



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, 74526LBC7, 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: 2020-21

- 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/ Luis R. Rivera Cruz

Luis R. Rivera Cruz

Puerto Rico Fiscal Agency and Financial Advisory Authority,
as Fiscal Agent for PRHFA

Dated: December 22, 2022

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, 2021

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Basic Financial Statements for the Year Ended June 30, 2021,
and Independent Auditors' Report

TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditors' Report	1 – 3
Management's Discussion and Analysis (Unaudited)	4 – 12
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	18
Balance Sheet – Proprietary Fund – Operating and Administrative Fund	19 – 20
Statement of Revenues, Expenses, and Change in Net Position – Proprietary Fund – Operating and Administrative Fund	21
Statement of Cash Flows – Proprietary Fund – Operating and Administrative Fund	22 – 23
Notes to Basic Financial Statements	24 – 72

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Basic Financial Statements for the Year Ended June 30, 2021,
and Independent Auditors' Report

TABLE OF CONTENTS

	<u>Pages</u>
Required Supplementary Information	
Schedule of Proportionate Share of the Total Pension Liability (unaudited)	80
Schedule of Proportionate Share of Total Postemployment Benefit Liability (unaudited)	81



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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, 2021, 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, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

The Authority's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. The winding down of GDB's operations and the financial difficulties being experienced by the *Economic Development Bank* (EDB) and the Commonwealth had a spillover effect on the operations of the Authority since these entities have accessed the Authority's assets to alleviate their liquidity problems. As further discussed in Note 19, the Authority's intent and ability to use its funds deposited with EDB have been significantly restricted since the fiscal year 2016.

Management has the intention of putting in place a series of plans and initiatives that, when executed, are expected to result in further alleviation of any substantial doubt regarding the Authority's ability to continue as a going concern.

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 a proportionate share of the net pension liability, and the 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 the *Governmental Accounting Standards Board* (GASB), which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Other Matters, (Continued)

Required Supplementary Information, (Continued)

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.

A handwritten signature in black ink that reads "J. Angel, CPA". The signature is written in a cursive style.

License No. LLC-317
Expires December 1, 2023

San Juan, Puerto Rico
October 4, 2022
2022-12-114

Stamp No.
E-498781
was affixed
to original

Puerto Rico Housing Finance Authority

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

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2021

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, 2021. 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 by approximately \$16.7 million during fiscal year 2021, from \$214.8 million as of June 30, 2020, to \$231.5 million as of June 30, 2021.
- Operating loss of the Operating and Administrative fund was approximately \$6.0 million for the fiscal year ended June 30, 2021, compared to an operating income of approximately \$1.3 million for the fiscal year ended June 30, 2020. There were net inter-fund transfers of approximately \$26.2 million during the fiscal year ended June 30, 2021. The total operating revenues of the Proprietary Fund decreased to approximately \$16.2 million in the fiscal year 2021 from approximately \$24.9 million in the fiscal year 2020. Total operating expenses of the Proprietary Fund decreased to approximately \$22.2 million in the fiscal year 2021 from approximately \$23.6 million in the fiscal year 2020.
- During the fiscal year 2021, approximately \$132.6 million, \$5.2 million, and \$42.6 million were granted in subsidies through the Housing Urban Development Program (HUD or HUD Program), the HOME Investment Partnerships Federal Program (the Home Program), and the Community Development Block Grant Disaster Recovery Program (the CDBG Program), respectively.
- Approximately \$4.9 million was granted in subsidies through the Affordable Housing Mortgage Subsidy Programs during the fiscal year ended June 30, 2021.

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.

Puerto Rico Housing Finance Authority

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

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2021

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 are one indicator of whether the Authority's 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, and new laws and regulations.

In the Statement of Net Position and the Statement of Activities, the 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. The main activities included herein include programs for financing the purchase of residential units by low and moderate-income families and loan insurance programs.

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Puerto Rico Housing Finance Authority

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

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2021

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 to carry on specific activities or achieve 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 from 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 fund's statements. The governmental fund's statements provide a detailed short-term view of the Authority's income 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.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2021

Overall Financial Position and Results of Operations

We provide the readers of these basic financial statements with the following summary discussion and analysis of the relevant facts that affected the wide government-wide financial statements as of June 30, 2021, and June 30, 2020 (in thousands):

	Governmental activities		Business-type activities		Total	
	2021	2020	2021	2020	2021	2020
Assets:						
Cash	\$ 27,007	30,367	51,956	12,011	78,963	42,378
Investments and deposits placed						
with banks	44,193	47,234	152,522	165,797	196,715	213,031
Loans receivable, net	-	-	161,265	175,834	161,265	175,834
Capital assets	18	18	8,384	8,606	8,402	8,624
Other assets	(2,044)	(6,010)	23,050	17,478	21,006	11,468
Total assets	\$ 69,174	71,610	397,177	379,724	466,350	451,336
Deferred outflows of resources	-	-	16,599	9,712	16,599	9,712
Liabilities:						
Due in less than one year	\$ 36,295	34,594	46,827	40,121	83,122	74,715
Due in more than one year	2,795	2,893	161,336	164,411	164,131	167,304
Total liabilities	\$ 39,090	37,487	208,163	204,531	247,253	242,019
Deferred inflows of resources			4,157	4,183	4,157	4,183
Net position:						
Invested in capital assets	\$ 18	18	8,384	8,606	8,402	8,624
Restricted	30,066	34,104	17,455	19,573	47,521	53,677
Unrestricted position	-	-	175,617	152,544	175,617	152,544
Total net position	\$ 30,084	34,122	201,455	180,722	231,540	214,845

Puerto Rico Housing Finance Authority

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

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2021

Governmental activities net position

Total assets from Governmental Activities were approximately \$69.2 million as of June 30, 2021. Total liabilities were approximately \$39.1 million as of June 30, 2021, for a net position of \$30.1 million for the fiscal year ended June 30, 2021. The net position has been broken down into a net investment in capital assets of \$18,362 and the remaining balance as the restricted component of the net position of approximately \$30.1 million.

The total aggregate amount of investments and investment contracts was approximately \$34.8 million as of June 30, 2021, and, together with cash and deposits placed with banks of approximately \$9.4 million, accounting 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 on June 30, 2021, had a net decrease of approximately \$6.4 million over the prior year. The decrease in cash and investments and deposits placed with banks is mainly due to the decrease in the due to a related party amounting to \$6.5 million and the decrease in the accounts payable of the HOME fund and the Affordable Housing Subsidy fund amounting to \$1.4 million. Other assets are mainly restricted and are composed mostly of amounts due from the HUD, HOME, and CDBG federal programs offset by the internal balances with the business-type activities. An increase of \$4 million over the prior year is mainly due to a \$9 million increase in Due from Federal Government offset by an increase of \$5 million in Due to other funds. Liabilities due in less than one year increased by \$1.7 million over the prior fiscal year. Such an increase is the result of an increase in accounts payable and accrued liabilities of \$5.7 million which is caused by an increase of \$9.3 million in the accounts payable of the CDBG Program offset by the decrease in payables explained above. The CDBG Program had minimal operations in the previous fiscal year, accordingly the increase in its payables. The increase in \$7.8 million in accounts payable and accrued liabilities was offset by a decrease in the due to a related party amounting to \$6.5 million. This decrease was due to payments made in the ordinary course of business.

Business-type activities net position

Total assets from Business-type Activities were approximately \$397.2 million on June 30, 2021. Deferred outflows of resources were approximately \$16.6 million. Total liabilities were approximately \$208.2 million and deferred inflows of resources were approximately \$4.2 million, for a net position of approximately \$201.5 million during the fiscal year ended June 30, 2021. The net position has been broken down into a net position invested in net capital assets of approximately \$8.4 million and restricted for affordable housing programs of \$17.5 million. The remaining balance is the unrestricted component of the net position and amounted to approximately \$175.6 million. An increase of \$17.5 million in total assets of the Business-type Activities in the fiscal year 2021 was mainly due to the transfer of \$26.2 million from Governmental Activities offset by an operating loss of \$6 million.

The total aggregate amount of investments and investment contracts was approximately \$95.1 million and, together with loans receivable of approximately \$161.3 million and cash and deposits placed with banks of \$109.4 million, accounting for the majority of the assets held by the Business-type Activities for the fiscal year ended June 30, 2021.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2021

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 Program, 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 type business-type activities. A condensed summary of activities for the fiscal years ended June 30, 2021, and June 30, 2020, is shown in the table on the following page (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charges for services	\$ -	-	6,240	11,244	6,240	11,244
Financing and investment	1,826	2,395	10,409	13,699	12,236	16,095
Operating grants, capital grants, and contributions	205,814	160,899	-	-	205,814	160,899
Total revenues	207,640	163,294	16,649	24,943	224,290	188,238
Program expenses:						
General government and other	3,775	4,372	-	-	3,775	4,372
Housing assistance programs	181,668	152,547	-	-	181,668	152,547
Operating and administrative	-	-	22,151	23,623	22,151	23,623
Total program expenses	185,443	156,919	22,151	23,623	207,594	180,543
Change in net position before transfers	22,197	6,375	(5,502)	1,320	16,696	7,695
Transfers	(26,235)	(18,002)	26,235	18,002	-	-
Increase (decrease) in net position	(4,038)	(11,627)	20,733	19,322	16,696	7,695
Net position, beginning of year	34,122	45,750	180,722	161,400	214,845	207,150
Net position, end of year	\$ 30,084	\$ 34,122	\$ 201,455	\$ 180,722	\$ 231,541	\$ 214,845

Puerto Rico Housing Finance Authority

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

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2021

Governmental activities analysis

Total revenues of governmental activities increased by approximately \$44.3 million in 2021 from 2020. The increase was mainly due to increases of \$40.6 million and \$14.1 million in the revenues of the CDBG Program and the Affordable Housing Subsidy Program, respectively, offset by a decrease of \$9.2 million in the HUD Program. The CDBG Program started providing grants at the end of the fiscal year 2020, accordingly its increase in revenues. An increase in the revenues of the Affordable Housing Subsidy Program is due to an increase in the receipts of Commonwealth Appropriations related to Act No. 22 which assigns the Authority the unclaimed funds in local financial institutions 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. The decrease in the revenues of the HUD Program is mainly due to the transfer, effective January 1, 2020, of the Housing Choice Voucher Program to the Puerto Rico Public Housing Administration. The increase in expenses of the governmental activities of \$30.8 million is mainly due to the increase of \$40.6 million in the CDBG Program offset by the decrease in expenses of \$9.2 million in the HUD Program as explained above. An increase in transfers to the Operating and Administrative fund is related to the increase in the revenues of the Affordable Housing Subsidy Program explained above.

