



COMMONWEALTH OF
PUERTO RICO

Government Development Bank
for Puerto Rico

Municipal Secondary Market Disclosure Information Cover Sheet
Municipal Securities Rulemaking Board (MSRB)
Electronic Municipal Market Access System (EMMA)

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

Name of bond issue exactly as it appears on the cover of the Official Statement:

Nine-digit CUSIP* numbers if available, to which the information relates:

IF THIS FILING RELATES TO ALL OR SEVERAL SECURITIES ISSUED BY THE ISSUER, OR ALL OR SEVERAL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:

Issuer's Name: Puerto Rico Municipal Finance Agency

Other Obligated Person's Name (if any): _____

Six-digit CUSIP* number(s): 745277

TYPE OF INFORMATION PROVIDED:

A. Annual Financial Information and Operating Data pursuant to Rule 15c2-12

Fiscal Period Covered: _____

B. Audited Financial Statements or CAFR pursuant to Rule 15c2-12

Fiscal Period Covered: 2013-2014

C. Notice of Failure to Provide Annual Financial Information as Required

D. Other Secondary Market Information (Specify): _____

I hereby represent that I am authorized by the issuer, obligor or its agent to distribute this information publicly.

Jorge A. Clivillés Díaz
Executive Vice President and Fiscal Agent

Dated: April 30, 2015



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San Juan, Puerto Rico
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**PUERTO RICO MUNICIPAL
FINANCE AGENCY
(A Component Unit of the
Commonwealth of Puerto Rico)**

*BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND
REQUIRED SUPPLEMENTARY INFORMATION*

June 30, 2014

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Municipal Finance Agency

Report on the Financial Statements

We have audited the accompanying statement of net position of the Puerto Rico Municipal Finance Agency (the "Agency") as of June 30, 2014 and the statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Agency'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 basic financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express opinions on these basic 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 auditor's 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 Agency'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 Agency'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, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency, as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 2, in 2014, the Agency adopted Governmental Accounting Standards Board (“GASB”) Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Agency’s basic financial statements as a whole. The Schedule I – Investments Held by Trustees by Bond Series, on pages 22 through 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

San Juan, PR
December 16, 2014, except as to Note 9,
which is as of March 31, 2015



LLM & D. P. S. C.

License No. 90
Expiration Date: December 1, 2016

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

This section represents the management's discussion and analysis of the Puerto Rico Municipal Finance Agency (the "Agency") financial performance for the fiscal year ended June 30, 2014, and is presented as a narrative overview and analysis in conjunction with the basic financial statements.

The Agency was created to assist municipalities of Puerto Rico in financing their public improvements programs. The Agency's activities consist of servicing its bond obligations and disbursing escrow deposits arising from the acquisition of investments in Puerto Rico municipal bonds and notes from the Government Development Bank for Puerto Rico (the "Bank"). Escrow liabilities to municipalities are undisbursed loan deposits directly related to the municipal public improvement projects. These deposits are disbursed based on the municipalities' necessities. The balance of the escrow liabilities to municipalities is reduced with the disbursements made for each related project and is increased with the acquisition of Puerto Rico municipal bonds and notes.

1. Financial Highlights

- During 2014, the Agency implemented the Governmental Accounting Standard Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result of the implementation of Statement No. 65, (i) the deferred bond issue cost was written-off against the beginning balance of the net deficit; and (ii) the deferred loss from refunding is presented as a deferred outflow of resources and not as part of bonds payable net. The financial information included in the Management's Discussion and Analysis was adjusted to reflect the impact of the implementation of Statement No. 65.
- At June 30, 2014, the Agency's total assets and net position were approximately \$930.1 million and approximately \$49.1 million, respectively.
- During the fiscal year ended June 30, 2014, bonds principal payments and escrow liability to municipalities disbursements amounted to approximately \$93.3 million and \$6.6 million, respectively.
- The fair value of the Agency's investments portfolio decreased by approximately \$24.4 million during the year ended June 30, 2014.
- Investment income for the year ended June 30, 2014 decreased by approximately \$24.7 million.

