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

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

THIS FILING RELATES TO A SINGLE BOND ISSUE:

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

____

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

____

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

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

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

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

TYPE OF INFORMATION PROVIDED:

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

Fiscal Period Covered: ______________________________

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

Fiscal Period Covered: 2017-18

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

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

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

Dated: June 2, 2021

Roberto Sánchez Vilella (Minillas) Government Center, De Diego Ave. Stop 22, San Juan, PR 00907 I PO Box 42001, San Juan, PR 00940-2001

787.722.2525 contact@aafaf.pr.gov aafaf.pr.gov

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

Single Audit Package

June 30, 2018

(With Independent Auditors' Reports Thereon)

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LHD AMERICA LLC
Certified Public Accountants
Business & Tax Advisors

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Puerto Rico Housing Finance Authority (the Authority) (a component unit of the Government Development Bank for Puerto Rico (GDB)) as of and for the fiscal year ended June 30, 2018, 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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

The Authority's Ability to Continue as a Going Concern

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

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

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

Adoption of Accounting Standards

As discussed in Note 2 to the basic financial statements, as of July 1, 2017, the Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*, and GASB Statement No. 86, *Certain Debt Extinguishment Issues.* This resulted in a restatement to the beginning net position of the business-type activities and proprietary fund of approximately $7.3 million. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated July 31, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

LHD America, LLC

License No. 349
Expiration Date: December 1, 2023

San Juan, PR
March 2, 2021

Stamp No. E441137 of Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Certified Public Accountants
LHD
AMERICA
LLC
Lic. 349
Puerto Rico

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, 2018. The MD&A is intended to serve as an introduction to the Authority's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. The MD&A is designed to (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the Authority's financial activities, and (c) highlight individual fund matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the Authority's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

Financial Highlights

- Net position of the Authority decreased approximately $7.5 million during fiscal year 2018, from $126.1 million as of June 30, 2017 (as restated) to $118.6 million as of June 30, 2018.

- The Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2017; and has applied them retroactively to the financial statements for all periods presented. Accordingly, the beginning net position of the Authority was decreased by $1.6 million. The Authority also adopted GASB Statement No. 86, *Certain Debt Extinguishment Issues*, effective July 1, 2017; and has applied them retroactively to the financial statements for all periods presented. Accordingly, the beginning net position of the Authority was decreased by $5.7 million.

- Operating loss of the Operating and Administrative fund was $25.7 million for the fiscal year ended June 30, 2018 compared to an operating loss of approximately $6.9 million (as restated) for the fiscal year ended June 30, 2017. There were net interfund transfers in the amount of $4.1 million during the fiscal year ended June 30, 2018. Total operating revenues of the Proprietary Fund decreased to approximately $19.8 million in fiscal year 2018 from approximately $33.4 million in fiscal year 2017. Total operating expenses of the Proprietary Fund increased to approximately $45.4 million in fiscal year 2018 from approximately $40.3 million (as restated) in fiscal year 2017.

- During fiscal year 2018, $143.9 million and $9.8 million were granted in subsidies through the Housing Urban Development Program (HUD) and the Investment Partnerships HOME Federal Program (the Home program), respectively.

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

Using this Report

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

Authority's operations in more detail than the government-wide statements by providing information about the Authority's major funds.

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

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Reporting Major Funds

Fund Financial Statements

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

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

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

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

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

Overall Financial Position and Results of Operations

We provide the readers of these basic financial statements with the following summarized discussion and analysis of the relevant facts that affected the government-wide financial statements as of June 30, 2018 and June 30, 2017 (in thousands):

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017 (as restated)	2018	2017 (as restated)
Assets:						
Cash	$ 25,554	18,405	42,650	45,514	68,204	63,919
Investments and deposits placed with banks	39,571	41,308	111,356	108,530	150,927	149,838
Loans receivable, net	-	-	175,141	193,031	175,141	193,031
Capital assets	42	1	8,397	9,951	8,439	9,952
Other assets	(5,818)	(5,888)	15,825	18,453	10,007	12,565
Total assets	$ 59,350	53,826	353,369	375,479	412,718	429,305
Deferred outflows of resources	-	-	15,014	14,378	15,014	14,378
Liabilities:						
Due in less than one year	$ 18,282	11,548	33,895	31,929	52,177	43,477
Due in more than one year	96,695	111,949	153,453	161,068	250,148	273,017
Total liabilities	$ 114,977	123,497	187,348	192,997	302,325	316,494
Deferred inflows of resources			6,851	1,132	6,851	1,132
Net position:						
Invested in capital assets	$ 42	1	8,397	9,951	8,439	9,952
Restricted	-	-	24,253	32,223	24,253	32,223
Unrestricted position	(55,670)	(69,672)	141,534	153,553	85,865	83,881
Total net position	$ (55,627)	(69,671)	174,184	195,727	118,557	126,056

Governmental activities net position

Total assets from Governmental Activities were approximately $59.3 million at June 30, 2018. Total liabilities were approximately $115.0 million, for a net deficit of $55.6 million for the fiscal year ended June 30, 2018. Net deficit has been broken down into a net position invested in net capital assets of approximately $42,000 and the remaining balance as the unrestricted component of net deficit of approximately $55.7 million.

The total aggregate amount of investments and investment contracts was approximately $38.9 million and, together with cash and due from banks and deposits placed with banks of approximately $26.2 million, accounted for the majority of the assets held by Governmental Activities. These assets are restricted to provide funds for the execution of the various affordable and other housing programs managed by the Authority. The aggregate amount of cash, investments and deposits at June 30, 2018 had a net increase of approximately $5.4 million over the prior year, mostly responding to a combination of the net increase in operating grants and contributions of approximately $2.5 million (as further described below on the Statement of Activities section) and additional amounts of capitalized interest (approximately $7.5 million) on the lines of credit due to the Government Development Bank (GDB), which remained unpaid at June 30, 2018. Other assets are mainly restricted and are composed mostly of amounts due from the HUD and HOME federal programs offset by the internal balances with the business type activities, which remained relatively stable during 2018. Accrued liabilities mainly consist of unpaid expenditures related to the HOME Program fund, subsidies payable on various affordable housing programs and the matured balances of capitalized interest on the lines of credit due to GDB, which in the aggregate all amounts due within one year increased by a net amount of approximately $6.7 million during 2018.

Business-type activities net position

Total assets from Business-type Activities were approximately $353.3 million at June 30, 2018. Deferred outflows of resources were approximately $15 million. Total liabilities were approximately $187.3 million and deferred inflows of resources were approximately $6.9 million, for a net position of approximately $174.2 million during the fiscal year ended June 30, 2018. Net position has been broken down into a net position invested in net capital assets of approximately $8.4 million, restricted for affordable housing programs of $21.3 million and restricted for other housing programs of $2.9 million. The remaining balance is the unrestricted component of the net position and amounted to approximately $141.5 million. Total assets from Business-type Activities remained relatively stable when compared to the prior year, with the exception of a net decrease in loans receivable during 2018 of approximately $17.8 million, explained principally as a result of additional loan loss provisions of approximately $15.3 during.

The total aggregate amount of investments and investment contracts were approximately $88.5 million and, together with loans receivable of approximately $175.1 million and cash and due from banks and deposits placed with banks of $65.5 million, accounted for the majority of the assets held by the Business-type Activities for the fiscal year ended June 30, 2018.

Statement of Activities

The statement of activities shows the sources of the Authority's changes in net position as they arise through its various programs and functions. Programs such as the HUD Programs, HOME Program, and My New Home Program are shown as governmental activities and other programs (Mortgage Loan Insurance and Home Purchase Stimulus Program) are shown as business-type activities. A condensed summary of activities for the fiscal years ended June 30, 2018 and June 30, 2017, is shown in the table on the following page (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017 (as restated)	2018	2017 (as restated)
Revenues:						
Program revenues:						
Charges for services	$ 6,388	-	10,719	20,463	17,106	20,463
Financing and investment	1,797	2,137	9,096	12,971	10,893	15,108
Operating grants, capital grants, and contributions	178,452	176,665	-	-	178,452	176,665
Total revenues	186,637	178,802	19,815	33,434	206,452	212,236
Program expenses:						
General government and other	5,716	6,039	-	-	5,716	6,039
Housing assistance programs	162,813	170,037	-	-	162,813	170,037
Operating and administrative	-	-	45,422	40,307	45,422	40,307
Total program expenses	168,529	176,076	45,422	40,307	213,952	216,383
Change in net position before transfers	18,107	2,726	(25,607)	(6,873)	(7,500)	(4,147)
Transfers	(4,064)	(1,190)	4,064	1,190	-	-
Increase (decrease) in net position	14,044	1,536	(21,543)	(5,683)	(7,499)	(4,147)
Net position, beginning of year (as restated)	(69,671)	(71,207)	195,727	201,410	126,057	130,203
Net position, end of year	$ (55,627)	$ (69,671)	$ 174,184	$ 195,727	$ 118,558	$ 126,056

Governmental activities analysis

The net increase of approximately $1.8 million in operating grants, capital grants and contributions was mainly related to an increase in Commonwealth appropriations of approximately $8.1 million due to additional funding received by the My Own Home Program for the development of the Casa Mia Program and additional appropriations for the operations of the Operating and Administrative Fund. Refer to Note 11 for additional details. The increase in Commonwealth appropriations was offset by the decrease in the grants and other income of the HOME Programs from $16.0 million in fiscal year 2017 to $10.7 in fiscal year 2018. The decrease of $5.3 in HOME Program grants was the result of decreased activity in construction projects subsidized by the Program due to a lower grant award. Also a gain on early extinguishment of debt, pertaining to the line of credit of the My New Home Program, amounting to approximately $5.7 million contributed mostly to the charges per services portion of the program revenues. The decrease of approximately $7.2 million in Housing Assistance Program expenses is mainly due to the decrease in HOME Program grants explained above.

Business-type activities analysis

The decrease in charges for services – fees, commissions, and others of $9.8 million is mainly due to net effect of a decrease of approximately $4 million in the release of the allowance for loan losses (in 2018 there was no release of allowance, instead there was a provision for loan losses amounting to $15.3 million), decrease of approximately $2.8 in custodial credit risk loss recovery (no custodial credit risk loss or recovery was recorded in 2018) and decrease of approximately $1.6 million in other income. Decrease in other income was mainly driven by a decrease in loan recoveries of approximately $1 million and by the reversal during 2017 of the sick leave accrual of approximately $1 million due to Act No. 26 of April 29, 2017 which established that no cash payments were to be made to employees for sick leave days.

The increase of $5.1 million in expenses was mainly driven by the provision for loan losses amounting to $15.3 million, offsett by a reduction in the following expenses (in millions):

Net loss in sale of loans	4.7
Legal and professional fees	1.2
Office and administrative	1.2
Other real estate owned maintenance and related expenses	1.3

The loss in the sale of loans amounting to $4.7 million in 2017 was as the result of the sale of loans that took place between fiscal years 2016 and 2017 to provide liquidity to GDB (no such sales occurred in fiscal year 2018). Decrease in legal and professional fees, occupancy and equipment costs and other real estate owned maintenance and related expenses were mainly due to the disruption in the operations of the Authority caused by Hurricane Maria during 2018.

Governmental Fund Results

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

HUD Programs – This fund accounts for the U.S. Housing Act Section 8 programs administered by the Authority under the authorization of HUD. Presently, the Authority operates three programs whereby low-income families receive directly or indirectly subsidies to pay for their rent. The housing vouchers program enables families to obtain rental housing in a neighborhood of their choice. The other programs are project-based subsidies whereby housing developers are given incentives to keep their properties available for low and moderate income markets. The expenditures of the HUD Programs decreased $1.5 million from approximately $149.8 million in fiscal year 2017 to approximately $148.7 million in fiscal year 2018 because a lower number of vouchers assistance was awarded when compared to the previous year.

HOME Program – This fund accounts for funds received from HUD for the administration of the HOME Program. The main purpose of this program is to increase the supply of decent and affordable housing for low and very low-income families. Revenues decreased from approximately $16.1 million in fiscal year 2017 to approximately $10.8 million in fiscal year 2018 mainly due to lower activity in construction projects subsidized by the Program and a lower grant award.

Affordable Housing Subsidy Program – This fund is used to account for the proceeds of specific local revenue sources under the different subsidy programs of the Authority. During the fiscal year ended June 30, 2018, the fund balance increased by $2.9 million as compared to a decrease of $4.0 million in the fiscal year ended June 20, 2017. This fluctuation is principally caused by an $8 million increase in Commonwealth appropriations partially offsett by an increase in transfer out of $3 million over fiscal year 2017.

Proprietary Fund Results

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

Operating and Administrative – The net position of the Operating and Administrative fund decreased from approximately $195.7 million at June 30, 2017, adjusted for the restatements described in Note 2 to the financial statements amounting to approximately $7.3 million, to approximately $174.2 million at June 30, 2018, or approximately $21.5 million, responding to the operating loss for the year of approximately $25.7 million offset by transfers in amounting to $4.1 million.

Capital Assets

The Authority's investment in capital assets for its business type activities as of June 30, 2018 and June 30, 2017 amounted to approximately \$8.4 million and \$10.0 million, respectively, net of accumulated depreciation and amortization, for a net reduction of approximately \$1.6 million. This decrease responds to a sale of land during the year from the Authority to the Public Housing Administration for the development of an affordable housing project. Capital assets include leasehold improvements, information systems, office furniture, equipment, and vehicles.