Business-type activities analysis

The decrease in total revenues amounting to approximately \$8.36 million is mainly due to a \$6.8 million switch in the equity pickup on PRHFA RLF Investment Fund, LLC from earnings of \$1.6 million in 2020 to a loss of \$5.2 million in 2021. Also, contributing to the decrease in total revenues was a decrease of \$1.4 million in interest income. Such a decrease was caused by lower investment balances which are caused by scheduled repayments of debt. The decrease in total expenses of \$2.0 million was mainly caused by a release of allowance for loan losses and mortgage loan insurance in 2021 instead of a provision in 2020 amounting to \$1.9 million.

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 income low-income families receive direct or indirect 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 income moderate-income markets.

The expenditures of the HUD Programs decreased by approximately \$9.2 million from approximately \$141.8 million in the fiscal year 2020 to approximately \$132.6 million in the fiscal year 2021. This decrease is mainly the result of the transfer, effective January 1, 2020, of the Housing Choice Voucher Program to the Puerto Rico Public Housing Administration.

Puerto Rico Housing Finance Authority

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

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2021

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 increased from approximately \$6.4 million in the fiscal year 2020 to approximately \$8.4 million in the fiscal year 2021 mainly due to the recognition of \$2.8 million in revenues that were unearned revenues in the fiscal year 2020. Expenditures decreased from \$7.7 million in the fiscal year 2020 to approximately \$5.2 million in the fiscal year 2021 mainly due to the decrease in projects as a direct effect of the Covid-19 Pandemic.

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, 2021, the fund balance decreased by \$4.6 million as compared to a decrease of \$10.1 million in the fiscal year ended June 30, 2020. Such decrease in fund balance for the fiscal year 2020 was caused by a transfer out amounting to \$26.2 million offset with \$15.6 million in Commonwealth Appropriations related to Act No. 22 which assigns the Authority the unclaimed funds in local financial institutions 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. Another transfer, amounting to \$11.9 million, mainly related to Commonwealth Appropriations was also made during fiscal year 2021.

CDBG Programs – This special revenue fund is used to account for the specific revenue sources related to the sub-recipient agreements entered between the Authority and PRDOH to administer Community Development Block Grant – Disaster Recovery (CDBG-DR) funds. Revenues and expenditures amounted to \$42.6 million for the fiscal year 2021.

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 increased from approximately \$180.7 million on June 30, 2020, to approximately \$201.5 million on June 30, 2021, or approximately \$21 million, responding to the operating loss for fiscal year 2021 of approximately \$6 million offset by transfers amounting to \$26.2 million.

Capital Assets

The Authority's investment in capital assets for its business-type activities as of June 30, 2021, and June 30, 2020, amounted to approximately \$8.4 and \$8.6 million, respectively, net of accumulated depreciation and amortization. Capital assets include leasehold improvements, information systems, office furniture, equipment, and vehicles.

Authority Debt

The Authority uses long-term debt as its main tool to meet its policy objectives. Debt is issued to provide interest 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 subsidies for the down payment and/or the principal and interest payments on mortgage loans.

Puerto Rico Housing Finance Authority

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

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2021

On June 30, 2021, and June 30, 2020, the total debt outstanding was approximately \$121.1 million and \$127.8 million, respectively. The decrease in total debt of approximately \$6.7 million corresponds mainly to scheduled debt service payments for the year and amortization of premiums and discounts. The credit rating of the Authority's public debt is AAA, as determined by Fitch Ratings in July 2020. Refer to Note 9 to the basic financial statements for additional information on borrowed funds.

Management's Conclusion on Going Concern

The winding down of GDB's operations means GDB no longer serves 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 (for as long as the Oversight Board is in existence). Notwithstanding the budgetary constraints and historical liquidity risks faced by the Commonwealth, EDB, and GDB and other circumstances existing on June 30, 2021, based on subsequent events that remedied the Commonwealth's financial condition and addressed its liabilities, management does not believe there is substantial doubt about the Authority's ability to continue as a going concern as of the date of these basic financial statements.

As further discussed in Note 20 to the basic financial statement, on January 18, 2022, the Title III Court confirmed the Commonwealth Plan of Adjustment. On March 15, 2022 (the Effective Date), the Commonwealth, ERS, and PBA each emerged from their Title III cases. On the Effective Date, the Commonwealth Plan of Adjustment was consummated and became effective. As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately \$34.3 billion of prepetition debt to only approximately \$7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately \$4.2 billion to \$1.15 billion, representing a total debt service reduction of 73%. This significant reduction in total debt and annual debt service payments provides a path for the Commonwealth's future economic growth and alleviates the historical budgetary constraints that caused doubt as to whether the Oversight Board would approve the future financing needs of the Authority.

Management has the intention of putting in place a series of plans and initiatives that, when executed, are expected to result in further alleviation of any substantial doubt regarding the Authority's ability to continue as a going concern..

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.



Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Net Position
June 30, 2021

	Governmental Activities	Business-type Activities	Total
Assets			
Cash	\$ 27,007,079	\$ 51,956,066	\$ 78,963,145
Deposits placed with banks	9,408,562	57,421,807	66,830,369
Investments and investments contracts	34,784,565	60,611,673	95,396,238
Investment in PRHFA RLF Investment Fund, LLC	-	34,488,234	34,488,234
Loans receivable - net	-	161,265,566	161,265,566
Interest and other receivables	116,069	4,399,756	4,515,825
Due from federal government - net	14,413,087	-	14,413,087
Other assets	-	25,955	25,955
Internal balances	(16,573,318)	16,573,318	-
Real estate available for sale, net	-	2,050,752	2,050,752
Capital assets, net	18,362	8,383,764	8,402,126
Total assets	<u>69,174,406</u>	<u>397,176,891</u>	<u>466,351,297</u>
Deferred outflows of resources			
Loss on bond refundings	-	1,261,145	1,261,145
Goodwill	-	531,659	531,659
Pension related	-	14,693,043	14,693,043
Other post employment benefits related	-	113,200	113,200
Total deferred outflows of resources	<u>-</u>	<u>16,599,047</u>	<u>16,599,047</u>
Liabilities			
Accounts payable and accrued liabilities	14,859,453	8,121,586	22,981,039
Accrued interest payable	69,002	4,767	73,769
Matured interest payable	905,471	-	905,471
Unearned revenue	-	3,031,428	3,031,428
Liability for losses on mortgage loan insurance	-	4,964,954	4,964,954
Due to Commonwealth	-	15,112,465	15,112,465
Notes and mortgage-backed certificates payable:			
Matured and due within one year	20,461,349	11,875,027	32,336,376
Due in more than one year	2,794,869	85,929,996	88,724,865
Total pension liability			
Due within one year	-	3,603,523	3,603,523
Due in more than one year	-	73,979,779	73,979,779
Total other post employment benefits liability			
Due within one year	-	113,200	113,200
Due in more than one year	-	1,426,236	1,426,236
Total liabilities	<u>39,090,144</u>	<u>208,162,961</u>	<u>247,253,105</u>
Deferred inflows of resources - pension related	<u>-</u>	<u>4,157,479</u>	<u>4,157,479</u>
Net position:			
Net investment in capital assets	18,362	8,383,764	8,402,126
Restricted for:			
Affordable housing programs	30,065,900	17,455,123	47,521,023
Unrestricted	-	175,616,611	175,616,611
Total net position	<u>\$ 30,084,262</u>	<u>\$ 201,455,498</u>	<u>\$ 231,539,760</u>

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Activities
For the Year Ended June 30, 2021

	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	\$ 3,774,747	-	-	-	(3,774,747)	-	(3,774,747)
Housing assistance program	181,668,319	-	1,825,428	205,814,235	25,971,344	-	25,971,344
Total governmental activities	<u>185,443,066</u>	<u>-</u>	<u>1,825,428</u>	<u>205,814,235</u>	<u>22,196,597</u>	<u>-</u>	<u>22,196,597</u>
Business-type activities:							
Operating and administrative	22,150,689	6,240,030	10,409,123	-	-	(5,501,536)	(5,501,536)
Total business-type activities	<u>22,150,689</u>	<u>6,240,030</u>	<u>10,409,123</u>	<u>-</u>	<u>-</u>	<u>(5,501,536)</u>	<u>(5,501,536)</u>
Total functions/programs	<u>\$ 207,593,755</u>	<u>6,240,030</u>	<u>12,234,551</u>	<u>205,814,235</u>	<u>22,196,597</u>	<u>(5,501,536)</u>	<u>16,695,061</u>
Transfers in (out) - net					(26,234,691)	26,234,691	-
Change in net position					<u>(4,038,094)</u>	<u>20,733,155</u>	<u>16,695,061</u>
Net position - Beginning of year					34,122,356	180,722,343	214,844,699
Net position - End of year					<u>\$ 30,084,262</u>	<u>\$ 201,455,498</u>	<u>\$ 231,539,760</u>

