

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)

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-9
BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2011:	
Government-Wide Financial Statements:	
Statement of Net Assets (Deficiency)	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet — Governmental Funds	12
Reconciliation of the Balance Sheet — Governmental Funds to the Statement of Net Assets (Deficiency)	13
Statement of Revenues, Expenditures, and Changes in Fund Balances — Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances — Governmental Funds to the Statement of Activities	15
Balance Sheet — Enterprise Funds	16-17
Statement of Revenues, Expenses, and Change in Net Assets — Enterprise Funds	18-19
Statement of Cash Flows — Enterprise Funds	20-22
Notes to Basic Financial Statements	23-52
ADDITIONAL SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2011:	
Combining Balance Sheet Information — Other Nonmajor Governmental Funds	53
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Information — Other Nonmajor Governmental Funds	54
Combining Balance Sheet Information — Other Nonmajor Enterprise Funds	55-56
Combining Statement of Revenues, Expenses, and Changes in Net Assets Information — Other Nonmajor Enterprise Funds	57-58

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

Stamp No. E18436
affixed to original.

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, 2011

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	<u>142,121</u>	<u>151,361</u>	<u>1,525,124</u>	<u>1,544,634</u>	<u>1,667,245</u>	<u>1,695,995</u>
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	<u>177,727</u>	<u>152,940</u>	<u>880,525</u>	<u>909,398</u>	<u>1,058,252</u>	<u>1,062,338</u>
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	<u>\$ (35,606)</u>	<u>\$ (1,579)</u>	<u>\$ 644,599</u>	<u>\$ 635,236</u>	<u>\$ 608,993</u>	<u>\$ 633,657</u>

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	<u>279,609</u>	<u>225,268</u>		<u>34,000</u>	<u>279,609</u>	<u>259,268</u>
Total revenues	<u>284,299</u>	<u>230,011</u>	<u>102,647</u>	<u>149,527</u>	<u>386,946</u>	<u>379,538</u>
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			<u>20,631</u>	<u>17,639</u>	<u>20,631</u>	<u>17,639</u>
Total expenses	<u>318,106</u>	<u>255,563</u>	<u>93,504</u>	<u>96,153</u>	<u>411,610</u>	<u>351,716</u>
Change in net assets before transfers	(33,807)	(25,552)	9,143	53,374	(24,664)	27,822
Transfers	<u>(220)</u>	<u>(4,902)</u>	<u>220</u>	<u>4,902</u>		-
Increase (decrease) in net assets	(34,027)	(30,454)	9,363	58,276	(24,664)	27,822
Net assets — beginning 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>
Net assets — end of year	<u>\$ (35,606)</u>	<u>\$ (1,579)</u>	<u>\$644,599</u>	<u>\$635,236</u>	<u>\$608,993</u>	<u>\$633,657</u>

- 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	<u>142,121,062</u>	<u>1,525,124,031</u>	<u>1,667,245,093</u>
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	<u>177,727,225</u>	<u>880,524,719</u>	<u>1,058,251,944</u>
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	<u>(86,367,782)</u>	<u>330,167,358</u>	<u>243,799,576</u>
Total net assets (deficiency)	<u>\$ (35,606,163)</u>	<u>\$ 644,599,312</u>	<u>\$ 608,993,149</u>

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 — Commissions, and Others	Charges for Services — Financing and Investment	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	<u>311,950,727</u>	<u>4,690,669</u>	<u>279,608,816</u>	<u>(27,651,242)</u>	<u>-</u>	<u>(27,651,242)</u>
Total governmental activities	<u>318,106,381</u>	<u>-</u>	<u>4,690,669</u>	<u>(33,806,896)</u>	<u>-</u>	<u>(33,806,896)</u>
Business-type activities:						
Operating and administrative	28,712,985	8,957,523	16,654,780	(3,100,682)	(3,100,682)	(3,100,682)
Mortgage Trust III	31,666,286		39,371,356	7,705,070	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	2,871,813
Mortgage-Backed Certificates 2006 Series A	6,537,348		8,356,025	1,818,677	1,818,677	1,818,677
Other business-type activities	<u>20,630,553</u>	<u>4,364,035</u>	<u>16,115,137</u>	<u>(151,381)</u>	<u>(151,381)</u>	<u>(151,381)</u>
Total business-type activities	<u>93,503,773</u>	<u>13,321,558</u>	<u>89,325,712</u>	<u>-</u>	<u>9,143,497</u>	<u>9,143,497</u>
Total functions/programs	<u>\$411,610,154</u>	<u>\$13,321,558</u>	<u>\$94,016,381</u>	<u>(33,806,896)</u>	<u>9,143,497</u>	<u>(24,663,399)</u>
TRANSFER IN (OUT) — Net				<u>(219,989)</u>	<u>219,989</u>	<u>-</u>
CHANGE IN NET ASSETS (DEFICIENCY)				<u>(34,026,885)</u>	<u>9,363,486</u>	<u>(24,663,399)</u>
NET ASSETS (DEFICIENCY) — Beginning of year				<u>(1,579,278)</u>	<u>635,235,826</u>	<u>633,656,548</u>
NET ASSETS (DEFICIENCY) — End of year				<u>\$(35,606,163)</u>	<u>\$644,599,312</u>	<u>\$ 608,993,149</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, 2011

