

Puerto Rico Housing Finance Authority

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

Basic Financial Statements and Required
Supplementary Information as of and
for the Year Ended June 30, 2010,
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, 2010, 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. 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, 2010, 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

November 5, 2010

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

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, 2010. 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 increased \$28 million, from \$606 million as of June 30, 2009, to \$634 million as of June 30, 2010. The increase was the net result of a decrease in the net assets of governmental activities of \$30 million and an increase of \$58 million in the net assets of business-type activities.
- Operating income of enterprise fund activities was \$20 million and \$25 million for the years ended June 30, 2010 and 2009, respectively. Total operating revenues of enterprise funds increased to \$116 million in 2010 from \$113 million in 2009. Total operating expenses increased to \$96 million in 2010 from \$88 million in 2009. There were interfund transfers in the amount of \$5 million and operating contributions from the Commonwealth of Puerto Rico (the "Commonwealth") of \$34 million during the year ended June 30, 2010.
- The Authority's board of directors authorized to close the Special Obligation Refunding Bonds — Debt Service fund and transfer its net assets to the Affordable Housing Mortgage Subsidy Program (AHMSP) Stage 7 fund. The purpose of this transfer was to reduce a fund balance deficit of the AHMSP Stage 7 fund and also reduce liabilities for \$13 million.
- The Authority's board of directors authorized to return \$32 million from The Key to Your Home Program and the AHMSP Act No. 124 to the Operating and Administrative fund. These funds had been previously transferred in 2007 to these governmental funds as a result of a refunding bond transaction.
- The Authority's board of directors authorized the use of \$21 million from the Operating and Administrative fund for the creation of the Closing Costs Assistance Program. The purpose of this program is to promote the origination of single-family mortgage loans through a subsidy that covers the closing costs. For the year ended June 30, 2010, total subsidies charged to this program amounted to \$26.4 million.
- On February 17, 2009, the American Recovery and Reinvestment Act (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, 2010, the Authority expended \$86.6 million as part of this act.

- In February 2010, the Commonwealth made a \$904,850 contribution to the Authority for the interest payment of its \$13.9 million line of credit of the AHMSP Stage 10 fund.
- During the current year, the Commonwealth awarded a \$10 million contribution to the Authority for the Closing Costs Assistance Program.
- On April 22, 2010, the Authority issued \$15 million of Special Obligation Notes, 2010 Series A. The proceeds from these notes will be used to acquire the second mortgages originated under the Home Purchase Stimulus Program and will also be used as collateral of the Notes. A subsequent issuance of Special Obligation Notes, Series B is expected to occur in November 2010.

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 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 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, 2010 and June 30, 2009 (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets:						
Cash	\$ 6,868	\$ 3,301	\$ 31,655	\$ 25,125	\$ 38,523	\$ 28,426
Investments, investment contracts, and deposits placed with banks	117,044	158,589	1,264,835	1,411,396	1,381,879	1,569,985
Loans receivable, net		2,063	208,135	202,691	208,135	204,754
Capital assets			3,601	4,159	3,601	4,159
Other assets, net of internal balances	27,449	(5,530)	36,407	46,576	63,856	41,046
Total assets	151,361	158,423	1,544,633	1,689,947	1,695,994	1,848,370
Liabilities:						
Current liabilities	89,507	84,532	100,228	76,817	189,735	161,349
Long-term liabilities	63,433	45,015	809,169	1,036,170	872,602	1,081,185
Total liabilities	152,940	129,547	909,397	1,112,987	1,062,337	1,242,534
Net assets (deficiency):						
Invested in capital assets			3,601	4,159	3,601	4,159
Restricted	52,933	93,609	296,977	231,811	349,910	325,420
Unrestricted	(54,512)	(64,733)	334,658	340,990	280,146	276,257
Total	\$ (1,579)	\$ 28,876	\$ 635,236	\$ 576,960	\$ 633,657	\$ 605,836

The net assets of the Authority increased \$28 million from \$606 million at June 30, 2009 to \$634 million at June 30, 2010 as a result of a decrease of \$152 million in total assets and \$180 million in total liabilities. The decrease in total assets is mainly due to the following:

- Investments, investment contracts, and deposits placed with banks decreased from \$1,570 million at June 30, 2009 to \$1,382 million at June 30, 2010 or a \$188 million decrease. This decrease was principally the result of the use of investments to partially redeem \$181 million of Single-Family Mortgage Revenue Bonds Portfolio XI.
- Other assets increased from \$41 million at June 30, 2009 to \$64 million at June 30, 2010 or an increase of \$23 million. This increase is the result of the due from federal government recorded in the ARRA Programs.