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Balance Sheet –Governmental Funds
June 30, 2021

Assets	HUD Programs	HOME Programs	CDBG Programs	Subsidy Programs	Total
Cash	\$ 6,390	30,640	3,813,792	23,156,257	27,007,079
Deposits placed with banks	-	-	-	9,408,562	9,408,562
Investments and investments contracts	-	-	-	34,784,565	34,784,565
Interest and other receivables	-	-	-	116,069	116,069
Due from federal government - net	923,654	2,996,800	10,492,633	-	14,413,087
Total assets	<u>\$ 930,044</u>	<u>3,027,440</u>	<u>14,306,425</u>	<u>67,465,453</u>	<u>85,729,362</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 6,390	2,317,830	9,274,127	3,261,106	14,859,453
Due to other funds	923,654	709,610	5,032,298	9,907,756	16,573,318
Matured note payable	-	-	-	19,909,611	19,909,611
Matured principal on appropriation note	-	-	-	450,268	450,268
Matured interest payable	-	-	-	905,471	905,471
Total liabilities	<u>930,044</u>	<u>3,027,440</u>	<u>14,306,425</u>	<u>34,434,212</u>	<u>52,698,121</u>
Deferred inflows of resources:					
Unearned revenue	-	1,106,523	-	-	1,106,523
Fund balances (deficit):					
Restricted for affordable housing programs	-	-	-	33,031,241	33,031,241
Deficit	-	(1,106,523)	-	-	(1,106,523)
Total fund balances (deficit)	<u>-</u>	<u>(1,106,523)</u>	<u>-</u>	<u>33,031,241</u>	<u>31,924,718</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 930,044</u>	<u>3,027,440</u>	<u>14,306,425</u>	<u>67,465,453</u>	<u>85,729,362</u>

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority

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

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

June 30, 2021

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

Total fund balances	\$ 31,924,718
Capital assets used in governmental activities are not financial resources and, therefore, are not report in the funds	18,362
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	(2,896,339)
Accrued interest payable is not due and payable in the current period	(69,002)
Deferred inflows of resources reported in the governmental funds are recognized as revenue in the governmental activities	<u>1,106,523</u>
Net position of governmental activities	<u>\$ 30,084,262</u>

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Revenues, Expenditures, and Changes in Fund Balances –Governmental Funds
For the Year Ended June 30, 2021

	HUD Programs	HOME Programs	CDBG Programs	Affordable Housing Subsidy Programs	Total
Revenues:					
Intergovernmental-federal government	\$ 132,554,967	8,341,298	42,640,152	-	183,536,417
Commonwealth appropriation for repayment of bonds or housing assistance programs	-	-	-	23,801,115	23,801,115
Interest income on investment and investment contracts	-	-	-	1,896,324	1,896,324
Interest income on deposits placed with banks	-	-	-	18,675	18,675
Net decrease in fair value of investments	-	-	-	(70,896)	(70,896)
Other income	-	96,855	-	1,196,859	1,293,714
Total revenues	<u>132,554,967</u>	<u>8,438,153</u>	<u>42,640,152</u>	<u>26,842,077</u>	<u>210,475,349</u>
Expenditures:					
Current:					
Housing assistance programs	129,566,764	4,688,812	42,435,006	4,800,195	181,490,777
General government and other	2,988,353	492,573	205,146	88,549	3,774,621
Debt service:					
Principal	-	-	-	97,171	97,171
Interest	-	-	-	174,904	174,904
Total expenditures	<u>132,555,117</u>	<u>5,181,385</u>	<u>42,640,152</u>	<u>5,160,819</u>	<u>185,537,473</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(150)</u>	<u>3,256,768</u>	<u>-</u>	<u>21,681,258</u>	<u>24,937,876</u>
Other financing sources (uses)					
Transfers out, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,234,691)</u>	<u>(26,234,691)</u>
Net change in fund balances	(150)	3,256,768	-	(4,553,433)	(1,296,815)
Fund balance (deficit) — beginning of year	<u>150</u>	<u>(4,363,291)</u>	<u>-</u>	<u>37,584,674</u>	<u>33,221,533</u>
Fund balance (deficit) — end of year	<u>\$ -</u>	<u>(1,106,523)</u>	<u>-</u>	<u>33,031,241</u>	<u>31,924,718</u>

See accompanying notes to basic financial statements

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2021

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

Net changes in fund balance — total governmental funds \$ (1,296,815)

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. (2,990)

The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect in net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items as follows:

Net decrease in long term accrued interest payable 352
Principal on appropriation note - matured 97,171

Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which depreciation exceeded capital outlays in the current period. (126)

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. (2,835,686)

Change in net position of governmental activities \$ (4,038,094)

See accompanying notes to basic financial statements

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

Assets

Current assets:

Cash	\$ 45,212,469
Deposits placed with banks	56,921,575
Interest receivable	1,449,921
Other receivables	2,192,865
Other assets	25,955
Due from other funds	16,573,318
Restricted:	
Cash	6,743,597
Deposits placed with banks	500,232
Interest receivable	326,885
Other receivables	430,085
Total current assets	<u>130,376,902</u>

Noncurrent assets:

Investments and investments contracts	10,405,627
Investment in PRHFA RLF Investment Fund, LLC	34,488,234
Loans receivable - net	93,052,294
Real estate available for sale	1,947,044
Capital assets	8,383,764
Restricted:	
Investments and investments contracts	50,206,046
Loans receivable - net	68,213,272
Real estate available for sale	103,708
Total noncurrent assets	<u>266,799,989</u>
Total assets	<u>397,176,891</u>

Deferred outflows of resources

Loss on bond refundings	1,261,145
Goodwill	531,659
Pension related	14,693,043
Other post employment benefits related	113,200
Total deferred outflows of resources	<u>16,599,047</u>
Total assets and deferred outflows of resources	<u>\$ 413,775,938</u>

(continues)

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

Liabilities

Current liabilities:

Current liabilities payable from unrestricted assets:	
Accounts payable and accrued liabilities	\$ 7,508,716
Total pension liability	3,603,523
Total other post employment benefits liability	113,200
Due to Commonwealth	15,112,465
Total current liabilities payable from unrestricted assets	<u>26,337,904</u>

Current liabilities payable from restricted assets:

Accrued interest payable	4,767
Accounts payable and accrued liabilities	612,870
Unearned revenue	3,031,428
Liability for losses on mortgage loan insurance	4,964,954
Notes and mortgage-backed certificates payable	11,875,027
Total current liabilities payable from restricted assets	<u>20,489,046</u>

Noncurrent liabilities payable from unrestricted assets -

Total pension liability	73,979,779
Total other post employment benefits liability	1,426,236
Total noncurrent liabilities payable from unrestricted assets	<u>75,406,015</u>

Noncurrent liabilities payable from restricted assets -

Notes and mortgage-backed certificates payable	<u>85,929,996</u>
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Total liabilities	<u>208,162,961</u>
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Deferred inflows of resources - pension related

4,157,479

Total liabilities and deferred inflows of resources	<u>212,320,440</u>
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Net position:

Net investment in capital assets	8,383,764
Restricted for:	
Affordable housing programs	17,455,123
Unrestricted	175,616,611
Total net position	<u>201,455,498</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 413,775,938</u>

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

Operating revenues:	
Investment income:	
Interest income on investment and investment contracts	\$ 2,543,002
Interest income on deposits placed with banks	79,562
Net decrease in fair value of investments	<u>(742,000)</u>
Total investment income	1,880,564
Interest income on loans	<u>8,061,819</u>
Total investment income and interest income on loans	<u>9,942,383</u>
Noninterest income:	
Commitment, guarantee, service, and administrative fees	5,558,308
Other income	1,593,765
Mortgage loans insurance premiums	2,395,220
Release of allowance for loan losses	753,728
Release of allowance for losses on mortgage loan insurance	1,157,296
Equity pickup on losses of PRHFA RLF Investment Fund, LLC	<u>(5,218,287)</u>
Total noninterest income	<u>6,240,030</u>
Total operating revenues	<u>16,182,413</u>
Operating expenses:	
Interest expense - bonds, notes and mortgage-backed certificates	6,556,168
Other noninterest expenses:	
Salaries and fringe benefits	7,593,962
Pension expense	4,171,770
Legal and professional fees	1,634,033
Occupancy and equipment costs	399,809
Office and administrative	518,424
Other real estate owned maintenance and related expenses	217,306
Provision for losses on other real estate owned	110,768
Depreciation and amortization	796,233
Subsidy and trustee fees	<u>152,216</u>
Total noninterest expense	<u>15,594,521</u>
Total operating expenses	<u>22,150,689</u>
Operating loss	(5,968,276)
Nonoperating income:	
Contribution from Commonwealth	442,795
Net gain on sale of loans	<u>23,945</u>
Total nonoperating income	<u>466,740</u>
Transfers in, net	<u>26,234,691</u>
Change in net position	20,733,155
Net position — beginning of year	<u>180,722,343</u>
Net position — end of year	<u>\$ 201,455,498</u>

