

LLM&D, PSC

165 Ponce de León Ave.,
Second Floor
San Juan, Puerto Rico
00917-1233

**PUERTO RICO INDUSTRIAL, TOURIST,
EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES
FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)**

*BASIC FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION*

June 30, 2014

(With Independent Auditors' Report Thereon)

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
INDEX TO THE BASIC FINANCIAL STATEMENTS**

	Page
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3-6
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	7
Statement of Revenues, Expenses, and Change in Net Position	8
Statement of Cash Flows	9
Notes to Basic Financial Statements	10-16

LLM&D, PSC

165 Ponce de León Ave.,
Second Floor
San Juan, Puerto Rico
00917-1233

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Industrial, Tourist,
Educational, Medical and Environmental
Control Facilities Financing Authority:

Report on the Basic Financial Statements

We have audited the accompanying statement of net position of the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (the "Authority") as of June 30, 2014 and the statements of revenues, expenses and change in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Basic 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 basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Authority'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 basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2014, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 GASB 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.

LLM & P, PSC

February 1, 2016
San Juan, PR

License No. 90
Expiration Date: December 1, 2016



**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(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 presents the management's discussion and analysis of the Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (the "Authority") 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 Authority was created to issue revenue bonds and to lend the proceeds thereof to finance the acquisition, construction, and equipping of industrial, tourist, educational, medical, and environmental control facilities. The Authority charges a placement fee based on the face value of the bonds issued. The Authority is exempt from taxation in Puerto Rico.

1. Financial Highlights

- The Authority's total net position decreased by approximately \$16,000 or 0.17% during the fiscal year 2014.
- During the year ended June 30, 2014, no conduit debts were issued.
- The Authority's net loss from operations for the year ended June 30, 2014, amounted to approximately \$24,000, representing an increase of approximately \$109,000, or 128% when compared to prior year's income from operations of \$85,362. Increase in net loss is mainly related to a significant reduction in the number of conduit debt issued during 2014 when compared to the 2013.

Financial Statements Overview

The financial statements include the management's discussion and analysis narrative, the independent auditors' report, and the basic financial statements of the Authority. The notes to the basic financial statements provide additional information not disclosed in this section.

2. Required Financial Statements

The accompanying financial statements of the Authority present information using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The statement of net position includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the net position of the Authority and assessing its liquidity and financial flexibility.

Current year revenues and expenses are accounted for in the statement of revenues, expenses, and change in net position. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered its costs through its user fees and other charges.

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(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**

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 operations, 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.

3. Financial Analysis

The statement of net position and the statement of revenues, expenses, and change in net position present information about the Authority's activities in a way that will help determine whether the Authority, as a whole, is better or worse financially as a result of the current year's activities. Both statements present the net position of the Authority and the changes in them. One can think of the Authority's net position (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors must be considered such as changes in economic conditions and new or changed government legislation.

4. Net Position and Change in Net Position

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

ASSETS — Current assets	\$ 9,542	\$ 9,555	\$ (13)	(0.1)%
LIABILITIES — accounts payable and accrued liabilities	<u>75</u>	<u>72</u>	<u>(3)</u>	(4)%
UNRESTRICTED NET POSITION	<u>\$ 9,467</u>	<u>\$ 9,483</u>	<u>\$ (16)</u>	(0.2)%

The Authority's net position for the year ended June 30, 2014, decreased by approximately \$16,000, or 0.17% over the course of the year's operations. During the year ended June 30, 2014, no bonds were issued and, therefore, no placement fees were earned by the Authority.

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(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**

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

	<u>June 30,</u>		<u>Change</u>	
	<u>2014</u>	<u>2013</u>	<u>Amount</u>	<u>Percent</u>
OPERATING REVENUES —				
Placement fees	\$ -	\$ 409	\$ (409)	(100)%
OPERATING EXPENSES:				
Service fees	-	205	205	100%
General and administrative	24	102	78	76%
Other	-	17	17	100%
Total operating expenses	<u>24</u>	<u>324</u>	<u>300</u>	93%
(Loss) income from operations	<u>\$ (24)</u>	<u>\$ 85</u>	<u>\$ (109)</u>	(128)%
NON-OPERATING REVENUES/(EXPENSES):				
Interest income	10	10	-	0%
Contribution to the Commonwealth	<u>(2)</u>	<u>-</u>	<u>(2)</u>	(100)%
Total non-operating revenue	<u>8</u>	<u>10</u>	<u>(2)</u>	(20)%
Changes in net position	(16)	95	(111)	(117)%
Net position, beginning of year	<u>9,483</u>	<u>9,388</u>	<u>95</u>	1%
Net position, end of year	<u>\$ 9,467</u>	<u>\$ 9,483</u>	<u>\$ (16)</u>	(0.2)%

Comparative statements of net position show the changes in the Authority's financial position and the statements of revenues, expenses and change in net position provide guidance as to the nature and source of these changes.