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

- Current liabilities increased from \$161 million at June 30, 2009 to \$190 million at June 30, 2010 or \$29 million. The increase was mainly the result of activities in 2010 of the new Closing Costs Assistance Program, ARRA Programs, and Home Purchase Stimulus Program with aggregate accounts payable and accrued liabilities of \$54 million. The increase was partially offset by the redemption of bonds and notes during the year.
- Long term liabilities decreased from \$1,081 million at June 30, 2009 to \$873 million at June 30, 2010 or \$208 million. This reduction was principally the result of an early redemption of \$181 million on bonds of the Single-Family Mortgage Revenue Bonds Portfolio XI; \$164 million in October 2009 and \$16.5 million in May 2010.

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, and the Closing Costs Assistance Program, are shown as governmental activities, and other programs (Operating and Administrative, Single-Family Mortgage Revenue Bonds Portfolio IX, and Mortgage Loan Insurance) are shown as business-type activities. Condensed statements of activities for the fiscal years ended June 30, 2010 and 2009 are shown in the table below (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 11,114	\$ 11,391	\$ 11,114	\$ 11,391
Financing and investment	4,743	6,616	104,413	101,322	109,156	107,938
Operating grants and contributions	<u>225,268</u>	<u>127,411</u>	<u>34,000</u>		<u>259,268</u>	<u>127,411</u>
Total revenues	<u>230,011</u>	<u>134,027</u>	<u>149,527</u>	<u>112,713</u>	<u>379,538</u>	<u>246,740</u>
Program expenses:						
General government and other	4,776	4,555			4,776	4,555
Housing assistance programs	250,787	177,085			250,787	177,085
Operating and administrative			31,742	15,652	31,742	15,652
Mortgage Trust III			32,620	33,599	32,620	33,599
Single Family Mortgage Revenue						
Bonds — Portfolio IX			6,737	7,051	6,737	7,051
Mortgage-Backed Certificates 2006 Series A			7,415	7,704	7,415	7,704
Other business-type activities			<u>17,639</u>	<u>24,018</u>	<u>17,639</u>	<u>24,018</u>
Total expenses	<u>255,563</u>	<u>181,640</u>	<u>96,153</u>	<u>88,024</u>	<u>351,716</u>	<u>269,664</u>
Change in net assets before transfers	(25,552)	(47,613)	53,374	24,689	27,822	(22,924)
Transfers	<u>(4,902)</u>	<u>(6,609)</u>	<u>4,902</u>	<u>6,609</u>		
Change in net assets	(30,454)	(54,222)	58,276	31,298	27,822	(22,924)
Net assets — beginning of year	<u>28,875</u>	<u>83,097</u>	<u>576,960</u>	<u>545,662</u>	<u>605,835</u>	<u>628,759</u>
Net assets (deficiency) — end of year	\$ <u>(1,579)</u>	\$ <u>28,875</u>	\$ <u>635,236</u>	\$ <u>576,960</u>	\$ <u>633,657</u>	\$ <u>605,835</u>

- Total revenues increased from \$247 million in 2009 to \$380 million in 2010 or \$133 million. Operating grants and contributions increased by \$132 million when compared to the prior year. Operating grants and contributions increased from \$127 million in 2009 to \$259 million in 2010 mainly because this year the Authority earned \$86.6 million in ARRA funds. This federal program was not established last year. In addition, the Authority received \$34 million from the Commonwealth for the co-participation program and the Home Purchase Stimulus Program.
- Program expenses increased from \$270 million in 2009 to \$352 million in 2010 or \$82 million. The increase in expenses of governmental activities was mainly due to an increase of \$86.6 million in expenditures of ARRA Programs.