Authority Debt

The Authority uses long term debt as its main tool to meet its policy objectives. Debt is issued to provide low interest rate mortgage opportunities to qualified buyers. This is achieved through the acquisition of mortgage backed securities that are secured with low income housing assistance mortgages or through providing subsidy for the down payment and/or the principal and interest payments on mortgage loans.

At June 30, 2018 and June 30, 2017, total debt outstanding was approximately \$215.0 million and \$226.0 million, respectively. The decrease in total debt of approximately \$11 million, responds to the combination of events, including the early settlement of an \$11 million portion of a line of credit due to GDB (in participation with a private bank) related to the My New Home Program plus net repayments in the amount of approximately \$3.3 million of mortgage-backed certificates and special obligation notes, offset by approximately \$3.8 million of additional capitalized interest into the lines of credits due to GDB. The credit rating of the Authority's public debt is AAA, as determined by Fitch Ratings on August 2020. Refer to Note 11 to the basic financial statements for additional information on borrowed funds.

Currently Known Facts

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

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

COMMONWEALTH OF PUERTO RICO

The Commonwealth is in the midst of a profound fiscal and economic crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession, prior liquidity challenges, high unemployment, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base has shrunk and its revenues affected by prevailing economic conditions, an increasing portion of the Commonwealth General Fund budget has consisted of health care, pension and debt service costs, resulting in reduced funding available for other essential services. These matters and the Commonwealth's historical liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all.

Since June 30, 2014, the principal rating agencies lowered their rating on the general obligation bonds of the Commonwealth, which had already been placed in a default rating of "D." They also lowered similarly to a default grade their ratings on the bonds of GDB.

The Commonwealth reflects a net position deficit/fund balance deficit of approximately $71 billion as of June 30, 2017. The Commonwealth's General Fund shows a fund balance (deficit) of approximately $101 million as of June 30, 2017.

For the fiscal year ended June 30, 2017, the Legislative Assembly of Puerto Rico (the Legislature) did not appropriate approximately $85.4 million for the payments of the PFC bonds which are obligations of certain component units of the Commonwealth that are payable solely from such appropriations.

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

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

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

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

Remediation Plan – Commonwealth

On March 13, 2017, the Oversight Board certified the initial fiscal plan for the Commonwealth. The fiscal plan has been subject to various revisions. On May 27, 2020, the Oversight Board certified its most recent fiscal plan for the Commonwealth (the Board Fiscal Plan), which included the following categories of structural reforms and fiscal measures:

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

On January 19, 2021, the Oversight Board requested the Governor to submit a new Commonwealth fiscal plan to replace the Board Fiscal Plan. The Governor's proposal is expected to be submitted in February 2021. There is no certainty that the Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth's ability to reduce its deficit and to achieve a balanced budget in future fiscal years depends on a number of factors and risks, some of which are not wholly within its control.

On February 28, 2020, the Oversight Board—as representative to the Commonwealth, the the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), and the Puerto Rico Public Buildings Authority in their respective Title III cases—filed its *Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 11946) (the Amended Plan) and an amended disclosure statement related thereto [ECF No. 11947] (the Amended Disclosure Statement). The Amended Plan has been subject to ongoing discussions under the guidance of the Title III mediation team. As a result of these discussions, a different plan of adjustment may be formulated and filed with the Title III Court. Any newly filed plan will remain subject to future amendments and Title III Court approval, and it is not certain that thte Title III Court will ultimately confirm any such plan. For further information, please refer to currently filed versions of the Amended Plan and Amended Disclosure Statement, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

GDB

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

Upon the establishment of FAFAA, GDB's role was reduced to acting as an agent in (i) collecting on its loans portfolio and (ii) disbursing funds pursuant to strict priority guidelines. Therefore, taking into consideration the scenario described above, given the reduced services that GDB was then providing and given that no appropriations were assigned to GDB for fiscal years 2018 and no further appropriations are expected going forward, on March 23, 2018 GDB ceased its operations and management initiated an orderly wind down process, which included a restructuring of GDB's debts under a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Details of the Qualifying Modification are further discussed in Notes 4 and 22.

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

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

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

Management's Conclusion on Going Concern

The winding down of GDB's operations and the financial difficulties being experienced by EDB and the Commonwealth have had a spillover effect on the operations of the Authority since these entities have historically accessed the Authority's assets in order to alleviate their liquidity problems. As further discussed in Note 5, the Authority's intent and ability to use its funds deposited with EDB have been significantly restricted since fiscal year 2016. The financial difficulties of these entities, coupled with the facts that GDB will no longer serve as a financing source to the Authority and that any future financing needs of the Authority would be subject to the Oversight Board's approval under PROMESA, causes the Authority's management to conclude that there is substantial doubt about the ability of the Authority to continue as a going concern.

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

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, 2018

	Governmental Activities	Business-type Activities	Total
Assets			
Cash	$ 25,553,887	$ 42,650,038	$ 68,203,925
Deposits placed with banks	686,257	22,844,637	23,530,894
Investments and investments contracts	38,884,947	88,511,045	127,395,992
Loans receivable - net	-	175,140,753	175,140,753
Interest and other receivables	145,903	2,117,453	2,263,356
Due from federal government - net	5,088,523	-	5,088,523
Other assets	-	24,218	24,218
Internal balances	(11,052,151)	11,052,151	-
Real estate available for sale	-	2,632,081	2,632,081
Capital assets	42,480	8,396,848	8,439,328
Total assets	59,349,846	353,369,224	412,719,070
Deferred outflows of resources			
Loss on bond refundings	-	1,911,488	1,911,488
Pension related	-	12,983,462	12,983,462
Other post employment benefits related	-	118,959	118,959
Total deferred outflows of resources	-	15,013,909	15,013,909
Liabilities			
Accounts payable and accrued liabilities	9,047,780	6,448,559	15,496,339
Accrued interest payable	69,977	7,255	77,232
Matured interest payable	375,318	-	375,318
Unearned revenue	-	2,576,828	2,576,828
Liability for losses on mortgage loan insurance	-	8,759,769	8,759,769
Due to Commonwealth	-	3,881,623	3,881,623
Notes payable to GDB:			
Due within one year	8,528,936	-	8,528,936
Due in more than one year	93,616,017	-	93,616,017
Notes, bonds and mortgage-backed certificates payable:			
Matured and due within one year	259,789	12,221,123	12,480,912
Due in more than one year	3,079,109	97,313,823	100,392,932
Net pension liability	-	54,671,304	54,671,304
Total other post employment benefits liability	-	1,467,905	1,467,905
Total liabilities	114,976,926	187,348,189	302,325,115
Deferred inflows of resources - pension related	-	6,851,141	6,851,141
Net position (deficit):			
Net investment in capital assets	42,480	8,396,848	8,439,328
Restricted for:			
Affordable housing programs	-	21,326,871	21,326,871
Debt service	-	-	-
Other housing programs	-	2,925,934	2,925,934
Unrestricted	(55,669,560)	141,534,150	85,864,590
Total net position (deficit)	$ (55,627,080)	$ 174,183,803	$ 118,556,723

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, 2018

		Program Revenues			Net (expenses) revenues and changes in net position		
	Expenses	Charges for Services - fees, commissions, and others	Charges for Services - financing and investment	Operating grants and contributions	Governmental activities	Business-type activities	Total
Functions/programs:							
Governmental activities:							
General government and other	$ 5,716,153	-	-	-	(5,716,153)	-	(5,716,153)
Housing assistance program	162,813,281	6,387,720	1,796,646	178,452,372	23,823,457	-	23,823,457
Total governmental activities	168,529,434	6,387,720	1,796,646	178,452,372	18,107,304	-	18,107,304
Business-type activities:							
Operating and administrative	45,422,069	10,718,614	9,096,357	-	-	(25,607,098)	(25,607,098)
Total business-type activities	45,422,069	10,718,614	9,096,357	-	-	(25,607,098)	(25,607,098)
Total functions/programs	$ 213,951,503	17,106,334	10,893,003	178,452,372	18,107,304	(25,607,098)	(7,499,794)
Transfers in (out) - net					(4,063,597)	4,063,597	-
Change in net position					14,043,707	(21,543,501)	(7,499,794)
Net position (deficit) - Beginning of year (as restated, see note 2)					(69,670,787)	195,727,304	126,056,517
Net position (deficit) - End of year					$ (55,627,080)	$ 174,183,803	$ 118,556,723

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, 2018

Assets	HUD Programs	HOME Programs	Affordable Housing Subsidy Programs	Total
Cash	$ 1,429,142	65,290	24,059,455	25,553,887
Deposits placed with banks	-	-	686,257	686,257
Investments and investments contracts	-	-	38,884,947	38,884,947
Interest and other receivables	21,145	-	124,758	145,903
Due from federal government - net	937,612	4,150,911	-	5,088,523
Total assets	$ 2,387,899	4,216,201	63,755,417	70,359,517
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	$ 1,470,267	3,939,281	3,638,232	9,047,780
Due to Government Development Bank for Puerto Rico	-	-	8,528,936	8,528,936
Due to other funds	917,632	269,619	9,864,900	11,052,151
Matured principal on appropriation note	-	-	170,073	170,073
Matured interest payable	-	-	375,318	375,318
Total liabilities	2,387,899	4,208,900	22,577,459	29,174,258
Deferred inflows of resources:				
Unearned revenue	-	1,716,175	-	1,716,175
Fund balances (deficit):				
Restricted for affordable housing programs	-	-	41,177,958	41,177,958
Deficit	-	(1,708,874)	-	(1,708,874)
Total fund balances (deficit)	-	(1,708,874)	41,177,958	39,469,084
Total liabilities, deferred inflows of resources and fund balances	$ 2,387,899	4,216,201	63,755,417	70,359,517

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, 2018

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

Total fund balances	$ 39,469,084
Capital assets used in governmental activities are not financial resources and, therefore, are not report in the funds	42,480
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Note payable due in more than one year	(3,168,825)
Due to Government Development Bank for Puerto Rico due in more than one year	(93,616,017)
Accrued interest payable is not due and payable in the current period	(69,977)
Deferred inflows of resources reported in the governmental funds are recognized as revenue in the governmental activities	1,716,175
Net position of governmental activities	$ (55,627,080)

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, 2018

	HUD Programs	HOME Programs	Affordable Housing Subsidy Programs	Total
Revenues:				
Intergovernmental-federal government	$ 148,706,116	10,722,381	-	159,428,497
Commonwealth appropiation for repayment of bonds or housing assistance programs	-	-	19,337,000	19,337,000
Interest income on investment and investment contracts	-	-	2,242,016	2,242,016
Interest income on deposits placed with banks	-	-	43,857	43,857
Net decrease in fair value of investments	-	-	(445,370)	(445,370)
Other income	6,986	152,689	549,474	709,149
Total revenues	148,713,102	10,875,070	21,726,977	181,315,149
Expenditures:				
Current:				
Housing assistance programs	143,864,775	9,794,347	5,184,428	158,843,550
General government and other	4,848,327	820,731	88,986	5,758,044
Debt service:				
Principal	-	-	5,836,478	5,836,478
Interest	-	-	7,706,339	7,706,339
Total expenditures	148,713,102	10,615,078	18,816,231	178,144,411
Deficiency of revenues under expenditures	-	259,992	2,910,746	3,170,738
Other financing sources (uses)				
Transfers out, net		-	(4,063,597)	(4,063,597)
Net change in fund balances	-	259,992	(1,152,851)	(892,859)
Fund balance — beginning of year	-	(1,968,866)	42,330,809	40,361,943
Fund balance — end of year	$ -	(1,708,874)	41,177,958	39,469,084

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, 2018

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

Net changes in fund balance — total governmental funds	$ (892,859)
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.	(2,640)
The issuance of long-tem debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect in net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items as follows:	
Principal payments on notes payable to Government Development Bank for Puerto Rico	5,750,000
Net decrease in long term accrued interest payable due to Government Development Bank for Puerto Rico	3,739,248
Principal on appropriation note - matured	86,478
Gain on early extinguishment of debt recognized in the statement of activities but not in the fund financial statements	5,678,571
Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which capital outlays exceeded depreciation in the current period.	41,891
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.	(356,982)
Change in net position of governmental activities	$ 14,043,707

See accompanying notes to basic financial statements

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Balance Sheet – Proprietary Fund – Operating and Administrative Fund
June 30, 2018

Assets		
Current assets:		
Cash	$	40,516,894
Deposits placed with banks		12,538,304
Loans receivable - net		3,887,930
Interest receivable		856,844
Other receivables		783,967
Other assets		24,218
Due from other funds		11,052,151
Restricted:		
Cash		2,133,144
Loans receivable - net		640,846
Interest receivable		330,912
Other receivables		145,730
Total current assets		72,910,940
Noncurrent assets:		
Investments and investments contracts		4,500
Loans receivable - net		110,725,698
Real estate available for sale		103,708
Capital assets		8,396,848
Restricted:		
Deposits placed with banks		10,306,333
Investments and investments contracts		88,506,545
Loans receivable - net		59,886,279
Real estate available for sale		2,528,373
Total noncurrent assets		280,458,284
Total assets		353,369,224
Deferred outflows of resources		
Loss on bond refundings		1,911,488
Pension related		12,983,462
Other post employment benefits related		118,959
Total deferred outflows of resources		15,013,909
Total assets and deferred outflows of resources	$	368,383,133

(continues)

Puerto Rico Housing Finance Authority

(A Component Unit of the Government Development Bank for Puerto Rico)
Balance Sheet – Proprietary Fund – Operating and Administrative Fund
June 30, 2018

