Puerto Rico Housing Finance Authority

(A Component Unit of Government Development Bank for Puerto Rico)

Basic Financial Statements, Required Supplementary Information, and Additional Supplementary Information as of and for the Year Ended June 30, 2011, and Independent Auditors' Report

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors of
Puerto Rico Housing Finance Authority:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Puerto Rico Housing Finance Authority (the "Authority"), a component unit of Government Development Bank for Puerto Rico, as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Authority, as of June 30, 2011, and the respective changes in financial position and respective cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 to 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Authority's respective financial statements that collectively comprise the Authority's basic financial statements. The additional supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional supplementary information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

December 15, 2011

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This section presents a narrative overview of the financial performance of Puerto Rico Housing Finance Authority (the "Authority") as of and for the year ended June 30, 2011. The information presented here should be read in conjunction with the Authority's basic financial statements, including the notes thereto.

1. FINANCIAL HIGHLIGHTS

- Net assets of the Authority decreased $25 million, from $634 million as of June 30, 2010, to $609 million as of June 30, 2011. The decrease was the net result of a decrease in the net assets of governmental activities of $34 million and an increase of $9 million in the net assets of business-type activities.

- Operating income of enterprise fund activities was $10 million and $20 million for the years ended June 30, 2011 and 2010, respectively. Total operating revenues of enterprise funds decreased to $103 million in 2011 from $116 million in 2010. Total operating expenses decreased to $93 million in 2011 from $96 million in 2010. There were interfund transfers in the amount of $220 thousand during the year ended June 30, 2011.

- Effective July 1, 2010, the Authority was certified by the U.S. Department of Housing and Urban Development to administer the HOME Investment Partnerships Program ("HOME") and commenced the operation of the program. The objective of the HOME program is to provide decent affordable housing to lower income households, expand the capacity of nonprofit housing providers, strengthen the ability of state and local governments to provide housing and leverage private-sector participation. Total government-wide revenues and expenses of the HOME program for the year ended June 30, 2011, amounted to $16.9 million and $16.6 million, respectively.

- On August 6, 2010, the Legislature of the Commonwealth of Puerto Rico (the "Commonwealth") approved Act No. 122, Act for the Financing of My New Home Program. The Act assigned to the Authority a portion of no less than 80% of the unreserved moneys and other liquid funds abandoned or unclaimed in financial institutions of Puerto Rico to finance the Program. The Authority obtained a line of credit facility of approximately $64 from Government Development Bank under the provisions of the Act. For the year ended June 30, 2011, total subsidies paid under the program amounted to $31.0 million.

- During October 2010, the Authority received an operating contribution of $36.8 million from the Local Economic Stimulus Program to fund its Closing Costs Assistance Program. The contribution was accounted for in the governmental activities. This program provides subsidies to eligible participants to cover origination and closing costs on loans that cannot exceed $300,000 of the eligible principal residence. For the year ended June 30, 2011, total subsidies paid under the program amounted to $35.9 million.

- During November 2010, the Authority issued approximately $14 million ($7.1 million on a discounted basis) of Special Obligations Notes, B Series collateralized by second mortgages issued by the Home Purchase Stimulus Program.

- On July 2, 2010, the Commonwealth of Puerto Rico (the "Commonwealth") enacted Act No. 70, *Incentive, Retirement and Retraining Program,* designated to reduce government expenditures by providing an early retirement program for eligible employees under a formula that results in a positive actuarial impact for the government retirement benefits. Employees that voluntarily elected to participate in the program received retirement benefits based on lower salary and pension rate than they would otherwise have entitled to if they had continued in their employment until full vesting, but a higher rate than what would be entitled based on their current years of service. A charge of $1.3 million was recorded within salaries and fringe benefits to account for the termination benefits of the participating employees of the Authority.

- In February 2011, the Commonwealth made a $1.2 million contribution to the Authority for the interest payment of its line of credit of the AHMSP Stage 10 fund.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of three parts, management's discussion and analysis (this section), the basic financial statements, and additional supplementary information. The basic financial statements include two types of statements that present different views of the Authority:

- The first two statements are the government-wide financial statements that provide information about the Authority's overall financial position and results. These statements, which are presented on the accrual basis of accounting, consist of the statement of net assets (deficiency) and the statement of activities.

- The remaining statements are fund financial statements of the Authority's major and nonmajor governmental funds, for which activities are funded primarily from Commonwealth appropriations and for which the Authority follows the modified accrual basis of accounting, and of the Authority's major and nonmajor enterprise funds, which operate similar to business activities and for which the Authority follows the accrual basis of accounting.

- The basic financial statements also include the notes to financial statements section that explains some of the information in the government-wide and fund financial statements and provides more detailed data.

- The notes to the basic financial statements are followed by a supplementary information section, which presents information of the fund financial statements of nonmajor funds for governmental and business-type activities.

The government-wide financial statements report information about the Authority as a whole using accounting methods similar to those used by private sector companies. The statement of net assets (deficiency) includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when the cash is received or paid.

3. FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Authority's most significant funds and not the Authority as a whole. The Authority has two types of funds:

Governmental Funds — Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Authority's near term financial requirements.

Enterprise Funds — The Authority's primary activities are included in its enterprise funds, which are accounted for in a manner similar to businesses operating in the private sector. Funding has primarily arisen through accumulated enterprise earnings, the issuance of tax-exempt bonds, the proceeds of which are primarily used to grant various types of loans to finance low- and moderate-income housing. The net assets of these funds represent earnings accumulated since their inception, and are generally restricted for program purposes.

4. FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

We provide the readers of these basic financial statements with the following summarized discussion and analysis of the relevant facts that affected the government-wide financial statements as of June 30, 2011 and June 30, 2010 (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Cash	$ 9,390	$ 6,868	$ 9,730	$ 31,655	$ 19,120	$ 38,523
Investments and deposits placed with banks	154,134	117,044	1,199,000	1,264,835	1,353,134	1,381,879
Loans receivable — net			246,803	208,135	246,803	208,135
Capital assets	42		3,103	3,601	3,145	3,601
Other assets, net of internal balances	(21,445)	27,449	66,488	36,408	45,043	63,857
Total assets	142,121	151,361	1,525,124	1,544,634	1,667,245	1,695,995
Liabilities:						
Current liabilities	106,585	89,507	107,297	100,229	213,882	189,736
Long-term liabilities	71,142	63,433	773,228	809,169	844,370	872,602
Total liabilities	177,727	152,940	880,525	909,398	1,058,252	1,062,338
Net assets:						
Invested in capital assets	42		3,103	3,601	3,145	3,601
Restricted	50,720	52,933	311,329	296,977	362,049	349,910
Unrestricted assets (deficit)	(86,368)	(54,512)	330,167	334,658	243,799	280,146
Total net assets	$ (35,606)	$ (1,579)	$ 644,599	$ 635,236	$ 608,993	$ 633,657

The net assets of the Authority decreased $25 million from $634 million at June 30, 2010, to $609 million at June 30, 2011, as a result of a decrease of $29 million in total assets and $4 million in total liabilities. The decrease in total assets is mainly due to the following:

- Cash decrease from $38 million in June 2010 to $19 million in June 2011 or a $19 million decrease. The decrease was the result of some factors: reduction of $12 million on the Home Purchase Stimulus Program due to payments of second mortgages to financial institutions, reduction of $8 million used for bonds principal payment on Mortgage Trust III, and reduction of $4 million due to origination of multifamily and single-family loans, an increase of $3 million of My New Home Program and $2 million of the HOME Program.

- Investments, investment contracts, and deposits placed with banks decreased from $1,382 million at June 30, 2010, to $1,353 million at June 30, 2011, or a $29 million decrease. This decrease was principally the result of the use of investments for originations of construction loans and single-family loans.

- Other assets decreased from $64 million at June 30, 2010, to $45 million at June 30, 2011, or a decrease of $19 million. This decrease is mainly the result of the collection of the amounts due from the Commonwealth of $5 million and the decrease in the amounts due from federal government recorded in the American Recovery and Reinvestment Act of 2009 ("ARRA") Programs of $11 million.

The changes in total liabilities are mainly due to the following:

- Current liabilities increased from $190 million at June 30, 2010, to $214 million at June 30, 2011, or $24 million. The increase was mainly the result of activities in 2011 of the new My New Home Program with aggregate accounts payable and accrued liabilities of $25 million.

- Long term liabilities decreased from $873 million at June 30, 2010, to $843 million at June 30, 2011, or $30 million. This reduction was principally the result of redemption on Single-Family Mortgage Revenue Bonds Portfolios, Homeownership Mortgage Revenue Bonds, and mortgage-backed certificates payable.

5. STATEMENT OF ACTIVITIES

The statement of activities shows the sources of the Authority's changes in net assets as they arise through its various programs and functions. Programs such as the Housing and Urban Development (HUD) Programs, ARRA Programs, Closing Costs Assistance Program, and My New Home Program are shown as governmental activities, and other programs (Operating and Administrative, Single-Family Mortgage Revenue Bonds Portfolio IX, Mortgage Loan Insurance, and Home Purchase Stimulus Program) are shown as business-type activities. Condensed statements of activities for the fiscal years ended June 30, 2011 and 2010, are shown in the table below (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	$ -	$ -	$ 13,321	$ 11,114	$ 13,321	$ 11,114
Financing and investment	4,690	4,743	89,326	104,413	94,016	109,156
Operating grants, capital grants, and contributions	279,609	225,268		34,000	279,609	259,268
Total revenues	284,299	230,011	102,647	149,527	386,946	379,538
Program expenses:						
General government and other	6,155	4,776			6,155	4,776
Payments for housing assistance programs (including interest expense)	311,951	250,787			311,951	250,787
Operating and administrative			28,713	31,742	28,713	31,742
Mortgage Trust III			31,666	32,620	31,666	32,620
Single Family Mortgage Revenue Bonds — Portfolio IX			5,957	6,737	5,957	6,737
Mortgage-Backed Certificates 2006 Series A			6,537	7,415	6,537	7,415
Other business-type activities			20,631	17,639	20,631	17,639
Total expenses	318,106	255,563	93,504	96,153	411,610	351,716
Change in net assets before transfers	(33,807)	(25,552)	9,143	53,374	(24,664)	27,822
Transfers	(220)	(4,902)	220	4,902		-
Increase (decrease) in net assets	(34,027)	(30,454)	9,363	58,276	(24,664)	27,822
Net assets — beginning of year	(1,579)	28,875	635,236	576,960	633,657	605,835
Net assets — end of year	$ (35,606)	$ (1,579)	$644,599	$635,236	$608,993	$633,657

- Total revenues increased from $380 million in 2010 to $387 million in 2011 or $7 million. Operating grants and contributions increased by $21 million when compared to the prior year. Operating grants and contributions increased from $259 million in 2010 to $280 million in 2011 mainly as a result of $16 million from the commencement of the HOME Program.

- Program expenses increased from $352 million in 2010 to $412 million in 2011 or $60 million. The increase in expenses of governmental activities was mainly due to an increase in expenditures of housing assistance programs; ARRA Programs, HOME Program, Closing Costs Assistance Program, My New Home Program, and Protecting Your Home Program.

6. GOVERNMENTAL FUND RESULTS

Following is an analysis of the financial position and results of operations of the Authority's major governmental funds:

HUD Programs — This fund accounts for the U.S. Housing Act Section 8 programs administered by the Authority under the authorization of the U.S. Department of Housing and Urban Development. Presently, the Authority operates three programs whereby low-income families receive directly or indirectly subsidies to pay for their rent. The housing vouchers program enables families to obtain rental housing in a neighborhood of their choice. The other programs are project-based subsidies whereby housing developers are given incentives to keep their properties available for certain markets. The expenditures of the HUD programs increased $2 million from $125 million in 2010 to $127 million in 2011. The expenditures in the housing vouchers program increased $2 million because additional vouchers were awarded when compared to the previous year.

ARRA Programs — On February 17, 2010, ARRA was signed into law in the United States of America. The purpose of ARRA is to jumpstart the nation's ailing economy, with a primary focus on creating and savings jobs in the near term and investing in infrastructure that will provide long-term economic benefits. During the year ended June 30, 2011, the Authority expended $95.7 million as part of this program.

Closing Costs Assistance Program — This program was created to provide subsidy to families to cover closing costs related to the purchase of housing units, subject to certain maximum amounts. During this year, the program received $36.8 million from the Commonwealth. During the year ended June 30, 2011, total subsidy expenditures amounted to $35.9 million.

My New Home Program — This program provides subsidies to eligible families in the purchase of a principal residence though reimbursements of origination and closing costs. During the year ended June 30, 2011, total subsidy expenditures amounted to $31 million.

At June 30, 2011, the Authority had various governmental funds in a deficit position. The Authority expects to cover these deficits through contributions from the Commonwealth. Refer to Note 18 to the basic financial statements for additional information on these funds.

7. ENTERPRISE FUND RESULTS

Total net assets of the Authority's enterprise funds increased during the year ended June 30, 2011, by $9.4 million. Following is an analysis of the financial position and results of operations of the major enterprise funds:

Operating and Administrative — The net assets of the Operating and Administrative fund decreased from $368 million at June 30, 2010 to $365 million at June 30, 2011, or $3 million. The change in net assets decreased from $23 million in 2010 to a $3 million deficit in 2011 or a change of $26 million, which was mainly due to decrease in contributions received from Central Government of $29.5 million during year ended June 30, 2010, to finance the co-participation program.

Mortgage Trust III — Investment income and interest income on loans for 2011 amounted to $39 million while interest expense and fees amounted to $32 million during the year ended June 30, 2011. Since the bonds accounted for in this fund are zero-coupon bonds, interest payments are not required to be made until maturity. During the year, the fund made principal payments of $43 million on matured bonds.

Single Family Mortgage Revenue Bonds Portfolio IX — This fund had investment income of $9 million and incurred interest expense on bonds payable of $6 million. During the year, the fund made principal payments of $9 million on bonds.

Mortgage-Backed Certificates 2006 Series A — This fund had investment income of $8 million and incurred interest expense on bonds payable of $6 million. During the year, this fund paid $9 million of mortgage-backed certificates payable.

8. CAPITAL ASSETS

The Authority's investment in capital assets for its business-type activities as of June 30, 2011 and 2010, amounted to approximately $3.1 million and $3.6 million, respectively, net of accumulated depreciation and amortization. Capital assets include leasehold improvements, information systems, office furniture, equipment, and vehicles.

9. AUTHORITY DEBT

The Authority uses long-term debt as its main tool to meet its policy objectives. Debt is issued to provide low interest rate mortgage opportunities to qualified buyers. This is achieved through the acquisition of mortgage-backed securities that are secured with low-income housing assistance mortgages.