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 \$6 million from \$119 million in 2009 to \$125 million in 2010. The expenditures in the housing vouchers program increased \$1 million because additional vouchers were awarded when compared to the previous year.

ARRA Programs — On February 17, 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 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, 2010, the Authority expended \$86.6 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 \$21 million from the Operating and Administrative fund and other \$10 million from the Commonwealth. During the year ended June 30, 2010, total subsidy expenditures amounted to \$26.4 million.

7. ENTERPRISE FUND RESULTS

Total net assets of the Authority's enterprise funds increased during the year ended June 30, 2010, by \$58 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 increased from \$345 million at June 30, 2009 to \$368 million at June 30, 2010 or \$23 million. The change in net assets decreased from \$31 million in 2009 to \$23 million in 2010 or a change of \$8 million, which was mainly due to fluctuations in the operating expenses, special items, and interfund transfers financial statements line items. Operating expenses went from \$16 million in 2009 to \$32 million in 2010. The Authority's board of directors authorized to return \$32 million from The Key to Your Home Program and the AHMSP Act. No. 124 Program to the Operating and Administrative fund. These funds were previously transferred in 2007 to the governmental funds as a result of a refunding bond transaction. The Authority's board of directors also authorized the use of \$21 million for the creation of the Closing Costs Assistance Program.

Mortgage Trust III — Investment income and interest income on loans for 2010 amounted to \$41 million while interest expense and fees amounted to \$33 million during the year ended June 30, 2010. 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 \$12 million and incurred in interest expense on bonds payable of \$7 million.

Mortgage-Backed Certificates 2006 Series A — This fund had investment income of \$14 million and incurred in interest expense on bonds payable of \$7 million. During the year, this fund paid \$11.8 million of mortgage-backed certificates payable.

8. CAPITAL ASSETS

The Authority's investment in capital assets for its business-type activities at June 30, 2010 and 2009, amounted to approximately \$3.6 million and \$4.2 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, 2010 and June 30, 2009, total debt outstanding amounted to \$982 million and \$1,215 million, respectively. Debt issuances during 2010 and 2009 totaled \$32.0 million and \$8.7 million, respectively. Debt issued in 2010 consisted of approximately \$2.8 million from a revolving credit facility with Government Development Bank for Puerto Rico (GDB) under the co-participation program, \$7.6 million of Special Obligation Notes, 2010 Series A under the Home Purchase Stimulus Program, \$14.3 million from a note payable to GDB under its AHMSP Stage 10 fund, and \$7.3 million under the New Secure Housing Program's line of credit. Debt repaid during fiscal year 2010 and 2009 amounted to approximately \$298 million and \$225 million, respectively. During the year ended June 30, 2010, the amounts of \$31 million and \$267 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 Puerto Rico Housing Finance 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, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ -	\$ 6,732,429	\$ 6,732,429
Deposits placed with banks		116,131,209	116,131,209
Investments and investment contracts		18,357,183	18,357,183
Loans receivable — net		191,347,183	191,347,183
Interest and other receivables		2,470,582	2,470,582
Other assets		58,215	58,215
Internal balances — net	(2,112,001)	2,112,001	-
Restricted assets:			
Cash	6,868,220	24,922,414	31,790,634
Deposits placed with banks	8,049,335	405,306,936	413,356,271
Investments and investment contracts	108,995,150	725,039,969	834,035,119
Interest and other receivables	1,475,285	13,954,190	15,429,475
Due from federal government	22,893,098		22,893,098
Due from Commonwealth of Puerto Rico	5,000,000		5,000,000
Loans receivable — net		16,787,580	16,787,580
Real estate available for sale		1,339,669	1,339,669
Deferred debt issue costs	191,908	6,165,742	6,357,650
Real estate available for sale		1,425,894	1,425,894
Property held in trust for Puerto Rico			
Department of Housing		8,880,000	8,880,000
Capital assets — net		3,601,354	3,601,354
Total assets	<u>\$ 151,360,995</u>	<u>\$ 1,544,632,550</u>	<u>\$ 1,695,993,545</u>
LIABILITIES AND NET ASSETS (DEFICIENCY)			
LIABILITIES:			
Accounts payable and accrued liabilities	\$ -	\$ 9,361,535	\$ 9,361,535
Due to Government Development Bank for Puerto Rico — due in more than one year		3,495,586	3,495,586
Notes payable — due in more than one year	4,811,237		4,811,237
Liabilities payable from restricted assets:			
Accounts payable and accrued liabilities	47,136,858	21,820,208	68,957,066
Accrued interest payable	256,831	1,440,545	1,697,376
Due to Government Development Bank for Puerto Rico:			
Due in one year	42,113,113		42,113,113
Due in more than one year	58,622,234		58,622,234
Bonds and mortgage-backed certificates payable:			
Due in one year		67,605,173	67,605,173
Due in more than one year		805,673,677	805,673,677
Total liabilities	<u>152,940,273</u>	<u>909,396,724</u>	<u>1,062,336,997</u>
COMMITMENTS AND CONTINGENCIES (Note 13)			
NET ASSETS (DEFICIENCY):			
Invested in capital assets		3,601,354	3,601,354
Restricted for:			
Mortgage loan insurance		61,898,797	61,898,797
Affordable housing program	52,933,292	230,895,407	283,828,699
Other housing programs		4,182,693	4,182,693
Unrestricted net assets (deficit)	<u>(54,512,570)</u>	<u>334,657,575</u>	<u>280,145,005</u>
Total net assets (deficiency)	<u>\$ (1,579,278)</u>	<u>\$ 635,235,826</u>	<u>\$ 633,656,548</u>