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

Cash flows from operating activities:	
Cash received from interest on mortgage and construction loans	\$ 5,711,814
Cash paid for mortgage and construction loans originated	(14,292,964)
Principal collected on mortgage and construction loans	27,256,155
Cash received from other operating noninterest income	3,211,151
Cash received from mortgage loans insurance premiums	2,297,665
Cash paid for noninterest expenses	(3,508,166)
Cash payments for salaries and fringe benefits	(7,475,703)
Other operating payments	<u>(5,028,729)</u>
Net cash provided by operating activities	<u>8,171,223</u>
Cash flows from noncapital financing activities:	
Payments of mortgage backed certificates and notes payable	(10,535,406)
Interest paid	(2,544,115)
Transfers in	27,687,203
Transfers out	<u>(1,452,512)</u>
Net cash provided by noncapital financing activities	<u>13,155,170</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(266,408)</u>
Net cash used in capital and related financing activities	<u>(266,408)</u>
Cash flows from investing activities:	
Purchase of investments	\$ (126,245,661)
Proceeds from redemptions of investments	143,442,954
Net change in deposits placed with banks	(446,759)
Cash received from interest on investments and deposits	2,662,578
Proceeds from sale of real estate held for sale	683,300
Acquisition of real estate held for sale	<u>(1,211,034)</u>
Net cash provided by investing activities	<u>18,885,378</u>
Net change in cash	<u>39,945,363</u>
Cash, beginning of year	<u>12,010,703</u>
Cash, end of year	<u><u>\$ 51,956,066</u></u>
Reconciliation to balance sheet — proprietary funds:	
Cash – unrestricted	\$ 45,212,469
Cash – restricted	<u>6,743,597</u>
Total cash at year-end	<u><u>\$ 51,956,066</u></u>

(continues)

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

Reconciliation of operating income to net cash provided by operating activities:

Operating loss	\$ (5,968,276)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	796,233
Release of allowance for loan losses	(753,728)
Interest expense	6,556,168
Provision for losses on other real estate owned	110,768
Release of allowance for losses on mortgage loan insurance	(1,157,296)
Interest income on investment and investment contracts and deposits	(2,543,002)
Other income	(1,593,765)
Net decrease in fair value of investments	742,000
Capitalized interest	(1,858,169)
Decrease (increase) in:	
Mortgage and construction loans	16,426,356
Accrued interest on mortgage and construction loans	304,114
Interest and other receivables	(419,936)
Other assets	16,928
Internal balances	(5,028,731)
Deferred outflow of resources - pension related	(3,841,853)
(Decrease) increase in:	
Accounts payable and accrued liabilities	152,219
Accrued interest payable	(933)
Unearned revenue	(231,732)
Liability for losses on mortgage loan insurance	(1,157,296)
Net pension liability	7,584,909
Total other post employment benefits liability	61,562
Deferred inflows of resources - pension related	(25,317)
	<u>\$ 8,171,223</u>

Noncash investing and noncapital financing activities:

Capitalized interest and deferred amortization on loans	\$ 1,858,169
Net Increase (decrease) in fair value of investments	(742,000)
Accretion/(amortization) of discount (premium) on bonds payable	
Amortization of deferred loss (included in interest expense)	176,925
Pension and other postemployment benefits payments made after the measurement date by the Commonwealth on behalf of the Authority	3,716,723
2020 deferred outflows of resources applied to reduce net pension and other postemployment benefits liabilities	(3,734,044)

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

1. REPORTING ENTITY

Puerto Rico Housing Finance Authority (the Authority) is a component unit of the 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, 2001, 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 consists of seven (7) total members composed of (i) two (2) ex officio members consisting of the Secretary of Housing, who serves as its President, and the Chairperson of the Board of Directors of GDB, and (ii) five (5) additional members appointed by the Governor of the Commonwealth, three (3) of which must be members of the Board of Directors of GDB and two (2) of which must be private sector members.

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 single-family homes. In addition, it is an authorized issuer of the 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. 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.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

(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 non-exchange 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 consists of capital assets, net of accumulated depreciation and amortization, and is 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 a net position that does not meet the definition of the two preceding categories. The unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. The 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 are being offset by program revenues.

Direct expenses are those that are identifiable within a specific function. Program revenues include (1) interest income on loans and investments, changes in the fair value of investments, and fees 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.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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 the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws 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 Program, HOME Program, and CDBG 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.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

- **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.

- **CDBG Programs** – This special revenue fund is used to account for the specific revenue sources related to the subrecipient agreements entered between the Authority and PRDOH on September 19, 2019, and July 2, 2020, to administer Community Development Block Grant – Disaster Recovery (CDBG-DR) funds. Under the first agreement, the PRDOH 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 PRDOH 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 for certain costs incurred in the management of these programs.

- **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, 2021.

 - **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.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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 others. 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 money 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 money 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.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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, 2020, 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 a net increase (decrease) in the 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, the 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.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

(f) Investment in PRHFA RLF Investment Fund

The Authority accounts for its investment in PRHFA RLF Investment Fund (RLF) using the equity method of accounting. Under the equity method of accounting, the Authority recognizes the net income or loss of RLF, by increasing or decreasing its investment, after intra-entity profits and losses are eliminated, if any. Dividends paid by RLF, if any, will decrease the investment.

(g) 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 by 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 collected. Nonaccrual loans are returned to accrual status when management has adequate evidence to believe that the loans will be performing as contracted.

The allowance for loan losses is established through provisions recorded as an operating expense. This allowance is based on the evaluation of the risk characteristics of the loan or loan portfolio, including such factors as the nature of the individual credit outstanding, past loss experience, known and inherent risks in the portfolios, and general economic conditions. Charge-offs are recorded against the allowance when management believes that the collectability of the principal is unlikely. Recoveries of amounts previously charged off are credited to the allowance. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the outstanding loans receivable portfolio and the related allowance may change in the near future.

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

(h) 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 on 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.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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 the 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.

(i) 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 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 ten (10) years or lease term
Office furniture and equipment	Five (5) years
Information systems	Three (3) years
Vehicles	Five (5) years

(j) Compensated Absences

The employees of the Authority earn fifteen (15) days of vacation and eighteen (18) days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of sixty (60) and ninety (90) days, respectively. In the event of an 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 governmental funds, such liability is recorded only for the current portion.

(k) Liability for Losses on Mortgage Loans Insurance

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

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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

(l) 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.

(m) Transfers of Receivables

Transfers of receivables are accounted for 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 services. No servicing asset is recognized since fees are considered adequate compensation.

(n) Mortgage Loans Insurance Premiums

Premiums on insured mortgage loans are recognized as earned.

(o) 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 must be approved by the Public Insurance Office of the Puerto Rico Treasury Department.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

Insurance coverage is updated annually to account for changes in operating risk. For the last three (3) years, insurance settlements have not exceeded the amount of coverage.

(p) 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 four major captions that qualify for reporting in this category: (i) the unamortized balance of losses on bond refunding, (ii) several items related to pensions, (iii) an OPEB related item and (iv) goodwill. 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 the 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. Pension contributions made after 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 after 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. Goodwill is the result of the consideration provided in excess of the net position acquired. Goodwill will be amortized on a straight-line basis over five years. 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 the 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. Concerning the pension-related items, changes in the 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.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

(q) Accounting for Pension Costs

The Authority is a participant in the Commonwealth of Puerto Rico Employees Retirement System (the Pension Plan), a multi-employer 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.

Under 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, 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.

(r) Accounting for Postemployment Benefits Other than Pensions

Other post-employment 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.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

(s) Future Adoption of Accounting Pronouncements

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

- 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, 2020, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.
- 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 costs 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 costs 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 costs 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, 2020, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which allowed for a one-year postponement of its effective date.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued. The requirements of this Statement should be applied prospectively.

- 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, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- 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 the 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. 2020-3, *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 post-employment benefits (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*

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for post-employment benefits;

- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to post-employment benefits 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 is 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, 2022, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- GASB Statement No. 93, *Replacement of Interbank Offered 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 to replace 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, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2022, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- 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 another capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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 can 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 a 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. 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 an SBITA; (2) establishes that 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 an SBITA; and (4) requires note disclosures regarding an 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 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 post-employment other post-employment benefits (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

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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 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 performed 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.

- GASB Statement No. 98, *The Annual Comprehensive Financial Report (Issued 10/21)*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of the comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness. The requirements of this Statement are effective for fiscal years beginning after December 15, 2021, and all reporting periods thereafter. Earlier application is encouraged, but not required.

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

- GASB Statement No. 99, *Omnibus 2022*, This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:
 - Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument;

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition, and measurement of a lease liability and a lease asset, and identification of lease incentives;
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset;
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of an SBITA as a short-term SBITA, and recognition and measurement of a subscription liability;
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt;
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP);
- Disclosures related to nonmonetary transactions;
- Pledges of future revenues when resources are not received by the pledging government;
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements;
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this Statement are effective as follows:

- The requirements related to the extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Earlier application is encouraged and is permitted by topic.

- GASB Statement No. 100, *Accounting Changes and Errors Corrections – an Amendment of GASB No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Earlier application is encouraged.

- GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged

3. 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 amount deposited in EDB has been fully reserved as custodial credit risk due to the economic deterioration affecting the Commonwealth, including downgrades in credit ratings of the Commonwealth's bonds led the private sector to retire deposits from EDB. Also, the GDB financial and liquidity crisis made public governmental agencies and corporations move their deposits from EDB to GDB, reducing EDB's capacity to issue commercial loans or make investments in financial instruments.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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 EDB:

Cash					
	<u>Deposit balance</u>	<u>Custodial credit risk loss</u>	<u>Carrying amount</u>	<u>Depository bank balance</u>	<u>Amount uninsured and uncollateralized</u>
Commercial banks	\$ 78,963,145	\$ -	\$ 78,963,145	\$ 43,677,942	\$ -
	<u>\$ 78,963,145</u>	<u>\$ -</u>	<u>\$ 78,963,145</u>	<u>\$ 43,677,942</u>	<u>\$ -</u>

Deposits placed with banks					
	<u>Deposit balance</u>	<u>Custodial credit risk loss</u>	<u>Carrying amount</u>	<u>Depository bank balance</u>	<u>Amount uninsured and uncollateralized</u>
Deposit in commercial banks	\$ 66,830,369	\$ -	\$ 66,830,369	\$ 66,830,369	\$ -
Deposits in EDB	65,242,680	(65,242,680)	-	67,476,080	67,476,080
	<u>\$ 132,073,049</u>	<u>\$ (65,242,680)</u>	<u>\$ 66,830,369</u>	<u>\$ 134,306,449</u>	<u>\$ 67,476,080</u>

All deposits placed with banks on June 30, 2021, will mature in the fiscal year 2022.

4. INVESTMENTS AND INVESTMENT CONTRACTS

During fiscal year 2021, the Authority followed AAFAF'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. These investment policies also provide that purchases and sales of investment securities shall be made using the "delivery versus payment" method.

Investments by type in any one issuer representing 5% or more of the 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.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

The following table summarizes the type and maturities of investments held by the Authority as of June 30, 2021.

<u>Type of securities</u>	<u>Within one year</u>	<u>After one to five years</u>	<u>After five to ten years</u>	<u>After ten years</u>	<u>Total</u>
Mortgage-backed securities:					
GNMA	\$ —	\$ 14,215,212	25,245,778	\$ 7,931,320	\$ 47,392,310
FNMA	—	890,808	841,111	—	1,731,919
Other	—	—	—	96,869	96,869
Fixed-income external investment pool - Federated Government Obligations	—	—	12,821,978	—	12,821,978
U.S. Treasury Obligations	9,770,902	—	—	—	9,770,902
Nonparticipating investment contracts:					-
Trinity Funding Co.	—	—	—	13,419,547	13,419,547
Banco Popular de Puerto Rico	—	—	—	5,096,429	5,096,429
Banco Santander de Puerto Rico	—	—	—	5,061,784	5,061,784
 Total investments	 \$ <u>9,770,902</u>	 \$ <u>15,106,020</u>	 \$ <u>38,908,867</u>	 \$ <u>31,605,949</u>	 95,391,738
Equity interest in Puerto Rico Community Development Fund					<u>4,500</u>
 Total					 \$ <u>95,396,238</u>

As of June 30, 2021, 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 discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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 the long-term and B in the short-term securities.

All 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 the Federated Government Obligations, and U.S. Treasury Obligations, as of June 30, 2021, are as follows:

Securities type	Credit risk rating			
	AAA	AA	A	B
Mortgage-backed securities:				
FNMA	\$ —	\$ 1,731,919	\$ —	—
Other	—	98,869	—	—
Fixed income external investment pool - Federated Government Obligations	9,770,902	—	—	—
Nonparticipating investment contracts:				
Trinity Funding Co.	—	—	13,419,547	—
Banco Popular de Puerto Rico	—	—	—	5,096,429
Banco Santander de Puerto Rico	—	—	5,061,784	—
Total	\$ 9,770,902	\$ 1,830,788	\$ 18,481,331	5,096,429

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

On June 30, 2021, the fair value of investments based on the hierarchy of inputs is determined as follows:

	Level 1	Level 2	Level 3	Total
Mortgage Backed Securities	\$ -	\$ 49,221,098	\$ -	\$49,221,098
Federated Government Obligations	-	12,821,978	-	12,821,978
Total	\$ -	\$ 62,043,076	\$ -	\$62,043,076

The investments in nonparticipating investment contracts of approximately \$23.5 million are measured using a cost-based measure. Also, investment in nonparticipant investment contracts and money markets, which includes the \$9.7 million in US Treasury Obligations, that have a remaining maturity of one year or less and are held by the Authority, other than external investment pools, are measured at amortized costs as provided by GASB No. 72.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

5. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable as of June 30, 2021, consist of the following:

Real estate loans – all types of residential property, bearing interest at various rates ranging from 5% to 18%	\$ 198,623,777
Less allowance for loan losses	<u>(37,358,211)</u>
	<u>\$ 161,265,566</u>

The summary of the activity in the allowance for loan losses for the year ended June 30, 2021, is as follows:

Balance - beginning of year	\$ 39,095,719
Release of allowance for loan losses	(753,728)
Write-offs	<u>(983,780)</u>
	<u>\$ 37,358,211</u>

Real estate loans receivable represents single-family unit mortgage secured loans with a first lien on the related residential real estate and subordinated second mortgage loans with a second lien on the related residential real estate, 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 review 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.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

The following table presents the aging of the recorded investments in real estate single-family unit mortgage loans and their allowance for loan losses, excluding the mortgage loans balance and its related allowance managed by an unrelated entity under a Third-Party Origination (TPO) servicing agreement, as of June 30, 2021:

Loan aged category	Total loan balance	Allowance for loan losses
Current	\$ 43,540,564	\$ 768,062
7 - 30 months	3,193,299	228,109
31 - 60 months	4,757,612	4,678,177
Subtotal	51,491,475	5,674,348
Other nonaged loans	5,653,415	5,653,415
Total	\$ 57,144,890	\$ 11,327,763

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, the financial condition of the borrower, the estimated value of the collateral, and other information obtained from periodic credit reviews 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, 2021:

Loan Risk Category	Amount	Allowances for Loan Losses
Good	\$ 40,260,634	\$ 518,994
Doubtful	8,137,449	2,086,635
Loss	12,671,991	11,029,461
	\$ 61,070,074	\$ 13,635,090

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 subordinated second mortgage loans is determined considering the delinquency levels of the first mortgage loans, as reported by the Puerto Rico Office of the Commissioner of Financial Institutions. As of June 30, 2021, the outstanding balance of the second mortgage loan was approximately \$64.5 million and the allowance for loan losses was \$12.4 million.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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, 2021, 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	\$ 10,851,654
Requiring an allowance for loan losses	23,562,162
Total recorded investment in impaired loans	<u>\$ 34,413,816</u>
Related allowance for loan losses	\$ 24,962,853
Average recorded investment in impaired loans	37,292,931
Interest income recognized on impaired loans	-
Interest income that would have been recognized had these loans not been impaired	2,236,898

6. DUE FROM FEDERAL GOVERNMENT

The Authority, as a public housing authority, is authorized to administer the U.S. Housing Act Section 8 Programs in Puerto Rico. The revenues and expenditures of such federal financial assistance are accounted for as a major governmental fund under the HUD Programs fund. Revenues and expenditures related to the administration of the U.S. Housing Act Section 8 Programs amounted to approximately \$132.6 million during the year ended June 30, 2021. This amount includes approximately \$3.0 million of administrative fees for services performed as contract administrator, which are reimbursed by HUD. As of June 30, 2021, the amounts due from the federal government under the HUD Programs fund amounted to approximately \$924 thousand.

During the year ended June 30, 2021, the Authority expended approximately \$5.2 million of HOME Program funds. The Authority has approximately \$3.0 million due from the federal government as of June 30, 2021, related to the HOME Program.

During the year ended June 30, 2021, the Authority expended approximately \$42.6 million of CDBG Program funds. The Authority has approximately \$10.5 million due from the federal government as of June 30, 2021, related to the CDBG Program.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

7. REAL ESTATE AVAILABLE FOR SALE

Real estate available for sale on June 30, 2021, consisted of the following:

Residential (1–4 units)	\$ 13,507,889
Valuation allowance	<u>(11,457,137)</u>
Total real estate available for sale	<u>\$ 2,050,752</u>

The following is a summary of the activity in the valuation allowance for the year ended June 30, 2021:

Balance – beginning of year	\$ 13,778,017
Provision for possible losses	110,768
Write-offs	<u>(2,431,648)</u>
Balance – end of year	<u>\$ 11,457,137</u>

8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2021, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets:				
Information systems	\$ 66,329	\$ 8,800	\$ -	\$ 75,129
Office furniture and equipment	37,633	-	-	37,633
Vehicles	97,286	-	-	97,286
Total capital assets	<u>201,248</u>	<u>8,800</u>	<u>-</u>	<u>210,048</u>
Less accumulated depreciation and amortization:				
Information systems	(66,307)	(2,443)	-	(68,750)
Office furniture and equipment	(37,549)	(254)	-	(37,803)
Vehicles	(78,904)	(6,229)	-	(85,133)
Total	<u>(182,760)</u>	<u>(8,926)</u>	<u>-</u>	<u>(191,686)</u>
Capital assets, net	<u>\$ 18,488</u>	<u>\$ (126)</u>	<u>\$ -</u>	<u>\$ 18,362</u>

