



GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial Advisory Authority

Municipal Secondary Market Disclosure Information Cover Sheet
Municipal Securities Rulemaking Board (MSRB)
Electronic Municipal Market Access System (EMMA)

THIS FILING RELATES TO A SINGLE BOND ISSUE:

Name of bond issue exactly as it appears on the cover of the Official Statement:

Three horizontal lines for entering the name of the bond issue.

Nine-digit CUSIP numbers if available, to which the information relates:

Two horizontal lines for entering CUSIP numbers.

THIS FILING RELATES TO ALL OR SEVERAL SECURITIES ISSUED BY THE ISSUER, OR ALL OR SEVERAL SECURITIES OF A SPECIFIC CREDITOR:

Issuer's Name: Puerto Rico Housing Finance Authority (PRHFA)

Other Obligated Person's Name (if any):

CUSIP numbers: Mortgage-Backed Certificates, 2006 Series A (74526LBC6, 74526LBD4, 74526LBE2, 74526LBF9, 74526LBG7, 74526LBH5, 74526LBJ1, 74526LBK8, 74526LBL6, 74526LBM4, 74526LBN2, 74526LBP7, 74526LBQ5, 74526LBR3, 74526LBS1, 74526LBT9, 74526LBU6, 74526LBV4); and Portfolio XI (74527ACM6, 74527ACN4, 74527ACP9).

TYPE OF INFORMATION PROVIDED:

- A. Annual Financial Information and Operating Data pursuant to Rule 15c2-12
B. Audited Financial Statements or CAFR pursuant to Rule 15c2-12
C. Notice of Failure to Provide Annual Financial Information as Required

I represent that I am authorized by the issuer, obligor or its agent to distribute this information publicly.

/s/ Manuel González del Toro
Manuel González del Toro
Puerto Rico Fiscal Agency and Financial Advisory Authority,
as Fiscal Agent for PRHFA

Dated: March 26, 2020



LLM&D, PSC

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

Puerto Rico Housing Finance Authority
*(A Component Unit of the Government Development
Bank for Puerto Rico)*

Single Audit Package

June 30, 2017

(With Independent Auditors' Reports Thereon)

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Basic Financial Statements For the Year Ended June 30, 2017,
Single Audit of Federal Financial Assistance and Independent Auditors' Report

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(A Component Unit of the Government Development Bank for Puerto Rico)
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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Puerto Rico Housing Finance Authority
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Puerto Rico Housing Finance Authority (the Authority) (a component unit of the Government Development Bank for Puerto Rico (GDB)) as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities, the Business-type Activities and each major fund of the Authority as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

The Authority's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. The winding down of GDB's operations and the financial difficulties being experienced by the Economic Development Bank (EDB) and the Commonwealth have had a spill over effect on the operations of the Authority since these entities have accessed and may continue to access the Authority's assets in order to alleviate their liquidity problems. Notes 4 and 5 to the basic financial statements discuss some events evidencing the access of the Authority's assets by these entities, coupled with the fact that GDB will no longer serve as a financing source to the Authority.

The Authority has evaluated the possible effects of the budgetary constraints and historical liquidity risks faced by the Commonwealth, EDB and GDB on its basic financial statements and operations, and believe such conditions impose a significant uncertainty about the Authority's ability to comply with the terms of its obligations as they become due. Accordingly, we believe there is substantial doubt about the ability of the Authority to continue as a going concern. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Adoption of Accounting Standard

As discussed in Note 2 to the basic financial statements, as of July 1, 2016, the Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This resulted in a restatement to the beginning net position of the business-type activities and proprietary fund of approximately \$45.2 million. Our opinions are not modified with respect to this matter.

Restatement

As further discussed in Note 2 to the basic financial statements, the 2016 financial statements of the Authority, which were audited by other auditors, have been restated to recognize a custodial credit loss in the Authority's deposits with the Economic Development Bank for Puerto Rico and the Government Development Bank for Puerto Rico that should have been recorded then.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability and schedule of contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by ("GASB"), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The accompanying financial data schedules of the Authority are presented for purposes of additional analysis as required by the U. S. Department of Housing and Urban Development (HUD) and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial data schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated July 31, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting

and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in red ink, appearing to read 'R. V. ...', is positioned in the upper right quadrant of the page.

San Juan, PR
January 16, 2020

License No. 90
Expiration Date: December 1, 2022

Stamp No. E402902 of Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Puerto Rico Housing Finance Authority

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

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2017

This management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the ***Puerto Rico Housing Finance Authority*** (the Authority) for the fiscal year ended June 30, 2017. The MD&A is intended to serve as an introduction to the Authority's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. The MD&A is designed to (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the Authority's financial activities, and (c) highlight individual fund matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the Authority's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

Financial Highlights

- Net position of the Authority decreased \$8.4 million during fiscal year 2017, from \$141.8 million as of June 30, 2016 (as restated) to \$133.4 million as of June 30, 2017.
- The Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, effective July 1, 2016; and has applied them retroactively to the financial statements for all periods presented. Accordingly, the beginning net position of the Authority was decreased by \$45.2 million. The Authority also restated the beginning net deficit and fund balance of its governmental activities and governmental funds, respectively, and the beginning net position of its business-type activities and proprietary fund in order to recognize a custodial credit risk loss for its cash deposited at Economic Development Bank (EDB) and Government Development Bank for Puerto Rico (GDB), which should have been recognized during the prior fiscal year. Accordingly, the beginning net position of the Governmental Activities and the Business-type Activities of the Authority was decreased by \$18.5 million and \$66.2 million, respectively.
- Operating loss of the Operating and Administrative fund was \$6.0 million for the fiscal year ended June 30, 2017 compared to an operating loss of \$182.0 million for the fiscal year ended June 30, 2016. There were net interfund transfers in the amount of \$1.2 million during the fiscal year ended June 30, 2017. Total operating revenues of the proprietary fund decreased to \$33.4 million in fiscal year 2017 from \$39.2 million in fiscal year 2016. Total operating expenses of the proprietary fund decreased to \$39.5 million in fiscal year 2017 from \$221.2 million in fiscal year 2016.
- During fiscal year 2017, \$144.9 million and \$13.8 million were granted in subsidies through the Housing Urban Development Program (HUD) and the Investment Partnerships HOME Federal Program (the Home program), respectively.
- \$6.8 million were granted in subsidies through the Affordable Housing Mortgage Subsidy Programs.
- \$13.8 million of Single Family Revenue bonds were called and repaid during fiscal year 2017.

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Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

Using this Report

This report consists of a series of financial statements and supplementary information. The Statement of Net Position and the Statement of Activities as well as the Proprietary Fund financial statements provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. Governmental funds financial statements show how services were financed in the short-term, as well as how much may remain for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide statements by providing information about the Authority's major funds.

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the Authority's finances is: "Is the Authority, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflow of resources using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account, regardless of when cash was received or paid.

These two statements report the Authority's net position and changes in it. One can think of the Authority's net position – the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources– as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in net position is one indicator of whether its financial health is improving or deteriorating. One may need to consider other non-financial factors, such as changes in the Authority's operating nature, the low income housing subsidy and mortgage environments, new laws and regulations.

In the Statement of Net Position and the Statement of Activities, operations of the Authority are divided into two kinds of activities:

- *Governmental Activities* – Most of the Authority's basic services are reported here, such as low income housing assistance programs financed through federal grants.
- *Business-type Activities* – The Authority charges fees to its customers help it cover all or part of the cost of certain services it provides. Main activities included herein include programs for financing purchase of residential units by low and moderate-income families and loan insurance programs.

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Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
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For the Year Ended June 30, 2017

Reporting Major Funds

Fund Financial Statements

Financial statements prepared at the fund level provide additional details about the Authority's financial position and activities. By definition, funds are accounting entities with a self-balancing set of accounts created for the purpose of carrying on specific activities or achieving specific goals. Information presented in the governmental fund financial statements differs from the information presented in the government-wide statements because the perspective and basis of accounting used to prepare the governmental fund financial statements are different than the perspective and basis of accounting used to prepare the government-wide statements. The Authority's governmental and proprietary fund types use different perspectives and accounting bases. The funds presented in the fund financial statements are categorized as major funds as required by accounting principles generally accepted in the United States of America (U.S. GAAP).

The Authority uses two fund types for operations – governmental and proprietary.

- *Governmental Funds* – Most of the Authority's basic services and expenditures are reported in governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end that are available for spending. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Assets and liabilities that do not impact current financial resources, such as capital assets and long-term liabilities, are not recognized in the governmental funds statements. The governmental funds statements provide a detailed short-term view of the Authority's low income housing programs financed with federal financial assistance programs. Governmental funds information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. The reconciliations between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are presented following the fund financial statements.
- *Proprietary Funds* – These funds are utilized when the Authority charges customers to recover its costs of providing services. Proprietary funds report on business-type activities, which include one enterprise fund. The Authority's enterprise fund is the same as the business-type activities reported in the government-wide statements. Proprietary Funds statements are prepared using the economic resources measurement focus and the accrual basis of accounting. In addition to a Balance Sheet and a Statement of Revenues, Expenses and Changes in Net Position, Proprietary Funds are also required to report a Statement of Cash Flows.

Notes to Basic Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements.

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Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

Overall Financial Position and Results of Operations

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, 2017 and June 30, 2016 (in thousands):

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u> <u>(as restated)</u>	<u>2017</u>	<u>2016</u> <u>(as restated)</u>	<u>2017</u>	<u>2016</u> <u>(as restated)</u>
Assets:						
Cash	\$ 18,405	12,901	50,764	26,400	69,169	39,301
Investments and deposits placed with banks, including accrued interest	41,308	62,344	166,893	211,068	208,201	273,412
Loans receivable, net	-	-	193,031	206,319	193,031	206,319
Capital assets	1	1	9,951	9,783	9,952	9,784
Other assets	<u>(5,888)</u>	<u>(14,793)</u>	<u>16,452</u>	<u>30,126</u>	<u>10,564</u>	<u>15,333</u>
Total assets	\$ 53,826	60,453	437,091	483,696	490,917	544,149
Deferred outflows of resources	-	-	14,255	11,100	14,255	11,100
Liabilities:						
Due in less than one year	\$ 11,548	23,614	47,819	58,200	59,367	81,814
Due in more than one year	<u>111,949</u>	<u>108,046</u>	<u>199,358</u>	<u>222,700</u>	<u>311,307</u>	<u>330,746</u>
Total liabilities	\$ 123,497	131,660	247,177	280,900	370,674	412,560
Deferred inflows of resources	-	-	1,132	927	1,132	927
Net position:						
Net investment in capital assets	\$ 1	1	9,951	9,783	9,952	9,784
Restricted	-	-	37,929	70,344	37,929	70,344
Unrestricted position	<u>(69,672)</u>	<u>(71,208)</u>	<u>155,157</u>	<u>132,842</u>	<u>85,485</u>	<u>61,634</u>
Total net position	\$ (69,671)	(71,207)	203,037	212,969	133,366	141,762

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Governmental activities net position

Total assets from Governmental Activities were approximately \$53.8 million at June 30, 2017. Total liabilities were \$123.5 million, for a net deficit of \$69.7 million for the fiscal year ended June 30, 2017. Net deficit has been broken down into a net position invested in net capital assets of approximately \$1,000 and the remaining balance as the unrestricted component of net deficit of approximately \$69.7 million.

The total aggregate amount of investments and investment contracts was \$41.3 million and, together with cash and due from banks and deposits placed with banks of \$18.4 million, accounted for the majority of the assets held by Governmental Activities. These assets are restricted to provide funds for the execution of the various affordable and other housing programs managed by the Authority. Other assets are mainly restricted and are composed mostly of amounts due from the HUD and HOME federal programs. Accrued liabilities mainly consist of unpaid expenditures related to the HOME Program fund and of subsidies payable on various affordable housing programs.

Business-type activities net position

Total assets from Business-type Activities were approximately \$437.1 million at June 30, 2017. Deferred outflows of resources were approximately \$14.3 million. Total liabilities were \$247.0 million and deferred inflows of resources were approximately \$1.1 million, for a net position of \$203.0 million during the fiscal year ended June 30, 2017. Net position has been broken down into a net position invested in net capital assets of approximately \$10.0 million, restricted for affordable housing programs of \$26.0 million, restricted for debt service of \$5.7 million and restricted for other housing programs of \$6.2 million. The remaining balance is the unrestricted component of the net position and amounted to approximately \$155.2 million.

The total aggregate amount of investments and investment contracts were \$153.8 million and, together with loans receivable of \$193.0 million and cash and due from banks and deposits placed with banks of \$61.8 million, accounted for the majority of the assets held by the Business-type Activities for the fiscal year ended June 30, 2017.

Statement of Activities

The statement of activities shows the sources of the Authority's changes in net position as they arise through its various programs and functions. Programs such as the HUD Programs, HOME Program, and My New Home Program are shown as governmental activities and other programs (Mortgage Loan Insurance and Home Purchase Stimulus Program) are shown as business-type activities. A condensed summary of activities for the fiscal years ended June 30, 2017 and 2016 is shown in the table on the following page (in thousands):

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	Governmental Activities		Business-type Activities		Total	
	2017	2016 (as restated)	2017	2016 (as restated)	2017	2016 (as restated)
Revenues:						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 20,463	\$ 14,025	\$ 20,463	\$ 14,025
Financing and investment	2,137	4,076	12,952	25,189	15,089	29,265
Operating grants, capital grants, and contributions	176,665	184,521	-	-	176,665	184,521
Total revenues	178,802	188,597	33,415	39,214	212,217	227,811
Program expenses:						
General government and other	6,039	24,381	-	-	6,039	24,381
Housing assistance programs	170,037	190,011	-	-	170,037	190,011
Operating and administrative	-	-	44,537	242,590	44,537	242,590
Total program expenses	176,076	214,392	44,537	242,590	220,613	456,982
Change in net position before transfers	2,726	(25,795)	(11,122)	(203,376)	(8,396)	(229,171)
Transfers	(1,190)	96,857	1,190	(96,857)	-	-
Increase (decrease) in net position	1,536	71,062	(9,932)	(300,233)	(8,396)	(229,171)
Net position, beginning of year (as restated)	(71,207)	(142,269)	212,969	513,202	141,762	370,933
Net position, end of year	\$ (69,671)	\$ (71,207)	\$ 203,037	\$ 212,969	\$ 133,366	\$ 141,762

Governmental activities analysis

The decrease of \$7.8 million in operating grants and contributions was mainly related to the decrease in the grants and other income of the HOME Programs from \$29.2 million in fiscal year 2016 to \$18.2 in fiscal year 2017. The decrease of almost \$11.0 in HOME Program grants was the result of decreased activity in construction projects subsidized by the Program due to a lower grant award and also fiscal year 2016 was the last installment of the Voluntary Repayment Settlement Agreement with HUD which accounted for \$5.1 million of other income. The decrease in the HOME program grants was offset with an increase in Commonwealth appropriations of \$5.6 million from \$5.7 million in fiscal year 2016 to \$11.3 million in fiscal year 2017. The increase in Commonwealth appropriations was due to additional funding received by the My Own Home Program for the development of the Casa Mia Program and additional appropriations

Puerto Rico Housing Finance Authority

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Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2017

transferred for the operations of the Operating and Administrative Fund. There were net transfers out amounting to \$1.2 million in fiscal year 2017 compared to transfers in of \$96.9 million in fiscal year 2016 due to the fact that in fiscal year 2016 the operating and administrative fund sold loans and transferred \$89.3 million to the My New Home Program for the payment of its line of credit in order to provide liquidity to the GDB.

Business-type activities analysis

The decrease in expenses of \$198.1 million in the Business-type activities was mainly due to the recording of a custodial credit loss of \$182.7 million in fiscal year 2016 compared to a custodial credit loss recovery of \$2.8 in fiscal year 2017 and a net loss on the sale of loans of \$18.8 million in fiscal year 2016 compared to a net loss on sale of loans of \$4.7 million in fiscal year 2017.

In fiscal year 2017 there were net transfers in of \$1.2 million compared to transfers out amounting to \$96.9 million in fiscal year 2016 due to the fact that in fiscal year 2016 the operating and administrative fund sold loans and transferred \$89.3 million to the My New Home Program for the payment of its line of credit in order to provide liquidity to the GDB.

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 HUD. 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 low and moderate income markets. The expenditures of the HUD Programs increased \$1.5 million from approximately \$148.3 million in fiscal year 2016 to approximately \$149.8 million in fiscal year 2017 because additional vouchers assistance was awarded when compared to the previous year.

HOME Program – This fund accounts for funds received from HUD for the administration of the HOME Program. The main purpose of this program is to increase the supply of decent and affordable housing for low and very low-income families. Revenues decreased from approximately \$25.8 million in fiscal year 2016 to approximately \$16.2 million in fiscal year 2017 mainly due to lower activity in construction projects subsidized by the Program and a lower grant award and a decrease in other income as fiscal year 2016 was the last year of the Voluntary Repayment Settlement Agreement with HUD which accounted for \$5.1 million of other income, which did not recur in fiscal year 2017.

Affordable Housing Subsidy Program – This fund is used to account for the proceeds of specific local revenue sources under the different subsidy programs of the Authority. During the fiscal year ended June 30, 2017, the fund balance decreased by \$4.0 million as compared to a decrease of \$22.6 million in the fiscal year ended June 20, 2016. This fluctuation is principally caused by the recognition during 2016 of approximately \$18.8 million of custodial credit risk loss on deposits, while none was recognized during 2017.

Puerto Rico Housing Finance Authority
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Proprietary Fund Results

Following is an analysis of the financial position and results of operations of the major proprietary fund:

Operating and Administrative – The net position of the Operating and Administrative fund decreased from approximately \$213.0 million at June 30, 2016, adjusted for the cumulative effect of change in accounting principle (\$45.2 million) and for the correction of an error (\$66.2 million), to approximately \$203.0 million at June 30, 2017, or approximately \$10.0 million, responding to the operating loss for the year of approximately \$6 million and a net loss from the sale of loans of approximately \$4.7 million.

Capital Assets

The Authority's investment in capital assets for its business type activities as of June 30, 2017 and June 30, 2016 amounted to approximately \$10.0 million and \$9.8 million, respectively, net of accumulated depreciation and amortization. Capital assets include leasehold improvements, information systems, office furniture, equipment, and vehicles.

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 or through providing subsidy for the down payment and/or the principal and interest payments on mortgage loans.

At June 30, 2017 and June 2016, total debt outstanding was approximately \$281.9 million and \$324.3 million, respectively. There were no debt issuances during fiscal year 2017 and fiscal year 2016. Debt repaid, during fiscal year 2017 and fiscal year 2016, was approximately \$55.3 million and \$95.8 million, respectively. The credit rating of the Authority's public debt is AA+, as determined by Standards and Poor's in June 2013. Refer to Note 11 to the basic financial statements for additional information on borrowed funds.

Currently Known Facts

The Authority is a component unit of the GDB, which in turn, is a component unit of the Commonwealth.

Management's evaluation of the Authority's going concern has identified the winding down of GDB's operations and the financial condition of the Economic Development Bank (EDB) and the Commonwealth, primary government of GDB, as external matters that may affect the ability of the Authority to continue as a going concern. Following is a brief explanation of the financial difficulties facing these entities:

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

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2017

COMMONWEALTH OF PUERTO RICO

The Commonwealth is in the midst of a profound fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. The Commonwealth's liquidity as of the end of fiscal year 2017 faced revenue stream vulnerability during times of major economic downturns and large health care, pension and debt service costs. As the Commonwealth's tax base has shrunk and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services. The Commonwealth's high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt.

These matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth relied more heavily on short-term financings and interim loans from GDB, and other component units of the Commonwealth, which reliance constrained the liquidity of the Commonwealth in general and GDB in particular, and increased near-term refinancing risk.

These factors resulted in delays in the repayment by the Commonwealth and its component units of outstanding GDB lines of credit, which delays limited GDB's ability to continue providing liquidity to the Commonwealth and caused GDB to fail to make a principal payment on its debt obligations. Similarly, and pursuant to a series of legislations and executive orders during fiscal year 2016 as further explained below, the Commonwealth and certain other public corporations also delayed the debt service payments on some of their debts, including the general obligation bonds of the Commonwealth.

These factors are reflected in the deterioration of the Commonwealth's credit ratings. Since June 30, 2014, the principal rating agencies lowered their rating on the general obligation bonds of the Commonwealth, which had already been placed in a default rating of "D." They also lowered their ratings on the bonds of GDB to a default grade.

The Commonwealth reflects a net position deficit/fund balance deficit of approximately \$70 billion as of June 30, 2016. The Commonwealth's General Fund shows a fund balance (deficit) of approximately \$1.2 billion as of June 30, 2016.

