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, 2015 and Independent Auditors' Report

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HLB PARISSI
Certified Public Accountants, Tax & Business Advisors

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) as of and for the year ended June 30, 2015, 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.

Basis for Qualified Opinion on Business-type Activities, Proprietary Fund and Note Disclosure Regarding Pensions

As discussed in Note 13 to the basic financial statements, the Authority has not implemented the requirements of Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 (Statement 68).* Accordingly, the Authority has not been able to determine and account for its proportionate share of net pension liability, deferred inflow of resources and deferred outflow of resources related to pension costs and, the Authority has not recognized the effect of current period changes in net pension obligation, deferred outflow of resources and deferred inflow of resources as these relate to pension costs for the year ended June 30, 2015.

Accounting principles generally accepted in the United States of America require that net pension liability, deferred outflow of resources, deferred inflow of resources, as applicable, be recognized in accordance with the parameters established by Statement No. 68, as well as the effect of current period changes of the aforementioned amounts that must be recognized in pension expense during the current period. Recognition of these amounts would increase liabilities, increase deferred outflow of resources, increase deferred inflow of resources, increase the deficit, and change the pension expenses of the governmental activities. The amounts by which this departure would affect liabilities, deferred outflow of resources, deferred inflow of resources, deficit, and expenses of the governmental activities has not been determined.

The accompanying notes to the basic financial statements do not disclose the pension cost information required by Statement No. 68. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the possible effects of the matter described above in the Basis for Qualified Opinion on Business-type Activities, Proprietary Fund and Note Disclosure Regarding Pensions paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Business-type activities, and Proprietary Fund of the ***Puerto Rico Housing Finance Authority*** as of June 30, 2015 and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 and each major governmental fund of the ***Puerto Rico Housing Finance Authority*** as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Financial Deterioration of Commonwealth of Puerto Rico (Commonwealth) and of the Government Development Bank of Puerto Rico (GDB)

As discussed in note 11 to the financial statements, the Authority has significant balances and transactions with the Commonwealth and GDB. Additionally, GDB has provided significant financial support to the

Authority in terms of notes payable and lines of credit. As of June 30, 2015, GDB has significant balances of loans receivable from the Commonwealth, its agencies and instrumentalities. These loans are expected to be collected from appropriations from, proceeds from bond issuances of, or revenues generated by the Commonwealth and/or its agencies and instrumentalities. Accordingly, the collectability of these loans may be affected by budgetary constraints, the fiscal situation, the credit rating of the Commonwealth, its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges and/or bond issuances. Continuance of and/or significant negative changes in these factors may have an adverse impact on GDB's financial condition, liquidity, funding sources, and results of operations, which could also result in an adverse impact on the Authority's financial condition, liquidity, funding sources, and results of operations.

The Authority has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth and GDB on its basic financial statements and operations, and has concluded that, as of June 30, 2015, the Authority will continue to operate as a going concern for a period not less than twelve months after such date.

Other Matters

Required Supplementary Information Omitted

The Authority has omitted the *Schedule of the Authority's Proportionate Share of the Net Pension Liability*, and the *Schedule of Authority's Contributions to the Employees' Pension Plan*, information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 4 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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.

HLB Parissi PSC

San Juan, Puerto Rico
March 18, 2016

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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, 2015. 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 $8.7 million, from a beginning of the year amount of $422.6 million to $413.9 million as of June 30, 2015.

- Operating income of the Operating and Administrative fund was $4.5 million for the year ended June 30, 2015 compared to $2.6 million in June 30, 2014. There were net interfund transfers in the amount of $269 thousand during the year ended June 30, 2015. Total operating revenues of the proprietary fund decreased to $41.1 million from $45.5 million in 2014. Total operating expenses of the proprietary fund decreased to $36.6 million in 2015 from $42.9 million in 2014.

- During fiscal year 2015, $142.3 million and $16.5 million were granted in subsidies through the Housing Urban Development Program (HUD) and the HOME Program, respectively.

- $11 million were granted in subsidies through the Affordable Housing Mortgage Subsidy Programs.

- On July 31, 2014, the Governor of the Commonwealth of Puerto Rico signed the Home Investment Partnerships Program (HOME) Voluntary Repayment Settlement Agreement (the Agreement) with HUD. The Agreement establishes the reimbursement to the HOME program of $14.2 million, from nonfederal funds, for disallowed expenditures in connection with HUD-funded projects, as defined and described in the Agreement, in two installments of $10 million and $4.2 million due on October 1, 2014 and October 1, 2015, respectively. The payments were made on such dates in accordance with the Agreement.

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 provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. Fund 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 and liabilities 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 — 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, as well as the financial health of the Government Development Bank for Puerto Rico (GDB), which is the Authority's primary government.

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.

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 fund financial statements differs from the information presented in the government-wide statements because the perspective and basis of accounting used to prepare the 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 (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 the 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.

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, 2015 and 2014 (in thousands):

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Assets:						
Cash	$ 15,180	$ 5,444	$ 18,558	$ 14,248	$ 33,738	$ 19,692
Investments and deposits placed with banks	82,597	96,646	405,035	463,043	487,632	559,689
Loans receivable, net	—	—	320,325	307,012	320,325	307,012
Capital assets	1	2	1,160	1,682	1,161	1,684
Other assets	(11,503)	5,737	40,419	24,551	28,916	30,288
Total assets	86,275	107,829	785,497	810,536	871,772	918,365
Deferred outflows of resources	—	—	2,568	2,872	2,568	2,872
Liabilities:						
Due in within one year	31,704	29,069	34,383	55,352	66,087	84,421
Due in more than one year	196,840	208,429	194,329	202,783	391,169	411,212
Total liabilities	228,544	237,498	228,712	258,135	457,256	495,633
Deferred inflows of resources	—	—	3,181	2,991	3,181	2,991
Net position:						
Net investment in capital assets	1	2	1,160	1,682	1,161	1,684
Restricted	—	324	141,922	149,298	141,922	149,622
Unrestricted deficit	(142,270)	(129,995)	413,091	401,302	270,821	271,307
Total net position	$ (142,269)	$ (129,669)	$ 556,173	$ 552,282	$ 413,904	$ 422,613

Governmental activities net position

The increase in $13 million in the deficit of the governmental activities is the result of the continued use of Authority's resources to provide subsidies to citizens and for repayment of debt of programs no longer offering subsidies. Increase in the deficit is mainly related to the following programs:

- My Own Home Program - $5.4 million in subsidies to citizens for the year ended June 30, 2015. In June 30, 2014, $9.1 million were received from the Commonwealth for the establishment of the program and a further commitment of approximately $5 million expected in fiscal year 2015 was not received. Of such $5 million, $3 million have been received in fiscal year 2016.

- Stage VII – Debt service payment of $6.3 million. This line of credit has no Commonwealth appropriation assigned.

- My New Home – Debt service payment of $7.2 million. My New Home has a Commonwealth appropriation assigned to the line of credit, but such appropriation has not been received due to the Commonwealth's budgetary and liquidity constraints.