ASSETS	HUD Programs	ARRA Programs	Closing Costs Assistance Program	My New Home Program	Other Nonmajor Governmental Funds	Eliminations	Total
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	<u>1,295,759</u>	<u>11,205,824</u>			<u>8,749,566</u>		<u>21,251,149</u>
TOTAL	<u>\$3,450,984</u>	<u>\$11,206,100</u>	<u>\$ 11,491,433</u>	<u>\$ 35,175,963</u>	<u>\$124,094,865</u>	<u>\$ (303,809)</u>	<u>\$185,115,536</u>
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					<u>40,792,970</u>		<u>40,792,970</u>
Total liabilities	<u>3,450,984</u>	<u>11,206,100</u>	<u>5,726,850</u>	<u>65,974,273</u>	<u>69,580,240</u>	<u>(303,809)</u>	<u>155,634,638</u>
FUND BALANCES (DEFICIT):							
Restricted for affordable housing programs			5,764,583	(30,798,310)	84,111,493		89,876,076
Unassigned				(30,798,310)	(29,596,868)		(60,395,178)
Total fund balances (deficit)	<u>-</u>	<u>-</u>	<u>5,764,583</u>	<u>(30,798,310)</u>	<u>54,514,625</u>	<u>-</u>	<u>29,480,898</u>
TOTAL	<u>\$3,450,984</u>	<u>\$11,206,100</u>	<u>\$ 11,491,433</u>	<u>\$ 35,175,963</u>	<u>\$124,094,865</u>	<u>\$ (303,809)</u>	<u>\$185,115,536</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, 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	<u>4,576,161</u>
NET DEFICIENCY OF GOVERNMENTAL ACTIVITIES	<u>\$ (35,606,163)</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, 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	<u>127,124,354</u>	<u>95,739,443</u>	<u>36,899,958</u>	<u>189,949</u>	<u>19,769,620</u>	<u>279,723,324</u>
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	<u>127,124,354</u>	<u>95,739,443</u>	<u>35,931,029</u>	<u>30,988,259</u>	<u>29,337,923</u>	<u>319,121,008</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>968,929</u>	<u>(30,798,310)</u>	<u>(9,568,303)</u>	<u>(39,397,684)</u>
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,142,273</u>	<u>4,142,273</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>968,929</u>	<u>(30,798,310)</u>	<u>(5,426,030)</u>	<u>(35,255,411)</u>
FUND BALANCES — Beginning of year			4,795,654		59,940,655	64,736,309
FUND BALANCES — End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,764,583</u>	<u>\$ (30,798,310)</u>	<u>\$ 54,514,625</u>	<u>\$ 29,480,898</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, 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	<u>(9,131)</u>
Change in net deficiency of governmental activities	<u><u>\$(34,026,885)</u></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, 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		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	<u>141,249,657</u>	<u>321,054,200</u>	<u>523,780</u>	<u>12,426,653</u>	<u>71,680,441</u>	<u>(1,450,672)</u>	<u>545,484,059</u>
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	<u>237,852,578</u>	<u>226,041,871</u>	<u>118,412,554</u>	<u>127,599,387</u>	<u>269,756,691</u>	<u>-</u>	<u>979,663,081</u>
TOTAL	<u>\$ 379,102,235</u>	<u>\$ 547,096,071</u>	<u>\$ 118,936,334</u>	<u>\$ 140,026,040</u>	<u>\$ 341,437,132</u>	<u>\$ (1,450,672)</u>	<u>\$ 1,525,147,140</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, 2011

	Operating and Administrative	Mortgage Trust III	Single-Family Mortgage Revenue Bonds Portfolio IX	Mortgage-Backed Certificates 2006 Series 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		383,361,973	95,940,000	79,762,059	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)

