GOVERNMENT OF PUERTO RICO
PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY

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

THIS FILING RELATES TO A SINGLE BOND ISSUE:

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

____

____

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

____

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

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

Other Obligated Person's Name (if any): ______________________________

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

TYPE OF INFORMATION PROVIDED:

A. ☐ Annual Financial Information and Operating Data pursuant to Rule 15c2-12

Fiscal Period Covered: ______________________________

B. ☒ Audited Financial Statements or CAFR pursuant to Rule 15c2-12

Fiscal Period Covered: 2018-19

C. ☐ Notice of Failure to Provide Annual Financial Information as Required: ______________

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

/s/ Manuel González del Toro

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

Dated: December 1, 2021

Puerto Rico Housing Finance Authority

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

Audited Financial Statements
As of and for the Year Ended

June 30, 2019

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De Angel & Compañía
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the **Puerto Rico Housing Finance Authority** (the Authority), a component unit of the *Government Development Bank for Puerto Rico* (GDB), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Unmodified Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities, the Business-type Activities and each major fund of the Authority as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

The Authority's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. The winding down of GDB'operations and the financial difficulties being experienced by the *Economic Development Bank* (EDB) and the Commonwealth have had a spill over effect on the operations of the Authority since these entities have accessed the Authority's assets in order to alleviate their liquidity problems. As further discussed in Note 5, the Authority's intent and ability to use its funds deposited with EDB have been significantly restricted since fiscal year 2016.

The Authority has evaluated the possible effects of the budgetary constraints and historical liquidity risks faced by the Commonwealth, EDB and GDB on its basic financial statements and operations, and believe such conditions impose a significant uncertainty about the Authority's ability to comply with the terms of its obligations as they become due. The financial difficulties of these entities, coupled with the facts that GDB will no longer serve as a financing source to the Authority and that any future financing needs of the Authority would be subject to the Financial Oversight and Management Board for Puerto Rico's approval under the Puerto Rico, Oversight, Management and Economic Stability Act, causes the Authority's management to conclude that there is substantial doubt about the ability of the Authority to continue as a going concern.

The Authority has the intention of putting in place a series of plans and initiatives that, when executed, are expected to result in an alleviation of the substantial doubt referred to in the previous paragraph.

Other Matters

Required Supplementary Information

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

De Angel & Cía, CPA

License No. LLC-317
Expires December 1, 2023

San Juan, Puerto Rico
September 22, 2021
2021-09-71

Stamp No.
E-451455
was affixed
to original

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, 2019. 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 increased approximately $82.1 million during fiscal year 2019, from $125 million as of June 30, 2018, (as restated) to $207.1 million as of June 30, 2019.

- Operating loss of the Operating and Administrative fund was $22.7 million for the fiscal year ended June 30, 2019, compared to an operating loss of approximately $25.7 million for the fiscal year ended June 30, 2018. There were net interfund transfers in the amount of $61.7 million during the fiscal year ended June 30, 2019. Total operating revenues of the Proprietary Fund increased to approximately $28.3 million in fiscal year 2019 from approximately $19.7 million in fiscal year 2018. Total operating expenses of the Proprietary Fund increased to approximately $51 million in fiscal year 2019 from approximately $37.6million in fiscal year 2018.

- Pursuant to the GDB Qualifying Modification under Title VI of PROMESA, the Authority recognized a custodial credit risk loss recovery amounting to $83.1 million.

- During fiscal year 2019, $144 million and $8.9 million were granted in subsidies through the Housing Urban Development Program (HUD or HUD Program) and the Investment Partnerships HOME Federal Program (the Home Program), respectively.

- $5.2 million were granted in subsidies through the Affordable Housing Mortgage Subsidy Programs.

Using this Report

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

The Statement of Net Position and the Statement of Activities

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

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

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

- *Governmental Activities* – Most of the Authority's basic services are reported here, such as low income housing assistance programs financed through federal grants.

- *Business-type Activities* – The Authority charges fees to its customers to help it cover all or part of the cost of certain services it provides. Main activities included herein include programs for financing purchase of residential units by low and moderate-income families and loan insurance programs.

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Reporting Major Funds

Fund Financial Statements

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

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

- *Governmental Funds* – Most of the Authority's basic services and expenditures are reported in governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end that are available for spending. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Assets and liabilities that do not impact current financial resources, such as capital assets and long-term liabilities, are not recognized in the governmental funds statements. The governmental funds statements provide a detailed short-term view of the Authority's low income housing programs financed with federal financial assistance programs. Governmental funds information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. The reconciliations between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are presented following the fund financial statements.

- *Proprietary Funds* – These funds are utilized when the Authority charges customers to recover its costs of providing services. Proprietary funds report on business-type activities, which include one enterprise fund. The Authority's enterprise fund is the same as the business-type activities reported in the government-wide statements. Proprietary fund statements are prepared using the economic resources measurement focus and the accrual basis of accounting. In addition to a Balance Sheet and a Statement of Revenues, Expenses and Changes in Net Position, proprietary funds are also required to report a Statement of Cash Flows.

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

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, 2019 and June 30, 2018 (in thousands):

	Governmental activities		Business-type activities		Total	
	2019	2018	2019	2018 (as restated)	2019	2018 (as restated)
Assets:						
Cash	$ 33,403	25,554	19,232	42,650	52,635	68,204
Investments and deposits placed with banks	47,216	39,571	120,242	111,356	167,458	150,927
Loans receivable, net	-	-	192,682	178,847	192,682	178,847
Capital assets	34	42	8,521	8,397	8,555	8,439
Other assets	(3,998)	(5,818)	20,390	18,568	16,392	12,750
Total assets	$ 76,655	59,350	361,067	359,818	437,723	419,167
Deferred outflows of resources	-	-	5,592	15,014	5,592	15,014
Liabilities:						
Due in less than one year	$ 27,918	38,192	37,980	33,895	65,898	72,087
Due in more than one year	2,988	76,785	163,041	153,453	166,029	230,238
Total liabilities	$ 30,906	114,977	201,020	187,348	231,927	302,325
Deferred inflows of resources			4,239	6,851	4,239	6,851
Net position:						
Invested in capital assets	$ 34	42	8,521	8,397	8,555	8,439
Restricted	45,715	-	18,493	24,253	64,208	24,253
Unrestricted position	-	(55,670)	134,387	147,983	134,387	92,313
Total net position	$ 45,750	(55,627)	161,400	180,633	207,150	125,005

Governmental activities net position

Total assets from Governmental Activities were approximately $76.7 million at June 30, 2019. Total liabilities were approximately $30.9 million, for a net position of $45.7 million for the fiscal year ended June 30, 2019. Net position has been broken down into a net investment in capital assets of $34,383 and the remaining balance as the restricted component of net position of approximately $45.7 million.

The total aggregate amount of investments and investment contracts was approximately $47.2 million as of June 30, 2019 and, together with cash and deposits placed with banks of approximately $33.4 million, accounted for the majority of the assets held by Governmental Activities. These assets are restricted to provide funds for the execution of the various affordable and other housing programs managed by the Authority. The aggregate amount of cash, investments and deposits at June 30, 2019, had a net increase of approximately $15.5 million over the prior year. Such increase comes as a result of revenues of $25.1 million of the Affordable Housing Subsidy Programs Fund (Subsidy Fund) offset with $5.3 million of subsidies and $3.5 million transfer out to the Operating and Administrative Fund (Operating Fund). Of the $25.1 million in revenues, $21.6 million corresponds to Commonwealth Appropriations which can be used in the future for subsidies or be transferred to the Operating Fund as payment for debts paid on behalf of the Subsidy Fund. Other assets are mainly restricted and are composed mostly of amounts due from the HUD and HOME federal programs offset by the internal balances with the business type activities, which remained relatively stable during 2019. Accrued liabilities mainly consist of unpaid expenditures related to the HOME Program fund and subsidies payable on various affordable housing programs. Decrease in liabilities due in more than one year is related to the Qualifying Modification.

Business-type activities net position

Total assets from Business-type Activities were approximately $361.1 million at June 30, 2019. Deferred outflows of resources were approximately $5.6 million. Total liabilities were approximately $201 million and deferred inflows of resources were approximately $4.2 million, for a net position of approximately $161.4 million during the fiscal year ended June 30, 2019. Net position has been broken down into a net position invested in net capital assets of approximately $8.5 million and restricted for affordable housing programs of $18.5 million. The remaining balance is the unrestricted component of the net position and amounted to approximately $134.3 million. Total assets from Business-type Activities remained relatively stable when compared to the prior year.

The total aggregate amount of investments and investment contracts were approximately $120 million and, together with loans receivable of approximately $192.7 million and cash and deposits placed with banks of $20 million, accounted for the majority of the assets held by the Business-type Activities for the fiscal year ended June 30, 2019.

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, 2019 and June 30, 2018, is shown in the table on the following page (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018 (as restated)	2019	2018 (as restated)
Revenues:						
Program revenues:						
Charges for services	$ -	6,388	14,138	10,719	14,138	17,107
Financing and investment	2,199	1,797	14,158	11,839	16,357	13,636
Operating grants, capital grants, and contributions	184,039	178,452			184,039	178,452
Custodial credit risk loss recovery	17,980		65,146	-	83,126	
Total revenues	204,218	186,637	93,442	22,558	297,660	209,195
Program expenses:						
General government and other	5,500	5,716	-	-	5,500	5,716
Housing assistance programs	159,025	162,813	-	-	159,025	162,813
Operating and administrative	-	-	50,991	41,716	50,991	41,716
Total program expenses	164,524	168,529	50,991	41,716	215,516	210,245
Change in net position before transfers	39,693	18,107	42,451	(19,158)	82,144	(1,050)
Transfers	61,683	(4,064)	(61,683)	4,064	-	-
Increase (decrease) in net position	101,377	14,044	(19,233)	(15,094)	82,144	(1,050)
Net position, beginning of year, as restated	(55,627)	(69,671)	180,633	195,727	125,006	126,056
Net position, end of year	$ 45,750	$ (55,627)	$ 161,400	$ 180,633	$ 207,150	$ 125,006

Governmental activities analysis

Excluding the Custodial credit risk loss recovery, total revenues of the governmental activies decreased by approximately $400 thousand in 2019 from 2018. The decrease was mainly due to a $5.7 million gain on early extinguishment of debt recognized in 2018 offset by an increase of $5.6 million in Operating grants, capital grants and contributions. The grants and contributions increase was mainly related to an increase in Commonwealth appropriations of approximately $2.3 million. The appropriation increase was mainly due to $2.8 million in additional funding received under Act No. 122, as amended, which assigns the Authority the unclaimed funds in local financial institutions. Total expenses of the governmental activies decreased by $4 million in 2019 from 2018. The decrease was mainly due to a decrease in interest expense amounting to $2.9 million which is directly related to the decrease and cancellation of the lines of credit Due to GDB.