Liabilities	
Current liabilities:	
Current liabilities payable from unrestricted assets:	
Accounts payable and accrued liabilities	$ 6,175,802
Due to Commonwealth	3,881,623
Total current liabilities payable from unrestricted assets	10,057,425
Current liabilities payable from restricted assets:	
Accrued interest payable	7,255
Accounts payable and accrued liabilities	272,757
Unearned revenue	2,576,828
Liability for losses on mortgage loan insurance	8,759,769
Bonds, notes and mortagage-backed certificates payable	12,221,123
Total current liabilities payable from restricted assets	23,837,732
Noncurrent liabilities payable from unrestricted assets -	
Net pension liability	54,671,304
Total other post employment benefits liability	1,467,905
Total noncurrent liabilities payable from unrestricted assets	56,139,209
Noncurrent liabilities payable from restricted assets -	
Bonds, notes and mortagage-backed certificates payable	97,313,823
Total liabilities	187,348,189
Deferred inflows of resources - pension related	6,851,141
Total liabilities and deferred inflows of resources	194,199,330
Net position:	
Net investment in capital assets	8,396,848
Restricted for:	
Affordable housing programs	21,326,871
Other housing programs	2,925,934
Unrestricted	141,534,150
Total net position	174,183,803
Total liabilities, deferred inflows of resources and net position	$ 368,383,133

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority

(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Revenues, Expenses, and Change in Net Position – Proprietary Fund – Operating and Administrative Fund
For the Year Ended June 30, 2018

Operating revenues:		
Investment income:		
Interest income on investment and investment contracts	$	5,331,170
Interest income on deposits placed with banks		292,578
Net decrease in fair value of investments		(2,006,690)
Total investment income		3,617,058
Interest income on loans		5,479,299
Total investment income and interest income on loans		9,096,357
Noninterest income:		
Commitment, guarantee, service, and administrative fees		6,651,322
Other income		652,158
Mortgage loans insurance premiums		3,291,690
Total noninterest income		10,595,170
Total operating revenues		19,691,527
Operating expenses:		
Interest expense - bonds, notes and mortgage-backed certificates		7,799,229
Other noninterest expenses:		
Salaries and fringe benefits		13,024,533
Legal and professional fees		1,438,138
Occupancy and equipment costs		2,318,285
Office and administrative		1,025,839
Other real estate owned maintenance and related expenses		211,127
Provision for loan losses		15,323,905
Custodial credit risk loss on deposits		367,270
Provision for losses on other real estate owned		3,394,651
Depreciation and amortization		342,925
Subsidy and trustee fees		176,167
Total noninterest expense		37,622,840
Total operating expenses		45,422,069
Operating loss		(25,730,542)
Nonoperating income:		
Net gain from sale of capital assets		70,000
Intergovernmental-federal government		53,444
Total nonoperating income		123,444
Transfers in, net		4,063,597
Change in net position		(21,543,501)
Net position — beginning of year (as restated, see note 2)		195,727,304
Net position — end of year	$	174,183,803

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority

(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Cash Flows – Proprietary Fund – Operating and Administrative Fund
For the Year Ended June 30, 2018

Cash flows from operating activities:		
Cash received from interest on mortgage and construction loans	$	4,046,542
Cash paid for mortgage and construction loans originated		(22,868,000)
Principal collected on mortgage and construction loans		26,969,648
Cash received from other operating noninterest income		8,113,630
Cash received from mortgage loans insurance premiums		2,836,191
Cash paid for noninterest expenses		(5,124,221)
Cash payments for salaries and fringe benefits		(9,019,466)
Net cash provided by operating activities		4,954,324
Cash flows from noncapital financing activities:		
Payments of bonds payable		(8,103,780)
Interest paid		(2,799,418)
Intergovernmental-federal government		53,444
Transfers in		16,681,699
Transfers out		(12,618,102)
Net cash used in noncapital financing activities		(6,786,157)
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets		1,670,001
Acquisition of capital assets		(389,057)
Net cash used in capital and related financing activities		1,280,944
Cash flows from investing activities:		
Purchase of investments	$	(86,736)
Proceeds from redemptions of investments		7,053,915
Net change in deposits placed with banks		(12,167,095)
Cash received from interest on investments and deposits		5,639,325
Acquisition of real estate held for sale		(2,752,564)
Net cash provided by investing activities		(2,313,155)
Net change in cash		(2,864,044)
Cash, beginning of year, as restated		45,514,082
Cash, end of year	$	42,650,038
Reconciliation to balance sheet — proprietary funds:		
Cash – unrestricted	$	40,516,894
Cash – restricted		2,133,144
Total cash at year-end	$	42,650,038

(continues)

Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	$	(25,730,542)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		342,925
Provision for loan losses		15,323,905
Interest expense		7,799,229
Custodial credit risk loss on deposits		367,270
Provision for losses on other real estate owned		3,394,651
Interest income on investment and investment contracts and deposits		(5,623,748)
Other income		(652,158)
Net decrease in fair value of investments		2,006,690
Capitalized interest		(1,678,799)
Decrease (increase) in:		
Mortgage and construction loans		4,245,396
Accrued interest on mortgage and construction loans		246,044
Interest and other receivables		1,163,863
Other assets		17,039
Internal balances		1,195,927
Deferred outflow of resources - pension related		640,485
(Decrease) increase in:		
Accounts payable and accrued liabilities		(968,695)
Accrued interest payable		(922)
Unearned revenue		(455,499)
Liability for losses on mortgage loan insurance		(15,185)
Net pension liability		(2,246,113)
Total other post employment benefits liability		(136,298)
Deferred inflows of resources - pension related		5,718,859
	$	4,954,324
Noncash investing and noncapital financing activities:		
Capitalized interest and deferred amortization on loans	$	1,678,799
Net Increase (decrease) in fair value of investments		(2,006,690)
Accretion/(amortization) of discount (premium) on bonds payable		4,760,830
Amortization of deferred loss (included in interest expense)		239,900
Interfund transfer of mortgage loans receivable to other real estate held for sale		168,687
Pension and other postemployment benefits payments made after the measurement date by the Commonwealth on behalf of the Authority		3,881,623
2017 deferred outflows of resources applied to reduce net pension and other postemployment benefits liabilities		(2,365,748)

See accompanying notes to basic financial statements.

1. REPORTING ENTITY

Puerto Rico Housing Finance Authority (the Authority) is a component unit of Government Development Bank for Puerto Rico (GDB), which is a component unit of the Commonwealth of Puerto Rico (the Commonwealth). The Authority operates under Act No. 103 of August 11, 2011, to provide public and private housing developers with interim and permanent financing through mortgage loans for the construction, improvement, operation, and maintenance of rental housing for low and moderate-income families. The Authority also issues bonds and notes, the proceeds of which are deposited in separate trusts and generally invested in mortgage-backed securities collateralized by mortgage loans on properties located in Puerto Rico purchased by low and moderate-income families or used to provide subsidies to such families for the acquisition of their primary residence. The Authority is authorized by the U.S. Department of Housing and Urban Development (HUD) to administer the U.S. Housing Act Section 8 program in Puerto Rico, to administer the HOME Investment Partnerships (HOME) Program, and to act as an approved mortgagor, both for multifamily rental units and for single-family homes. In addition, it is an authorized issuer of Government National Mortgage Association (GNMA) mortgage-backed securities and is Puerto Rico's State Credit Agency for the Low-Income Housing Tax Credit Program under Section 42 of the U.S. Internal Revenue Code.

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

2. RESTATEMENT OF NET POSITION

Effective July 1, 2017, the Authority changed its method of accounting for postemployment benefit costs other than pensions (OPEB) with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. Statement No. 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (or Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Net OPEB Liability (or Total OPEB Liability for unfunded plans) are immediately recognized as OPEB expenses. As a result, the Authority recognized an OPEB liability (not previously recognized under the previous method) and OPEB expenses, for the medical insurance benefits provided through the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) sponsored Medical Insurance Plan Contribution (ERS MIPC).

The Authority also adopted GASB Statement No. 86, *Certain Debt Extinguishment Issues*, effective July 1, 2017. Statement No. 86 establishes, among other things, the accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources—that is, resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the purpose of extinguishing debt. The Authority applied the provisions of this statement to a defeasance transaction of the Mortgage Trust III Collateralized Mortgage Obligation Bonds that had taken place during fiscal year 2011.

The adoption of these two statements resulted in a restatement of the beginning net position of the Authority's government wide business-type activities and the Proprietary Fund's financial statements as follows:

		Business-Type Activities and Proprietary Fund
Net position – July 1, 2017, as previously reported	$	203,037,218
Impact of GASB Satement No. 75 implementation:		
Recognition of beginning total OPEB liability		(1,727,200)
Recognition of deferred outflows of resources for OPEB payments made after measurement date (Juy 1, 2016)		122,997
Impact of GASB Satement No. 86 implementation -		
In-substance defeasance		(5,705,711)
Net position– July 1, 2017, as restated	$	195,727,304

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Government-Wide and Fund Financial Statements

Government-Wide Financial Statements – The statement of net position and the statement of activities report information on all activities of the Authority. The effect of interfund balances has been removed from the government-wide statement of net position, except for the residual amounts due between governmental and business-type activities. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The

Authority's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services or interest earned on investment securities. Following is a description of the Authority's government-wide financial statements.

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

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

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

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

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

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

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

(b) Fund Balances

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

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

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

Governmental Funds – The following governmental activities of the Authority are reported as major governmental funds:

- **HUD Programs** – This special revenue fund accounts for the subsidy to low and moderate-income families for the rental of decent and safe dwellings under the U.S. Housing Act Section 8 programs.

- **HOME Programs** – This special revenue fund is used to account for the specific revenue sources related to the HOME Program. The objectives of this special revenue fund include (1) expanding the supply of decent and affordable housing, particularly housing for low and very low-income families; (2) strengthening the abilities of state and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; (3) providing financial and technical assistance to participating jurisdictions, including the development of model programs for affordable low-income housing; and (4) extending and strengthening partnerships among all levels of government and the private sector, including for-profit and nonprofit organizations, in the production and operation of affordable housing.

- **Affordable Housing Subsidy Programs** – This special revenue fund is used to account for the proceeds of specific local revenue sources under the different subsidy programs of the Authority, which are as follows:

  → **Affordable Housing Mortgage Subsidy Programs (AHMSP) Act No. 124** –Under this program, the Authority commits to provide a subsidy for the down payment and/or the principal and interest payments on mortgage loans originated under a predetermined schedule of originations. Loans originated, as well as servicing, are kept by the originating financial institution. There was no open schedule of originations under this program as of June 30, 2018.

  → **My New Home Program** – This program has revenues provided by Act No. 122 of August 6, 2010, as amended, which assigned to the Authority, for a period of seven years, a portion of no less than 80% of the unreserved monies and other liquid funds abandoned or unclaimed in financial institutions that will be transferred to the general fund of the Commonwealth. This program provides subsidies to eligible families for the purchase of a principal residence through reimbursement of origination and closing costs.

  → **My Own Home Program** – This program has revenues provided by Act No. 34 of June 26, 2014. This program provides subsidies to eligible families for the purchase of a principal residence through reimbursement of origination and closing costs.

  → **New Secure Housing Program** – This program provided federal and local resources directed to plan, coordinate, and develop the construction of new housing units as a replacement for those destroyed by Hurricane Georges in 1998, and to attend to the housing needs of those families living in hazard-prone areas. No additional subsidies are expected to be provided under this program.

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

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

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

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

  → **Home Purchase Stimulus Program** – This program was created as part of Act No. 9, approved on March 9, 2009, to help families in the acquisition of a new or existing house through the issuance of a second mortgage.

  → **Mortgage-Backed Certificates 2006 Series A** – The program received resources from the proceeds of the issuance of mortgage-backed certificates (the Mortgage-Backed Certificates), which were used to defease the Collateralized Mortgage Revenue Bonds 1994 Series A and the Single Family Mortgage Portfolio I and Portfolio IV bonds.

  The Mortgage-Backed Certificates are limited obligations of the Authority, payable from and secured by certain mortgage-backed securities guaranteed by Government National Mortgage Associations (GNMA) and Federal National Mortgage Association (FNMA) (the Mortgage-Backed Securities), as well as from moneys in certain funds and accounts established in the trust indenture for the issuance of the Mortgage-Backed Certificates. The Mortgage-Backed Securities are backed by mortgage loans made by participating lending institutions to low and moderate-income families to finance the purchase of qualified single-family residential housing units in Puerto Rico under the Authority's AHMSP Act No. 124. Each class of Mortgage-Backed Certificates will be paid from a separate and distinct stream of principal and interest payments from designated mortgage loans per class of Mortgage-Backed Certificates, as paid through the corresponding Mortgage-Backed Securities into which the class mortgage loans are pooled, as well as moneys deposited in certain funds and accounts established in the trust indenture. The scheduled and unscheduled principal payments derived from class mortgage loans and interest will be paid on a monthly basis. The rates of principal payments on each Mortgage-Backed Certificate will depend on the rates of principal payments, including prepayments, on the related class mortgage loans. The rates of the payments, including prepayments, on the mortgage loans are dependent on a variety of economic and social factors, including the level of market interest rates.

  → **Mortgage Loans Insurance** – The mortgage loan insurance program was created to provide mortgage credit insurance to low and moderate-income families on loans originated by the Authority and other financial institutions.

  → **Land Acquisition and Construction Loan Insurance (Act No. 89)** – The land acquisition and construction loan insurance program provides mortgage credit insurance to low and moderate-income families for the purchase of land lots. The program is financed through legislative appropriations and proceeds from mortgage insurance premiums and any other income derived from this insurance activity. Under this program, the Authority is authorized to commit the good faith and credit of the Commonwealth up to $5 million for the issuance of debenture bonds.