For the fiscal year ended June 30, 2016, the Legislative Assembly of Puerto Rico (the Legislature) did not appropriate approximately \$94 million for the payments of the PFC bonds which are obligations of certain component units of the Commonwealth that are payable solely from such appropriations.

On April 6, 2016, the Commonwealth enacted Act No. 21, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (the Moratorium Act) under which, the Commonwealth and certain of its component units suspended their respective debt service payments. In particular, the Commonwealth suspended the payment of \$779 million in debt service on general obligation bonds due July 1, 2016 (net of \$352 million of capitalized interest fund and escrow accounts).

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The Moratorium Act also created the Puerto Rico Fiscal Agency and Financial Advisory Authority (“FAFAA”), as an independent public corporation and government instrumentality with separate legal existence, fiscal and administrative autonomy, and independence from the Commonwealth. FAFAA was created for the purpose of acting as fiscal agent, financial advisor and reporting agent, of the Government of Puerto Rico, its agencies, its instrumentalities, subdivisions, public corporations and/or municipalities, and to assist such entities in confronting the fiscal and economic emergency that Puerto Rico is experiencing. FAFAA assumed the fiscal agency and financial advisory responsibilities that were previously held by GDB. On January 18, 2017, the Governor of Puerto Rico (the Governor) signed into law Act No. 2 of 2017, known as the Enabling Act of the Fiscal Agency and Financial Advisory Authority (Act 2-2017), which amended and replaced sections of the Moratorium Act that established FAFAA. Act 2-2017 expanded FAFAA’s powers to include, among other things, sole responsibility to renegotiate, to restructure and/or to reach an agreement with creditors on all or part of the public debt or any other debt issued by any government entity. In addition, FAFAA is the entity in charge of the collaboration, communication and cooperation efforts between the Government of Puerto Rico and the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), created under the Puerto Rico Oversight, Management and Economic Stability Act, Pub. L. 114-187 (PROMESA), which was signed into law by President Barack Obama on June 30, 2016.

In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA (the Title IV Stay); and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (the U.S. Bankruptcy Code).

On May 1, 2017, Title IV Stay expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its instrumentalities to resume. On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court).. Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Title III cases pursuant to PROMESA section 301 (a). Accordingly, upon the filing of the Commonwealth’s Title III case, the Title III automatic stay immediately went into effect to stay creditor litigation. All claims against the Commonwealth that arose prior to the filing of its Title III case (whether or not discussed herein) may be subject to the laws governing Title III.

Remediation Plan – Commonwealth

On March 13, 2017, the Oversight Board certified the initial fiscal plan for the Commonwealth. The fiscal plan has been subject to various revisions. On October 23, 2018, the Oversight Board certified its own new

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fiscal plan for the Commonwealth (the Board Fiscal Plan), which included the following categories of structural reforms and fiscal measures:

- (i) Human Capital and Welfare Reform
- (ii) Ease of Doing Business Reform
- (iii) Energy and Power Regulatory Reform
- (iv) Infrastructure and Capital Investment Reform
- (v) Establishment of the Office of the CFO
- (vi) Agency Efficiency Measures
- (vii) Healthcare Reform
- (viii) Tax Compliance and Fees Enhancement
- (ix) Reduction in UPR and Municipality Appropriations
- (x) Pension Reform
- (xi) Fiscal Controls and Transparency

On January 18, 2019, the Oversight Board requested the Governor to submit a new Commonwealth fiscal plan to replace the Board Fiscal Plan, which was ultimately certified on May 9, 2019. On December 12, 2019, the Oversight Board requested the Governor to submit a further updated Commonwealth fiscal plan to incorporate new information regarding the Commonwealth's macroeconomic environment and government revenues and expenditures. Under the current revision schedule, the Oversight Board expects to certify an updated Board Fiscal Plan by March 31, 2020.

There is no certainty that the Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth's ability to reduce its deficit and to achieve a balanced budget in future fiscal years depends on a number of factors and risks, some of which are not wholly within its control.

GDB

GDB, traditionally served as interim lender to the Commonwealth, its component units, and municipalities in anticipation of the issuance of long-term bonds and notes by such entities in the municipal bond market. GDB has also provided financing to the Commonwealth and its component units to finance their respective budget deficits, collateral requirements under swap agreements, and to meet mandatory payments of obligations. As a result, GDB's liquidity and financial condition depends to a large extent on the repayment of loans made to the Commonwealth and its component units. Conditions that adversely affect the ability of the Commonwealth and its component units to raise cash (including limited access to capital markets) and repay their interim and other loans to GDB had an adverse effect on GDB's liquidity and financial condition.

On March 23, 2018, GDB ceased its operations and determined to wind down in an orderly fashion under Title VI of PROMESA (as discussed below).

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For the Year Ended June 30, 2017

Under the Moratorium Act (as amended by Act 2-2017), FAFAA was created as an independent public corporation to assume GDB's role as fiscal agent, financial advisor and reporting agent for the Commonwealth, its component units, and municipalities. FAFAA has also been assigned the tasks of overseeing matters related to the restructuring or adjustment of the Commonwealth's financial liabilities, coordinating liability management or other transactions with respect to such obligations, and ensuring compliance with fiscal plans and budgets approved by the Oversight Board pursuant to PROMESA.

Remediation Plan - GDB

Upon the establishment of FAFAA, GDB's role was reduced to act as an agent in (i) collecting on its loan portfolio and (ii) disbursing funds pursuant to strict priority guidelines. Therefore, taking into consideration the scenario described above, given the reduced services that GDB was then providing and given that no appropriations were assigned to GDB for fiscal year 2018, GDB's management initiated an orderly wind down process consisting of a restructuring support agreement entered into by FAFAA and GDB with a significant portion of GDB major stockholders subject to different milestones.

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Under the Qualifying Modification, holders of certain bond and deposit claims against GDB exchanged their claims for bonds issued by a newly created public instrumentality—the GDB Debt Recovery Authority—and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash. In addition, pursuant to Act No. 109 of August 24, 2017, known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act), claims on account of deposits held by the Commonwealth and other public entities were exchanged for interest in a newly formed trust created pursuant to the GDB Restructuring Act, titled the Public Entity Trust (the PET).

Under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment received their pro rata share of interests in the PET, which was deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB.

The assets of the PET (the PET Assets) consist of among other items, an unsecured claim against the Commonwealth of approximately \$580 million, which is the subject of a proof of claim filed in the Commonwealth's Title III case. The Non-Municipal Government Entities' recoveries on account of their interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets. Claims that the Commonwealth and other governmental entities may have had against GDB have been released pursuant to the Qualifying Modification (except for as set forth therein), and GDB has reduced the amount of any allowed claim against the Commonwealth it may receive as set forth in such Qualifying Modification.

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For the Year Ended June 30, 2017

On November 6, 2018, the District Court approved GDB's Qualifying Modification under Title VI of PROMESA. The Qualifying Modification became effective as of November 29, 2018. .

Management's Conclusion on Going Concern

The winding down of GDB's operations and the financial difficulties being experienced by EDB and the Commonwealth have had a spillover effect on the operations of the Authority since these entities have accessed the Authority's assets in order to alleviate their liquidity problems and might continue to do so. As an example, in February and March 2016, the Authority sold mortgage loans to repay a line of credit in order to provide liquidity to GDB. In addition, as further discussed in Note 5, the Authority's intent and ability to use its funds deposited with EDB have been significantly restricted since fiscal year 2016. The financial difficulties of these entities, coupled with the fact that GDB will no longer serve as a financing source to the Authority and that the Authority's assets are at the disposition of the GDB and Commonwealth, which demonstrates the ability of such entities to impose its will on the Authority, causes management of the Authority to conclude that there is substantial doubt about the ability of the Authority to continue as a going concern.

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.

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Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Net Position
June 30, 2017

	Governmental Activities	Business-type Activities	Total
Assets			
Cash	\$ 18,404,816	\$ 50,764,144	\$ 69,168,960
Deposits placed with banks	343,718	11,044,812	11,388,530
Investments and investments contracts	40,817,579	153,847,074	194,664,653
Loans receivable - net	-	193,031,255	193,031,255
Interest and other receivables	147,007	3,281,316	3,428,323
Due from federal government - net	6,361,526	-	6,361,526
Other assets	-	41,257	41,257
Internal balances	(12,248,078)	12,248,078	-
Real estate available for sale	-	2,882,712	2,882,712
Capital assets	589	9,950,717	9,951,306
Total assets	<u>53,827,157</u>	<u>437,091,365</u>	<u>490,918,522</u>
Deferred outflows of resources			
Deferred loss on refundings	-	2,151,387	2,151,387
Deferred outflows from pension activities	-	12,104,034	12,104,034
Total deferred outflows or resources	<u>-</u>	<u>14,255,421</u>	<u>14,255,421</u>
Liabilities			
Accounts payable and accrued liabilities	10,109,959	7,467,254	17,577,213
Accrued interest payable	70,246	8,177	78,423
Matured interest payable	189,783	-	189,783
Unearned revenue	-	3,032,327	3,032,327
Liability for losses on mortgage loan insurance	-	8,774,954	8,774,954
Notes payable to GDB:			-
Due within one year	1,008,131	-	1,008,131
Due in more than one year	108,783,567	-	108,783,567
Notes, bonds and mortgage-backed certificates payable:			
Matured and due within one year	170,073	28,536,370	28,706,443
Due in more than one year	3,166,185	140,198,036	143,364,221
Net pension liability	-	59,160,168	59,160,168
Total liabilities	<u>123,497,944</u>	<u>247,177,286</u>	<u>370,675,230</u>
Deferred inflows of resources - pension activities	<u>-</u>	<u>1,132,282</u>	<u>1,132,282</u>
Net position (deficit):			
Net investment in capital assets	589	9,950,717	9,951,306
Restricted for:			
Affordable housing programs	-	26,060,393	26,060,393
Mortgage loan insurance	-	-	-
Debt service	-	5,705,711	5,705,711
Other housing programs	-	6,162,742	6,162,742
Unrestricted	(69,671,376)	155,157,655	85,486,279
Total net position (deficit)	<u>\$ (69,670,787)</u>	<u>\$ 203,037,218</u>	<u>\$ 133,366,431</u>

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Activities
For the Year Ended June 30, 2017

	Program Revenues			Net (expenses) revenues and changes in net position			
	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	\$ 6,039,034	-	-	-	(6,039,034)	-	(6,039,034)
Housing assistance program	170,036,699	-	2,136,602	176,664,788	8,764,691	-	8,764,691
Total governmental activities	<u>176,075,733</u>	<u>-</u>	<u>2,136,602</u>	<u>176,664,788</u>	<u>2,725,657</u>	<u>-</u>	<u>2,725,657</u>
Business-type activities:							
Operating and administrative	44,536,837	20,462,546	12,952,396	-	-	(11,121,895)	(11,121,895)
Total business-type activities	<u>44,536,837</u>	<u>20,462,546</u>	<u>12,952,396</u>	<u>-</u>	<u>-</u>	<u>(11,121,895)</u>	<u>(11,121,895)</u>
Total functions/programs	<u>\$ 220,612,570</u>	<u>20,462,546</u>	<u>15,088,998</u>	<u>176,664,788</u>	<u>2,725,657</u>	<u>(11,121,895)</u>	<u>(8,396,238)</u>
Transfers in (out) - net					(1,189,643)	1,189,643	-
Change in net position					<u>1,536,014</u>	<u>(9,932,252)</u>	<u>(8,396,238)</u>
Net position (deficit) - Beginning of year (as restated, see note 2)					(71,206,801)	212,969,470	141,762,669
Net position (deficit) - End of year					<u>\$ (69,670,787)</u>	<u>\$ 203,037,218</u>	<u>\$ 133,366,431</u>

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Balance Sheet – Governmental Funds
June 30, 2017

Assets	HUD Programs	HOME Programs	Affordable Housing Subsidy Programs	Total
Cash	\$ 1,495,202	897,546	16,012,068	18,404,816
Deposits placed with banks	-	-	343,718	343,718
Investments and investments contracts	-	-	40,817,579	40,817,579
Interest and other receivables	23,893	-	123,114	147,007
Due from federal government - net	1,048,108	5,313,418	-	6,361,526
Total assets	<u>\$ 2,567,203</u>	<u>6,210,964</u>	<u>57,296,479</u>	<u>66,074,646</u>
 Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	\$ 504,399	5,788,520	3,817,040	10,109,959
Due to Government Development Bank for Puerto Rico	-	-	1,008,131	1,008,131
Due to other funds	2,062,804	318,153	9,867,121	12,248,078
Matured principal on appropriation note	-	-	83,595	83,595
Matured interest payable	-	-	189,783	189,783
Total liabilities	<u>2,567,203</u>	<u>6,106,673</u>	<u>14,965,670</u>	<u>23,639,546</u>
Deferred inflows of resources -				
Intergovernmental grants	<u>-</u>	<u>2,073,157</u>	<u>-</u>	<u>2,073,157</u>
Fund balances (deficit):				
Restricted for affordable housing programs	-	-	42,330,809	42,330,809
Deficit	<u>-</u>	<u>(1,968,866)</u>	<u>-</u>	<u>(1,968,866)</u>
Total fund balances (deficit)	<u>-</u>	<u>(1,968,866)</u>	<u>42,330,809</u>	<u>40,361,943</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,567,203</u>	<u>6,210,964</u>	<u>57,296,479</u>	<u>66,074,646</u>

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position
June 30, 2017

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances	\$ 40,361,943
Capital assets used in governmental activities are not financial resources and, therefore, are not report in the funds	589
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Note payable due in more than one year	(3,252,663)
Due to Government Development Bank for Puerto Rico due in more than one year	(108,783,567)
Accrued interest payable is not due and payable in the current period	(70,246)
Deferred inflows of resources reported in the governmental funds are recognized as revenue in the governmental activities	<u>2,073,157</u>
Net position of governmental activities	<u>\$ (69,670,787)</u>

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2017

	HUD Programs	HOME Programs	Affordable Housing Subsidy Programs	Total
Revenues:				
Intergovernmental-federal government	\$ 149,784,767	16,025,276	-	165,810,043
Other income	4,208	101,119	830,359	935,686
Interest income on investment and investment contracts	-	-	2,336,757	2,336,757
Commonwealth appropriation for operations and housing assistance programs	-	-	11,261,111	11,261,111
Net decrease in fair value of investments	-	-	(200,155)	(200,155)
Interest income on deposits placed with banks	-	-	6,963	6,963
Total revenues	<u>149,788,975</u>	<u>16,126,395</u>	<u>14,235,035</u>	<u>180,150,405</u>
Expenditures:				
Current:				
Housing assistance programs	144,914,652	13,797,956	6,782,264	165,494,872
General government and other	4,874,323	875,133	288,845	6,038,301
Debt service:				
Principal	-	-	7,568,596	7,568,596
Interest	-	-	2,436,592	2,436,592
Total expenditures	<u>149,788,975</u>	<u>14,673,089</u>	<u>17,076,297</u>	<u>181,538,361</u>
Deficiency of revenues under expenditures	<u>-</u>	<u>1,453,306</u>	<u>(2,841,262)</u>	<u>(1,387,956)</u>
Transfers out, net	<u>-</u>	<u>-</u>	<u>(1,189,643)</u>	<u>(1,189,643)</u>
Net change in fund balances	-	1,453,306	(4,030,905)	(2,577,599)
Fund balance (deficit) — beginning of year (as restated - see Note 2)	<u>-</u>	<u>(3,422,172)</u>	<u>46,361,714</u>	<u>42,939,542</u>
Fund balance (deficit) — end of year	<u>\$ -</u>	<u>(1,968,866)</u>	<u>42,330,809</u>	<u>40,361,943</u>

See accompanying notes to basic financial statements

Puerto Rico Housing Finance Authority
(A Component Unit of the 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, 2017

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balance — total governmental funds	\$ (2,577,599)
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Some expenses in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(2,644)
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The issuance of long-term debt (e.g. bonds, notes) 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 in net position. These amounts are the net effect of these differences in the treatment of long-term debt and related items as follows:

Principal payments on notes payable to Government Development Bank for Puerto Rico	7,485,001
Increase in long term accrued interest payable due to Government Development Bank for Puerto Rico	(2,102,591)
Principal on appropriation note - matured	83,595

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 depreciation exceeded capital outlays in the current period.	(733)
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Some intergovernmental revenue in the statement of activities do not provide current financial resources, and therefore, are deferred in the governmental funds. Also, intergovernmental revenue related to prior periods that became available during the current period is reported in the governmental funds but is eliminated in the statement of activities. This amount is the net adjustment.	(1,349,015)
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Change in net position of governmental activities	<u>\$ 1,536,014</u>
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See accompanying notes to basic financial statements

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Balance Sheet – Proprietary Fund – Operating and Administrative Fund
June 30, 2017

Assets

Current assets:		
Cash	\$	39,212,506
Loans receivable - net		1,044,215
Interest receivable		1,107,315
Other receivables		1,713,449
Other assets		41,257
Due from other funds		12,248,078
Restricted:		
Cash		11,551,638
Investments and investments contracts		10,583,792
Loans receivable - net		893,840
Interest receivable		342,412
Other receivables		118,140
Total current assets		<u>78,856,642</u>
Noncurrent assets:		
Investments and investments contracts		27,638,653
Loans receivable - net		131,761,203
Real estate available for sale		103,708
Capital assets		9,950,717
Restricted:		
Deposits placed with banks		11,044,812
Investments and investments contracts		115,624,629
Loans receivable - net		59,331,997
Real estate available for sale		2,779,004
Total noncurrent assets		<u>358,234,723</u>
Total assets		<u>437,091,365</u>
Deferred outflows of resources		
Deferred loss on refundings		2,151,387
Deferred outflows from pension activities		12,104,034
Total deferred outflows of resources		<u>14,255,421</u>
Total assets and deferred outflows of resources	\$	<u><u>451,346,786</u></u>

(continues)

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Balance Sheet – Proprietary Fund – Operating and Administrative Fund
June 30, 2017

Liabilities

Current liabilities:

Current liabilities payable from unrestricted assets:	
Accounts payable and accrued liabilities	\$ 7,144,683
Total current liabilities payable from unrestricted assets	<u>7,144,683</u>
Current liabilities payable from restricted assets:	
Accrued interest payable	8,177
Accounts payable and accrued liabilities	322,571
Unearned revenue	3,032,327
Liability for losses on mortgage loan insurance	8,774,954
Bonds, notes and mortgage-backed certificates payable	<u>28,536,370</u>
Total current liabilities payable from restricted assets	<u>40,674,399</u>

Noncurrent liabilities payable from unrestricted assets -	
Net pension liability	<u>59,160,168</u>

Noncurrent liabilities payable from restricted assets -	
Bonds, notes and mortgage-backed certificates payable	<u>140,198,036</u>

Total liabilities	<u>247,177,286</u>
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Deferred inflows of resources - pension activities	<u>1,132,282</u>
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Total liabilities and deferred inflows of resources	<u>248,309,568</u>
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Net position:

Net investment in capital assets	9,950,717
Restricted for:	
Affordable housing programs	26,060,393
Debt service	5,705,711
Other housing programs	6,162,742
Unrestricted	<u>155,157,655</u>
Total net position	<u>203,037,218</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 451,346,786</u>

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Revenues, Expenses, and Change in Net Position – Proprietary Fund –
Operating and Administrative Fund
For the Year Ended June 30, 2017

Operating revenues:	
Investment income:	
Interest income on investment and investment contracts	\$ 5,850,469
Interest income on deposits placed with banks	80,992
Net decrease in fair value of investments	<u>(2,779,205)</u>
Total investment income	3,152,256
Interest income on loans	<u>9,800,140</u>
Total investment income and interest income on loans	<u>12,952,396</u>
Noninterest income:	
Commitment, guarantee, service, and administrative fees	7,916,626
Other income	2,233,918
Mortgage loans insurance premiums	3,400,876
Release of allowance for loan losses	4,102,152
Custodial credit risk loss recovery on deposits, net	<u>2,808,974</u>
Total noninterest income	<u>20,462,546</u>
Total operating revenues	<u>33,414,942</u>
Operating expenses:	
Interest expense - bonds, notes and mortgage-backed certificates	12,340,472
Other noninterest expenses:	
Salaries and fringe benefits	13,152,342
Legal and professional fees	2,645,830
Occupancy and equipment costs	2,368,313
Office and administrative	2,240,448
Other real estate owned maintenance and related expenses	1,469,748
Net loss from sale of foreclosed real estate available for sale	1,113,801
Provision for losses on mortgage loans insurance	1,722,735
Provision for losses on other real estate owned	1,799,503
Depreciation and amortization	427,852
Subsidy and trustee fees	<u>170,191</u>
Total noninterest expense	<u>27,110,763</u>
Total operating expenses	<u>39,451,235</u>
Operating loss	<u>(6,036,293)</u>
Nonoperating expenses:	
Contributions to others	(336,673)
Net loss on sale of loans	<u>(4,748,929)</u>
Total nonoperating expenses	<u>(5,085,602)</u>
Transfers in, net	<u>1,189,643</u>
Change in net position	(9,932,252)
Net position — beginning of year (as restated, see note 2)	<u>212,969,470</u>
Net position — end of year	<u>\$ 203,037,218</u>

