



**PUERTO RICO PUBLIC FINANCE CORPORATION**  
(A Component Unit of Government Development  
Bank for Puerto Rico)

Basic Financial Statements and  
Required Supplementary Information

June 30, 2013

(With Independent Auditors' Report Thereon)

**PUERTO RICO PUBLIC FINANCE CORPORATION**  
(A Component Unit of Government Development  
Bank for Puerto Rico)

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## **Independent Auditors' Report**

The Board of Directors  
Puerto Rico Public Finance Corporation:

We have audited the accompanying financial statements of the Puerto Rico Public Finance Corporation (the Corporation), a component unit of the Government Development Bank for Puerto Rico, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Puerto Rico Public Finance Corporation as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**KPMG LLP**

May 14, 2014

Stamp No. E101031 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

**PUERTO RICO PUBLIC FINANCE CORPORATION**

(A Component Unit of Government Development  
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Management's Discussion and Analysis (Unaudited)

June 30, 2013

As management of the Puerto Rico Public Finance Corporation (the Corporation), we offer readers of the Corporation's financial statements this narrative overview and analysis of the Corporation's financial performance during the fiscal year ended June 30, 2013. Please read it in conjunction with the Corporation's basic financial statements, which follow this section.

**Financial Highlights**

Total assets decreased by approximately \$3,000 or 0.25% from prior year and total liabilities remained flat when compared to prior year balance.

**Overview of the Basic Financial Statements**

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

**Required Basic Financial Statements**

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

Revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the results of the Corporation's operations over the past year and can be used to determine whether the Corporation has successfully recovered its costs from the revenue it generates.

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

**Financial Analysis of the Corporation**

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

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Management's Discussion and Analysis (Unaudited)

June 30, 2013

**Assets, Liabilities and Changes in Net Position**

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

	<b>June 30,</b>		<b>Change</b>	
	<b>2013</b>	<b>2012</b>	<b>Amount</b>	<b>Percent</b>
Current assets	\$ 1,190	1,193	(3)	(0.25)%
Current liabilities	\$ 54	54	—	—
Unrestricted net position	<u>1,136</u>	<u>1,139</u>	<u>(3)</u>	<u>(0.26)</u>
Total liabilities and net position	<u>\$ 1,190</u>	<u>1,193</u>	<u>(3)</u>	<u>(0.25)</u>

Total assets decreased by approximately \$3,000 or 0.25% from prior year mainly as a net result of interest received from deposits and payments for audit services. Total liabilities did not changed from prior year balance.

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

	<b>Year ended June 30,</b>		<b>Change</b>	
	<b>2013</b>	<b>2012</b>	<b>Amount</b>	<b>Percent</b>
Revenues:				
Interest income	\$ 1	1	—	—%
Nonoperating income	<u>—</u>	<u>153</u>	<u>(153)</u>	<u>(100.0)</u>
Total revenues	1	154	(153)	(99.35)
Operating expenses	<u>4</u>	<u>4</u>	<u>—</u>	<u>—</u>
Change in net position	(3)	150	(153)	(102.0)
Net position – beginning of year	<u>1,139</u>	<u>989</u>	<u>150</u>	<u>15.17</u>
Net position – end of year	<u>\$ 1,136</u>	<u>1,139</u>	<u>(3)</u>	<u>(0.26)</u>

Fiscal year 2013 ended with net position of approximately \$1.1 million, which is a decrease of \$3,000 or 0.26% from the net position at the end of fiscal year 2012. The decrease in net position is due to a net result of interest received from deposits and payments for audit services.

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Management's Discussion and Analysis (Unaudited)

June 30, 2013

**Conduit Debt**

The Corporation's main operations consist of issuing special appropriation bonds that are considered "conduit debt" and, therefore, neither these bonds nor the related promissory notes held by the Corporation are presented in the accompanying basic financial statements. The special appropriation bonds are special and limited obligations of the Corporation and, except to the extent payable from bond proceeds and investments thereof, are payable solely from legislative appropriations provided by the Legislature of the Commonwealth of Puerto Rico.

At June 30, 2013, the Corporation had approximately \$1.1 billion in special appropriation bonds outstanding. See note 4 to the basic financial statements for additional information about these special appropriation bonds.

**Contacting the Corporation's Financial Management**

This financial report is designed to provide a general overview of the Corporation's finances for those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Puerto Rico Public Finance Corporation, PO Box 42001, San Juan, Puerto Rico, 00940-2001.

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Balance Sheet

June 30, 2013

**Assets**

Current assets:

Cash held with Government Development Bank	\$ 1,190,045
Accrued interest receivable from Government Development Bank	<u>99</u>
Total	<u>\$ 1,190,144</u>

**Liabilities and Net Position**

Current accounts payable and accrued liabilities	\$ 53,899
Unrestricted net position	<u>1,136,245</u>
Total	<u>\$ 1,190,144</u>

See accompanying notes to basic financial statements.