The custodial credit risk loss recovery of $18 million and the increase in transfers amounting to $65.7 million are both caused by the Qualifying Modification as explained in Note 5 to the financial statements.

Business-type activities analysis

The increase in charges for services – fees, commissions, and others of $3.4 million is mainly due to an increase of approximately $2.8 million in the release of the allowance for losses on mortgage loan insurance (in 2018 there was no release of allowance) .

The increase of $9.3 million in expenses was mainly driven by an increase the pension benefit amounting to $18.7 million ($22.8 million in 2019 vs $4.1 million in 2018) offset by a decrease in provision for loan losses amounting to $11.1 million ($500 thousand in 2019 vs $11.6 million in 2018). Pension expense is actuarially determined based on GASB 73. Refer to Note 16 of the financial statements. For methodology for determination of provision for loan losses refer to Note 8 of the financial statements. Another increase of $1.1 million in expenses was related to legal and professional fees ($3.4 million in 2019 vs $2.3 million in 2018). Increase in legal and professional fees was due to a lower level of expenses in fiscaly year 2018 due to the disruptions in operations caused by Hurricane Maria coupled with a higher level of expenses in 2019 due to the implementation of a new accounting system.

The custodial credit risk loss recovery of $65.1 million and the increase in transfers amounting to $65.7 million are both caused by the Qualifying Modification as explained in Note 5 to the financial statements.

Governmental Fund Results

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

HUD Programs – This fund accounts for the U.S. Housing Act Section 8 programs administered by the Authority under the authorization of HUD. Presently, the Authority operates three programs whereby low-income families receive directly or indirectly subsidies to pay for their rent. The housing vouchers program enables families to obtain rental housing in a neighborhood of their choice. The other programs are project-based subsidies whereby housing developers are given incentives to keep their properties available for low and moderate income markets.

The expenditures of the HUD Programs decreased by approximately $100 thousand from approximately $148.7 million in fiscal year 2018 to approximately $148.6 million in fiscal year 2019 because a lower number of vouchers assistance was awarded when compared to the previous year.

HOME Program – This fund accounts for funds received from HUD for the administration of the HOME Program. The main purpose of this program is to increase the supply of decent and affordable housing for low and very low-income families. Revenues decreased from approximately $10.8 million in fiscal year 2018 to approximately $8.2 million in fiscal year 2019 mainly due to lower activity in construction projects subsidized by the Program and a lower grant award.

Affordable Housing Subsidy Program – This fund is used to account for the proceeds of specific local revenue sources under the different subsidy programs of the Authority. During the fiscal year ended June 30, 2019, the fund balance increased by $26.4 million as compared to an increase of $2.9 million in the fiscal year ended June 30, 2018. Such increase comes as a result of revenues of $25.1 million of the Affordable Housing Subsidy Programs Fund (Subsidy Fund) offset with $5.3 million of subsidies and $5.5 transfer out to the Operating and Administrative Fund (Operating Fund). Of the $25.1 million in revenues, $21.6 million corresponds to Commonwealth Appropriations which can be used in the future for subsidies or be transferred to the Operating Fund as payment for debts paid on behalf of the Subsidy Fund.

Proprietary Fund Results

The following is an analysis of the financial position and results of operations of the major proprietary fund (the Proprietary Fund):

Operating and Administrative – The net position of the Operating and Administrative fund decreased from approximately $180.6 million (as restated) at June 30, 2018, to approximately $161.4 million at June 30, 2019, or approximately $19.2 million, responding to the operating loss for the year of approximately $22.7 millio and transfers out amounting to $61.7 million offset by the custodial credit risk loss recovery amounting to approximately $65.1 million.

Capital Assets

The Authority's investment in capital assets for its business type activities as of June 30, 2019 and June 30, 2018 amounted to approximately $8.6 million and $8.4 million, respectively, net of accumulated depreciation and amortization, for a net increase of approximately $200,000. 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, 2019 and June 30, 2018, total debt outstanding was approximately $131 million and $215 million, respectively. The decrease in total debt of approximately $84 million responds mainly to the Qualifying Modification explained earlier. The credit rating of the Authority's public debt is AAA, as determined by Fitch Ratings in July 2020. Refer to Note 12 to the basic financial statements for additional information on borrowed funds.

Currently Known Facts

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

Management's evaluation of the Authority's going concern has identified, the fact that GDB's management believes that there is substantial doubt that GDB, the Authority's primary government, will continue as a going concern, as an external matter that may affect the ability of the Authority to continue as a going concern.

GDB traditionally served as interim lender to the Commonwealth and its public corporations (also referred to herein as instrumentalities) and municipalities in support of the issuance of long-term bonds and notes by such entities in the municipal bond market. GDB has also provided financing to the Commonwealth and its instrumentalities to finance their respective budget deficits, collateral requirements under swap agreements, and to meet mandatory payments of obligations. As a result, GDB's liquidity and financial condition was dependent, to a large extent on the repayment of loans made to the Commonwealth and its instrumentalities. The Commonwealth and its instrumentalities are in the midst of a profound fiscal, economic crisis that was accompanied by historical liquidity issues, that are the culmination of many years of significant governmental deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. Conditions that adversely affected the ability of the Commonwealth and its instrumentalities to raise cash (including limited access to capital markets) and repay their interim and other loans to the GDB have had an adverse effect on the GDB's liquidity and financial condition and its ability to repay its obligations.

Upon the establishment of the Fiscal Agency and Financial Advisory Authority ("FAFAA" or "AAFAF", its Spanish acronym), GDB's role was reduced to agent in (i) collecting on its loans portfolio and (ii) disbursing funds pursuant to strict priority guidelines. Given the reduced services that the GDB, and the GDB's overall financial position, including that no appropriations were assigned to the GDB for fiscal years 2018 and 2019, on March 23, 2018, the GDB ceased its operations and management initiated an orderly wind down process. Such wind down process involved, among other things, a comprehensive restructuring of substantially all of the GDB's obligations pursuant to the Title VI Qualifying Modification.

As a result, GDB's management believes that there is substantial doubt that the GDB will continue as a going concern.

Complete financial statements of the GDB can be obtained directly by contacting their respective administrative offices at:

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

Management's Conclusion on Going Concern

The winding down of GDB's operations means GDB will no longer serve as a financing source to the Authority and that any future financing needs of the Authority would be subject to the Oversight Board's approval under PROMESA. This fact causes the Authority's management to conclude that there is substantial doubt about the ability of the Authority to continue as a going concern.

Notwithstanding, management has the intention of putting in place a series of plans and initiatives that, when executed, are expected to result in an alleviation of the substantial doubt referred to in the previous paragraph.

Requests for Information

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

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Puerto Rico Housing Finance Authority

(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Net Position
June 30, 2019

	Governmental Activities	Business-type Activities	Total
Assets			
Cash	$ 33,402,986	$ 19,232,216	$ 52,635,202
Deposits placed with banks	84,054	755,796	839,850
Investments and investments contracts	47,131,579	119,486,689	166,618,268
Loans receivable - net	-	192,682,192	192,682,192
Interest and other receivables	178,153	6,961,749	7,139,902
Due from federal government - net	7,425,061	-	7,425,061
Other assets	-	47,615	47,615
Internal balances	(11,600,863)	11,600,863	-
Real estate available for sale	-	1,779,615	1,779,615
Capital assets	34,383	8,520,683	8,555,066
Total assets	76,655,353	361,067,418	437,722,771
Deferred outflows of resources			
Loss on bond refundings	-	1,717,892	1,717,892
Pension related	-	3,753,890	3,753,890
Other post employment benefits related	-	120,135	120,135
Total deferred outflows of resources	-	5,591,917	5,591,917
Liabilities			
Accounts payable and accrued liabilities	7,026,778	7,465,140	14,491,918
Accrued interest payable	69,976	-	69,976
Matured interest payable	558,327	-	558,327
Unearned revenue	-	3,940,686	3,940,686
Liability for losses on mortgage loan insurance	-	5,982,402	5,982,402
Due to Commonwealth	-	7,614,858	7,614,858
Notes and mortgage-backed certificates payable:			
Matured and due within one year	20,262,708	12,976,340	33,239,048
Due in more than one year	2,987,862	94,359,416	97,347,278
Total pension liability	-	67,248,992	67,248,992
Total other post employment benefits liability	-	1,432,241	1,432,241
Total liabilities	30,905,651	201,020,075	231,925,726
Deferred inflows of resources - pension related	-	4,239,192	4,239,192
Net position:			
Net investment in capital assets	34,383	8,520,683	8,555,066
Restricted for:			
Affordable housing programs	45,715,319	18,492,690	64,208,009
Unrestricted	-	134,386,695	134,386,695
Total net position	$ 45,749,702	$ 161,400,068	$ 207,149,770

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority

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

Statement of Activities

For the Year Ended June 30, 2019

		Program Revenues			Net (expenses) revenues and changes in net position		
	Expenses	**Charges for Services - fees, commissions, and others**	**Charges for Services - financing and investment**	**Operating grants and contributions**	**Governmental activities**	**Business-type activities**	**Total**
Functions/programs:							
Governmental activities:							
General government and other	$ 5,499,581	-	-	-	(5,499,581)	-	(5,499,581)
Housing assistance program	159,024,745	-	2,198,723	184,039,158	27,213,136	-	27,213,136
Total governmental activities	164,524,326	-	2,198,723	184,039,158	21,713,555	-	21,713,555
Business-type activities:							
Operating and administrative	50,991,439	14,137,855	14,157,844	-	-	(22,695,740)	(22,695,740)
Total business-type activities	50,991,439	14,137,855	14,157,844	-	-	(22,695,740)	(22,695,740)
Total functions/programs	$ 215,515,765	14,137,855	16,356,567	184,039,158	21,713,555	(22,695,740)	(982,185)
General revenues:							
Custodial credit risk loss recovery					17,979,756	65,146,491	83,126,247
Transfers in (out) - net					61,683,471	(61,683,471)	-
Total general revenues and transfers					79,663,227	3,463,020	83,126,247
Change in net position					101,376,782	(19,232,720)	82,144,062
Net position (deficit) - Beginning of year, as restated					(55,627,080)	180,632,788	125,005,708
Net position - End of year					$ 45,749,702	$ 161,400,068	$ 207,149,770