2. Financial Statements Overview

The financial statements include the management's discussion and analysis section, the independent auditors' report, and the basic financial statements of the Agency. The notes to the basic financial statements explain in more detail some of the information in the financial statements.

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(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

3. Required Financial Statements

The financial statements of the Agency are prepared using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the Agency. The statement of net position presents the Agency's assets, deferred outflow of resources, liabilities, and deferred inflows of resources, providing information about the nature and amount of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Agency and assessing its liquidity and financial flexibility.

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

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

4. Financial Analysis

Net position may serve, overtime, as a useful indicator of whether a governmental entity's financial position is improving or deteriorating. At June 30, 2014, the Agency's total assets exceeded total liabilities by approximately \$49.1 million, representing a decrease of approximately \$17.3 million over prior year net position of approximately \$66.4 million, as restated.

Condensed financial information of the Agency's assets, deferred outflow of resources, liabilities, operating revenues, operating expenses and change in net position is as follows (in thousands):

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	June 30,		Change	
	2014	2013 (as restated)	Amount	Percent
Current assets	\$ 244,720	\$ 264,180	\$ (19,460)	-7.37%
Other assets	685,393	792,750	(107,357)	-13.54%
Total assets	<u>930,113</u>	<u>1,056,930</u>	<u>(126,817)</u>	-12.00%
Deferred outflow of resources	<u>4,884</u>	<u>6,569</u>	<u>(1,685)</u>	-25.65%
Current liabilities	148,406	176,401	(27,995)	-15.87%
Noncurrent liabilities	<u>737,510</u>	<u>803,903</u>	<u>(66,393)</u>	-8.26%
Total liabilities	<u>885,916</u>	<u>980,304</u>	<u>(94,388)</u>	-9.63%
Investment income	20,965	45,606	(24,641)	-54.03%
Interest and other (income) expenses	<u>38,253</u>	<u>45,135</u>	<u>(6,882)</u>	-15.25%
Change in net position	(17,288)	471	(17,759)	-3770.49%
Net position, beginning of year, as restated	<u>66,369</u>	<u>65,898</u>	<u>471</u>	0.71%
Net position, end of year	<u>\$ 49,081</u>	<u>\$ 66,369</u>	<u>\$ (17,288)</u>	-26.05%

Total assets, deferred outflow of resources and liabilities decreased approximately \$127 million, \$1.7 million and \$94.4 million, respectively, when compared with prior year, as restated. This reduction is associated with the current year debt repayment of approximately \$93.3 million, \$1.7 million of current year amortization of deferred loss on bond refunding and the disbursement of escrow liabilities to municipalities of approximately \$6.6 million.

Investment income decreased approximately \$24.7 million mainly due to the following:

- During the year ended June 30, 2014 there was an unrealized loss of approximately \$24.4 million on the fair value of investments when compared to an unrealized loss of approximately \$5.3 million during the year ended June 30, 2013 that had a net effect of decreasing investment income by approximately \$19.1 million in 2014.
- Decrease in interest income of approximately \$5.5 million during the year ended June 30, 2014 when compared to the year ended June 30, 2013. The reduction in interest income is due to the decrease in the investment portfolio during the year.

Interest expense and other (income) expenses decreased approximately \$6.8 million during the year ended June 30, 2014, mainly due to a reduction in interest expense on bonds payable of approximately \$5.3 million, and an increase on other income of approximately \$1.5 million.

The lower interest expense is the result of a lower bond payable base amount after the repayments

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

during 2014. The other income of approximately \$1.5 million arises from the clearance of certain reconciling items on the municipality's escrow accounts.

5. Debt Administration

At June 30, 2014, outstanding bonds of the Agency amounted to approximately \$817.6 million, including its current portion of approximately \$86.1 million. Debt repayments amounted to approximately \$93.3 million during the year ended June 30, 2014.