Business-type activities net position

The increase in net position of $3.9 million was mainly caused by a reduction in transfers to governmental activities from $7.9 million to $269 thousand because in 2014 there was a nonrecurring transfer of $6.1 million to establish the My Own Home Program. Also, there were other nonrecurring transfers to other subsidy programs for $1.8 million.

An analysis of the statement of net position of the Authority reveals a decrease in investments and deposits placed with banks amounting to $58 million in its business-type activities. This decrease is mainly related to scheduled payments of long-term debt, which amounted to $38 million during the fiscal year 2015 and the increase in cash and loans receivable amounting to $4.3 million and $13 million, respectively.

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, 2015 and 2014 is shown in the table on the following page (in thousands):

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	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	$ —	$ —	$ 14,746	$ 18,812	$ 14,746	$ 18,812
Financing and investment	4,212	4,105	26,318	26,660	30,530	30,765
Operating grants and contributions	167,801	163,522	—	—	167,801	163,522
Total revenues	172,013	167,627	41,064	45,472	213,077	213,099
Program expenses:						
General government and other	5,819	5,525	—	—	5,819	5,525
Housing assistance programs	179,063	172,436	—	—	179,063	172,436
Operating and administrative	—	—	36,904	42,868	36,904	42,868
Total program expenses	184,882	177,961	36,904	42,868	221,786	220,829
Change in net position before transfers	(12,869)	(10,334)	4,160	2,604	(8,709)	(7,730)
Transfers	269	7,921	(269)	(7,921)	—	—
Change in net position	(12,600)	(2,413)	3,891	(5,317)	(8,709)	(7,730)
Net position, beginning of year	(129,669)	(127,221)	552,282	534,075	422,613	406,854
Cumulative effect of change in accounting principle	—	(35)	—	23,524	—	23,489
Net position, beginning of year, as restated	(129,669)	(127,256)	552,282	557,599	422,613	430,343
Net position, end of year	$ (142,269)	$ (129,669)	$ 556,173	$ 552,282	$ 413,904	$ 422,613

Governmental activities analysis

The increase of $4.3 in operating grants and contributions is directly related to the increase in the grants of the HUD Programs from $142.5 million in June 30, 2014 to $147.2 in June 30, 2015. Increase in HUD Program grants is the result of additional vouchers available and awarded when compared to the previous year.

Business-type activities analysis

Charges for services went from $18.8 million in 2014 to $14.7 million in 2015, $4.1 million or 22% due to a decrease in the release of the allowance for losses on Other Real Estate Owned (OREO) during the year ended June 30, 2014, from $4.3 million in 2014 to $252 thousand in 2015. The reason for a lower release of the allowance for losses in other real estate owned is due to the fact that in fiscal year 2014, the Authority ordered independent appraisals for OREO of approximately $3 million that have not been appraised in at least eighteen months. The Authority's policy is to establish a valuation allowance of 100% for properties that have been in possession for less than five years and that have not been appraised during the previous eighteen months. In addition, an allowance of 100% is also established for properties that have been in possession for over five years. As a result of the appraisals, the Authority released approximately $2.3 million from the OREO allowance.

Governmental Fund Results

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

HUD Programs – This fund accounts for the U.S. Housing Act Section 8 programs administered by the Authority under the authorization of the U.S. Department of Housing and Urban Development (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 decrease in cash of approximately $600 thousand, from $1.3 million at June 30, 2014 to $708 thousand at June 30, 2015, or 18%, is directly related to the increase in amounts due from federal government, which increased from $1 million at June 30, 2014 to $1.7 million at June 30, 2015. This change is basically the result of the timing of the requests of reimbursement from federal grants at each corresponding fiscal year. The expenditures of the HUD Programs increased $4 million from approximately $143 million in 2014 to approximately $147 million in 2015 because additional vouchers assistance were 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. At June 30, 2014, the Authority had $1.2 million deposited in its local HOME account that was unable to access since the IDIS system was locked and accordingly, the Authority was unable to draw down funds from such account. At June 30, 2015, the Authority had access to IDIS and was able to normally draw and used to pay for its normal expenditures and accounts payable, thus accounting for the decrease in cash in the Program, and in line with a similar decrease in accounts payable and accrued liabilities of approximately $2 million.

Revenues remained similar in total, but direct federal assistance decreased from $16.6 million to $6 million, for the years ended June 30, 2014 and 2015, respectively, in direct relation to the effects of the reimbursement required under the Voluntary Repayment Agreement (VRA). During the year ended June 30, 2015, the Authority paid from nonfederal monies approximately $10 million under the VRA to reimburse the federal government for certain disallowed costs under federal grants in previous years. The VRA called for the reimbursement to the Federal government, but was agreed to instead of sending the funds directly to the US Treasury, that these be transferred from nonfederal programs to the HOME program. Therefore, this resulted in the increase of the other revenues in a similar amount of $10 million. Also, as a result of having these monies available, the program was able to process and approve additional housing assistance benefits to participants. For the year ended June 30, 2015, expenditures for housing assistance were $16.5 million, while for the year ended June 30, 2014, these were $9.7 million.

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. Cash at June 30, 2015 and 2014 amounted to $14.3 million and $2.9 million, respectively. The increase of approximately $11.4 million is directly related to the redemption of approximately $11 million Treasury Bills during the year ended June 30, 2015. This situation also accounts for the reduction of investments from $88.7 million at June 30, 2014, to $76.6 million at June 30, 2015. Excess cash was reinvested subsequent to June 30, 2015.

The increase of amounts due to other funds from $3.3 million at June 30, 2014, to $19.8 million at June 30, 2015, was caused by the transfer of $2.7 million to the New Secure Housing Program for the repayment of a line of credit, and $9.3 million to the Affordable Housing Mortgage Subsidy Program for the repayment of the investment repurchase agreement; of $6 million to My New Home Program for repayment of line of credit and $2 million for the My Own Home Program to provide subsidies for participants.

Commonwealth appropriations during the year ended June 30, 2015 were $2 million, a significant reduction from the $9.3 million that were received during the year ended June 30, 2014. Decrease is mainly due to a one time transfer of $9.1 million received from the Commonwealth in the fiscal year ended June 30, 2014 for the establishment of the My Own Home Program.

Housing assistance payments decreased from $21.3 million for the year ended June 30, 2014 to $11.0 million for the year ended June 30, 2015. The reduction was caused mainly by the decrease in the expenditures of the My Own Home Program from $15.3 million during the year ended June 30, 2014, to $5.5 million during the year ended June 30, 2015.

The increase in debt service principal payment from $1.8 million to $8.1 million during the years ended June 30, 2014 and 2015, respectively, respond to basically the amounts that matured and were due during each fiscal year. For the year ended June 30, 2015, the amounts due were $1.9 million for the New Secure Housing Program, $900 thousand for My New Home Program and $5.3 million for Stage VII. The only principal payment due in year ended June 30, 2014 was $1.9 million for the New Secure Housing Program.

Proprietary Fund Results

Total net position of the Authority's proprietary fund increased $3.9 million during the year ended June 30, 2015. Following is an analysis of the financial position and results of operations of the major proprietary fund.