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Cash Flows – Proprietary Fund – Operating and Administrative Fund
For the Year Ended June 30, 2017

Cash flows from operating activities:	
Cash received from interest on mortgage and construction loans	\$ 5,854,767
Cash paid for mortgage and construction loans originated	(30,639,851)
Principal collected on mortgage and construction loans	37,316,559
Proceeds from sale of mortgage and construction loans	9,313,472
Cash received from other operating noninterest income	9,774,010
Cash received from mortgage loans insurance premiums	2,974,175
Mortgage loans insurance claims paid	(617,400)
Cash paid for noninterest expenses	(6,259,185)
Cash received from Transit account	301,632
Cash payments for salaries and fringe benefits	(13,998,947)
Cash received from governmental funds	11,024,080
Net cash provided by operating activities	<u>25,043,312</u>
Cash flows from noncapital financing activities:	
Payment of note payable	(1,367,347)
Payments of bonds payable	(45,409,478)
Interest paid	(3,474,655)
Contribution to the Commonwealth	(336,673)
Transfers in	31,525,122
Transfers out	(15,659,038)
Net cash used in noncapital financing activities	<u>(34,722,069)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(595,737)
Net cash used in capital and related financing activities	<u>(595,737)</u>
Cash flows from investing activities:	
Purchase of investments	(10,188,301)
Proceeds from sales and redemptions of investments	21,116,237
Net change in deposits placed with banks	19,040,675
Cash received from interest on investments	6,520,555
Interest received on other than housing program loans	1,768
Fees collected on other than housing program loans	1,534,998
Proceeds from sale of real estate held for sale	1,121,646
Acquisition of real estate held for sale	(4,509,846)
Net cash provided by investing activities	<u>34,637,732</u>
Net change in cash	24,363,238
Cash, beginning of year (as restated)	<u>26,400,906</u>
Cash, end of year	<u>\$ 50,764,144</u>
Reconciliation to balance sheet — proprietary funds:	
Cash – unrestricted	\$ 39,212,506
Cash – restricted	11,551,638
Total cash at year-end	<u>\$ 50,764,144</u>

(continues)

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Cash Flows – Proprietary Fund – Operating and Administrative Fund
For the Year Ended June 30, 2017

Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ (6,036,293)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	427,852
Net decrease in fair value of investments	2,779,206
Interest income on investments and deposits	(5,931,461)
Interest income on stimulus loans	(1,871)
Capitalized interest and deferred amortization on loans	(3,467,731)
Tax credit fees	(147,197)
Release of allowance for loan losses	(4,102,152)
Interest expense	12,340,473
Other income	(1,363,428)
Net loss from sale of real estate held for sale	1,113,801
Provision for losses on mortgage loans insurance	1,722,735
Provision for losses on real estate held for sale	1,799,503
Recovery of real estate held for sale	(94,685)
Net decrease in fair value of real estate available for sale	1,174,268
Credit for prior year pension contribution overpayment	457,203
Custodial credit risk loss recovery on deposits, net	(2,808,974)
Changes in operating assets and liabilities:	
Decrease in mortgage and construction loans	15,990,180
Increase in accrued interest on mortgage and construction loans	(475,771)
Decrease in other accounts receivable and prepaid expenses	1,134,918
Decrease in due from governmental funds	11,024,080
Increase in deferred outflow-pension related	(3,380,739)
Decrease in accounts payable and accrued liabilities	(2,572,818)
Decrease in unearned income	(426,701)
Increase in net pension liability	5,684,240
Increase in deferred inflow-pension related	204,674
Net cash provided by operating activities	<u>\$ 25,043,312</u>
Noncash investing and noncapital financing activities:	
Capitalized interest and deferred amortization on loans	\$ 3,467,731
Net decrease in fair value of investments	(2,779,206)
Tax credit fees	147,197
Accretion of discount and capitalized interest on investments	1,704,443
Accretion/(amortization) of discount (premium) on bonds payable	8,703,469
Custodial credit risk loss recovery on deposits, net	2,808,974
Amortization of deferred loss (included in interest expense)	224,758
Interfund transfer of mortgage loans receivable to other real estate held for sale	99,475
Interfund transfer of investments	(14,620,384)
Interfund transfer of interest receivable	(56,057)
Interfund transfer out from other fund	14,676,441

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

1. REPORTING ENTITY

Puerto Rico Housing Finance Authority (the Authority) is a component unit of Government Development Bank for Puerto Rico (GDB), which is a component unit of the Commonwealth of Puerto Rico (the Commonwealth). The Authority operates under Act No. 103 of August 11, 2011, 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 mortgage-backed securities collateralized by mortgage loans on properties located in Puerto Rico purchased by low and moderate-income families or used to provide subsidies to such families for the acquisition of their primary residence. The Authority is authorized by the U.S. Department of Housing and Urban Development (HUD) to administer the U.S. Housing Act Section 8 program in Puerto Rico, to administer the HOME Investment Partnerships (HOME) Program, 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.

The Authority is the Public Housing Authority in charge of implementing the Low-Income Housing Tax Credit Program in Puerto Rico. The tax credits provide a financial incentive to construct, rehabilitate, and operate rental housing for low-income tenants. A 10-year tax credit is available for each unit set-aside for low-income use as long as eligible households occupy a specific portion of units in a building or project. The rents charged on the set-aside units are restricted and eligible households occupy them or such units becoming vacant must be held open for eligible households for at least 15 years, plus a minimum of 15 additional years that the Authority requires.

2. RESTATEMENT OF NET POSITION

During 2017, the Authority restated the beginning net deficit and fund balance of its governmental activities and governmental funds, respectively, and the beginning net position of its business-type activities and proprietary fund, in order to recognize a custodial credit risk loss for its cash deposited at Economic Development Bank (EDB) and certain of its cash and investments with GDB, which should have been recognized during the prior fiscal year. In addition, the Authority adopted GASB Statements No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which resulted in restatements to the beginning net position of the Authority's business-type activities and proprietary fund. The following table summarizes these changes to net position (deficit) at the beginning of the year, as previously reported:

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

Government-wide Financial Statements

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net position (deficit) – July 1, 2016, as previously reported	\$ (52,749,372)	324,409,772
Impact of GASB Statements No. 68 and No. 71 implementation:		
Recognition of beginning net pension liability	—	(53,475,928)
Deferred outflows of resources at measurement date	—	7,373,629
Deferred inflows of resources at measurement date	—	(927,608)
Recognition of deferred outflow of resources for pension contributions made after the measurement date (July 1, 2015)	—	1,349,666
Credit for prior year pension contribution overpayment		457,203
Correction of error-custodial credit risk loss on deposits with EDB	(477,672)	(64,765,008)
Correction of error-custodial credit risk loss on deposits and investments with GDB	(17,979,757)	(1,452,256)
Net position (deficit) – July 1, 2016, as restated	<u>\$ (71,206,801)</u>	<u>212,969,470</u>

Governmental Funds

	<u>Affordable Housing Mortgage Subsidy Program</u>
Fund balance – July 1, 2016, as previously reported	\$ 64,819,143
Correction of error-custodial credit risk loss on deposits with EDB	(477,672)
Correction of error-custodial credit risk loss on deposits and investments with GDB	(17,979,757)
Fund balance – July 1, 2016, as restated	<u>\$ 46,361,714</u>

Proprietary Fund

	<u>Operating and Administrative Fund</u>
Net position – July 1, 2016, as previously reported	\$ 324,409,772
Impact of GASB Statements No. 68 and No. 71 implementation:	
Recognition of beginning net pension liability	(53,475,928)
Deferred outflows of resources at measurement date	7,373,629
Deferred inflows of resources at measurement date	(927,608)
Recognition of deferred outflow of resources for pension contributions made after the measurement date (July 1, 2015)	1,349,666
Credit for prior year pension contribution overpayment	457,203
Correction of error-custodial credit risk loss on deposits with EDB	(64,765,008)
Correction of error-custodial credit risk loss on deposits with GDB	(1,452,256)
Net position – July 1, 2016, as restated	<u>\$ 212,969,470</u>

The Authority adopted GASB Statement No. 68 and GASB Statement No. 71, effective July 1,

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

2016. GASB Statement No. 68 requires that employers and nonemployer contributing entities report a net pension liability and related pension expense as determined by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) under the requirements contained in GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. Previously, GASB Statement No. 27 required employers to report a net pension obligation as determined under the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*. The Commonwealth, through ERS, has implemented GASB Statement No. 67 since fiscal year 2014. GASB Statement No. 67 replaced the requirements of GASB Statement No. 25 and specified the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan. GASB Statement No. 67 requires plans (like ERS) to calculate a net pension liability to be measured as the total pension liability less the amount of the pension plan's fiduciary net position. GASB Statement No. 71 requires that upon implementation of GASB Statement No. 68, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability upon adoption. Further details on the accounting for pension costs are disclosed in Notes 3(p) and 15.

Implementation of these new financial reporting standards required the Authority to restate its beginning net position (deficit) as of July 1, 2016, reflecting the cumulative effects of applying these statements. Specifically, the impact of adopting GASB Statements No. 68 and No. 71 in its beginning net position (deficit) consisted of recognizing the Authority's proportionate share of ERS' beginning net pension liability and deferred outflows/inflows of resources (July 1, 2016). In addition, in accordance with the provisions of these statements, beginning balances of deferred pension outflows of resources and deferred pension inflows of resources have not been reported, except for recognizing the beginning balance for deferred outflows of resources for pension contributions made subsequent to the measurement date of the beginning pension liability (July 1, 2015) but before the start of the Authority's fiscal year (July 1, 2016), as well as recognizing the reductions of contributions payables to ERS that were accounted as part of the voluntary termination benefits payable.

In its financial statements for the fiscal year ended June 30, 2016 f, the Authority did not present any custodial credit risk loss on its deposits with EDB and on certain deposits and investments with GDB. Management then believed that these deposits would be honored and recovered. However, management became aware of certain information after the issuance of such financial statements, that had they known at that time, its assessment would have been different. Therefore, the beginning net position was restated for the amount of such estimated custodial credit risk loss.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

The accounting and reporting policies of the Authority conform to U.S. GAAP.

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/expenditures during the reported period. Actual results could differ from those estimates.

(a) Government-Wide and Fund Financial Statements

Government-Wide Financial Statements – The statement of net position 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 position, 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 position presents the Authority’s assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting with the difference reported as net position. Net position is reported in three categories:

- Net investment in capital assets consist of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any.
- Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or are imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often is designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net position often has 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

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

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 proprietary funds.

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

(b) Fund Balances

Fund balances of the governmental funds are reported as restricted because of the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or law or regulations of other governments.

(c) 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 fund 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 funds to be received by the HUD Programs and HOME Program. Other revenues are considered to be measurable and available only when cash is received. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

Governmental Funds – The following governmental activities of the Authority are reported 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.
- **HOME Programs** – This special revenue fund is used to account for the specific revenue sources related to the 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.
- **Affordable Housing Subsidy Programs** – This special revenue fund is used to account for the proceeds of specific local revenue sources under the different subsidy programs of the Authority, which are as follows:
 - **Affordable Housing Mortgage Subsidy Programs (AHMSP) Act No. 124** – Under this program, the Authority commits to provide a subsidy for the down payment and/or the principal and interest payments on mortgage loans originated under a predetermined schedule of originations. Loans originated, as well as servicing, are kept by the originating financial institution. There was no open schedule of originations under this program as of June 30, 2017.
 - **My New Home Program** – This program has revenues provided by Act No. 122 of August 6, 2010, as amended, 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. This program provides subsidies to eligible families for the purchase of a principal residence through reimbursement of origination and closing costs.
 - **My Own Home Program** – This program has revenues provided by Act No. 34 of June 26, 2014. This program provides subsidies to eligible families for the purchase of a principal residence through reimbursement of origination and closing costs.
 - **New Secure Housing Program** – This program provided 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 to the

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

housing needs of those families living in hazard-prone areas. No additional subsidies are expected to be provided under this program.

Proprietary Fund Financial Statements – The financial statements of the proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting.

The proprietary fund distinguishes 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.

Proprietary Fund – The following business-type activity of the Authority is reported as a single-major proprietary fund:

- **Operating and Administrative** – The Operating and Administrative fund accounts for all the enterprise activities of the Authority. Within this fund, the Authority has the following programs:
 - **Mortgage Trust III** – Initially, this program provided resources for the financing of low and moderate-income families' purchase of residential housing from the proceeds of bond issuances. Currently, the program has monies in an escrow to be used for the payment through maturity of bonds with a carrying amount of approximately \$56 million.
 - **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.
 - **Mortgage-Backed Certificates 2006 Series A** – The program received resources from the proceeds of 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 Government National Mortgage Associations (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

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

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 scheduled 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.

- **Mortgage Loans Insurance** – The mortgage loan insurance program was created 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 Loan Insurance (Act No. 89)** – The land acquisition and construction loan insurance program provides mortgage credit insurance to low and moderate-income families for the purchase of land 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.
- **Single-Family Mortgage Revenue Bonds Portfolio XI** – Under this program, as part of the Authority's AHMSP, bonds were issued and the proceeds were mainly used to purchase mortgage-backed securities collateralized by loans originated to finance low and moderate-income families' purchase of residential housing units. This program was closed during the year ended June 30, 2017.

(d) Fair Value Measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

(e) 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. The Authority's investments and investment

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

contracts have recurring fair value measurements as of June 30, 2017 using quoted market prices (Level 1 inputs). 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.

(f) Loans Receivable and Allowance for Loan Losses

Loans 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 collectability is uncertain, for single-family loans is 90 days past due, for multiple family loans is 180 past due and for construction loans when it is considered impaired. 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 collectability 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.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

(g) 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 expense. Gain or loss on sale of real estate available for sale are included within revenues or expenses in the accompanying statement of activities, and within noninterest income or noninterest expense in the accompanying statement of revenues, expenses, and change in net position.

(h) Capital Assets

Capital assets, which include leasehold improvements, information systems, office furniture and equipment and vehicles, are reported in the governmental activities and business-type activities columns in the government-wide financial statements and in the proprietary fund. 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 acquisition value refers to the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. 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

(i) Compensated Absences

The employees of the Authority earn 15 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of 60 and 90 days, respectively. In the event of employee resignation, an employee is paid for accumulated vacation days up to the maximum allowed. The proprietary fund financial statements and the government-wide financial statements present the cost of accumulated vacation as a liability. In the governmental funds, such liability is recorded only for the current portion.

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(j) Liability for Losses on Mortgage Loans Insurance

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

(k) Loan Origination Costs and Commitment Fees

Loan origination and commitment fees are recognized as revenues in the period received. Direct origination costs are recognized as an expense in the period incurred.

(l) 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.

(m) Mortgage Loans Insurance Premiums

Premiums on insured mortgage loans are recognized as earned.

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(n) Risk Financing

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.

(o) Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position (deficit) and/or balance sheet will sometime report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. On the business-type activities of the government-wide financial statements and proprietary fund's statement of net position there are two major captions that qualify for reporting in this category: (i) the unamortized balance of losses on bond refunding and (ii) several items related to pensions. A loss on refunding of debt results from the difference between the reacquisition price and the net carrying amount of the old debt. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt. Of the pension related items, changes in proportional share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability after the next measurement date. There were no deferred outflows of resources at the governmental funds level.

In addition to liabilities, the statement of net position (deficit) and/or balance sheet will sometime report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. On the business-type activities of the government-wide financial statements and proprietary fund's statement of net position there is one major caption that qualify for reporting in this category, which consists of several items related to pensions. With respect to the pension related items, changes in proportional share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. A deferred inflow of resources has also been recorded in the governmental funds representing intergovernmental grant revenue that does not meet the "available" criteria for revenue recognition in the current period under the modified accrual basis of accounting. In subsequent

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periods, when the applicable resources become available, the deferred inflow of resources is removed from the balance sheet and the revenue is recognized.

(p) Accounting for Pension Costs

Prior to the enactment of Act 106-2017 on August 23, 2017, the Authority accounted for pension costs under the provisions of GASB Statement No. 68 and GASB Statement No. 71, which were adopted by the Authority effective July 1, 2016. For further information on Act 106-2017 and implementation of the new PayGo system, refer to Note 15 and Note 20. GASB Statement No. 68 replaced GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and requires that employers report a net pension liability (NPL) and related pension accounts, such as pension expense and deferred outflows/inflows of resources as determined by ERS, as applicable, under the requirements contained in GASB Statement No. 67. The major fundamental change brought by GASB Statement No. 67, was switching from the then existing “funding-based” accounting model, where the Annual Required Contribution (ARC) was compared to the actual payments made and that difference determined the net pension obligation; to an “accrual basis” model, where the total pension obligation (actuarially determined) is compared to the plan net position and the difference represents the NPL. In essence, GASB Statement No. 68 brings the effect of GASB Statement No. 67 into the accounting records of the Authority, whose employees participate in ERS. Prior to August 23, 2017, the Authority was considered “cost-sharing” employer of ERS. Therefore, for the fiscal year ended June 30, 2017, the Authority reported its allocated share of ERS’s NPL and the related pension accounts taking in consideration the following:

- The individual proportion to the collective NPL of all the governments participating
- Each participating government-employer’s proportionate share is consistent with the manner in which contributions are determined and should reflect that participating government-employer’s projected long-term contribution effort relative to that of all the participating government employers. Contributions that separately finance specific liabilities of an individual participating government-employer to ERS (such as local participating government-employer early retirement incentives) are not included in determining the proportionate share of the overall projected long-term contribution effort.
- The contributions that reflect each participating government-employer’s projected long-term contribution effort are the Act No. 116 of 2011 statutory payroll-based contribution, the Act No. 3 of 2013 supplemental contribution, other special contributions, and the Act No. 32 of 2013 Additional Uniform Contribution (AUC). Other contributions that do not reflect a participating government-employer’s projected long-term contribution effort are excluded from the proportionate share calculation.
- The AUC required a contribution that is determined in the aggregate and ERS then allocated the total amount to each participating government-employer based on such participating government-employer’s payroll. However, due to a history of non-payment of the AUC by many participating government-employers and the expected continuing non-payment of such contributions during fiscal year 2017, it was determined that the collected AUC amounts would be excluded from the proportionate share determination, in

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order to prevent an overallocation of NPL amounts to those participating government-employers who have paid their AUC (or are expected to do so) and an under allocation of NPL amounts to the participating government-employers who have not paid their AUC (or are not expected to do so).

ERS elected to use as measurement date the July 1 financial information. Based on this the June 30, 2015 actuarial data was used upon implementation as of July 1, 2016. Under GASB Statement No. 71, the Authority recognized upon implementation of Statement No. 68, a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date.

For the purpose of applying the requirements of GASB Statements No. 68 and No. 71, the Authority's annual pension expense for the year ended June 30, 2017 amounted to approximately \$4.7 million and the NPL as of June 30, 2017 amounted to approximately \$59.2 million.

Neither GASB Statements 68 nor 71 affect the way the Authority may choose to fund its pension obligations. While GASB Statement No. 68 changes the amount of the pension liability that is reported on the financial statements, governments may continue to fund their plans by calculating an actuarially determined contribution and measuring their funded status as it relates to that actuarially determined contribution. GASB Statement 68 requires certain disclosures if an actuarially determined contribution has been calculated.

(q) Other Postemployment Benefits

The Authority provides other retirement benefits, such as postemployment healthcare and disability benefits (OPEB) for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Authority. The Authority accounts for OPEB under the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires a systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. Annual postemployment benefits cost should equal the annual required contribution to the plans, calculated in accordance with certain parameters. The Authority's annual required contribution for the fiscal year ended June 30, 2017 amounted to \$117,900 and was paid in its entirety.

(r) Future Adoption of Accounting Pronouncements

The following new accounting standards have been issued by the GASB but are not yet effective:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of

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Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this statement details the recognition and disclosure requirements for employers with payables to defined-benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. The provisions of this statement are effective for fiscal years beginning after June 15, 2017.

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. This statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts, or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements, in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This statement requires that a government recognize revenue when the resources become applicable to the reporting period. This statement is not effective until fiscal year 2018.

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- GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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- GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

- GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.

- Reporting amounts previously reported as goodwill and “negative” goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.

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- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement improves the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.
- GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other

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assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.
- GASB Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary

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activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

- GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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

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4. GOING CONCERN

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards (GASB 56)*, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements, and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation.