6. Request for Information

This financial report is designed to provide all interested parties with a general overview of the Agency's finances and to facilitate the Agency's accountability for the resources it manages. If you have questions about this report or need additional information, contact the Puerto Rico Municipal Finance Agency, PO Box 42001, San Juan, Puerto Rico, 00940-2001.

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS

CURRENT ASSETS:

Cash	\$ 3,332,713
Other	43,207
Restricted:	
Cash	16,520,241
Accrued interest receivable	20,550,021
Investments	204,273,641
Total current assets	244,719,823

NON-CURRENT RESTRICTED ASSETS:

Investments	680,207,115
Prepaid insurance	5,185,838
Total non-current restricted assets	685,392,953
 Total assets	 \$ 930,112,776

DEFERRED OUTFLOW OF RESOURCES —

Deferred loss on bonds refunding	\$ 4,884,437
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LIABILITIES

CURRENT LIABILITIES:

Accrued expenses and other liabilities	\$ 569,269
Escrow liability to municipalities	44,558,407
Total current liabilities	45,127,676

CURRENT LIABILITIES FROM RESTRICTED ASSETS:

Accrued interest payable	17,163,642
Bonds payable	86,115,000
Total current liabilities from restricted assets	103,278,642

NON-CURRENT LIABILITIES FROM RESTRICTED ASSETS:

Due to an affiliated entity	5,980,501
Bonds payable, net	731,528,964
Total non-current liabilities from restricted assets	737,509,465
 Total liabilities	 885,915,783

NET POSITION:

Restricted for debt service	90,833,186
Unrestricted	(41,751,756)
Total net position	\$ 49,081,430

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

INVESTMENT INCOME:	
Interest and dividend income	\$ 45,361,170
Unrealized loss on changes in fair value of investments	(24,395,886)
Total operating and investment income	<u>20,965,284</u>
INTEREST EXPENSE	<u>39,674,419</u>
NET INVESTMENT LOSS	<u>(18,709,135)</u>
NON-INVESTMENT REVENUES (EXPENSES):	
Management fees	(48,000)
Other	(56,266)
Other income	1,525,383
Total non-interest revenue, net	<u>1,421,117</u>
OPERATING LOSS AND CHANGE IN NET POSITION	(17,288,018)
NET POSITION - Beginning of year	70,057,132
Restatement of beginning net position (note 2)	<u>(3,687,684)</u>
NET POSITION - Beginning of year, as restated	<u>66,369,448</u>
NET POSITION - End of year	<u>\$ 49,081,430</u>

See notes to basic financial statements.

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash paid for general and administrative expenses	\$ (113,173)
Refund of trustee fees overpaid	165,617
Net cash provided by operating activities	52,444

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Payments of bonds payable	(93,300,000)
Interest paid on bonds payable	(42,895,648)
Payments of escrow liability to municipalities	(6,570,873)
Payments to affiliated entity	(123,421)
Net cash used in non-capital financing activities	(142,889,942)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of investment securities	(207,862,983)
Proceeds from sales and redemptions of investment securities	222,564,009
Proceeds from sales and redemptions of municipal bonds and notes	91,764,933
Collections of interest income	38,565,767
Proceeds from sales and redemptions of other investments	7,152,711
Net cash provided by investing activities	152,184,437

NET INCREASE IN CASH 9,346,939

CASH - Beginning of year	10,506,015
CASH - End of year	\$ 19,852,954

**RECONCILIATION OF CASH AT END OF YEAR TO
STATEMENT OF NET POSITION:**

Unrestricted cash	\$ 3,332,713
Restricted cash	16,520,241
TOTAL CASH AT END OF YEAR	\$ 19,852,954

See notes to basic financial statements.

(Continued)

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

**RECONCILIATION OF OPERATING LOSS AND CHANGE IN
NET POSITION TO NET CASH PROVIDED BY
OPERATING ACTIVITIES:**

Operating loss and change in net position	\$ (17,288,018)
Adjustments to reconcile operating loss and change in net position to net cash provided by operating activities:	
Investment income	(20,965,284)
Interest expense	39,674,419
Changes in assets and liabilities:	
Decrease in accrued expenses and other liabilities	<u>(1,368,673)</u>
 Net cash provided by operating activities	 <u><u>\$ 52,444</u></u>

See notes to basic financial statements.