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority

(A Component Unit of the Government Development Bank for Puerto Rico)
Balance Sheet – Governmental Funds
June 30, 2019

Assets	**HUD Programs**	**HOME Programs**	**Affordable Housing Subsidy Programs**	**Total**
Cash	$ 853,136	619,147	31,930,703	33,402,986
Deposits placed with banks	-	-	84,054	84,054
Investments and investments contracts	-	-	47,131,579	47,131,579
Interest and other receivables	21,004	-	157,149	178,153
Due from federal government - net	1,091,336	6,333,725	-	7,425,061
Total assets	$ 1,965,476	6,952,872	79,303,485	88,221,833
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	$ 897,837	5,118,847	1,010,094	7,026,778
Due to other funds	1,067,639	648,634	9,884,590	11,600,863
Matured note payable			19,909,611	19,909,611
Matured principal on appropriation note	-	-	259,789	259,789
Matured interest payable	-	-	558,327	558,327
Total liabilities	1,965,476	5,767,481	31,622,411	39,355,368
Deferred inflows of resources:				
Unearned revenue	-	4,203,478	-	4,203,478
Fund balances (deficit):				
Restricted for affordable housing programs	-	-	47,681,074	47,681,074
Deficit	-	(3,018,087)	-	(3,018,087)
Total fund balances (deficit)	-	(3,018,087)	47,681,074	44,662,987
Total liabilities, deferred inflows of resources and fund balances	$ 1,965,476	6,952,872	79,303,485	88,221,833

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority

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

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position

June 30, 2019

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

Total fund balances	$ 44,662,987
Capital assets used in governmental activities are not financial resources and, therefore, are not report in the funds	34,383
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Note payable due in more than one year	(3,081,170)
Accrued interest payable is not due and payable in the current period	(69,976)
Deferred inflows of resources reported in the governmental funds are recognized as revenue in the governmental activities	4,203,478
Net position of governmental activities	$ 45,749,702

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority

(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2019

	HUD Programs	HOME Programs	Affordable Housing Subsidy Programs	Total
Revenues:				
Intergovernmental-federal government	$ 148,548,793	8,234,391	-	156,783,184
Commonwealth appropiation for repayment of bonds or housing assistance programs	-	-	21,605,063	21,605,063
Interest income on investment and investment contracts	-	-	2,277,406	2,277,406
Interest income on deposits placed with banks	-	-	256,703	256,703
Net decrease in fair value of investments	-	-	(78,683)	(78,683)
Custodial credit risk loss recovery	-	-	17,979,756	17,979,756
Other income	3,516	8,107	2,895,282	2,906,905
Total revenues	148,552,309	8,242,498	44,935,527	201,730,334
Expenditures:				
Current:				
Housing assistance programs	143,825,912	8,874,325	5,248,311	157,948,548
General government and other	4,726,397	677,386	87,701	5,491,484
Debt service:				
Principal	-	-	73,794,298	73,794,298
Interest	-	-	1,075,961	1,075,961
Total expenditures	148,552,309	9,551,711	80,206,271	238,310,291
Deficiency of revenues under expenditures	-	(1,309,213)	(35,270,744)	(36,579,957)
Other financing sources (uses)				
Transfers in, net	-	-	61,683,471	61,683,471
Net change in fund balances	-	(1,309,213)	26,412,727	25,103,514
Fund balance (deficit) — beginning of year, as restated	-	(1,708,874)	21,268,347	19,559,473
Fund balance (deficit) — end of year	$ -	(3,018,087)	47,681,074	44,662,987

See accompanying notes to basic financial statements

Puerto Rico Housing Finance Authority

(A Component Unit of the Government Development Bank for Puerto Rico)
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019

Amounts reported for governmental activities in the statement of activities are different because:	
Net changes in fund balance — total governmental funds	$ 25,103,514
Some expenses in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(2,061)
The issuance of long-tem 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 follows:	
Principal payments on notes payable to Government Development Bank for Puerto Rico	73,704,582
Net decrease in long term accrued interest payable	1,825
Principal on appropriation note - matured	89,716
Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which capital outlays exceeded depreciation in the current period.	(8,097)
Some intergovernmental revenue in the statement of activities do not provide current financial resources, and therefore, are deferred in the governmental funds. Also, intergovernmental revenue related to prior periods that became available during the current period is reported in the governmental funds but is eliminated in the statement of activities. This amount is the net adjustment.	2,487,303
Change in net position of governmental activities	$ 101,376,782

See accompanying notes to basic financial statements

Puerto Rico Housing Finance Authority

(A Component Unit of the Government Development Bank for Puerto Rico)
Balance Sheet – Proprietary Fund – Operating and Administrative Fund
June 30, 2019

Assets		
Current assets:		
Cash	$	17,487,487
Interest receivable		5,800,645
Other receivables		554,779
Other assets		47,615
Due from other funds		11,600,863
Restricted:		
Cash		1,744,729
Deposits placed with banks		755,796
Loans receivable - net		699,212
Interest receivable		343,185
Other receivables		263,140
Total current assets		39,297,451
Noncurrent assets:		
Investments and investments contracts		55,664,554
Loans receivable - net		120,676,809
Real estate available for sale		103,708
Capital assets		8,520,683
Restricted:		
Investments and investments contracts		63,822,135
Loans receivable - net		71,306,171
Real estate available for sale		1,675,907
Total noncurrent assets		321,769,967
Total assets		361,067,418
Deferred outflows of resources		
Loss on bond refundings		1,717,892
Pension related		3,753,890
Other post employment benefits related		120,135
Total deferred outflows of resources		5,591,917
Total assets and deferred outflows of resources	$	366,659,335

(continues)

Liabilities		
Current liabilities:		
Current liabilities payable from unrestricted assets:		
Accounts payable and accrued liabilities	$	6,949,844
Due to Commonwealth		7,614,858
Total current liabilities payable from unrestricted assets		14,564,702
Current liabilities payable from restricted assets:		
Accounts payable and accrued liabilities		515,296
Unearned revenue		3,940,686
Liability for losses on mortgage loan insurance		5,982,402
Bonds, notes and mortagage-backed certificates payable		12,976,340
Total current liabilities payable from restricted assets		23,414,724
Noncurrent liabilities payable from unrestricted assets -		
Total pension liability		67,248,992
Total other post employment benefits liability		1,432,241
Total noncurrent liabilities payable from unrestricted assets		68,681,233
Noncurrent liabilities payable from restricted assets -		
Bonds, notes and mortagage-backed certificates payable		94,359,416
Total liabilities		201,020,075
Deferred inflows of resources - pension related		4,239,192
Total liabilities and deferred inflows of resources		205,259,267
Net position:		
Net investment in capital assets		8,520,683
Restricted for:		
Affordable housing programs		18,492,690
Unrestricted		134,386,695
Total net position		161,400,068
Total liabilities, deferred inflows of resources and net position	$	366,659,335

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority

(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Revenues, Expenses, and Change in Net Position – Proprietary Fund –
Operating and Administrative Fund
For the Year Ended June 30, 2019

	Operating and Administrative Fund
Operating revenues:	
Investment income:	
Interest income on investment and investment contracts	$ 5,168,548
Interest income on deposits placed with banks	326,904
Net decrease in fair value of investments	(278,490)
Total investment income	5,216,962
Interest income on loans	8,940,882
Total investment income and interest income on loans	14,157,844
Noninterest income:	
Commitment, guarantee, service, and administrative fees	6,522,029
Other income	1,343,875
Mortgage loans insurance premiums	3,493,696
Release of allowance for losses on mortgage loan insurance	2,777,367
Total noninterest income	14,136,967
Total operating revenues	28,294,811
Operating expenses:	
Interest expense - bonds, notes and mortgage-backed certificates	7,494,860
Other noninterest expenses:	
Salaries and fringe benefits	8,576,235
Pension expense	22,808,411
Legal and professional fees	3,386,605
Occupancy and equipment costs	1,941,738
Office and administrative	935,689
Other real estate owned maintenance and related expenses	243,838
Provision for loan losses	484,671
Provision for losses on other real estate owned	4,657,090
Depreciation and amortization	299,073
Subsidy and trustee fees	163,229
Total noninterest expense	43,496,579
Total operating expenses	50,991,439
Operating loss	(22,696,628)
Nonoperating income:	
Custodial credit risk loss recovery	65,146,491
Intergovernmental-federal government	888
Total nonoperating income	65,147,379
Transfers out, net	(61,683,471)
Change in net position	(19,232,720)
Net position — beginning of year, as restated	180,632,788
Net position — end of year	$ 161,400,068

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Cash Flows – Proprietary Fund – Operating and Administrative Fund
For the Year Ended June 30, 2019

Cash flows from operating activities:	
Cash received from interest on mortgage and construction loans	$ 5,572,686
Cash paid for mortgage and construction loans originated	(33,800,919)
Principal collected on mortgage and construction loans	20,468,632
Cash received from other operating noninterest income	6,606,689
Cash received from mortgage loans insurance premiums	3,157,095
Cash paid for noninterest expenses	(3,735,090)
Cash payments for salaries and fringe benefits	(10,043,968)
Other operating receipts	1,097,253
Net cash provided by operating activities	(10,677,622)
Cash flows from noncapital financing activities:	
Payments of mortgage backed certificates	(7,036,062)
Interest paid	(2,471,647)
Intergovernmental-federal government	888
Transfers in	10,452,198
Transfers out	(6,989,179)
Net cash used in noncapital financing activities	(6,043,802)
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(422,908)
Net cash used in capital and related financing activities	(422,908)
Cash flows from investing activities:	
Purchase of investments	$ (298,145,380)
Proceeds from redemptions of investments	269,003,864
Net change in deposits placed with banks	22,088,844
Cash received from interest on investments and deposits	4,642,170
Proceeds from sale of real estate held for sale	1,166,020
Acquisition of real estate held for sale	(5,029,008)
Net cash provided by investing activities	(6,273,490)
Net change in cash	(23,417,822)
Cash, beginning of year	42,650,038
Cash, end of year	$ 19,232,216
Reconciliation to balance sheet — proprietary funds:	
Cash – unrestricted	$ 17,487,487
Cash – restricted	1,744,729
Total cash at year-end	$ 19,232,216

