	—	44,558	1,381	—
Due to:						
Primary government	1,151	1,471	30,474	—	37,483	—
Component units	—	41,799	7,044	—	301,719	—
Other governmental entities	1,333	41,977	16,808	5,981	5,782	—
Securities lending obligations and reverse repurchase agreements	—	—	—	—	—	—
Interest payable	—	—	—	17,164	9,447	—
Unearned revenue	4,922	—	—	—	1,790	—
Liability for automobile accident insurance, workmen compensation and medical claims	—	—	—	—	—	—
Liabilities payable within one year:						
Notes payable	—	—	32,042	—	2,923	—
Bonds payable	—	—	—	91,615	550	—
Accrued compensated absences	720	1,209	3,684	—	—	855
Voluntary termination benefits payable	403	347	1,016	—	2,522	431
Capital leases	—	—	—	—	—	—
Other long-term liabilities	—	—	—	—	—	—
Liabilities payable after one year:						
Notes payable	—	—	—	—	10,432	—
Commonwealth appropriation bonds	—	—	—	—	—	—
Bonds payable	—	—	—	726,029	200,192	—
Accrued compensated absences	—	1,057	1,186	—	—	1,357
Voluntary termination benefits payable	3,038	3,596	7,268	—	26,534	4,119
Capital leases	—	—	—	—	—	—
Other long-term liabilities	—	212	10,490	—	2,696	—
Total liabilities	46,581	101,784	122,550	885,916	680,832	9,741
Deferred inflows of resources:						
Service concession arrangements	—	—	—	—	605,404	—
Total liabilities and deferred inflows of resources	46,581	101,784	122,550	885,916	1,286,236	9,741
Net Position:						
Net Investment in capital assets	8,181	67,314	37,344	—	653,548	8,568
Restricted for:						
Trust – nonexpendable	—	—	—	—		
Capital projects					87,917	—
Debt service	—	—	—	90,833	—	—
Student loans and other educational purpose	—	—	—	—	—	—
Other specified purposes	399	—	—	—	—	1,485
Unrestricted (deficit)	197,824	(97,711)	(101,842)	(41,752)	(687,781)	(7,135)
Total net position	$ 206,404	(30,397)	(64,498)	49,081	53,684	2,918

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2014

(In thousands)

		University of Puerto Rico Comprehensive Cancer Center	Nonmajor Component Units Total
Assets:			
Cash and cash equivalents in commercial banks	$	10,892	112,441
Cash and cash equivalents in governmental banks		774	117,893
Investments		—	1,166,304
Collateral from securities lending transactions		—	55,727
Receivables – net:			
Insurance premiums		—	1,087
Intergovernmental		695	2,347
Accounts		—	96,927
Loans and advances		—	316,347
Accrued interest		—	16,336
Other governmental entities		773	22,300
Other		—	6,566
Due from:			
Primary government		—	127,774
Component units		—	74,042
Inventories		—	15,269
Prepaid expenses		128	15,527
Restricted assets:			
Cash and cash equivalents in commercial banks		47	69,809
Cash and cash equivalents in governmental banks		395	108,434
Investments		—	1,294,779
Other restricted assets		—	52,932
Deferred issue cost		—	—
Deferred expenses and other assets		—	35,801
Real estate held for sale or future development		—	161,433
Capital assets, not being depreciated		28,529	1,631,915
Capital assets, depreciable – net		20,662	2,198,603
Total assets		62,895	7,700,593
Deferred outflows of resources:			
Accumulated decrease in fair value of hedging derivatives		—	—
Loss on bonds refunding		—	21,184
Total assets and deferred outflows of resources		62,895	7,721,777
Liabilities:			
Accounts payable and accrued liabilities		13,269	337,034
Deposits and escrow liabilities		—	503,814
Due to:			
Primary government		—	112,007
Component units		33,029	1,167,700
Other governmental entities		—	126,404
Securities lending obligations and reverse repurchase agreements		—	45,690
Interest payable		—	79,164
Deferred revenue		—	69,457
Liability for automobile accident insurance, workmen compensation and medical claims		—	93,979
Unearned revenue			
Notes payable		—	61,615
Bonds payable		—	112,460
Accrued compensated absences		298	31,000
Voluntary termination benefits payable		—	12,361
Capital leases		—	199
Other long-term liabilities		—	9,128
Liabilities payable after one year:			
Notes payable		—	788,786
Commonwealth appropriation bonds		—	108,937
Bonds payable		—	1,520,619
Accrued compensated absences		88	24,363
Voluntary termination benefits payable		—	108,270
Capital leases		—	243
Other long-term liabilities		—	86,608
Total liabilities		46,684	5,399,838
Deferred inflows of resources:			
Service concession arrangements		—	605,404
Total liabilities and deferred inflows of resources		46,684	6,005,242
Net Position:			
Net Investment in capital assets		21,005	2,074,227
Restricted for:			
Trust – nonexpendable			
Capital projects		443	299,207
Debt service		—	167,242
Student loans and other educational purpose		—	8,750
Other specified purposes		—	169,781
Unrestricted (deficit)		(5,237)	(1,002,672)
Total net position	$	16,211	1,716,535