The decrease in bonds, notes and mortgage-backed certificates payable from $240.9 million at June 30, 2014 to $213.9 million at June 30, 2015, $27 million, or 13%, is the net result of the principal payment of $36.5 million that were during the year, net of the accretion of bond discount for $10.2 million.

Operating and Administrative – The net position of the Operating and Administrative fund increased from approximately $552.3 million at June 30, 2014 to approximately $556.2 million at June 30, 2015, or approximately $3.9 million.

Capital Assets

The Authority's investment in capital assets for its business type activities as of June 30, 2015 and 2014, amounted to approximately $1.2 million and $1.7 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, 2015 and 2014, total debt outstanding amounted to approximately $419.9 million and $444.5 million, respectively. Debt issuances, including interest on lines of credit, during 2015 and 2014 totaled $10.0 million and $49.4 million, respectively. The only debt issue in 2015 was an increase in the line of credit of My New Home Program amounting to $10.0 million. Debt repaid, during 2015 and 2014, amounted to approximately $10.3 million and $71.6 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 10 to the basic financial statements for additional information on borrowed funds.

Currently Known Facts

The Authority is a component unit of the Government Development Bank for Puerto Rico (GDB), which in turn, is a component unit of the Commonwealth of Puerto Rico (the Commonwealth). The liquidity resources and the financial stability of GDB has steadily deteriorated since April 11, 2014, the date on which GDB's audited financial statements as of June 30, 2013 were issued, and has continued to deteriorate during fiscal years 2015 and the ongoing 2016. This deterioration in GDB's liquidity resources and financial condition arises mostly as a result of the same causes that have affected the Commonwealth, including the lack of market access and the inability of the Commonwealth and its instrumentalities to repay their loans to GDB on a timely basis. Moreover, the liquidity resources continue to decline as GDB has continued to fund, in a limited manner, certain financial needs of the Commonwealth and its instrumentalities while paying its debt service obligations under these circumstances.

On February 1, 2016 and March 3, 2016, the Authority sold certain single and multi-family mortgage loans to a financial institution and a private investor. The mortgage portfolios unpaid balance at the time of sale was approximately $109.1 million, and the net proceeds amounted to approximately, $89.3 million. The mortgage portfolios were sold to partially repay My New Home Program line of credit in order to provide liquidity to GDB.

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 Government Development Bank for Puerto Rico)

Statement of Net Position

June 30, 2015

		Governmental Activities		Business-type Activities		Total
Assets						
Cash	$	15,179,950	$	18,558,439	$	33,738,389
Deposits placed with banks		5,993,289		200,746,021		206,739,310
Investments and investments contracts		76,604,049		204,288,703		280,892,752
Loans receivable - net		—		320,325,483		320,325,483
Interest and other receivables		250,946		3,929,815		4,180,761
Due from federal government - net		10,361,981		—		10,361,981
Other assets		—		83,972		83,972
Internal balances		(22,116,659)		22,116,659		—
Real estate available for sale		—		14,288,235		14,288,235
Capital assets - net		1,486		1,160,310		1,161,796
Total assets		86,275,042		785,497,637		871,772,679
Deferred outflows of resources						
Deferred loss on refundings		—		2,568,382		2,568,382
Liabilities						
Accounts payable and accrued liabilities		22,438,358		14,726,324		37,164,682
Accrued interest payable		70,753		73,760		144,513
Notes payable to GDB:						
Due in one year		9,092,015		—		9,092,015
Due in more than one year		193,509,029		—		193,509,029
Notes, bonds and mortgage-backed certificates payable:						
Due within one year		103,049		19,583,392		19,686,441
Due in more than one year		3,330,931		194,328,878		197,659,809
Total liabilities		228,544,135		228,712,354		457,256,489
Deferred inflows of resources						
Unearned revenue		—		3,180,710		3,180,710
Net position (deficit):						
Net investment in capital assets		1,486		1,160,310		1,161,796
Restricted for:						
Affordable housing programs		—		31,535,220		31,535,220
Mortgage loan insurance		—		77,384,895		77,384,895
Debt service		—		29,828,892		29,828,892
Other housing programs		—		3,171,842		3,171,842
Unrestricted		(142,270,579)		413,091,796		270,821,217
Total net position (deficit)	$	(142,269,093)	$	556,172,955	$	413,903,862

See notes to basic financial statements.

Puerto Rico Housing Finance Authority

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

Statement of Activities

For the Year Ended June 30, 2015

		Program Revenues			Net (expenses) revenues and changes in net position		
	Expenses	Charges for Services - fees, commissions, and others	Charges for Services - fees, commissions, and others	Operating grants and contributions	Governmental activities	Business-type activities	Total
Functions/programs:							
Governmental activities:							
General government and other	$ 5,818,988	$ —	$ —	$ —	$ (5,818,988)	$ —	$ (5,818,988)
Housing assistance program	179,062,659	—	4,211,771	167,801,065	(7,049,823)	—	(7,049,823)
Total governmental activities	184,881,647	—	4,211,771	167,801,065	(12,868,811)	—	(12,868,811)
Business-type activities:							
Operating and adminsitrative	36,904,459	14,745,921	26,318,726	—	—	4,160,188	4,160,188
Total business-type activities	36,904,459	14,745,921	26,318,726	—	—	4,160,188	4,160,188
Total functions/programs	$ 221,786,106	$ 14,745,921	$ 30,530,497	$ 167,801,065	(12,868,811)	4,160,188	(8,708,623)
Transfers					269,170	(269,170)	—
Change in net position					(12,599,641)	3,891,018	(8,708,623)
Net position (deficit) - beginning of year					(129,669,452)	552,281,937	422,612,485
Net position (deficit) - end of year					$ (142,269,093)	$ 556,172,955	$ 413,903,862

See notes to basic financial statements.

Puerto Rico Housing Finance Authority

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

Balance Sheet – Governmental Funds

June 30, 2015

	HUD Programs	HOME Programs	Affordable Housing Subsidy Programs	Total
Assets				
Cash	$ 707,943	$ 181,769	$ 14,290,238	$ 15,179,950
Deposits placed with banks	—	—	5,993,289	5,993,289
Investments and investments contracts	—	—	76,604,049	76,604,049
Interest and other receivables	2,380	—	248,566	250,946
Due from federal government - net	1,704,344	8,657,637	—	10,361,981
Total assets	$ 2,414,667	$ 8,839,406	$ 97,136,142	$ 108,390,215
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	$ 1,400,965	$ 7,524,426	$ 8,386,732	$ 17,312,123
Due to GDB	—	—	2,015	2,015
Due to other funds	1,013,702	1,314,980	19,787,977	22,116,659
Total liabilities	2,414,667	8,839,406	28,176,724	39,430,797
Fund balances:				
Restricted for affordable housing programs	—	—	68,959,418	68,959,418
Total fund balances	—	—	68,959,418	68,959,418
Total liabilities and fund balances	$ 2,414,667	$ 8,839,406	$ 97,136,142	$ 108,390,215

See notes to basic financial statements.