Management's evaluation of the Authority's going concern has identified the winding down of GDB's operations and the financial condition of the the Economic Development Bank (EDB), and the Commonwealth, primary government of GDB, as external matters that may affect the ability of the Authority to continue as a going concern. Following is a brief explanation of the financial difficulties facing these entities:

COMMONWEALTH OF PUERTO RICO

The Commonwealth is in the midst of a profound fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care, pension and debt service costs. As the Commonwealth's tax base has shrunk and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services. The Commonwealth's high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt.

These matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth relied more heavily on short-term financings and interim loans from GDB, and other component units of the Commonwealth, which reliance constrained the historical liquidity of the Commonwealth in general and GDB in particular, and increased near-term refinancing risk.

These factors resulted in delays in the repayment by the Commonwealth and its component units of outstanding GDB lines of credit, which delays limited GDB's ability to continue providing

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liquidity to the Commonwealth and caused GDB to fail to make a principal payment on its debt obligations. Similarly, and pursuant to a series of legislation and executive orders during fiscal year 2016 as further explained below, the Commonwealth and certain other public corporations also delayed the debt service payments on some of their debts, including the general obligation bonds of the Commonwealth.

These factors are reflected in the deterioration of the Commonwealth's credit ratings. Since June 30, 2014, the principal rating agencies have continued to lower their rating on the general obligation bonds of the Commonwealth, which had already been placed in a default rating of "D." They also lowered similarly to a default grade their ratings on the bonds of GDB.

The Commonwealth reflects a net position deficit/fund balance deficit of approximately \$70 billion as of June 30, 2016. The Commonwealth's General Fund shows a fund balance (deficit) of approximately \$1.2 billion as of June 30, 2016.

For the fiscal year ended June 30, 2016, the Legislative Assembly of Puerto Rico (the Legislature) did not appropriate approximately \$94 million for the payments of the PFC bonds which are obligations of certain component units of the Commonwealth that are payable solely from such appropriations.

On April 6, 2016, the Commonwealth enacted Act No. 21, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (the Moratorium Act) under which, the Commonwealth and certain of its component units suspended their respective debt service payments. In particular, the Commonwealth suspended the payment of \$779 million in debt service on general obligation bonds due July 1, 2016 (net of \$352 million of capitalized interest fund and escrow accounts).

The Moratorium Act also created the Puerto Rico Fiscal Agency and Financial Advisor Authority ("FAFAA"), as an independent public corporation and government instrumentality with separate legal existence, fiscal and administrative autonomy, and independence from the Commonwealth. FAFAA was created for the purpose of acting as fiscal agent, financial advisor and reporting agent of the Government of Puerto Rico, its agencies, its instrumentalities, subdivisions, public corporation and/or municipalities, and to assist such entities in confronting the fiscal and economic emergency that Puerto Rico is experiencing. FAFAA assumed the fiscal agency and financial advisory responsibilities that were previously held by GDB. On January 18, 2017, the Governor of Puerto Rico (the Governor) signed into law Act No. 2 of 2017, known as the Enabling Act of the Fiscal Agency and Financial Advisory Authority (Act 2-2017), which amended and replaced sections of the Moratorium Act that established FAFAA. Act 2-2017 expanded FAFAA's powers to include, among other things, sole responsibility to renegotiate, to restructure and/or to reach an agreement with creditors on all or part of the public debt or any other debt issued by any government entity. In addition, FAFAA is the entity in charge of the collaboration, communication and cooperation efforts between the Government of Puerto Rico and the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), created under the Puerto Rico Oversight, Management and Economic Stability Act, Pub. L. 114-187 (PROMESA), which was signed into law by President Barack Obama on June 30, 2016.

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In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA (the Title IV Stay); and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (the U.S. Bankruptcy Code).

On May 1, 2017, Title IV Stay expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its instrumentalities to resume. On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court). Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Title III cases pursuant to PROMESA section 301 (a). Accordingly, upon the filing of the Commonwealth's Title III case, the Title III automatic stay immediately went into effect to stay creditor litigation, as well as the flow of certain funds as between the Commonwealth and its instrumentalities and public corporations. All claims against the Commonwealth that arose prior to the filing of its Title III case (whether or not discussed herein) may be subject to the laws governing Title III.

Remediation Plan – Commonwealth

On March 13, 2017, the Oversight Board certified the initial fiscal plan for the Commonwealth. The fiscal plan has been subject to various revisions. On October 23, 2018, the Oversight Board certified its own new fiscal plan for the Commonwealth (the Board Fiscal Plan), which included the following categories of structural reforms and fiscal measures:

- (i) Human Capital and Welfare Reform
- (ii) Ease of Doing Business Reform
- (iii) Energy and Power Regulatory Reform
- (iv) Infrastructure and Capital Investment Reform
- (v) Establishment of the Office of the CFO
- (vi) Agency Efficiency Measures
- (vii) Healthcare Reform
- (viii) Tax Compliance and Fees Enhancement
- (ix) Reduction in UPR and Municipality Appropriations
- (x) Pension Reform
- (xi) Fiscal Controls and Transparency

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On January 18, 2019, the Oversight Board requested the Governor to submit a new Commonwealth fiscal plan to replace the Board Fiscal Plan, which was ultimately certified on May 9, 2019. On December 12, 2019, the Oversight Board requested the Governor to submit a further updated Commonwealth fiscal plan to incorporate new information regarding the Commonwealth's macroeconomic environment and government revenues and expenditures. Under the current revision schedule, the Oversight Board expects to certify an updated Board Fiscal Plan by March 31, 2020.

There is no certainty that the Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth's ability to reduce its deficit and to achieve a balanced budget in future fiscal years depends on a number of factors and risks, some of which are not wholly within its control.

GDB

GDB traditionally served as interim lender to the Commonwealth, its component units, and municipalities in anticipation of the issuance of long-term bonds and notes by such entities in the municipal bond market. GDB has also provided financing to the Commonwealth and its component units to finance their respective budget deficits, collateral requirements under swap agreements, and to meet mandatory payments of obligations. As a result, GDB's liquidity and financial condition depends to a large extent on the repayment of loans made to the Commonwealth and its component units. Conditions that adversely affect the ability of the Commonwealth and its component units to raise cash (including limited access to capital markets) and repay their interim and other loans to GDB had an adverse effect on GDB's liquidity and financial condition.

On March 23, 2018, GDB ceased its operations and determined to wind down in an orderly fashion under Title VI of PROMESA (as discussed below).

Under the Moratorium Act (as amended by Act 2-2017), FAFAA was created as an independent public corporation to assume GDB's role as fiscal agent, financial advisor and reporting agent for the Commonwealth, its component units, and municipalities. FAFAA has also been assigned the tasks of overseeing matters related to the restructuring or adjustment of the Commonwealth's financial liabilities, coordinating liability management or other transactions with respect to such obligations, and ensuring compliance with fiscal plans and budgets approved by the Oversight Board pursuant to PROMESA.

Remediation Plan - GDB

Upon the establishment of FAFAA, GDB's role was reduced to act as an agent in (i) collecting on its loan portfolio and (ii) disbursing funds pursuant to strict priority guidelines. Therefore, taking into consideration the scenario described above, given the reduced services that GDB was then providing and given that no appropriations were assigned to GDB for fiscal year 2018, GDB's management initiated an orderly wind down process consisting of a restructuring support

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agreement entered into by FAFAA and GDB with a significant portion of GDB major stockholders subject to different milestones.

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Under the Qualifying Modification, holders of certain bond and deposit claims against GDB exchanged their claims for bonds issued by a newly created public instrumentality—the GDB Debt Recovery Authority—and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash. In addition, pursuant to Act No. 109 of August 24, 2017, known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act), claims on account of deposits held by the Commonwealth and other public entities were exchanged for interest in a newly formed trust created pursuant to the GDB Restructuring Act, titled the Public Entity Trust (the PET).

Under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment received their pro rata share of interests in the PET, which was deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB.

The assets of the PET (the PET Assets) consist of among other items, an unsecured claim against the Commonwealth of approximately \$580 million, which is the subject of a proof of claim filed in the Commonwealth's Title III case. The Non-Municipal Government Entities' recoveries on account of their interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets. Claims that the Commonwealth and other governmental entities may have had against GDB have been released pursuant to the Qualifying Modification (except for as set forth therein), and GDB has reduced the amount of any allowed claim against the Commonwealth it may receive as set forth in such Qualifying Modification.

On November 6, 2018, the District Court approved GDB's Qualifying Modification provisions under Title VI of PROMESA. and the Qualifying Modification became effective as of November 29, 2018.

Complete financial statements of the Authority's primary governments can be obtained directly by contacting their respective administrative offices at:

Department of the Treasury of the Commonwealth of Puerto Rico
Área de Contabilidad Central
P.O. Box 9024140, San Juan, PR 00902

Government Development Bank for Puerto Rico
P.O. Box 42001, San Juan, PR 00940-2001

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Management's Conclusion on Going Concern

The winding down of GDB's operations and the financial difficulties being experienced by EDB and the Commonwealth have had a spillover effect on the operations of the Authority since these entities have accessed the Authority's assets in order to alleviate their liquidity problems, and might continue to do so. As an example, on February and March 2016, the Authority sold mortgage loans to repay a line of credit in order to provide liquidity to GDB. In addition, as further discussed in Note 5, the Authority's intent and ability to use its funds deposited with EDB have been significantly restricted since fiscal year 2016. The financial difficulties of these entities, coupled with the facts that GDB will no longer serve as a financing source to the Authority and that the Authority's assets are at the disposition of the GDB and Commonwealth, which demonstrates the ability of such entities to impose its will on the Authority, causes management of the Authority to conclude that there is substantial doubt about the ability of the Authority to continue as a going concern.

5. CASH AND DEPOSITS PLACED WITH BANKS

The table presented below discloses the level of custodial credit risk assumed by the Authority at June 30, 2017. Custodial credit risk is the risk that in the event of a financial institution's 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 EDB, a component unit of the Commonwealth, are not covered by this Commonwealth 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. All deposits placed with banks at June 30, 2017 mature in fiscal year 2017.

As of June 30, 2017, approximately \$174.8 million of the cash and deposits placed with banks depository bank balance of approximately \$253 million was uninsured and uncollateralized.

Custodial Credit Risk Loss on Deposits with GDB and EDB

Based on the information discussed in Note 4 and on evaluation of the availability and recoverability of the deposits in GDB (which are now claims against the PET pursuant to GDB's Qualifying Modification, as discussed above), management of the Authority believes that a custodial credit risk loss has been incurred. In the case of EDB, the spiral of economic deterioration affecting the Commonwealth as of June 30, 2017, including downgrades in credit ratings of the Commonwealth's bonds, led the private sector to retire deposits and exercise their put options on notes payable from EDB. Also, the GDB financial and liquidity crisis made public governmental agencies and corporations move their deposits from EDB to GDB, reducing EDB's capacity to issue commercial loans or make investments in financial instruments. In addition to these situations, the investments held by EDB declined in value and EDB operated only on the interest

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income generated by its loan portfolio. This posed a liquidity situation to EDB, because due to the high default rate on its loans portfolio, the ability to raise cash through loan repayments is limited. Therefore, the Authority's intent and ability to use its funds deposited with EDB have been significantly restricted since fiscal year 2016. Based on an evaluation of availability and recoverability of such deposits, a custodial credit risk loss has also been recognized (see Note 2). Subsequent recovery of some of the deposits with GDB has been addressed in Note 11.

The following table includes a presentation of the custodial credit risk losses that have been recognized by the Authority on its cash and time deposits held at both GDB and EDB:

	Cash				
	Deposit balance	Custodial credit risk loss	Carrying amount	Depository bank balance	Amount uninsured and uncollaterized
Commercial bank	\$ 68,422,919	\$ -	\$ 68,422,919	\$ 67,258,782	\$ -
Cash in GDB	10,682,886	(9,936,845)	746,041	10,694,053	10,694,053
Total	<u>\$ 79,105,805</u>	<u>\$ (9,936,845)</u>	<u>\$ 69,168,960</u>	<u>\$ 77,952,835</u>	<u>\$ 10,694,053</u>

	Deposits placed with banks				
	Deposit balance	Custodial credit risk loss	Carrying amount	Depository bank balance	Amount uninsured and uncollaterized
Deposits in commercial bank	\$ 11,388,530	\$ -	\$ 11,388,530	\$ 11,388,530	\$ -
Deposits in GDB	98,887,099	(98,887,099)	-	98,887,099	98,887,099
Deposits in EDB	65,242,680	(65,242,680)	-	65,242,680	65,242,680
Total	<u>\$ 175,518,309</u>	<u>\$ (164,129,779)</u>	<u>\$ 11,388,530</u>	<u>\$ 175,518,309</u>	<u>\$ 164,129,779</u>

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6. INVESTMENTS AND INVESTMENT CONTRACTS

During fiscal year 2017, the Authority followed 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 needed to be approved by the Board of Directors of GDB. These investment policies also provide that purchases and sales of investment securities shall be made using the delivery versus payment method.

The following table summarizes the type and maturities of investments held by the Authority as of June 30, 2017. 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.

Type of securities	Within one year	After one to five years	After five to ten years	After ten years	Total
Mortgage-backed securities:					
GNMA	\$ —	\$ —	\$ 38,500,860	\$ 39,426,979	\$ 77,927,839
FNMA	—	—	2,022,224	1,352,366	3,374,590
Other	—	—	—	170,831	170,831
Federal Home Loan Bank (FHLB)	10,583,792	8,783,206	—	—	19,366,998
Fixed-income external investment pool - Federated Government Obligations	—	—	—	13,693,967	13,693,967
U.S. Treasury Obligations	303,861	—	—	—	303,861
Israel aid bonds	—	36,995,162	—	—	36,995,162
Nonparticipating investment contracts:					
Trinity Funding Co.	—	—	—	14,279,373	14,279,373
Citibank, N.A.	—	—	—	17,628,800	17,628,800
Banco Popular de Puerto Rico	—	—	—	5,425,804	5,425,804
Banco Santander de Puerto Rico	—	—	—	5,492,928	5,492,928
 Total investments	 <u>\$ 10,887,653</u>	 <u>\$ 45,778,368</u>	 <u>\$ 40,523,084</u>	 <u>\$ 97,471,048</u>	 194,660,153
Equity interest in Puerto Rico Community Development Fund					<u>4,500</u>
Total					<u>\$ 194,664,653</u>

As of June 30, 2017 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 repaid early.

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(a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the Authority manages its exposure to declines in fair values by diversifying the weighted average maturity date of its investment portfolio. The Authority is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable, investment-grade core fixed-income securities.

(b) Credit Risk

Credit risk is the risk that an issuer, or other counterparty to an investment will not fulfill its obligations. The Authority's general investment policy is to apply the prudent-person rule, which establishes that investments are made, as a prudent person would be expected to act, with the discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The Authority can purchase and sell notes, bonds, securities, and other debt instruments guaranteed by the Commonwealth in the short and long term with a yield rate similar to those securities with the same risk profile. These investments need to be rated by the top two rating agencies and counterparties shall be rated BBB+/A-1. The Investment Grade requires ratings to be at least Baa in long-term and B in short-term securities.

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All of the Authority's investments in mortgage-backed securities guaranteed by GNMA, U.S. Treasury, and Israel aid bonds carry the explicit "full faith and credit" 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, U.S. Treasury and Israel aid bonds, as of June 30, 2017, are as follows:

Securities type	Credit risk rating			
	AAA	AA	A	B
Mortgage-backed securities:				
FNMA	\$ —	\$ 3,374,590	\$ —	\$ —
Other	—	170,831	—	—
FHLB	—	19,366,998	—	—
Fixed income external investment pool - Federated Government Obligations	13,693,967	—	—	—
Nonparticipating investment contracts:				
Trinity Funding Co.	—	—	14,279,373	—
Citibank N.A.	—	—	17,628,800	—
Banco Popular de Puerto Rico	—	—	—	5,425,804
Banco Santander de Puerto Rico	—	—	5,492,928	—
Total	\$ <u>13,693,967</u>	\$ <u>22,912,419</u>	\$ <u>37,401,101</u>	\$ <u>5,425,804</u>

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.

At June 30, 2017, fair value of investments based on the hierarchy of inputs are determined as follows:

	Level 1	Level 2	Level 3	Total
Mortgage Backed Securities	\$ 81,473,260	\$ -	\$ -	\$ 81,473,260
Federal Home Loan Bank	19,366,998	-	-	19,366,998
Federated Government Obligations	13,693,967	-	-	13,693,967
U.S. Treasury Obligations	303,861	-	-	303,861
Israel Aid Bonds	36,995,162	-	-	36,995,162
Total	\$ <u>151,833,248</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>151,833,248</u>

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7. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable as of June 30, 2017, consist of the following:

	Operating and administrative
Real estate loans – all types of residential property, bearing interest at various rates ranging from 5% to 18%	\$ 221,596,598
Less allowance for loan losses	<u>(28,565,343)</u>
	<u>\$ 193,031,255</u>

The summary of the activity in the allowance for loan losses for the year ended June 30, 2017, is as follows:

Balance - beginning of year	\$ 34,258,583
Provision for loan losses	2,699,658
Release of allowance	(6,801,840)
Write-offs	<u>(1,591,058)</u>
Total	<u>\$ 28,565,343</u>

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 2055. 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.

The allowance for loan losses on real estate single-family unit mortgage loans is determined considering historical loss factors of the portfolio and segmented by delinquency levels. Historical loss factors are separately calculated for each segment and applied to the outstanding loan balance of the portfolio. The Authority has a policy of charging off real estate single-family unit mortgage loans that are over 60 months past due.

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The following table presents the aging of the recorded investments in real estate single-family unit mortgage loans and their allowance for loan losses as of June 30, 2017:

<u>Loan aged category</u>	<u>Total loan balance</u>	<u>Allowance for loan losses</u>
Current	\$ 41,446,059	\$ 120,835
7 - 30 months	8,212,305	3,621,673
31 - 60 months	2,853,687	2,810,886
Subtotal	52,512,051	6,553,394
Other nonaged loans	6,627,425	6,627,425
Total	<u>\$ 59,139,476</u>	<u>\$ 13,180,819</u>

The allowance for loan losses on real estate multifamily housing unit mortgage loans is determined on an individual loan basis. The Authority categorizes loans into risk categories based on relevant information about the ability of the borrower to service their debt and considers specific risk indicators, financial condition of the borrower, estimated value of the collateral, and other information obtained from periodic credit review of the individual loans.

The following table presents the risk category of multifamily housing unit loans subject to risk rating and their allowance for loan losses as of June 30, 2017:

<u>Loan risk category</u>	<u>Amount</u>	<u>Allowance for loan losses</u>
Good	\$ 54,161,909	\$ 565,149
Doubtful	-	-
Loss	2,819,375	2,819,375
Total	<u>\$ 56,981,284</u>	<u>\$ 3,384,524</u>

The table presented above of multifamily housing unit loans does not include a loan of approximately \$33.2 million to a related party (refer to Note 12), which was evaluated individually and for which an allowance for loan losses was not deemed necessary.

Real estate loans receivable under the home purchase stimulus program represents subordinated second mortgage loans originated by private banking institutions under the requirements of Act. No. 9 "Puerto Rico Economic Stimulus Plan Act" and subsequently acquired by the Authority. Real estate loans originated under this program will collect principal and earn interest after the first 10 years of the term of the loan.

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The allowance for loan losses on second mortgage loans is determined considering delinquency levels of the first mortgage loans. Such delinquency levels are obtained from a participating financial institution. As of June 30, 2017, the outstanding balance of second mortgage loans was approximately \$72.2 million with an allowance for loans losses of \$12 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 collateral less estimated selling and disposal costs. The present value of a loan's expected future cash flow is calculated using the loan's effective interest rate, based on the original contractual terms.

The loans considered impaired as of June 30, 2017, and the related interest income for the year ended, are as follows:

Recorded investment in impaired loans:	
Not requiring an allowance for loan losses	\$ 5,259,964
Requiring an allowance for loan losses	15,252,828
Total recorded investment in impaired loans	<u>\$ 20,512,792</u>
Related allowance for loan losses	\$ 16,565,343
Average recorded investment in impaired loans	24,586,722
Interest income recognized on impaired loans	-
Interest income that would have been recognized had these loans not been impaired	1,230,767

8. DUE FROM FEDERAL GOVERNMENT

The Authority, as a public housing authority, is authorized to administer the U.S. Housing Act Section 8 Programs in Puerto Rico. The revenues and expenditures 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 \$149.8 million during the year ended June 30, 2017. This amount includes approximately \$4.9 million of administrative fees for services performed as contract administrator, which are reimbursed by HUD. As of June 30, 2017, the amounts due from federal government under the HUD Programs fund amounted to approximately \$1.0 million.

During the year ended June 30, 2017, the Authority expended approximately \$14.7 million of HOME Program funds. The Authority has approximately \$5.3 million due from the federal government as of June 30, 2017 related to the HOME Program.