At June 30, 2011 and June 30, 2010, total debt outstanding amounted to $952 million and $982 million, respectively. Debt issuances during 2011 and 2010 totaled $14.2 million and $32.0 million, respectively. Debt issued in 2011 consisted of approximately $434 thousand from a revolving credit facility with Government Development Bank for Puerto Rico (GDB) under the co-participation program, $7.1 million of Special Obligation Notes, 2011 Series A under the Home Purchase Stimulus Program, $1.4 million from notes payable to GDB under the AHMSP Stage 7 and Stage 10 funds, and $5.2 million under the New Secure Housing Program's line of credit. Debt repaid during fiscal years 2011 and 2010 amounted to approximately $78 million and $298 million, respectively. During the year ended June 30, 2011, the amounts of $2 million and $76 million were repaid in the governmental and business-type activities, respectively.

10. REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Office of the Executive Director, Puerto Rico Housing Finance Authority, P.O. Box 71361, San Juan, Puerto Rico, 00936.

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF NET ASSETS (DEFICIENCY)
AS OF JUNE 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	$ -	$ 2,523,129	$ 2,523,129
Deposits placed with banks		57,382,535	57,382,535
Investments and investment contracts		18,286,389	18,286,389
Loans receivable — net		211,821,055	211,821,055
Interest and other receivables		1,994,953	1,994,953
Other assets		4,938	4,938
Due from (to) other funds	(43,195,852)	43,195,852	-
Restricted assets:			
Cash	9,389,596	7,207,386	16,596,982
Deposits placed with banks	68,101,498	422,109,808	490,211,306
Investments and investment contracts	86,032,907	701,220,990	787,253,897
Interest and other receivables	317,277	4,236,561	4,553,838
Due from federal government — net	21,251,149		21,251,149
Loans receivable — net		34,981,844	34,981,844
Real estate available for sale		1,926,940	1,926,940
Deferred debt issue costs	182,776	5,286,517	5,469,293
Real estate available for sale		962,161	962,161
Property held in trust for Department of Housing		8,880,000	8,880,000
Capital assets — net	41,711	3,102,973	3,144,684
Total assets	142,121,062	1,525,124,031	1,667,245,093
LIABILITIES AND NET ASSETS (DEFICIENCY)			
LIABILITIES:			
Accounts payable and accrued liabilities		11,573,054	11,573,054
Accrued interest payable		26,845	26,845
Due to Government Development Bank for Puerto Rico — due in more than one year		2,707,055	2,707,055
Liabilities payable from restricted assets:			
Accounts payable and accrued liabilities	67,046,546	25,796,231	92,842,777
Accrued interest payable	256,830	1,341,648	1,598,478
Notes payable — due in more than one year	4,811,237		4,811,237
Due to Government Development Bank for Puerto Rico:			
Due in one year	39,281,780		39,281,780
Due in more than one year	66,330,832		66,330,832
Bonds and mortgage-backed certificates payable:			
Due in one year		68,559,063	68,559,063
Due in more than one year		770,520,823	770,520,823
Total liabilities	177,727,225	880,524,719	1,058,251,944
NET ASSETS (DEFICIENCY):			
Invested in capital assets	41,711	3,102,973	3,144,684
Restricted for:			
Affordable housing program	50,719,908	247,643,522	298,363,430
Other housing programs		2,566,860	2,566,860
Mortgage loan insurance		61,118,599	61,118,599
Unrestricted	(86,367,782)	330,167,358	243,799,576
Total net assets (deficiency)	$ (35,606,163)	$ 644,599,312	$ 608,993,149

See accompanying notes to basic financial statements.

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank of Puerto Rico)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services — Fees, Commissions, and Others	Charges for Services — Financing and Investment	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
FUNCTIONS/PROGRAMS:							
Governmental activities:							
General government and other	$ 6,155,654	$ -	$ -	$ -	$ (6,155,654)	$ -	$ (6,155,654)
Housing assistance programs	311,950,727		4,690,669	279,608,816	(27,651,242)		(27,651,242)
Total governmental activities	318,106,381	-	4,690,669	279,608,816	(33,806,896)	-	(33,806,896)
Business-type activities:							
Operating and administrative	28,712,985	8,957,523	16,654,780			(3,100,682)	(3,100,682)
Mortgage Trust III	31,666,286		39,371,356			7,705,070	7,705,070
Single-Family Mortgage Revenue Bonds Portfolio IX	5,956,601		8,828,414			2,871,813	2,871,813
Mortgage-Backed Certificates 2006 Series A	6,537,348		8,356,025			1,818,677	1,818,677
Other business-type activities	20,630,553	4,364,035	16,115,137			(151,381)	(151,381)
Total business-type activities	93,503,773	13,321,558	89,325,712	-	-	9,143,497	9,143,497
Total functions/prgorams	$411,610,154	$13,321,558	$94,016,381	$279,608,816	(33,806,896)	9,143,497	(24,663,399)
TRANSFER IN (OUT) — Net					(219,989)	219,989	-
CHANGE IN NET ASSETS (DEFICIENCY)					(34,026,885)	9,363,486	(24,663,399)
NET ASSETS (DEFICIENCY) — Beginning of year					(1,579,278)	635,235,826	633,656,548
NET ASSETS (DEFICIENCY) — End of year					$ (35,606,163)	$ 644,599,312	$ 608,993,149

See accompanying notes to basic financial statements.

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

BALANCE SHEET — GOVERNMENTAL FUNDS
AS OF JUNE 30, 2011

	HUD Programs	ARRA Programs	Closing Costs Assistance Program	My New Home Program	Other Nonmajor Governmental Funds	Eliminations	Total
ASSETS							
DUE FROM OTHER FUNDS	$ -	$ -	$ -	$ -	$ 326,918	$ (303,809)	$ 23,109
RESTRICTED:							
Cash	2,152,006	276	827,655	3,084,540	3,325,119		9,389,596
Deposits placed with banks			10,657,011	32,028,000	25,416,487		68,101,498
Investments and investment contracts					86,032,907		86,032,907
Interest and other receivables	3,219		6,767	63,423	243,868		317,277
Due from federal government	1,295,759	11,205,824			8,749,566		21,251,149
TOTAL	$3,450,984	$11,206,100	$ 11,491,433	$ 35,175,963	$124,094,865	$ (303,809)	$185,115,536
LIABILITIES AND FUND BALANCES (DEFICIT)							
LIABILITIES:							
Due to other funds	$1,149,277	$ -	$ -	$ 40,119,127	$ 2,254,366	$ (303,809)	$ 43,218,961
Payable from restricted assets:							
Accounts payable and accrued liabilities	2,301,707	11,206,100	5,726,850	25,855,146	21,956,743		67,046,546
Deferred revenue					4,576,161		4,576,161
Due to Government Development Bank for Puerto Rico					40,792,970		40,792,970
Total liabilities	3,450,984	11,206,100	5,726,850	65,974,273	69,580,240	(303,809)	155,634,638
FUND BALANCES (DEFICIT):							
Restricted for affordable housing programs			5,764,583		84,111,493		89,876,076
Unassigned				(30,798,310)	(29,596,868)		(60,395,178)
Total fund balances (deficit)	-	-	5,764,583	(30,798,310)	54,514,625	-	29,480,898
TOTAL	$3,450,984	$11,206,100	$ 11,491,433	$ 35,175,963	$124,094,865	$ (303,809)	$185,115,536

See accompanying notes to basic financial statements.

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

RECONCILIATION OF THE BALANCE SHEET — GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS (DEFICIENCY) AS OF JUNE 30, 2011

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS (DEFICIENCY) ARE DIFFERENT BECAUSE:	
Total fund balances	$ 29,480,898
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	41,711
Deferred debt issue costs that are recorded as expenditures in governmental funds, but are capitalized in the government-wide financial statements	182,776
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds	(69,630,879)
Accrued interest payable not due and payable in the current period	(256,830)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds	4,576,161
NET DEFICIENCY OF GOVERNMENTAL ACTIVITIES	$ (35,606,163)

See accompanying notes to basic financial statements.

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2011

	HUD Programs	ARRA Programs	Closing Costs Assistance Program	My New Home Program	Other Nonmajor Governmental Funds	Total
REVENUES:						
Commonwealth appropriations for repayment of bonds or housing assistance programs	$ -	$ -	$36,774,000	$ -	$ 1,492,536	$ 38,266,536
Intergovernmental — federal government	127,100,197	95,739,443			11,807,876	234,647,516
Interest income on deposits placed with banks	9		103,257	774	109,124	213,164
Interest income on investments and investment contracts					4,501,579	4,501,579
Net decrease in fair value of investments					(24,074)	(24,074)
Other	24,148		22,701	189,175	1,882,579	2,118,603
Total revenues	127,124,354	95,739,443	36,899,958	189,949	19,769,620	279,723,324
EXPENDITURES:						
Current:						
General government and other	4,980,335				1,175,319	6,155,654
Housing assistance programs	122,144,019	95,739,443	35,931,029	30,988,259	24,612,354	309,415,104
Debt service:						
Principal					303,258	303,258
Interest					3,205,281	3,205,281
Capital outlays — General government and other					41,711	41,711
Total expenditures	127,124,354	95,739,443	35,931,029	30,988,259	29,337,923	319,121,008
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	968,929	(30,798,310)	(9,568,303)	(39,397,684)
OTHER FINANCING SOURCES (USES):						
Issuance of long-term debt					4,362,262	4,362,262
Transfers in					40,342,947	40,342,947
Transfers out					(40,562,936)	(40,562,936)
Total other financing sources — net	-	-	-	-	4,142,273	4,142,273
NET CHANGE IN FUND BALANCES	-	-	968,929	(30,798,310)	(5,426,030)	(35,255,411)
FUND BALANCES — Beginning of year			4,795,654		59,940,655	64,736,309
FUND BALANCES — End of year	$ -	$ -	$ 5,764,583	$ (30,798,310)	$ 54,514,625	$ 29,480,898

See accompanying notes to basic financial statements

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:	
Net changes in fund balance — total governmental funds	$ (35,255,411)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds; neither transaction, however, has any effect on net assets	(3,380,215)
Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which capital outlays exceeded depreciation in the current period	41,711
Revenues in the statement of activities that do provide current financial resources are not reported as revenues in the governmental funds	4,576,161
Governmental funds report the effect of issuance costs when debt is first issued, whereas these costs are deferred and amortized in the statement of activities. This amount is the amortization for the year	(9,131)
Change in net deficiency of governmental activities	$ (34,026,885)

See accompanying notes to basic financial statements.

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

BALANCE SHEET — ENTERPRISE FUNDS
AS OF JUNE 30, 2011

ASSETS	Operating and Administrative	Mortgage Trust III	Single-Family Mortgage Revenue Bonds Portfolio IX	Mortgage-Backed Certificates 2006 Series A	Others Nonmajor Enterprise Funds	Eliminations	Total
CURRENT ASSETS:							
Cash	$ 2,523,129	$ -	$ -	$ -	$ -	$ -	$ 2,523,129
Deposits placed with banks	57,382,535						57,382,535
Loans receivable — net	5,200,000						5,200,000
Interest receivable	1,496,402						1,496,402
Other receivables	498,551						498,551
Other assets	4,938						4,938
Due from other funds	44,644,102				25,531	(1,450,672)	43,218,961
Restricted:							
Cash		1,362,306			5,845,080		7,207,386
Deposits placed with banks	29,500,000	318,946,268	55,103	11,839,762	61,768,675		422,109,808
Investments and investment contracts		10,109			1,067,679		1,077,788
Loans receivable — net		528,000					528,000
Interest receivable		207,517	468,677	586,891	1,066,001		2,329,086
Other receivables					1,907,475		1,907,475
Total current assets	141,249,657	321,054,200	523,780	12,426,653	71,680,441	(1,450,672)	545,484,059
NONCURRENT ASSETS:							
Investments and investment contracts	18,286,389						18,286,389
Loans receivable — net	206,621,055						206,621,055
Real estate available for sale	962,161						962,161
Property held in trust for Department of Housing	8,880,000						8,880,000
Capital assets	3,102,973						3,102,973
Restricted:							
Investments and investment contracts		223,777,037	118,249,966	126,143,644	231,972,555		700,143,202
Loans receivable — net		2,264,834			32,189,010		34,453,844
Deferred debt issue costs			162,588	1,455,743	3,668,186		5,286,517
Real estate available for sale					1,926,940		1,926,940
Total noncurrent assets	237,852,578	226,041,871	118,412,554	127,599,387	269,756,691	-	979,663,081
TOTAL	$ 379,102,235	$ 547,096,071	$ 118,936,334	$ 140,026,040	$ 341,437,132	$ (1,450,672)	$ 1,525,147,140

See accompanying notes to basic financial statements.

(Continued)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

BALANCE SHEET — ENTERPRISE FUNDS
AS OF JUNE 30, 2011

	Operating and Administrative	Mortgage Trust III	Single-Family Mortgage Revenue Bonds Portfolio IX	Mortgage-Backed Certificates 2006 Serries A	Others Nonmajor Funds	Eliminations	Total
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES:							
Current liabilities payable from unrestricted assets:							
Accounts payable and accrued liabilities	$ 11,573,054	$ -	$ -	$ -	$ -	$ -	$ 11,573,054
Accrued interest payable	26,845						26,845
Due to other funds	48,640		7,334		1,417,807	(1,450,672)	23,109
Total current liabilities payable from unrestricted assets	11,648,539	-	7,334	-	1,417,807	(1,450,672)	11,623,008
Current liabilities payable from restricted assets:							
Accrued interest payable			453,599	14,651	873,398		1,341,648
Accounts payable and accrued liabilities		75,001	14,533	23,710	22,010,980		22,124,224
Bonds, notes, and mortgage-backed certificates payable		42,030,000	2,210,000	19,879,063	4,440,000		68,559,063
Total current liabilities payable from restricted assets	-	42,105,001	2,678,132	19,917,424	27,324,378	-	92,024,935
Total current liabilities	11,648,539	42,105,001	2,685,466	19,917,424	28,742,185	(1,450,672)	103,647,943
NONCURRENT LIABILITIES:							
Noncurrent liabilities payable from unrestricted assets — notes payable to Government Development Bank for Puerto Rico	2,707,055						2,707,055
Noncurrent liabilities payable from restricted assets:							
Allowance for losses on mortgage loan insurance					3,672,007		3,672,007
Bonds, notes, and mortgage-backed certificates payable		383,361,973	95,940,000	79,762,059	211,456,791		770,520,823
Total noncurrent liabilities payable from restricted assets	-	383,361,973	95,940,000	79,762,059	215,128,798	-	774,192,830
Total noncurrent liabilities	2,707,055	383,361,973	95,940,000	79,762,059	215,128,798	-	776,899,885
Total liabilities	14,355,594	425,466,974	98,625,466	99,679,483	243,870,983	(1,450,672)	880,547,828
NET ASSETS:							
Invested in capital assets	3,102,973						3,102,973
Restricted for:							
Mortgage loan insurance					61,118,599		61,118,599
Affordable housing programs	29,500,000	121,629,097	20,318,202	40,346,557	35,849,666		247,643,522
Other housing programs					2,566,860		2,566,860
Unrestricted	332,143,668		(7,334)		(1,968,976)		330,167,358
Total net assets	364,746,641	121,629,097	20,310,868	40,346,557	97,566,149	-	644,599,312
TOTAL	$ 379,102,235	$ 547,096,071	$ 118,936,334	$ 140,026,040	$ 341,437,132	$ (1,450,672)	$ 1,525,147,140

See accompanying notes to basic financial statements.