See accompanying notes to basic financial statements.

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		Total
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	\$ 4,776,401	\$ -	\$ -	\$ (4,776,401)	\$ -	\$ (4,776,401)
Housing assistance programs	<u>250,787,193</u>	<u>4,743,015</u>	<u>225,267,928</u>	<u>(20,776,250)</u>	<u>-</u>	<u>(20,776,250)</u>
Total governmental activities	<u>255,563,594</u>	<u>4,743,015</u>	<u>225,267,928</u>	<u>(25,552,651)</u>	<u>-</u>	<u>(25,552,651)</u>
Business-type activities:						
Operating and administrative	7,792,599	15,636,660	29,500,000	21,187,686	8,064,061	21,187,686
Mortgage Trust III	32,619,646	40,683,707		8,064,061	8,064,061	8,064,061
Single Family Mortgage Revenue Bonds Portfolio IX	6,736,928	11,688,162		4,951,234	4,951,234	4,951,234
Mortgage-Backed Certificates 2006 Series A	7,415,574	13,630,631		6,215,057	6,215,057	6,215,057
Other business-type activities	<u>17,639,277</u>	<u>22,773,934</u>	<u>4,500,000</u>	<u>12,955,944</u>	<u>12,955,944</u>	<u>12,955,944</u>
Total business-type activities	<u>96,152,998</u>	<u>104,413,094</u>	<u>34,000,000</u>	<u>-</u>	<u>53,373,982</u>	<u>53,373,982</u>
Total functions/programs	<u>\$ 351,716,592</u>	<u>\$ 109,156,109</u>	<u>\$ 259,267,928</u>	<u>(25,552,651)</u>	<u>53,373,982</u>	<u>27,821,331</u>
TRANSFERS IN (OUT) — Net				<u>(4,902,162)</u>	<u>4,902,162</u>	<u>-</u>
CHANGE IN NET ASSETS				<u>(30,454,813)</u>	<u>58,276,144</u>	<u>27,821,331</u>
NET ASSETS — Beginning of year				<u>28,875,535</u>	<u>576,959,682</u>	<u>605,835,217</u>
NET ASSETS (DEFICIENCY) — End of year				<u>\$ (1,579,278)</u>	<u>\$ 635,235,826</u>	<u>\$ 633,656,548</u>