(d) Fair Value Measurement

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

(e) Investments and Investment Contracts

Investments and investment contracts are carried at fair value, except for money market instruments and participating investment contracts with a remaining maturity at the time of purchase of one year or less and nonparticipating investment contracts (guaranteed investment contracts), which are carried at cost, and investment positions in 2a-7 like external investment pools, which are carried at the pools' share price. The Authority's investments and investment contracts have recurring fair value measurements as of June 30, 2018, using quoted market prices (Level 1 inputs). Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in net increase (decrease) in fair value of investments.

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

(f) Loans Receivable and Allowance for Loan Losses

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

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

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

(g) Real Estate Available for Sale

Real estate available for sale comprises properties acquired through foreclosure proceedings. It also includes loans that are treated as if the underlying collateral had been foreclosed because the Authority has taken possession of the collateral, even though legal foreclosure or repossession proceedings have not taken place. Those properties are carried at the lower of cost or fair value, which is established by a third-party professional assessment or based upon an appraisal, minus estimated costs to sell. At the time of acquisition of properties in full or in partial satisfaction of loans, any excess of the loan balance over the fair value of the properties, minus estimated costs to sell is charged against the allowance for loan losses. Subsequent declines in the value of real estate available for sale are charged to expense. Gain or loss on sale of real estate available for sale are included within revenues or expenses in the accompanying statement of activities, and within noninterest income or noninterest expense in the accompanying statement of revenues, expenses, and change in net position.

(h) Capital Assets

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

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

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

*(i) **Compensated Absences***

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

*(j) **Liability for Losses on Mortgage Loans Insurance***

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

*(k) **Loan Origination Costs and Commitment Fees***

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

*(l) **Transfers of Receivables***

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

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

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

(m) Mortgage Loans Insurance Premiums

Premiums on insured mortgage loans are recognized as earned.

(n) Risk Financing

To minimize its risk of loss, the Authority purchases insurance coverage for public liability, hazard, automobile, crime, and bonding, as well as medical and workmen's insurance for employees. The selection of the insurer has to be approved by the Public Insurance Office of the Puerto Rico Treasury Department. Insurance coverage is updated annually to account for changes in operating risk. For the last three years, insurance settlements have not exceeded the amount of coverage.

(o) Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position (deficit) and/or balance sheet will sometime report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. On the business-type activities of the government-wide financial statements and Proprietary Fund's statement of net position there are three major captions that qualify for reporting in this category: (i) the unamortized balance of losses on bond refunding, (ii) several items related to pensions and (iii) an OPEB related item. A loss on refunding of debt results from the difference between the reacquisition price and the net carrying amount of the old debt. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt. Of the pension related items, changes in proportional share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability after the next measurement date. Of the OPEB related items (further disclosed in Note 16), only OPEB payments made subsequent to the measurement date are presented as a deferred outflow item, which will be recognized as a reduction of total OPEB liability after the next measurement date. There were no deferred outflows of resources at the governmental funds level.

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

(p) Accounting for Pension Costs

The Authority accounts for pension costs under the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* GASB Statement no. 68 requires that employers report a net pension liability (NPL) and related pension accounts, such as pension expense and deferred outflows/inflows of resources as determined by ERS, as applicable, under the requirements contained in GASB Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*. The major fundamental change brought by GASB Statement No. 67, was switching from the then existing "funding-based" accounting model, where the Annual Required Contribution (ARC) was compared to the actual payments made and that difference determined the net pension obligation; to an "accrual basis" model, where the total pension obligation (actuarially determined) is compared to the plan net position and the difference represents the NPL. In essence, GASB Statement No. 68 brings the effect of GASB Statement No. 67 into the accounting records of the Authority, whose employees participate in ERS. Further details on the accounting for pension costs are disclosed in Note 15.

Prior to August 23, 2017, the Authority was considered a "cost-sharing" employer of ERS. Therefore, for the fiscal year ended June 30, 2018, the Authority reported its allocated share of ERS's NPL and the related pension accounts taking in consideration the following:

- The individual proportion to the collective NPL of all the governments participating
- Each participating government-employer's proportionate share is consistent with the manner in which contributions are determined and should reflect that participating government-employer's projected long-term contribution effort relative to that of all the participating government employers. Contributions that separately finance specific liabilities of an individual participating government-employer to ERS (such as local participating government-employer early retirement incentives) are not included in determining the proportionate share of the overall projected long-term contribution effort.
- The contributions that reflect each participating government-employer's projected long-term contribution effort are the Act No. 116 of 2011 statutory payroll-based contribution, the Act No. 3 of 2013 supplemental contribution and other special contributions. Other contributions that do not reflect a participating government-employer's projected long-term contribution effort are excluded from the proportionate share calculation.

ERS determined the total pension liability as of June 30, 2017 (the measurement date) by an actuarial valuation as of July 1, 2016 that was rolled forward to June 30, 2017. Under GASB Statement No. 71, the Authority recognized a deferred outflow of resources for its pension benefits payments made subsequent to the measurement date.

For the purpose of applying the requirements of GASB Statements No. 68 and No. 71, the Authority's annual pension expense for the year ended June 30, 2018 amounted to approximately $4.1 million and the NPL as of June 30, 2018 amounted to approximately $54.7 million.

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

(q) Accounting for Postemployment Benefits Other than Pensions

Effective July 1, 2017, the Bank changed its method of accounting for postemployment benefit costs other than pensions with the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*, which also requires additional reporting and disclosures for OPEB benefits provided through the ERS sponsored Medical Insurance Plan Contribution (ERS MIPC). Statement No. 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (or Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Net OPEB Liability (or Total OPEB Liability for unfunded plans) are immediately recognized as OPEB expenses or reported as deferred inflows/ouflows of resources depending on the nature of the change. As a result, the Authority recognized an OPEB liability (not previously recognized under the previous method) and OPEB expenses, for the medical insurance benefits provided through the ERS MIPC.

The major fundamental change brought by GASB Statement No. 75, was switching from the then existing "funding based" accounting model, where the Annual Required Contribution (ARC) was compared to the actual payments made and that difference determined the net OPEB obligation; to an "accrual basis" model, where the total OPEB obligation (actuarially determined) is compared to the plan net position and the difference represents the Net OPEB Liability (or Total OPEB Liability for unfunded plans). Further details on the accounting for OPEB costs are disclosed in Note 16.

As the ERS is a multiple employeer plan and the benefits are not funded by an OPEB trust, Statement No. 75 applies to the OPEB provided to each particiapting employer's own employees. The Central Government and its component units are considered to be one employer. Other employers also participate in the ERS MIPC. Because certain employers that are componment units of the Commonwealth, such as the Authority, prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers. 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.

Because all participants in the ERS MIPC are inactive, there are no deferred inflows and outflows as any changes due to changes in actuarial assumptions or economic or demographic gains and losses are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Authority subsequent to the measurement date (approximately $119,000).

ERS elected to use as measurement date the July 1 financial information. Based on this, the June 30, 2017 actuarial measurement data was used for the OPEB financial reporting recognition as of and for the fiscal year ended June 30, 2018.

For the purpose of applying the requirements of GASB Statements No. 75, the Authority's annual OPEB expense for the year ended June 30, 2018, was a credit amounting to $136,298 and the OPEB liability as of June 30, 2018, amounted to $1,467,905. Disclosures required under GASB Statement No. 75 can be found in Note 16.

(r) Future Adoption of Accounting Pronouncements

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

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

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

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged, but not required.

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

- GASB Statement No. 85, *Omnibus 2018*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). Specifically, this Statement addresses the following topics:

    - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
    - Reporting amounts previously reported as goodwill and "negative" goodwill.
    - Classifying real estate held by insurance entities.
    - Measuring certain money market investments and participating interest earning investment contracts at amortized cost.

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged, but not required.

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

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged, but not required.

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

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

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

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

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

- GASB Statement No. 92, *Omnibus 2020.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:
  - The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports

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

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

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

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

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

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

  - Statement No. 83, *Certain Asset Retirement Obligations*
  - *Statement No. 84, Fiduciary Activities*
  - *Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
  - *Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period*
  - *Statement No. 90, Majority Equity Interests*
  - *Statement No. 91, Conduit Debt Obligations*
  - *Statement No. 92, Omnibus 2020*
  - *Statement No. 93, Replacement of Interbank Offered Rates*
  - *Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
  - *Implementation Guide No. 2018-1, Implementation Guidance Update—2018*
  - *Implementation Guide No. 2019-1, Implementation Guidance Update—2019*
  - *Implementation Guide No. 2019-2, Fiduciary Activities.*

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

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

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

- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

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

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

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

4. GOING CONCERN

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

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

COMMONWEALTH OF PUERTO RICO

The Commonwealth is in the midst of a profound fiscal and economic crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession, prior liquidity challenges, high unemployment, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base has shrunk and its revenues affected by prevailing economic conditions, an increasing portion of the Commonwealth General Fund budget has consisted of health care, pension and debt service costs, resulting in reduced funding available for other essential services. These matters and the Commonwealth's historical liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all.

In response to the Commonwealth's fiscal crisis, the United States Congress enacted the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), which was signed into law by President Barack Obama on June 30, 2016. PROMESA established the Financial Oversight and Management Board (the Oversight Board). On May 1, 2017, the temporary stay under Title IV of PROMESA expired, permitting substantial litigation by bondholders and other creditors against the Commonwealth and its component units to resume and new suits to be initiated. As a result, on May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court). Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to Title III cases pursuant to PROMESA section 301 (a). Accordingly, upon the filing of the Commonwealth's Title III case, an automatic stay immediately went into effect to stay creditor litigation.

Since June 30, 2014, the principal rating agencies lowered their rating on the general obligation bonds of the Commonwealth, which had already been placed in a default rating of "D." They also lowered similarly to a default grade their ratings on the bonds of GDB.

The Commonwealth reflects a net position deficit/fund balance deficit of approximately $71 billion as of June 30, 2017. The Commonwealth's General Fund shows a fund balance (deficit) of approximately $101 million as of June 30, 2017.

The Primary Government reflects a net deficit of approximately $71.1 billion as of June 30, 2018. The Commonwealth's General Fund shows a fund deficit of approximately $100.6 million as of June 30, 2018.

For fiscal years ended June 30, 2018, the Legislature did not appropriate approximately $85.4 million, for the debt service payments of the PFC bonds which are obligations of certain component units of the Commonwealth that are payable solely from such appropriations.

For the fiscal years ended since June 30, 2017, the Legislative Assembly of Puerto Rico (the Legislature) has not appropriated funds for the payments of the PFC bonds which are obligations of certain component units of the Commonwealth that are payable solely from such appropriations.

On April 6, 2016, the Commonwealth enacted Act No. 21, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (the Moratorium Act) under which, the Commonwealth and certain of its component units suspended their respective debt service payments. In particular, the Commonwealth suspended the payment of approximately $1.2 billion in debt service on general obligation bonds due June 30, 2018. Subsequent debt service payments have been suspended as a consequence of the Title III proceedings under PROMESA described below.

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

On March 13, 2017, the Oversight Board certified the initial fiscal plan for the Commonwealth. The fiscal plan has been subject to various revisions. On May 27, 2020, the Oversight Board certified its most recent fiscal plan for the Commonwealth (the Board Fiscal Plan), which included the following categories of structural reforms and fiscal measures:

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

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

On September 27, 2019, the Oversight Board filed a proposed plan of adjustment of Commonwealth debt that would reduce most of the Commonwealth's debt obligations by approximately 70% and establishes a roadmap to exit bankruptcy. As of the date of these basis financial statements, the disclosure statement accompanying the proposed plan of adjustment has not yet been approved by the Title III Court and no solicitation of the proposed plan has been approved. It is uncertain that eligible creditors will vote in favor of or if the Title III Court will ultimately confirm the Oversight Board's proposed plan of adjustment.

GDB

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

Upon the establishment of FAFAA, GDB's role was reduced to act as an agent in (i) collecting on its loans portfolio and (ii) disbursing funds pursuant to strict priority guidelines. Therefore, taking into consideration the scenario described above, given the reduced services that GDB was then providing and given that no appropriations were assigned to GDB for fiscal years 2018 and no further appropropriations are expected going forward, on March 23, 2018, GDB ceased its operations and management initiated an orderly wind down process consisting of a restructuring support agreeement entered into by FAFAA and GDB with a significant portion of the GDB major stakeholders, subject to different milestones. Details of the restructuring support agreement and its execution effective November 29, 2018, pursuant a Qualifying Modification undert Title VI of PROMESA (the Qualifying Modification) is further discussed in Notes 5 and 21.

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

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

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

Management's Conclusion on Going Concern

The winding down of GDB's operations and the financial difficulties being experienced by EDB and the Commonwealth have had a spillover effect on the operations of the Authority since these entities have historically accessed the Authority's assets in order to alleviate their liquidity problems. As further discussed in Note 5, the Authority's intent and ability to use its funds deposited with EDB have been significantly restricted since fiscal year 2016. The financial difficulties of these entities, coupled with the facts that GDB will no longer serve as a financing source to the Authority and that any future financing needs of the Authority would be subject to the Oversight Board's approval under PROMESA, causes the Authority's management to conclude that there is substantial doubt about the ability of the Authority to continue as a going concern.

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

5. CASH AND DEPOSITS PLACED WITH BANKS

The table presented below discloses the level of custodial credit risk assumed by the Authority at June 30, 2018. 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.