(Concluded)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS — ENTERPRISE FUNDS FOR THE YEAR ENDED JUNE 30, 2011

	Operating and Administrative	Mortgage Trust III	Single-Family Mortgage Revenue Bonds Portfolio IX	Mortgage-Backed Certificates 2006 Series A	Others Nonmajor Funds	Total
OPERATING REVENUES:						
Investment income:						
Interest income on deposits placed with banks	$ 978,077	$22,859,205	$ 59	$ 14,807	$ 481,929	$ 24,334,077
Interest income on investments and investment contracts	1,582,563	16,607,828	5,919,261	7,416,537	11,607,935	43,134,124
Net increase (decrease) in fair value of investments	4,312	(368,282)	2,909,094	924,681	3,661,867	7,131,672
Total investment income	2,564,952	39,098,751	8,828,414	8,356,025	15,751,731	74,599,873
Interest income on loans	14,089,828	272,605			363,406	14,725,839
Total investment income and interest income on loans	16,654,780	39,371,356	8,828,414	8,356,025	16,115,137	89,325,712
Noninterest income:						
Fiscal agency fees	170,628					170,628
Commitment, guarantee, service, and administrative fees	7,409,052				510,651	7,919,703
Mortgage loan insurance premiums					3,774,823	3,774,823
Other income	1,377,843				78,561	1,456,404
Total noninterest income	8,957,523	-	-	-	4,364,035	13,321,558
Total operating revenues	25,612,303	39,371,356	8,828,414	8,356,025	20,479,172	102,647,270
OPERATING EXPENSES:						
Provision for loan losses	6,633,317				913,386	7,546,703
Interest expense — bonds, notes, and mortgage-backed certificates	185,396	31,510,921	5,843,488	6,460,114	12,486,726	56,486,645

See accompanying notes to basic financial statements.

(Continued)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Operating and Administrative	Mortgage Trust III	Single-Family Mortgage Revenue Bonds Portfolio IX	Mortgage-Backed Certificates 2006 Series A	Others Nonmajor Funds	Total
Other noninterest expenses:						
Salaries and fringe benefits	12,290,185					12,290,185
Occupancy and equipment costs	2,214,382					2,214,382
Depreciation and amortization	1,126,536					1,126,536
Legal and professional fees	3,374,069				82,423	3,456,492
Office and administrative	842,091		88,205		35,368	965,664
Subsidy and trustee fees	2,492	150,000	24,908	77,234	112,439	367,073
Provision for losses on mortgage loan insurance					3,325,677	3,325,677
Other	1,636,182	5,365			3,674,534	5,316,081
Total noninterest expense	21,485,937	155,365	113,113	77,234	7,230,441	29,062,090
Total operating expenses	28,304,650	31,666,286	5,956,601	6,537,348	20,630,553	93,095,438
OPERATING INCOME (LOSS)	(2,692,347)	7,705,070	2,871,813	1,818,677	(151,381)	9,551,832
NONOPERATING EXPENSE — Contributions to others	(408,335)					(408,335)
TRANSFERS IN			467,145	376,756	481,468	1,325,369
TRANSFERS OUT	(71,525)			(741,042)	(292,813)	(1,105,380)
CHANGE IN NET ASSETS	(3,172,207)	7,705,070	3,338,959	1,454,390	37,274	9,363,486
NET ASSETS — Beginning of year	367,918,848	113,924,027	16,971,909	38,892,167	97,528,875	635,235,826
NET ASSETS — End of year	$ 364,746,641	$ 121,629,097	$ 20,310,868	$ 40,346,557	$ 97,566,149	$ 644,599,312

See accompanying notes to basic financial statements.

(Concluded)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Operating and Administrative	Mortgage Trust III	Single-Family Mortgage Revenue Bonds Portfolio IX	Mortgage-Backed Certificates 2006 Series A	Other Nonmajor Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash received from interest on housing program loans	$ 10,489,874	$ 276,132	$ -	$ -	$ -	$ 10,766,006
Cash paid for housing program loans originated	(50,468,200)					(50,468,200)
Principal collected on housing program loans	25,082,720	487,192				25,569,912
Cash received from other operating noninterest income	9,484,872	5,365			550,368	10,040,605
Cash received from mortgage loans insurance premiums					4,390,197	4,390,197
Cash paid for noninterest expenses	(6,118,625)	(155,365)	(113,121)	(71,525)	(255,885)	(6,714,521)
Cash paid for salaries and fringe benefits	(11,272,800)					(11,272,800)
Due from (to) other funds	(41,217,639)		(616)		134,404	(41,083,851)
Net cash provided by (used in) operating activities	(64,019,798)	613,324	(113,737)	(71,525)	4,819,084	(58,772,652)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Proceeds from issuance of notes payable to Government Development Bank for Puerto Rico	434,383					434,383
Payments of notes payable to Government Development Bank for Puerto Rico	(1,222,914)					(1,222,914)
Proceeds of issuance of note payable	80,000,000					80,000,000
Payments of note payable	(80,000,000)					(80,000,000)
Proceeds from issuance of bonds payable					7,140,000	7,140,000
Payments of bonds payable		(42,530,000)	(9,145,000)	(9,070,382)	(13,860,000)	(74,605,382)
Payment of bond issue costs					(64,148)	(64,148)
Interest paid	(158,963)	(379,088)	(5,743,734)	(5,493,290)	(10,953,333)	(22,728,408)
Contributions to others	(408,335)					(408,335)
Transfers in			467,145	376,756	481,468	1,325,369
Transfers out	(71,525)			(741,042)	(292,813)	(1,105,380)
Net cash used in noncapital financing activities	(1,427,354)	(42,909,088)	(14,421,589)	(14,927,958)	(17,548,826)	(91,234,815)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Acquisition of capital assets	(628,156)					(628,156)

See accompanying notes to basic financial statements.

(Continued)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Operating and Administrative	Mortgage Trust III	Single-Family Mortgage Revenue Bonds Portfolio IX	Mortgage-Backed Certificates 2006 Series A	Other Nonmajor Funds	Total
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchases of investments	(79,925,689)	(8,052,964)	(14,315,583)	(6,719,165)	(27,495,307)	(136,508,708)
Proceeds from redemptions of investments	80,075,105	9,693,916	22,890,184	26,079,584	41,232,676	179,971,465
Net decrease (increase) in deposits placed with banks	58,748,673	(4,360,813)	2,231	(11,839,762)	(604,527)	41,945,802
Cash received from interest on investments	2,656,964	38,659,305	5,958,494	7,478,826	12,292,035	67,045,624
Originations of other than housing program loans					(29,203,000)	(29,203,000)
Fees collected on other than housing program loans					8,229,264	8,229,264
Proceeds from sale of real estate available for sale	310,955				1,022,134	1,333,089
Disbursements for acquisition of and improvements to real estate available for sale					(4,102,241)	(4,102,241)
Net cash provided by investing activities	61,866,008	35,939,444	14,535,326	14,999,483	1,371,034	128,711,295
NET CHANGE IN CASH	(4,209,300)	(6,356,320)	-	-	(11,358,708)	(21,924,328)
CASH — Beginning of year	6,732,429	7,718,626			17,203,788	31,654,843
CASH — End of year	$ 2,523,129	$ 1,362,306	$ -	$ -	$ 5,845,080	$ 9,730,515
RECONCILIATION TO BALANCE SHEET — ENTERPRISE FUNDS						
Cash — unrestricted	$ 2,523,129	$ -	$ -	$ -	$ -	$ 2,523,129
Cash — restricted		1,362,306			5,845,080	7,207,386
TOTAL CASH — End of year	$ 2,523,129	$ 1,362,306	$ -	$ -	$ 5,845,080	$ 9,730,515

See accompanying notes to basic financial statements.

(Continued)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Operating and Administrative	Mortgage Trust III	Single-Family Mortgage Revenue Bonds Portfolio IX	Mortgage-Backed Certificates 2006 Series A	Other Nonmajor Funds	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:						
Operating income (loss)	$ (2,692,347)	$ 7,705,070	$ 2,871,813	$ 1,818,677	$ (151,381)	$ 9,551,832
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	1,126,536					1,126,536
Accretion of deferred loan fees					(363,406)	(363,406)
Net decrease (increase) in fair value of investments	(4,312)	368,282	(2,909,094)	(924,681)	(3,661,867)	(7,131,672)
Interest income on investments and investment contracts, and deposits placed with banks	(2,560,640)	(39,467,033)	(5,919,320)	(7,431,344)	(12,089,864)	(67,468,201)
Capitalized interest on housing program loans	(3,357,600)					(3,357,600)
Provision for loan losses	6,633,317				913,386	7,546,703
Provision for doubtful accounts receivable	20,000					20,000
Provision for losses on mortgage loan insurance					3,325,677	3,325,677
Loss on sale of real estate available for sale	32,762				152,274	185,036
Provision for losses on real estate available for sale	650,004				3,439,466	4,089,470
Interest expense	185,396	31,510,921	5,843,488	6,460,114	12,486,726	56,486,645
Origination of housing program loans	(50,468,200)					(50,468,200)
Collections of housing program loans	25,082,720	487,192				25,569,912
Changes in operating assets and liabilities:						
Accrued interest on housing program loans	(248,529)	3,527				(245,002)
Other accounts receivable	586,802	5,365			(3,978)	588,189
Accounts payable and accrued liabilities	2,211,932		(8)	5,709	637,647	2,855,280
Internal balances	(41,217,639)		(616)		134,404	(41,083,851)
Net cash provided by (used in) operating activities	$ (64,019,798)	$ 613,324	$ (113,737)	$ (71,525)	$ 4,819,084	$ (58,772,652)
NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES:						
Capitalized interest on housing program loans	$ 3,357,600	$ -	$ -	$ -	$ -	$ 3,357,600
Loans receivable originated not yet disbursed					29,060,000	29,060,000
Accretion of discount on investments and investment contracts	74,311	12,555,628				12,629,939
Accretion of discount on bonds payable		31,510,921		557,189	889,165	32,957,275
Amortization of deferred loss on refunding (included in interest expense)				309,144		309,144
Amortization of bond issue costs (included in interest expense)			140,485	101,724	701,165	943,374
Transfer of loans receivable to real estate available for sale	529,888					529,888
Transfers within enterprise funds:						
Real estate available for sale	1,098,904				(1,098,904)	-
Due (from) to other funds	(1,098,904)				1,098,904	-

See accompanying notes to basic financial statements.

(Concluded)

1. REPORTING ENTITY

Puerto Rico Housing Finance Authority (the "Authority") is a component unit of Government Development Bank for Puerto Rico ("GDB" or the "Bank"), which is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth"). The Authority was created in 1977 to provide public and private housing developers with interim and permanent financing through mortgage loans for the construction, improvement, operation, and maintenance of rental housing for low- and moderate-income families. The Authority also issues bonds and notes, the proceeds of which are deposited in separate trusts and generally invested in federally insured mortgage loans on properties located in Puerto Rico and purchased by low- and moderate-income families. The Authority is authorized by the U.S. Department of Housing and Urban Development to administer the U.S. Housing Act Section 8 program in Puerto Rico and to act as an approved mortgagor, both for multifamily rental units and for single-family homes. In addition, it is an authorized issuer of Government National Mortgage Association (GNMA) mortgage-backed securities and is Puerto Rico's State Credit Agency for the Low-Income Housing Tax Credit Program under Section 42 of the U.S. Internal Revenue Code. Effective July 1, 2010, the Housing Finance Authority was certified by the HUD to administer the HOME Investment Partnerships ("HOME") Program.

The Authority, in conjunction with the Puerto Rico Department of Housing (the "Department of Housing"), is the entity responsible for certifying projects under the New Secure Housing Program (known in Spanish as *Nuevo Hogar Seguro*) with the approval of the Federal Emergency Management Agency (FEMA). This program is directed to plan, coordinate, and develop the construction of new housing as a replacement to those destroyed by Hurricane Georges in 1998, and to attend the housing needs of families living in hazard-prone areas.

To minimize its risk of loss, the Authority purchases insurance coverage for public liability, hazard, automobile, crime, and bonding, as well as medical and workmen's insurance for employees. The selection of the insurer has to be approved by the Public Insurance Office of the Puerto Rico Treasury Department. Insurance coverage is updated annually to account for changes in operating risk. For the last three years, insurance settlements have not exceeded the amount of coverage.

2. BASIS OF PRESENTATION AND 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 (U.S. GAAP), as applicable to governmental entities. The Authority follows Governmental Accounting Standards Board (GASB) pronouncements under the hierarchy established by GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its financial statements. The Authority has elected to apply all applicable statements and interpretations issued by the Financial Accounting Standards Board (FASB) after November 30, 1989, in accounting and reporting for its enterprise funds and business-type activities to the extent they do not conflict with GASB pronouncements.

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

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements — The statement of net assets (deficiency) and the statement of activities report information on all activities of the Authority. The effect of interfund balances has been removed from the government-wide statement of net assets (deficiency), except for the residual amounts due between governmental and business-type activities. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Authority's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services or interest earned on investment securities. Following is a description of the Authority's government-wide financial statements.

The statement of net assets (deficiency) presents the Authority's assets and liabilities, with the difference reported as net assets. Net assets (deficiency) are reported in three categories:

- Invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any.

- Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets (deficit) consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include (1) interest income on loans and investments, changes in the fair value of investments, and fees and charges to customers for services rendered or for privileges provided and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements — Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Authority that are reported in the accompanying basic financial statements have been classified into governmental and enterprise funds.

Separate financial statements are provided for governmental funds and enterprise funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

Fund balances for each governmental fund are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable — amounts that cannot be spent because they are not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.

- Restricted — amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.

- Committed — amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.

- Assigned — amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.

- Unassigned — amounts that are available for any purpose.

Measurement Focus, Basis of Accounting, and Financial Statements Presentation

Government-Wide Financial Statements — The government-wide 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 a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds Financial Statements — The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 120 days after the end of the fiscal year. Principal revenue sources considered susceptible to accrual include federal and Commonwealth funds to be received by the Housing and Urban Development (HUD) Programs, ARRA Funds, HOME Program, and Closing Costs Assistance Program. Other revenues are considered to be measurable and available only when cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Interest on general long-term obligations is generally recognized when paid.

- Debt service principal expenditures and claims and judgments are recorded only when payment is due.