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, 2010

ASSETS	HUD Programs	ARRA Programs	Closing Costs Assistance Program	Other Nonmajor	Eliminations	Total
DUE FROM OTHER FUNDS	\$ -	\$ -	\$ -	\$ 20,015	\$ (71)	\$ 19,944
RESTRICTED:						
Cash	1,660,169	183	3,023,288	2,184,580		6,868,220
Deposits placed with banks			8,047,530	1,805		8,049,335
Investments and investment contracts				108,995,150		108,995,150
Interest and other receivables	1,216,140	6	50,724	208,415		1,475,285
Due from federal government	999,823	21,893,275				22,893,098
Due from Commonwealth of Puerto Rico			5,000,000			5,000,000
TOTAL	<u>\$ 3,876,132</u>	<u>\$ 21,893,464</u>	<u>\$ 16,121,542</u>	<u>\$ 111,409,965</u>	<u>\$ (71)</u>	<u>\$ 153,301,032</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Due to other funds	\$ 1,235,972	\$ -	\$ 24,014	\$ 872,030	\$ (71)	\$ 2,131,945
Payable from restricted assets:						
Accounts payable and accrued liabilities	2,640,160	21,893,464	11,301,874	11,301,360		47,136,858
Due to Government Development Bank for Puerto Rico				39,295,920		39,295,920
Total liabilities	3,876,132	21,893,464	11,325,888	51,469,310	(71)	88,564,723
FUND BALANCES —						
Unreserved — special revenue funds			4,795,654	59,940,655		64,736,309
TOTAL	<u>\$ 3,876,132</u>	<u>\$ 21,893,464</u>	<u>\$ 16,121,542</u>	<u>\$ 111,409,965</u>	<u>\$ (71)</u>	<u>\$ 153,301,032</u>

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, 2010**

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES
IN THE STATEMENT OF NET ASSETS (DEFICIENCY) ARE
DIFFERENT BECAUSE:

Total fund balances	\$ 64,736,309
Deferred debt issue costs that are recorded as expenditures in governmental funds, but are capitalized in the government-wide financial statements	191,908
Notes payable are not due and payable in the current period and, therefore, are not reported in the funds	(66,250,664)
Accrued interest payable not due and payable in the current period	<u>(256,831)</u>
NET DEFICIENCY OF GOVERNMENTAL ACTIVITIES	<u>\$ (1,579,278)</u>

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, 2010

	HUD Programs	ARRA Programs	Closing Costs Assistance Program	Other Nonmajor	Total
REVENUES:					
Commonwealth appropriations for repayment of bonds or housing assistance programs	\$ -	\$ -	\$ 10,000,000	\$ 1,161,681	\$ 11,161,681
Intergovernmental — federal government	124,519,535	86,636,311	43,392	90,621	211,155,846
Interest income on deposits placed with banks				4,537,792	4,537,792
Interest income on investments and investment contracts				27,617	27,617
Interest income on loans				43,593	43,593
Net increase in fair value of investments	40,073			93,800	93,800
Net gain on sale of foreclosed real estate available for sale				1,587,338	1,627,411
Other					
Total revenues	<u>124,559,608</u>	<u>86,636,311</u>	<u>10,043,392</u>	<u>7,542,442</u>	<u>228,781,753</u>
CURRENT EXPENDITURES:					
Current:					
General government and other	4,679,791			96,610	4,776,401
Housing assistance programs	119,879,817	86,636,311	26,415,427	14,081,341	247,012,896
Debt service:					
Principal				1,851,918	1,851,918
Interest				3,159,101	3,159,101
Total expenditures	<u>124,559,608</u>	<u>86,636,311</u>	<u>26,415,427</u>	<u>19,188,970</u>	<u>256,800,316</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>-</u>	<u>-</u>	<u>(16,372,035)</u>	<u>(11,646,528)</u>	<u>(28,018,563)</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from issuance of long-term debt			21,167,689	20,527,563	20,527,563
Transfers in				44,396,172	65,563,861
Transfers out				(70,466,023)	(70,466,023)
Total other financing sources (uses) — net	<u>-</u>	<u>-</u>	<u>21,167,689</u>	<u>(5,542,288)</u>	<u>15,625,401</u>
NET CHANGES IN FUND BALANCES			4,795,654	(17,188,816)	(12,393,162)
FUND BALANCES — Beginning of year				77,129,471	77,129,471
FUND BALANCES — End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,795,654</u>	<u>\$ 59,940,655</u>	<u>\$ 64,736,309</u>