Historically, the Authority followed GDB's policies for deposits placed with banks, which establish maximum exposure limits for each institution based on the institution's capital, financial condition, and credit rating assigned by nationally recognized rating agencies. All deposits placed with banks at June 30, 2018, mature in fiscal year 2019.

As of June 30, 2018, approximately $185.9 million of the total cash and deposits placed with banks depository bank balance of approximately $283.1 million was insured and/or collateralized.

Custodial Credit Risk Loss on Deposits with GDB and EDB

Based on the information discussed in Note 4 and on evaluation of the availability and recoverability of the deposits in GDB (which deposits were extinguished as part of the Qualifying Modification, and exchanged for interests in the Public Entity Trust (PET) pursuant to GDB's Qualifying Modification, as discussed below), management of the Authority believes that a custodial credit risk loss has been incurred. In the case of EDB, the spiral of economic deterioration affecting the Commonwealth since 2016, including downgrades in credit ratings of the Commonwealth's bonds, led the private sector to retire deposits and exercise their put options on notes payable from EDB. Also, the GDB financial and liquidity crisis made public governmental agencies and corporations move their deposits from EDB to GDB, reducing EDB's capacity to issue commercial loans or make investments in financial instruments. In addition to these situations, the investments held by EDB declined in value and EDB operated only on the interest income generated by its loan portfolio. This posed a liquidity situation to EDB, because due to the high default rate on its loans portfolio, the ability to raise cash through loan repayments was limited. Therefore, the Authority's intent and ability to use its funds deposited with EDB have been significantly restricted since fiscal year 2016. Based on an evaluation of availability and recoverability of such deposits, a custodial credit risk loss has also been recognized. Subsequent recovery of some of the deposits with GDB has been addressed in Note 11.

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

	Cash				
	Deposit balance	Custodial credit risk loss	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Commercial banks	$ 68,203,925	$ -	$ 68,203,925	$ 73,648,418	$ -
Cash in GDB	8,278,369	(8,278,369)		8,292,662	8,292,662
	$ 76,482,294	$ (8,278,369)	$ 68,203,925	$ 81,941,080	$ 8,292,662

	Deposits placed with banks				
	Deposit balance	Custodial credit risk loss	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Deposit in commercial banks	$ 23,530,894	$ -	$ 23,530,894	$ 23,530,894	$ -
Deposits in GDB	108,592,368	(108,592,368)		111,536,307	111,536,307
Deposits in EDB	65,242,680	(65,242,680)		66,141,690	66,141,690
	$ 197,365,942	$ (173,835,048)	$ 23,530,894	$ 201,208,891	$ 177,677,997

6. INVESTMENTS AND INVESTMENT CONTRACTS

During fiscal year 2018, the Authority followed GDB's investment policies, which provide that investment transactions shall be entered into only with counterparties that are rated BBB+/A-1 or better by Standard & Poor's or equivalent rating by Fitch Ratings or Moody's Investors Service, depending on the type and maturity of the investment and the counterparty to the transaction. Any exceptions needed to be approved by the Board of Directors of GDB. These investment policies also provide that purchases and sales of investment securities shall be made using the "delivery versus payment" method.

The following table summarizes the type and maturities of investments held by the Authority as of June 30, 2018. Investments by type in any one issuer representing 5% or more of total investments of the Authority have been separately disclosed. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Type of securities		After five to ten years		After ten years		Total
Mortgage-backed securities:						
GNMA	$	43,602,148	$	24,533,614	$	68,135,762
FNMA		1,843,701		1,116,583		2,960,284
Other		—		159,649		159,649
Fixed-income external investment pool - Federated Government Obligations		—		13,479,823		13,479,823
Nonparticipating investment contracts:						
Trinity Funding Co.		—		14,251,735		14,251,735
Citibank, N.A.		17,628,800		—		17,628,800
Banco Popular de Puerto Rico		—		5,361,216		5,361,216
Banco Santander de Puerto Rico		—		5,414,223		5,414,223
Total investments	$	63,074,649	$	64,316,843		127,391,492
Equity interest in Puerto Rico Community Development Fund						4,500
Total					$	127,395,992

As of June 30, 2018 substantially all of the Authority's investments in mortgage-backed securities were held by trustees in connection with bonds issued by the Authority, the terms of which provide for early redemption of the bonds if the securities are repaid early.

(a) Interest Rate Risk

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

(b) Credit Risk

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

The Investment Grade requires ratings to be at least Baa in long-term and B in short-term securities.

All of the Authority's investments in mortgage-backed securities are guaranteed by GNMA. U.S. Treasury and Israel aid bonds carry the explicit "full faith and credit" guarantee of the U.S. government. The credit quality ratings for investments in debt securities and nonparticipating investment contracts, excluding mortgage-backed securities guaranteed by GNMA, and U.S. Treasury bonds, as of June 30, 2018, are as follows:

	Credit risk rating			
Securities type	**AAA**	**AA**	**A**	**B**
Mortgage-backed securities:				
FNMA	$ —	$ 2,960,284	$ —	$ —
Other	—	159,649	—	—
Fixed income external investment pool - Federated Government Obligations	13,479,823	—	—	—
Nonparticipating investment contracts:				
Trinity Funding Co.	—	—	14,251,735	—
Citibank N.A.	—	—	17,628,800	—
Banco Popular de Puerto Rico	—	—	—	5,361,216
Banco Santander de Puerto Rico	—	—	5,414,223	—
Total	$ 13,479,823	$ 3,119,933	$ 37,294,758	$ 5,361,216

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

At June 30, 2018, fair value of investments based on the hierarchy of inputs are determined as follows:

	Level 1	**Level 2**	**Level 3**	**Total**
Mortgage Backed Securities	$ 71,255,695	$ -	$ -	$ 71,255,695
Federated Government Obligations	13,479,823	-	-	13,479,823
Total	$ 84,735,518	$ -	$ -	$ 84,735,518

7. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable as of June 30, 2018, consist of the following:

	Operating and administrative
Real estate loans – all types of residential property, bearing interest at various rates ranging from 5% to 18%	$ 218,411,077
Less allowance for loan losses	(43,270,324)
	$ 175,140,753

The summary of the activity in the allowance for loan losses for the year ended June 30, 2018, is as follows:

Balance - beginning of year	$ 28,565,343
Provision for loan losses	16,514,795
Release of allowance	(1,190,890)
Write-offs	(618,924)
Total	$ 43,270,324

Real estate loans receivable represent secured loans with a first lien on the related-real estate property granted to low and moderate-income families for the acquisition of single-family units and to developers of multifamily housing units in Puerto Rico. Prior to providing mortgage financing to developers, the Authority obtains representations and approvals from appropriate Commonwealth and U.S. government agencies as to the qualifications of the prospective sponsors, as well as the financial feasibility of each project. Real estate loans are generally collectible monthly at various dates through the year 2056. The collection of noninsured/nonguaranteed real estate loans to developers is dependent on the ability of each housing project to generate sufficient funds to service its debt, which, for other than certain federally assisted housing projects, is predicated on the ability to obtain rent increases to offset increases in operating costs.

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

The following table presents the aging of the recorded investments in real estate single-family unit mortgage loans and their allowance for loan losses as of June 30, 2018:

Loan aged category		Total loan balance		Allowance for loan losses
Current	$	38,777,180	$	291,381
7 - 30 months		10,865,137		5,487,550
31 - 60 months		3,454,555		3,454,555
Subtotal		53,096,872		9,233,486
Other nonaged loans		5,843,204		5,843,204
Total	$	58,940,076	$	15,076,690

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

The following table presents the risk category of multifamily housing unit loans subject to risk rating and their allowance for loan losses as of June 30, 2018:

Loan risk category		Amount		Allowance for loan losses
Good	$	49,125,833	$	491,260
Loss		2,702,374		2,702,374
Total	$	51,828,207	$	3,193,634

The table presented above of multifamily housing unit loans does not include a loan of approximately $33.2 million to a related party, which was evaluated individually and for which an allowance for loan losses of $14 million was recorded during the fiscal year ended June 30, 2018.

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

The allowance for loan losses on second mortgage loans is determined considering delinquency levels of the first mortgage loans. Such delinquency levels are obtained from a participating financial institution. As of June 30, 2018, the outstanding balance of second mortgage loans was approximately $71.5 million with an allowance for loan losses of $11 million.

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

The loans considered impaired as of June 30, 2018, and the related interest income for the year ended, are as follows:

Recorded investment in impaired loans:		
Not requiring an allowance for loan losses	$	5,377,587
Requiring an allowance for loan losses		50,737,683
Total recorded investment in impaired loans	$	56,115,270
Related allowance for loan losses	$	32,270,324
Average recorded investment in impaired loans		38,314,031
Interest income recognized on impaired loans		-
Interest income that would have been recognized had these loans not been impaired		4,121,902

8. DUE FROM FEDERAL GOVERNMENT

The Authority, as a public housing authority, is authorized to administer the U.S. Housing Act Section 8 Programs in Puerto Rico. The revenues and expenditures of such federal financial assistance are accounted for as a major governmental fund under the HUD Programs fund. Revenues and expenditures related to the administration of the U.S. Housing Act Section 8 Programs amounted to approximately $148.7 million during the year ended June 30, 2018. This amount includes approximately $4.8 million of administrative fees for services performed as contract administrator, which are reimbursed by HUD. As of June 30, 2018, the amounts due from federal government under the HUD Programs fund amounted to approximately $.9 million.

During the year ended June 30, 2018, the Authority expended approximately $10.6 million of HOME Program funds. The Authority has approximately $4.1 million due from the federal government as of June 30, 2018, related to the HOME Program.

The New Secure Housing Program (the NSH Program) constituted an intergovernmental effort to provide long-term hazard mitigation assistance to the Commonwealth by providing funding for relocation of eligible participants that were affected by Hurricane Georges (1998) or that lived in hazard-prone areas under the U.S. Federal Emergency Management Agency's (FEMA) Hazard Mitigation Grant Program (HMGP). Through a series of collaborative agreements, the Office of the Governor's Authorized Representative (the GAR) was named the grantee, the Puerto Rico

Department of Housing (the Department of Housing) was named the subgrantee, and the Authority was named the administrator of the NSH Program.

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

Under the terms of the grant, the construction of, and relocation of participants to new secure housing units was to be completed by December 31, 2007. In addition, FEMA would reimburse 75% of the allowable costs of the NSH Program. Funds collected under the NSH Program since its inception amounted to approximately $113 million.

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

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

On January 30, 2012, the Authority and the Department of Housing entered into a transition agreement by which the Department of Housing would assume its obligations as the NSH Program subgrantee and project owner, including vacant property dispositions, open space monitoring, and other related matters. The Authority will continue to assume the amounts payable under the $67 million nonrevolving line of credit with GDB, until such debt can be assumed by the Commonwealth. The Department of Housing would prospectively assume, without recourse, any additional funds that might be requested by FEMA for events of noncompliance, including related costs. The outstanding balance under the nonrevolving line of credit with GDB at June 30, 2018, was approximately $45.8 million (excluding approximately $2.4 million in accreted interest) included as long term debt in governmental activities. See Note 11 for the detailed activity movement of this line of credit.

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

9. REAL ESTATE AVAILABLE FOR SALE

Real estate available for sale at June 30, 2018, consisted of the following:

Residential (1–4 units)	$ 15,266,054
Valuation allowance	(12,633,973)
Total real estate available for sale	$ 2,632,081

The following is a summary of the activity in the valuation allowance for the year ended June 30, 2018:

Balance – beginning of year	$ 10,757,172
Provision for possible losses	3,394,651
Write-offs	(1,517,850)
Balance – end of year	$ 12,633,973

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10. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018, was as follows:

Governmental Activities

	Beginning balance	Additions	Reductions	Ending balance
Capital assets:				
Information systems	$ 66,329	$ —	$ —	$ 66,329
Office furniture and equipment	37,633	—	—	37,633
Vehicles	66,135	43,611	—	109,746
Total capital assets	170,097	43,611	—	213,708
Less accumulated depreciation and amortization for:				
Information systems	(66,307)	—	—	(66,307)
Office furniture and equipment	(37,069)	(266)	—	(37,335)
Vehicles	(66,132)	(1,454)	—	(67,586)
Total accumulated depreciation and amortization	(169,508)	(1,720)	—	(171,228)
Total capital assets - net	$ 589	$ 41,891	$ —	$ 42,480

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Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land and land improvements	$ 9,352,712	$ -	$ (1,600,001)	$ 7,752,711
Capital assets being depreciated:				
Leasehold improvements	4,206,713	29,310	-	4,236,023
Information systems	4,413,197	328,542	-	4,741,739
Office furniture and equipment	2,204,037	12,515	-	2,216,552
Vehicles	220,657	18,690	-	239,347
Total	11,044,604	389,057	-	11,433,661
Less accumulated depreciation				
Leasehold improvements	(3,907,221)	(156,973)	-	(4,064,194)
Information systems	(4,178,190)	(159,220)	-	(4,337,410)
Office furniture and equipment	(2,177,415)	(12,879)	-	(2,190,294)
Vehicles	(183,773)	(13,853)	-	(197,626)
Total	(10,446,599)	(342,925)	-	(10,789,524)
Capital assets, net	$ 9,950,717	$ 46,132	$ -	$ 8,396,848

During the fiscal year ended June 30, 2018, the Authority sold a lot of land, with a cost of $1.6 million, to the Puerto Rico Public Housing Administration for the development of affordable housing. The land was sold for $1.67 million and the reimbursement of approximately $300 thousand of expenses incurred during the current fiscal year. As a result of the transaction a gain on sale of capital assets of $70,000 was recognized.