The Authority's operating revenue decreased by approximately \$400 thousands when compared with fiscal year 2013 due to a significant reduction bond issuances and, therefore, no placement fees were earned during fiscal year 2014.

The Authority's non-operating revenue decreased by approximately \$2,000 when compared with fiscal year 2013 due to a contribution to the Commonwealth of Puerto Rico.

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(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**

5. Debt Administration – Conduit Debt

The Authority's main operations consist of issuing revenue bonds that are considered conduit debt and, therefore, neither these bonds nor the related loans granted by the Authority are presented in the accompanying basic financial statements. Revenue is earned from the collection of a placement fee which generally represents 1% of the face value of the bonds issued, except for bonds issued to finance educational, medical, or environmental control facilities or other projects otherwise eligible to be financed in the U.S. tax-exempt bond market, for which the placement fee charged is one half percentage (0.5%). The revenue bonds are special and limited obligations of the Authority 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 receivable under the loan agreements between the Authority and the borrowers.

Furthermore, payment of the 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 do not constitute a debt or a pledge of the good faith and credit of the Authority or the Commonwealth of Puerto Rico or any political subdivision thereof.

As of June 30, 2014, the Authority has issued revenue bonds in an aggregate amount of approximately \$6,353 million, which \$983 million are outstanding. See Note 6 to the basic financial for the composition of the revenues bonds outstanding.

6. Contacting the Authority's Financial Management

This financial report is designed to provide all interested with a general overview of the Authority's finances and to enhance the Authority's accountability for the resources it manages. If you have questions about this report or need additional financial information, contact the Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority, P.O. Box 42001, San Juan, Puerto Rico, 00940-2001.

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
JUNE 30, 2014**

ASSETS:	
Cash	\$ 9,540,688
Accrued interest receivable	<u>795</u>
Total assets	<u>\$ 9,541,483</u>
LIABILITIES — Accounts payable and accrued liabilities	<u>\$ 74,630</u>
NET POSITION — Unrestricted	<u>\$ 9,466,853</u>

See notes to basic financial statements.

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(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**

OPERATING EXPENSES AND LOSS	
FROM OPERATIONS — General and administrative	<u>23,869</u>
NON-OPERATING INCOME — Interest	<u>9,685</u>
NON-OPERATING EXPENSE — Contribution to the Commonwealth of Puerto Rico	<u>2,000</u>
CHANGE IN NET POSITION	(16,184)
NET POSITION - Beginning of year	<u>9,483,037</u>
NET POSITION - End of year	<u><u>\$ 9,466,853</u></u>

See notes to basic financial statements.

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY**
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS USED IN OPERATING ACTIVITIES — Payment for operating expenses	<u>(21,290)</u>
CASH FLOWS FROM INVESTING ACTIVITIES — Interest received	<u>9,685</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES — Contribution to the Commonwealth	<u>(2,000)</u>
NET CHANGE IN CASH	(13,605)
CASH - Beginning of year	<u>9,554,293</u>
CASH - End of year	<u><u>\$ 9,540,688</u></u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	\$ (23,869)
Adjustment to reconcile operating loss to net cash used in operating activities — Increase in accounts payable and accrued liabilities	<u>2,579</u>
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (21,290)</u></u>

See notes to basic financial statements.

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

1. REPORTING ENTITY

The Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (the "Authority") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") and an affiliate of the Government Development Bank for Puerto Rico (the "Bank"), created by Act No. 121 of the Legislature of the Commonwealth on June 27, 1977, as amended, (the "Act 121-1977").

The Authority was created to issue revenue bonds and to lend the proceeds thereof to finance the acquisition, construction, and equipping of industrial, tourist, educational, medical, and environmental control facilities. The Authority charges a placement fee based on the face value of the bonds issued. The Authority is exempt from taxation in Puerto Rico. See more information about these bonds on Note 6.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Authority 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 Trust 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 recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows or resources (revenues), vice versa. The adoption of Statement No. 65 did not have an impact on the results of the operations or in the presentation of the financial statements of the Authority.