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

Total fund balances	$	68,959,418
Capital assets used in governmental activities are not financial resources and, therefore, are not report in the funds		1,486
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not report in the funds:		
Note payable		(3,433,980)
Notes payable to Government Development Bank for Puerto Rico		(202,599,029)
Claims and assessments not due and payable in the current period		(5,126,235)
Accrued interest payable is not due and payable in the current period		(70,753)
Net position of governmental activities	$	(142,269,093)

See notes to basic financial statements.

Puerto Rico Housing Finance Authority

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

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

For the Year Ended June 30, 2015

	HUD Programs	HOME Programs	Affordable Housing Subsidy Programs	Total
Revenues:				
Intergovernmental-federal government	$ 147,191,940	$ 6,074,276	$ —	$ 153,266,216
Other income	16,840	11,016,121	1,453,160	12,486,121
Interest income on investment and investment contracts	—	—	4,142,086	4,142,086
Commonwealth appropriation for repayment of bonds or housing assistance programs	—	—	2,005,996	2,005,996
Net decrease in fair value of investments	—	—	69,685	69,685
Interest income on deposits placed with banks	—	—	42,732	42,732
Total revenues	147,208,780	17,090,397	7,713,659	172,012,836
Expenditures:				
Current:				
Housing assistance programs	142,338,702	16,532,919	10,987,064	169,858,685
Repayment of disallowed costs	-	-	10,312,202	10,312,202
General government and other	4,870,078	881,160	67,107	5,818,345
Debt service:				
Principal	—	—	8,097,057	8,097,057
Interest	—	—	8,688,675	8,688,675
Total expenditures	147,208,780	17,414,079	38,152,105	202,774,964
Deficiency of revenues under expenditures	—	(323,682)	(30,438,446)	(30,762,128)
Other financing sources (uses):				
Proceeds from issuance of long-term debt	—	—	10,000,000	10,000,000
Transfers in	—	—	274,298	274,298
Transfers out	—	—	(5,128)	(5,128)
Total other financing sources (uses)	—	—	10,269,170	10,269,170
Net change in fund balances	—	(323,682)	(20,169,276)	(20,492,958)
Fund balance - beginning of year	—	323,682	89,128,694	89,452,376
Fund balance - end of year	$ —	$ —	$ 68,959,418	$ 68,959,418

See notes to basic financial statements.

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

Net changes in fund balance - total governmental funds	$	(20,492,958)
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 assets. This amount is the net effect of these differences in the treatment of long-term debt and related items as		
Procceds from issuances		(10,000,000)
Principal payments		8,097,057
Accrued interest payable		(515,299)
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 amount is the depreciation for the year.		(643)
Decrease in claims and assessments not due and payable in the current period		10,312,202
Change in net position of governmental activities	$	(12,599,641)

See notes to basic financial statements.

Puerto Rico Housing Finance Authority

(A Component Unit of Government Development Bank for Puerto Rico)
Balance Sheet – Proprietary Fund – Operating and Administrative Fund
June 30, 2015

Assets

Current assets:	
Cash	$ 8,531,527
Deposits placed with banks	109,275,564
Loans receivable - net	15,286,861
Interest receivable	1,975,074
Other receivable	859,729
Prepaids and other assets	83,972
Due from other funds	22,116,659
Restricted:	
Cash	10,026,912
Deposits placed with banks	79,581,547
Investments and investments contracts	17,346,035
Loans receivable - net	1,096,149
Interest receivables	1,092,561
Other receivables	2,451
Total current assets	267,275,041
Noncurrent assets:	
Investments and investments contracts	17,628,800
Loans receivable - net	65,769,694
Real estate available for sale	5,304,527
Capital assets	1,160,310
Restricted:	
Deposits placed with banks	11,888,910
Investments and investments contracts	169,313,868
Loans receivable - net	238,172,779
Real estate available for sale	8,983,708
Total noncurrent assets	518,222,596
Total assets	785,497,637
Deferred outflow of resources	
Deferred loss on refundings	2,568,382
Total assets and deferred outflow of resources	$ 788,066,019

(continues)

Puerto Rico Housing Finance Authority

(A Component Unit of Government Development Bank for Puerto Rico)
Balance Sheet – Proprietary Fund – Operating and Administrative Fund
June 30, 2015

Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	$ 9,931,645
Current liabilities payable from restricted assets:	
Accrued interest payable	73,760
Accounts payable and accrued liabilities	203,634
Allowance for losses on mortgage loan insurance	4,591,045
Bonds, notes and mortgage-backed certificates payable	19,583,392
Total current liabilities payable from restricted assets	24,451,831
Noncurrent liabilities payable from restricted assets:	
Bonds, notes and mortgage-backed certificates payable	194,328,878
Total liabilities	228,712,354
Deferred inflows of resources	
Unearned revenue	3,180,710
Total liabilities and deferred inflows of resources	231,893,064
Net position	
Net investment in capital assets	1,160,310
Restricted for:	
Mortgage loan insurance	77,384,895
Affordable housing programs	31,535,220
Debt service	29,828,892
Other housing programs	3,171,842
Unrestricted	413,091,796
Total net position	556,172,955
Total liabilities, deferred inflows of resources and net position	$ 788,066,019

See notes to basic financial statements.

Puerto Rico Housing Finance Authority

(A Component Unit of 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, 2015

Operating revenues:	
Investment income:	
Interest income on investment and investment contracts	$ 7,439,848
Interest income on deposits placed with banks	1,956,722
Net increase in fair value of investments	590,516
Total investment income	9,987,086
Interest income on loans	16,331,640
Total investment income and interest income on loans	26,318,726
Noninterest income:	
Commitment, guarantee, service and administrative fees	7,107,205
Other income	2,064,970
Mortgage loans insurance premiums	4,847,748
Release of allowance on mortgage loan insurance	459,683
Release of allowance for losses on other real estate owned	252,409
Net gain on sale of loans	13,906
Total noninterest income	14,745,921
Total operating revenues	41,064,647
Operating expenses:	
Interest expense - bonds, notes and mortgage-backed certificates	15,033,195
Provision for loan losses	1,261,546
Other noninterest expenses:	
Salaries and fringe benefits	10,013,631
Legal and professional fees	2,547,201
Occupancy and equipment costs	2,370,032
Office and administration	2,132,828
Other real estate owned maintenance and related expenses	1,277,745
Net loss from sale of foreclosed real estate available for sale	947,395
Depreciation and amortization	809,001
Subsidy and trustee fees	175,211
Total operating expenses	36,567,785
Operating income	4,496,862
Total non-operating revenues (expenses):	
Payment to Commonwealth	(336,674)
Tranfers in	130,593
Tranfers out	(399,763)
Total non-operating revenues (expenses), net	(605,844)
Change in Net Position	3,891,018
Net position - beginning of year	552,281,937
Net position - end of year	$ 556,172,955

See notes to basic financial statements.