(continues)

Puerto Rico Housing Finance Authority

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

Statement of Cash Flows – Proprietary Fund – Operating and Administrative Fund

For the Year Ended June 30, 2019

Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	$ (22,696,628)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	299,073
Provision for loan losses	484,671
Interest expense	7,494,860
Provision for losses on other real estate owned	4,657,090
Interest income on investment and investment contracts and deposits	(5,496,652)
Other income	(1,343,875)
Net decrease in fair value of investments	278,490
Capitalized interest	(988,528)
Decrease (increase) in:	
Mortgage and construction loans	(13,835,439)
Accrued interest on mortgage and construction loans	(1,212,288)
Interest and other receivables	(150,515)
Other assets	(23,397)
Internal balances	(548,712)
Deferred outflow of resources - pension related	12,842,672
(Decrease) increase in:	
Accounts payable and accrued liabilities	1,016,581
Accrued interest payable	(7,255)
Unearned revenue	1,363,858
Liability for losses on mortgage loan insurance	(2,777,367)
Net pension liability	12,577,688
Deferred inflows of resources - pension related	(2,611,949)
	$ (10,677,622)
Noncash investing and noncapital financing activities:	
Capitalized interest and deferred amortization on loans	$ 988,528
Net decrease in fair value of investments	(278,490)
Custodial credit risk loss recovery	(65,146,491)
Accretion/(amortization) of discount (premium) on bonds payable	4,843,154
Amortization of deferred loss (included in interest expense)	193,596
Pension and other postemployment benefits payments made after the measurement date by the Commonwealth on behalf of the Authority	3,733,235
2018 deferred outflows of resources applied to reduce net pension and other postemployment benefits liabilities	(3,881,623)

See accompanying 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 Act No. 103 of August 11, 2011, to provide public and private housing developers with interim and permanent financing through mortgage loans for the construction, improvement, operation, and maintenance of rental housing for low and moderate-income families. The Board of Directors of the Authority is composed of seven members who will be appointed by the Governor of the Puerto Rico. Two of them will be ex officio members, which will be the following: the Secretary of the Housing Department, who will chair the Board of Directors, and the President of the Board of Directors of the GDB. They will also be part of said Board three (3) additional members of the Board of Directors of the GDB appointed from among its members and two members of the private sector

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

2. RESTATEMENT OF NET POSITION

After the issuance of the financial statements for the fiscal year ended June 30, 2018, management of the Authority became aware of certain information that changed the evaluation for the allowance for loan losses. Since such information existed but was not taken into consideration, such changes are considered the correction of an error. Accordingly, the Authority restated the beginning net position its business-type activities and proprietary fund, in order to correct errors in the provision for loan losses, which should have been recognized and not recognized, during the prior fiscal year. Also, management of the Authority corrected the presentation of a note payable which was considered matured as of June 30, 2018, but was incorrectly presented as long-term and accordingly not presented in the governmental funds. The following table summarizes these changes to net position and fund balance at the beginning of the current fiscal year, as previously reported:

Government-wide Financial Statements

	Governmental Activities	Business-Type Activities
Net position – July 1, 2018, as previously reported	$ (55,627,080)	$ 174,183,803
Derecognition of allowance for loan losses	-	14,000,000
Recognition of interest receivable	-	2,742,985
Recognition of allowance for loan losses	-	(10,294,000)
Net position– July 1, 2018, as restated	$ (55,627,080)	$ 180,632,788

Governmental Funds

	Affordable Housing Mortgage Subsidy Program
Fund balance – July 1, 2018, as previously reported	$ 41,177,958
Recognition of Matured Note Payable	(19,909,611)
Fund balance – July 1, 2018, as restated	$ 21,268,347

Proprietary Fund

	Operating and Administrative Fund
Net position – July 1, 2018, as previously reported	$ 174,183,803
Derecognition of allowance for loan losses	14,000,000
Recognition of interest receivable	2,742,985
Recognition of allowance for loan losses	(10,294,000)
Net position– July 1, 2018, as restated	$ 180,632,788

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Government-Wide and Fund Financial Statements

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

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

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

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

- Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often is designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues.

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

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

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

(b) Fund Balances

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

(c) Measurement Focus, Basis of Accounting, and Financial Statements Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds' Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough, thereafter, to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 120 days after the end of the fiscal year. Principal revenue sources considered susceptible to accrual include federal funds to be received by the HUD Programs and HOME Program. Other revenues are considered to be measurable and available only when cash is received. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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, 2019.

  → **My New Home Program** – This program has revenues provided by Act No. 122 of August 6, 2010, as amended, which assigned to the Authority, in perpetuity, a portion of no less than 85% 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. As of June 30, 2019, the New Secure Housing Program fund has been closed.

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

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

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

- **Operating and Administrative** – The Operating and Administrative fund accounts for all the enterprise activities of the Authority. Within this fund, the Authority has the following programs:

  → **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.

(d) Fair Value Measurement

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

(e) Investments and Investment Contracts

Investments and investment contracts are carried at fair value, except for money market instruments and participating investment contracts with a remaining maturity at the time of purchase of one year or less and nonparticipating investment contracts (guaranteed investment contracts), which are carried at cost, and investment positions in 2a-7 like external investment pools, which are carried at the pools' share price. The Authority's investments and investment contracts have recurring fair value measurements as of June 30, 2019, using quoted market prices (Level 1 inputs). Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in net increase (decrease) in fair value of investments.

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

(f) Loans Receivable and Allowance for Loan Losses

Loans are presented at the outstanding unpaid principal balance reduced by an allowance for loan losses. Loans are measured for impairment when it is probable that all amounts, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement. Interest accrual ceases when collectability is uncertain, for single-family loans is 90 days past due, for multiple family loans is 180 past due and for construction loans when it is considered impaired. Once a loan is placed in nonaccrual status, all accrued but uncollected interest is reversed against current interest income. Interest income on nonaccrual loans, is thereafter, recognized as income only to the extent actually collected. Nonaccrual loans are returned to an accrual status when management has adequate evidence to believe that the loans will be performing as contracted.

The allowance for loan losses is established through provisions recorded as an operating expense. This allowance is based on the evaluation of the risk characteristics of the loan or loan portfolio, including such factors as the nature of the individual credit outstanding, past loss experience, known and inherent risks in the portfolios, and general economic conditions. Charge-offs are recorded against the allowance when management believes that the 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.

(g) Real Estate Available for Sale

Real estate available for sale comprises properties acquired through foreclosure proceedings. It also includes loans that are treated as if the underlying collateral had been foreclosed because the Authority has taken possession of the collateral, even though legal foreclosure or repossession proceedings have not taken place. Those properties are carried at the lower of cost or fair value, which is established by a third-party professional assessment or based upon an appraisal, minus estimated costs to sell.

At the time of acquisition of properties in full or in partial satisfaction of loans, any excess of the loan balance over the fair value of the properties, minus estimated costs to sell is charged against the allowance for loan losses. Subsequent declines in the value of real estate available for sale are charged to expense. Gain or loss on sale of real estate available for sale are included within revenues or expenses in the accompanying statement of activities, and within noninterest income or noninterest expense in the accompanying statement of revenues, expenses, and change in net position.

(h) Capital Assets

Capital assets, which include leasehold improvements, information systems, office furniture and equipment and vehicles, are reported in the governmental activities and business-type activities columns in the government-wide financial statements and in the Proprietary Fund. Capital assets are defined by the Authority as assets, which have a cost of $500 or more at the date of acquisition and have an expected useful life of three or more years. Purchased capital assets are valued at historical cost. Donated fixed assets are recorded at their acquisition value refers to the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend the asset's useful life are not capitalized.

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

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

(i) Compensated Absences

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

(j) Liability for Losses on Mortgage Loans Insurance

The estimated liability for losses on mortgage loans insurance is based on management's evaluation of potential losses on insurance claims after considering economic conditions, fair value of related property, and other pertinent factors.

Such amount is, in the opinion of management, adequate to cover estimated future probable mortgage loans insurance losses. Actual losses for mortgage loans insurance are charged, and recoveries, if any, are credited to the estimated liability for losses on mortgage loans insurance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the outstanding loans guarantee portfolio and the related liability may change in the near future.

(k) Loan Origination Costs and Commitment Fees

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

(l) Transfers of Receivables

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

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

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

(m) Mortgage Loans Insurance Premiums

Premiums on insured mortgage loans are recognized as earned.

(n) Risk Financing

To minimize its risk of loss, the Authority purchases insurance coverage for public liability, hazard, automobile, crime, and bonding, as well as medical and workmen's insurance for employees. The selection of the insurer has to be approved by the Public Insurance Office of the Puerto Rico Treasury Department.

Insurance coverage is updated annually to account for changes in operating risk. For the last three years, insurance settlements have not exceeded the amount of coverage.

(o) Deferred Outflows and Inflows of Resources

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

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

(p) Accounting for Pension Costs

The Authority is a participant in the Commonwealth of Puerto Rico Employees Retirement System (the Pension Plan), a multiemployer retirement plan. Until June 30, 2018, the Authority accounted for its participation in the Pension Plan in accordance with the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*, however, because of the implementation of the pay-as-you-go ("PayGo") system, as provided by Act No. 106 of 2017 (Act 106), the Pension Plan no longer met the criteria to be considered a plan that is administered through a trust or equivalent arrangement under GASB 68 and, therefore, it was required to apply the guidance in GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* effective July 1, 2018. The adoption of GASB 73 resulted in a net increase in the Pension Plan liability and related deferred outflows and inflows of resources of $24.9 million as of July 1, 2018, which is presented as a separate component of income from operations in the accompanying statement of revenues, expenses, and changes in net position for the year ended June 30, 2019.

Pursuant to the provisions of GASB 73, the Authority recognizes a pension liability for its proportionate share of the collective pension liability under the Pension Plan, as well as its proportionate share of the collective deferred outflows of resources, collective deferred inflows of resources, and collective pension expense. The Authority's allocation percentage is based on the ratio of the Authority's benefit payments to total benefit payments under the Pension Plan. Changes in the total pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in the total pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees, in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they arose.