Governmental Funds — The following governmental activities of the Authority are classified as major governmental funds:

HUD Programs — This special revenue fund accounts for the subsidy to low- and moderate-income families for the rental of decent and safe dwellings under the U.S. Housing Act Section 8 programs.

ARRA Programs — This special revenue fund accounts for funds received under Title XII and Section 1602 of the American Recovery and Reinvestment Act of 2009. Title XII is a grant program that provides funds for capital investments in Low-Income Housing Tax Credit projects. Section 1602 grants funds to states to finance construction or acquisition and rehabilitation of qualified low-income building for low-income housing in lieu of low-income housing tax credits.

Closing Costs Assistance Program — This special revenue fund accounts for revenues received mainly from appropriations from the Commonwealth to provide subsidies to eligible individuals or families for the purchase of an eligible principal residence.

My New Home Program — This special revenue fund accounts for revenues provided by Act No. 122 of August 6, 2010, which assigned to the Authority, for a period of seven years, a portion of no less than 80% of the unreserved monies and other liquid funds abandoned or unclaimed in financial institutions that will be transferred to the General Fund of the Commonwealth.

The following governmental activities of the Authority are accounted for in other nonmajor governmental funds:

Affordable Housing Mortgage Subsidy Programs (AHMSP) (Stages 2, 3, 6, 7, 8, 9, 10, and 11) — These special revenue funds are used to account for the proceeds of specific revenue sources under Stages 2, 3, 6, 7, 8, 9, 10, and 11 of the AHMSP that are legally restricted for expenditures to promote the origination of mortgage loans by financial institutions in the private sector to low- and moderate-income families. Under these stages, the Authority commits to provide subsidy for the down payment and/or the principal and interest payments on mortgage loans originated under a predetermined schedule of originations and, in the case of Stages 9, 10, and 11, to acquire such mortgages in the form of mortgage-backed securities issued by the financial institutions. Loans originated, as well as servicing, are kept by the originating financial institution. There was no open schedule of originations under these stages as of June 30, 2011.

AHMSP Mortgage-Backed Certificates — This special revenue fund is used to account for specific revenue sources used to provide subsidy for the mortgages underlying the mortgage-backed securities held as collateral for the mortgage-backed certificates issued in fiscal year 2007.

AHMSP Act No. 124 — This special revenue fund accounts for excess subsidy funds, as well as accumulated net assets released periodically from arbitrage structures used to provide housing assistance.

New Secure Housing Program — This special revenue fund is used to account for federal and local resources directed to plan, coordinate, and develop the construction of new housing units as a replacement for those destroyed by Hurricane Georges in 1998, and to attend the housing needs of those families living in hazard-prone areas.

HOME Program — The objectives of this special revenue fund include: (1) expanding the supply of decent and affordable housing, particularly housing for low- and very low-income families; (2) strengthening the abilities of state and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; (3) providing financial and technical assistance to participating jurisdictions, including the development of model programs for affordable low-income housing; and (4) extending and strengthening partnerships among all levels of government and the private sector, including for-profit and nonprofit organizations, in the production and operation of affordable housing.

Protecting Your Home Program – This special revenue fund accounts for mortgage payment subsidy for up to 18 months or $20,000, whichever is less, and is intended to reduce the amount of home foreclosures among low- and moderate-income families with recent financial difficulties. This loss mitigation program was financed with $20 million coming from releases of excess funds from previous bond issuances under the AHMSP.

Enterprise Funds' Financial Statements — The financial statements of the enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses are those that result from the Authority providing the services that correspond to their principal ongoing operations. Operating revenues are generated from lending, investing, fiscal agency services, and other related activities. Operating expenses include interest expense, any provision for losses on loans, advances, or guarantees, and all general and administrative expenses, among other. Revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Enterprise Funds — The following business-type activities of the Authority are classified as major enterprise funds:

Operating and Administrative — The Operating and Administrative fund accounts for lending and guarantee activities, except those accounted for in other enterprise funds, and most of the general and administrative activities of the Authority.

Mortgage Trust III — This fund is used to account for the financing of low- and moderate-income families' purchase of residential housing from the proceeds of bond issuances.

Single-Family Mortgage Revenue Bonds Portfolio IX — This fund is part of the Authority's AHMSP and is used to account for bond issuances, the proceeds of which are mainly used to purchase mortgage-backed securities collateralized by loans originated to finance low- and moderate-income families' purchase of residential housing units.

Mortgage-Backed Certificates 2006 Series A — This fund is used to account for the proceeds received in connection with the issuance of mortgage-backed certificates (the "Mortgage-Backed Certificates"), which were used to defease the Collateralized Mortgage Revenue Bonds 1994 Series A and the Single Family Mortgage Portfolio I and Portfolio IV bonds.

The Mortgage-Backed Certificates are limited obligations of the Authority, payable from and secured by certain mortgage-backed securities guaranteed by GNMA and Federal National Mortgage Association (FNMA) (the "Mortgage-Backed Securities"), as well as from moneys in certain funds and accounts established in the trust indenture for the issuance of the Mortgage-Backed Certificates. The Mortgage-Backed Securities are backed by mortgage loans made by participating lending institutions to low- and moderate-income families to finance the purchase of qualified single-family residential housing units in Puerto Rico under the Authority's AHMSP Act No. 124. Each class of Mortgage-Backed Certificates will be paid from a separate and distinct stream of principal and interest payments from designated mortgage loans per class of Mortgage-Backed Certificates, as paid through the corresponding Mortgage-Backed Securities into which the class mortgage loans are pooled, as well as moneys deposited in certain funds and accounts established in the trust indenture. The schedule and unscheduled principal payments derived from class mortgage loans and interest will be paid on a monthly basis. The rates of principal payments on each Mortgage-Backed Certificate will depend on the rates of principal payments, including prepayments, on the related class mortgage loans. The rates of the payments, including prepayments, on the mortgage loans are dependent on a variety of economic and social factors, including the level of market interest rates.

The following business-type activities of the Authority are accounted for in other nonmajor enterprise funds:

Mortgage Loan Insurance — The mortgage loan insurance program was created by law to provide mortgage credit insurance to low- and moderate-income families on loans originated by the Authority and other financial institutions.

Land Acquisition and Construction Loans Insurance (Act No. 89) — The land acquisition and construction loans insurance program provides mortgage credit insurance to low- and moderate-income families for the purchase of lots. The program is financed through legislative appropriations and proceeds from mortgage insurance premiums and any other income derived from this insurance activity. Under this program, the Authority is authorized to commit the good faith and credit of the Commonwealth up to $5 million for the issuance of debenture bonds.

Home Purchase Stimulus Program — This program was created as part of Act No. 9, approved on March 9, 2009, to help families in the acquisition of a new or existing house through the issuance of a second mortgage.

Single-Family Mortgage Revenue Bonds Portfolio X and XI — These funds are part of the Authority's AHMSP and are used to account for bond issuances, the proceeds of which are mainly used to purchase mortgage-backed securities collateralized by loans originated to finance low- and moderate-income families' purchase of residential housing units.

Homeownership Mortgage Revenue Bonds — This fund is used to account for the proceeds of bond issuances to finance the acquisition of GNMA certificates backed by mortgage loans originated by eligible institutions to finance the purchase of qualified single-family residential housing.

Homeownership Mortgage Revenue Bonds (Series 2001) — This fund is used to account for the proceeds of bond issuances to finance the acquisition of GNMA certificates backed by mortgage loans originated by eligible institutions to finance the purchase of single family residential housing.

Homeownership Mortgage Revenue Bonds (Series 2003) — This fund is used to account for subsidies provided to low- and moderate-income families in obtaining a mortgage loan.

Investments and Investment Contracts — Investments and investment contracts are carried at fair value, except for money market instruments and participating investment contracts with a remaining maturity at the time of purchase of one year or less and nonparticipating investment contracts (guaranteed investment contracts), which are carried at cost, and investment positions in 2a-7 like external investment pools, which are carried at the pools' share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in net increase (decrease) in fair value of investments.

In accordance with the specific requirements established in the bond indentures, the Authority has invested certain debt proceeds in U.S. government obligations, U.S. and Puerto Rico mortgage-backed securities, and investment contracts. These U.S. government obligations, mortgage-backed securities, and investment contracts are held in custody by the trustee of the bond issue in the name of the Authority.

Loans Receivable and Allowance for Loan Losses — Loans in the enterprise funds are presented at the outstanding unpaid principal balance reduced by an allowance for loan losses. Loans are measured for impairment when it is probable that all amounts, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement. Interest accrual ceases when collectibility is uncertain, generally once a loan is 180 days past due. Once a loan is placed in nonaccrual status, all accrued but uncollected interest is reversed against current interest income. Interest income on nonaccrual loans is thereafter recognized as income only to the extent actually collected. Nonaccrual loans are returned to an accrual status when management has adequate evidence to believe that the loans will be performing as contracted.

The allowance for loan losses is established through provisions recorded as an operating expense. This allowance is based on the evaluation of the risk characteristics of the loan or loan portfolio, including such factors as the nature of the individual credit outstanding, past loss experience, known and inherent risks in the portfolios, and general economic conditions. Charge-offs are recorded against the allowance when management believes that the collectibility of the principal is unlikely. Recoveries of amounts previously charged off are credited to the allowance. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the outstanding loans receivable portfolio and the related allowance may change in the near future.

Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a loan to be impaired when it is probable that the Authority will be unable to collect all amounts due according to the contractual terms of the loan agreement. Interest income and cash receipts on impaired loans are accounted for predominantly in the same manner as nonaccrual loans.

Loans considered to be impaired are generally reduced to the present value of expected future cash flows, discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, by establishing a valuation allowance.

Due From (To) Other Funds — Interfund receivables and payables have been eliminated from the statement of net assets (deficiency), except for the residual amounts due between governmental and business-type activities.

Debt Issue Costs — Debt issue costs are deferred, and amortized, as a component of interest expense, over the term of the related debt, using systematic and rational methods that approximate the interest method. Issuance costs of the bonds accounted for in the governmental funds are recorded as expenditures when paid.

Real Estate Available for Sale — Real estate available for sale comprises properties acquired through foreclosure proceedings. It also includes loans that are treated as if the underlying collateral had been foreclosed because the Authority has taken possession of the collateral, even though legal foreclosure or repossession proceedings have not taken place. Those properties are carried at the lower of cost or fair value, which is established by a third-party professional assessment or based upon an appraisal, minus estimated costs to sell. At the time of acquisition of properties in full or in partial satisfaction of loans, any excess of the loan balance over the fair value of the properties, minus estimated costs to sell is charged against the allowance for loan losses. Subsequent declines in the value of real estate available for sale are charged to expenditure/expense. Gain or loss on sale related to foreclosed real estate available for sale are included within noninterest income in the accompanying statement of revenues, expenses, and change in net assets.

Capital Assets — Capital assets, which include leasehold improvements, information systems, office furniture, equipment, and vehicles, are reported in the governmental activities and business-type activities columns in the government-wide financial statements. Capital assets are defined by the Authority as assets which have a cost of $500 or more at the date of acquisition and have an expected useful life of three or more years. Purchased capital assets are valued at historical cost. Donated fixed assets are recorded at their fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend the asset's useful life are not capitalized.

Capital assets are depreciated on the straight-line method over the assets' estimated useful lives. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Generally, estimated useful lives are as follows:

Leasehold improvements	Lesser of 10 years or lease term
Office furniture and equipment	five years
Information systems	three years
Vehicles	five years

Compensated Absences — The employees of the Authority are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of 72 and 90 days, respectively. In the event of employee resignation, an employee is reimbursed for accumulated vacation and sick leave days up to the maximum allowed. The enterprise fund financial statements and the government-wide financial statements present the cost of accumulated vacation and sick leave as a liability. There are no employees paid by governmental funds.

Allowance for Losses on Mortgage Loan Insurance — The estimated liability for losses on mortgage loan insurance is based on management's evaluation of potential losses on insurance claims after considering economic conditions, market value of related property, and other pertinent factors. Such amount is, in the opinion of management, adequate to cover estimated future normal mortgage loan insurance losses. Actual losses for mortgage loan insurance are charged, and recoveries, if any, are credited to the estimated liability for losses on mortgage loan insurance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the outstanding loan guarantee portfolio and the related liability may change in the near future.

Refundings — Refundings involve the issuance of new debt whose 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 recorded as an addition to or deduction from the new debt.

No-Commitment Debt — The Authority has issued notes and bonds in connection with the financing of low- and moderate-income housing projects. Certain of the obligations issued by the Authority are considered no-commitment debt and are excluded, along with the related assets held in trust, from the accompanying basic financial statements. The Authority and the Commonwealth, except for the assets held in trust and earnings thereon, are not liable directly or indirectly for the payment of such obligations.

Certain other collateralized obligations of the Authority are included in the accompanying basic financial statements because either they represent general obligations of the Authority or it maintains effective control over the assets transferred as collateral.

Loan Origination Costs and Commitment Fees — GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Issues*, requires that loan origination and commitment fees and direct origination costs be amortized over the contractual life of the related loan. The Authority generally recognizes commitment fees as income when collected and the related loan origination costs as expense when incurred. Effective July 1, 2006, the Authority defers and amortizes loan origination fees for certain single-family mortgage loans over the contractual life of such loans. In the opinion of management, the difference between the two methods does not have a significant effect on the Authority's financial position and changes in financial position.

Transfers of Receivables — Transfers of receivables are accounted and reported as a sale if the Authority's continuing involvement with those receivables is effectively terminated. This approach distinguishes transfers of receivables that are sales from transfers that are collateralized borrowings.

The Authority's continuing involvement is considered to be effectively terminated if all of the following criteria are met: (i) the transferee's ability to subsequently sell or pledge the receivables is not significantly limited by constraints imposed by the Authority, either in the transfer agreement or through other means; (ii) the Authority does not have the option or ability to unilaterally substitute for or reacquire specific accounts from among the receivables transferred, except in certain limited circumstances; (iii) the sale agreement is not cancelable by either party, including cancellation through payment of a lump sum or transfer of other assets or rights; and (iv) the receivables and the cash resulting from their collection have been isolated from the Authority.

The Authority services loans for investors and receives servicing fees generally based on stipulated percentages of the outstanding principal balance of such loans. Loan servicing fees, late charges, and other miscellaneous fees are recognized as revenues as the related mortgage payments are collected, net of fees due to any third-party servicers. No servicing asset is recognized since fees are considered adequate compensation.

Mortgage Loan Insurance Premiums — Premiums on insured mortgage loans are recognized as earned.

Future Adoption of Accounting Pronouncements — The GASB has issued the following statements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employers Plans*, which is effective for periods beginning after June 15, 2011.

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for periods beginning after December 15, 2011.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, which is effective for periods beginning after June 15, 2012.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for periods beginning after December 15, 2011.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is effective for periods beginning after December 15, 2011.

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions — an amendment of GASB Statement No. 53*, which is effective for periods beginning after June 15, 2011.