(Concluded)

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

1. REPORTING ENTITY

The Puerto Rico Municipal Finance Agency (the "Agency") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth"), created by Act 29 of the Legislature of the Commonwealth on June 30, 1972, as amended, (the "Act 29-1972") and an affiliate of Government Development Bank for Puerto Rico (the "Bank").

The Agency was created to assist municipalities of Puerto Rico in financing their public improvements programs. The Agency's activities consist of servicing its bond obligations and disbursing escrow deposits arising from the acquisition of investments in Puerto Rico municipal bonds and notes from the Bank. Escrow liabilities to municipalities are undisbursed loan funds which use is restricted to specific municipal public improvement projects. These deposits are disbursed based on the municipalities' necessities. The balance of the escrow liabilities to municipalities is reduced with the disbursements made for each related project and is increased with the acquisition of Puerto Rico municipal bonds and notes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Agency conform to Accounting Principles Generally Accepted in the United States of America ("GAAP"), for governments as prescribed by the Governmental Accounting Standards Board ("GASB").

Effective July 1, 2013, the Agency adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, and recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues) or vice versa. This Statement also requires the write-off of any existing deferred debt issuance costs at the time of adoption against beginning net position, and prospectively, any new debt issue costs on bonds or debt issuance immediate expensing.

As a result of the implementation of GASB No. 65 the Agency charged-off its existing unamortized debt issue costs of approximately \$3.7 million against its beginning net position as follows:

Net position, beginning of year	\$ 70,057,132
Effect of adoption of GASB Statement No. 65	<u>(3,687,684)</u>
Net position, beginning of year, as adjusted	<u>\$ 66,369,448</u>

Also, the implementation of GASB No. 65 resulted in the reclassification of unamortized deferred loss on bond refunding previously reported as a reduction of bonds payable. The Agency reclassified the beginning unamortized deferred loss on bond refunding of approximately of \$6.6 million as a deferred outflow of resources.

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

Measurement Focus, Basis of Accounting and Financial Statements Presentation - The Agency'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. Net investment income is the excess of amounts earned by the Agency on its interest-earning assets over the interest incurred on its interest-bearing liabilities. The Agency's net investment income is subject to interest rate risk due to the re-pricing and maturity relationship of the Agency's assets and liabilities. Revenues and expenses not meeting these criteria are reported as non-interest income and expenses.

The statement of net position presents the Agency's assets and liabilities, with the difference reported as net position. Net position is reported in two categories:

- (a) Restricted component of net position consists of restricted assets reduced by liabilities related to those assets. Restricted net position result when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- (b) Unrestricted component of net position consists of net amount of the assets and liabilities that do not meet the definition of the preceding category. Unrestricted component of net position often is designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted component of net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of revenues, expenses, and changes in net position demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include: (1) interest income investments. Operating expenses are those that relate to the administration of the Agency. Other items not meeting the definition of program revenues or operating expense are reported as non-operating revenues or expenses.

Income Tax - The Agency is exempt from taxation in Puerto Rico.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments - Investments and investment contracts are carried at fair value, except for money market investments and participating investment contracts with a remaining maturity at the time of purchase of one year or less, and non-participating investment contracts, which are carried at cost. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations, except for investments in Puerto Rico municipal bonds and notes. Puerto Rico municipal bonds and notes fair values are

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

estimated by management based on quoted market prices for the debt these investments collateralize. Such quoted market prices are obtained from independent sources.

Except for investments in Puerto Rico municipal bonds and notes, and bonds payable, the carrying values of the Agency's financial instruments are substantially similar to their fair value at June 30, 2014, because such instruments have either short-term maturities or bear interest at rates that vary with the market. The fair value of the Agency's bonds payable is estimated using quoted market prices from independent sources.

Bond Issue Costs - Bond issue costs are recorded as expenditures when paid.