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, 2010**

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

Net changes in fund balances — total governmental funds	\$ (12,393,162)
The issuance of long-term debt provides current financial resources 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	(18,675,645)
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	(477,197)
Revenues in the statement of activities that do provide current financial resources and not reported as revenues in the governmental funds	1,229,190
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.	<u>(137,999)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (30,454,813)</u>

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, 2010

ASSETS	Operating and Administrative	Mortgage Trust III	Single Family Mortgage Revenue Bonds Portfolio IX	Mortgage- Backed Certificates 2006 Series A	Other Nonmajor	Eliminations	Total
CURRENT ASSETS:							
Cash	\$ 6,732,429	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,732,429
Deposits placed with banks	116,131,209						116,131,209
Loans receivable — net	5,327,000						5,327,000
Accrued interest receivable	1,418,509						1,418,509
Other current receivables	1,052,073						1,052,073
Other assets	58,215						58,215
Due from other funds	2,297,346				5,482	(170,883)	2,131,945
Restricted:							
Cash		7,718,626					7,718,626
Deposits placed with banks	29,500,000	314,585,455	57,334		17,203,788		24,922,414
Accrued interest receivable		11,391,229	507,852	634,373	61,164,147		405,306,936
Other receivables		5,365			1,268,171		13,801,625
Investments and investment contracts		10,109			147,200		152,565
Loans receivable — net		528,000			560,873		570,982
Total current assets	<u>162,516,781</u>	<u>334,238,784</u>	<u>565,186</u>	<u>634,373</u>	<u>80,349,661</u>	<u>(170,883)</u>	<u>578,133,902</u>
NONCURRENT ASSETS:							
Investments and investment contracts	18,357,183						18,357,183
Loans receivable — net	186,020,183						186,020,183
Real estate available for sale	1,425,894						1,425,894
Property held in trust for Puerto Rico							
Department of Housing	8,880,000						8,880,000
Capital assets — net	3,601,354						3,601,354
Restricted:							
Investments and investment contracts		213,419,269	123,915,473	144,579,382	242,554,863		724,468,987
Loans receivable — net		2,752,026			13,507,554		16,259,580
Real estate available for sale					1,339,669		1,339,669
Deferred debt issue costs			303,073	1,557,466	4,305,203		6,165,742
Total noncurrent assets	<u>218,284,614</u>	<u>216,171,295</u>	<u>124,218,546</u>	<u>146,136,848</u>	<u>261,707,289</u>	<u>-</u>	<u>966,518,592</u>
TOTAL	<u>\$ 380,801,395</u>	<u>\$ 550,410,079</u>	<u>\$ 124,783,732</u>	<u>\$ 146,771,221</u>	<u>\$ 342,056,950</u>	<u>\$(170,883)</u>	<u>\$ 1,544,652,494</u>