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

3. CASH AND DUE FROM BANKS, AND DEPOSITS PLACED WITH BANKS

The table presented below discloses the level of custodial credit risk assumed by the Authority at June 30, 2011. Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Funds deposited with GDB or the Economic Development Bank (EDB) for Puerto Rico, a component unit of the Commonwealth, are not covered by this Commonwealth's requirement.

The Authority follows GDB's policies for deposits placed with banks, which establish maximum exposure limits for each institution based on the institution's capital, financial condition, and credit rating assigned by nationally recognized rating agencies. Maturities of deposits placed with banks at June 30, 2011, are as follows: $63,799,820 in July 2011, $29,116,604 in August 2011, $62,988,207 in September 2011, $24,689,477 in October 2011, $20,767,599 in November 2011, and $346,232,134 in December 2011.

As of June 30, 2011, $547,830,298 of the depository bank balance of $569,070,758 was uninsured and uncollateralized as follows:

	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Cash	$ 19,120,111	$ 21,476,917	$ 15,814,527
Deposits placed with banks	547,593,841	547,593,841	532,015,771
Total	$ 566,713,952	$ 569,070,758	$ 547,830,298

Uninsured and uncollateralized cash of approximately $15.8 million as of June 30, 2011, represents the bank balance of cash deposited at GDB. These deposits are exempt from the collateral requirement established by the Commonwealth. In addition, uninsured and uncollateralized deposits placed with banks consist of certificates of deposit issued by GDB and EDB amounting to approximately $532.0 million as of June 30, 2011.

Reconciliation to the government-wide statement of net assets (deficiency) as of June 30, 2011, is as follows:

Unrestricted:	
Cash	$ 2,523,129
Deposits placed with banks	57,382,535
Total unrestricted	59,905,664
Restricted:	
Cash	16,596,982
Deposits placed with banks	490,211,306
Total restricted	506,808,288
Total	$ 566,713,952

4. INVESTMENTS AND INVESTMENT CONTRACTS

The Authority follows GDB's investment policies, which provide that investment transactions shall be entered into only with counterparties that are rated BBB+/A-1 or better by Standard & Poor's or equivalent rating by Fitch Ratings or Moody's Investors Service, depending on the type and maturity of the investment and the counterparty to the transaction. Any exceptions must be approved by the Authority's Board of Directors. These investment policies also provide that purchases and sales of investment securities shall be made using the delivery versus payment method. The Authority does not have a formal policy for interest rate risk management.

The following table summarizes the type and maturities of investments held by the Authority at June 30, 2011. Investments by type in any one issuer representing 5% or more of total investments of the Authority have been separately disclosed. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
GNMA	$ 79,387	$ 2,797,706	$ 3,258,505	$ 453,496,056	$ 459,631,654
FNMA			67,155	11,568,995	11,636,150
Federal Home Loan Mortgage Corporation (FHLMC)			16,036	11,183,864	11,199,900
Fixed-income external investment pool — Federated Government Obligations	5,824,205				5,824,205
Puerto Rico Housing Bank Portfolio II bonds				4,744,394	4,744,394
Nonparticipating investment contracts:					
GDB		3,982,064		210,037,898	214,019,962
Other				98,484,021	98,484,021
Total	$ 5,903,592	$ 6,779,770	$ 3,341,696	$ 789,515,228	$ 805,540,286

Reconciliation to the government-wide statement of net assets as of June 30, 2011, is as follows:

Unrestricted investments and investment contracts	$ 18,286,389
Restricted investments and investment contracts	787,253,897
Total	$ 805,540,286

At June 30, 2011, substantially, all of the Authority's investments in mortgage-backed securities were held by trustees in connection with bonds issued by the Authority, the terms of which provide for early redemption of the bonds if the securities are early repaid.

Investments in fixed-income external investment pools had an average maturity of less than 60 days; accordingly, they are presented as investments with maturities of less than one year.

All of the Authority's investments in mortgage-backed securities guaranteed by GNMA carry the explicit guarantee of the U.S. government. The credit quality ratings for investments in debt securities and nonparticipating investment contracts, excluding mortgage-backed securities guaranteed by GNMA, as of June 30, 2011, are as follows:

Securities Type	**Credit Risk Rating** AAA to A-	BBB
Mortgage-backed securities:		
FNMA	$ 11,636,150	$ -
FHLMC	11,199,900	
Fixed-income external investment pool —		
Federated obligations	5,824,205	
Puerto Rico Housing Bank Portfolio II bonds	4,744,394	
Nonparticipating investment contracts	56,680,736	255,823,247
Total	$ 90,085,385	$255,823,247

The credit quality rating of nonparticipating investment contracts are based on the credit quality ratings of the counterparties with whom those contracts are entered into.

5. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable as of June 30, 2011, consist of:

	Business-Type Activities			
	Operating and Administrative	Mortgage Trust III	Other Nonmajor	Total
Real estate loans — all types of residential property, bearing interest at various rates ranging from 5% to 18%	$ 249,649,154	$ 2,792,834	$49,930,436	$ 302,372,424
Less allowance for loan losses	(34,264,503)		(1,391,465)	(35,655,968)
Less deferred origination fees	(3,563,596)		(16,349,961)	(19,913,557)
	$ 211,821,055	$ 2,792,834	$32,189,010	$ 246,802,899

Reconciliation to the government-wide statement of net assets (deficiency) as of June 30, 2011, is as follows:

Unrestricted loans receivable — net	$211,821,055
Restricted loans receivable — net	34,981,844
Total	$246,802,899

Real estate loans receivable represent secured loans with a first lien on the related real estate property granted to low- and moderate-income families for the acquisition of single-family units and to developers of multifamily housing units in Puerto Rico. Prior to providing mortgage financing to developers, the Authority obtains representations and approvals from appropriate Commonwealth and U.S. government agencies as to the qualifications of the prospective sponsors, as well as the financial feasibility of each project. Real estate loans are generally collectible monthly at various dates through the year 2049. The collection of noninsured/nonguaranteed real estate loans to developers is dependent on the ability of each housing project to generate sufficient funds to service its debt, which, for other than certain federally assisted housing projects, is predicated on the ability to obtain rent increases to offset increases in operating costs.

At June 30, 2011, nonperforming loans amounted to approximately $48.3 million. Interest income that would have been recorded in the year if these loans had performed in accordance with their original terms would have been approximately $1.4 million.

The Authority generally measures impairment of loans based upon the present value of a loan's expected future cash flows, except when foreclosure or liquidation is probable, or when the primary source of repayment is provided by real estate collateral. In these circumstances, impairment is measured based upon the fair value of the collateral less estimated selling and disposal costs. The present value of a loan's expected future cash flows is calculated using the loan's effective interest rate, based on the original contractual terms.

The loans considered impaired as of June 30, 2011, and the related interest income for the year then ended, are as follows:

Recorded investment in impaired loans:	
Requiring an allowance for loan losses	$ 48,253,277
Not requiring an allowance for loan losses	3,334,061
Total	$ 51,587,338
Related allowance for loan losses	$ 33,643,000
Average recorded investment in impaired loans	58,781,000
Interest income recognized on impaired loans	562,000

The summary of the activity in the allowance for loan losses for the year ended June 30, 2011, is as follows:

	Enterprise Fund		
	Operating and Administrative	Other Nonmajor	Total
Balance — beginning of year	$ 28,491,642	$ 478,079	$ 28,969,721
Provision for loan losses	6,633,317	913,386	7,546,703
Net charge-offs	(860,456)		(860,456)
Balance — end of year	$ 34,264,503	$ 1,391,465	$ 35,655,968

6. DUE FROM FEDERAL GOVERNMENT

Under the New Secure Housing Program (the "NSH Program"), the Authority is responsible for administering the NSH Program, including contracting, supervising, and paying the designers, inspectors, and legal services needed for the NSH Program. The Authority also provides all the funding for the NSH Program through a $67 million nonrevolving line of credit with GDB. The Department of Housing is responsible for land acquisitions, auctioning projects, awarding construction contracts, qualifying participants, and selling housing units to eligible participants.

Under the terms of the grant, the construction of, and relocation of participants into, new secure housing facilities was to be completed by December 31, 2007. In addition, FEMA would reimburse 75% of the allowable costs of the NSH Program. Funds collected under the NSH Program since its inception amounted to approximately $113 million and are subject to compliance audits under OMB Circular A-133 and federal granting agencies audits.

In April 2007, FEMA discontinued reimbursing the Authority's allowable costs based on the Program's noncompliance with the scheduled dates for construction activities and case management. The Department of Housing requested a one-year extension up to December 31, 2008, and although original request was denied, FEMA granted such request in 2007.

On June 6, 2008, the Department of Housing requested an additional one-year extension up to December 31, 2009, for the completion of the construction and relocation of participants into new secure housing facilities. On July 1, 2008, FEMA denied the additional one-year extension. The Department of Housing requested through the Governor's Authorized Representative (GAR) on September 19, 2008, a reconsideration of FEMA's decision not to grant the extension. On December 23, 2008, FEMA granted a one-year extension up to June 30, 2010.

Although significant progress was made through June 30, 2010, in the construction activities and in the case management of the Program, the Housing Finance Authority was not able to fully comply with the terms of the extension granted by FEMA. On September 30, 2011, the Authority provided FEMA and the GAR the Program's closeout documentation, which is under FEMA's review. Based on this and the fact that no reimbursements have been received from FEMA since April 2007, management has decided to establish an allowance for the $26 million due from FEMA at June 30, 2011.

The Authority, as a public housing agency, is authorized to administer the U.S. Housing Act Section 8 Programs in Puerto Rico. The revenues and expenses of such federal financial assistance are accounted for as a major governmental fund under the HUD Programs fund. Revenues and expenditures related to the administration of the U.S. Housing Act Section 8 Programs amounted to approximately $127.1 million during the year ended June 30, 2011. This amount includes approximately $4,980,000 of administrative fees for services performed as contract administrator, which are reimbursed by HUD. As of June 30, 2011, the amounts due from federal government under the HUD Programs fund amounted to approximately $1.3 million.

In addition, on February 17, 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law in the United States of America. The purpose of ARRA is to jumpstart the nation's ailing economy, with the primary focus on creating and saving jobs in the near term and investing in infrastructure that will provide long-term economic benefits. During the year ended June 30, 2011, the Authority expended $95.7 million of ARRA Program funds of which $11.2 million are due from the federal government as of June 30, 2011.

During fiscal year 2011, the Authority received from the Department of Housing approximately $1.6 million of cash and capital assets with a net book value of approximately $17 thousand, as well as liabilities amounting to approximately $1.6 million that were held by the Department of Housing as the previous administrator of the HOME Program. This transaction did not have an effect on the Authority's 2011 statement of activities and statement of revenues, expenditures, and changes in fund balances — governmental funds.

During the year ended June 30, 2011, the Authority expended $16.6 million of HOME Program funds, of which $8.7 million are due from the federal government as of June 30, 2011. In accordance with the Authority's accounting policies, the Authority has deferred the recognition of revenue of approximately $4.6 million due from the federal government as such amounts are not considered to be available. This amount has been has recorded as a deferred revenue in the accompanying balance sheet — governmental funds.

7. REAL ESTATE AVAILABLE FOR SALE

Real estate available for sale at June 30, 2011 consisted of the following:

	Business-type Activities		
	Operating and Administrative	Other Nonmajor	Total
Residential (1–4 units)	$ 8,345,979	$ 5,307,500	$ 13,653,479
Valuation allowance	(7,383,818)	(3,380,560)	(10,764,378)
Total real estate available for sale	$ 962,161	$ 1,926,940	$ 2,889,101

Reconciliation to the government-wide statement of net assets (deficiency):

Unrestricted real estate available for sale	$ 962,161
Restricted real estate available for sale	1,926,940
Total	$ 2,889,101

The following is a summary of the activity in the valuation allowance for the year ended June 30, 2011:

	Business-type Activities		
	Operating and Administrative	Other Nonmajor	Total
Balance — beginning of year	$ 6,794,606	$ 648,863	$ 7,443,469
Provision for possible losses	650,004	3,439,466	4,089,470
Write-offs	(66,792)	(730,621)	(797,413)
Recoveries	6,000	22,852	28,852
Balance — end of year	$ 7,383,818	$ 3,380,560	$ 10,764,378

8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011, was as follows:

Governmental activities:

	Beginning Balance	Additions	Reductions/ Reclassifications	Ending Balance
Capital assets:				
Information systems	$ -	$ 66,329	$ -	$ 66,329
Office furniture and equipment		33,967		33,967
Vehicles		66,135		66,135
Total capital assets	-	166,431	-	166,431
Less accumulated depreciation and amortization for:				
Information systems		(35,494)		(35,494)
Office furniture and equipment		(23,094)		(23,094)
Vehicles		(66,132)		(66,132)
Total accumulated depreciation and amortization	-	(124,720)	-	(124,720)
Capital assets — net	$ -	$ 41,711	$ -	$ 41,711

Business-type activities:

	Beginning Balance	Additions	Reductions/ Reclassifications	Ending Balance
Capital assets:				
Leasehold improvements	$ 3,981,942	$ 21,000	$ -	$ 4,002,942
Information systems	2,080,112	591,831		2,671,943
Office furniture and equipment	2,103,435	15,325		2,118,760
Vehicles	150,023			150,023
Total capital assets	8,315,512	628,156	-	8,943,668
Less accumulated depreciation and amortization for:				
Leasehold improvements	(1,686,696)	(364,657)		(2,051,353)
Information systems	(1,262,266)	(524,454)		(1,786,720)
Office furniture and equipment	(1,648,011)	(226,203)		(1,874,214)
Vehicles	(117,185)	(11,223)		(128,408)
Total accumulated depreciation and amortization	(4,714,158)	(1,126,537)	-	(5,840,695)
Capital assets — net	$ 3,601,354	$ (498,381)	$ -	$ 3,102,973