The New Secure Housing Program (the NSH Program) constituted an intergovernmental effort to provide long-term hazard mitigation assistance to the Commonwealth by providing funding for relocation of eligible participants that were affected by Hurricane Georges (1998) or that lived in hazard-prone areas under the U.S. Federal Emergency Management Agency's (FEMA) Hazard

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Mitigation Grant Program (HMGP). Through a series of collaborative agreements, the Office of the Governor's Authorized Representative (the GAR) was named the grantee, the Puerto Rico Department of Housing (the Department of Housing) was named the subgrantee, and the Authority was named the administrator of the NSH Program.

Under the NSH Program, the Authority was responsible for project management, including contracting, supervising, and paying the designers, inspectors, and legal services needed for the NSH Program. The Authority also provided all the funding for the NSH Program through a \$67 million nonrevolving line of credit with GDB, and for land acquisitions, 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 to new secure housing units 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.

In April 2007, FEMA discontinued reimbursing the Authority's allowable costs based on the NSH Program's noncompliance with the scheduled dates for construction activities and case management. The Department of Housing requested various extensions and reconsiderations, the last one up to June 30, 2010 and FEMA granted such requests.

Although significant progress was made through June 30, 2010, in the construction activities and in the case management of the Program, the Authority was not able to fully comply with the terms of the extensions granted by FEMA. On September 30, 2011, the Authority provided FEMA and the GAR the Program's closeout documentation, which was reviewed by FEMA.

On January 30, 2012, the Authority and the Department of Housing entered into a transition agreement by which the Department of Housing would assume its obligations as the NSH Program subgrantee and project owner, including vacant property dispositions, open space monitoring, and other related matters. The Authority will continue to assume the amounts payable under the \$67 million nonrevolving line of credit with GDB, until such debt can be assumed by the Commonwealth. The Department of Housing would prospectively assume, without recourse, any additional funds that might be requested by FEMA for events of noncompliance, including related costs. The outstanding balance under the nonrevolving line of credit with GDB at June 30, 2017 was approximately \$45.8 million included as long term debt in governmental activities. See Note 11 for the detailed activity movement of this line of credit.

Based on all these facts and that no reimbursements have been received from FEMA since April 2007, management established an allowance for the \$26 million due from FEMA.

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9. REAL ESTATE AVAILABLE FOR SALE

Real estate available for sale at June 30, 2017, consisted of the following:

Residential (1–4 units)	\$ 13,639,884
Valuation allowance	<u>(10,757,172)</u>
Total real estate available for sale	<u>\$ 2,882,712</u>

The following is a summary of the activity in the valuation allowance for the year ended June 30, 2017:

Balance – beginning of year	\$ 9,281,436
Provision (credit) for possible losses	1,799,507
Write-offs	<u>(323,771)</u>
Balance – end of year	<u>\$ 10,757,172</u>

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10. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017, was as follows:

Governmental Activities

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Capital assets:				
Information systems	\$ 66,329	\$ —	\$ —	\$ 66,329
Office furniture and equipment	37,633	—	—	37,633
Vehicles	<u>66,135</u>	<u>—</u>	<u>—</u>	<u>66,135</u>
Total capital assets	<u>170,097</u>	<u>—</u>	<u>—</u>	<u>170,097</u>
Less accumulated depreciation and amortization for:				
Information systems	(66,307)	—	—	(66,307)
Office furniture and equipment	(36,336)	(733)	—	(37,069)
Vehicles	<u>(66,132)</u>	<u>—</u>	<u>—</u>	<u>(66,132)</u>
Total accumulated depreciation and amortization	<u>(168,775)</u>	<u>(733)</u>	<u>—</u>	<u>(169,508)</u>
Total capital assets - net	<u>\$ 1,322</u>	<u>\$ (733)</u>	<u>\$ —</u>	<u>\$ 589</u>

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Puerto Rico Housing Finance Authority
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Business-Type Activities

	<u>Beginning balance</u>	<u>Additions or Reclasses</u>	<u>Reductions</u>	<u>Ending balance</u>
Capital assets:				
Land	\$ 8,880,000	\$ 472,712	\$ —	\$ 9,352,712
Leasehold improvements	4,186,888	19,825	—	4,206,713
Information systems	4,347,333	65,864	—	4,413,197
Office furniture and equipment	2,196,602	7,435	—	2,204,037
Vehicles	<u>190,757</u>	<u>29,900</u>	<u>—</u>	<u>220,657</u>
Total capital assets	<u>19,801,580</u>	<u>595,736</u>	<u>—</u>	<u>20,397,316</u>
Less accumulated depreciation and amortization for:				
Leasehold improvements	(3,724,155)	(183,066)	—	(3,907,221)
Information systems	(3,953,293)	(224,897)	—	(4,178,190)
Office furniture and equipment	(2,165,971)	(11,444)	—	(2,177,415)
Vehicles	<u>(175,329)</u>	<u>(8,444)</u>	<u>—</u>	<u>(183,773)</u>
Total accumulated depreciation and amortization	<u>(10,018,748)</u>	<u>(427,851)</u>	<u>—</u>	<u>(10,446,599)</u>
Total capital assets - net	<u>\$ 9,782,832</u>	<u>\$ 167,885</u>	<u>\$ —</u>	<u>\$ 9,950,717</u>

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Puerto Rico Housing Finance Authority
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Notes to Basic Financial Statements
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11. NOTES, BONDS, AND MORTGAGE-BACKED CERTIFICATES PAYABLE, AND OTHER LIABILITIES

The activity of bonds, mortgage-backed certificates, and notes payable for the year ended June 30, 2017, is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
Commonwealth appropriation note payable - AHMSP Act No. 124	\$ 3,397,686	\$	\$	\$ 3,397,686	\$ 170,073
Less unaccredited discount	<u>(64,072)</u>	<u>2,644</u>	<u>—</u>	<u>(61,428)</u>	<u>—</u>
Subtotal	3,333,614	2,644	—	3,336,258	170,073
Notes payable to GDB:					
Investments Repurchase					
Agreement - AHMSP Act No. 124	26,877,085	988,638	(8,535,196)	19,330,527	—
Line of credit - AHMSP Act No. 124	15,491,118	933,796	—	16,424,914	—
Line of credit - My New Home Program	25,950,676	1,230,591	—	27,181,267	—
Line of credit - New Secure Housing Program	<u>45,849,252</u>	<u>1,005,738</u>	<u>—</u>	<u>46,854,990</u>	<u>1,008,131</u>
Total governmental activities	<u>\$ 117,501,745</u>	<u>\$ 4,161,407</u>	<u>\$ (8,535,196)</u>	<u>\$ 113,127,956</u>	<u>\$ 1,178,204</u>
Business-type activities:					
Collateralized Mortgage					
Obligation Bonds - Mortgage Trust III	\$ 88,265,002	\$ —	(25,015,000)	\$ 63,250,002	\$ 15,890,002
Mortgage-Baked Certificates - 2006 Series A	69,716,833	—	(6,594,478)	63,122,355	12,646,368
Revenue bonds:					
Single Family Mortgage Revenue Bonds - Portfolio XI	<u>13,800,000</u>	<u>—</u>	<u>(13,800,000)</u>	<u>-</u>	<u>-</u>
Subtotal	171,781,835	—	(45,409,478)	126,372,357	28,536,370
Notes payable:					
Special obligation notes (Home Purchase Stimulus Program)	73,980,673	—	(1,367,347)	72,613,326	—
Plus unamortized premium	275,331	—	(34,356)	240,975	—
Less unaccredited discount	<u>(39,230,078)</u>	<u>—</u>	<u>8,737,826</u>	<u>(30,492,252)</u>	<u>—</u>
Total business-type activities	<u>\$ 206,807,761</u>	<u>\$ —</u>	<u>\$ (38,073,355)</u>	<u>\$ 168,734,406</u>	<u>\$ 28,536,370</u>

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The annual debt service requirements to maturity, including principal and interest, for long-term debt, business-type activities, as of June 30, 2017, are as follows:

Year(s) ending June 30:	Governmental activities		Business-type activities	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2018	\$ 170,073	377,402	28,536,370	2,699,587
2019	89,716	183,906	31,783,327	2,325,485
2020	93,308	180,128	25,658,237	2,412,862
2021	97,171	176,020	9,743,978	3,424,941
2022	101,402	171,535	6,414,515	4,031,725
2023 - 2027	476,786	786,852	32,808,849	26,711,865
2028 - 2032	2,369,230	213,360	18,797,879	19,172,506
2033 - 2037	-	-	21,177,468	12,698,061
2038 - 2042	-	-	24,065,060	4,181,117
TOTAL	\$ <u>3,397,686</u>	<u>2,089,203</u>	<u>198,985,683</u>	<u>77,658,149</u>

Governmental Activities

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 (PFC), a component unit of GDB, acquired and restructured the Note through the issuance of its Commonwealth Appropriations Bonds (the PFC Bonds). The PFC Bonds were issued under a trust indenture whereby the PFC 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 PFC were originally composed of a loan granted by GDB, which, pursuant to Act No. 164 of December 17, 2001, the PFC acquired and restructured through the issuance of Commonwealth appropriation bonds. These bonds were issued under trust indenture agreements whereby the PFC 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.

In June 2004, the PFC issued PFC 2004 Series A and B bonds and 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 recognized a mirror effect of this advance refunding by the PFC in its own notes payable in proportion to the portion of the Authority's note payable included in the PFC refunding. The aggregate debt service requirements of the refunded and underfunded notes will be funded with annual appropriations from the Commonwealth.

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During the fiscal year ended June 30, 2012, the PFC issued PFC 2011 Series A and B and PFC 2012 Series A bonds, and refunded a portion of certain of its outstanding Commonwealth Appropriation Bonds issued in 2004 under Act No. 164 of December 17, 2001, including \$3.1 million of the Note. The Authority recognized a mirror effect of these current refundings by the PFC in its own notes payable in proportion to the portion of the Authority's note payable included in the PFC refundings.

The Note's outstanding principal balance at June 30, 2017, was approximately \$3.3 million and matures throughout August 1, 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds. The applicable percentage is the percentage representing the proportion of the amount paid by the PFC on the PFC Bonds serviced by the Note to the aggregate amount paid by the PFC on all the PFC Bonds issued by the PFC under Act No. 164, which was 6% at June 30, 2017.

Investment Repurchase Agreement – AHMSP Act No 124 – The Authority owes GDB approximately \$19.3 million at June 30, 2017 under an Investment Repurchase Agreement (the Agreement) with an original maturity date of July 1, 2018. This Agreement was not included in the GDB RSA. No payments have been accepted by GDB since July 1, 2016. No new terms have been established for this debt as of the date of issuance of these financial statements.

Line of Credit - AHMSP Act No 124 – On June 3, 2011, the Authority entered into an agreement with GDB to establish a line of credit to provide for the payment of subsidies under the AHMSP. The line of credit bears interest at 7% and matures on June 30, 2018. As of June 30, 2017, the outstanding balance amounted to approximately \$15.5 million. Pursuant to the GDB RSA, this line of credit was paid on fiscal year 2019 with the Authority's deposits on GDB for which a custodial credit loss was recognized in fiscal year 2016.

Line of Credit - 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 No. 122), *Act for the Financing of My New Home Program*. Under this program, the Authority subsidizes 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. Act No. 42 of February 14, 2012 amended Act No. 122 increasing the portion of unreserved monies and other liquid funds abandoned or unclaimed to 85% and 100% once the claims for any pending debt related to tax credit are paid. In addition, Act No. 42 eliminates the seven-year limit and establishes the funding in perpetual form. The funding entered into effect in September 2014. The Program to subsidize closing costs assistance concluded in February 2013, and no additional subsidies are expected to be provided by the Authority under this Program. As

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of June 30, 2017, the Authority's cumulative drawdowns amounted to approximately \$106.2 million. Using the proceeds from the sale of certain single and multi-family mortgage loans, the Authority repaid \$80.2 million of the line of credit. Accordingly, the outstanding balance of the line of credit as of June 30, 2017 amounts to \$26 million. Pursuant to the GDB RSA, this line of credit was paid on fiscal year 2019 with the Authority's deposits on GDB for which a custodial credit loss was recognized in fiscal year 2016.

Line of Credit – New Secure Housing Program Financing – This line of credit was used originally to provide resources used to provide benefits to participants qualifying under the provisions of Act No. 92 of August 4, 2001 (Act No. 92), *Act for the Financing of My New Secure Home Program*. Under this program, the Authority makes possible to families or individuals that live in flood-prone or high risk areas, to acquire secure and low cost homes. The line bears interests at a 3-months LIBOR with a differential up to 1.25% or the prevailing interest negotiated by the President of the GDB, and is due on June 30, 2027. As of June 30, 2017, the line of credit balance is \$45.8 million. Pursuant to the GDB RSA, this line of credit was paid on fiscal year 2019 with the Authority's deposits on GDB for which a custodial credit loss was recognized in fiscal year 2016. See Note 8 for additional details about this line of credit.

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Business-Type Activities

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

Description and Maturity date	Interest rate	Amount outstanding
Collateralized Mortgage Obligation bonds - Mortgage Trust: III Each July 1 and January 1 until January 1, 2021	Zero Coupon	\$ 55,856,511
Mortgage-Backed Certificates, 2006 Series A - principal and interest payable monthly from September 29, 2006 to August 29, 2030	2.955% - 6.56%	58,412,556
Special Obligation Notes, 2010 series A and B - Principal and interest payable monthly from July 1, 2019 to May 1, 2040	6.95% - 6.974%	22,110,735
Special Obligation Notes, 2011 Series A - Principal and interest payable monthly from September 1, 2021 to September 1, 2041	7.00%	12,310,645
Special Obligation Notes, 2012 Series A - Principal and interest payable monthly from June 18, 2012 to September 1, 2041	7.00%	<u>20,043,959</u>
Total, net of unamortized premiums and discounts		<u>\$ 168,734,406</u>

Compensated Absences – The activity for compensated absences, included within accounts payable and accrued liabilities of the operational and administrative fund, during the year ended June 30, 2017, is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Vacation	\$ 665,085	\$ 729,282	\$ (766,754)	\$ 627,613	\$ 627,613
Sick leave	845,940	112,488	(958,428)	-	-
Total	<u>\$ 1,511,025</u>	<u>\$ 841,770</u>	<u>\$ (1,725,182)</u>	<u>\$ 627,613</u>	<u>\$ 627,613</u>

Act No. 26 of April 29, 2017 established that no cash payments were to be made to employees for accrued vacations and sick leave days, except in the case of employees who quit, retire or are terminated. In such cases, employees are eligible for a payment of their accrued vacation days not exceeding 90 days. Accordingly, based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, which establishes that benefits that have been earned but

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that are expected to lapse and thus not result in compensation to employees should not be accrued as a liability, management reduced the sick leave accrual to zero.

Accrued vacations are available to be liquidated by the employees during the year from monies of the operational and administrative fund.

12. MORTGAGE LOANS INSURANCE PROGRAM

The mortgage loans insurance program was created by Act No. 87 of June 25, 1965, as amended, to provide mortgage credit insurance to low and moderate-income families on loans originated by the Authority and other financial institutions. This activity can be increased through legislative appropriations, if and when needed, and derives its revenue from premiums charged to the borrowers, interest on investments, and sales of properties acquired through foreclosure. The Authority manages the risk of loss of its mortgage loans insurance activities by providing its insurance program only to financial institutions that (1) maintain certain defined minimum capital, (2) are qualified based on experience and resources, (3) perform certain collection efforts, and (4) comply with established procedures and requirements. In addition, the Authority requires certain loan-to-value ratios on loans insured and inscription of the collateral in the property registry of the Commonwealth. The activities of this program are included in the proprietary fund.

Additionally, the Authority created the Puerto Rico Housing Administration Program, expanding requirements and parameters under the existing Act No. 87. The Program allows citizens, paying an annual insurance premium, to originate mortgage loans with up to a 98% loan to value ratio. The Program insures participating lending institutions in events of foreclosure. The Program is financed through annual insurance premiums, commitment and transaction fees, and proceeds from any sale of foreclosed real estate. This Program also requires participants to comply with various eligibility requirements.

The Commonwealth guarantees up to \$75 million of the principal insured by the Program. As of June 30, 2017, the Program covered loans aggregating to approximately \$571 million. A liability of \$8.8 million was recorded under this program as of June 30, 2017 as an estimate of the losses inherent in the portfolio.

The mortgage loans insurance premiums amounted to \$3,400,876 for the year ended on June 30, 2017.

The regulations adopted by the Authority, requires the establishment of adequate reserves to guarantee the solvency of the mortgage loans insurance program which at June 30, 2017 the Authority was not in compliance. At June 30, 2017, the Authority had an unrestricted deficit of approximately \$6.9 million in the mortgage loan insurance program.

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13. RELATED-PARTY TRANSACTIONS

A summary of the most significant related-party balances and transactions as of June 30, 2017, and for the year ended is as follows:

(a) Commonwealth

Legislative appropriations of approximately \$11.5 million were received by the governmental funds during the year ended June 30, 2017. These appropriations are restricted for the payment of operating expenses and to support affordable housing programs.

During the year ended June 30, 2017, the Authority paid \$336,673 to the Commonwealth pursuant to the requirements of Law Number 66 of June 17, 2014, *Special Law for Fiscal and Operational Sustainability of the Commonwealth of Puerto Rico*, (Law 66). According to the provisions of Law 66, Article 19, the Authority must transfer a contribution determined under certain parameters required by Law 66.

(b) GDB

The Authority had the following additional related-party balances and transactions with GDB as of and for the year ended June 30, 2017:

	<u>Due from GDB</u>	<u>Interest rate</u>	<u>Interest income (expense)</u>
Assets:			
Cash - including accrued interest	\$ 746,041	Variable	\$ 27,579
Deposits place with banks - including accrued interest	7,679,523	0.75% - 1.60%	1,251,779
Nonparticipating investment contracts - including accrued interest	<u>17,515,448</u>	5.25%	<u>889,822</u>
Total assets	<u>\$ 25,941,012</u>		<u>\$ 2,169,180</u>
Liabilities:			
Repurchase Agreement - including accrued interest	\$ 19,330,527	3.00%	\$ (5,191,284)
Lines of credit and notes payable - including accrued interest	<u>90,461,171</u>	1.52% - 7.00%	<u>(4,319,886)</u>
Total liabilities	<u>\$ 109,791,698</u>		<u>\$ (9,511,170)</u>
Expenses - administrative charges	<u>\$ 645,931</u>		

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The interest income presented in the table above for deposits and nonparticipating investment contracts are amounts that would have been recognized during the year ended June 30, 2017 had such deposits and investments not been fully impaired. The deposits and nonparticipating investment contracts in the table above have a carrying value of zero, as a result of their full impairment.

Department of Housing – At June 30, 2017, the Authority has an amount due from the Puerto Rico Department of Housing (Department of Housing) amounting to \$581,687. Management has fully reserved this balance as of June 30, 2017.

The Authority entered into a 30-year lease agreement with the Department of Housing 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 Department of Housing 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, 2017, amounted to \$1.5 million.

Investment in Puerto Rico Community Development Fund, LLC – Puerto Rico Community Development Fund, LLC (PRCDF), an entity organized under the laws of Delaware, is a Community Development Entity (CDE). PRCDF has two members, the Authority (50%) and the Department of Housing (50%). On November 30, 2009, PRCDF was allocated \$45,000,000 of New Markets Tax Credits for investments in, or loans to, Qualified Active Low-Income Community Businesses (QALICB's) whose principal activities involve the development or rehabilitation of real estate. In October 2011 and in February 2012, PRCDF transferred \$13,500,000 and \$31,500,000, respectively, of its allocation to PRCDF I, LLC (PRCDF I). PRCDF I, an entity organized under the laws of Delaware, is also a CDE. PRCDF I has one managing member, PRCDF (0.01%) and one investor member, PRHFA RLF Investment Fund, LLC (99.99%), which is wholly owned by Citi Community Capital (Citi). The managing member and the investor member have made capital contributions of \$4,500 and \$45,000,000, respectively. The capital contributions have been used to establish a loan revolving fund for loans to QALICB's.

The New Markets Tax Credit Program (NMTC Program) was established by the U.S. Congress in 2000 to spur new or increased investments into operating businesses and real estate projects located in low-income communities. The NMTC Program attracts investment capital to low-income communities by permitting individual and corporate investors to receive a tax credit against their Federal income tax return in exchange for making equity investments in specialized financial institutions called Community Development Entities. The credit totals 39% of the original investment amount and is claimed over a period of seven years (five percent for each of the first three years, and six percent for each of the remaining four years). The investment in the CDE cannot be redeemed before the end of the seven-year period.

An organization wishing to receive awards under the NMTC Program must be certified as a CDE by the Community Development Financial Institution Fund of the U.S. Department of the Treasury.

