

# PRESS RELEASE



## Office of the Secretary

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### TREASURY DEPARTMENT SUBMITS COMMONWEALTH OF PUERTO RICO AUDITED FINANCIAL STATEMENTS FOR FY 2012-2013

**Actual General Fund Expenditures and General Fund Deficit reduced by \$973 Million and \$531 Million with respect to Prior Fiscal Year, respectively.**

(San Juan, Puerto Rico) Yesterday, the Secretary of Treasury for the Commonwealth of Puerto Rico, Melba Acosta Febo, submitted the Commonwealth of Puerto Rico audited financial statements for the fiscal year 2012-2013 that ended on June 30, 2013. The 2012-2013 financial statements covers the first semester of the fiscal year that corresponded to former Governor Luis Fortuño's administration, and includes the operations of all the government agencies, public corporations, the University of Puerto Rico, and other component units of the Commonwealth of Puerto Rico. These statements were audited by KPMG, LLP.

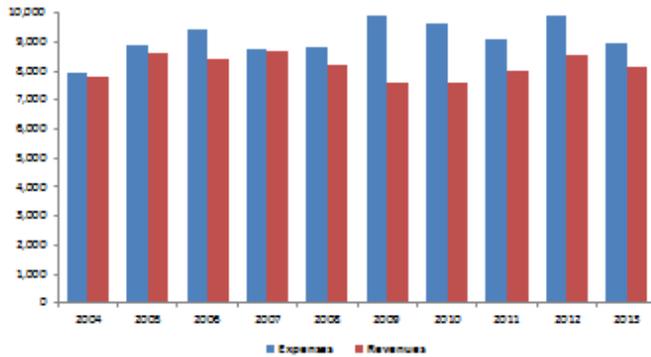
Acosta Febo reported that actual expenditures on a budgetary basis for the General Fund for the fiscal year ended on June 30, 2013 amounted to \$8,938 million, which reflects a decrease of \$973 million with respect to actual expenditures on a budgetary basis for FY 2011-2012, which totaled \$9,911 million.

Acosta Febo also noted that the General Fund actual deficit for the for the fiscal year ended on June 30, 2013, without the effect of other financing sources, decreased by approximately \$531 million, or 39.6%, with respect to FY 2011-2012, and decreased by approximately \$275 million, or 25.2%, with respect for FY 2010-2011, which totaled \$1,081 million (see attached table).

The Secretary of Treasury reported that the actual General Fund revenues for FY 2013, on a budgetary basis, decreased by \$442 million. Actual General Fund revenues amounted to \$8,131 million in FY 2012-13 and \$8,573 in FY 2011-2012. The General Fund actual deficiency of revenues under expenditures, on a budgetary basis, for FY 2012-13, was \$807 million, which consists of the difference between actual revenues of approximately \$8,131 million and actual expenditures of \$8,938 million. After other financing sources, the General Fund actual deficit for FY 2012-2013 was reduced to \$191 million.

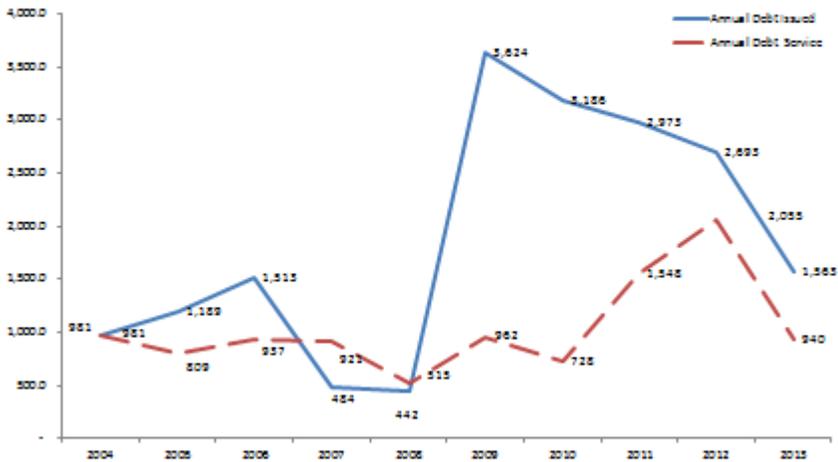
The following figure demonstrates the relationship between revenues (prior to financing activities) and actual expenditures on a budgetary basis (excluding transfers out and other payments for debt service) for fiscal years ended on June 30, 2004 to June 30, 2013. This demonstrates that General Fund revenues have not been sufficient to cover actual expenses for such fiscal years.