9. BONDS, MORTGAGE-BACKED CERTIFICATES, NOTES PAYABLE, AND OTHER LIABILITIES

The activity of bonds, mortgage-backed certificates, and notes payable for the year ended June 30, 2011, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Commonwealth appropriation note payable — AHMSP Stage 7	$ 4,811,237	$ -	$ -	$ 4,811,237	$ -
Due to GDB:					
AHMSP Stage 7	39,295,920	504,815	(518,955)	39,281,780	39,281,780
AHMSP Stage 10	13,920,768	961,573	(1,235,706)	13,646,635	
New Secure Housing Program	47,518,659	5,165,538		52,684,197	
Total governmental activities	$ 105,546,584	$ 6,631,926	$ (1,754,661)	$ 110,423,849	$ 39,281,780
Business-type activities:					
Mortgage Trust III	$ 904,333,874	$ -	$ (42,530,000)	$ 861,803,874	$ 42,030,000
Mortgage-Backed Certificates — 2006 Series A	120,259,292		(9,070,382)	111,188,910	19,879,063
Revenue bonds:					
Single Family Mortgage Revenue Bonds — Portfolio IX	107,295,000		(9,145,000)	98,150,000	2,210,000
Single Family Mortgage Revenue Bonds — Portfolio X	73,625,000		(3,350,000)	70,275,000	1,275,000
Single Family Mortgage Revenue Bonds — Portfolio XI	18,910,000		(630,000)	18,280,000	310,000
Homeownership Mortgage Revenue Bonds 2000 Series	47,905,000		(3,700,000)	44,205,000	1,065,000
Homeownership Mortgage Revenue Bonds 2001 Series	50,220,000		(4,720,000)	45,500,000	1,210,000
Homeownership Mortgage Revenue Bonds 2003 Series	23,315,000		(1,460,000)	21,855,000	580,000
Total revenue bonds	321,270,000	-	(23,005,000)	298,265,000	6,650,000
Subtotal	1,345,863,166		(74,605,382)	1,271,257,784	68,559,063
Notes payable:					
GDB (Operating and Administrative)	3,495,586	434,383	(1,222,914)	2,707,055	
Special obligation notes (Home Purchase Stimulus Program)	15,000,000	14,000,000		29,000,000	
Citibank notes		80,000,000	(80,000,000)	-	
Plus unamortized premium	498,253		(36,005)	462,248	
Less unaccreted discount and deferred amount on refunds	(488,082,569)	(6,860,000)	33,302,423	(461,640,146)	
Total business-type activities	$ 876,774,436	$ 87,574,383	$(122,561,878)	$ 841,786,941	$ 68,559,063

The annual debt service requirements to maturity, including principal and interest, for long-term debt, other than amounts due to GDB as of June 30, 2011, are as follows:

Years Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Business-Type Activities Principal	Business-Type Activities Interest
2012	$ -	$ 261,554	$ 68,559,063	$ 20,640,710
2013		201,452	57,267,066	19,642,901
2014	95,757	217,922	54,392,294	18,873,779
2015	89,307	215,785	50,536,769	18,062,027
2016	107,858	208,628	49,693,737	17,304,581
2017–2021	554,872	913,724	244,359,480	78,374,257
2022–2026	851,237	731,535	594,191,521	62,851,775
2027–2031	1,993,775	422,339	89,758,935	39,930,007
2032–2036	1,118,431		70,950,433	12,618,329
2037–2041			20,548,486	2,243,368
Total	$ 4,811,237	$ 3,172,939	$ 1,300,257,784	$ 290,541,734

Governmental Activities:

Notes payable by governmental activities, excluding amounts due to GDB, consist of the following:

Description and Maturity Date	Interest Rate	Amount Outstanding
Note Payable AHMSP Stage 7 — due on July 1, 2014, and each July 1 thereafter to July 1, 2031	4.1%–5.25%	$ 4,811,237

Note Payable to Puerto Rico Public Finance Corporation — On December 27, 2001, the Authority entered into a loan agreement (the "Note") with the GDB to refinance the AHMSP Stage 7 note payable of the Puerto Rico Housing Bank, as authorized by Act No. 164 of December 17, 2001. The Puerto Rico Public Finance Corporation acquired and restructured the Note through the issuance of its Commonwealth appropriations bonds ("PFC Bonds"). The PFC Bonds were issued under a trust indenture whereby the Puerto Rico Public Finance Corporation pledged and sold the Note, along with other notes under Act No. 164, to certain trustees and created a first lien on the revenues of the notes sold. The notes payable to the Puerto Rico Public Finance Corporation were originally composed of a loan granted by GDB, which, pursuant to Act No. 164 of December 17, 2001, the Puerto Rico Public Finance Corporation acquired and restructured through the issuance of Commonwealth appropriation bonds. These bonds were issued under trust indenture agreements whereby the Puerto Rico Public Finance Corporation pledged the notes to certain trustees and created a first lien on the pledged revenue (consisting of annual Commonwealth appropriations earmarked to repay these notes) for the benefit of the bondholders.

During June 2004, the Puerto Rico Public Finance Corporation advance refunded a portion of certain of its outstanding Commonwealth appropriation bonds issued in 2001 under Act No. 164 of December 17, 2001. The Authority recognizes a mirror effect of this advance refunding by the Puerto Rico Public Finance Corporation in its own notes payable in proportion to the portion of the Authority's notes payable included in the Puerto Rico Public Finance Corporation refunding. The aggregate debt service requirements of the refunding and unrefunded notes will be funded with annual appropriations from the Commonwealth.

The Note's outstanding balance at June 30, 2011, was $4,811,237 and matures on July 1, 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the Public Finance Corporation Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by the Public Finance Corporation on the PFC Bonds serviced by the Note to the aggregate amount paid by the Public Finance Corporation on all the PFC Bonds issued by the Public Finance Corporation under Act No. 164.

My New Home Program Financing — On June 30 , 2011, the Authority entered into an agreement with GDB to establish a line of credit facility of approximately $64 million. The financing was provided under the provisions of Act No. 122 of August 6, 2010, *Act for the Financing of "Mi Nuevo Hogar Program"*. Under this program, the Authority subsidies closing costs assistance to eligible families for the purchase of a principal residence through reimbursements of origination and closing costs up to 5% of the selling price of the residence. The line of credit consisted of $40 million to collect moneys advanced by the Authority's Operating and Administrative fund to this program, $20 million to continue the financing of the program, and $4 million to establish a reserve for the payment of interest and other financing expenses. As a source of repayment, Act No. 122 assigned to the Authority, for a period of seven years, a portion of no less than 80% of the unreserved moneys and other liquid funds abandoned or unclaimed in financial institutions of Puerto Rico that will be transferred to the general fund of the Commonwealth Puerto Rico. There were no drawdowns from the line of credit during fiscal year 2011.

Business-Type Activities

Bonds, notes, and mortgage-backed certificates payable by business-type activities, excluding notes payable to GDB, consist of the following:

Description and Maturity Date	Interest Rate	Amount Outstanding
Mortgage Trust III:		
Each July 1 and January 1 until July 1, 2011	Zero Coupon	$ 21,250,000
Each July 1 and January 1 until January 1, 2021	Zero Coupon	241,014,876
January 1, 2026	Zero Coupon	163,127,097
Single Family Mortgage Revenue Bonds — Portfolio IX — Each December 1 and June 1 until December 1, 2012	4.85%–5.60%	98,150,000
Single Family Mortgage Revenue Bonds — Portfolio X — Each December 1 and June 1 until December 1, 2037	4.60%–5.65%	70,275,000
Single Family Mortgage Revenue Bonds — Portfolio XI — Each December 1 and June 1 until December 1, 2039	3.460%–5.45%	18,280,000
Homeownership Mortgage Revenue Bonds 2000 Series — Each June 1 and December 1 until December 1, 2032	4.65%–5.20%	44,205,000
Homeownership Mortgage Revenue Bonds 2001 Series:		
Each December 1 until December 1, 2012	4.60%–4.70%	2,495,000
June 1, 2013, and each December 1 and June 1 thereafter to December 1, 2033	5.30%–5.50%	43,005,000
Homeownership Mortgage Revenue Bonds 2003 Series:		
Each December 1 until December 1, 2013	3.80%–4.00%	1,805,000
June 1, 2013, and each December 1 and June 1 thereafter to December 1, 2033	4.375%–4.875%	20,050,000
Mortgage-Backed Certificates, 2006 Series A — principal and interest payable payable monthly from September 29, 2006 to August 29, 2030	2.955%–6.560%	99,641,122
Special Obligation Notes, 2010 Series A and B — November 1, 2040	6.95%–6.974%	15,781,791
Total		$ 839,079,886

Notes Payable to GDB — On October 7, 2008, the Authority entered in an agreement with GDB to obtain a credit facility to manage its co-participation program. Under this program, the Authority participates in conjunction with private banks in the granting of construction loans to developers that qualified under Act No. 24. The credit facility has a maximum credit limit of $50 million, matures on October 7, 2014, and bears a variable interest consisting of prime rate, plus 1% (4.25% at June 30, 2011). The note's outstanding balance at June 30, 2011 amounted to $2,707,055.

Special Obligation Notes, 2010 Series A and B Series — On October 22, 2009 and November 10, 2010, the Authority issued $15,000,000 and $14,000,000 respectively, of Special Obligation Notes, Series A and B. These notes are collateralized by certain second mortgages originated under the Home Purchase Stimulus Program. The Notes will be repaid from collections of principal and interest of the underlying collateral, net of servicing and guarantee fees. The second mortgage loans are guaranteed by the Authority's Act No. 87 insurance program.

Compensated Absences — The activity for compensated absences, included within accounts payable and accrued liabilities, during the year ended June 30, 2011, is as follows:

	Beginning Balance	Provision	Reductions	Ending Balance	Due Within One Year
Vacation	$ 629,663	$ 605,700	$ (680,417)	$ 554,946	$ 554,946
Sick leave	613,312	363,420	(464,927)	511,805	511,805
Total	$ 1,242,975	$ 969,120	$ (1,145,344)	$ 1,066,751	$ 1,066,751

Compensated absences are available to be liquidated by the employees during the year.

10. RELATED-PARTY TRANSACTIONS

A summary of the most significant related-party balances and transactions as of June 30, 2011, and for the year ended is as follows:

Commonwealth of Puerto Rico — Legislative appropriations of approximately $38.3 million were received by the governmental funds during the year ended June 30, 2011. These appropriations are restricted for the payment of certain bonds and to support affordable housing programs.

Department of Housing — At June 30, 2011, the Authority has an amount due from the Department of Housing amounting to $581,687. Management has fully reserved this balance as of June 30, 2011.

GDB — The Authority has the following related-party balances and transactions with GDB as of and for the year ended June 30, 2011:

	Carrying Amount	Interest Rate	Interest Income (Expense)
Assets:			
Cash — including accrued interest	$ 13,438,047	Variable	$ 29,134
Deposits placed with banks — including accrued interest	396,767,044	0.47-7.25%	23,827,619
Nonparticipating investment contracts	158,669,628	Zero Coupon	12,367,001
Nonparticipating investment contracts — including accrued interest	55,419,465	4.50%–8.00%	3,769,518
Total	$ 624,294,184		$ 39,993,272
Liabilities:			
Lines of credit and notes payable — including accrued interest	$ 108,346,512	1.54%–7.00%	$ (2,394,582)
Bonds payable	163,127,097	Zero coupon	(12,297,653)
Total	$ 271,473,609		$ (14,692,235)

Lease Commitments — The Authority entered into a 30-year lease agreement with the Puerto Rico Department of Housing (PRDH) to rent office space expiring in 2037. During the term of the lease, the Authority will pay an annual rent of $1.5 million. The agreed-upon rent includes parking spaces, maintenance, and security services in common areas. The PRDH will be responsible for the payment of utilities in exchange for an additional payment of $350,000 payable in a lump sum on or before August 31 of each year. Rent expense during the year ended June 30, 2011, amounted to $1,500,000.

11. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Authority is a party to financial instruments with off-balance-sheet risk to meet financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and to purchase mortgage-backed securities. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the balance sheet. The off-balance-sheet risks are managed and monitored in manners similar to those used for on-balance-sheet risks. The Authority's exposure to credit losses for lending and purchasing commitments is represented by the contractual amount of those transactions.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since these commitments might expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Authority evaluates each customer's creditworthiness on a case-by-case basis. The amount of the collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. Collateral generally includes income-producing commercial properties. At June 30, 2011, commitments to extend credit amounted to approximately $73,126,000.

Commitments to purchase mortgage-backed securities are agreements to acquire such securities at a fixed price on behalf of certain housing programs. At June 30, 2011, there were no commitments outstanding to purchase mortgage-backed securities.

12. RETIREMENT SYSTEM

Defined Benefit Pension Plan — The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the "Retirement System"), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth. All regular employees of the Authority hired before January 1, 2000, and less than 55 years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of accumulated contributions.

The Retirement System provides retirement, death, and disability benefits pursuant to legislation enacted by the Commonwealth's Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and nonoccupational disabilities. However, a member must have at least 10 years of service to receive nonoccupational disability benefits.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the merit annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

Commonwealth legislation requires employees to contribute 5.775% for the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Authority is required by the same statute to contribute 9.275% of the participant's gross salary. On July 6, 2011, Act No. 116 was approved to increase the employer's contribution for each participant. Starting on July 1, 2011, the employer's contribution will be 10.275% and will increase annually by 1.00% until June 30, 2016. Effective July 1, 2016, the employer's contribution will increase by 1.25% annually, until reaching 20.525%.

Defined Contribution Plan — The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to establish, among other things, a defined contribution savings plan program (the "Savings Plan") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the defined benefit pension plan, received a refund of their contributions, and were rehired on or after January 1, 2000, become members of the Program as a condition to their employment. In addition, employees who at December 31, 1999, were participants of the defined benefit pension plan had the option, up to March 31, 2000, to irrevocably transfer their contributions to the defined benefit pension plan, plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to individual accounts established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semiannually.

The Authority is required by Act No. 305 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan. On July 6, 2011, Act No. 116 was approved to increase the employer's contribution for each participant. Starting on July 1, 2011, the employer's contribution will be 10.275% and will increase annually by 1.00% until June 30, 2016. Effective July 1, 2016, the employer's contribution will increase by 1.25% annually, until reaching 20.525%.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump sum to any beneficiaries. Participants have the option of a lump-sum payment or purchase of an annuity contract in case of permanent disability.

Total employee contributions for the defined benefit pension plan and the defined contribution plan during the year ended June 30, 2011, amounted to approximately $164,000 and $280,000, respectively. The Authority's contributions for the years ended June 30, 2011, 2010, and 2009, amounted to approximately $499,000, $538,000, and $579,000, respectively. These amounts represented 100% of the required contribution for the corresponding year. Individual information for each option is not available since the allocation is performed by the Retirement System itself.

Additional information on the Retirement System is provided in its stand-alone financial statements for the year ended June 30, 2011, a copy of which can be obtained from the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918.

13. TERMINATION BENEFITS

On October 13, 2010, the Authority announced to its employees a voluntary termination plan (the "Plan") based on Act No. 70 enacted on July 2, 2010. The Plan was approved by the Authority's board of directors on October 6, 2010. Act No. 70 provides that eligible employees may retire from employment from the Commonwealth in exchange for an early pension, an economic incentive, and other benefits. The Plan only applied to employees who were ten years or less from retirement in accordance with their applicable retirement plans as of December 1, 2010. The Plan approved by the Authority's board of directors provides the following:

- The employee will receive an annuity of fifty percent of salary in effect at September 30, 2010. The Authority is responsible for the payment of the annuity in addition to the related employee and employer contributions to Retirement Systems for a maximum period of ten years.

- The employee will receive an economic incentive of six month's salary. This incentive is exempt from income taxes as established by Act No. 70.

- The employee will receive the benefits of health and dental insurance for a period of one year.