Refunding - Refunding involves the issuance of new debt which proceeds are used to repay immediately (current refunding), or at a future time (advance refunding), previously issued debt. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is reported on the statement of net position as a deferred outflow of resources.

Recently Issued Accounting Guidance:

The GASB has issued the following accounting pronouncements that have effective date after June 30, 2014:

- (a) GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. This Statement, among other requirements, will bring the effect of Statement 67, *Financial Reporting for Pension Plans—an amendment of GASB No. 25* into the accounting records of the individual agencies, public corporations and municipalities, whose employees participate in the Retirement Systems. The Agency, as well as the other component units of the Commonwealth and the municipalities, are considered “cost-sharing” employers of the Retirement Systems; therefore, a government participating in the Retirement Systems, such as the Agency, would report the resulting Net Pension Liability from Statement 67 as follows:

- ✓ Based on the Agency's proportion of 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 impact of the effects of this Statement on the Agency's basic financial statements is not expected to be significant as the Agency currently has no employees participating in Retirement Systems. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014.

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NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

- (b) 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 include a variety of transactions referred to as mergers, acquisitions, and transfer of operations. 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.
- (c) 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.

3. CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Currently, the Agency does not have a custodial credit risk policy. At June 30, 2014, the Agency's cash balance includes approximately \$3.3 million interest-bearing demand deposits with the Bank, which is not covered by federal depository insurance. Such demand deposits are uninsured and uncollateralized.

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 (\$250,000 at June 30, 2014). At June 30, 2014, all securities pledged by depository institutions as collateral are held by a trustee of the Treasury Department of the Commonwealth. At June 30, 2014, the Agency maintained approximately \$16.5 million as restricted cash in a trustee escrow account with a financial institution, which is insured and collateralized, for purposes of servicing the outstanding debt.

4. TRANSACTIONS WITH GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

The Bank provides certain services to the Agency and charges a management fee under a management contract. During the year ended June 30, 2014, the Bank charged \$48,000 as management fee to the Agency. At June 30, 2014, the balance due to the Bank is approximately \$6 million.

PUERTO RICO MUNICIPAL FINANCE AGENCY
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NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

5. INVESTMENTS

The Bank developed investment guidelines for the Government of Puerto Rico and their respective agencies and instrumentalities under the Act 113 of August 3, 1995 and Executive Order 1995-50A (the "Investment Guidelines"). Accordingly with such Investment Guidelines, the Agency is authorized to purchase or enter into the following investment instruments:

- United States (U.S) government, agencies, and sponsored agencies obligations
- Certificates of Deposit
- Bankers' acceptances
- Commercial paper
- Participations in the Puerto Rico Government Investment Trust Fund
- Obligations of the Commonwealth of Puerto Rico, its agencies, municipalities, public corporations and instrumentalities
- Obligations of state and local government of the U.S.
- Mortgage and asset-backed securities
- Corporate debt, including investment contracts
- External investment pools

The Investment Guidelines establish restrictions for investment instruments, such as maturities, investment limits, issuer or counterparty, exposure by country, and defines eligible financial institutions.

Such Investment Guidelines, which were adopted by the Agency, provide that only counterparties rated BBB+/A-1 or better by Standard & Poor's or equivalent ratings by Moody's Investors Service or Fitch Ratings are used to enter into investment transactions. These guidelines also provide that investment purchases and sales need to be executed using the delivery versus payment method. Any exception from these guidelines must be approved by the Agency's board of directors.