Puerto Rico Housing Finance Authority

(A Component Unit of Government Development Bank for Puerto Rico)
Statement of Cash Flows – Proprietary Fund – Operating and Administrative Fund
For the Year Ended June 30, 2015

Cash flows from operating activities:	
Cash received from interest on mortgage and construction loans	$ 12,888,073
Cash paid for mortgage and construction loans originated	(47,756,591)
Principal collected on mortgage and construction loans	34,899,911
Proceeds from sale of mortgage and construction loans	940,981
Cash received from other operating noninterest income	8,977,847
Cash received from mortgage loans insurance premiums	5,037,865
Cash paid for noninterest expenses	(9,424,839)
Cash paid from transit account	(171,313)
Cash payments for salaries and fringe benefits	(10,492,597)
Internal balances	(15,245,541)
Net cash used in operating activities	(20,346,204)
Cash flows from noncapital financing activities:	
Payments of bonds payable	(37,136,953)
Interest paid	(4,542,006)
Contributions for central government	(336,673)
Transfers in	130,593
Transfers out	(399,763)
Net cash used in noncapital financing activities	(42,284,802)
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(287,285)
Net cash used in capital and related finance activities	(287,285)
Cash flows from investing activities:	
Purchase of investments	(1,311,770)
Proceeds from sales of investments	904,939
Proceeds from redemptions of investments	37,246,475
Net change in deposits placed with banks	21,758,712
Cash received from intrest on investments	9,520,640
Cash received from interest on investment	797
Fees collected on other than housing program loans	691,889
Proceeds from sale of real estate held for sale	2,165,407
Acquisition of real estate held for sale	(3,748,513)
Net cash provided by investing activities	67,228,576
Net change in cash	4,310,285
Cash, beginning of year	14,248,154
Cash, end of year	$ 18,558,439

(continues)

Puerto Rico Housing Finance Authority

(A Component Unit of Government Development Bank for Puerto Rico)
Statement of Cash Flows – Proprietary Fund – Operating and Administrative Fund
For the Year Ended June 30, 2015

Reconciliation to balance sheet - proprietary funds:		
Cash - unrestricted	$	8,531,527
Cash - restricted		10,026,912
Total cash at year end		18,558,439
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	4,496,862
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		809,001
Net decrease in fair value of investments		(590,516)
Interest income on investments		(9,396,570)
Interest income on loans		(909)
Capitalized interest and deferred amortization on loans		(3,358,075)
Tax credit fees		(446,391)
Gain on sale of loans		(13,906)
Provision for loan losses		1,261,545
Gain on sale of real estate held for sale		947,394
Provision for losses on mortgage loans insurance		(459,683)
Provision (release) for losses on real estate held for sale		(559,909)
Net decrease in market value of real estate held for sale		756,635
Interest expense		15,033,195
Accrued interest on mortgage and construction loans		(87,700)
Housing Program loan originated		(47,756,591)
Collections of mortgage and construction loans		34,899,911
Proceeds from sale of mortgage and construction loans		940,981
Other accounts receivable and prepaid expenses		247,526
Accounts payable and accrued liabilities		(1,490,078)
Accounts payable - Transit Account		(171,314)
Accrued salaries and fringe benefits		(162,071)
Internal balances		(15,245,541)
Net cash used in operating activities	$	(20,346,204)
Noncash investing and noncapital financing activities:		
Capitalized interest and deferred amortization on loans	$	3,358,075
Net decrease in fair value of investments		590,516
Tax credit fees collected from loans		446,391
Accretion of discount on investments		2,191,689
Accretion/(amortization) of discount (premium) on bonds payable		10,191,724
Amortization of deferred loss (included in interest expense)		303,943
Interfund transfer of mortgage loans receivable to other real estate held for sale		420,584

See notes to basic financial statements.

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 Law 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. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Authority conform to U.S. generally accepted accounting principles (GAAP).

The preparation of financial statements in conformity with 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, and liabilities 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 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. General 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.

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, 2015.

  → **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 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 activities of the Authority are 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 $81 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 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.

(d) Investments and Investment Contracts

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

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

(e) 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 collectibility of the principal is unlikely. Recoveries of amounts previously charged off are credited to the allowance. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the outstanding loans receivable portfolio and the related allowance may change in the near future.

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

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

(f) 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.

(g) 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 fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend the asset's useful life are not capitalized.

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

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

(h) Compensated Absences

The employees of the Authority earn 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of 72 and 90 days, respectively. In the event of employee resignation, an employee is paid for accumulated vacation and sick leave days up to the maximum allowed. The proprietary fund financial statements and the government-wide financial statements present the cost of accumulated vacation and sick leave as a liability. In the governmental funds, such liability is recorded only for the current portion.

(i) Allowance 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, market 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.

(j) Loan Origination Costs and Commitment Fees

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

(k) 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.

(l) Mortgage Loans Insurance Premiums

Premiums on insured mortgage loans are recognized as earned.

(m) 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.

(n) Deferred Inflows of Resources

The Authority has an unearned revenue of approximately $3.2 million related to premiums on insured mortgage loans paid in advance as of June 30, 2015.

3. CASH AND DEPOSITS PLACED WITH BANKS

The table presented below discloses the level of custodial credit risk assumed by the Authority at June 30, 2015. 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 Economic Development Bank for Puerto Rico (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, 2015 mature in fiscal year 2016.

As of June 30, 2015, approximately $222 million of the depository bank balance of approximately $243.3 million was uninsured and uncollateralized as follows:

	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Cash	$ 33,738,389	$ 37,300,633	$ 15,303,567
Deposits placed with banks	206,739,310	206,739,310	206,739,310
	$ 240,477,699	$ 244,039,943	$ 222,042,877

Uninsured and uncollateralized cash of approximately $15.3 million as of June 30, 2015, represents the bank balance of cash deposited at GDB. In addition, uninsured and uncollateralized deposits placed with banks includes certificates of deposit, all maturing within six months, issued by GDB and EDB amounting to approximately $193.6 million as of June 30, 2015. Refer to note 12 for further discussion of risks associated with GDB.

4. INVESTMENTS AND INVESTMENT CONTRACTS

The Authority follows GDB's investment policies, which provide that investment transactions shall be entered into only with counterparties that are rated BBB+/A-1 or better by Standard & Poor's or equivalent rating by Fitch Ratings or Moody's Investors Service, depending on the type and maturity of the investment and the counterparty to the transaction. Any exceptions must be approved by the 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 at June 30, 2015. 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	$ —	$ —	$ 14,425,370	$ 91,189,089	$ 105,614,459
FNMA	—	—	2,391,661	1,772,316	4,163,977
Other	—	—	—	185,151	185,151
Federal Home Loan Bank (FHLB)	17,346,035	23,889,354	—	—	41,235,389
Fixed-income external investment pool - Federated Government Obligations	—	—	—	4,991,826	4,991,826
Israel aid bonds	—	43,559,901	—	—	43,559,901
Nonparticipating investment contracts:					
Trinity Funding Co.	—	—	—	19,967,367	19,967,367
Citibank, N.A.	—	—	—	17,628,800	17,628,800
GDB	—	—	—	16,009,619	16,009,619
Banco Popular de Puerto Rico	—	—	—	15,909,320	15,909,320
Banco Santander de Puerto Rico	—	—	—	11,622,443	11,622,443
Total investments	$ 17,346,035	$ 67,449,255	$ 16,817,031	$ 179,275,931	280,888,252
Equity interest in Puerto Rico Community Development Fund					4,500
Total					$ 280,892,752

At June 30, 2015 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.