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

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	4,276,478	3,000	-	4,279,478
Information systems	5,522,054	249,908	-	5,771,962
Office furniture and equipment	2,311,919	13,500	-	2,325,419
Vehicles	251,807	-	-	251,807
Total	<u>12,362,258</u>	<u>266,408</u>	<u>-</u>	<u>12,628,666</u>
Less accumulated depreciation				
Leasehold improvements	(4,119,022)	(27,823)	-	(4,146,845)
Information systems	(4,914,062)	(414,321)	-	(5,328,383)
Office furniture and equipment	(2,253,650)	(34,077)	-	(2,287,727)
Vehicles	(222,448)	(12,210)	-	(234,658)
Total	<u>(11,509,182)</u>	<u>(488,431)</u>	<u>-</u>	<u>(11,997,613)</u>
Capital assets, net	<u>\$ 8,605,787</u>	<u>\$ (222,023)</u>	<u>\$ -</u>	<u>\$ 8,383,764</u>

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Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

9. NOTES, BONDS, AND MORTGAGE-BACKED CERTIFICATES PAYABLE, AND OTHER LIABILITIES

The activity of bonds, mortgage-backed certificates, and notes payable for the year ended June 30, 2021, is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
Commonwealth appropriation note payable - AHMSP Act No. 124	\$ 3,397,686	\$ —	\$ —	\$ 3,397,686	\$ 551,738
Less unaccredited discount	(54,069)	2,990	—	(51,079)	—
Subtotal	3,343,617	2,990	—	3,346,607	551,738
Note payable to DRA	19,909,611	-	-	19,909,611	19,909,611
Total governmental activities	<u>\$ 23,253,228</u>	<u>\$ 2,990</u>	<u>\$ -</u>	<u>\$ 23,256,218</u>	<u>\$ 20,461,349</u>
Business-type activities:					
Mortgage-Backed Certificates - 2006 Series A	\$ 44,215,898	\$ —	(7,213,512)	\$ 37,002,386	\$ 10,923,509
Subtotal	44,215,898	—	(7,213,512)	37,002,386	10,923,509
Notes payable:					
Special obligation notes (Home Purchase Stimulus Program)	69,013,580	—	(3,321,870)	65,691,710	951,518
Plus unamortized premium	160,783	—	(28,615)	132,168	—
Less unaccredited discount	(8,816,961)	—	3,795,720	(5,021,241)	—
Total business-type activities	<u>\$ 104,573,300</u>	<u>\$ —</u>	<u>\$ (6,768,277)</u>	<u>\$ 97,805,023</u>	<u>\$ 11,875,027</u>

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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, 2021, are as follows:

Year(s) ending June 30:	Governmental activities		Business-type activities	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2022	\$ 551,738	170,766	11,875,027	2,532,247
2023	106,017	165,800	6,874,348	4,019,741
2024	31,541	163,621	6,446,548	3,711,761
2025	130,875	159,426	6,693,214	3,408,289
2026	130,875	151,574	6,152,181	3,110,803
2027 2031	2,446,709	358,683	20,083,869	12,326,950
2032 2036	-	-	18,043,165	8,560,026
2037 2041	-	-	23,755,339	3,927,242
2042 2041	-	-	2,770,405	96,833
TOTAL	\$ <u>3,397,755</u>	<u>1,169,870</u>	<u>102,694,096</u>	<u>41,693,892</u>

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 the 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 the 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 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.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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 refunding by the PFC in its notes payable in proportion to the portion of the Authority's note payable included in the PFC refunding.

The Note's outstanding principal balance on June 30, 2021, was approximately \$3.3 million and matures on 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% on June 30, 2021.

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Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

Business-Type Activities

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

<u>Description and Maturity date</u>	<u>Interest rate</u>	<u>Amount outstanding</u>
Mortgage-Backed Certificates, 2006 Series A - principal and interest payable monthly from September 29, 2006 to August 29, 2030	2.955% - 6.56%	34,187,544
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%	23,362,459
Special Obligation Notes, 2011 Series A - Principal and interest payable monthly from September 1, 2021 to September 1, 2041	7.00%	14,922,631
Special Obligation Notes, 2012 Series A - Principal and interest payable monthly from June 18, 2012 to September 1, 2041	7.00%	<u>25,332,389</u>
Total, net of unamortized premiums and discounts		<u>\$ 97,805,023</u>

Compensated Absences – The activity for compensated absences, included within accounts payable and accrued liabilities of the operational and administrative fund, during the year ended June 30, 2021, is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Vacation	\$ 235,437	\$ 445,000	\$ (52,214)	\$ 628,223	\$ 628,223

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

10. MORTGAGE LOANS INSURANCE PROGRAM

The mortgage loans insurance program was created by Act No. 87 of June 25, 1965, as amended, to provide mortgage credit insurance to low and moderate-income families on loans originated by the Authority and other financial institutions. This activity can be increased through legislative appropriations, if and when needed, and derives its revenue from premiums charged to the borrowers, interest on investments, and sales of properties acquired through foreclosure.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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 ensures 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, 2021, the Program covered loans aggregating approximately \$473 million. A liability of \$5 million was recorded under this program as of June 30, 2021, as an estimate of the losses inherent in the portfolio.

The mortgage loan insurance premiums amounted to \$2,395,220 for the year ended on June 30, 2021.

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, 2021, the Authority was not in compliance with the regulations. On June 30, 2021, the Authority had an unrestricted deficit of approximately \$183 thousand in the mortgage loans insurance program.

11. RELATED-PARTY TRANSACTIONS

A summary of the most significant related-party balances and transactions as of and for the year ended June 30, 2021, is as follows:

(a) Commonwealth

Legislative appropriations of approximately \$23.8 million were received by the governmental funds during the fiscal year ended June 30, 2021. These appropriations are restricted for the payment of operating expenses and to support affordable housing programs.

The Authority has an amount due to the Commonwealth of \$15,112,465. Such liability is the result of PayGo pension benefits payments made by the Commonwealth on behalf of the Authority.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

(b) Puerto Rico Department of Housing

As of June 30, 2021, the Authority has an amount due from the PRDOH in the total amount of \$581,687 which has been fully reserved.

The Authority entered into a 30-year lease agreement with the PRDOH 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 2020, 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 PRDOH 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 expenses during the year ended June 30, 2021, amounted to approximately \$296 thousand. In January 2020, the Authority moved part of its operations to a building owned by EDB. On July 21, 2021, the Authority entered into a one-year lease agreement with EDB with a monthly rent of \$23,058.

(c) Investment in Puerto Rico Community Development Fund, LLC and in PRHFA RLF Investment 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 PRDOH (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 \$587,000 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 of 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 \$587,000 and thus became the sole owner of PRHFA RLF Investment Fund, LLC and accordingly the investor member of PRCDF I.

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

Investment in RLF during the fiscal year ended June 30, 2021, was as follows:

Investment in RLF as of June 30, 2020	39,706,521
Equity pickup on earnings (losses) of PRHFA RLF Investment Fund, LLC	<u>(5,218,287)</u>
Investment in RLF as of June 30, 2021	<u>\$ 34,488,234</u>

(d) Claim in the Public Entity Trust

On March 23, 2018, GDB ceased its operations. 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 exchanged their claims for bonds issued by a newly created public instrumentality, the GDB Debt Recovery Authority, and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate assets, and its unencumbered and its unencumbered cash. In addition, pursuant to Act No. 109 of 2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (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, including the Authority, received their pro rata share of interests in a newly formed trust created by the GDB Restructuring Act, the Public Entity Trust (the PET). The interests a Non-Municipal Government Entity received against the PET was deemed to be in full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB.

As a result of the Qualifying Modification transaction and pursuant to the terms of the GDB Restructuring Act, the Authority's deposits at GDB were fully extinguished and the Authority obtained interests in the PET totaling \$56,704,777, with a carrying amount of zero. As of the date of issuance of the financial statements, there has been no recovery on the claim in the PET.

The assets of the PET (the PET Assets) consist of, among other items, an unsecured claim of \$578 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth's Title III case (the PET Claim). Non-Municipal Government Entities' recoveries on account of their interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets. As of the date hereof, the Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

12. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Authority is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers and to reduce its exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and 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. On June 30, 2021, commitments to extend credit amounted to approximately \$18.3 million.

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Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

13. 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 the 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 the 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 payments 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.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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. In addition, all accrued pension benefits under ERS's pension plans for active and retired public employees were preserved under the Commonwealth Plan of Adjustment, which was confirmed on January 18, 2022, and became effective on March 15, 2022. For further information on the Commonwealth Plan of Adjustment, refer to the discussion in Note 20.

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 on 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 a private third party.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

(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.

<u>Date of birth</u>	<u>Attained age as of June 30, 2013</u>	<u>Retirement eligibility age</u>
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.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

- (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 is 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.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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 the 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 the 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 the 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 the 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. The maximum benefit is 75% of the 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 the 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. The maximum benefit is 90% of the highest compensation as a Mayor.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

- (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 the 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, for Mayors with at least 8 years of credited service as a Mayor, the accrued benefit will not be less than 5% of the 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. The maximum benefit is 90% of the 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.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

(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 was 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, 2021, amounted to \$77,583,302 and 0.27639%, respectively. The Commonwealth's total pension liability, from which an allocation was made to the Authority's financial statements as of June 30, 2021, as of June 30, 2020, was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2020 (measurement date as of June 30, 2020).