PUERTO RICO MUNICIPAL FINANCE AGENCY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

At June 30, 2014, restricted investment securities held by trustees for repayment of bond issuances and other liabilities consist of the following (in thousands):

	Amount
Puerto Rico municipal bonds and notes	\$ 723,356
External investment pool	51,438
Guaranteed investment contracts	36,708
Corporate bonds	27,918
Money Market	31,889
Mortgage and asset-backed securities	13,172
	\$ 884,481

At June 30, 2014, contractual maturities by investment securities consist of the following (in thousands):

	Contractual Maturities (in thousands)				Total
	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	
Puerto Rico municipal bonds and notes	\$ 79,856	\$ 280,129	\$ 229,950	\$ 133,421	\$ 723,356
External investment pool	51,438	-	-	-	51,438
Guaranteed investment contract	-	-	15,863	20,845	36,708
Corporate bonds	27,918	-	-	-	27,918
Money Market	31,889	-	-	-	31,889
Mortgage and asset-backed securities	13,172	-	-	-	13,172
	\$ 204,273	\$ 280,129	\$ 245,813	\$ 154,266	\$ 884,481

Fixed income securities from external investment pools mature within 60 days or less. Such securities are presented as investment with expected maturity within one year or less. Expected maturities differ from contractual maturities when issuers or counterparties have the right-to-call or prepay such obligations with or without call or prepayment penalties.

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At June 30, 2014, the credit ratings of the investment securities portfolio are as follows (in thousands):

	Credit Rate Risk (dollars in thousands)		
	AAA to A	BBB-	Total
Puerto Rico municipal bonds and notes	\$ 244,867	\$ 478,489	\$ 723,356
External investment pool	51,438	-	51,438
Guaranteed investments contracts	36,708	-	36,708
Corporate bonds	27,918	-	27,918
Money Market	31,889	-	31,889
Mortgage and asset-backed securities	13,172	-	13,172
	\$ 405,992	\$ 478,489	\$ 884,481

As required by the indentures and the Act 29-1972, the municipal bonds and notes are general obligations of each municipal issuer secured by *ad valorem* taxation, without limitation as to rate or amount, on all taxable property within the boundaries of the applicable municipal issuer. The good faith, credit and unlimited taxing power of each issuing municipality are pledged for the payment of its general obligations municipal bonds and notes. Interest rate on general obligations municipal bonds and notes range from 4.45% to 7.71%. Act 29-1972 also provides for the Commonwealth's general fund to fund any deficiencies from the municipalities in the Agency's debt service coverage. The Agency has never required the assistance of the Commonwealth to cover such debt service requirements.

6. DEFERRED OUTFLOW OF RESOURCES

Deferred outflows of resources are a consumption of net assets by the Agency that is applicable to a future reporting period. Deferred outflows of resources increase net position similar to assets. Changes in deferred outflows of resources for the year ended June 30, 2014, are summarized as follows:

	Balance as of July 1, 2013	Amortization	Balance as of June 30, 2014
	As restated		
Deferred outflow of resources – deferred loss on bond refunding	\$ 6,568,537	\$ (1,684,100)	\$ 4,884,437

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7. BONDS PAYABLE

At June 30, 2014, bonds payable consist of the following:

	<u>Interest Rate</u>	<u>Amount</u>	<u>Due within One Year</u>
1997 Series A Bonds, maturing on July 1, 2017.	6%	8,280,000	2,780,000
2002 Series A Bonds, including unamortized premium of \$2,917,190, maturing at various dates through August 1, 2027.	4.75% - 5.25%	268,797,190	24,760,000
2005 Series A, B, and C Bonds, including unamortized premium of \$13,446,774, maturing at various date through August 1, 2030.	3.90% - 5.25%	<u>540,566,774</u>	<u>58,575,000</u>
		<u>\$ 817,643,964</u>	<u>\$ 86,115,000</u>

At June 30, 2014, debt services requirements for outstanding bonds are as follow:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 91,615,000	\$ 38,040,850	\$ 129,655,850
2016	84,765,000	33,962,865	118,727,865
2017	83,375,000	29,826,560	113,201,560
2018	71,145,000	25,858,166	97,003,166
2019	67,245,000	22,269,348	89,514,348
2020-2024	247,085,000	67,994,164	315,079,164
2025-2029	141,965,000	17,972,340	159,937,340
2030-2031	<u>14,085,000</u>	<u>656,536</u>	<u>14,741,536</u>
	801,280,000	<u>\$ 236,580,829</u>	<u>\$ 1,037,860,829</u>
Plus:			
Unamortized premium	<u>16,363,964</u>		
	<u>\$ 817,643,964</u>		