(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.

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, 2015, are as follows:

	Credit risk rating					
Securities type	AAA	AA	A	BBB	B	CC
Mortgage-backed securities:						
FNMA	$ —	$ 4,163,977	$ —	$ —	$ —	$ —
Other	—	185,151	—	—	—	—
FHLB	—	41,235,389	—	—	—	—
Fixed income external investment pool - Federated Government Obligations	4,991,826	—	—	—	—	—
Nonparticipating investment contracts:						
Trinity Funding Co.	—	19,967,367	—	—	—	—
Citibank N.A.	—	—	17,628,800	—	—	—
GDB	—	—	—	—	—	16,009,619
Banco Popular de Puerto Rico	—	—	—	—	15,909,320	—
Banco Santander de Puerto Rico	—	—	—	11,622,444	—	—
Total	$ 4,991,826	$ 65,551,884	$ 17,628,800	$ 11,622,444	$ 15,909,320	$ 16,009,619

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

5. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable as of June 30, 2015, consist of the following:

Real estate loans - all types of residential property, bearing interest at various rates ranging from 5% to 18%	$ 357,070,646
Less allowance for loan losses	(36,745,163)
Total	$ 320,325,483

The summary of the activity in the allowance for loan losses for the year ended June 30, 2015, is as follows:

Balance - beginning of year	$	35,444,091
Provision for loan losses		6,478,129
Release of allowance		(4,599,106)
Write-offs		(577,951)
Total	$	36,745,163

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 2054. 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.

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, 2015:

Loan aged category		Total loan balance		Allowance for loan losses
Current	$	79,894,580	$	1,936,348
7 - 30 months		9,044,021		3,173,344
31 - 60 months		5,066,507		4,855,133
Subtotal		94,005,108		9,964,825
Other nonaged loans		8,064,880		8,064,880
Total	$	102,069,988	$	18,029,705

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.

Loans are determined to be impaired when, based on current conditions and events, it is probable that the Authority will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the observable market price or the fair value of the collateral, if the loan is collateral dependent. As of June 30, 2015, all multifamily housing unit loans are classified as collateral dependent.

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, 2015:

Loan risk category	Amount	Allowance for loan losses
Excellent	$ 5,881,191	$ 58,812
Good	97,617,489	986,853
Special Mention	8,961,064	89,612
Doubtful	21,218,688	5,895,542
Loss	1,984,639	1,984,639
Total	$ 135,663,071	$ 9,015,458

The table presented above of multifamily housing unit loans does not include loans insured by HUD amounting to approximately $13.0 million and a loan of approximately $33.2 million to a related party (refer to note 11), 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.

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 third party vendor. As of June 30, 2015, the outstanding balance of second mortgage loans was approximately $74.8 million with an allowance for loans losses of $9.7 million.

At June 30, 2015, the aggregate recorded investment in loans that have been restructured amounted to $15.2 million. Interest income that would have been recorded in the year if these loans had performed in accordance with their original terms would have been approximately $1.5 million. No interest income was included in the change in net position for the year ended June 30, 2015.

6. 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 $147.2 million during the year ended June 30, 2015. 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, 2015, the amounts due from federal government under the HUD Programs fund amounted to approximately $1.7 million.

During the year ended June 30, 2015, the Authority expended approximately $17.4 million of HOME Program funds. The Authority has approximately $8.7 million due from the federal government as of June 30, 2015 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 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 at June 30, 2015 was approximately $47.7 million included as long term debt in governmental activities.

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.

7. REAL ESTATE AVAILABLE FOR SALE

Real estate available for sale at June 30, 2015, consisted of the following:

Land	$ 8,880,000
Residential (1 - 4 units)	14,199,316
Valuation allowance	(8,791,081)
Real estate available for sale - net	$ 14,288,235

The following is a summary of the activity in the valuation allowance for the year ended June 30, 2015:

Balance - beginning of year	$ 9,076,490
Provision (credit) for possible losses	(285,409)
Balance - end of year	$ 8,791,081

8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015, was as follows:

Governmental Activities

	Beginning balance	Additions	Reductions	Ending balance
Capital assets:				
Information systems	$ 66,329	$ —	$ —	$ 66,329
Office furniture and equipment	37,074	—	—	37,074
Vehicles	66,135	—	—	66,135
Total capital assets	169,538	—	—	169,538
Less accumulated depreciation and amortization for:				
Information systems	(66,307)	—	—	(66,307)
Office furniture and equipment	(34,970)	(643)	—	(35,613)
Vehicles	(66,132)	—	—	(66,132)
Total accumulated depreciation and amortization	(167,409)	(643)	—	(168,052)
Total capital assets - net	$ 2,129	$ (643)	$ —	$ 1,486

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Business-Type Activities

	Beginning balance	Additions	Reductions	Ending balance
Capital assets:				
Leasehold improvements	$ 4,057,447	$ 98,470	$ —	$ 4,155,917
Information systems	3,892,663	184,584	(9,738)	4,067,509
Office furniture and equipment	2,192,424	4,234	(1,281)	2,195,377
Vehicles	190,757	—	—	190,757
Total capital assets	10,333,291	287,288	(11,019)	10,609,560
Less accumulated depreciation and amortization for:				
Leasehold improvements	(3,146,210)	(372,690)	—	(3,518,900)
Information systems	(3,206,447)	(412,178)	9,738	(3,608,887)
Office furniture and equipment	(2,139,573)	(15,986)	1,279	(2,154,280)
Vehicles	(159,036)	(8,147)	—	(167,183)
Total accumulated depreciation and amortization	(8,651,266)	(809,001)	11,017	(9,449,250)
Total capital assets - net	$ 1,682,025	$ (521,713)	$ (2)	$ 1,160,310