(q) Accounting for Postemployment Benefits Other than Pensions

Other postemployment benefits ("OPEB") expense is recognized and disclosed using the accrual basis of accounting. The Authority recognizes the total OPEB liability since the Authority's OPEB program is funded on a pay-as-you-go basis, measured as of the Authority's prior year-end. Changes in the total OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in total OPEB liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees and recorded as a component of OPEB expense beginning with the period in which they arose. Employer's contributions made after the measurement date of the total OPEB liability are recorded as a deferred outflow of resources.

(r) Future Adoption of Accounting Pronouncements

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

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

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

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2019. Earlier application is encouraged, but not required.

- GASB Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged, but not required.

- GASB Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged, but not required.

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2019. Earlier application is encouraged, but not required.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged, but not required. The requirements of this Statement should be applied prospectively.

- GASB Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61.* The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged, but not required. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

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

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged, but not required.

- GASB Statement No. 92, *Omnibus 2020.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

    - The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports;
    - Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan;
    - The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits;*
    - The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements;
    - Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition;
    - Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers;
    - Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and
    - Terminology used to refer to derivative instruments.

The provisions of this statement are effective, for most of the topics, for reporting periods beginning after June 15, 2020.

- GASB Statement No. 93, *Replacement of Interbak Oferred Rates.* The objective of this Statement is to address the accounting and financial reporting implications that result from the replacement of an IBOR, most notably the London Interbank Offered Rate (LIBOR).

  As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements.* The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance.* The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

  - Statement No. 83, *Certain Asset Retirement Obligations*
  - *Statement No. 84, Fiduciary Activities*

  - *Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
  - *Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period*
  - *Statement No. 90, Majority Equity Interests*
  - *Statement No. 91, Conduit Debt Obligations*
  - *Statement No. 92, Omnibus 2020*
  - *Statement No. 93, Replacement of Interbank Offered Rates*
  - *Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
  - *Implementation Guide No. 2018-1, Implementation Guidance Update—2018*
  - *Implementation Guide No. 2019-1, Implementation Guidance Update—2019*
  - *Implementation Guide No. 2019-2, Fiduciary Activities.*

  The effective dates of the following pronouncements are postponed by 18 months:

  - *Statement No. 87, Leases*
  - *Implementation Guide No. 2019-3, Leases.*
  - *Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued. The requirements of this Statement are effective immediately.*

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements.* This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged, but not required.

- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.*

The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

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

4. GOING CONCERN

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards (GASB 56)*, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary.

Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements, and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation.

Management's evaluation of the Authority's going concern has identified, the fact that GDB's management believes that there is substantial doubt that GDB, the Authority's primary government, will continue as a going concern, as an external matter that may affect the ability of the Authority to continue as a going concern.

GDB traditionally served as interim lender to the Commonwealth and its public corporations (also referred to herein as instrumentalities) and municipalities in support of the issuance of long-term bonds and notes by such entities in the municipal bond market. GDBhas also provided financing to the Commonwealth and its instrumentalities to finance their respective budget deficits, collateral requirements under swap agreements, and to meet mandatory payments of obligations. As a result, the GDB's liquidity and financial condition was dependent, to a large extent on the repayment of loans made to the Commonwealth and its instrumentalities. The Commonwealth and its instrumentalities are in the midst of a profound fiscal, economic crisis that was accompanied by historical liquidity issues, that are the culmination of many years of significant governmental deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. Conditions that adversely affected the ability of the Commonwealth and its instrumentalities to raise cash (including limited access to capital markets) and repay their interim and other loans to GDBhave had an adverse effect on the GDB's liquidity and financial condition and its ability to repay its obligations.

Upon the establishment of the FAFAA, GDB's role was reduced to agent in (i) collecting on its loans portfolio and (ii) disbursing funds pursuant to strict priority guidelines. Given the reduced services that the GDB, and the GDB's overall financial position, including that no appropriations were assigned to the GDBfor fiscal years 2018 and 2019, on March 23, 2018, the GDBceased its operations and management initiated an orderly wind down process. Such wind down process involved, among other things, a comprehensive restructuring of substantially all of the GDB's obligations pursuant to the Title VI Qualifying Modification.

As a result, Management believes that there is substantial doubt that the GDBwill continue as a going concern.

Complete financial statements of the GDB can be obtained directly by contacting their respective administrative offices at:

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

Management's Conclusion on Going Concern

The winding down of GDB's operations means GDB will no longer serve as a financing source to the Authority and that any future financing needs of the Authority would be subject to the Oversight Board's approval under PROMESA. This fact causes the Authority's management to conclude that there is substantial doubt about the ability of the Authority to continue as a going concern.

Notwithstanding, management has the intention of putting in place a series of plans and initiatives that, when executed, are expected to result in an alleviation of the substantial doubt referred to in the previous paragraph.

5. QUALIFYING MODIFICATION

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

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

The assets of the PET (the PET Assets) consist of an unsecured claim against the Commonwealth of approximately $578 million, which is the subject of a proof of claim filed in the Commonwealth's Title III case (the Title III Claim).

The Title III Claim has not yet been allowed in the Title III case and the Official Committee of Unsecured Creditors (the UCC) has objected to the Title III Claim. It is possible that the Oversight Board or other parties could also object to the Title III Claim. As such, the recovery on the Title III Claim remains highly uncertain at this time.

As a result of the Qualifying Modification, on November 29, 2018, the credit facilities, except the Repurchase Agreement (See Note12), the Authority owed to the GDB amounting to $83,126,247, were fully offset on a dollar-for-dollar basis by the amount of the Authority's deposits held at the GDB, $139,831,024, and such facilities were extinguished. Accordingly, the Authority has a claim on the PET amounting to $56,704,777. Since such deposits had previously been impaired, the Authority will continue to value them at a carrying amount of zero. The Authority will recognize as other income the recovery of such deposits.

All the debt that was setoff with the deposits pursuant to the Qualifying Modification was owed by the governmental funds. At the date of the setoff, the governmental funds had deposits in GDB amounting to $17,979,756. In order to account for the setoff appropriately, the difference between the debt that was offset, $83,126,247, and the amount of deposits in GDB, $17,979,756, in the governmental funds, was transferred, $65,146,491, from the Operating and Administrative Fund.

The Authority's recovery on account of its interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets (i.e., the Title III Claim). Claims that the Commonwealth and other governmental entities may have had against GDB have been released pursuant to the Qualifying Modification (except for as set forth therein), and GDB has reduced the amount of any allowed claim against the Commonwealth it may receive as set forth in such Qualifying Modification.

6. CASH AND DEPOSITS PLACED WITH BANKS

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.

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

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

	Cash				
	Deposit balance	Custodial credit risk loss	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Commercial banks	$ 52,635,202	$ -	$ 52,635,202	$ 54,093,625	$ -
	$ 52,635,202	$ -	$ 52,635,202	$ 54,093,625	$ -

	Deposits placed with banks				
	Deposit balance	Custodial credit risk loss	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Deposit in commercial banks	$ 839,850	$ -	$ 839,850	$ 839,850	$ -
Deposits in EDB	65,242,680	(65,242,680)	-	66,141,690	66,141,690
	$ 66,082,530	$ (65,242,680)	$ 839,850	$ 66,981,540	$ 66,141,690

All deposits placed with banks at June 30, 2019, will mature in fiscal year 2020.

7. INVESTMENTS AND INVESTMENT CONTRACTS

During fiscal year 2019, the Authority followed GDB's investment policies, which provide that investment transactions shall be entered into only with counterparties that are rated BBB+/A-1 or better by Standard & Poor's or equivalent rating by Fitch Ratings or Moody's Investors Service, depending on the type and maturity of the investment and the counterparty to the transaction. Any exceptions needed to be approved by the Board of Directors of GDB. These investment policies also provide that purchases and sales of investment securities shall be made using the "delivery versus payment" method.

The following table summarizes the type and maturities of investments held by the Authority as of June 30, 2019. 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	$ —	$ 1,672,077	$ 48,745,564	$ 11,269,235	$ 61,686,876
FNMA	—	268,694	1,706,681	409,072	2,384,447
Other	—	—	—	102,358	102,358
Fixed-income external investment pool - Federated Government Obligations	—	—	—	13,217,062	13,217,062
U.S. Treasury Obligations	64,992,693	—	—	—	64,992,693
Nonparticipating investment contracts:					
Trinity Funding Co.	—	—	—	13,762,214	13,762,214
Banco Popular de Puerto Rico	—	—	—	5,228,867	5,228,867
Banco Santander de Puerto Rico	—	—	—	5,239,251	5,239,251
Total investments	$ 64,992,693	$ 1,940,771	$ 50,452,245	$ 49,228,059	166,613,768
Equity interest in Puerto Rico Community Development Fund					4,500
Total					$ 166,618,268

As of June 30, 2019, 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 are guaranteed by GNMA. U.S. Treasury Obligations 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, and U.S. Treasury Obligations, as of June 30, 2019, are as follows:

	Credit risk rating			
Securities type	**AAA**	**AA**	**A**	**B**
Mortgage-backed securities:				
FNMA	$ —	$ 2,384,447	$ —	$ —
Other	—	102,358	—	—
Fixed income external investment pool - Federated Government Obligations	13,217,062	—	—	—
Nonparticipating investment contracts:				
Trinity Funding Co.	—	—	13,762,214	—
Banco Popular de Puerto Rico	—	—	—	5,228,867
Banco Santander de Puerto Rico	—	—	5,239,251	—
Total	$ 13,217,062	$ 2,486,805	$ 19,001,465	$ 5,228,867

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

At June 30, 2019, fair value of investments based on the hierarchy of inputs are determined as follows:

	Level 1	**Level 2**	**Level 3**	**Total**
Mortgage Backed Securities	$ 64,173,681	$ -	$ -	$ 64,173,681
Federated Government Obligations	13,217,062	-	-	13,217,062
Total	$ 77,390,743	$ -	$ -	$ 77,390,743

8. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable as of June 30, 2019, consist of the following:

Real estate loans – all types of residential property, bearing interest at various rates ranging from 5% to 18%	$ 231,960,857
Less allowance for loan losses	(39,278,665)
	$ 192,682,192

The summary of the activity in the allowance for loan losses for the year ended June 30, 2019, is as follows:

Balance - beginning of year, as restated	$ 39,564,324
Provision for loan losses	4,000,000
Release of allowance for loan losses	(3,515,329)
Write-offs	(770,330)
	$ 39,278,665

Real estate loans receivable represent single-family unit mortgage 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 construction loans granted 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 2056. 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, 2019:

Loan aged category		Total loan balance		Allowance for loan losses
Current	$	39,241,695	$	442,862
7 - 30 months		9,767,111		1,108,462
31 - 60 months		3,367,773		3,253,185
Subtotal		52,376,579		4,804,509
Other nonaged loans		6,133,166		6,133,166
Total	$	58,509,746	$	10,937,675

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

The following table presents the risk category of construction loans for multifamily housing unit loans subject to risk rating and their allowance for loan losses as of June 30, 2019:

Loan risk category		Amount		Allowance for loan losses
Good	$	34,125,274	$	341,252
Doubtful		8,237,481		4,140,602
Loss		12,666,516		8,859,136
Total	$	55,029,271	$	13,340,990

In addition, the Authority has a real estate loan receivable of approximately $33.3 million to a related party, 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". These mortgage loans are* subsequently purchased by the Authority. Real estate loans originated under this program become due and start accruing interest after the first 10 years of the term of the loan.