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

The activity of bonds, mortgage-backed certificates, and notes payable for the year ended June 30, 2018, is as follows:

	Beginning balance (as restated)	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Commonwealth appropriation					
note payable - AHMSP Act No. 124	$ 3,397,686	$		$ 3,397,686	$ 259,789
Less unaccredited discount	(61,428)	2,640	—	(58,788)	—
Subtotal	3,336,258	2,640	—	3,338,898	259,789
Notes payable to GDB:					
Investments Repurchase					
Agreement - AHMSP Act No. 124	19,330,527	575,694		19,906,221	—
Line of credit - AHMSP Act No. 124	16,424,914	933,797		17,358,711	17,358,711
Line of credit - My New Home Program	27,181,267	918,951	(11,428,571)	16,671,647	16,671,647
Line of credit - New Secure Housing Program	46,854,990	1,353,384		48,208,374	48,208,374
Total governmental activities	$ 113,127,956	$ 3,784,466	$ (11,428,571)	$ 105,483,851	$ 82,498,521
Business-type activities:					
Mortgage-Baked Certificates - 2006 Series A	$ 63,122,355	$ —	(7,038,731)	$ 56,083,624	$ 12,221,123
Subtotal	63,122,355	—	(7,038,731)	56,083,624	12,221,123
Notes payable:					
Special obligation notes (Home					
Purchase Stimulus Program)	72,613,326	—	(1,065,052)	71,548,274	—
Plus unamortized premium	240,975	—	(30,530)	210,445	—
Less unaccredited discount	(23,098,761)	—	4,791,364	(18,307,397)	—
Total business-type activities	$ 112,877,895	$ —	$ (3,342,949)	$ 109,534,946	$ 12,221,123

The annual debt service requirements to maturity, including principal and interest, for long-term debt, business-type activities, as of June 30, 2018, are as follows:

		Governmental activities		Business-type activities	
		PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
Year(s) ending June 30:					
2019	$	259,789	628,004	12,221,123	2,364,729
2020		93,308	179,483	6,423,949	2,481,929
2021		97,171	175,315	6,769,889	3,450,911
2022		101,402	170,766	6,395,419	4,253,344
2023		106,017	165,800	7,029,961	5,928,425
2024 - 2028		1,231,900	735,218	30,035,963	24,307,072
2029 - 2033		1,508,099	98,086	17,771,233	17,375,954
2034 - 2038		-	-	22,365,458	10,703,946
2039 - 2043		-	-	18,618,903	2,327,002
TOTAL	$	3,397,686	2,152,672	127,631,898	73,193,312

Governmental Activities

Note Payable to Puerto Rico Public Finance Corporation – On December 27, 2001, the Authority entered into a loan agreement (the Note) with the GDB to refinance the AHMSP Stage 7 note payable of the Puerto Rico Housing Bank, as authorized by Act No. 164 of December 17, 2001. The Puerto Rico Public Finance Corporation (PFC), a component unit of GDB, acquired and restructured the Note through the issuance of its Commonwealth Appropriations Bonds (the PFC Bonds). The PFC Bonds were issued under a trust indenture whereby the PFC pledged and sold the Note, along with other notes under Act No. 164, to certain trustees and created a first lien on the revenues of the notes sold. The notes payable to the PFC were originally composed of a loan granted by GDB, which, pursuant to Act No. 164 of December 17, 2001, the PFC acquired and restructured through the issuance of Commonwealth appropriation bonds. These bonds were issued under trust indenture agreements whereby the PFC pledged the notes to certain trustees and created a first lien on the pledged revenue (consisting of annual Commonwealth appropriations earmarked to repay these notes) for the benefit of the bondholders.

In June 2004, the PFC issued PFC 2004 Series A and B bonds and refunded in advance a portion of certain of its outstanding Commonwealth Appropriation Bonds issued in 2001 under Act No. 164 of December 17, 2001. The Authority recognized a mirror effect of this advance refunding by the PFC in its own notes payable in proportion to the portion of the Authority's note payable included in the PFC refunding. The aggregate debt service requirements of the refunded and underfunded notes will be funded with annual appropriations from the Commonwealth.

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

The Note's outstanding principal balance at June 30, 2018, was approximately $3.3 million and matures throughout August 1, 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds. The applicable percentage is the percentage representing the proportion of the amount paid by the PFC on the PFC Bonds serviced by the Note to the aggregate amount paid by the PFC on all the PFC Bonds issued by the PFC under Act No. 164, which was 6% at June 30, 2018.

Investment Repurchase Agreement – AHMSP Act No. 124 – The Authority owes GDB approximately $19.9 million at June 30, 2018, under an Investment Repurchase Agreement with an original maturity date of July 1, 2018. GDB was the original creditor, but pursuant to the Qualifying Modification described in Notes 4 and 21, such Investment Repurchase Agreement was eventually transferred to the GDB Debt Recovery Authority (the DRA), which is now the creditor on this obligation. GDB stopped accepting payments since July 1, 2016, and no new terms have been established for this debt with the DRA as of the date of issuance of these financial statements.

Line of Credit - AHMSP Act No. 124 – On June 3, 2011, the Authority entered into an agreement with GDB to establish a line of credit to provide for the payment of subsidies under the AHMSP. The line of credit bears interest at 7%. As of June 30, 2018, the outstanding balance on this line of credit amounted to approximately $17.4 million. Pursuant to the Qualifying Modification, this line of credit was paid on fiscal year 2019 with the Authority's deposits on GDB for which a custodial credit loss had been previously recognized.

Line of Credit - My New Home Program Financing – On June 30, 2011, the Authority entered into an agreement with GDB to establish a line of credit facility of approximately $64 million. The financing was provided under the provisions of Act No. 122 of August 6, 2010 (Act No. 122), *Act for the Financing of My New Home Program*. Under this program, the Authority subsidizes closing costs assistance to eligible families for the purchase of a principal residence through reimbursements of origination and closing costs up to 5% of the selling price of the residence. The line of credit consisted of $40 million to collect moneys advanced by the Authority's Operating and Administrative fund to this Program, $20 million to continue the financing of the Program, and $4 million to establish a reserve for the payment of interest and other financing expenses. As a source of repayment, Act No. 122 assigned to the Authority, for a period of seven years, a portion of no less than 80% of the unreserved moneys and other liquid funds abandoned or unclaimed in financial institutions of Puerto Rico that will be transferred to the general fund of the Commonwealth. Act No. 42 of February 14, 2012, amended Act No. 122, increasing the portion of unreserved monies and other liquid funds abandoned or unclaimed to 85% and 100% once the claims for any pending debt related to tax credit are paid. In addition, Act No. 42 eliminates the seven-year limit and establishes the funding in perpetual form. The funding went into effect in

September 2014. The Program to subsidize closing costs assistance concluded in February 2013, and no additional subsidies are expected to be provided by the Authority under this Program. As of June 30, 2018, the Authority's cumulative drawdowns amounted to approximately \$106.2 million. Using the proceeds from the sale of certain single and multi-family mortgage loans, the Authority repaid \$80.2 million of the line of credit during previous years. On October 23, 2012, GDB and a local financial institution entered into a Participation Agreement by which the local financial institution purchased from GDB an undivided interest in this line of credit. On July 20, 2017, the Authority entered into a settlement agreement with GDB and the local financial institution whereby the Authority paid the local financial institution \$5,750,000 as a settlement for the outstanding principal and interest due on the participation agreement, which amounted to \$11,428,571. As a result of this transaction the Authority recognized a gain on early extinguishment of debt amounting to \$5,678,571 on the government wide financial statements, presented within operating grants and contributions of the Housing programs in the Statement of Activities. Outstanding balance of the line of credit as of June 30, 2018, amounts to \$16.7 million. Pursuant to the Qualifying Modification, this line of credit was paid on fiscal year 2019 with the Authority's deposits on GDB for which a custodial credit loss had been previously recognized.

Line of Credit – New Secure Housing Program Financing – This line of credit was used originally to provide resources used to provide benefits to participants qualifying under the provisions of Act No. 92 of August 4, 2001 (Act No. 92), *Act for the Financing of My New Secure Home Program*. Under this program, the Authority makes it possible for families or individuals that live in flood-prone or high risk areas to acquire secure and low cost homes. The line bears interest at a 3-month LIBOR with a differential up to 1.25% or the prevailing interest negotiated by the President of the GDB, and is due on June 30, 2027. As of June 30, 2018, the line of credit balance is \$48.2 million (including approximately \$2.4 million of accreted interest). Pursuant to the Qualifying Modification, this line of credit was paid on fiscal year 2019 with the Authority's deposits on GDB for which a custodial credit loss had been previously recognized. See Note 8 for additional details about this line of credit.

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Business-Type Activities

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

Description and Maturity date	Interest rate	Amount outstanding
Mortgage-Backed Certificates, 2006 Series A - principal and interest payable monthly from September 29, 2006 to August 29, 2030	2.955% - 6.56%	51,878,529
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%	23,242,960
Special Obligation Notes, 2011 Series A - Principal and interest payable monthly from September 1, 2021 to September 1, 2041	7.00%	13,083,915
Special Obligation Notes, 2012 Series A - Principal and interest payable monthly from June 18, 2012 to September 1, 2041	7.00%	21,329,542
Total, net of unamortized premiums and discounts		$ 109,534,946

As referred to in Note 2, the Authority established an irrevocable trust during fiscal year 2011, with its own funds, for the payment through maturity of its Mortgage Trust III Collateralized Mortgage Obligation Bonds. Pursuant to the adoption of GASB Statement No. 86, *Certain Debt Extinguishment Issues*, effective July 1, 2017, such a transaction is considered an in-substance defeasance, which required the retroactive elimination of these Collateralized Mortgage Obligation Bonds and the assets in the irrevocable trust. The outstanding balance of these Collateralized Mortgage Obligation Bonds under the aforementioned trust account at June 30, 2018, amounted to $46,707,458.

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, 2018, is as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Vacation	$ 627,613	$ 699,000	$ (796,830)	$ 529,783	$ 529,783

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

12. MORTGAGE LOANS INSURANCE PROGRAM

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

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

The Commonwealth guarantees up to $75 million of the principal insured by the Program. As of June 30, 2018, the Program covered loans aggregating to approximately $536 million. A liability of $8.8 million was recorded under this program as of June 30, 2018, as an estimate of the losses inherent in the portfolio.

The mortgage loans insurance premiums amounted to $3,291,690 for the year ended on June 30, 2018.

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, 2018, the Authority was not in compliance with the regulations. At June 30, 2018, the Authority had an unrestricted deficit of approximately $5.9 million in the mortgage loans insurance program.

13. RELATED-PARTY TRANSACTIONS

A summary of the most significant related-party balances and transactions as of June 30, 2018, and for the year ended is as follows:

(a) Commonwealth

Legislative appropriations of approximately $19.3 million were received by the governmental funds during the year ended June 30, 2018. These appropriations are restricted for the payment of operating expenses and to support affordable housing programs.

During fiscal year 2018, the Commonwealth made PayGo pension benefits payments on behalf of the Authority amounting to $3,762,664 and OPEB benefits payments amounting to $118,959. Accordingly, a liability to the Commonwealth has been recorded on the basic financial statements as of June 30, 2018, in the total amount of $3,881,623.

(b) GDB

The Authority had the following additional related-party balances and transactions with GDB as of and for the year ended June 30, 2018:

		Due from (to) GDB	Interest rate		Interest income (expense)
Assets:					
Cash - including accrued interest	$	8,293,354	Variable	$	9,493
Deposits place with banks - including accrued interest		112,060,609	0.75% - 1.60%		1,692,160
Nonparticipating investment contracts - including accrued interest		18,452,926	5.25%		937,478
Total assets	$	138,806,889		$	2,639,131
Liabilities:					
Repurchase Agreement - including accrued interest	$	(19,906,221)	3.00%	$	(575,693)
Lines of credit and notes payble - including accrued interest		(82,238,732)	2.40% - 6.00%		(3,206,132)
Total liabilities	$	(102,144,953)		$	(3,781,825)
Expenses - administrative charges	$	611,378			

The asset amounts and related interest income, representing amounts due from GDB, have been fully impaired and reversed, respectively, in the accompanying financial statements.

(c) Department of Housing

As of June 30, 2018, the Authority has an amount due from the Puerto Rico Department of Housing (Department of Housing) in the total amount of $581,687. Management has fully reserved this balance as of June 30, 2018.

The Authority entered into a 30-year lease agreement with the Department of Housing to rent office space expiring in 2037. During the term of the lease, the Authority will pay an annual rent of $1.5 million. The agreed-upon rent includes parking spaces, maintenance, and security services in common areas. The Department of Housing (DH) will be responsible for the payment of utilities in exchange for an additional payment of $350,000 payable in a lump sum on or before August 31 of each year. Rent expense during the year ended June 30, 2018, amounted to $1.5 million. In January 2019, the Authority moved part of its operations to a building owned by EDB. EDB has not charged rent to the Authority. The lease agreement with the DH was verbally modified in January 2019, and the Authority is paying a monthly rent of approximately $27,000.

(d) Investment in Puerto Rico Community Development Fund, LLC

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

At the creation of PRCDF, Citi and the Authority entered into a Fund Option Agreement pursuant to which (1) the Authority granted Citi the option to require that the Authority purchased Citi's fund interest for $587,500 and (2) Citi granted the Authority the option, exercisable if Citi did not exercise its option to sell within six months following the end of the New Markets Tax Credits compliance period, to require Citi to sell its fund interest to the Authority for a purchase price equal to the fair market value of the fund interest. In August 2019, Citi informed the Authority its intention to exercise its option for the Authority to purchase its fund interest. Accordingly, in September 2019, the Authority issued a payment to Citi for the amount of $587,500 and thus became the investor member with a 99.99% ownership of PRHFA RLF Investment Fund, LLC.