**Revenues vs. Expenses  
General Fund  
Million \$**



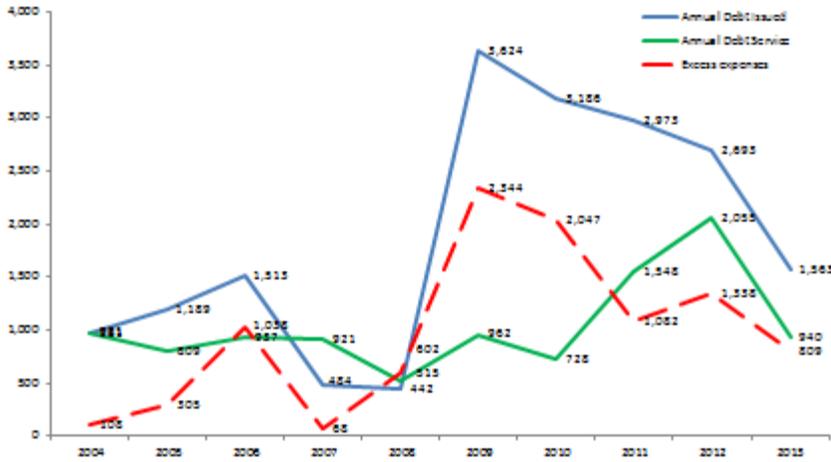
Excess expenses were mainly funded by issuing debt. The following figure shows the relationship between issued debt and annual debt payments:

**Annual Debt Issued v. Annual Debt Service  
Million \$**



The following figure demonstrates the relationship between the annual debt issued, debt service payments and the deficiency of revenues under expenditures.

## Annual Debt Issued, Debt Service and Excess Expenses Million \$



Acosta Febo emphasized that as soon as the administration of current Governor Alejandro García Padilla assumed office in January 2013 (i.e., for the second semester of FY 2012-2013) measures were taken to reduce the projected General Fund deficit for FY 2012-13 from \$2,200 million to \$807 million. As noted above, the \$807 million General Fund deficit was reduced through a number of diverse, non-recurring revenue measures, which include, among other items, the transfer of \$240 million from an excess in the debt service reserve fund for the General Fund, a \$333 million financing utilizing COFINA, and other measures equaling \$45 million. Notwithstanding such efforts, a deficit of \$191 remains. This amount, however, represents a reduction of \$509 million, or 72%, with respect to the budgetary actual deficit for FY2011-2012, after other financing measures, of \$700 million.”

“This Administration is firmly committed to eliminating the practice of funding operational expenditures with financings. Contrary to a decade-long practice, the budget approved for fiscal year 2014-2015 does not contain any deficit financing measures, or the refinancing of obligations payable during the fiscal year,” said the Secretary of Treasury. “For the first time in many years, the Commonwealth will pay its obligations from recurring sources of income without relying on the refinancing. Puerto Rico is making great strides to stabilize its finances.”

The Secretary of Treasury also noted that all Commonwealth agencies, certain public corporations, and other entities reported a net deficit in the aggregate amount of \$47,213 million, which represents an increase of approximately \$5,383 million with respect to the net deficit as of June 30, 2012.

Long-term debt amounted \$56.9 billion, of which \$2.4 billion is payable within one year. Long-term debt increased by \$3.2 billion, or 6%, with respect to the previous fiscal year.

“It is important to note that we have reduced an inherited structural deficit of approximately \$2,200 million on January 2013 to \$820 million for the 2013-14 budgets. This deficit was composed of debt refinancing of \$575 million and a deficit financing of \$245 million. During the course of FY 2013-14, the budget was amended to account for a reduction in spending of \$170 million, which resulted in a revised deficit of \$650 million, comprising of \$575 in debt service refinancing and \$75 million in deficit financing, instead of the original \$820 million deficit,” Acosta Febo explained.