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

Measurement Focus, Basis of Accounting and Financial Statements Presentation – The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Operating revenues are recorded when earned and operating expenses are recorded when incurred, regardless of the timing of related cash flow. The Authority's placement fee income is recognized upon the issuance of the bonds. Revenues and expenses not meeting these criteria are reported as non-operating revenues or expenses.

The statement of net position presents the Authority'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

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY**
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

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.

Income Tax – The Authority is exempt from taxation in Puerto Rico.

Use of Estimates – The preparation of the 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.

Revenue Bonds and Related Loans - Revenue bonds issued by the Authority are considered conduit debt and, therefore, neither these bonds nor the related loans granted by the Authority are presented in the accompanying basic financial statements.

Recent Accounting Pronouncements -

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

- 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 Statement No. 25*, into the accounting records of the individual agencies, public corporations and municipalities, whose employees participate in the Retirement Systems. The Authority, 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 Authority, would report the resulting Net Pension Liability from Statement 67 as follows:

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY**
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

- ✓ Based on the Authority'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 Authority's basic financial statements is not expected to be significant as the Authority currently has only one employee participating in the Retirement Systems. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014.

- 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.
- 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.

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

- 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.

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY**
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

- 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.

Management is evaluating the impact that these Statements will have on the Authority’s basic financial statements.

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY**
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

3. CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Authority 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 Authority does not have a custodial credit risk policy because at June 30, 2014 cash balance includes approximately \$9.6 million interest-bearing demand deposits with the Bank, which are not covered by federal depository insurance. The Authority is in compliance with Act No. 24 of February 13, 2014 (the "Act 24-2014") which requires certain public corporations and instrumentalities to have all its deposits in the Bank. Such demand deposits are uninsured and uncollateralized.

4. SERVICE AGREEMENT

The Authority has an agreement with the Bank whereby the Bank provides managerial, administrative and financial services to the Authority. Pursuant to this agreement, the Authority was not charged by the Bank during the fiscal year 2014.

5. PLACEMENT FEES

The Authority generally charges a placement fee of one percent (1%) of the face value of bond issued or as deemed appropriate for the specific issue, except for bonds issued to finance educational, medical, or environmental control facilities or other projects otherwise eligible to be placed in the U.S. tax-exempt bond market, for which the placement fee charged is one half percentage (0.50%). During the year ended June 30, 2014, no bonds were issued and, therefore, no placement fees were recorded.

6. REVENUE BONDS

The revenue bonds are special and limited obligations of the Authority 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 the Authority and the borrowers. Furthermore, payment of principal and interest on the revenue bonds is unconditionally guaranteed by the borrowers, their parent companies, or letters of credit generally issued by major U.S. banks or U.S. branches of international banks.

The revenue bonds are considered conduit debt and do not constitute a debt or a pledge of the good faith and credit of the Authority or the Commonwealth or any political subdivision thereof.

In connection with the issuance of revenue bonds, the Authority enters into trust agreements, whereby the Authority assigns and pledges to the trustees, for the benefit of the holders of the revenue bonds; (1) all amounts receivable by the Authority in repayment of the amounts due under the loan agreements; (2) any rights, title, and interest of the

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND
ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

Authority 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 there from; and (3) the Authority's rights, title, and interest in and to the loan agreements, subject to the Authority's retention of certain rights, including the right to collect moneys payable to the Authority, which are not received with respect to repayment of the loans.

At June 30, 2014, the Authority has issued revenue bonds in an aggregate amount of approximately \$6,353 million, of which approximately \$983 million are outstanding.

Outstanding revenue bonds as of June 30, 2014, are as follows:

Revenue Bonds	Original Amount	Outstanding Amount
Commercial / Industrial	\$ 528,639,745	\$ 409,296,914
Educational	368,060,000	312,980,000
Medical	195,295,000	163,255,000
Tourist	110,725,000	97,210,000
	\$ 1,202,719,745	\$ 982,741,914

7. SUBSEQUENT EVENTS

On October 1, 2014, certain outstanding commercial revenue bonds in the amount of approximately \$22.1 million were paid.

Subsequent events were evaluated through February 1, 2016, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the 2014 financial statements.