The allowance for loan losses on subortdinated second mortgage loans is determined considering delinquency levels of the first mortgage loans, as reported by the Puerto Rico Office of the Commissioner of Financial Institutions. As of June 30, 2019, the outstanding balance of second mortgage loans was approximately $70.4 million and the allowance for loan losses was $15 million.

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

The loans considered impaired as of June 30, 2019, and the related interest income for the year then ended, are as follows:

Recorded investment in impaired loans:	
Not requiring an allowance for loan losses	$ 12,971,496
Requiring an allowance for loan losses	27,200,551
Total recorded investment in impaired loans	$ 40,172,047
Related allowance for loan losses	$ 27,984,665
Average recorded investment in impaired loans	48,143,658
Interest income recognized on impaired loans	-
Interest income that would have been recognized had these loans not been impaired	2,611,183

9. 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 $148.6 million during the year ended June 30, 2019. This amount includes approximately $4.7 million of administrative fees for services performed as contract administrator, which are reimbursed by HUD. As of June 30, 2019, the amounts due from the federal government under the HUD Programs fund amounted to approximately $1.1 million.

During the year ended June 30, 2019, the Authority expended approximately $9.6 million of HOME Program funds. The Authority has approximately $6.3 million due from the federal government as of June 30, 2019, 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 in 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.

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.

10. REAL ESTATE AVAILABLE FOR SALE

Real estate available for sale at June 30, 2019, consisted of the following:

Residential (1–4 units)	$ 15,557,632
Valuation allowance	(13,778,017)
Total real estate available for sale	$ 1,779,615

The following is a summary of the activity in the valuation allowance for the year ended June 30, 2019:

Balance – beginning of year	$	12,633,973
Provision for possible losses		4,657,090
Write-offs		(3,513,046)
Balance – end of year	$	13,778,017

11. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019, was as follows:

Governmental Activities

	Beginning balance	Additions	Reductions	Ending balance
Capital assets:				
Information systems	$ 66,329	$ —	$ —	$ 66,329
Office furniture and equipment	37,633	—	—	37,633
Vehicles	109,746	—	—	109,746
Total capital assets	213,708	—	—	213,708
Less accumulated depreciation and amortization for:				
Information systems	(66,307)	—	—	(66,307)
Office furniture and equipment	(37,335)	(102)	—	(37,437)
Vehicles	(67,586)	(7,995)	—	(75,581)
Total accumulated depreciation and amortization	(171,228)	(8,097)	—	(179,325)
Total capital assets - net	$ 42,480	$ (8,097)	$ —	$ 34,383

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land and land improvements	$ 7,752,711	$ -	$ -	$ 7,752,711
Capital assets being depreciated:				
Leasehold improvements	4,236,023	2,075	-	4,238,098
Information systems	4,741,739	333,688	-	5,075,427
Office furniture and equipment	2,216,552	91,064	-	2,307,616
Vehicles	239,347	-	-	239,347
Total	11,433,661	426,827	-	11,860,488
Less accumulated depreciation				
Leasehold improvements	(4,064,194)	(27,122)	-	(4,091,316)
Information systems	(4,337,410)	(236,167)	-	(4,573,577)
Office furniture and equipment	(2,190,294)	(29,984)	-	(2,220,278)
Vehicles	(197,626)	(9,719)	-	(207,345)
Total	(10,789,524)	(302,992)	-	(11,092,516)
Capital assets, net	$ 8,396,848	$ 123,835	$ -	$ 8,520,683

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12. 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, 2019, is as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Commonwealth appropriation note payable - AHMSP Act No. 124	$ 3,397,686	$		$ 3,397,686	$ 353,097
Less unaccredited discount	(58,788)	2,061	—	(56,727)	—
Subtotal	3,338,898	2,061	—	3,340,959	353,097
Note payable to DRA	19,906,221	3,390		19,909,611	19,909,611
Line of credit - AHMSP Act No. 124	17,358,711	233,449	(17,592,160)	-	—
Line of credit - My New Home Program	16,671,647	235,914	(16,907,561)	-	—
Line of credit - New Secure Housing Program	48,208,374	418,375	(48,626,749)	-	—
Total governmental activities	$ 105,483,851	$ 893,189	$ (83,126,470)	$ 23,250,570	$ 20,262,708
Business-type activities:					
Mortgage-Baked Certificates - 2006 Series A	$ 56,083,624	$ —	(6,111,163)	$ 49,972,461	$ 12,976,340
Subtotal	56,083,624	—	(6,111,163)	49,972,461	12,976,340
Notes payable:					
Special obligation notes (Home Purchase Stimulus Program)	71,548,274	—	(931,181)	70,617,093	—
Plus unamortized premium	210,445	—	(24,573)	185,872	—
Less unaccredited discount	(18,307,397)	—	4,867,727	(13,439,670)	—
Total business-type activities	$ 109,534,946	$ —	$ (2,199,190)	$ 107,335,756	$ 12,976,340

The annual debt service requirements to maturity, including principal and interest, for long-term debt, other than amounts due to DRA, as of June 30, 2019, are as follows:

		Governmental activities		Business-type activities	
		PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
Year(s) ending June 30:					
2020	$	353,097	807,487	12,976,340	2,444,760
2021		97,171	175,667	6,749,313	3,390,422
2022		101,402	171,150	6,383,209	4,001,266
2023		106,017	166,220	7,006,682	5,924,568
2024		31,541	163,755	6,561,875	5,559,550
2025 - 2029		2,056,125	633,311	27,040,879	22,670,539
2030 - 2034		652,333	36,372	17,247,657	16,150,368
2035 - 2039		-	-	23,668,599	9,161,605
2040 - 2044		-	-	12,955,000	1,268,311
TOTAL	$	3,397,686	2,153,962	120,589,554	70,571,389

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 refunded in advance 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, 2019, was approximately $3.3 million and matures throughout August 1, 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds. The applicable percentage is the percentage representing the proportion of the amount paid by the PFC on the PFC Bonds serviced by the Note to the aggregate amount paid by the PFC on all the PFC Bonds issued by the PFC under Act No. 164, which was 6% at June 30, 2019.

Debt to GDB Debt Recovery Authority – The Authority owed the GDB, as of November 18, 2018, $19.9 million under an Investment Repurchase Agreement with an original maturity date of July 1, 2018. Pursuant to the Qualifying Modification (Note 5) such debt was transferred to the DRA. As of the date of issuance of these financial statements no payments have been made on this debt and the Authority is negotiating with the DRA the repayment terms.

Line of Credit - AHMSP Act No. 124 – Pursuant to the Qualifying Modification, this line of credit was paid on fiscal year 2019 with the Authority's deposits on GDB for which a custodial credit loss had been previously recognized.

Line of Credit - My New Home Program Financing – Pursuant to the Qualifying Modification, this line of credit was paid on fiscal year 2019 with the Authority's deposits on GDB for which a custodial credit loss had been previously recognized.

Line of Credit – New Secure Housing Program Financing – Pursuant to the Qualifying Modification, this line of credit was paid on fiscal year 2019 with the Authority's deposits on GDB for which a custodial credit loss had been previously recognized.

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Business-Type Activities

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

Description and Maturity date	Interest rate	Amount outstanding
Mortgage-Backed Certificates, 2006 Series A - principal and interest payable monthly from September 29, 2006 to August 29, 2030	2.955% - 6.56%	46,161,874
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%	24,521,630
Special Obligation Notes, 2011 Series A - Principal and interest payable monthly from September 1, 2021 to September 1, 2041	7.00%	13,860,751
Special Obligation Notes, 2012 Series A - Principal and interest payable monthly from June 18, 2012 to September 1, 2041	7.00%	22,791,501
Total, net of unamortized premiums and discounts		$ 107,335,756

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, 2019, is as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Vacation	$ 529,783	$ 495,000	$ (842,414)	$ 182,369	$ 182,369

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

13. 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, 2019, the Program covered loans aggregating to approximately $557 million. A liability of $6.0 million was recorded under this program as of June 30, 2019, as an estimate of the losses inherent in the portfolio.

The mortgage loans insurance premiums amounted to $3,493,696 for the year ended on June 30, 2019.

The regulations adopted by the Authority require the establishment of adequate reserves to guarantee the solvency of the mortgage loans insurance program; as of June 30, 2019, the Authority was not in compliance with the regulations. At June 30, 2019, the Authority had an unrestricted deficit of approximately $5.2 million in the mortgage loans insurance program.

14. RELATED-PARTY TRANSACTIONS

A summary of the most significant related-party balances and transactions as of June 30, 2019, and for the year ended is as follows:

(a) Commonwealth

Legislative appropriations of approximately $21.6 million were received by the governmental funds during the year ended June 30, 2019. These appropriations are restricted for the payment of operating expenses and to support affordable housing programs.

The Authority has a due to the Commonwealth amounting to $7,614,858. Such liability is the result of PayGo pension benefits payments made by the Commonwealth on behalf of the Authority.

(b) Department of Housing

As of June 30, 2019, the Authority has an amount due from the Puerto Rico Department of Housing (Department of Housing) in the total amount of $581,687 which has been fully reserved.

The Authority entered into a 30-year lease agreement with the Department of Housing to rent office space expiring in 2037. During the original term of the lease, the Authority paid an annual rent of $1.5 million. This agreement was verbally modified in January 2019, and the Authority is paying a monthly rent of approximately $27,000. The agreed-upon rent includes parking spaces, maintenance, and security services in common areas. The Department of Housing (DH) 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, 2019, amounted to $1.2 million. In January 2019, the Authority moved part of its operations to a building owned by EDB. EDB has not charged rent to the Authority.