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

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

To qualify as a CDE, an organization must:

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

14. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Authority is a party to financial instruments with off-balance-sheet risk to meet financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and to purchase mortgage-backed securities. These instruments involve, to varying degrees, elements of credit, and interest rate risk in excess of amounts recognized in the balance sheet. The off-balance-sheet risks are managed and monitored in manners similar to those used for on-balance-sheet risks. The Authority's exposure to credit losses for lending and purchasing commitments is represented by the contractual amount of those transactions.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since these commitments might expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Authority evaluates each customer's creditworthiness on a case-by-case basis.

The amount of the collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. Collateral generally includes income-producing commercial properties. At June 30, 2018, commitments to extend credit amounted to approximately $22.8 million.

Commitments to purchase mortgage-backed securities are agreements to acquire such securities at a fixed price on behalf of certain housing programs. At June 30, 2018, there were no commitments outstanding to purchase mortgage-backed securities.

15. RETIREMENT SYSTEM

ERS is a trust created by the Legislature under Act No. 447 of May 15, 1951 (as amended, Act No. 447), to provide pension and other benefits to retired employees of the Commonwealth, its public corporations (including the Authority) and municipalities. Before the enactment of Act 106-2017 on August 23, 2017, ERS administered different benefit structures under 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 varied depending on each member's date of hire. Substantially all full time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the Authority) were covered by ERS under Act No. 447. Membership was mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment. Membership was optional for the Governor of the Commonwealth, Commonwealth secretaries, head of public agencies and instrumentalities, among others.

The benefits provided to members of the System were established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. Act No. 3 of April 3, 2013 (Act No. 3), in conjunction with other recent funding and design changes, provided for a comprehensive reform of ERS. This summary details the provisions under Act No. 3.

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

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

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

The assets of the defined benefit program, the defined contribution program and the Contributory Hybrid Program were pooled and invested by ERS. Future benefit payments were to be paid from the same pool of assets. However, upon the enactment of Act 106-2017, all of the System's assets were sold and transferred to the Commonwealth's General Fund and the plans described under Act No. 3 were frozen. Details about the provisions of Act 106-2017 are addressed below. Despite the changes to the ERS brought about by Act 106-2017, the accounting for pension costs continue to be governed by the provisions of GASB Statement No. 68 and GASB Statement No. 71, as described in Note 3(p).

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

Cost-Sharing, Multiple-Employer, Defined Benefit Program

Pursuant to Act No. 447, all regular employees of the Authority hired before January 1, 2000, and less than 55 years of age at the date of employment, became members of ERS, under the Defined Benefit Program, as a condition of their employment. No benefits were payable if the participant received a refund of their accumulated contributions.

The Defined Benefit Program provided retirement, death, and disability benefits pursuant to legislation enacted by the Legislature. Retirement benefits depended upon age at retirement and the number of years of creditable service. Benefits vested after 10 years of plan participation. Disability benefits were available to members for occupational and non-occupational disabilities. However, a member must have had at least 10 years of service to receive non-occupational disability benefits.

Members who had attained 55 years of age and completed at least 25 years of creditable service, or members who had attained 58 years of age and completed 10 years of creditable service, were entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. The annuity for which the participant is eligible was limited to a minimum of $500 per month and a maximum of 75% of the average compensation, as defined.

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

The contribution requirement to the ERS was determined by law and not actuarially determined. Commonwealth legislation required employees to contribute 5.775% of the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary.

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

On September 24, 1999, the Legislature enacted Act. No. 305, which amended Act No. 447 to establish a new retirement program. In addition, on April 4, 2013, the Legislature enacted Act No. 3, which amended the provisions of the different benefit structures under ERS, including the Defined Benefit Program.

Defined Contribution Program – System 2000 Program

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

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

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

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

Upon retirement, the balance in each participant's account was to be used to purchase an annuity contract, which provided for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement received a lump-sum payment. In case of death, the balance in each participant's account was to be paid in a lump sum to the participant's beneficiaries. Participants had the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

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

Defined Contribution Hybrid Program

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

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

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

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

- For active participants of the contributory defined benefit programs under Act No. 447 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013, were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants and will be paid at retirement through a lifetime annuity.

- The minimum pension for current retirees was increased from $400 to $500 per month.

- The retirement age for the Act No. 447 participants was gradually increased from age 58 to age 61.

- The retirement age for the active System 2000 Program participants was gradually increased from age 60 to age 65.

- The "merit annuity" available to participants who joined the retirement System prior to April 1, 1990, were eliminated.

- The retirement age for new employees was increased to age 67.

- The employee contribution rate was increased from 8.275% to 10%.

- For the System 2000 Program participants, the retirement benefits were no longer to be paid as a lump sum distribution, instead they were to be paid through a lifetime annuity.

- Various retirement benefits previously granted by special laws, including Christmas and summer bonuses, were eliminated or reduced. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings were to be contributed to the Retirement System.

- Disability benefits were eliminated and substituted for a mandatory disability insurance policy.

- Survivor benefits were modified.

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

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

To improve the liquidity and solvency of ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provided for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to fiscal year 2033. This additional uniform contribution would be determined annually based on actuarial studies to be performed by ERS actuaries. The additional uniform contribution was eliminated in June 2018.

The total aggregate amount of employee contributions for the Defined Benefit Programs was approximately $1,297,321 during the fiscal year ended June 30, 2018. The total aggregate amount of employee contributions for the defined contribution plan and the defined contribution hybrid program during the year ended June 30, 2018, was approximately $511,971 and $785,350, respectively.

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

PayGo Pension Reform

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

The PayGo system was one component of Act No. 106 of 2017, which the Governor signed into law on August 23, 2017. Act 106-2017 created the legal framework so that the Commonwealth can guarantee benefit payments to current pensioners through the PayGo system. Approximately $2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, that is managed by a private entity. On June 22, 2020, the Defined Contributions Plan was officially launched and all individual retirement accounts for government employees and retirees were established as required under Act 106-2017. Future benefits will not be paid by the Retirement Systems.

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

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

There were no Authority contributions during the fiscal year ended June 30, 2018 because, pursuant to the provisions of Act 106-2017 (the PayGo System, as described herein), such contribution requirements were all eliminated.

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

Net Pension Liability of ERS

The total pension liability as of June 30, 2017 (the measurement date used for financial reporting for fiscal year 2018) was determined by an actuarial valuation as of July 1, 2016, that was rolled forward to June 30, 2017, assuming no gains or losses.

(1) *Actuarial Methods and Assumptions*

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

Actuarial cost method	Entry age normal
Actuarial assumptions:	
Inflation rate	Not applicable
Salary increases	3.0% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four year extension of Act No. 66-2014 and the current general economy.

The mortality tables used in the June 30, 2017 actuarial valuations were as follows:

- Pre-retirement Mortality - For ERS general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females were adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females, adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. One hundred percent (100%) of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

- Post-retirement Healthy Mortality - Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- Post-retirement Disabled Mortality - Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

(2) *Discount Rate*

The ERS is in a deficit position. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 3.58% as of June 30, 2017.

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

The Authority's proportionate share of the net pension liability of the ERS and the proportion percentage of the aggregate net pension liability of ERS allocated to the Authority as of June 30, 2018, was $54,671,304 and 0.15977%, respectively.

The Authority's proportion of ERS's net pension liability was based on the actual required contributions of each of the participating employers that reflect each employer's projected long-term contribution effort. The contributions that reflect each employer's projected long-term contribution effort included in the proportionate share calculation are: (1) Act No. 116 of 2010 statutory payroll-based contribution, (2) Act No. 3 of 2013 supplemental contribution, and (3) other special benefit contributions. Contributions to ERS during fiscal year 2017 (the measurement year) of approximately $2.2 million were made as of the measurement date. No contributions from the

Authority to ERS were required during the period subsequent to the measurement date or during the period ended June 30, 2018. Other contributions to ERS that do not reflect an employer's projected long-term contribution effort, such as contributions that separately finance specific liabilities of an individual employer to ERS (i.e. local employer early retirement incentives), were excluded from the proportionate share calculation.

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

The components of the net pension liability of the Authority's proportionate share as of June 30, 2017 (measurement date), are as follows:

The Authority's proportionate share of:	
Proportion of the net pension liability	0.15977%
Total pension liability	$ 54,670,333
Plan fiduciary net position (deficiency)	(971)
Net pension liability	$ 54,671,304
Plan's fiduciary net position as a percentage of the total pension liability	0.00%
Covered payroll	$ 6,051,520
The Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	903.43%

The following table presents the Authority's proportionate share of the net pension liability as of June 30, 2017, for ERS calculated using the discount rate of 3.58%, as well as what the Administration's proportionate share of the net pension liability would be if it were calculated using a discount rate of one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
The Authority's proportionate share of net pension liability	$ 61,993,778	$ 54,671,304	$ 48,774,084

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

The pension expense related to the Retirement System and recognized by the Authority for the year ended June 30, 2018, amounts to $4,113,231.

Deferred outflows and deferred inflows of resources from pension activities reported in the Authority's statements of net position as of June 30, 2018, are as follows:

DEFERRED OUTFLOWS OF RESOURCES		
Differences between expected and actual experience in measuring total pension liability	$	36,934
Changes in assumptions		7,147,014
Changes in proportion and differences between actual contributions and proportionate share		2,036,850
Employer's Paygo pension benefits payments made subsequent to the measurement date		3,762,664
	$	12,983,462
DEFERRED INFLOWS OF RESOURCES		
Net difference between projected and actual earnings on pension plan investments	$	319,352
Changes in assumptions		5,564,231
Differences between expected and actual experience in measuring total pension liability		967,558
	$	6,851,141

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2018, will be recognized in the pension expense as follows:

Years ending June 30,		Amount
2019	$	529,648
2020		605,709
2021		625,233
2022		(248,813)
2023		(1,178,976)
	$	332,801

The previous amounts do not include employer specific deferred outflows and deferred inflows of resources related to changes in proportion; therefore, the deferred outflows of $2,036,850 related to changes in proportion have not been included in the table above.

Deferred outflows of resources related to pension benefit payments made by the Authority subsequent to the measurement date which amounted to $3,762,664, as of June 30, 2018, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. This amount is also not included in the table above.

Additional information on the ERS is provided in its standalone financial statements for the year ended June 30, 2017, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan, PR 00940-2004.

16. OTHER POSTEMPLOYMENT BENEFITS

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

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

The MIPC covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The MIPC is financed by the Commonwealth through legislative appropriations.

However, the Commonwealth claims reimbursements from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. The legislative appropriations are considered estimates of the payments to be made by the ERS MIPC. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

Actuarial methods and assumptions

The total OPEB liability as of June 30, 2018, was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period:

Inflation	Not applicable
Municipal bond index	3.58%%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017 and the current general economy.
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality:
Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience 2009 study using data as of June 30, 2003, June 30, 2005, and June 30, 2007.

The discount rate for June 30, 2017, and 2016 was 3.58% and 2.85%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

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

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

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

The Authority's proportionate share of the total OPEB liability of the ERS MIPC and the proportion percentage of the aggregate total OPEB liability of the ERS allocated to the Authority as of June 30, 2018, was $1,467,905 and 0.15947%, respectively.

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

Sensitivity of total OPEB liability to changes in the discount rate

The following table presents the Company's proportionate share of the OPEB liability at June 30, 2018 (measurement date June 30, 2017), for ERS calculated using the discount rate of 3.58%, as well as what the Company's proportionate share of the OPEB liability would be if it were calculated using a discount rate of one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Company's proportionate share of OPEB liability	$ 1,616,404	$ 1,467,905	$ 1,342,434

Deferred outflows of resources and deferred inflows of resources

OPEB credit adjustment recognized by the Authority for the year ended June 30, 2018, related to ERS MIPC amounted to approximately $136,000.

Because all participants are inactive, there are no deferred outflows or inflows of resources as any changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Authority subsequent to the measurement date, which amounted to $118,959 as of June 30, 2018, which will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019.

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, 2017, and 2016, 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.

17. EARLY RETIREMENT PROGRAM

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

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

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

During fiscal year 2018, there were no costs related to these early termination benefits. As of June 30, 2018, the total liability related to these termination benefits was approximately $156,720, recorded within accounts payable and accrued liabilities of the business-type activities.

18. COMMITMENTS AND CONTINGENCIES

Other Risks Related to Mortgage Loans Servicing and Insurance Activities – Certain loan portfolios of the Authority are administered by private servicers who are required to maintain an errors and omissions insurance policy. The Authority has a program to manage the risk of loss on its mortgage loan lending and insurance activities.

Custodial Activities of Proprietary Fund – At June 30, 2018, the Authority was custodian of $256,524 in restricted funds of former "*Corporación de Renovación Urbana y Vivienda*" (CRUV). As of June 30, 2018, such funds were deposited with GDB. These funds are not owned by the Authority's Proprietary Fund and, thus, are not reflected in the basic financial statements.

Loan Sales and Securitization Activities – On July 13, 1992, the Authority entered into an agreement to securitize approximately $20.7 million of mortgage loans into a FNMA certificate. The Authority agreed to repurchase, at a price of par plus accrued interest, each and every mortgage loan backing up such security certificate that became delinquent for 120 days or more. As of June 30, 2018, the aggregate outstanding principal balance of the loans pooled into the FNMA certificate amounted to $218,830.