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To qualify as a CDE, an organization must:

- Be a domestic corporation or partnership at the time of the certification application
- Demonstrate a primary mission of serving, or providing investment capital for low-income communities or low-income persons
- Maintain accountability to residents of low-income communities through representation on a governing board of or advisory board to the entity.

14. 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, 2017, commitments to extend credit amounted to approximately \$39 million.

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, 2017, there were no commitments outstanding to purchase mortgage-backed securities.

15. RETIREMENT SYSTEM

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), is a trust created by the Legislature under Act No. 447 of May 15, 1951 (as amended, Act No. 447), to provide pension and other benefits to retired employees of the Commonwealth, its public corporations (including the Authority) and municipalities. Before the enactment of Act 106-2017 on August 23, 2017, ERS administered a cost-sharing, multiple-employer, defined benefit pension plan. Before August 23, 2017, ERS administered different benefit structures under Act

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No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 Prigram) and a contributory hybrid program. Benefit provisions varied depending on each member's date of hire. Substantially all full time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the Authority) were covered by ERS under Act No. 447. Membership was mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment. Membership is optional for the Governor of the Commonwealth, Commonwealth secretaries, head of public agencies and instrumentalities, among others.

The benefits provided to members of the System were established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. Act No. 3, in conjunction with other recent funding and design changes, provided for a comprehensive reform of ERS. This summary details the provisions under Act No. 3.

Certain provisions of Act No. 3 were different for the three groups of members who entered ERS before July 1, 2013, as described below:

- Members of Act No. 447 were generally those members hired before April 1, 1990.
- Members of Act No. 1 were generally those members hired on or after April 1, 1990 and on or before December 31, 1999.
- Members of Act No.305 (or System 2000) were generally those members hired on or after January 1, 2000 and on or before June 30, 2013.

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, became members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

The assets of the defined benefit program, the defined contribution program and the Contributory Hybrid Program were pooled and invested by ERS. Future benefit payments were to be paid from the same pool of assets. However, upon the enactment of Act 106-2017 on August 23, 2017, all of the System's assets were sold and transferred to the General Fund and the plans described under Act No. 3 were frozen.

This summary of ERS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. All eligibility requirements and benefit amounts were determined in strict accordance with the plan document itself.

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Cost-Sharing, Multiple-Employer, Defined Benefit Program

Pursuant to Act No. 447, 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 ERS, under the Defined Benefit Program, as a condition of their employment. No benefits were payable if the participant received a refund of their accumulated contributions.

The Defined Benefit Program provides retirement, death, and disability benefits pursuant to legislation enacted by the 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 were available to members for occupational and non-occupational disabilities. However, a member must have at least 10 years of service to receive non-occupational disability benefits.

Members who had attained 55 years of age and completed at least 25 years of creditable service, or members who had attained 58 years of age and completed 10 years of creditable service, were 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. The annuity for which the participant is eligible, was limited to a minimum of \$500 per month and a maximum of 75% of the average compensation, as defined.

Participants who had completed 30 years of creditable service were entitled to receive the Merit Annuity. Participants who had not attained 55 years of age received 65% of the average compensation, as defined; otherwise, they received 75% of the average compensation, as defined.

The contribution requirement to the ERS is determined by law and not actuarially determined. Commonwealth legislation required employees to contribute 5.775% of the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Authority was required by the same statute to contribute 9.275% of each participant's gross salary. Pursuant to Act No. 116 of July 16, 2011, the Authority's contribution was increased to 10.275% for 2012, an additional 1% annually (15.275% for 2017) for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining ERS effective April 1, 1990. These changes consisted principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the Merit Annuity for participating employees who completed 30 years of creditable service.

On September 24, 1999, the Legislature enacted Act No. 305, which amended Act No. 447 to establish a new retirement program. In addition, on April 4, 2013, the Legislature enacted Act No.

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3, which amended the provisions of the different benefit structures under ERS, including the Defined Benefit Program.

Defined Contribution Program-System 2000 Program

The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to create, among other things the System 2000 Program, a new benefit structure, similar to a cash balance plan (defined contribution plan). All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the Defined Benefit Program, received a refund of their contributions, and were rehired on or after January 1, 2000, and became members of the System 2000 Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the Defined Benefit Program had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the Defined Benefit Program plus interest thereon to the System 2000 Program.

Act No. 305 required employees to contribute 8.275% of their monthly gross salary to the System 2000 Program. Employees had the option to elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions were credited to individual accounts established under the Systems 2000 Program. Participants had three options to invest their contributions to the System 2000 Program. Investment income was credited to the participant's account semiannually.

The Authority was required by the same statute to contribute 9.275% of each participant's gross salary. Pursuant to Act No. 116 of July 16, 2011, the Authority's contribution was increased to 10.275% for 2012, an additional 1% annually (15.275% for 2017) for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Under System 2000 Program, contributions received from participants were pooled and invested by ERS, together with the assets corresponding to the Defined Benefit Program. Future benefit payments under the Defined Benefit Program and the System 2000 Program were to be paid from the same pool of assets. As a different benefit structure, the System 2000 Program was not a separate plan and the Commonwealth did not guarantee benefits at retirement age. Corresponding employers' contributions were used by ERS to reduce the unfunded status of the Defined Benefit Program.

The System 2000 Program reduced the retirement age from 65 years to 60 years for those employees who joined this plan on or after January 1, 2000.

Upon retirement, the balance in each participant's account was to be used to purchase an annuity contract, which provided 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 received a lump-sum payment. In case of death, the balance in each participant's account was to be paid in a lump sum to the participant's beneficiaries. Participants

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had the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

As discussed further below, on April 4, 2013, the Legislature enacted Act No. 3, which further amended the provisions of the different benefit structures under the ERS, including the System 2000 Program.

Defined Contribution Hybrid Program

On April 4, 2013, the Legislature enacted Act. No. 3, which amended Act No. 447, Act No. 1 and Act. No. 305 to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by ERS. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants.

Participants in the Defined Benefit Program who as of June 30, 2013, were entitled to retire and receive some type of pension, could retire on any later date and would receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants who as of June 30, 2013, had not reached the age of 58 and completed 10 years of service or had not reached the age of 55 and completed 25 years of service could retire depending on the new age limits defined by the Defined Contribution Hybrid Program and would receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age could retire on any later date and would receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants in the System 2000 Program who as of June 30, 2013, had not reached the age of 60 could retire depending on the new age limits defined by the Defined Contribution Hybrid Program and would receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

In addition, Act No. 3 amended the provisions of the different benefit structures under ERS, including, but not limited to, the following:

- For active participants of the contributory defined benefit programs under Act No. 447 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen, and

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thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants and will be paid at retirement through a lifetime annuity.

- Increased the minimum pension for current retirees from \$400 to \$500 per month.
- The retirement age for the Act No. 447 participants was gradually increased from age 58 to age 61.
- The retirement age for the active System 2000 Program participants was gradually increased from age 60 to age 65.
- Eliminated the “merit annuity” available to participants who joined the retirement System prior to April 1, 1990.
- The retirement age for new employees was increased to age 67.
- The employee contribution rate was increased from 8.275% to 10%.
- For the System 2000 Program participants, the retirement benefits were no longer to be paid as a lump sum distribution, instead, they were to be paid through a lifetime annuity.
- Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings was to be contributed to the Retirement System.
- Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits were modified.

Employee contributions were credited to individual accounts established under the Defined Contribution Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty five percent (0.25%) is required for the purchase of disability insurance.

Upon retirement, the balance in each participant’s account was to be used to purchase an annuity contract, which provided for a monthly benefit during the participant’s life. In case of the pensioner’s death, the designated beneficiaries would continue receiving the monthly benefit until the contributions of the participant were completely consumed. In case of the participants in active service, a death benefit was to be paid in one lump sum in cash to the participant’s beneficiaries. Participants with a balance of less than \$10,000 or less than five years of computed services at retirement were to receive a lump-sum payment. In case of permanent disability, the participants had the option of receiving a lump sum or purchasing an annuity contract.

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To improve the liquidity and solvency of ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provided for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to fiscal year 2033. This additional uniform contribution will be determined annually based on actuarial studies to be performed by ERS actuaries. The additional uniform contribution was eliminated in June 2017.

The total aggregate amount of employee contributions for the Defined Benefit Programs was approximately \$1,297,321 during the fiscal year ended June 30, 2017. The total aggregate amount of employee contributions for the defined contribution plan and the defined contribution hybrid program during the year ended June 30, 2017, was approximately \$511,971 and \$785,350, respectively. The Authority's contributions (either paid or accrued) during the fiscal years ended June 30, 2017, 2016 and 2015 amounted to approximately \$2,242,751, \$1,349,666, and \$1,311,003, respectively. These amounts represented 100% of the required contribution for the corresponding year. Individual information for each option was not available since the allocation was performed by the ERS itself.

The Authority's contributions (either paid or accrued) to ERS pursuant Act No. 32 of 2013 (Additional Uniform Contribution) for 2017 amounted to \$1,135,298.

ERS also administers benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries, referred to as System Administered Pension Benefits. The System Administered Pension Benefits include, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer and Christmas bonuses. Act No. 3 amended various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013). The System Administered Pension Benefits are funded on a pay-as-you-go basis by the participating employers, including the Authority. The System Administered Pension Benefits corresponding to former employees of the Authority are obligations of the Authority. Most of the funds used to cover the System Administered Pension Benefits for other covered employees are required to be paid by the Commonwealth.

Net Pension Liability of ERS

The total pension liability as of June 30, 2016 (the measurement date used for financial reporting for fiscal year 2017) was determined by an actuarial valuation as of July 1, 2015 that was rolled forward to June 30, 2016 and assuming no gains or losses.

(1) *Actuarial Methods and Assumptions*

The actuarial valuation used the following actuarial methods and assumptions, applied to all periods in the measurement:

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Actuarial cost method	Entry age normal
Asset-valuation method	Market value of assets
Actuarial assumptions:	
Inflation rate	2.5%.
Salary increases	3.0% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No.66 and the current general economy

The mortality tables used in the June 30, 2016 actuarial valuations were as follows:

- Pre-retirement Mortality- For ERS general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year, and projected forward using MP-2016 on generational basis. For ERS general employees covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year, and projected forward using MP-2016 on generational basis. As generation tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational only for members covered under Act No. 127.

- Post-retirement Healthy Mortality- Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-16 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- Post-retirement Disabled Mortality- Rates which vary by gender are assumed for disabled retirees based on a study of Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-16 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the July 1, 2014 valuation were based on the results of actual experience study using as of June 30, 2003, June 30, 2005 and June 30, 2007.

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(2) *Long-term Rate of Return on Investments*

The long-term expected rate of return on pension benefits investments was determined in accordance with the asset allocation of the portfolio that was adopted by the ERS Board during December 2013 and the actuary's capital market assumptions as of June 30, 2016. In addition, the assumption reflects that loans to members comprise approximately 50% of the portfolio and have an approximate return of 9.1% with no volatility. The long-term expected rate of return on pension benefits investments of 6.55% as of June 30, 2016 is equal to the highest debt service of the senior pension funding bonds payable which range from 5.85% per annum to 6.55% per year.

The pension plans' policy in regard to allocation of invested assets is established and may be amended by the ERS Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on ERS financial condition for the benefits provided through the pension programs. The following was the ERS Board's adopted asset allocation policies as of June 30, 2016:

	ERS	
	Target allocation	Long-term expected rate of return
Asset class:		
Domestic equity	25%	6.4%
International equity	10	6.7
Fixed income	64	6.3
Cash	1	3.0
Total	<u>100%</u>	

The long-term expected rate of return on pension benefits investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

(3) *Discount Rate*

The asset basis for the date of depletion projection is the ERS's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, less deferred inflows of resources). On this basis, the ERS fiduciary net position became negative in the fiscal year 2015 and accordingly no projection of date of depletion is needed.

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The ERS fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability.

The discount rate used to measure the total pension liability was 2.85% and 3.80% as of June 30, 2016 and July 1, 2015, respectively.

The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No.32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition does improve in the near term.

The Authority's proportion of the net pension liability of ERS

The Authority's proportionate share of the net pension liability of the ERS and the proportion percentage of the aggregate net pension liability of ERS allocated to the Authority as of June 30, 2017 was \$59,160,168 and 0.15693%, respectively.

The Authority's proportion of ERS's net pension liability was based on the actual required contributions of each of the participating employers that reflect each employer's projected long-term contribution effort. The contributions that reflect each employer's projected long-term contribution effort included in the proportionate share calculation are: (1) Act No. 116 of 2010 statutory payroll-based contribution, (2) Act No. 3 of 2013 supplemental contribution, and (3) other special law contributions. Contributions from the Authority to ERS of approximately \$2,242,751 were required during the period subsequent to the measurement date or during the period ended June 30, 2017. Other contributions to ERS that do not reflect an employer's projected long-term contribution effort, such as contributions that separately finance specific liabilities of an individual employer to ERS (i.e. local employer early retirement incentives), were excluded from the proportionate share calculation.

In addition, Act No. 32 of 2013, Additional Uniform Contribution (AUC), which is a contribution that reflects each employer's projected long-term contribution effort, was excluded from the proportionate share calculation because its collectability from various employers, including the Commonwealth, is uncertain at this moment. This prevents an overallocation of GASB Statement No. 68 amounts to the employers who have paid their AUC (or are expected to do so) and an under-allocation of GASB Statement No. 68 amounts to the employers who have not paid their AUC (or are not expected to do so).

Actuarial assumptions are revised periodically to more closely reflect both actual and anticipated future experience. Due to the change in census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations.

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The components of the net pension liability of the Authority's proportionate share as of June 30, 2016 (measurement date) are as follows:

<u>The Authority's proportionate share of:</u>	
Proportion of the net pension liability	<u>0.15693%</u>
Total pension liability	\$ 57,173,966
Plan fiduciary net position (deficiency)	<u>(1,986,201)</u>
Net pension liability	<u>\$ 59,160,168</u>
Plan's fiduciary net position as a percentage of the total pension liability	<u>-3.47%</u>
Covered payroll	<u>\$ 6,200,000</u>
The Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>954.20%</u>

The following table presents The Authority's proportionate share of the net pension liability as of June 30, 2016 for ERS calculated using the discount rate of 2.85%, as well as what the Administration's proportionate share of the net pension liability would be if it were calculated using a discount rate of 1% point lower (1.85%) or 1% point higher (3.85%) than the current rate:

	<u>1% Decrease (1.85%)</u>	<u>Current Discount Rate (2.85%)</u>	<u>1% Increase (3.85%)</u>
The Authority's proportionate share of net pension liability	<u>\$ 69,022,393</u>	<u>\$ 59,160,168</u>	<u>\$ 52,977,829</u>

Pension expense and deferred outflows of resources and deferred inflows of resources from pension activities

Pension expense recognized by the Authority for the year ended June 30, 2017 related to the Retirement System amounts to \$4,750,926.

Deferred outflows and deferred inflows of resources from pension activities reported in the Authority's statements of net position as of June 30, 2017 are as follows:

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DEFERRED OUTFLOWS OF RESOURCES

Differences between expected and actual experience in measuring total pension liability	\$ 48,368
Changes in assumptions	9,023,751
Changes in proportion and differences between actual contributions and proportionate share	789,164
Employer contributions made subsequent to the measurement date	<u>2,242,751</u>
	<u>\$ 12,104,034</u>

DEFERRED INFLOWS OF RESOURCES

Net difference between projected and actual earnings on pension plan investments	\$ 812,176
Differences between expected and actual experience in measuring total pension liability	<u>320,106</u>
	<u>\$ 1,132,282</u>

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2017 will be recognized in the pension expense as follows:

Years ending <u>June 30,</u>	<u>Amount</u>
2018	\$ 1,876,853
2019	1,876,853
2020	1,958,988
2021	1,980,069
2022	<u>1,036,238</u>
	<u>\$ 8,729,001</u>

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Deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date which amounted to \$2,242,751 as of June 30, 2017, will be recognized as a reduction of the net pension liability in the year ended, June 30, 2018. This amount is not included in the table above.

16. EARLY RETIREMENT PROGRAM

From fiscal year 2011 through fiscal year 2013, the Authority extended to its employees a voluntary early retirement program, based on provisions established under Act. No. 70 of July 2, 2010 (Act No. 70). Act No. 70 provided that eligible employees may retire from employment with the Commonwealth in exchange for an early pension, an economic incentive and other benefits. Act. No. 70 only applied to employees who were fifteen years or less from retirement in accordance with their applicable retirement plans.

Under this plan, the employee will receive an annuity of fifty percent of the salary in effect at September 30, 2010. The Authority is responsible for the payment of the annuity to the related employee and employer contributions to ERS for a maximum period of 10 years. The employee will also receive the benefits of health and dental insurance for a period of one year.

The total amount of employees who have voluntarily separated from employment under the provisions of Act No. 70 was six. Payments of such voluntary termination plans are expected to be made until November 1, 2030. Employee and employer contributions to ERS and the employee annuity for the applicable period were discounted based on the average interest rate of return of unpledged investments.

During fiscal year 2017, there were no costs related to these early termination benefits. As of June 30, 2017, the total liability related to these termination benefits was approximately \$285,787, recorded within accounts payable and accrued liabilities of the business-type activities.

17. 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 Proprietary Fund – At June 30, 2017, the Authority was custodian of \$256,289 in restricted funds of former “*Corporación de Renovación Urbana y Vivienda*” (CRUV). As of June 30, 2017, such funds were deposited with GDB. These funds are not owned by the Authority's proprietary fund 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

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loan backing up such security certificate that became delinquent for 120 days or more. As of June 30, 2017, the aggregate outstanding principal balance of the loans pooled into the FNMA certificate amounted to \$218,830.

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, 2017, the principal balance of the mortgage loans serviced for others is as follows:

<u>Investor</u>	<u>Amount</u>
PRCDF I	\$ 29,301,500
CRUV or its successor without guaranteed mortgage loan payments	19,113
Total	<u>\$ 29,320,613</u>

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 \$15,000 has been included as part of accounts payable and accrued liabilities in the accompanying statement of net position.

Federal programs are subject to audits which could result in claims against the resources of the Authority. No provision has been made for any liabilities that may arise from such audits since the amount, if any, cannot be determined at this date.

18. CONDUIT DEBT AND PROGRAMS SPONSORED BY THE AUTHORITY

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 approximately \$117.6 million at June 30, 2017.

On August 1, 2008, the Authority issued the Capital Fund Modernization Subordinate Bonds amounting to approximately \$384.5 million. The proceeds from the issuance were used to finance a loan to a limited liability company (the LLC) and pay the costs of issuance. The \$384.5 million bonds are limited obligations of the Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by HUD with an outstanding balance of approximately \$268.0 million at June 30, 2017.

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19. INTERFUND BALANCES AND TRANSFERS

The summary of the interfund balances as of June 30, 2017, between the governmental funds and the proprietary fund is as follows:

<u>Receivable by</u>	<u>Payable by</u>	<u>Purpose</u>	<u>Amount</u>
Proprietary fund:	Governmental funds:		
Operating and Administrative	HOME Programs	Reimbursement of expenditures	\$ 2,062,804
Operating and Administrative	HUD Programs	Reimbursement of expenditures	318,154
Operating and Administrative	AHS Programs	Reimbursement of expenditures	9,867,120
Total			<u>\$ 12,248,078</u>

The summary of the interfund transfers for the year ended June 30, 2017, is as follows:

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
Proprietary fund:	Governmental funds:		
Operating and Administrative	AHS Programs	Subsidy payments	\$ 3,777,024
Governmental funds:	Proprietary fund:		
AHS Programs	Operating and Administrative	Operations	(4,966,667)
			<u>\$ (1,189,643)</u>

20. SUBSEQUENT EVENTS

The Authority evaluated subsequent events through January 16, 2020, the date the financial statements were available to be issued.

GDB Qualifying Modification and the Title VI Approval Process

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Under the Qualifying Modification, holders of certain bond and deposit claims against GDB exchanged their claims for bonds issued by a newly created public instrumentality—the GDB Debt Recovery Authority created under Act No. 109 of August 24, 2017, known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act)—and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash. In addition, pursuant to the GDB Restructuring Act, claims on account of deposits held by the Commonwealth and other public entities were exchanged

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for interest in a newly formed trust created pursuant to the GDB Restructuring Act, titled the Public Entity Trust (the PET).

Under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment received their pro rata share of interests in the PET, which was deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB.

The assets of the PET (the PET Assets) consist of among other items, an unsecured claim against the Commonwealth of approximately \$580 million, which is the subject of a proof of claim filed in the Commonwealth's Title III case. The Non-Municipal Government Entities' recoveries on account of their interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets. Claims that the Commonwealth and other governmental entities may have had against GDB have been released pursuant to the Qualifying Modification (except for as set forth therein), and GDB has reduced the amount of any allowed claim against the Commonwealth it may receive as set forth in such Qualifying Modification.