(c) 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 was 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.

At the creation of PRCDF, Citi and the Authority entered into a Fund Option Agreement pursuant to which (1) the Authority granted Citi the option to require that the Authority purchased Citi's fund interest for $587,500 and (2) Citi granted the Authority the option, exercisable if Citi did not exercise its option to sell within six months following the end of the New Markets Tax Credits compliance period, to require Citi to sell its fund interest to the Authority for a purchase price equal to the fair market value of the fund interest. In August 2019, Citi informed the Authority its intention to exercise its option for the Authority to purchase its fund interest. Accordingly, in September 2019, the Authority issued a payment to Citi for the amount of $587,500 and thus became the sole owner of PRHFA RLF Investment Fund, LLC and accordingly the investor member of PRCDF I.

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.

15. 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, 2019, commitments to extend credit amounted to approximately $23.8 million.

16. RETIREMENT PLAN

The Defined Benefit Pension Plan for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Plan) was created pursuant to Act No. 447 on May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. Effective July 1, 2017, Act No. 106 of August 23, 2017, (Act No. 106-2017) implemented a substantial pension reform for all of the Commonwealth's retirement systems, including the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). This reform modified most of ERS's activities, eliminated the employer contributions, created the legal framework to implement a pay-as-you-go (PayGo) system, and required the Commonwealth's retirement systems to liquidate substantially all of their assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. Under the PayGo system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the participating employers.

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan. Therefore, the accompanying schedule of employer allocations and the schedule of pension amounts by employer (collectively, the Schedules) present the pension amounts attributable to the Commonwealth reporting entity (i.e., the Commonwealth and its component units).

Pension benefits

Before July 1, 2017, ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost sharing, multi employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all full time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the System) are covered by ERS, including the Authority. Effective July 1, 2017, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payment by the applicable employers (including the Authority). As of July 1, 2017, ERS stopped making pension payments to retirees. However, all government employers (including the Authority) are required to reimburse the Commonwealth for benefits paid on account of their employees through the PayGo fee. Since July 1, 2017, ERS continues to help manage the administrative matters of the pension benefits that are being paid by the Commonwealth. The aforementioned defined benefits had been paid by ERS until June 30, 2017.

Before August 23, 2017, membership was mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment in ERS's prior programs. After that date, membership continues to be mandatory in the New Defined Contribution Program created by Act 106-2017.

The benefits provided to members of ERS are established by Commonwealth law and may be amended only by law. Act No. 3, in conjunction with other recent funding and design changes, provided for a comprehensive reform of ERS.

This summary of ERS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. Please note that all eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable law and regulations, these benefits were not changed or amended with the enactment of Act 106-2017.

Certain benefit provisions are different for the three groups of members who entered ERS prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990.

- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999, (together with Act No. 447 participants, the Defined Benefit Program)

- Members of Act No. 305 (or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013, (the System 2000 Program).

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

Before July 1, 2017, the assets of the Defined benefit Program, the System 2000 Program, and the Contributory Hybrid Program were pooled and invested by ERS. Each member has a nonforfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

After July 1, 2017, future benefit payments will be made by the Commonwealth and the New Defined Contribution Program is being administered by private third party.

(a) Service Retirement Eligibility Requirements

(1) *Eligibility for Act No. 447 Members* – Act No. 447 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013, and did not attain 30 years of credited service by December 31, 2013, are eligible to retire with 10 years of credited service upon attainment of the retirement eligibility age shown in the table below.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements of the table above, Act No. 447 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013, are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(2) *Eligibility for Act No. 1 Members* – Act No. 1 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013, are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(3) *Eligibility for System 2000 Members* – System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

(4) *Eligibility for Members Hired after June 30, 2013* – Attainment of age 58 if a Public Officer in a High Risk Position and attainment of age 67 otherwise.

(b) Compulsory Retirement

All Act No. 447 and Act No. 1 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

(c) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the Defined Contribution Hybrid Contribution Account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

(1) *Accrued Benefit as of June 30, 2013, for Act No. 447 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to $6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(2) *Accrued Benefit as of June 30, 2013, for Act No. 1 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of
credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1, Mayors with at least 8 years of credited service as a Mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(d) Special Benefits

(1) Minimum Benefits

– Past Ad hoc Increases

The legislature, from time to time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983.

– Minimum Benefits for Members who Retired before July 1, 2013 (Act No. 156 of 2004, Act No. 35 of 2007, and Act No. 3 of 2013).

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007).

– Coordination Plan Minimum Benefit

A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

(2) Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35 of 2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act No. 35 of 2007).

(3) Special "Bonus" Benefits

– Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013.

– Medication Bonus (Act No. 155, as Amended by Act No. 3)
An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

The Authority's proportion of the total pension liability of the Retirement Plan and Actuarial Information

The Authority's proportionate share of the total pension liability of the Retirement Plan and the proportion percentage of the aggregate total pension liability of the Retirement Plan allocated to the Authority as of June 30, 2019 amounted to $67,248,992 and 0.2746%, respectively. The Commonwealth's total pension liability, from which an allocation was made to the Authority's financial statements as of June 30, 2019, as of June 30, 2018, was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018 (measurement date as of June 30, 2018).

(e) Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Discount Rate

The discount rate for June 30, 2018 was 3.87%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2018, actuarial valuation were as follows:

— *Pre-retirement Mortality*

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act 127.

— *Post-retirement Healthy Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

— *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions as of June 30, 2018

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No.66-2014, and the current general economy.

(f) Sensitivity of the Total Pension Liability to Changes in the Discount Rate

The following presents the total pension liability calculated using the discount rate of 3.87%, as well as what it would be if it were calculated using the discount rate of 1-percentage point lower (2.87%) or 1-percentage-point higher (4.87%) than the current rate (dollars in thousands):

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
The Authority's proportionate share of total pension liability	$ 76,524,148	$ 67,248,992	$ 59,722,148

Pension expense and Deferred Outflows of Resources and Deferred Inflows of Resources

Pension expense recognized by the Authority for the year ended June 30, 2019, related to the ERS amounts to a $22,808,411.

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended June 30, 2019:

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$ -	$ 2,033,956
Changes in assumptions		2,205,236
Changes in employer proportion	140,790	
Benefits paid subsequent to the measurement date	3,613,100	-
	$ 3,753,890	$ 4,239,192

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions at June 30, 2019, will be recognized in pension expense (benefit) in future years as follows:

Years ending June 30,	Amount
2020	$ (819,680)
2021	(819,680)
2022	(819,680)
2023	(819,680)
2024	(819,680)
	$ (4,098,400)

The previous amounts do not include employer specific deferred outflows and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5 years for 2019.

17. OTHER POSTEMPLOYMENT BENEFITS

The Authority participates in the OPEB plan of the Commonwealth of Puerto Rico for retired participants of the ERS, also known as MIPC. The Plan is administered on a pay-as-you-go basis.

ERS MIPC is an unfunded cost sharing, multiple employer defined benefit OPEB sponsored by the Commonwealth. This OPEB Plan was created under Act No. 95-1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full-time employees of the Commonwealth, certain municipalities and component units of the Commonwealth, such as the Authority, not having their own post-employment benefit plans. For ERS MIPC, Commonwealth and Authority employees became plan members upon their date of employment. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age.

The MIPC covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013, (Act No. 483, as amended by Act No. 3). The MIPC is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursements from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. The legislative appropriations are considered estimates of the payments to be made by the ERS MIPC. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

Actuarial methods and assumptions

The total OPEB liability as of June 30, 2019, was determined by an actuarial valuation as of June 30, 2017, which was rolled forward to June 30, 2018. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period:

Inflation	Not applicable
Municipal bond index	3.87%%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017 and the current general economy.
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year, and projected forward using MP-2018 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year, and projected forward using MP-2018 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan’s experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based based on a study of plan’s experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience 2009 study using data as of June 30, 2003, June 30, 2005, and June 30, 2007.

The discount rate for June 30, 2018, and 2017 was 3.87% and 3.58%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future, including, for example, assumptions about future employment and mortality. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing costs between the employer and plan member at the time of each valuation. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

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

The Authority's Proportion of Total OPEB Liability of ERS MIPC

The Authority's proportionate share of the total OPEB liability of the ERS MIPC and the proportion percentage of the aggregate total OPEB liability of the ERS allocated to the Authority as of June 30, 2019, was approximately $1.4 million and 0.17007%, respectively.

As the ERS MIPC is a multiple employer plan and the benefits are not funded by an OPEB trust, GASB Statement No. 75 applies to the OPEB provided to each participating employer's own employees. The Central Government and its component units are considered to be one employer. Other employers also participate in the ERS OPEB Plan. Because certain employers that are component units of the Commonwealth, such as the Authority, prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers. GASB Statement No. 75 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

Sensitivity of total OPEB liability to changes in the discount rate

The following table presents the Company's proportionate share of the OPEB liability at June 30, 2019 (measurement date June 30, 2018), for ERS calculated using the discount rate of 3.87%, as well as what the Company's proportionate share of the OPEB liability would be if it were calculated using a discount rate of one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
The Authority's proportionate share of OPEB liability	$ 1,569,711	$ 1,432,241	$ 1,315,364

Deferred outflows of resources and deferred inflows of resources

OPEB adjustment recognized by the Authority for the year ended June 30, 2018, related to ERS MIPC amounted to approximately $83,000.

Because all participants are inactive, there are no deferred outflows or inflows of resources as any changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Authority subsequent to the measurement date, which amounted to $120,135 as of June 30, 2019, which will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020.

Additional information on the OPEB Plan of the Commonwealth of Puerto Rico for Retired Participants of ERS is provided on its standalone Schedules of Employer Allocations and Schedules of OPEB Amounts by Employer for the years ended June 30, 2018, and 2017, 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.

18. EARLY RETIREMENT PROGRAM

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

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

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

During fiscal year 2019, there were no costs related to these early termination benefits. As of June 30, 2019, the total liability related to these termination benefits was approximately $79,452, recorded within accounts payable and accrued liabilities of the business-type activities.

19. 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, 2019, the Authority was custodian of $256,674 in restricted funds of former "*Corporación de Renovación Urbana y Vivienda*" (CRUV). As of June 30, 2019, 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, 2019, the aggregate outstanding principal balance of the loans pooled into the FNMA certificate amounted to $218,830.