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9. 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, 2015, is as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Commonwealth appropriation note payable - AHMSP Act No. 124	$ 3,500,735	$ —	$ —	$ 3,500,735	$ 103,049
Less unaccredited discount	(66,483)	(272)	—	(66,755)	—
Subtotal	3,434,252	(272)	—	3,433,980	103,049
Notes payable to GDB:					
Investments Repurchase Agreement - AHMSP Act No. 124	39,278,886	802,910	(5,889,656)	34,192,140	9,090,000
Line of credit - AHMSP Act No. 124	14,281,522	933,795	(657,994)	14,557,323	—
Line of credit - My New Home Program	97,069,415	16,279,861	(7,198,487)	106,150,789	—
Line of credit - New Secure Housing Program	49,552,729	752,290	(2,604,227)	47,700,792	2,015
Total governmental activities	$ 203,616,804	$ 18,768,584	$ (16,350,364)	$ 206,035,024	$ 9,195,064
Business-type activities:					
Collateralized Mortgage Obligation Bonds - Mortgage Trust III	$ 124,320,002	$ —	$ (26,795,000)	$ 97,525,002	$ 9,260,000
Mortgage-Baked Certificates - 2006 Series A	84,274,905	—	(8,917,793)	75,357,112	10,023,392
Revenue bonds:					
Single Family Mortgage Revenue Bonds - Porfolio XI	15,185,000	—	(795,000)	14,390,000	300,000
Subtotal	223,779,907	—	(36,507,793)	187,272,114	19,583,392
Notes payable:					
Special obligation notes (Home Purchase Stimulus Program)	75,654,000	—	(629,160)	75,024,840	—
Plus unamortized premium	330,084	—	(35,084)	295,000	—
Less unaccredited discount	(58,906,491)	—	10,226,807	(48,679,684)	—
Total business-type activities	$ 240,857,500	$ —	$ (26,945,230)	$ 213,912,270	$ 19,583,392

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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, 2015, are as follows:

Year(s) ending June 30,	Governmental activities Principal	Governmental activities Interest	Business-type activities Principal	Business-type activities Interest
2016	$ 103,049	$ 192,958	$ 19,583,392	$ 4,085,603
2017	83,595	190,022	33,198,737	3,676,872
2018	86,478	186,839	19,857,460	3,306,801
2019	89,716	183,308	20,384,153	2,964,785
2020	93,308	179,483	34,796,096	3,219,920
2021-2025	467,006	834,929	45,752,685	28,467,233
2026-2030	2,242,438	501,040	27,308,081	24,728,440
2031-2035	335,145	9,216	22,668,412	17,351,149
2036-2040	—	—	31,073,179	8,301,707
2041-2045	—	—	7,674,759	486,871
Total	$ 3,500,735	$ 2,277,795	$ 262,296,954	$ 96,589,381

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.

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, 2015, was approximately $3.5 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, 2015.

Investment Repurchase Agreement – AHMSP Act No 124 – On August 8, 2014, the Authority and GDB modified the terms of the Investment Repurchase Agreement (the Agreement) extending its maturity date until July 1, 2018. The Agreement, among other things, establishes a 3% interest rate, which will be revised annually and will be based on the average cost of funds of GDB plus .25% basis points. The outstanding balance under this agreement was approximately $34.2 million at June 30, 2015.

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, 2015, the outstanding balance amounted to approximately $14.6 million.

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. As of June 30, 2015, the Authority's cumulative drawdowns amounted to approximately $106.2 million. 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.

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 lives in flood-prone or high risk areas, to acquire secure and low cost homes. The line bears interests at LIBOR of three months 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. The line is payable 75% from funds granted by FEMA and 25% provided by the Commonwealth, which could be achieved through the donation of land, and the mortgages of the eligible participants of the program. In case that the repayments funds are not received, the Authority will pay the line of credit with future legislative appropriations to be provided by the Commonwealth. As of June 30, 2015, the line of credit balance is $47.7 million.

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	$ 80,783,653
Single Family Mortgage Revenue Bonds - Portfolio XI - Each December 1 and June 1 until December 1, 2039	3.46% - 5.45%	14,390,000
Mortgage-Backed Certificates, 2006 Series A - principal and interest payable monthly from September 29, 2006 to August 29, 2030	2.955% - 6.56%	69,709,942
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%	19,837,850
Special Obligation Notes, 2011 Series A - Principal and interest payable monthly from September 1, 2021 to September 1, 2041	7.00%	11,127,481
Special Obligation Notes, 2012 Series A - Principal and interest payable monthly from June 18, 2012 to September 1, 2041	7.00%	18,063,344
		$ 213,912,270

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, 2015, is as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Vacation	$ 803,260	$ 791,668	$ (882,637)	$ 712,291	$ 712,291
Sick leave	764,633	469,876	(523,491)	711,018	711,018
Total	$ 1,567,893	$ 1,261,544	$ (1,406,128)	$ 1,423,309	$ 1,423,309

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

10. 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, 2015, the Program covered loans aggregating to approximately $552 million. An allowance of $4.6 million was recorded as of June 30, 2015 as an estimate of the losses inherent in the portfolio.

The mortgage insurance loan total premium and investment income for the year ended on June 30, 2015 is as follows:

Mortgage loans insurance premiums	$	4,847,748
Investment income		759,645
Total	$	5,607,393

The regulations adopted by the Authority, requires the establishment of adequate reserves to guarantee the solvency of the mortgage loans insurance fund. At June 30, 2015, the Authority had restricted net position for such purposes of approximately $77.3 million.

11. RELATED-PARTY TRANSACTIONS

A summary of the most significant related-party balances and transactions as of June 30, 2015, and for the year ended is as follows:

(a) Commonwealth

Legislative appropriations of approximately $2.0 million were received by the governmental funds during the year ended June 30, 2015. These appropriations are restricted for the payment of certain bonds and to support affordable housing programs.

During the year ended June 30, 2015, the Authority paid $336,764 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 has the following additional related-party balances and transactions with GDB as of and for the year ended June 30, 2015:

		Carrying amount	Interest rate		Interest income (expense)
Assets:					
Cash - including accrued interest	$	11,752,976	Variable	$	8,941
Deposits place with banks - including accrued interest		122,002,083	0.75% - 1.60%		1,261,753
Nonparticipating investment contracts - including accrued interest		16,009,618	5.25%		843,003
Total assets	$	149,764,677		$	2,113,697
Liabilities:					
Repurchase Agreement - including accrued interest	$	34,192,140	3.00%	$	(809,910)
Lines of credit and notes payble - including accrued interest		168,408,904	1.52% - 7.00%		(2,689,874)
Total liabilities	$	202,601,044		$	(3,499,784)
Expenses - administrative charges	$	1,146,051			

The Authority has significant balances and transactions with GDB, including deposits and other investments amounting to approximately $170.6 million as of June 30, 2015. Additionally, GDB has provided significant financial support to the Authority in terms of notes payable and lines of credit. GDB's loans to the Commonwealth of Puerto Rico (the Commonwealth) and its agencies and instrumentalities amounted to approximately $6.9 billion or 48% of GDB's total assets as of June 30, 2015, the last available audited financial statements. These loans are expected to be collected from appropriations from, proceeds from bond issuances of, or revenues generated by the Commonwealth and/or its agencies and instrumentalities. However, the collectability of these loans may be affected by budgetary constraints, the fiscal situation, and the credit ratings of the Commonwealth and its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges, and/or bond issuances. Continuance of and/or significant negative changes in these factors may affect the ability of the Commonwealth and its agencies and instrumentalities to repay their outstanding loan balances with GDB and, accordingly, may have an adverse impact on GDB's financial condition, liquidity, funding sources, and results of operations, which could also result in an adverse impact on the Authority's financial condition, liquidity, funding sources, and results of operations.

Additional financial information related to GDB is provided on its stand-alone financial statements, a copy of which can be obtained from Government Development Bank, P.O. Box 42001, San Juan, Puerto Rico 00940-2001.