On November 6, 2018, the District Court approved GDB's Qualifying Modification under Title VI of PROMESA and the Qualifying Modification became effective as of November 29, 2018.

PayGo Pension Reform

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" (PayGo) system. With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated.

The PayGo system was one component of Act No. 106 of 2017 (Act 106-2017), which the Governor signed into law on August 23, 2017. Act 106-2017 created the legal framework so that the Commonwealth can guarantee benefit payments to current pensioners through the PayGo system. Approximately \$2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, that will be managed by a private entity. Future benefits will not be paid by the Retirement Systems.

Act 106-2017, among other things, amended Act No. 12 with respect to ERS's governance, funding and benefits for active members of the actual program and new hired members. Under Act 106-2017, ERS's board of trustees was eliminated and a new Retirement Board was created. The Retirement Board is currently responsible for governing both ERS and JRS.

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Act 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 will be enrolled in a new defined contributions program that will be selected by the Retirement Board. The accumulated balance on the accounts of the prior program will be transferred to the member accounts in the new defined contributions program. ERS' active members of the defined contributions program will retain their benefits as stated under Act 91 of March 29, 2003.

Act 106-2017 also ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the administration of ERS benefits may be externalized. The employees of ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017. In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating an incentives, opportunities and retraining program for public workers.

On May 17, 2019, the Legislature passed Act No. 29 of 2019 (Act 29-2019), which addressed the severe financial crisis and liquidity shortage of the Puerto Rico municipalities by relieving them of their obligation to make PayGo payments to the Commonwealth under Act 106-2017. On July 3, 2019, the Oversight Board filed a complaint against the Governor and FAFAA seeking injunctive relief to prevent the implementation and enforcement of Act 29-2019 and various joint resolutions because (i) Act 29-2019 violated PROMESA sections 204(a) and 207; (ii) Act 29-2019 and the joint resolutions violated PROMESA section 204(c); (iii) Act 29-2019 and the joint resolutions violated PROMESA section 108(a) because they impair and/or defeat the purposes of PROMESA, as determined by the Oversight Board; and (iv) the Governor's alleged policy of not providing certifications as required under PROMESA section 204 violated PROMESA section 108(a) because it impairs and/or defeats the purposes of PROMESA, as determined by the Oversight Board.

On July 15, 2019, the Governor and the Authority moved to dismiss the complaint. On August 22, 2019, the Title III Court denied the motion to dismiss in its entirety, finding among other things that the Oversight Board has the authority to challenge or constrain Commonwealth officials from implementing fiscal policy decisions that are arguably contrary to the certified Commonwealth fiscal plan. On September 10, 2019, the Governor and the Authority answered the complaint. On December 13, 2019, the Oversight Board filed a motion for summary judgment. The Authority's objection deadline is February 5, 2020 and a hearing on the summary judgment motion is scheduled for March 4, 2020.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

Impact of Hurricane Maria

On September 20, 2017, Puerto Rico was directly hit by Hurricane Maria, the strongest hurricane to make landfall on the island in almost a century, leaving in its path the destruction of thousands of homes, the unavailability of power across the entire island and the overflowing of many streets and roads. The hurricane also brought down cell towers, leveled most of the trees and landscape of the island and unloaded at least over 20 inches of rain, which could plunge Puerto Rico deeper into the fiscal and financial crisis that already existed. As a result of the massive impact of the hurricane, a series of actions and events have been taken and some others are in consideration that could significantly alter the otherwise established courses of action that had been on track pursuant to PROMESA and the Commonwealth Fiscal Plan.

Former Governor Rosselló's Resignation and Government Transition under Governor Vázquez

On July 24, 2019, then-Governor Ricardo Rosselló Nevares announced his resignation as Governor of the Commonwealth effective August 2, 2019 at 5pm Atlantic Standard Time. Before his resignation became effective, then-Governor Rosselló appointed former resident commissioner Pedro Pierluisi as Secretary of State. After being confirmed by the House of Representatives (but not the Senate), Mr. Pierluisi was sworn in as acting Governor. On August 7, 2019, the Puerto Rico Supreme Court unanimously determined that Mr. Pierluisi was unlawfully sworn into office as Governor. As a result, Justice Secretary Wanda Vázquez was sworn in as Governor on August 7, 2019 to complete former Governor Rosselló's term through 2020 and, as of the date of these financial statements, currently serves as the Governor of the Commonwealth.

Proposed Title III Joint Plan of Adjustment for the Commonwealth, ERS and PBA

On September 27, 2019, the Oversight Board—as representative of the Commonwealth, ERS and the Public Buildings Authority (PBA) in their respective Title III cases—filed a joint Title III plan of adjustment for the Commonwealth, ERS, and PBA [ECF No. 8765] (the Joint Plan) along with a disclosure statement related thereto [ECF No. 8765] (the Disclosure Statement). The Joint Plan and Disclosure Statement remain subject to Title III Court approval and it is not certain that the Title III Court will ultimately confirm the Joint Plan.

Impact of Earthquakes

On January 6 and 7, 2020, Puerto Rico sustained a series of strong earthquakes, which caused significant damages to individual and family housing as well as to public schools and small businesses, predominantly concentrated in several municipalities in the southwestern part of the island. These earthquakes have been followed by hundreds of aftershocks that have continued to recur through the date of these financial statements. Management has not identified yet the impact, if any, that these earthquakes may have on the Authority's programs or operations. Through the date of these financial statements, no claims have been made or received through the Authority's mortgage loan insurance programs.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

Transfer of HOME Program to the Puerto Rico Department of Housing

As part of the efforts of the Government of Puerto Rico to maximize resources through consolidation of governmental structures in order to achieve greater levels of efficiency, the Governor of Puerto Rico informed the U.S. Department of Housing and Urban Development the transfer of the HOME Program from the Authority to the Puerto Rico Department of Housing. Such transfer was effective on March 1, 2019.

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Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
PHA Number RQ911
Housing Financial Data Schedule
June 30, 2017

	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitatio n Single Room Occupancy	14.239 HOME Investment Partnership s Program	8 Other Federal Program 1	2 State/Local	1 Business Activities	9 Other Federal Program 2	Lower Income Housing Assistance Program_Se ction 8 Moderate	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,212,506	\$ -	\$ -	\$ 39,212,506	-	\$ 39,212,506
112 Cash - Restricted - Modernization and Development	-	-	-	-	-	-	-	-	-	-	-
113 Cash - Other Restricted	1,166,093	100,472	897,546	-	16,355,787	22,596,450	6,389	222,248	41,344,985	-	41,344,985
114 Cash - Tenant Security Deposits	-	-	-	-	-	-	-	-	-	-	-
115 Cash - Restricted for Payment of Current Liabilities	-	-	-	-	-	-	-	-	-	-	-
100 Total Cash	1,166,093	100,472	897,546	-	16,355,787	61,808,956	6,389	222,248	80,557,491	-	80,557,491
121 Accounts Receivable - PHA Projects	-	-	-	-	-	-	-	-	-	-	-
122 Accounts Receivable - HUD Other Projects	-	-	-	-	-	-	-	-	-	-	-
124 Accounts Receivable - Other Government	-	585	5,313,418	-	-	-	1,046,229	1,294	6,361,526	-	6,361,526
125 Accounts Receivable - Miscellaneous	3,739	6,274	-	-	3,435	2,024,436	-	13,879	2,051,763	-	2,051,763
126 Accounts Receivable - Tenants	-	-	-	-	-	-	-	-	-	-	-
126.1 Allowance for Doubtful Accounts - Tenants	-	-	-	-	-	-	-	-	-	-	-
126.2 Allowance for Doubtful Accounts - Other	-	-	-	-	-	(192,848)	-	-	(192,848)	-	(192,848)
127 Notes, Loans, & Mortgages Receivable - Current	-	-	-	-	-	1,938,055	-	-	1,938,055	-	1,938,055
128 Fraud Recovery	927,839	148,060	-	-	-	-	-	327,516	1,403,415	-	1,403,415
128.1 Allowance for Doubtful Accounts - Fraud	(927,839)	(148,060)	-	-	-	-	-	(327,516)	(1,403,415)	-	(1,403,415)
129 Accrued Interest Receivable	-	-	-	-	119,679	1,449,727	-	-	1,569,406	-	1,569,406
120 Total Receivables, Net of Allowances for Doubtful Accounts	3,739	6,859	5,313,418	-	123,114	5,219,370	1,046,229	15,173	11,727,902	-	11,727,902
131 Investments - Unrestricted	-	-	-	-	-	27,638,653	-	-	27,638,653	-	27,638,653
132 Investments - Restricted	-	-	-	-	40,817,579	126,208,421	-	-	167,026,000	-	167,026,000
135 Investments - Restricted for Payment of Current Liability	-	-	-	-	-	-	-	-	-	-	-
142 Prepaid Expenses and Other Assets	-	-	-	-	-	41,256	-	-	41,256	-	41,256
143 Inventories	-	-	-	-	-	-	-	-	-	-	-
143.1 Allowance for Obsolete Inventories	-	-	-	-	-	-	-	-	-	-	-
144 Inter Program Due From	-	-	-	-	-	12,248,078	-	-	12,248,078	(12,248,078)	-
145 Assets Held for Sale	-	-	-	-	-	2,882,712	-	-	2,882,712	-	2,882,712
150 Total Current Assets	1,169,832	107,331	6,210,964	-	57,296,480	236,047,446	1,052,618	237,421	302,122,092	(12,248,078)	289,874,014
161 Land	-	-	-	-	-	8,880,000	-	-	8,880,000	-	8,880,000
162 Buildings	-	-	-	-	-	-	-	-	-	-	-
163 Furniture, Equipment & Machinery - Dwellings	-	-	-	-	-	-	-	-	-	-	-
164 Furniture, Equipment & Machinery - Administration	-	-	170,096	-	-	7,310,602	-	-	7,480,698	-	7,480,698
165 Leasehold Improvements	-	-	-	-	-	4,206,713	-	-	4,206,713	-	4,206,713
166 Accumulated Depreciation	-	-	(169,507)	-	-	(10,446,598)	-	-	(10,616,105)	-	(10,616,105)
167 Construction in Progress	-	-	-	-	-	-	-	-	-	-	-
168 Infrastructure	-	-	-	-	-	-	-	-	-	-	-
160 Total Capital Assets, Net of Accumulated Depreciation	-	-	589	-	-	9,950,717	-	-	9,951,306	-	9,951,306

Puerto Rico Housing Finance Authority
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Housing Financial Data Schedule
June 30, 2017

	14.871 Housing Choice Vouchers	14.249 Section 8 Rehabilitati on Single Room Occupancy	14.239 HOME Investment Partnership Program	8 Other Federal Program 1	2 State/Local	1 Business Activities	9 Other Federal Program 2	14.856 Lower Income Housing Assistance Program_Sec tion 8 Moderate	Subtotal	ELIM	Total
171 Notes, Loans and Mortgages Receivable - Non-Current	-	-	-	-	-	168,080,262	-	-	168,080,262	-	168,080,262
172 Notes, Loans, & Mortgages Receivable - Non Current - Past	-	-	-	-	-	23,012,941	-	-	23,012,941	-	23,012,941
173 Grants Receivable - Non Current	-	-	-	-	-	-	-	-	-	-	-
174 Other Assets	-	-	-	-	-	-	-	-	-	-	-
176 Investments in Joint Ventures	-	-	-	-	-	-	-	-	-	-	-
180 Total Non-Current Assets	-	-	589	-	-	201,043,920	-	-	201,044,509	-	201,044,509
200 Deferred Outflow of Resources	-	-	-	-	-	14,255,421	-	-	14,255,421	-	14,255,421
290 Total Assets and Deferred Outflow of Resources	1,169,832	107,331	6,211,553	-	57,296,480	451,346,787	1,052,618	237,421	517,422,022	(12,248,078)	505,173,944
311 Bank Overdraft	-	-	-	-	-	-	-	-	-	-	-
312 Accounts Payable <=90 Days	90,013	203	5,688,705	1,871,849	1,930,744	5,317,023	45	39	14,898,621	-	14,898,621
313 Accounts Payable >90 Days Past Due	-	-	-	-	-	1,041,545	-	411	1,041,956	-	1,041,956
321 Accrued Wage/Payroll Taxes Payable	-	-	-	-	-	430,806	-	-	430,806	-	430,806
322 Accrued Compensated Absences - Current Portion	227,845	-	99,815	-	-	677,881	-	-	1,005,541	-	1,005,541
324 Accrued Contingency Liability	-	-	-	-	-	59,160,168	-	-	59,160,168	-	59,160,168
325 Accrued Interest Payable	-	-	-	-	260,029	8,177	-	-	268,206	-	268,206
331 Accounts Payable - HUD PHAP Programs	1,060	10,605	-	-	-	-	6,344	-	23,459	-	41,468
332 Account Payable - PHAP Projects	-	-	-	-	-	-	-	-	-	-	-
333 Accounts Payable - Other Government	-	-	-	-	-	-	-	-	-	-	-
341 Tenant Security Deposits	-	-	-	-	-	-	-	-	-	-	-
342 Unearned Revenue	-	49,446	-	-	-	3,032,327	-	109,376	3,191,149	-	3,191,149
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue	-	-	-	-	-	-	-	-	-	-	-
344 Current Portion of Long-term Debt - Operating Borrowings	-	-	-	1,008,131	170,073	28,536,370	-	-	29,714,574	-	29,714,574
345 Other Current Liabilities	-	-	-	-	-	-	-	-	-	-	-
346 Accrued Liabilities - Other	-	-	-	-	-	8,774,954	-	-	8,774,954	-	8,774,954
347 Inter Program - Due To	865,362	47,077	318,153	-	9,867,121	-	1,046,229	104,136	12,248,078	(12,248,078)	-
348 Loan Liability - Current	-	-	-	-	-	-	-	-	-	-	-
310 Total Current Liabilities	1,184,280	107,331	6,106,673	2,879,980	12,227,967	106,979,251	1,052,618	237,421	130,775,521	(12,248,078)	118,527,443
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	-	-	-	-	-	-	-	-	-	-	-
352 Long-term Debt, Net of Current - Operating Borrowings	-	-	-	45,846,859	66,102,893	140,198,036	-	-	252,147,788	-	252,147,788
353 Non-current Liabilities - Other	-	-	-	-	-	-	-	-	-	-	-
354 Accrued Compensated Absences - Non Current	-	-	-	-	-	-	-	-	-	-	-
355 Loan Liability - Non Current	-	-	-	-	-	-	-	-	-	-	-
356 FAS B 5 Liabilities	-	-	-	-	-	-	-	-	-	-	-
357 Accrued Pension and OPEB Liabilities	-	-	-	-	-	-	-	-	-	-	-
350 Total Non-Current Liabilities	-	-	-	45,846,859	66,102,893	140,198,036	-	-	252,147,788	-	252,147,788
300 Total Liabilities	1,184,280	107,331	6,106,673	48,726,839	78,330,860	247,177,287	1,052,618	237,421	382,923,309	(12,248,078)	370,675,231
400 Deferred Inflow of Resources	-	-	-	-	-	1,132,282	-	-	1,132,282	-	1,132,282
508.4 Net Investment in Capital Assets	-	-	589	-	-	9,950,717	-	-	9,951,306	-	9,951,306
511.4 Restricted Net Position	-	-	-	-	-	37,928,846	-	-	37,928,846	-	37,928,846
512.4 Unrestricted Net Position	(14,448)	-	104,291	(48,726,839)	(21,034,380)	155,157,655	-	-	85,486,279	-	85,486,279
513 Total Equity - Net Assets / Position	(14,448)	-	104,880	(48,726,839)	(21,034,380)	203,037,218	-	-	133,366,431	-	133,366,431
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$ 1,169,832	\$ 107,331	\$ 6,211,553	\$ -	\$ 57,296,480	\$ 451,346,787	\$ 1,052,618	\$ 237,421	\$ 517,422,022	(12,248,078)	\$ 505,173,944

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Housing Financial Data Schedule
June 30, 2017

	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation	14.239 HOME Investment Partnerships Program	8 Other Federal Program 1	2 State/Local	1 Business Activities	9 Other Federal Program 2	14.856 Lower Income Housing Assistance Program_Secti on 8 Moderate	Subtotal	ELIM	Total
		Single Room Occupancy									
70300 Net Tenant Rental Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ -
70400 Tenant Revenue - Other	-	-	-	-	-	-	-	-	-	-	-
70500 Total Tenant Revenue	-	-	-	-	-	-	-	-	-	-	-
70600 HUD PHA Operating Grants	15,372,219	621,968	14,503,596	-	-	-	129,320,186	1,207,090	161,025,059	-	161,025,059
70610 Capital Grants	-	-	-	-	-	-	-	-	-	-	-
70710 Management Fee	-	-	-	-	-	-	-	-	-	-	-
70720 Asset Management Fee	-	-	-	-	-	-	-	-	-	-	-
70730 Book Keeping Fee	-	-	-	-	-	-	-	-	-	-	-
70740 Front Line Service Fee	-	-	-	-	-	-	-	-	-	-	-
70750 Other Fees	-	-	-	-	-	-	-	-	-	-	-
70700 Total Fee Revenue	15,372,219	621,968	14,503,596	-	-	-	129,320,186	1,207,090	161,025,059	-	161,025,059
70800 Other Government Grants	-	-	172,663	-	11,261,106	-	3,075,235	168,733	14,677,737	-	14,677,737
71100 Investment Income - Unrestricted	-	-	-	-	-	1,512,158	-	-	1,512,158	-	1,512,158
71200 Mortgage Interest Income	-	-	-	-	-	9,800,140	-	-	9,800,140	-	9,800,140
71300 Proceeds from Disposition of Assets	-	-	-	-	-	-	-	-	-	-	-
71310 Cost of Sale of Assets	-	-	-	-	-	-	-	-	-	-	-
71400 Fraud Recovery	29,688	547	-	-	-	-	-	1,211	31,446	-	31,446
71500 Other Revenue	691	547	101,119	-	820,002	20,462,547	-	1,211	21,386,117	-	21,386,117
71600 Gain or Loss on Sale of Capital Assets	-	-	-	-	-	-	-	-	-	-	-
72000 Investment Income - Restricted	-	-	-	405	2,143,164	1,640,098	-	-	3,783,667	-	3,783,667
70000 Total Revenue	15,402,598	623,062	14,777,378	405	14,224,272	33,414,943	132,395,421	1,378,245	212,216,324	-	212,216,324
91100 Administrative Salaries	896,486	-	426,659	-	-	5,816,916	-	-	7,140,061	-	7,140,061
91200 Auditing Fees	-	-	-	-	-	-	-	-	-	-	-
91300 Management Fee	-	-	-	-	-	-	-	-	-	-	-
91310 Book-keeping Fee	-	-	-	-	-	-	-	-	-	-	-
91400 Advertising and Marketing	-	-	-	-	-	-	-	-	-	-	-
91500 Employee Benefit contributions -	213,803	-	116,997	-	-	7,335,426	-	-	7,666,226	-	7,666,226
91600 Office Expenses	225,822	-	-	-	-	-	-	-	225,822	-	225,822
91700 Legal Expense	-	-	-	-	-	-	-	-	-	-	-
91800 Travel	-	-	-	-	-	-	-	-	-	-	-
91810 Allocated Overhead	-	-	-	-	-	-	-	-	-	-	-
91900 Other	-	-	-	-	-	2,088,312	-	-	2,088,312	-	2,088,312
91000 Total Operating - Administrative	1,336,111	-	543,656	-	-	15,240,654	-	-	17,120,421	-	17,120,421