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Activities

Year ended June 30, 2014

(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	Effect of adoption of GASB Statement No. 65 (see note 3)	Adjustments to correct prior year errors (see note 3)	Net position – beginning of year, as adjusted	Net position end of year
Agricultural Enterprises Development Administration	$ 187,909	109,734	—	2,022	(76,153)	84,472	—	—	—	45	1,247	9,611	(97,017)	—	3,227	(93,790)	(84,179)
Automobile Accidents Compensation Administration	84,319	84,559	—	—	240	(1,713)	—	—	—	16,765	—	15,292	20,092	—	—	20,092	35,384
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	89,139	82,648	—	—	(6,491)	—	—	—	—	70	2,879	(3,542)	(36,273)	—	—	(36,273)	(39,815)
Company for the Integral Development of the "Península de Cantera"	10,338	—	10,725	—	387	—	—	2	—	60	—	449	6,829	—	—	6,829	7,278
Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Pueto Rico	1,130	652	—	—	(478)	485	—	—	—	—	—	7	600	—	—	600	607
Corporation for the "Caño Martin Peña" Enlace Project	7,201		231		(6,970)	4,088				2	3	(2,877)	5,980	—	—	5,980	3,103
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	2,206	512	—	—	(1,694)	3,689	—	—	—	—	61	2,056	13,455	—	—	13,455	15,511
Culebra Conservation and Development Authority	561	258	—	—	(303)	313	—	—	—	—	—	10	709	—	—	709	719
Economic Development Bank for Puerto Rico	52,944	51,125	—	4,816	2,997	—	—	—	—	2,481	437	5,915	160,082	—	—	160,082	165,997
Employment and Training Enterprises Corporation	1,760	1,147	—	—	(613)	—	—	—	—	—	17	(596)	(1,905)	—	—	(1,905)	(2,501)
Farm Insurance Corporation of Puerto Rico	6,232	1,947	1,107	—	(3,178)	—	—	—	—	50	—	(3,128)	7,186	—	—	7,186	4,058
Fine Arts Center Corporation	7,333	2,303	—	—	(5,030)	4,423	—	—	—	9	—	(598)	17,814	—	—	17,814	17,216
Institute of Puerto Rican Culture	20,035	—	658	1,373	(18,004)	16,180	—	—	—	—	—	(1,824)	63,380	—	—	63,380	61,556
Institutional Trust of the National Guard of Puerto Rico	28,723	4,170	—	—	(24,553)	—	—	—	—	—	—	(24,553)	84,919	—	(422)	84,497	59,944
Land Authority of Puerto Rico	24,561	9,317	—	—	(15,244)	14,146	—	—	—	406	737	45	14,933	—	—	14,933	14,978
Local Redevelopment Authority Roosevelt Road Puerto Rico	2,896	464	1,130	—	(1,302)	900	—	—	—	—	123	(279)	39	—	—	39	(240)
Musical Arts Corporation	8,882	451	—	—	(8,431)	7,939	—	—	—	95	312	(85)	(4,721)	—	—	(4,721)	(4,806)
National Parks Company of Puerto Rico	40,036	8,967	—	955	(30,114)	24,213	—	—	—	90	105	(5,706)	135,689	—	373	136,062	130,356
Port of the Americas Authority	761	—	—	—	(761)	17,670	—	—	—	—	—	16,909	93,680	—	—	93,680	110,589