The total amount of employees that were voluntarily separated from employment was five. The total cost related to these termination benefits was $1.3 million. Employee and employer contributions to the Retirement System and the employee annuity for the applicable period were discounted based on the average interest rate of unpledged investments. As of June 30, 2011, the total liability related to this plan was approximately $1.2 million.

14. COMMITMENTS AND CONTINGENCIES

Other Risks Related to Mortgage Loans Servicing and Insurance Activities — Certain loan portfolios of the Authority are administered by private servicers who are required to maintain an errors and omissions insurance policy. The Authority has a program to manage the risk of loss on its mortgage loan lending and insurance activities.

Custodial Activities of Enterprise Funds — At June 30, 2011, the Authority was custodian of $212,466 in restricted funds of CRUV. As of June 30, 2011, such funds were deposited with GDB. These funds are not owned by the Authority's enterprise funds and, thus, are not reflected in the basic financial statements.

Loan Sales and Securitization Activities — On July 13, 1992, the Authority entered into an agreement to securitize approximately $20.7 million of mortgage loans into a FNMA certificate. The Authority agreed to repurchase, at a price of par plus accrued interest, each and every mortgage loan backing up such security certificate that became delinquent for 120 days or more. As of June 30, 2011, the aggregate outstanding principal balance of the loans pooled into the FNMA certificate amounted to $545,295.

Mortgage Loan Servicing Activities — The Authority acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2011, the principal balance of the mortgage loans serviced for others is as follows:

R-G Mortgage, Inc.	$ 1,439,434
Popular Mortgage, Inc.	37,609
CRUV or its successor without guaranteed mortgage loan payments	42,929
Total	$ 1,519,972

Litigation — The Authority is a defendant in several lawsuits arising out of the normal course of business. Management, based on discussion with legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material effect on the financial position or results of operations of the Authority. A liability to cover litigation claims and contingencies amounting to $385,000 has been included as part of accounts payable and accrued liabilities in the accompanying statement of net assets (deficiency).

HOME Program — The U.S. Office of Inspector General ("OIG") has performed various examinations of the HOME Program covering fiscal years ended prior to July 1, 2010. These examinations covered periods in which the HOME Program was under the administration of the Department of Housing. These examinations identified instances of noncompliance with terms and conditions of the grant agreements, applicable federal law, and the HOME Program's regulations, including but not limited to the expenditure of resources for eligible purposes. OIG identified in its examinations disallowed costs amounting to approximately of $18.3 million. The Authority's management is of the opinion that these disallowed costs are a liability of the Department of Housing and, therefore, the Authority has not recorded a contingency in its basic financial statements.

15. NO-COMMITMENT DEBT AND PROGRAMS SPONSORED BY THE AUTHORITY

Certain bonds of the Authority are considered no-commitment debt as more fully described in Note 2. At June 30, 2011, there were restricted assets held in trust by others, outstanding obligations, fund balances, and excess of fund expenses over revenues, net of transfers (all of which are excluded from the accompanying basic financial statements), as indicated below (unaudited):

Restricted assets	$ 1,804,410
Restricted liabilities (no-commitment debt)	1,804,410
Restricted fund balance	$ -
Excess of fund expenses over revenues	$ 1,033,159

In December 2003, the Authority issued $663 million in Capital Fund Program Bonds Series 2003 to lend the proceeds thereof to the Public Housing Administration (PHA), a governmental instrumentality of the Commonwealth. PHA utilized such funds for improvements to various public housing projects in the Commonwealth. The Capital Fund Program Bonds Series 2003 are limited obligations of the Authority, which will be paid solely from an annual allocation of public housing capital funds when received from the U.S. Department of Housing and Urban Development and other funds available under the bonds indenture. Accordingly, these bonds are considered no-commitment debt and are not presented in the accompanying basic financial statements. The outstanding balance of these bonds amounted to $179,945,000 at June 30, 2011.

On August 1, 2008, the Authority issued the Capital Fund Modernization Program Subordinate Bonds amounting to $384,475,000 and the Housing Revenue Bonds amounting to $100,000,000. The proceeds from the issuance will be mainly used to finance a loan to a limited liability company and pay the costs of issuance. The $384,475,000 bonds are limited obligations of the Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by the U.S. Department of Housing and Urban Development with an outstanding balance of $343,840,000 at June 30, 2011. The $100,000,000 bonds are also limited obligations of the Authority, payable from amounts deposited in escrow accounts with a trustee and the proceeds of a loan to be made by the Authority to the LLC using moneys received as a grant from the Department of Housing. Payment of principal of the Housing Revenue Bonds is also secured by an irrevocable standby letter of credit issued by the Bank. These bonds are considered no-commitment debt and, accordingly, are excluded, along with the related assets held in trust, from the Authority's financial statements.

On February 23, 2009, the Authority entered into an agreement with the Department of Housing whereby a limited liability company was incorporated by the name of Puerto Rico Community Development Fund, LLC (PRCDF). PRCDF is a community development entity ("CDE"). A CDE is any duly organized entity treated as a domestic corporation or partnership for federal income tax purposes that: (a) has a primary mission of serving or providing investment capital for, low-income communities or low-income persons; (b) maintains accountability to residents of low-income communities through their representation on any governing board of the entity or any advisory board to the entity; and (c) has been certified as a CDE by the CDFI Fund of the U.S. Department of Treasury. On March 2, 2009, in order to carry its mission, the PRCDF requested New Markets Tax Credits ("NMTC"). The NMTC Program permits taxpayers to receive a credit against federal income taxes for making qualified equity investments in designated community development entities. PRCDF received a $45 million NMTC allocation related to 2009.

16. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

For a significant portion of the Authority's financial instruments (principally loans), fair values are not readily available since there are no available trading markets. Accordingly, fair values can only be derived or estimated using valuation techniques, such as present-valuing estimated future cash flows using discount rates, which reflect the risk involved, and other related factors. Minor changes in assumptions or estimation methodologies may have a material effect on the results derived therein.

The fair values reflected below are indicative of the interest rate environment as of June 30, 2011, and do not take into consideration the effects of interest rate fluctuations. In different interest rate scenarios, fair value results can differ significantly. Furthermore, actual prepayments may vary significantly from those estimated resulting in materially different fair values.

The difference between the carrying value and the estimated fair value may not be realized, since, in many of the cases, the Authority intends to hold the financial instruments until maturity, or because the financial instruments are restricted. Comparability of fair values among financial institutions is not likely, due to the wide range of permitted valuation techniques and numerous estimates that must be made in the absence of secondary market prices.

The following methods and assumptions were used by the Authority in estimating fair values of the financial instruments for which it is practicable to estimate such values:

- Short-term financial instruments, such as cash, deposits placed with banks, due from federal government, and interest and other receivables and payables, have been valued at the carrying amounts reflected in the statement of net assets (deficiency), as these are reasonable estimates of fair value given the relatively short period of time between origination of the instruments and their expected realization.

- Financial instruments that are primarily traded in secondary markets, such as most investments and certain bonds, were valued using quoted market prices, recent trades or quotations received from independent broker dealers or pricing service organizations.

- Financial instruments that are not generally traded, such as investment contracts, and bonds, mortgage-backed certificates, and notes issued with fixed interest rates, were fair valued using the present values of estimated future cash flows at the appropriate discount rates. Bonds, mortgage-backed certificates, and notes issued with interest rates floating within certain ranges were fair valued at their outstanding principal balance.

- Loans and commitments to extend credit are generally granted for low-cost housing development projects. For these types of loans and commitments, there is no secondary market and the actual future cash flows may vary significantly as compared to the cash flows projected under the agreements, due to the degree of risk. Accordingly, management has opted not to disclose the fair value of these financial instruments, as such information may not be estimated with reasonable precision.

The carrying amounts and estimated fair values of the Authority's financial instruments as of June 30, 2011, are as follows (in millions):

	Carrying Amount	Fair Value
Financial assets:		
Cash	$ 19	$ 19
Deposits placed with banks	548	548
Investments and investment contracts	806	941
Accrued interest and other receivables	7	7
Due from federal government	21	21
Financial liabilities:		
Due to GDB	108	108
Accounts payable and accrued liabilities	104	104
Accrued interest payable	2	2
Bonds, mortgage-backed certificates, and notes payable	844	994

17. INTERFUND BALANCES AND TRANSFERS

The summary of the interfund balances as of June 30, 2011, between governmental funds and enterprise funds is as follows:

Receivable By	Payable By	Purpose	Amount
Enterprise funds:	Governmental funds:		
Operating and Administrative	My New Home Program	Advances	$40,119,127
Operating and Administrative	Other nonmajor (AHMSP Stage 7)	Reimbursement of expenditures	1,217,842
Operating and Administrative	HUD Programs	Reimbursement of expenditures	1,149,277
Operating and Administrative	Other nonmajor (HOME Program)	Reimbursement of expenditures	678,598
Operating and Administrative	Other nonmajor (New Secure Housing Program)	Reimbursement of expenditures	54,117
Total			43,218,961
Governmental funds:	Enterprise funds:		
Other nonmajor (New Secure Housing Program)	Operating and Administrative	Reimbursement of expenditures	(20,182)
Other nonmajor (AHMSP Act No. 124)	Operating and Administrative	Reimbursement of expenditures	(2,927)
Total internal balances — net			$43,195,852

The summary of the interfund balances as of June 30, 2011, between enterprise funds is as follows:

Receivable By	Payable By	Purpose	Amount
Operating and Administrative	Other nonmajor (Mortgage Loan Insurance Program)	Claims mortgage loan insurance	$ 1,404,032
Operating and Administrative	Single-Family Mortgage Revenue Bonds Portfolio IX	Agency fees	7,334
Operating and Administrative	Other nonmajor (Homeownership Mortgage Revenue Bonds)	Agency fees	6,775
Operating and Administrative	Other nonmajor (Home Purchase Stimulus Program)	Reimbursement of loan origination	7,000
Other nonmajor (Mortgage Loan Insurance Program)	Operating and Administrative	Reimbursement of expenses	25,207
Other nonmajor (Home Purchase Stimulus Program)	Operating and Administrative	Reimbursement of expenses	324
Total			$ 1,450,672

The summary of the interfund balances as of June 30, 2011, among governmental funds, is as follows:

Receivable By	Payable By	Purpose	Amount
Other nonmajor (Protecting Your Home Program)	Other nonmajor (AHMSP Act No. 124)	Reimbursement of expenditures	$ 303,809

The summary of interfund transfers for the year ended June 30, 2011, is as follows:

Transfer Out	Transfer In	Purpose	Amount
Governmental funds:	**Governmental funds:**		
Other nonmajor (AHMSP Stage 11)	Other nonmajor (AHMSP Act No. 124)	Release of excess funds	$ 19,601,834
Other nonmajor (AHMSP Act No. 124)	Other nonmajor (Proctecting Your Home Program)	Contribution	20,000,000
Other nonmajor (AHMSP Stage 7)	Other nonmajor (AHMSP Stage 6)	Contribution	71
Governmental funds:	**Enterprise funds:**		
Other nonmajor (AHMSP Mortgage-Backed Certificates)	Mortgage-Backed Certificates 2006 Series A	Debt service payments	305,231
Other nonmajor (AHMSP Stage 9)	Single-Family Mortgage Revenue Bonds Portfolio IX	Contribution	467,145
Other nonmajor (AHMSP Stage 10)	Other nonmajor (Single-Family Mortgage Revenue Bonds Portfolio X)	Debt service payments	187,896
Other nonmajor (AHMSP Stage 11)	Other nonmajor (Single-Family Mortgage Revenue Bonds Portfolio XI)	Debt service payments	759
Enterprise funds:	**Governmental funds:**		
Mortgage-Backed Certificates 2006 Series A	Other nonmajor (AHMSP Mortgage-Backed Certificates)	Subsidy payments	741,042
Enterprise fund:	**Enterprise fund:**		
Other nonmajor (Homeownership Mortgage Revenue Bonds 2001)	Other nonmajor (Homeownership Mortgage Revenue Bonds 2003)	Debt service payments	292,813
Operating and Administrative	Mortgage-Backed Certificates 2006 Series A	Truste fee payments	71,525

18. DEFICIT OF GOVERNMENTAL FUNDS

The following governmental funds reflect a deficit at June 30, 2011: My New Home Program, AHMSP Stage 7, HOME Program, New Secure Housing Program, and AHMSP Mortgage-Backed Certificates for the amount of $30.8 million, $20.3 million, $4.2 million, $4.6 million, and $0.4 million, respectively. The deficits of the My New Home Program and the AHMSP Stage 7 are due to amounts borrowed by the Authority from GDB that were used to provide housing subsidies. The deficit of the New Secure Housing Program is due to FEMA discontinued reimbursement of the Authority's allowable costs. The deficit of the HOME Program is due to the deferral of revenue that was not considered available for current expenditures. The deficit of the AHMSP Mortgage-Backed Certificates is the result of transfers made to the Mortgage-Backed Certificates 2006 Series A enterprise fund. The Authority expects to cover these deficits through contributions from the Commonwealth, except for the AHMSP Mortgage-Backed Certificates, which is covered through transfers from the Mortgage-Backed Certificates 2006 Series A enterprise fund, and the HOME Program, which will be covered when the revenue is considered available.

19. SUBSEQUENT EVENTS

Special Obligation Notes, 2011 A Series — On October 4, 2011, the Authority issued $18 million of its Special Obligation Notes, 2011 A Series (the "2011 Notes") at an aggregate discounted price of $9,180,000. The 2011 Notes will be collateralized by certain second mortgages originated under the Home Purchase Stimulus Program and will be repaid from collections of principal and interest of the underlying collateral. The second mortgage loans will be guaranteed by the Authority's Act No. 87 insurance program.

Restructuring of Mortgage Trust III — In July 2011, the Authority restructured approximately $425 million face amount of Mortgage Trust III bonds and obtained $60 million of cash from the related collateral. The restructuring took place as follows: 1) tender offer amounting to approximately $144 million (including expenses related to the transaction) to acquire and cancel bonds with a carrying amount of approximately $112 million, and 2) purchase AAA securities amounting to approximately $160 million to establish an escrow for the payment through maturity of bonds with a carrying amount of approximately $129 million.