The Treasury Secretary also noted that “The projected deficit of \$650 million has been covered through the refinancing of \$575 million in debt service payments (with proceeds from the \$3.5 billion general obligation bond issuance completed earlier this year) and a loan provided by GDB for \$75 million. To address the revenue gap of approximately \$320 million caused by lower than projected revenues for April, the Commonwealth reduced their expenses by an additional \$355 million. The 2013-14 budget deficit was addressed during the preparation of the 2014-15 budget.”

“This administration has undertaken measures to restore the Commonwealth’s financial condition. We are focused on continuing our path towards strengthening our finances while fostering economic development and job creation, positioning Puerto Rico as the world class country it really is,” said the Secretary.

The date for the release of the Commonwealth’s Financial Statements was May 1<sup>st</sup> 2014. Treasury was not able to release the Financial Statements on time due to a series of factors. On April 30, 2014, Treasury disclosed to the market that the Financial Statements would be released on or before June 30, 2014.

“The 2012 Financial Statements were released on September 16, 2013, and in a period of less than ten months we have filed the Financial Statements for FY 2013. This Administration is committed to releasing the Commonwealth’s future financial statements within the established due date, which is on or before May 1<sup>st</sup>,” added the Secretary.

Due to the implementation of the Governmental Accounting Standards Board’s accounting pronouncement number 61, the Financial Statements, as of June 30, 2013, are not comparable with prior fiscal years financial statements. This accounting pronouncement required that the financial results of the Puerto Rico Infrastructure Financing Authority, the Medical Services Administration, and the Special Communities Trust within the Commonwealth’s governmental funds, instead of the columns for the component units of the Commonwealth, where the majority of the public corporations are included.

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Commonwealth of Puerto Rico  
Statement of Revenues and Expenditures - Actual -  
General Fund  
Year ended June 30  
(Thousands \$)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total Revenues	7,833,786	8,602,915	8,423,297	8,717,622	8,207,097	7,583,494	7,593,308	7,993,819	8,573,497	8,131,381
Total Expenditures	7,941,915	8,908,234	9,460,759	8,785,506	8,809,249	9,927,470	9,640,361	9,075,469	9,911,208	8,938,465
Excess (deficiency) of revenues over (under) expenditures before financing sources	(108,129)	(305,319)	(1,037,462)	(67,884)	(602,152)	(2,343,976)	(2,047,053)	(1,081,650)	(1,337,711)	(807,084)
Total Other financing sources	411	380,541	576,221	(436,980)	(72,255)	2,664,117	2,457,904	1,425,542	638,100	616,082
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	(107,718)	75,222	(461,241)	(504,864)	(674,407)	320,141	410,851	343,892	(699,611)	(191,002)

\* Includes transfer from COFINA of \$3,455,064  
 \*\* Includes transfer from COFINA of \$2,688,173  
 \*\*\* Includes transfer from COFINA of \$1,551,965  
 \*\*\*\* Includes transfer from COFINA of \$952,615  
 \*\*\*\*\* Includes transfer from COFINA of \$459,148

Estado Libre Asociado de Puerto Rico  
Estado de Ingresos y Gastos - Actual  
al 30 de junio  
(miles \$)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total Ingresos	7,833,786	8,602,915	8,423,297	8,717,622	8,207,097	7,583,494	7,593,308	7,993,819	8,573,497	8,131,381
Total Gastos	7,941,915	8,908,234	9,460,759	8,785,506	8,809,249	9,927,470	9,640,361	9,075,469	9,911,208	8,938,465
Exceso (deficiencia) de ingresos sobre (bajo) gastos antes de fuentes de financiamiento	(108,129)	(305,319)	(1,037,462)	(67,884)	(602,152)	(2,343,976)	(2,047,053)	(1,081,650)	(1,337,711)	(807,084)
Total otras fuentes de financiamiento	411	380,541	576,221	(436,980)	(72,255)	2,664,117	2,457,904	1,425,542	638,100	616,082
Exceso (deficiencia) de ingresos y otras fuentes de financiamiento sobre (bajo) gastos y otros usos	(107,718)	75,222	(461,241)	(504,864)	(674,407)	320,141	410,851	343,892	(699,611)	(191,002)

\* Incluye transferencia de COFINA de \$3,455,064  
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