Mortgage Loan Servicing Activities – The Authority acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2019, the principal balance of the mortgage loans serviced for others is as follows:

Investor	Amount
PRCDF I	$ 37,577,000
CRUV or its successor without guaranteed mortgage loan payments	6,546
Total	$ 37,583,546

Litigation – The Authority is a defendant in several lawsuits arising out of the normal course of business. Management, based on discussion with legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material effect on the financial position or results of operations of the Authority.
A liability to cover litigation claims and contingencies amounting to $15,000 has been included as part of accounts payable and accrued liabilities in the accompanying statement of net position.

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

20. CONDUIT DEBT AND PROGRAMS SPONSORED BY THE AUTHORITY

In December 2003, the Authority issued $663 million in Capital Fund Program Bonds Series 2003 (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 $84.2 million at June 30, 2019.

On August 1, 2008, the Authority issued the Capital Fund Modernization Subordinate Bonds Series 2008 (Series 2008) 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 $237.9 million at June 30, 2019.

In October 2020, the Authority issued $249,155,000 Capital Fund Modernization Program Refunding Bonds Series 2020 (Series 2020). The proceeds from the issuance will be lent to PHA, which will use it to redeem Series 2003 and Series 2008, described above, and pay certain costs of the Series 2020 issuance. The Series 2020 are limited obligations of the Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by HUD to PHA.

21. INTERFUND BALANCES AND TRANSFERS

The summary of the interfund balances as of June 30, 2019, 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	$ 648,634
Operating and Administrative	HUD Programs	Reimbursement of expenditures	1,067,639
Operating and Administrative	AHS Programs	Reimbursement of expenditures	9,884,590
Total			$ 11,600,863

The summary of the interfund transfers for the year ended June 30, 2019, is as follows:

Transfer out	Transfer in	Purpose	Amount
Proprietary fund:	Governmental funds:		
Operating and Administrative	AHS Programs	Subsidy payments	$ 65,146,712
Governmental funds:	Proprietary fund:		
AHS Programs	Operating and Administrative	Operations	(3,463,241)
			$ 61,683,471

22. SUBSEQUENT EVENTS

The Authority evaluated subsequent events through September 22, 2021, the date the financial statements were available to be issued.

CDBG-DR Subrecipient Agreements

On September 19, 2019, and July 2, 2020, the Authority entered into subrecipient agreements with the Puerto Rico Department of Housing (PRDH) to administer Community Development Block Grant – Disaster Recovery (CDBG-DR) funds. Under the first agreement, the PRDH allocated $100 million to the Authority, which will be used in conjunction with the Low Income Housing Tax Credit Program for the construction of affordable rental housing. Under the second agreement, the PRDH allocated $156 million to the Authority to undertake the Homebuyer Assistance Program. This program will provide financial assistance to qualified homebuyers to cover closing costs and down payment assistance. The Authority will be reimbursed from these allocations certain costs incurred in the management of these programs.

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

On September 27, 2019, the Oversight Board—as representative of the Commonwealth, ERS and the Public Buildings Authority (PBA) in their respective Title III cases—filed its initial joint Title III plan of adjustment for the Commonwealth, ERS, and PBA [ECF No. 8765] (the Initial Plan) along with a disclosure statement related thereto [ECF No. 8765] (the Initial Disclosure Statement), which was founded upon the pre-COVID-19 economic assumptions contained in the Commonwealth fiscal plan as certified by the Oversight Board on May 9, 2019. The Initial Plan incorporated the terms of a restructuring support agreement with the Retiree Committee (the Retiree Committee RSA), in which the Retiree Committee agreed to a maximum 8.5% pension cut that would only be applicable to retirees with monthly retirement benefits of more than $1,200, as well as freezes in pension benefits for teachers and judges.

On February 9, 2020, the Oversight Board announced that it entered into a Plan Support Agreement (the 2020 PSA) with certain Commonwealth general obligation bondholders and PBA bondholders (collectively, the PSA Creditors), which would require revisions to the Initial Plan. On February 28, 2020, the Oversight Board filed its Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 11946] and an amended disclosure statement related thereto [ECF No. 11947], which revised the Initial Plan to conform to the 2020 PSA while retaining the terms of the Retiree Committee RSA. However, due to the national economic shut down caused by the global spread of COVID-19 that has had substantial negative effects on the people and businesses in Puerto Rico, the Oversight Board decided to pause discussion and prosecution of the plan, including re-evaluation of the 2020 PSA.

Throughout 2021, the Oversight Board resumed plan discussions and has since filed several amended plans to incorporate additional settlements with creditors, including the most recently filed Seventh Amended Plan filed on July 30, 2021. The Court is currently scheduled to consider confirmation of the Seventh Amended Plan on November 8, 2021.

The Government has not yet determined whether it will support the Seventh Amended Plan given its view that Government pensioners must be protected and must not receive additional cuts to their pension benefits. The Seventh Amended Plan remains subject to future amendments and it is not certain that the Title III Court will ultimately confirm the Seventh Amended Plan or any further amended plan.

For additional information, refer to the publicly available Second Amended Plan and Second Amended Disclosure Statement, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

Impact of Earthquakes

On January 7, 2020, Puerto Rico was struck by a 6.4 magnitude earthquake causing devastating damages to infrastructure, an island-wide power outage, water shortages and threatening the lives of its people.

In order to safeguard the health and public safety of its citizens, the Governor issued executive orders EO 2020-01 and EO 2020-02 declaring a state of emergency to activate the emergency purchasing protocol allowing emergency management agencies to acquire the necessary supplies and essential services to provide a timely and effective response and activating the National Guard to provide support during the emergency management.
In addition, the Oversight Board authorized the utilization of Emergency Reserve funds from fiscal years 2019 and 2020 as needed by the Commonwealth without prior approval of reapportionments through January 31, 2020.

Then-President Trump also approved an emergency declaration allowing direct federal assistance for emergency measures to protect lives, property and public health after the series of earthquakes. On January 11, 2020, the Governor issued executive order EO 2020-07 authorizing the appropriation of $12 million from the Emergency Fund to be distributed equally between the municipalities of Gúanica, Guayanilla, Peñuelas, Ponce, Utuado and Yauco to be used exclusively for damages and mitigation related to the emergency.

A preliminary assessment of the damages caused by the earthquake and subsequent aftershocks (excluding the May 2, 2020, earthquake discussed below), calculated by the United States Geological Survey, estimated total economic damages ascending to $836 million.

Puerto Rico continues to experience aftershocks that are not expected to stop any time soon. According to a January 29, 2020, report published by the United States Geological Survey, Puerto Rico is at risk of many potentially catastrophic earthquakes in the near term. In fact, on May 2, 2020, an earthquake with a 5.4 magnitude struck Puerto Rico's southern coast. The seismic event, which briefly knocked out power in some areas, hit near the city of Ponce where hundreds of structures, including homes and houses of worship, remain damaged or destroyed from the devastating earthquakes earlier in 2020. These continued earthquakes are a powerful remineder that although the global COVID-19 pandemic is currently controlling the public spotlight, the physical and psychological threat of natural catastrophes has not subsided for Puerto Rico and its residents.

Transfer of Housing Choice Vouchers Program

On November 15, 2019, the Board of Directors of the Authority resolved to consolidate the Housing Choice Vouchers and Project Based Vouchers programs of the Authority and the Puerto Rico Department of Housing (PRDOH) into those programs of the Puerto Rico Public Housing Administration, an instrumentality of the Commonwealth, effective January 1, 2020.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the health threat and to contain the virus's spread across the island, Governor Váquez-Garced issued executive order EO 2020-020 on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, wellbeing and public safety of the citizens of Puerto Rico.

The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of the Financial Oversight and Management Board for Puerto Rico to set up a special budget from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and the sharing of information with the municipalities. Subsequent executive orders, including the reopening of certain economic areas, curfew directives and other protective measures have been issued in response to the COVID-19 spread. In addition, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals, municipalities and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic.

Management has not yet identified the extent of the impact, if any, that the Coronavirus pandemic may have had (or will have in the future) on the Authority's operations and to what extent revenue sources have been adversely depleted.

Amendments to the Authority's Organic Act

On July 19, 2020, Act No. 69 was enacted authorizing the Authority to transfer the ownership of properties acquired via foreclosure or deed in lieu of foreclosures (among others) to Municipalities in Puerto Rico, without cost.

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Required Supplementary Information
(Unaudited)

PUERTO RICO HOUSING FINANCE AUTHORITY

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF THE TOTAL PENSION LIABILITY

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

		GASB 68				
	2018	**2017**	**2016**	**2015**	**2014**	**2013**
Proportion of the Total Pension Liability	0.27460%	0.15977%	0.15693%	0.16041%	0.16041%	0.16145%
Proportionate Share of the Total Pension Liability	67,248,992	54,671,304	59,160,168	53,475,928	48,658,344	42,252,542
Covered - Employee Payroll	6,235,282	6,051,520	6,200,000	7,300,000	6,600,000	6,500,000
Proportionate Share of the Total Pension Liability as Percentage of Covered-Employee Payroll	1078.52%	903.43%	954.20%	732.55%	737.25%	650.04%

Notes to Required Supplementary Information

1. As a result of the implementation of the PayGo system, as provided by Act No. 106 of 2017 (Act 106), the Pension Plan no longer met the criteria to be considered a plan that is administered through a trust or equivalent arrangement under GASB 68 and, therefore, was required to apply the guidance in GASB 73 effective July 1, 2018. Act 106 eliminated all employer contributions and required ERS to liquidate its assets and to transfer the proceeds to the Commonwealth for the payment of pension benefits.

2. The Authority's proportion of the total pension liability was actuarially determined based on the ratio of the Authority's benefit payments to the total benefit payments made by all participating employers under the Pension Plan for the year ending on the measurement date.

3. The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

4. The amounts presented were determined by an actuarial valuation as of July 1, 2017 that was rolled forward to June 30, 2018, the measurement date.

PUERTO RICO HOUSING FINANCE AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF TOTAL POSTEMPLOYMENT BENEFIT LIABILITY

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	2018	**2017**	**2016**
Proportion of the total OPEB liability	0.17007%	0.15947%	0.14574%
Proportionate Share of the total OPEB liability	1,432,241	1,467,905	1,727,200
Covered - Employee Payroll	-	-	-
Proportionate share of the total OPEB Liability as a percentage of its covered-employee payroll	N/A	N/A	N/A