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, 2010

	Operating and Administrative	Mortgage Trust III	Single Family Mortgage Revenue Bonds Portfolio IX	Mortgage- Backed Certificates 2006 Series A	Other Nonmajor	Eliminations	Total
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES:							
Current liabilities payable from unrestricted assets:							
Accounts payable and accrued liabilities	\$ 9,361,122	\$ -	7,950	\$ -	\$ -	-	\$ 9,361,122
Due to other funds	25,426				157,451	(170,883)	19,944
Accrued interest payable	413						413
Total current liabilities payable from unrestricted assets	<u>9,386,961</u>	<u>-</u>	<u>7,950</u>	<u>-</u>	<u>157,451</u>	<u>(170,883)</u>	<u>9,381,479</u>
Current liabilities payable from restricted assets:							
Accrued interest payable			494,330	15,882			1,440,545
Accounts payable and accrued liabilities		75,000	14,543	18,000	930,333		21,473,878
Bonds, notes and mortgage-backed certificates payable		42,530,000	2,245,000	18,350,173	4,480,000		67,605,173
Total current liabilities payable from restricted assets	<u>-</u>	<u>42,605,000</u>	<u>2,753,873</u>	<u>18,384,055</u>	<u>26,776,668</u>	<u>-</u>	<u>90,519,596</u>
Total current liabilities	<u>9,386,961</u>	<u>42,605,000</u>	<u>2,761,823</u>	<u>18,384,055</u>	<u>26,934,119</u>	<u>(170,883)</u>	<u>99,901,075</u>
NONCURRENT LIABILITIES:							
Noncurrent liabilities payable from unrestricted assets — Notes payable to Government Development Bank for Puerto Rico	3,495,586						3,495,586
Noncurrent liabilities payable from restricted assets:							
Allowance for losses on mortgage loan insurance		393,881,052	105,050,000	89,494,999	346,330		805,673,677
Bonds, notes and mortgage-backed certificates payable		393,881,052	105,050,000	89,494,999	217,593,956		806,020,007
Total noncurrent liabilities payable from restricted assets	<u>3,495,586</u>	<u>393,881,052</u>	<u>105,050,000</u>	<u>89,494,999</u>	<u>217,593,956</u>	<u>-</u>	<u>809,515,593</u>
Total noncurrent liabilities	<u>12,882,547</u>	<u>436,486,052</u>	<u>107,811,823</u>	<u>107,879,054</u>	<u>244,528,075</u>	<u>(170,883)</u>	<u>909,416,668</u>
NET ASSETS:							
Invested in capital assets	3,601,354						3,601,354
Restricted for:							
Mortgage loan insurance					61,898,797		61,898,797
Affordable housing programs	29,500,000	113,924,027	16,979,859	38,892,167	31,599,354		230,895,407
Other housing programs			(7,950)		4,182,693		4,182,693
Unrestricted net assets (deficit)	334,817,494				(151,969)		334,657,575
Total net assets	<u>367,918,848</u>	<u>113,924,027</u>	<u>16,971,909</u>	<u>38,892,167</u>	<u>97,528,875</u>	<u>-</u>	<u>635,235,826</u>
TOTAL	<u>\$ 380,801,395</u>	<u>\$ 550,410,079</u>	<u>\$ 124,783,732</u>	<u>\$ 146,771,221</u>	<u>\$ 342,056,950</u>	<u>\$ (170,883)</u>	<u>\$ 1,544,652,494</u>

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 CHANGES IN NET ASSETS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Operating and Administrative	Mortgage Trust III	Single-Family Mortgage Revenue Bonds Portfolio IX	Mortgage- Backed Certificates 2006 Series A	Other Nonmajor	Total
OPERATING REVENUES:						
Investment income:						
Interest income on deposits placed with banks	\$ 1,458,325	\$23,237,352	\$ 91	\$ -	\$ 607,114	\$ 25,302,882
Interest income on investments and investment contracts	1,506,973	16,133,178	6,618,440	8,383,373	12,499,277	45,141,241
Net increase in fair value of investments	8,096	943,869	5,069,631	5,247,258	9,558,910	20,827,764
Total investment income	<u>2,973,394</u>	<u>40,314,399</u>	<u>11,688,162</u>	<u>13,630,631</u>	<u>22,665,301</u>	<u>91,271,887</u>
Interest income on loans	12,663,266	369,308			108,633	13,141,207
Total investment income and interest income on loans	<u>15,636,660</u>	<u>40,683,707</u>	<u>11,688,162</u>	<u>13,630,631</u>	<u>22,773,934</u>	<u>104,413,094</u>
Noninterest income:						
Fiscal agency fees	98,321					98,321
Commitment, guarantee, service, and administrative fees	7,422,959				151,329	7,574,288
Mortgage loan insurance premiums					3,156,393	3,156,393
Other income	271,319				13,565	284,884
Total noninterest income	<u>7,792,599</u>				<u>3,321,287</u>	<u>11,113,886</u>
Total operating revenues	<u>23,429,259</u>	<u>40,683,707</u>	<u>11,688,162</u>	<u>13,630,631</u>	<u>26,095,221</u>	<u>115,526,980</u>
OPERATING EXPENSES:						
Provision for loan losses	9,523,192				478,079	10,001,271
Interest expense — Bonds, notes and mortgage-backed certificates payable	137,457	32,469,646	6,613,567	7,344,500	15,853,947	62,419,117