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Bonds activity for the year ended June 30, 2014 was as follows:

	Balance at June 30, 2013 <small>(as restated)</small>	Issuances	Other Increases	Other Reductions	Payments	Balances at June 30, 2014
Bonds payable	\$ 894,580,000	\$ -	\$ -	\$ -	\$ (93,300,000)	\$ 801,280,000
Plus/(less):						
Unamortized premium	20,519,664	-	-	(4,155,700)	-	16,363,964
	<u>\$ 915,099,664</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,155,700)</u>	<u>\$ (93,300,000)</u>	<u>\$ 817,643,964</u>

The 1997 Series A Bonds, with principal amount of \$8,280,000 maturing on July 1, 2017 is subject to redemption to the extent of the amortization requirements upon not less than 30 days prior notice to registered owners starting on July 1, 2013 and thereafter at a redemption price equal to the principal amount to be redeemed plus accrued interest. The 1997 Series A Bonds amortization requirements are as follows:

**Amortization Requirements for
1997 Series A Bonds Maturing on August 1,**

Year	
2015	\$ 2,780,000
2016	2,395,000
2017	1,605,000
2018	1,500,000
	<u>\$ 8,280,000</u>

The 2002 Series A Bonds, maturing after August 1, 2012, may be redeemed at the option of the Agency, upon not less than 30 days prior notice, either in whole or in part, as directed by the Agency. The bonds may be redeemed not earlier than August 1, 2012 at a redemption price equal to the principal amount to be redeemed, together with accrued interest thereon, and without premium. The 2005 Series A Bonds, Series B, and C Refunding Bonds were issued on December 22, 2005. The 2005 Series A Bonds and Series C Refunding bonds maturing on or after August 1, 2015 may be redeemed prior to their maturity, at the option of the Agency, upon not less than 30 days prior notice at a redemption price equal to the principal amount to be redeemed plus accrued interest at par.

The 2005 Series A Bonds maturing on August 1, 2030 with principal amounts of \$58,025,000 and \$615,000, respectively, are subject to redemption to the extent of the respective amortization requirements, upon not less than 30 days prior notice to registered owners starting on August 1, 2026 and thereafter at a redemption price equal to the principal amount to be redeemed plus accrued interest.

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The 2005 Series A Bonds amortization requirements are as follows:

Amortization Requirements for			
2005 Series A Bonds Maturing on August 1,			
<u>Year</u>			
2026	\$	14,085,000	\$ 145,000
2027		16,335,000	165,000
2028		13,685,000	140,000
2029		7,885,000	95,000
2030		6,035,000	70,000
	<u>\$</u>	<u>58,025,000</u>	<u>\$ 615,000</u>

The 2005 Series B Refunding Bonds are not subject to redemption. The bonds issued were used, together with other moneys, to refund some of the outstanding 1997 Series A Bonds. The reacquisition price exceeded the net carrying amount of the old debt by approximately \$3.5 million. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of the interest expense over the remaining life of the old debt or the life of the net debt, whichever is shorter. The amount is reported on the accompanying statement of net position as a deferred outflow of resources.

The 2005 Series C Refunding Bonds were used, together with other moneys, to refund some of the outstanding 1999 Series A Bonds and 1999 Series B Refunding Bonds. The reacquisition price exceeded the net carrying amount of the old debt by approximately \$15.9 million. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of the interest expense over the remaining life of the old debt or the life of the net debt, whichever is shorter. The amount is reported on the accompanying statement of net position as a deferred outflow of resources. At June 30, 2014, approximately \$257.4 million of refunded bonds remained outstanding.

8. DEBT SERVICE RESERVE FUND

The provisions of Act 29-1972 established a Debt Service Reserve Fund (the "Reserve Fund"). The Agency invests the monies maintained in Reserve Funds in U.S. government, agencies and sponsored agencies securities, external investment pools, and investment agreements. Such investments are presented as restricted investments in the accompanying statement of net position. The Agency is authorized and may request advances, as needed, from the Bank to cover any shortage in the Reserve Fund required level. No such advances were requested during the year ended June 30, 2014.