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives	11,779	23,097	1,589	—	12,907	—	—	—	—	(534)	—	12,373	197,140	—	—	197,140	209,513
Puerto Rico and Municipal Islands Transport Authority	52,017	5,200	231	11,414	(35,172)	26,227	—	—	—	—	—	(8,945)	(28,484)	—	7,032	(21,452)	(30,397)
Puerto Rico Conservatory of Music Corporation	13,184	3,045	—	25	(10,114)	12,456	—	926	—	3	75	3,346	78,083	—	—	78,083	81,429
Puerto Rico Convention Center District Authority	77,922	26,194	—	—	(51,728)	13,767	34,809	—	—	303	1,281	(1,568)	198,727	(3,120)	—	195,607	194,039
Puerto Rico Council on Education	28,634	1,260	2,426	—	(24,948)	27,955	—	—	—	47	94	3,148	6,981	—	—	6,981	10,129
Puerto Rico Industrial Development Company	85,582	61,717	—	44,405	20,540	—	—	—	—	1,282	1,662	23,484	315,373	(1,594)	—	313,779	337,263
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	26	—	—	—	(26)	—	—	—	—	10	—	(16)	9,483	—	—	9,483	9,467
Puerto Rico Land Administration	9,754	11,796	—	—	2,042	—	—	—	—	335	—	2,377	204,027	—	—	204,027	206,404
Puerto Rico Metropolitan Bus Authority	75,702	4,862	14,858	—	(55,982)	51,902	—	—	—	—	—	(4,080)	(41,974)	—	(18,444)	(60,418)	(64,498)
Puerto Rico Municipal Finance Agency	39,778	—	—	—	(39,778)	—	—	—	—	20,965	1,525	(17,288)	70,057	(3,688)	—	66,369	49,081
Puerto Rico Ports Authority	183,232	101,091	17,018	—	(65,123)	2,726	—	—	—	63	815	(61,519)	133,316	(2,794)	(15,319)	115,203	53,684
Puerto Rico Public Broadcasting Corporation	24,080	3,004	—	—	(21,076)	14,002	—	2,252	—	5	415	(4,402)	7,787	—	(467)	7,320	2,918
Puerto Rico Public Private Partnerships Authority	7,260	—	—	—	(7,260)	102	—	—	—	3	—	(7,155)	3,385	—	—	3,385	(3,770)
Puerto Rico School of Plastic Arts	6,572	900	2,522	—	(3,150)	2,431	—	—	—	257	—	(462)	8,910	—	587	9,497	9,035
Puerto Rico Telephone Authority	90	—	—	—	(90)	—	—	—	—	12	—	(78)	5,290	—	—	5,290	5,212
Puerto Rico Tourism Company	106,040	158,368	—	—	52,328	(14,919)	(99,356)	—	69,999	397	6,388	14,837	(29,336)	(414)	(1,950)	(31,700)	(16,863)
Puerto Rico Trade and Export Company	41,315	17,025	3,000	—	(21,290)	—	—	2,855	—	16,867	666	(902)	105,391	—	—	105,391	104,489
Solid Waste Authority	23,296	3,014	—	—	(20,282)	9,216	—	—	—	281	—	(10,785)	58,219	—	—	58,219	47,434
University of Puerto Rico Comprehensive Cancer Center	6,597	1,765	—	5	(4,827)	5,000	—	—	—		—	173	16,038	—	—	16,038	16,211
Total nonmajor component units	$ 1,369,826	780,592	55,495	65,015	(468,724)	327,670	(64,547)	6,035	69,999	60,369	18,842	(50,356)	1,803,884	(11,610)	(25,383)	1,766,891	1,716,535