Department of Housing – At June 30, 2015, 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, 2015.

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, 2015, 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.

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.

12. 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, 2015, commitments to extend credit amounted to approximately $47 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, 2015, there were no commitments outstanding to purchase mortgage-backed securities.

13. RETIREMENT SYSTEM

Substantially all full-time employees of the Authority are covered by The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System). The Retirement System consists of different benefit structures pursuant to Act No. 447 of May 15, 1951, as amended, including a cost-sharing, multi-employer, defined benefit program and a cash balance program, similar to a cash balance plan. The Retirement System is sponsored by the Commonwealth and the Authority.

On July 6, 2011, the Commonwealth enacted Act No. 116 increasing the employer contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, an additional 1% annually 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.

On April 4, 2014, the Commonwealth enacted Act No. 3 to increase the employee contribution rate from 8.275% to 10% effective July 1, 2014.

Total employee contributions to the Retirement System, including System 2000, for the year ended June 30, 2015, amounted to approximately $200,000 and $611,000, respectively. The Authority's contributions for the years ended June 30, 2015, 2014, and 2013, amounted to approximately $1.1 million, $1.2 million, and $727,000, respectively. These amounts represented 100% of the required contribution for the corresponding year. Individual information for each option is not available since the allocation is performed by the Retirement System itself.

The actuarial valuation of the Basic System Benefits and System Administered Benefits as of June 30, 2014 (most recently available) reflects a fiduciary net position of $127 million, total pension liability of $30.2 billion and a net pension liability of $30.1 billion.

Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68) became effective for the year ended June 30, 2015. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria as is the case of the ERS.

As of the date of the release of this report, the ERS has not issued its 2014 basic financial statements, nor has it provided the Authority with the required information to implement the requirements of GASB 68. Therefore, the accompanying financial statements do not have any adjustments that will be necessary for the Authority to account for its proportionate share of the net pension liability, deferred inflow of resources and deferred outflow of resources in the statement of net position and in the balance sheet of the proprietary fund as of July 1, 2014 and June 30, 2015, as well as the effect in the recorded pension expense in the statement of activities and the statement of revenues, expenses and changes in net position of the proprietary fund for the year ended June 30, 2015. Also, additional disclosures required by GASB 68 as well as required supplementary information have been omitted from these basic financial statements.

Additional information on the Retirement System is provided in its standalone financial statements, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

14. EARLY RETIREMENT PROGRAMS

On October 13, 2010, the Authority announced to its employees a voluntary termination plan (the Plan) based on Act No. 70 enacted on July 2, 2010. The Plan was approved by the Authority's board of directors on October 6, 2010. Act No. 70 provides that eligible employees may retire from employment from the Commonwealth in exchange for an early pension, an economic incentive, and other benefits.

The Plan only applied to employees who were 10 years or less from retirement in accordance with their applicable retirement plans as of December 1, 2010. The Plan approved by the Authority's board of directors provides the following:

The employee will receive an annuity of fifty percent of the salary in effect at September 30, 2010. The Authority is responsible for the payment of the annuity in addition to the related employee and employer contributions to Retirement Systems for a maximum period of 10 years.

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

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

The total amount of employees that were voluntarily separated from employment as of June 30, 2015 was six. Employee and employer contributions to the Retirement System and the employee annuity for the applicable period were discounted based on the average interest rate of unpledged investments. As of June 30, 2015, the total liability related to this plan was approximately $639,000 and is included in accounts payable and accrued liabilities of business-type activities.

15. 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, 2015, the Authority was custodian of $252,616 in restricted funds of former "*Corporación de Renovación Urbana y Vivienda*" (CRUV). As of June 30, 2015, 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 loan backing up such security certificate that became delinquent for 120 days or more. As of June 30, 2015, the aggregate outstanding principal balance of the loans pooled into the FNMA certificate amounted to $270,394.

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, 2015, the principal balance of the mortgage loans serviced for others is as follows:

Investor		Amount
PRCDF I	$	40,098,500
CRUV or its successor without guaranteed mortgage loan payments		20,590
Total	$	40,119,090

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.

HOME Program – The U.S. Office of Inspector General (OIG) performed various examinations of the HOME Program covering fiscal years ended prior to July 1, 2010. These examinations covered periods in which the HOME Program was under the administration of the Department of Housing. These examinations identified instances of noncompliance with terms and conditions of the grant agreements, applicable federal law, and the HOME Program's regulations, including but not limited to the expenditure of resources for ineligible purposes. OIG identified in its examinations disallowed costs, amounting to approximately $18.3 million. The Authority recorded a contingency for such disallowed costs, and additional amounts identified internally as potential disallowances, amounting to approximately $20.4 million. On October 1, 2013, the Authority entered into a three-year repayment plan through February 1, 2016 to reimburse the HOME Program, beginning on October 15, 2013, approximately $1.8 million that were determined to be disallowed costs within the $18.3 million discussed above.

On July 31, 2014, the Governor of the Commonwealth signed the HOME Voluntary Repayment Settlement Agreement (the Agreement) with HUD. The Agreement establishes the reimbursement to the HOME Program of an additional $14.2 million, from nonfederal funds, for disallowed expenditures in connection with HUD-funded projects, as defined and described in the Agreement, in two installments of $10 million and $4.2 million due on October 1, 2014 and October 1, 2015, respectively. During the year ended June 30, 2015, the Affordable Housing Subsidy Program paid $703,920 to the HOME Program to cover the installment payments due under the $1.8 million repayment plan. At June 30, 2015 the total liability amounted to approximately $4.8 million and is included in accounts payable and accrued liabilities of governmental activities.

Other federal programs are also subject to audits. Such audits 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.

16. 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 $140.5 million at June 30, 2015.

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 $295.2 million at June 30, 2015.

17. INTERFUND BALANCES AND TRANSFERS

The summary of the interfund balances as of June 30, 2015, between the governmental funds and the proprietary fund is as follows:

Receivable by	Payable by	Purpose	Amount
Proprietary fund:	Governmental funds:		
Operating and Administrative	HOME Programs	Reimbursement of expenditures	$ 1,013,702
Operating and Administrative	HUD Programs	Reimbursement of expenditures	1,314,980
Operating and Administrative	AHS Programs	Reimbursement of expenditures	19,787,977
Total			$ 22,116,659

The summary of the interfund transfers for the year ended June 30, 2015, is as follows:

Transfer out	Transfer in	Purpose	Amount
Proprietary fund:	Governmental funds:		
Operating and Administrative	AHS Programs	Subsidy payments	$ 269,170
			$ 269,170

18. SUBSEQUENT EVENTS

The Authority evaluated subsequent events until March 18, 2016, the date the financial statements were available to be issued.

On February 1, 2016 and March 3, 2016, the Authority sold certain single and multi-family mortgage loans to a financial institution and a private investor. The mortgage portfolios unpaid balance at the time of sale was approximately $109.1 million, and the net proceeds amounted to approximately, $89.3 million. The mortgage portfolios were sold to partially repay My New Home Program line of credit in order to provide liquidity to GDB.

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