The 1997 Reserve Fund requires an amount equal to the lesser of (i) ten percent (10%) of the original proceeds of each series of 1997 indenture bonds outstanding, (ii) the maximum annual principal and interest requirements for any fiscal year on all 1997 indenture bonds outstanding, and (iii) 125% of average annual debt service on all 1997 indenture bonds outstanding. Pursuant to 1997 indenture bonds, the required reserve is approximately \$10 million. At June 30, 2014, the Agency maintains approximately \$16 million in the 1997 Reserve Fund.

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The 2002 Reserve Fund requires an amount equal to the sum of (i) the higher of (a) 50% of the maximum principal and interest payments requirements for any fiscal year on all 2002 indenture bonds then outstanding and (b) the largest amount of the maximum principal and interest payments requirement for any fiscal year on the 2002 municipal bonds of any 2002 municipal issuer, and (ii) 50% of the annual earnings for such fiscal year on the larger of the amounts in clauses (a) and (b) above based on the assumption that said amount is invested in investment instrument in accordance with the United States Internal Revenue Code of 1986, as amended. Pursuant to the 2002 indenture bonds, the required reserve is approximately \$14 million. At June 30, 2014, the Agency maintains approximately \$21 million in the 2002 Reserve Fund.

The 2005 Reserve Fund requires an amount equal to the sum of (i) the higher of (a) 50% of the maximum principal and interest payments requirements for any fiscal year on all 2005 indenture bonds then outstanding and (b) the largest amount of the maximum principal and interest payments requirement for any fiscal year on the 2005 municipal bonds of any 2005 municipal issuer, and (ii) 50% of the annual earnings for such fiscal year on the larger of the amounts in clauses (a) and (b) above based on the assumption that said amount is invested in investment instrument in accordance with the United States Internal Revenue Code of 1986, as amended. Pursuant to the 2005 indenture bonds, the required reserve is approximately \$17 million. At June 30, 2014, the Agency maintains approximately \$17 million in the 2005 Reserve Fund.

9. SUBSEQUENT EVENTS

During February 2015, a credit rating agency lowered the credit rating on the Agency's bonds payable that caused a market price decline on the bonds payable as of March 31, 2015. As disclosed in note 2, the fair value of the Agency's investments in Puerto Rico municipal bonds and notes that collateralize the Agency's bonds payable are estimated by management based on the quoted market prices of the Agency's bonds. As of March 31, 2015, the fair value of the investments in Puerto Rico municipal bonds and notes existing at June 30, 2014, reflected an additional unrealized loss of approximately \$7.9 million over the fair value at June 30, 2014.

For the year ended June 30, 2014, subsequent events were evaluated through March 31, 2015, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the financial statements. Management has determined that other than those already disclosed above, there are no material events or transactions that would affect the Agency's financial statements through such date.

SUPPLEMENTAL SCHEDULE

PUERTO RICO MUNICIPAL FINANCE AGENCY
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SCHEDULE I – INVESTMENTS HELD BY TRUSTEES BY BOND SERIES
AS OF JUNE 30, 2014

	2005 Series A, B and C Bonds	2002 Series A Bonds	1997 Series A and B Bonds	Total
Puerto Rico municipal bonds and notes	\$ 429,215,243	244,866,718	\$ 49,273,734	\$ 723,355,695
External investment pool	35,230,921	16,206,783	-	51,437,704
Guaranteed investment contracts	-	20,844,838	15,863,142	36,707,980
Corporate bonds	27,918,518	-	-	27,918,518
Money Market	31,889,183	-	-	31,889,183
Mortgage and asset-backed securities	7,928,642	3,500,845	1,742,189	13,171,676
Total investments	\$ 532,182,507	\$ 285,419,184	\$ 66,879,065	\$ 884,480,756
Cash	\$ 27,751	\$ 4,619,717	\$ 11,873,141	\$ 16,520,609