(e) *Actuarial Methods and Assumptions*

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

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

Discount Rate

The discount rate for June 30, 2020, was 2.21%. 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 on June 30, 2020, actuarial valuation were as follows:

— Pre-retirement Mortality

For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 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 that vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, are projected using MP-2020 on a generational basis. Prior to the retiree's death, beneficiary mortality is assumed to be the same as the post-retirement health retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, are projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement.

— Post-retirement Disabled Mortality

Rates that vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates were adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

— Other Assumptions as of June 30, 2020

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, a 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 2.21%, as well as what it would be if it were calculated using the discount rate of 1 percentage point lower (1.21%) or 1-percentage-point higher (3.21%) than the current rate (dollars in thousands):

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
The Authority's proportionate share of total pension liability	<u>\$ 88,994,483</u>	<u>\$ 77,583,302</u>	<u>\$ 68,381,267</u>

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

Pension expense recognized by the Authority for the year ended June 30, 2021, related to the ERS amounts to \$3,990,208. 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, 2021:

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 160,027	\$ 1,746,471
Changes in assumptions	9,739,820	1,331,772
Changes in employer proportion	1,189,673	1,079,236
Employer pension payments made subsequent to the measurement date	3,603,523	-
	<u>\$ 14,693,043</u>	<u>\$ 4,157,479</u>

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer-specific amounts) related to pensions on June 30, 2020, will be recognized in pension expense (benefit) in future years as follows:

Years ending June 30,	Amount
2021	\$ 1,588,279
2022	1,588,279
2023	1,588,280
2024	2,056,766
	<u>\$ 6,821,604</u>

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 6 years for 2018 and 5 years for 2019 and 2020.

14. OTHER POST-EMPLOYMENT 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 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.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

Actuarial methods and assumptions

The total OPEB liability as of June 30, 2021, was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period:

Discount Rate

The discount rate for June 30, 2020, was 2.21%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

Pre-retirement Mortality

For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 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 that vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, are projected using MP-2020 on a generational basis. Prior to the retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, are projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality

Rates that vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates were adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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, 2021, was approximately \$1.5 million and 0.17601%, 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 on June 30, 2021 (measurement date June 30, 2020), for ERS calculated using the discount rate of 2.21%, 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 (1.21%) or one percentage point higher (3.21%) than the current rate:

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
The Authority's proportionate share of OPEB liability	<u>\$ 1,697,210</u>	<u>\$ 1,539,436</u>	<u>\$ 1,406,117</u>

Deferred outflows of resources and deferred inflows of resources

OPEB expense recognized by the Authority for the year ended June 30, 2021, related to ERS MIPC amounted to approximately \$182,000.

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 benefit payments made by the Authority subsequent to the measurement date, which amounted to \$113,200 as of June 30, 2021, which will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2022.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

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, 2020, 2019, and 2018, 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.

15. EARLY RETIREMENT PROGRAM

From the fiscal year 2011 through the 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 on 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.

A total of six employees who have voluntarily separated from employment under the provisions of Act No. 70. 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 the fiscal year 2021, there were no costs related to these early termination benefits. As of June 30, 2021, the total liability related to these termination benefits was approximately \$33,784 recorded within accounts payable and accrued liabilities of the business-type activities.

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Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

16. 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.

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 an FNMA certificate. The Authority agreed to repurchase, at a price of par plus accrued interest, every mortgage loan backing up such security certificate that became delinquent for 120 days or more. As of June 30, 2021, 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 a servicer for several mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2021, the principal balance of the mortgage loans serviced for others is as follows:

<u>Investor</u>	<u>Amount</u>
PRCDF I	\$ 29,500,000
CRUV or its successor without guaranteed mortgage loan payments	<u>6,546</u>
Total	<u>\$ 29,506,546</u>

Litigation – The Authority is a defendant in several lawsuits arising out of the normal course of business. Management, based on discussion with legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material effect on the financial position or results of operations of the Authority.

A liability to cover litigation claims and contingencies amounting to \$15,000 has been included as part of accounts payable and accrued liabilities in the accompanying statement of net position.

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

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

17. CONDUIT DEBT AND PROGRAMS SPONSORED BY THE AUTHORITY

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 previous bond issuances 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. The Series 2020 has an outstanding balance of approximately \$220,315,000 on June 30, 2021.

18. INTERFUND BALANCES AND TRANSFERS

The summary of the interfund balances as of June 30, 2021, between the government funds and the Proprietary Fund, is as follows:

<u>Receivable by</u>	<u>Payable by</u>	<u>Purpose</u>	<u>Amount</u>
Proprietary fund:	Governmental funds:		
Operating and Administrative	HUD Programs	Advance of funds	\$ 923,654
Operating and Administrative	HOME Programs	Advance of funds	709,610
Operating and Administrative	CDBG Program	Advance of funds	5,032,298
Operating and Administrative	AHS Programs	Advance of funds	<u>9,907,756</u>
Total			<u>\$ 16,573,318</u>

The summary of the interfund transfers for the year ended June 30, 2021, is as follows:

<u>Transfer in</u>	<u>Transfer out</u>	<u>Purpose</u>	<u>Amount</u>
Proprietary fund:	Governmental funds:		
AHS Programs	Operating and Administrative	Repayment of debt	<u>\$ 26,234,691</u>
			<u>\$ 26,234,691</u>

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Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

19. 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 as of June 30, 2021, GDB's management believes that there is substantial doubt that GDB, the Authority's primary source of financing, will continue as a going concern, as GDB has ceased operating and is in the process of winding down, as an external matter that may affect the ability of the Authority to continue as a going concern.

GDB traditionally served as an 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, and collateral requirements under swap agreements, and to meet mandatory payments of obligations. As a result, the GDB's liquidity and financial condition were 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, and 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 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 FAFAA, GDB's role was reduced to an agent in (i) collecting on its loan portfolio and (ii) disbursing funds under 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, 2019, 2020, and 2021 on March 23, 2018, the GDB ceased its operations, and management initiated an orderly wind-down process.

Such a wind-down process involved, among other things, a comprehensive restructuring of substantially all the GDB's obligations under the Title VI Qualifying Modification.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

As a result, 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 its 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. Notwithstanding the budgetary constraints and historical liquidity risks faced by the Commonwealth, EDB, and GDB and other circumstances existing on June 30, 2021, based on subsequent events that remedied the Commonwealth's financial condition and addressed its liabilities, management does not believe there is substantial doubt about the Authority's ability to continue as a going concern as of the date of these basic financial statements.

As further discussed in Note 20 to the basic financial statements, on January 18, 2022, the Title III Court confirmed the Commonwealth Plan of Adjustment. On March 15, 2022 (the Effective Date), the Commonwealth, ERS, and PBA each emerged from their Title III cases. On the Effective Date, the Commonwealth Plan of Adjustment was consummated and became effective. As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately \$34.3 billion of prepetition debt to only approximately \$7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately \$4.2 billion to \$1.15 billion, representing a total debt service reduction of 73%. This significant reduction in total debt and annual debt service payments provides a path for the Commonwealth's future economic growth and alleviates the historical budgetary constraints that caused doubt as to whether the Oversight Board would approve the future financing needs of the Authority.

Management has the intention of putting in place a series of plans and initiatives that, when executed, are expected to result in further alleviation of any substantial doubt regarding the Authority's ability to continue as a going concern.

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Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

20. SUBSEQUENT EVENTS

The Authority evaluated subsequent events through October 4, 2022, the date the financial statements were available to be issued.

Puerto Rico Finance Corporation's Restructuring Support Agreement

On January 20, 2022, AAFAF, on behalf of PFC, entered into the PFC RSA with holders of a majority of the PFC Bonds. The PFC RSA contemplates a restructuring and discharge of the PFC Bonds under Title VI of PROMESA. The PFC RSA further contemplates that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities, including by the Authority, for the repayment of the PFC Bonds will be canceled and extinguished and the Authority will be discharged from any liability arising from or related to such promissory notes.

On October 25, 2022, AAFAF, on behalf of PFC, filed a first amendment to the PFC RSA. The amendment contemplates that upon consummation of the Qualifying Modification participating bondholders would receive the PFC distribution made up of \$13.8 million in cash and \$47.7 million in face amount of DRA bonds, to the extent issued, minus the PFC bond trustee's fees. The amendment materials note, however, that the issuance of the DRA bonds is uncertain and may or may not occur in whole, in part, or at all. The PFS RSA also contains various other terms and conditions, including important releases and obtaining the solicitation votes required by Title VI of PROMESA in favor of the restructuring and court approval of the restructuring. The voting deadline is November 21, 2022, unless extended.

If the transaction contemplated by the amended PFC RSA obtains all necessary approvals and goes effective, the outstanding debt of the Authority described in Note 9 will be canceled and considered extinguished.

Debt to GDB Debt Recovery Authority

On November 2021, the GDB Debt Recovery Authority filed a lawsuit against the Authority alleging breach of contract and seeking immediate repayment of principal amounting to \$19,909,611 and accrued interest of \$2,009,212. The legal Counsel of the Authority advised that, due to the circumstances of this case and its early stage, an outcome cannot be predicted.

Plan of Adjustment for the Commonwealth

Prior to March 15, 2022, the Commonwealth and many of its component units suffered a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession that persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base shrank and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's general fund budget consisted of health care and pension-related costs and debt service requirements through fiscal year 2019, resulting in reduced funding for other

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

essential services. The Commonwealth’s historical liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interests rates.

On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title VI of PROMESA.