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 CHANGES IN NET ASSETS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Operating and Administrative	Mortgage Trust III	Single-Family Mortgage Revenue Bonds Portfolio IX	Mortgage- Backed Certificates 2006 Series A	Other Nonmajor	Total
Other noninterest expenses:						
Salaries and fringe benefits	10,778,163					10,778,163
Occupancy and equipment costs	2,391,645					2,391,645
Depreciation and amortization	1,169,109					1,169,109
Legal and professional fees	1,950,277				99,322	2,049,599
Office and administrative	526,062		98,320			624,382
Subsidy and trustee fees	3,911,775	150,000	25,041	71,074	101,623	4,259,513
Provision for losses on mortgage loan insurance					157,678	157,678
Other	1,158,067				948,628	2,106,695
Total noninterest expense	21,885,098	150,000	123,361	71,074	1,307,251	23,536,784
Total operating expenses	31,545,747	32,619,646	6,736,928	7,415,574	17,639,277	95,957,172
OPERATING INCOME (LOSS)	(8,116,488)	8,064,061	4,951,234	6,215,057	8,455,944	19,569,808
NONOPERATING REVENUES (EXPENSES):						
Contributions from Commonwealth of Puerto Rico	29,500,000				4,500,000	34,000,000
Contributions to others	(195,826)					(195,826)
Total nonoperating revenues — net	29,304,174	-	-	-	4,500,000	33,804,174
TRANSFERS IN	32,291,848		492,404	53,075	4,536,242	37,373,569
TRANSFERS OUT	(30,636,592)			(1,706,218)	(128,597)	(32,471,407)
CHANGE IN NET ASSETS	22,842,942	8,064,061	5,443,638	4,561,914	17,363,589	58,276,144
NET ASSETS — Beginning of year	345,075,906	105,859,966	11,528,271	34,330,253	80,165,286	576,959,682
NET ASSETS — End of year	\$ 367,918,848	\$ 113,924,027	\$ 16,971,909	\$ 38,892,167	\$ 97,528,875	\$ 635,235,826

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, 2010

	Operating and Administrative	Mortgage Trust III	Single-Family Mortgage Revenue Bonds Portfolio IX	Mortgage- Backed Certificates 2006 Series A	Other Nonmajor	Total
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash received from interest on housing program loans	\$ 11,012,610	\$ 387,108	\$ -	\$ -	\$ 43,775	\$ 11,443,493
Cash paid for housing program loans originated	(26,012,630)				(10,000)	(26,022,630)
Principal collected on housing program loans	23,568,726	2,611,353			10,000	26,190,079
Cash received from other operating noninterest income	8,259,733				229,280	8,489,013
Cash received from mortgage loan insurance premiums					3,156,393	3,156,393
Cash paid for other operating noninterest expenses	(10,027,841)	(150,000)	(132,051)	(53,075)	(287,104)	(10,650,071)
Cash payments for salaries and fringe benefits	(10,297,515)	(326)				(10,297,841)
Internal balances	6,689,974		7,950		(1,536,224)	5,161,700
	<u>3,193,057</u>	<u>2,848,135</u>	<u>(124,101)</u>	<u>(53,075)</u>	<u>1,606,120</u>	<u>7,470,136</u>
Net cash provided by (used in) operating activities						
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Contributions from Commonwealth of Puerto Rico	29,500,000				4,500,000	34,000,000
Contributions to others	(195,826)					(195,826)
Proceeds from issuance of notes payable	2,785,259				7,650,000	10,435,259
Payments of notes, bonds, and mortgage-backed certificates payable	(886,678)	(43,060,000)	(11,995,000)	(11,822,523)	(199,805,000)	(267,569,201)
Payment of debt issue costs					(166,500)	(166,500)
Interest paid	(154,753)	(375,733)			(15,891,858)	(28,961,798)
Transfers in	13,367,493		(6,495,099)		4,536,242	18,449,214
Transfers out	(30,636,590)		492,404		(1,706,218)	(32,471,405)
	<u>13,778,905</u>	<u>(43,435,733)</u>	<u>(17,997,695)</u>	<u>(19,520,021)</u>	<u>(199,305,713)</u>	<u>(266,480,257)</u>
Net cash used in noncapital financing activities						
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Acquisition of capital assets	<u>(611,667)</u>					<u>(611,667)</u>

See accompanying notes to basic financial statements.

(Continued)