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	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.239 HOME Investment Partnerships Program	8 Other Federal Program 1	2 State/Local	1 Business Federal Activities	9 Other Federal Program 2	14.856 Lower Income Housing Assistance Program_Sectio n 8 Moderate	Subtotal	ELIM	Total
92000 Asset Management Fee	-	-	-	-	-	-	-	-	-	-	-
92100 Tenant Services - Salaries	-	-	-	-	-	-	-	-	-	-	-
92200 Relocation Costs	-	-	-	-	-	-	-	-	-	-	-
92300 Employee Benefit Contributions - Tenant Services	-	-	-	-	-	-	-	-	-	-	-
92400 Tenant Services - Other	-	-	-	-	-	-	-	-	-	-	-
92500 Total Tenant Services	-	-	-	-	-	-	-	-	-	-	-
93100 Water	-	-	-	-	-	-	-	-	-	-	-
93200 Electricity	29,620	-	-	-	-	280,000	-	309,620	-	309,620	
93300 Gas	-	-	-	-	-	-	-	-	-	-	
93400 Fuel	-	-	-	-	-	-	-	-	-	-	
93500 Labor	-	-	-	-	-	-	-	-	-	-	
93600 Sewer	-	-	-	-	-	-	-	-	-	-	
93700 Employee Benefit Contributions - Utilities	-	-	-	-	-	-	-	-	-	-	
93800 Other Utilities Expense	-	-	-	-	-	-	-	-	-	-	
93000 Total Utilities	29,620	-	-	-	-	280,000	-	309,620	-	309,620	
94100 Ordinary Maintenance and Operations - Labor	-	-	-	-	-	-	-	-	-	-	
94200 Ordinary Maintenance and Operations - Materials	-	-	-	-	-	-	-	-	-	-	
94300 Ordinary Maintenance and Operations Contracts	-	-	-	-	-	-	-	-	-	-	
94500 Employee Benefit Contributions - Ordinary	-	-	-	-	-	-	-	-	-	-	
94000 Total Maintenance	-	-	-	-	-	-	-	-	-	-	
95100 Protective Services - Labor	-	-	-	-	-	-	-	-	-	-	
95200 Protective Services - Other Contract Costs	-	-	-	-	-	-	-	-	-	-	
95300 Protective Services - Other	-	-	-	-	-	-	-	-	-	-	
95500 Employee Benefit Contributions - Protective	-	-	-	-	-	-	-	-	-	-	
95000 Total Protective Services	-	-	-	-	-	-	-	-	-	-	
96110 Property Insurance	-	-	-	-	-	-	-	-	-	-	
96120 Liability Insurance	-	-	-	-	-	-	-	-	-	-	
96130 Workmen's Compensation	-	-	-	-	-	-	-	-	-	-	
96140 All Other Insurance	-	-	-	-	-	-	-	-	-	-	
96100 Total Insurance Premiums	-	-	-	-	-	-	-	-	-	-	

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	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.239 HOME Investment Partnerships Program	8 Other Federal Program 1	2 State/Local	1 Business Activities	9 Other Federal Program 2	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Subtotal	ELIM	Total
96200 Other General Expenses	37,682	77,374	284,389	-	7,054,192	11,498,931	3,075,944	171,156	22,199,668	-	22,199,668
96210 Compensated Absences	165,505	-	47,088	-	-	-	-	-	212,593	-	212,593
96300 Payments in Lieu of Taxes	-	-	-	-	-	-	-	-	-	-	-
96400 Bad debt - Tenant Rents	-	-	-	-	-	-	-	-	-	-	-
96500 Bad debt - Mortgages	-	-	-	-	-	-	-	-	-	-	-
96600 Bad debt - Other	-	-	-	-	-	-	-	-	-	-	-
96800 Severance Expense	-	-	-	-	-	-	-	-	-	-	-
96000 Total Other General Expenses	203,187	77,374	331,477	-	7,054,192	11,498,931	3,075,944	171,156	22,412,261	-	22,412,261
96710 Interest of Mortgage (or Bonds) Payable	-	-	-	-	3,536,088	12,340,472	-	-	15,876,560	-	15,876,560
96720 Interest on Notes Payable (Short and Long Term)	-	-	-	1,005,738	-	-	-	-	1,005,738	-	1,005,738
96730 Amortization of Bond Issue Costs	-	-	-	-	-	-	-	-	-	-	-
96700 Total Interest Expense and Amortization Cost	-	-	-	1,005,738	3,536,088	12,340,472	-	-	16,882,298	-	16,882,298
96900 Total Operating Expenses	\$1,568,918	\$77,374	\$875,133	\$1,005,738	\$10,590,280	\$39,360,057	\$3,075,944	\$171,156	56,724,600	-	56,724,600
97000 Excess of Operating Revenue over Operating Expenses	13,833,680	545,688	13,902,245	(1,005,333)	3,633,992	(5,945,114)	129,319,477	1,207,089	155,491,724	-	155,491,724
97100 Extraordinary Maintenance	-	-	-	-	-	-	-	-	-	-	-
97200 Casualty Losses - Non-capitalized	-	-	-	-	-	-	-	-	-	-	-
97300 Housing Assistance Payments	13,839,547	545,688	13,797,955	-	-	-	129,319,477	1,207,089	158,709,756	-	158,709,756
97350 HAP Portability - In	691	-	-	-	-	-	-	-	691	-	691
97400 Depreciation Expense	-	-	732	-	-	427,852	-	-	428,584	-	428,584
97500 Fraud Losses	-	-	-	-	-	-	-	-	-	-	-
97600 Capital Outlays - Governmental Funds	-	-	-	-	-	-	-	-	-	-	-
97700 Debt Principal Payment - Governmental Funds	-	-	-	-	-	-	-	-	-	-	-
97800 Dwelling Units Rent Expense	-	-	-	-	-	-	-	-	-	-	-
90000 Total Expenses	15,409,156	623,062	14,673,820	1,005,738	10,590,280	39,787,909	132,395,421	1,378,245	215,863,631	-	215,863,631

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
PHA Number RQ911
Housing Financial Data Schedule
June 30, 2017

	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.239 HOME Investment Partnerships Program	8 Other Federal Program 1	2 State/Local	1 Business Activities	9 Other Federal Program 2	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Subtotal	ELIM	Total
10010 Operating Transfer In	-	-	-	6,351,172	36,931,456	31,525,122	-	-	74,807,750	-	74,807,750
10020 Operating transfer Out	-	-	-	-	(44,472,272)	(30,335,479)	-	-	(74,807,751)	-	(74,807,751)
10030 Operating Transfers from/to Primary Government	-	-	-	-	-	-	-	-	-	-	-
10040 Operating Transfers from/to Component Unit	-	-	-	-	-	-	-	-	-	-	-
10050 Proceeds from Notes, Loans and Bonds	-	-	-	-	-	-	-	-	-	-	-
10060 Proceeds from Property Sales	-	-	-	-	-	-	-	-	-	-	-
10070 Extraordinary Items, Net Gain/Loss	-	-	-	-	-	-	-	-	-	-	-
10080 Special Items (Net Gain/Loss)	-	-	-	-	-	(4,748,929)	-	-	(4,748,929)	-	(4,748,929)
10091 Inter Project Excess Cash Transfer In	-	-	-	-	-	-	-	-	-	-	-
10092 Inter Project Excess Cash Transfer Out	-	-	-	-	-	-	-	-	-	-	-
10093 Transfers between Program and Project - In	-	-	-	-	-	-	-	-	-	-	-
10094 Transfers between Project and Program - Out	-	-	-	-	-	-	-	-	-	-	-
10100 Total Other financing Sources (Uses)	-	-	-	6,351,172	(7,540,816)	(3,559,286)	-	-	(4,748,930)	-	(4,748,930)
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	\$ (6,558)	\$ -	\$ 103,557	\$ 5,345,839	\$ (3,906,824)	\$ (9,932,251)	\$ -	\$ -	\$ (8,396,237)	\$ -	\$ (8,396,237)
11020 Required Annual Debt Principal Payments	-	-	-	-	-	-	-	-	-	-	-
11030 Beginning Equity	(7,890)	-	1,322	(54,069,781)	1,326,977	324,409,773	-	-	271,660,401	-	271,660,401
11040 Prior Period Adjustments, Equity Transfers and Correction	-	-	-	(2,897)	(18,454,533)	(111,440,303)	-	-	(129,897,733)	-	(129,897,733)
11050 Changes in Compensated Absence Balance	-	-	-	-	-	-	-	-	-	-	-
11060 Changes in Contingent Liability Balance	-	-	-	-	-	-	-	-	-	-	-
11070 Changes in Unrecognized Pension Transition Liability	-	-	-	-	-	-	-	-	-	-	-
11080 Changes in Special Term/Severance Benefits Liability	-	-	-	-	-	-	-	-	-	-	-
11090 Changes in Allowance for Doubtful Accounts - Dwelling	-	-	-	-	-	-	-	-	-	-	-
11100 Changes in Allowance for Doubtful Accounts - Other	-	-	-	-	-	-	-	-	-	-	-
11170 Administrative Fee Equity	192,487	-	-	-	-	-	-	-	192,487	-	192,487
11180 Housing Assistance Payments Equity	(206,935)	-	-	-	-	-	-	-	(206,935)	-	(206,935)
11190 Unit Months Available	27,768	996	-	-	-	-	18,193	2,088	49,045	-	49,045
11210 Number of Unit Months Leased	26,316	960	-	-	-	-	17,780	1,973	47,029	-	47,029
11270 Excess Cash	-	-	-	-	-	-	-	-	-	-	-
11610 Land Purchases	-	-	-	-	-	-	-	-	-	-	-
11620 Building Purchases	-	-	-	-	-	-	-	-	-	-	-
11630 Furniture & Equipment - Dwelling Purchases	-	-	-	-	-	-	-	-	-	-	-
11640 Furniture & Equipment - Administrative Purchases	-	-	-	-	-	-	-	-	-	-	-
11650 Leasehold Improvements Purchases	-	-	-	-	-	-	-	-	-	-	-
11660 Infrastructure Purchases	-	-	-	-	-	-	-	-	-	-	-
13510 CFFP Debt Service Payments	-	-	-	-	-	-	-	-	-	-	-
13901 Replacement Housing Factor Funds	-	-	-	-	-	-	-	-	-	-	-

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
PHA Number RQ911
Notes to Housing Financial Data Schedules
For the Year Ended June 30, 2017

1. Summary of Significant Accounting Policy

The Housing Financial Data Schedule is presented on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

* * * * *

PUERTO RICO HOUSING FINANCE AUTHORITY

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (UNAUDITED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportion of the Net Pension Liability	0.15693%	0.16041%	0.16041%	0.16145%
Proportionate Share of the Net Pension Liability	59,160,168	53,475,928	48,658,344	42,252,542
Covered - Employee Payroll	6,200,000	7,300,000	6,600,000	6,500,000
Proportionate Share of the Net Pension Liability as Percentage of Covered-Employee Payroll	954.20%	732.55%	737.25%	650.04%
Plan Fiduciary Net Position as a Percentage of the Net Pension Liability	-3.36%	-2.00%	0.27%	2.53%

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	2016	2015	2014	2013
Contractually Required Contribution (Actuarially Determined)	1,049,170	1,021,203	983,298	936,705
Contributions in Relation to the Actuarially Required Contribution	1,349,666	1,311,003	1,223,698	936,705
Contribution Deficiency (Excess)	(300,496)	(289,800)	(240,400)	-
Covered - Employee Payroll	6,200,000	7,300,000	6,600,000	6,500,000
Contributions as a Percentage of Covered-Employee Payroll	21.77%	17.96%	18.54%	14.41%

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
PHA Number RQ911
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Pass-Through to Sub-recipients</u>	<u>Total Federal Expenditures</u>
US Department of Housing and Urban Development (HUD):				
HOME Investment Partnership Program	14.239			\$ 14,673,089
Section 8 Housing Vouchers	14.871			15,392,242
Section 8 Project Based Cluster:				
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249			598,747
Lower income Housing Assistance Program - Section 8				
Moderate rehabilitation	14.856			<u>1,402,563</u>
Total Department of Housing and Urban Development (HUD)				<u><u>\$ 32,066,641</u></u>

See notes to schedule of expenditures of federal awards

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
PHA Number RQ911
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of *Puerto Rico Housing Finance Authority* (the Authority), and is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Authority's government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, which conform to accounting principles generally accepted in the United States of America. The accounts of the Authority are presented on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred inflows, liabilities, and deferred outflows, fund balance/net position, revenues and expenditures/expenses. Government resources are allocated to and accounted for by individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as balances of expendable resources available at the end of the fiscal year.

The Authority has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

A reconciliation of total expenditures related to federal programs included in the statement of revenues, expenditures, and changes in fund balances - governmental funds to total expenditures included in the schedule of expenditures of federal awards is as follows:

Major Funds:	
HUD Programs	\$ 149,788,975
HOME Programs	14,673,089
Less:	
Performance Based Contract Administrator Program (CFDA 14.327)	
excluded from coverage under Uniform Guidance	132,395,423
Total expenditures in schedule of expenditures of federal awards	<u>\$ 32,066,641</u>

2. Catalog of Federal Domestic Assistance (CFDA)

Catalog of Federal Domestic Assistance (CFDA) numbers are presented for programs which such numbers are available.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
PHA Number RQ911
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

3. Clusters

Cluster of programs means federal programs with different CFDA numbers that are defined as a cluster of programs because they are closely related programs that have similar compliance requirements. The Schedule includes the following cluster:

<u>Cluster</u>	<u>Federal Program</u>	<u>Federal CFDA Number</u>
	Section 8 New Construction and Substantial Rehabilitation	14.182
Section 8 Project-Based Cluster	Section 8 Housing Assistance Programs	14.195
	Section 8 Moderate Rehabilitation Single Room Occupancy	14.249
	Lower income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Puerto Rico Housing Finance Authority

We have audited, in accordance with the 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, the financial statements of the Puerto Rico Housing Finance Authority ("the Authority"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 16, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2017-001 that we consider to be material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2017-002 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



San Juan, PR
January 16, 2020

License No. 90
Expiration Date: December 1, 2022

Stamp No. E402903 of Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB UNIFORM GUIDANCE

To the Board of Directors of
Puerto Rico Housing Finance Authority

Report on Compliance for Each Major Federal Program

We have audited the Puerto Rico Housing Finance Authority (“the Authority”), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority’s major federal programs for the year ended June 30, 2017. The Authority’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors’ Responsibility

Our responsibility is to express an opinion on compliance each of the Authority’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administration Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority’s compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-003. Our opinion on each major federal program is not modified with respect to this matter.

The Authority's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



San Juan, PR
January 16, 2020

License No. 90
Expiration Date: December 1, 2022

Stamp No. E402904 of Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank)
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Part I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Significant deficiencies identified? X yes no
- Material weakness identified? X yes no

Noncompliance that is material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? yes X no
- Material weakness identified? yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? X yes no

Major Programs:

CFDA Number

Name of Federal Program

14.239

HOME Investment Partnership Program

Dollar threshold used to distinguish between Type A and Type B programs: \$961,999

Auditee qualify as low-risk auditee? yes X no

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank)
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section II-Financial Statement

Finding No. 2017-001 Custodial Credit Loss on Deposits with EDB

Criteria

Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in financial reporting.

Condition and Context

The Authority's June 30, 2016 financial statements did not present any custodial credit loss on its deposits with EDB.

Cause and effect

Management became aware after the issuance of the 2016 financial statements of certain information that existed at that date, and had they been known at that time; the assessment would have been different. A restatement of the 2016 financial statements was required to recognize a custodial credit loss in the Authority's deposits with the Economic Development Bank (EDB) of approximately \$477.7 thousands at the Authority's governmental activities and governmental funds and approximately \$64.8 million at the Authority's business-type activities and propriety fund. Given the deteriorating liquidity and financial condition of EDB, that was not particularly known by the Authority at the time as to its extent and gravity, EDB should have executed more extensive and thorough subsequent event discussions with management as to the prospects of realizing the Authority's deposits in order to address timely the accounting implications of such evaluation.

Recommendation

Management should establish procedures prior to issuing financial statements or other related financial information, requiring more active and thorough communications with agencies critical to the Authority, in order to discuss and evaluate about any recently arising or developing issues that may have accounting implications on the Authority; and document such discussions.

Views of responsible officials: The Authority appointed acting personnel at Management level to attend current and future communication with Financial Institutions and Federal/Local Agencies to improve the flow of financial information.

Responsible Person: Héctor L. Orsini Vélez

Implementation Date: August 8, 2018

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank)
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Finding No. 2017-002 – Internal Control Over Financial Reporting

Criteria

A fundamental element of a sound system of internal controls is an effective financial closing process which ensures that account balances are properly recorded. Such a process is essential in enabling the Authority to prepare timely and accurate financial statements.

Condition and Context

During our audit procedures, we noted the following:

- The Authority maintained balances in the capitalized income account for projects that are no longer part of the loans receivable balance.
- The adjusting journal entry to recognize a decrease in the Allowance for Other Real Estate Owned (OREO) under the mortgage insurance program was not properly designed. Further, the detailed listing of population used to determine the reserve amount required was not aligned with the detailed listing supporting the account balance in the general ledger.
- The Authority did not maintain proper documentation or supporting evidence over the determination to fully reserve the portfolio of OREO properties held in the single-family fund.
- Differences in the principal balance outstanding and accrued interest expenses on notes payable to the Governmental Development Bank for Puerto Rico (GDB).
- Revenue transactions duplicated on three (3) projects.
- Untimely recognized adjustments to certain material transactions, such as: allowance for loan losses, allowances for OREO portfolios, allowance for accrued interest receivable, salaries allocation, administrative revenue under HOME program, collections from loans sold, reserve for the mortgage loan insurance portfolio, and deferred income and premium revenue; among several other correcting adjusting entries identified.

Cause and effect

The Authority does not have proper internal controls to ensure a timely and complete financial closing process. As a result, the Authority's accounting records required multiple correcting adjustments in order to present fairly its financial statements. A similar audit finding was reported during the prior audit (2016-01).

Recommendation

The Authority should implement internal controls to routinely and timely review and validate the completeness and accuracy over its year end closing procedures.

Views of responsible officials: The Authority has already a formal set of manuals with procedures of Accounting and Risk Departments, which includes financial closing process. The Procedures will be reviewed and will establish more robust and stricter timeframes to complete the closing process.

Responsible Person: Héctor L. Orsini Vélez / Amanda Oyola

Implementation Date: July 29, 2019

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank)
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section III- Federal Award Findings and Questioned Costs

Finding No. 2017-003 Data Collection Form Due Dates

Name of Federal Agency

U.S. Department of Housing and Urban Development

Federal Program

Various

Award Number and Year

Various awards

Questioned costs:

None

Criteria

Uniform Guidance, Part 200.512 (a) established that the audit must be completed and the data collection form and reporting package must be submitted within the earlier of 30 days after receipt of the auditor's reports, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

Condition

Data Collection Form and Single Audit reporting package were not submitted within nine months after the end of the audit period.

Cause and Effect

Information to complete the financial statements audit procedures was not available within the required period. Data collection form and single audit report were not submitted in a timely manner as required by the Uniform Guidance.

Recommendation

Data collection from and single audit package shall be submitted within the required due dates.

Views of Responsible Officials: The delay to submit the data collection form was an extraordinary event, due to the delay of the audited financial statements. We foresee to achieve the submission of the data collection to the Department of Housing and Urban Development within the first three days, after the completion of the Audited Financial Statements.

Responsible Person: Hector L. Orsini Vélez / Amanda Oyola

Implementation Date: July 31, 2019

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank)
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2017

Finding No. 2016-001 Internal Control over Financial Reporting

Condition

We noted that the Authority did not maintain an effective internal control over the recording of deferred income and accounts receivable. We noted that the account balances of the deferred income HUD and accounts receivables were overstated by approximately \$842 thousand and \$830 thousand respectively.

Recommendation

The Authority should establish a periodic review control over the recording of the deferred income and account receivable accounts as part of the financial statements closing process to ensure that they are properly recorded in the accounting records.

Current status

A similar finding (2017-002) was noted in the 2017 audit.



GOVERNMENT OF PUERTO RICO
Puerto Rico Housing Finance Authority

CORRECTIVE ACTION PLAN

The Puerto Rico Housing Finance Authority (“the Authority”) submits the following corrective action plan for the year ended June 30, 2017.

The findings from the June 30, 2017 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Finding	Recommendation	Corrective Action	Status	Contact Person
2017-001 Custodial Credit Loss on Deposits with Economic Development Bank	Management should establish procedures prior to issuing financial statements or other related financial information, requiring more active and thorough communications with agencies critical to the Authority, in order to discuss and evaluate about any recently arising or developing issues that may have accounting implications on the Authority; and document such discussions.	The Authority appointed acting personnel at Management level to attend current and future communication with Financial Institutions and Federal/Local Agencies to improve the flow of financial information.	Corrective action already taken.	Héctor L. Orsini Vélez, <i>Accounting Director</i>
2017-002 Internal Control Over Financial Reporting	The Authority should implement internal controls to routinely and timely review and validate the completeness and accuracy over its year end closing procedures.	The Authority has already a formal set of manuals with procedures of Accounting and Risk Departments, which includes financial closing process. The Procedures will be reviewed and will establish more robust and stricter timeframes to complete the closing process.	July 2019	Héctor L. Orsini Vélez, <i>Accounting Director</i> / Amanda Oyola, <i>Accounting Supervisor</i>
2017-003 Data Collection Form Due Dates	Data collection from and single audit package shall be submitted within the required due dates.	The delay to submit the data collection form was an extraordinary event, due to the delay of the Audited Financial Statements. We foresee to achieve the submission of the data collection to the Department of Housing and Urban Development within the first three days, after the completion of the Audited Financial Statements.	In process	Hector L. Orsini Vélez, <i>Accounting Director</i> / Amanda Oyola, <i>Accounting Supervisor</i>