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Statement of Revenues, Expenses, and Changes in Net Position  
Year ended June 30, 2013

Operating revenues:		
Interest income on deposits with Government Development Bank	\$	1,208
Operating expenses:		
Professional fees		4,096
Other		87
		<u>4,183</u>
Total operating expense		4,183
Operating loss and change in net position		(2,975)
Net position – beginning of year		<u>1,139,220</u>
Net position – end of year	\$	<u><u>1,136,245</u></u>

See accompanying notes to basic financial statements.

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Statement of Cash Flows

Year ended June 30, 2013

Cash flows from operating activities:	
Professional fees and other expenses paid	\$ (4,140)
Interest collected from Government Development Bank	<u>1,296</u>
Net change in cash and net cash used in operating activities	(2,844)
Cash – beginning of year	<u>1,192,889</u>
Cash – end of year	<u>\$ 1,190,045</u>
Reconciliation of operating loss to cash used in operating activities:	
Operating loss	\$ (2,975)
Adjustments to reconcile operating loss to cash used in operating activities:	
Decrease accrued interest receivable	88
Increase in accounts payable and accrued liabilities	<u>43</u>
Cash used in operating activities	<u>\$ (2,844)</u>

See accompanying notes to basic financial statements.

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Notes to Basic Financial Statements

June 30, 2013

**(1) Reporting Entity**

Puerto Rico Public Finance Corporation (the Corporation) is a component unit of the Government Development Bank for Puerto Rico (the Bank), which is a component unit of the Commonwealth of Puerto Rico (the Commonwealth).

The Corporation was created by Resolution Number 5044 (the Resolution) of the Bank's board of directors on December 12, 1984 to provide the agencies, instrumentalities, commissions, authorities, municipalities, and political subdivisions of the Commonwealth with alternate means of meeting their financing requirements. The Bank's board of directors is the same as the board of directors of the Corporation. The Corporation is exempt from taxation in Puerto Rico.

The Resolution creating the Corporation states that if the Corporation was to be dissolved or cease to exist without a successor public entity being appointed, any funds or other assets of the Corporation which are not required for the payment of its bonds or any other obligations will be transferred to the Secretary of the Treasury of the Commonwealth for deposit in the General Fund of the Commonwealth.

The Corporation has no employees. The Bank provides certain management and administrative services to the Corporation at no cost.

**(2) Summary of Significant Accounting Policies**

The accounting and reporting policies of the Corporation conform to generally accepted accounting principles in the United States of America (U.S. GAAP), as applicable to governmental entities. The Corporation follows Governmental Accounting Standards Board (GASB) statements under the hierarchy established by Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, in the preparation of its financial statements.

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

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

***(a) Measurement Focus, Basis of Accounting and Financial Statement Presentation***

The Corporation's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows.

***(b) Classification of Revenues and Expenses***

Operating revenues and expenses are distinguished from nonoperating items. The principal operating revenues of the Corporation are those derived from interest earned on deposits and other interest earning assets. Operating expenses include interest expense and general and administrative expenses of

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June 30, 2013

the Corporation. All revenues and expenses not meeting these criteria are reported as nonoperating revenues and expenses.

The accounting and reporting policies of the Corporation conform to generally accepted accounting principles in the United States of America (U.S. GAAP), as applicable to governmental entities. The Corporation follows Governmental Accounting Standards Board (GASB) statements under the hierarchy established by Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, in the preparation of its financial statements.

**(c) Conduit Debt**

Certain bonds issued by the Corporation are considered “conduit debt” (note 4) and, therefore, neither the bonds nor the notes purchased with the proceeds therefrom are presented in the accompanying basic financial statements.

**(3) Cash**

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the Corporation may not be able to recover its deposits. The depository bank balance, which equals the bank balance, of \$1,190,045 as of June 30, 2013, represents interest-bearing demand deposits with the Bank which are uninsured and uncollateralized. The Corporation does not have a formal policy for custodial credit risk for deposits.

**(4) Conduit Debt**

The Corporation has issued approximately \$8.1 billion of Commonwealth appropriation bonds (the Bonds) maturing at various dates through 2033. The proceeds of the Bonds, except for approximately \$4.6 billion, were used to provide the necessary funds to purchase from the Bank separate promissory notes of the Department of the Treasury of the Commonwealth and certain of its instrumentalities and public corporations (the Promissory Notes). The \$4.6 billion referred to above were used to refund a portion of certain bonds issued by the Corporation between fiscal years 1995 and 2005. The outstanding balance of the Bonds at June 30, 2013, amounted to approximately \$1.1 billion.

The Bonds are limited obligations of the Corporation and, except to the extent payable from bond proceeds and investment earnings thereon, will be payable solely from a pledge and assignment of amounts due under the Promissory Notes. Principal and interest on the Promissory Notes are payable solely from legislative appropriations to be made pursuant to acts approved by the Legislature of the Commonwealth. These acts provide that the Commonwealth shall honor the payment of principal and interest on the Promissory Notes, and that the Director of the OMB shall include in the budget of the Commonwealth submitted to the Legislature the amounts necessary to pay the principal and interest on the Promissory Notes. The Promissory Notes represent debt of the issuing instrumentalities (all part of the Commonwealth or its component units), and, for purposes of the Corporation, the Bonds are considered conduit debt. Neither the bonds nor the notes purchased with the proceeds therefrom are presented in the accompanying basic financial statements.