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PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

COMBINING BALANCE SHEET INFORMATION — OTHER NONMAJOR GOVERNMENTAL FUNDS
AS OF JUNE 30, 2011

	AHMSP Stage 2	AHMSP Stage 3	AHMSP Stage 6	AHMSP Stage 7	AHMSP Stage 8	AHMSP Stage 9	AHMSP Stage 10	AHMSP Stage 11	AHMSP Mortgage-Backed Certificates	AHMSP Act No. 124	HOME Program	Protecting Your Home Program	New Secure Housing Program	Total Other Nonmajor Governmental Funds
ASSETS														
DUE FROM OTHER FUNDS	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,927	$ -	$ 303,809	$ 20,182	$ 326,918
RESTRICTED:														
Cash	417	417	52,490	97,556	36,225		16,169			674,561	2,177,292		269,992	3,325,119
Deposits placed with banks									3,546,085	2,201,802		19,668,600		25,416,487
Investments and investment contracts	8,485,637	6,157,810	11,583,802	21,841,311	16,281,771	11,295,333	5,068,818	4,756,526		561,899				86,032,907
Interest and other receivables	9,831	7,664	29,322	86,010	71,608	2,541	542	22	583	7,861		27,864	20	243,868
Due from federal government											8,749,566			8,749,566
TOTAL	$8,495,885	$6,165,891	$11,665,614	$22,024,877	$16,389,604	$11,297,874	$5,085,529	$ 4,756,548	$ 3,546,668	$3,449,050	$10,926,858	$20,000,273	$ 290,194	$124,094,865
LIABILITIES AND FUND BALANCES (DEFICIT)														
LIABILITIES:														
Due to other funds	$ -	$ -	$ -	$ 1,217,842	$ -	$ -	$ -	$ -	$ -	$ 303,809	$ 678,598	$ -	$ 54,117	$ 2,254,366
Payable from restricted assets:														
Accounts payable and accrued liabilities	241,376	49,617	649,360	1,866,539	880,455	598,307	214,446	237,403	3,981,152	20,002	9,913,960		3,304,126	21,956,743
Deferred revenues											4,576,161			4,576,161
Due to Government Development Bank for Puerto Rico				39,281,780									1,511,190	40,792,970
Total liabilities	241,376	49,617	649,360	42,366,161	880,455	598,307	214,446	237,403	3,981,152	323,811	15,168,719		4,869,433	69,580,240
FUND BALANCES (DEFICIT):														
Restricted for affordable housing programs	8,254,509	6,116,274	11,016,254		15,509,149	10,699,567	4,871,083	4,519,145		3,125,239		20,000,273		84,111,493
Unassigned				(20,341,284)					(434,484)		(4,241,861)		(4,579,239)	(29,596,868)
Total fund balances (deficit)	8,254,509	6,116,274	11,016,254	(20,341,284)	15,509,149	10,699,567	4,871,083	4,519,145	(434,484)	3,125,239	(4,241,861)	20,000,273	(4,579,239)	54,514,625
TOTAL	$8,495,885	$6,165,891	$11,665,614	$22,024,877	$16,389,604	$11,297,874	$5,085,529	$ 4,756,548	$ 3,546,668	$3,449,050	$10,926,858	$20,000,273	$ 290,194	$124,094,865

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES INFORMATION — OTHER NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	AHMSP Stage 2	AHMSP Stage 3	AHMSP Stage 6	AHMSP Stage 7	AHMSP Stage 8	AHMSP Stage 9	AHMSP Stage 10	AHMSP Stage 11	AHMSP Mortgage-Backed Certificates	AHMSP Act No. 124	HOME Program	Protecting Your Home Program	New Secure Housing Program	Total Other Nonmajor Governmental Funds
REVENUES:														
Commonwealth appropriations for repayment of bonds or housing assistance programs	$ -	$ -	$ -	$ 256,831	$ -	$ -	$ 1,235,705	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,492,536
Intergovernmental — federal government											11,807,876			11,807,876
Interest income on deposits placed with banks				205					4,542	103,610	204	273	290	109,124
Interest income on investments and investment contracts	478,595	339,801	593,189	1,488,193	847,460	467,042	203,571	912	56,435	26,381				4,501,579
Net increase (decrease) in fair value of investments	460	4,218	(20,328)		(8,424)									(24,074)
Other										1,326,595	558,186		(2,202)	1,882,579
Total revenues	479,055	344,019	572,861	1,745,229	839,036	467,042	1,439,276	912	60,977	1,456,586	12,366,266	273	(1,912)	19,769,620
EXPENDITURES:														
Current:														
General government and other	5,004	5,003	11,000	8,500	8,500			52,000		4,000	1,058,300		23,012	1,175,319
Housing assistance programs	268,399	146,202	450,817	1,754,058	679,149	755,772	574,090	189,596	1,712,390	50,297	15,508,116		2,523,468	24,612,354
Debt service:														
Principal							303,258							303,258
Interest				761,643			932,448						1,511,190	3,205,281
Capital outlays — general government and other											41,711			41,711
Total expenditures	273,403	151,205	461,817	2,524,201	687,649	755,772	1,809,796	241,596	1,712,390	54,297	16,608,127		4,057,670	29,337,923
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	205,652	192,814	111,044	(778,972)	151,387	(288,730)	(370,520)	(240,684)	(1,651,413)	1,402,289	(4,241,861)	273	(4,059,582)	(9,568,303)
OTHER FINANCING SOURCES (USES):														
Issuance of long-term debt													4,362,262	4,362,262
Transfers in			71						741,042	19,601,834		20,000,000		40,342,947
Transfers out				(71)		(467,145)	(187,896)	(19,602,593)	(305,231)	(20,000,000)				(40,562,936)
Total other financing sources (uses) — net	-	-	71	(71)		(467,145)	(187,896)	(19,602,593)	435,811	(398,166)		20,000,000	4,362,262	4,142,273
NET CHANGES IN FUND BALANCES	205,652	192,814	111,115	(779,043)	151,387	(755,875)	(558,416)	(19,843,277)	(1,215,602)	1,004,123	(4,241,861)	20,000,273	302,680	(5,426,030)
FUND BALANCES — Beginning of year	8,048,857	5,923,460	10,905,139	(19,562,241)	15,357,762	11,455,442	5,429,499	24,362,422	781,118	2,121,116			(4,881,919)	59,940,655
FUND BALANCES — End of year	$ 8,254,509	$ 6,116,274	$11,016,254	$(20,341,284)	$15,509,149	$ 10,699,567	$ 4,871,083	$ 4,519,145	$ (434,484)	$ 3,125,239	$(4,241,861)	$ 20,000,273	$(4,579,239)	$ 54,514,625

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

COMBINING BALANCE SHEET INFORMATION — OTHER NONMAJOR ENTERPRISE FUNDS
AS OF JUNE 30, 2011

ASSETS	Mortgage Loan Insurance	Land Acquisition and Construction Loan Insurance	Home Purchase Stimulus Program	Single-Family Mortgage Revenue Bonds Portfolio X	Single-Family Mortgage Revenue Bonds Portfolio XI	Homeownership Mortgage Revenue Bonds	Homeownership Mortgage Revenue Bonds (Series 2001)	Homeownership Mortgage Revenue Bonds (Series 2003)	Total Other Nonmajor Enterprise Funds
CURRENT ASSETS:									
Due from other funds	$ 25,207	$ -	$ 324	$ -	$ -	$ -	$ -	$ -	$ 25,531
Restricted:									
Cash	961,242	259	4,868,747	11,585			2,445	802	5,845,080
Deposits placed with banks	60,756,309	877,048	23,968	2		111,348			61,768,675
Investments and investment contracts					403,129			664,550	1,067,679
Accrued interest receivable	150,001	2,251	344	330,721	82,394	203,534	219,793	76,963	1,066,001
Other receivables	151,175		1,756,300						1,907,475
Total current assets	62,043,934	879,558	6,649,683	342,308	485,523	314,882	222,238	742,315	71,680,441
NONCURRENT ASSETS:									
Restricted:									
Investments and investment contracts	1,945,056			82,817,955	20,032,264	51,207,685	55,381,225	20,588,370	231,972,555
Loans receivable — net			32,189,010						32,189,010
Deferred debt issue costs			202,782	1,577,209	1,840,926		3,927	43,342	3,668,186
Real estate available for sale	1,926,940								1,926,940
Total noncurrent assets	3,871,996	-	32,391,792	84,395,164	21,873,190	51,207,685	55,385,152	20,631,712	269,756,691
TOTAL	$ 65,915,930	$ 879,558	$ 39,041,475	$ 84,737,472	$ 22,358,713	$ 51,522,567	$ 55,607,390	$ 21,374,027	$ 341,437,132

(Continued)

PUERTO RICO HOUSING FINANCE AUTHORITY
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COMBINING BALANCE SHEET INFORMATION — OTHER NONMAJOR ENTERPRISE FUNDS
AS OF JUNE 30, 2011

LIABILITIES AND NET ASSETS	Mortgage Loan Insurance	Land Acquisition and Construction Loan Insurance	Home Purchase Stimulus Program	Single-Family Mortgage Revenue Bonds Portfolio X	Single-Family Mortgage Revenue Bonds Portfolio XI	Homeownership Mortgage Revenue Bonds	Homeownership Mortgage Revenue Bonds (Series 2001)	Homeownership Mortgage Revenue Bonds (Series 2003)	Total Other Nonmajor Enterprise Funds
CURRENT LIABILITIES:									
Current liabilities payable from unrestricted assets —									
Due to other funds	$ 1,404,032	$ -	$ 7,000	$ -	$ -	$ 6,775	$ -	$ -	$ 1,417,807
Current liabilities payable from restricted assets:									
Accrued interest payable				320,157	79,837	188,709	198,770	85,925	873,398
Accounts payable and accrued liabilities	1,100,118		20,692,500	3,291	19,347	127,710	58,213	9,801	22,010,980
Bonds, notes, and mortgage-backed certificates payable				1,275,000	310,000	1,065,000	1,210,000	580,000	4,440,000
Total current liabilities payable from restricted assets	1,100,118	-	20,692,500	1,598,448	409,184	1,381,419	1,466,983	675,726	27,324,378
Total current liabilities	2,504,150	-	20,699,500	1,598,448	409,184	1,388,194	1,466,983	675,726	28,742,185
NONCURRENT LIABILITIES:									
Noncurrent liabilities payable from restricted assets:									
Allowance for losses on mortgage loan insurance	3,672,007								3,672,007
Bonds, notes, and mortgage-backed certificates payable			15,781,791	69,000,000	17,970,000	43,140,000	44,290,000	21,275,000	211,456,791
Total noncurrent liabilities payable from restricted assets	3,672,007	-	15,781,791	69,000,000	17,970,000	43,140,000	44,290,000	21,275,000	215,128,798
Total liabilities	6,176,157	-	36,481,291	70,598,448	18,379,184	44,528,194	45,756,983	21,950,726	243,870,983
NET ASSETS (DEFICIENCY):									
Restricted for:									
Mortgage loan insurance	61,118,599								61,118,599
Affordable housing programs		879,558		14,139,024	3,979,529	7,001,148	9,850,407		35,849,666
Other housing programs			2,566,860						2,566,860
Unrestricted net deficiency	(1,378,826)		(6,676)			(6,775)		(576,699)	(1,968,976)
Total net assets (deficiency)	59,739,773	879,558	2,560,184	14,139,024	3,979,529	6,994,373	9,850,407	(576,699)	97,566,149
TOTAL	$ 65,915,930	$ 879,558	$ 39,041,475	$ 84,737,472	$ 22,358,713	$ 51,522,567	$ 55,607,390	$ 21,374,027	$ 341,437,132

(Concluded)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION — OTHER NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Mortgage Loan Insurance	Land Acquisition and Construction Loan Insurance	Home Purchase Stimulus Program	Single-Family Mortgage Revenue Bonds Portfolio X	Single-Family Mortgage Revenue Bonds Portfolio XI	Homeownership Mortgage Revenue Bonds	Homeownership Mortgage Revenue Bonds (Series 2001)	Homeownership Mortgage Revenue Bonds (Series 2003)	Total Other Nonmajor Enterprise Funds
OPERATING REVENUES:									
Investment income:									
Interest income on deposits placed with banks	$ 462,187	$ 6,299	$ 12,939	$ 47	$ 48	$ 409	$ -	$ -	$ 481,929
Interest income on investments and investment contracts	124,357			4,132,604	1,010,101	2,581,243	2,802,811	956,819	11,607,935
Net increase (decrease) in fair value of investments	(38,822)			1,998,131	508,050	390,607	479,135	324,766	3,661,867
Total investment income	547,722	6,299	12,939	6,130,782	1,518,199	2,972,259	3,281,946	1,281,585	15,751,731
Interest income on loans			363,406						363,406
Total investment income and interest income on loans	547,722	6,299	376,345	6,130,782	1,518,199	2,972,259	3,281,946	1,281,585	16,115,137
Noninterest income:									
Commitment, guarantee, service, and administrative fees	475,782					27,536	7,333		510,651
Mortgage loan insurance premiums	3,774,823								3,774,823
Other income	72,711		5,850						78,561
Total noninterest income	4,323,316	-	5,850	-	-	27,536	7,333	-	4,364,035
Total operating revenues	4,871,038	6,299	382,195	6,130,782	1,518,199	2,999,795	3,289,279	1,281,585	20,479,172
OPERATING EXPENSES:									
Provision for loan losses			913,386						913,386
Interest expense — Bonds, notes and mortgage-backed certificates			913,783	4,283,749	1,253,134	2,376,859	2,570,979	1,088,222	12,486,726

(Continued)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION — OTHER NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Mortgage Loan Insurance	Land Acquisition and Construction Loan Insurance	Home Purchase Stimulus Program	Single-Family Mortgage Revenue Bonds Portfolio X	Single-Family Mortgage Revenue Bonds Portfolio XI	Homeownership Mortgage Revenue Bonds	Homeownership Mortgage Revenue Bonds (Series 2001)	Homeownership Mortgage Revenue Bonds (Series 2003)	Total Other Nonmajor Enterprise Funds
Other noninterest expenses:									
Legal and professional fees	$ -	$ -	$ -	$ -	$ -	$ 82,423	$ -	$ -	$ 82,423
Office and administrative	35,333		35						35,368
Subsidy and trustee fees			27,500	13,157	10,286	13,096	27,173	21,227	112,439
Provision for losses on mortgage loan insurance	3,325,677								3,325,677
Other	3,674,534								3,674,534
Total noninterest expense	7,035,544	-	27,535	13,157	10,286	95,519	27,173	21,227	7,230,441
Total operating expenses	7,035,544	-	1,854,704	4,296,906	1,263,420	2,472,378	2,598,152	1,109,449	20,630,553
OPERATING INCOME (LOSS)	(2,164,506)	6,299	(1,472,509)	1,833,876	254,779	527,417	691,127	172,136	(151,381)
TRANSFERS IN				187,896	759			292,813	481,468
TRANSFERS OUT							(292,813)		(292,813)
CHANGE IN NET ASSETS	(2,164,506)	6,299	(1,472,509)	2,021,772	255,538	527,417	398,314	464,949	37,274
NET ASSETS — Beginning of year	61,904,279	873,259	4,032,693	12,117,252	3,723,991	6,466,956	9,452,093	(1,041,648)	97,528,875
NET ASSETS — End of year	$ 59,739,773	$ 879,558	$ 2,560,184	$ 14,139,024	$ 3,979,529	$ 6,994,373	$ 9,850,407	$ (576,699)	$ 97,566,149

(Concluded)