Thereafter, the Commonwealth and other governmental entities including, the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under Title III, and the Government Development Bank for Puerto Rico (GDB), the Puerto Rico Infrastructure Financing Authority (PRIFA), and the Puerto Rico Convention Center District Authority (PRCCDA) initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its *Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the United States District Court for the District of Puerto Rico (the Title III Court).

On October 26, 2021, the Governor signed into law Act No. 53 of 2021 (Act 53), known as the “Law to End the Bankruptcy of Puerto Rico,” which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

On November 3, 2021, the Oversight Board filed its *Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Eighth Amended Plan [ECF No. 19812] (the Findings of Fact) and an order confirming the Eighth Amended Plan [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. Oral argument on the merits of the appeals is currently scheduled for April 28, 2022.

On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately \$34.3 billion of prepetition debt to only approximately \$7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately \$4.2 billion to \$1.15 billion, representing a total debt service reduction of 73%. Also as of the Effective Date, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged. In addition, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. Importantly, effectuating the Commonwealth Plan of Adjustment provides a path for Puerto Rico to access the credit markets and develop balanced annual budgets.

A critical component of the Commonwealth Plan of Adjustment is the post-Effective Date issuance of new general obligation bonds (the New GO Bonds) and contingent value instruments (CVIs) that provides recoveries to GO and PBA bondholders, as well as holders of clawback claims against the Commonwealth and certain of its component units and instrumentalities.

Municipal governments typically issue amortizing debt—i.e., debt with principal maturities due on a regularly scheduled basis over a duration that varies generally between 20 and 40 years. The Commonwealth's New GO Bonds will mature over 25 years and will include both Capital Appreciation Bonds (CABs) and Current Interest Bonds (CIBs). All of the CABs and CIBs will have term bonds with mandatory sinking fund payments. This is intended to optimize cash available to pay debt service since the municipal market has a yield curve, and bonds are not priced to the average life as is the case in other markets, because specific investors may purchase bonds in differing parts of the maturity curve, including individual investors, corporations and mutual funds.

The New GO Bonds were issued with an aggregate original principal amount of approximately \$7.4 billion, consisting of approximately (i) \$6.6 billion of New GO CIBs, (ii) \$442.5 million of New GO CABs with a 5.375% interest rate, and (iii) \$288.2 million of New GO CABs with a 5.0% interest rate. They have 11 different maturity dates and will be secured by (a) a statutory first lien, (b) a pledge of the amounts on deposit in the Debt Service Fund, and (c) a pledge of the Commonwealth's full faith, credit and taxing power in accordance with Article VI, Section 2 of the Commonwealth Constitution and applicable Puerto Rico law. The New GO Bonds are dated as of, and will accrue or accrete interest from, July 1, 2021.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

The Commonwealth Plan of Adjustment also provides for the issuance of CVIs, an instrument that gives a holder the right to receive payments in the event that certain triggers are met. The Commonwealth Plan of Adjustment establishes revenue-based performance benchmarks and permits the holders of CVIs to receive payments on account of the CVIs only if the benchmarks are exceeded. The CVIs issued under the Commonwealth Plan of Adjustment are based on over-performance collections of the Commonwealth's 5.5% sales and use tax (SUT), with some CVIs also being subject to over-performance collections of rum tax. The CVIs represent a conditional promise by the Commonwealth to pay CVI holders only if the SUT or rum tax baselines are exceeded in a given fiscal year. The outperformance metric will be measured as of the end of each fiscal year (i.e., June 30) beginning in fiscal year 2022 and is based on a SUT and rum tax collections baselines for fiscal years 2022 to 2043 as established in the Board-certified fiscal plan for the Commonwealth, dated May 27, 2020. As with the New GO Bonds, the Commonwealth pledged its full faith, credit and taxing power under the Puerto Rico Constitution and applicable Puerto Rico law for payment of the CVIs. The CVIs will be deemed issued on July 1, 2021.

The CVIs are also divided into two categories: (i) general obligation debt CVIs (GO CVIs), which will be allocated to various holders of GO bondholder claims; and (ii) clawback debt CVIs (the Clawback CVIs), which will be allocated to claims related to HTA, PRCCDA, PRIFA, and MBA bonds. The GO CVIs have a 22-year term. The Clawback CVIs have a 30-year term. The GO CVIs are subject to a lifetime cap of \$3.5 billion, with maximum annual payments of \$200 million plus any unused amounts from previous years subject to cumulative annual payments not exceeding \$400 million. Similarly, the Clawback CVIs are subject to a \$5.2 billion aggregate lifetime cap, allocated across the different types of bond claims, with maximum annual payments of (i) \$175 million plus any unused amounts from previous years, not to exceed cumulative annual payments of \$350 million, for fiscal years 1-22 of the 30-year term; and (ii) \$375 million plus any unused amounts from previous years, not to exceed cumulative annual payments of \$750 million, for fiscal years 23-30 of the 30-year term. The CVIs also apply an annual payment waterfall in which the first \$100 million will be paid to GO CVIs and the next \$11,111,111 will be paid to Clawback CVIs.

The Commonwealth Plan of Adjustment classifies claims into 69 classes, with each receiving the following aggregate recoveries:

- Various categories of Commonwealth bond claims (Classes 15-50): 73% recovery consisting of cash, New GO Bonds, and GO CVIs.
- Various categories of PBA bond claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders receive on account of their guarantee claims against the Commonwealth.
- Various categories of clawback creditor claims (Classes 59-63): 23% recovery consisting of the Clawback CVIs.
- ERS bond claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio (as defined in and established under the Commonwealth Plan of Adjustment).
- Various categories of general unsecured claims (Classes 13, 58, and 66): 21% recovery in cash.
- Other miscellaneous claims (Classes 52-57, 64, 67-69): 26% recovery in cash.

Puerto Rico Housing Finance Authority

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

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

For general unsecured claims, the Commonwealth Plan of Adjustment provides for separate levels of creditor cash recoveries at each debtor, as applicable. All general unsecured claims against the Commonwealth, ERS, and PBA are discharged, except certain Eminent Domain/Inverse Condemnation Claims (as defined in the Commonwealth Plan of Adjustment) that are not discharged until they receive payment in full, subject to an appeal of the Title III Court's ruling on such claims. If that ruling is reversed, then the Eminent Domain/Inverse Condemnation Claims will be dischargeable and impaired. All other general unsecured creditors at the Commonwealth will receive up a pro rata share of the general unsecured creditor reserve fund (the GUC Reserve), plus amounts received by the Avoidance Actions Trust (as defined in and established under the Commonwealth Plan of Adjustment) up to 40% of the value of their claim. The GUC Reserve was funded with \$200 million on the Effective Date and will be replenished with an additional aggregate total amount of \$375 million funded in incremental amounts annually through December 31, 2025. Depending on the outcome of the appeal regarding Eminent Domain/Inverse Condemnation Claims, the GUC Reserve amount could be reduced by up to \$30 million. ERS's general unsecured creditors will receive pro rata cash distributions from a fund established for ERS general unsecured creditors, which consists of \$500,000 plus any net recoveries by the Avoidance Actions Trust allocable to ERS. PBA's general unsecured creditors will be entitled to a cash payment equal to 10% of their claim upon allowance.

Importantly, the Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, participants of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) and Teachers Retirement System of Puerto Rico (TRS) will be subject to a benefits freeze and the elimination of any cost of living adjustments previously authorized under the JRS and TRS pension plans.

During the pendency of the PROMESA cases, a variety of legal issues were raised related to creditor claims. As a result of the recoveries provided under the Commonwealth Plan of Adjustment, the COFINA plan of adjustment, and the Title VI qualified modifications for GDB, PRIFA, and PRCCDA, substantially all of those litigation proceedings have been resolved and dismissed. Certain claims, however, were not discharged under the Commonwealth Plan of Adjustment, including: (i) the Eminent Domain/Inverse Condemnation Claims (Class 54); (ii) the Tax Credit Claims (Class 57); (iii) the resolution of certain claims subject to the ACR process (see Commonwealth Plan of Adjustment § 82.7); and (iv) certain Underwriter Actions related to indebtedness issued by the Commonwealth or any of its agencies or instrumentalities against any non-debtors (see Commonwealth Plan of Adjustment § 92.2(f)). Additional litigation proceedings also will be dismissed upon the effective date of the HTA plan of adjustment, which is currently expected to be proposed in April 2022.

For further information, refer to the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.



**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 COLLECTIVE TOTAL PENSION LIABILITY

For the year ended June 30, 2021

	GASB 73			GASB 68				
	2020	2019	2018	2017	2016	2015	2014	2013
Proportion (percentage) of the net collective total pension liability	0.27639%	0.28168%	0.27460%	0.15977%	0.15693%	0.16041%	0.16041%	0.16145%
Proportionate (amount) of the net collective total pension liability	77,583,302	69,998,393	67,248,992	54,671,304	59,160,168	53,475,928	48,658,344	42,252,542
Covered - Employee Payroll	5,309,451	6,235,282	6,235,282	6,051,520	6,200,000	7,300,000	6,600,000	6,500,000
Proportionate Share of total pension liability as percentage of covered-employee payroll	1461.23%	1122.62%	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. Therefore, there are no assets accumulated in a trust to pay 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, 2019 that was rolled forward to June 30, 2020, 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 year ended June 30, 2021

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Proportion of the total OPEB liability	0.17601%	0.17758%	0.17007%	0.15947%	0.14574%
Proportionate Share of the total OPEB liability	1,539,436	1,477,874	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	N/A	N/A