Mortgage Loan Servicing Activities – The Authority acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2018, the principal balance of the mortgage loans serviced for others is as follows:

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

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.

19. CONDUIT DEBT AND PROGRAMS SPONSORED BY THE AUTHORITY

In December 2003, the Authority issued $663 million in Capital Fund Program Bonds Series 2003 (Series 2003) to lend the proceeds thereof to the Public Housing Administration (PHA), a governmental instrumentality of the Commonwealth. PHA utilized such funds for improvements to various public housing projects in the Commonwealth. The Capital Fund Program Bonds Series 2003 are limited obligations of the Authority, which will be paid solely from an annual allocation of public housing capital funds when received from the U.S. Department of Housing and Urban Development and other funds available under the bonds indenture. Accordingly, these bonds are considered no-commitment debt and are not presented in the accompanying basic financial statements. The outstanding balance of these bonds amounted to approximately $105.3 million at June 30, 2018.

On August 1, 2008, the Authority issued the Capital Fund Modernization Subordinate Bonds Series 2008 (Series 2008) amounting to approximately $384.5 million. The proceeds from the issuance were used to finance a loan to a limited liability company (the LLC) and pay the costs of issuance. The $384.5 million bonds are limited obligations of the Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by HUD with an outstanding balance of approximately $253.4 million at June 30, 2018.

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

20. INTERFUND BALANCES AND TRANSFERS

The summary of the interfund balances as of June 30, 2018, between the governmental funds and the Proprietary Fund is as follows:

Receivable by	Payable by	Purpose	Amount
Proprietary fund:	Governmental funds:		
Operating and Administrative	HOME Programs	Reimbursement of expenditures	$ 917,632
Operating and Administrative	HUD Programs	Reimbursement of expenditures	269,619
Operating and Administrative	AHS Programs	Reimbursement of expenditures	9,864,900
Total			$ 11,052,151

The summary of the interfund transfers for the year ended June 30, 2018, is as follows:

Transfer out	Transfer in	Purpose	Amount
Proprietary fund:	Governmental funds:		
Operating and Administrative	AHS Programs	Subsidy payments	$ 1,840,070
Governmental funds:	Proprietary fund:		
AHS Programs	Operating and Administrative	Operations	(5,903,667)
			$ (4,063,597)

21. SUBSEQUENT EVENTS

The Authority evaluated subsequent events through March 2, 2021, the date the financial statements were available to be issued.

GDB Qualifying Modification and the Title VI Approval Process

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

Under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment, which includes the Authority, received their pro rata share of interests in the PET, which was deemed to be full satisfaction of any and all claims that such Non-Municipal Government Entity may have against GDB. The Authority's claim against the PET totals $56,704,777.

The assets of the PET (the PET Assets) consist of an unsecured claim against the Commonwealth of approximately $578 million, which is the subject of a proof of claim filed in the Commonwealth's Title III case (the Title III Claim). The Title III Claim has not yet been allowed in the Title III case and the Official Committee of Unsecured Creditors (the UCC) has objected to the Title III Claim. It is possible that the Oversight Board or other parties could also object to the Title III Claim. As such, the recovery on the Title III Claim remains highly uncertain at this time.

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

The following table depicts the balances that existed on the date in which the Qualifying Modification and the resulting claim at the Public Entity Trust was effective:

Total deposits	$ 139,831,246
Total debt	83,126,469
Deposit claim at Public Entity Trust	$ 56,704,777

CDBG-DR Subrecipient Agreements

On September 19, 2019, and July 2, 2020, the Authority entered into subrecipient agreements with the Puerto Rico Department of Housing (PRDH) to administer Community Development Block Grant – Disaster Recovery (CDBG-DR) funds. Under the first agreement, the PRDH allocated $100 million to the Authority, which will be used in conjunction with the Low Income Housing Tax Credit Program for the construction of affordable rental housing. Under the second agreement, the PRDH allocated $156 million to the Authority to undertake the Homebuyer Assistance

Program. This program will provide financial assistance to qualified homebuyers to cover closing costs and down payment assistance. The Authority will be reimbursed from these allocations certain costs incurred in the management of these programs.

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

On September 27, 2019, the Oversight Board—as representative of the Commonwealth, ERS and PBA in their respective Title III Cases—filed a joint Title III plan of adjustment for the Commonwealth, ERS, and PBA [ECF No. 8765] along with a disclosure statement related thereto [ECF No. 8766]. On February 9, 2020, the Oversight Board announced that it had reached a new agreement with certain GO and PBA bondholders (collectively, the PSA Creditors) on a new framework for a plan of adjustment and, on February 28, 2020, the Oversight Board filed an amended plan of adjustment reflecting such new agreement [ECF No. 11946] along with a revised disclosure statement [ECF No. 11947]. However, in light of the COVID-19 pandemic (discussed below), the Oversight Board requested that the court adjourn court proceedings related to the proposed plan of adjustment so as to allow for the Government and the Oversight Board to prioritize the health and safety of the people of Puerto Rico and to gain a better understanding of the economic and fiscal impact of the pandemic.

After the Oversight Board certified a revised Commonwealth fiscal plan on May 27, 2020, the Oversight Board resumed formal plan of adjustment discussions with creditors on September 9, 2020. Shortly thereafter, the PSA Creditors motioned to impose plan of adjustment confirmation deadlines on the Oversight Board. On October 29, 2020, the Title III Court ordered the Oversight Board to file an informative motion presenting a term sheet disclosing the material economic and structural features of an amended plan of adjustment by February 10, 2021.

In light of the Title III Court's order, the Oversight Board, the Authority, certain creditors, and parties-in-interest recommenced mediation with a view to reaching consensus on an amended plan of adjustment for the Commonwealth. The mediation sessions began on December 3, 2020 and will continue through March 2021. On February 23, 2021, the Oversight Board disclosed that it had reached a new agreement with certain of the PSA Creditors and disclosed the proposed terms of an amended plan of adjustment. No decision has been made by the Governor or FAFAA as to whether they will support the further amended plan of adjustment under the terms being discussed. Any newly filed plan will remain subject to future amendments and Title III Court approval, and it is not certain that thte Title III Court will ultimately confirm any such plan.

For further information, please refer to currently filed versions of the Amended Plan and Amended Disclosure Statement, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

Impact of Earthquakes

On January 7, 2020, Puerto Rico was struck by a 6.4 magnitude earthquake causing devastating damages to infrastructure, an island-wide power outage, water shortages and threatening the lives of its people. In order to safeguard the health and public safety of its citizens, the Governor issued executive orders EO 2020-01 and EO 2020-02 declaring a state of emergency to activate the emergency purchasing protocol allowing emergency management agencies to acquire the necessary supplies and essential services to provide a timely and effective response and activating the National Guard to provide support during the emergency management.

In addition, the Oversight Board authorized the utilization of Emergency Reserve funds from fiscal years 2019 and 2020 as needed by the Commonwealth without prior approval of reapportionments through January 31, 2020.

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

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

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

Transfer of Housing Choice Vouchers Program

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

COVID-19 Pandemic

1. Executive Orders

On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (COVID-19) as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor Váquez-Garced issued executive order EO 2020-020, on March 12,2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. The executive order authorizes the Secretary of the DOT and the Executive Director of the PROMB to set up a special budget, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing information with the municipalities.

On March 15, 2020, the Governor issued executive order EO 2020-023 ordering a curfew for all citizens requiring them to stay at home from 9 p.m. to 5 a.m., allowing them to use the public roads, within this time frame, under specific circumstances such as: (1) purchasing food, pharmaceutical and basic necessity products; (2) keeping medical appointments or visiting a hospital, laboratory, or healthcare facility; (3) commuting, for public and private employees who provide essential services; (4) returning to place of residence from an allowed activity; (5) providing assistance, care, transportation of senior citizens, children, dependents, people with disabilities or requiring medical or professional attention; and (6) visiting financial institutions, provided that all necessary precautions are taken to prevent the risk of spreading the disease. Also, the executive order mandated that any person with reasonable suspicion of being exposed to the COVID-19 remain quarantined for fourteen (14) days, as of the issuance of the order, to prevent them from posing a risk to public health and transmission to non-infected persons. In addition, it ordered the closure of all governmental operations, except for those related to essential services, and the closure of all businesses in Puerto Rico from March 15, 2020, at 6 p.m., until March 30, 2020, unless otherwise provided. Furthermore, the order established criminal penalties and fines for any person who failed to comply with the evacuation orders issued by the Commonwealth's Public Safety Department or its Bureaus.

On March 23, 2020, the Governor issued executive order EO 2020-026 to create and establish the Executive Committee of Medical Advice, also known as the COVID-19 Medical Task Force, which will perform functions jointly with the PRDOH and will be in charge of studies, research and development of strategic plans to manage the Coronavirus pandemic emergency and provide a coordinated response to the citizens of Puerto Rico.

On March 27, 2020, the Governor issued executive order EO 2020-028 to activate the National Guard Medical Unit to provide support to the DOH and any other agency providing services during the pandemic emergency.

On March 30, 2020, the Governor issued executive orders EO 2020-029 and EO 2020-030 ordering a lockdown in Puerto Rico. The citizens of Puerto Rico are instructed to stay at their residences the 24 hours of a day for the 7 days of the week from March 31, 2020 to April 12, 2020 and only be allowed to use the public roads, during the hours between 5 a.m. and 7 p.m., under the circumstances previously allowed by EO 2020-023. In addition, the executive order establishes a transit order, based on the last number of the vehicle license plates, for their citizens to use their cars to buy food, pharmaceutical and basic necessity products, visit financial institutions and receiving any of the allowed services. Moreover, the order provides a description of the services and businesses that are allowed to operate during the emergency; informs its citizens that the collection of tolls fees will be reinstated after March 31, 2020; provides a limited window for payroll related employees to visit their employer's offices to process the payroll payments for the month of March; orders the DNER to shut down all docks to discourage the maritime traffic of recreational boats and authorizes the agency to establish a surveillance plan of the island's coasts, in coordination with the state and municipal police, to enforce compliance with the instructions provided by the executive order; establishes a mandatory 14-day quarantine for all passengers arriving to the Luis Muñoz Marin international airport as of the issue date of the executive order. On April 12, 2020, the Governor issued executive order EO 2020-033 extending the curfew imposed on the citizens of Puerto Rico and the control measures implemented to contain the spread of the COVID-19 through the island until May 3, 2020. On May 1, 2020, the Governor issued executive order EO 2020-038, which extended the curfew and other COVID-19 control measures through May 25, 2020 but also lifted certain business restrictions to allow limited openings of certain industries, shops, and services at specific times while continuing to observe social distancing rules. This initial reopening is limited to primary and specialist doctors and dentists, animal shelters, vehicle repair and parts services, laundromats, elevator inspections, services to ports and airports, air conditioner repair and maintenance services, notary services, and critical infrastructure services, among others. On May 26, 2020, the Governor signed executive order EO 2020-041, which further extended the mandatory curfew until June 15, 2020 but expanded the list of commercial activities that were allowed under EO 2020-038.

Thereafter, following the recommendations of the Government's medical and economic task forces and federal guidelines, on June 12, 2020, the Governor signed executive order EO 2020-044 which, eased certain restrictions imposed by previous executive orders and allowed the reopening of certain commercial activities and services that had been closed or prohibited since March 15, 2020. EO 2020-044 extended the mandatory curfew to June 30, 2020, but reduced such curfew from 10:00 p.m. to 5:00 a.m. On June 29, 2020, the Governor signed executive order EO 2020-048, which further extended the mandatory curfew until July 22, 2020 and authorized restaurants, bars, gyms, museums, auto dealerships, malls and retail stores, casinos, and common areas in hotels, among others, to operate below 75% of their maximum capacity.

In late July 2020, Puerto Rico experienced an increase of COVID-19 cases, the Government concluded that it was necessary to modify the restrictions on some of the allowed commercial activities to prevent mass gatherings and to help control the spread of the virus. To that end, on July 16, 2020, the Governor signed executive order EO 2020-054, which extended the mandatory curfew until July 31, 2020 and included certain restrictions to allowed activities.

Among other things, EO 2020-054 prohibited the consumption, sale, and distribution of alcoholic beverages in all businesses and commercial establishments after 7:00 p.m. Moreover, establishments engaged primarily in the sale of alcoholic beverages for indoor consumption such as bars, small eateries, and any other similar establishments, were required to close. To control mass gatherings, EO 2020-054 also closed Puerto Rico's beaches, with limited exceptions, and required the closure of movie theaters, nightclubs, concert halls, theaters, theme parks, gymnasiums, among other establishments. On July 31, 2020, the Governor signed executive order EO 2020-060, which extended the mandatory curfew and the other measures set forth in EO 2020-054 through August 15, 2020.

By August 15, 2020, Puerto Rico had experienced an increase in the number of daily positive COVID-19 cases and related deaths. The Governor concluded that it was necessary to modify again the restrictions on some of the allowed commercial activities to prevent mass gatherings and to help control the spread of the virus. To that end, on August 19, 2020, the Governor signed executive order EO 2020-062, which extended the mandatory curfew and modified the restrictions to allowed commercial activities through September 11, 2020. This executive order provided for a lockdown on Sundays, with limited exceptions, and prohibited the consumption, sale, and distribution of alcoholic beverages in all businesses and commercial establishments after 7:00 p.m. and in all business and commercial establishments on Sundays. Moreover, establishments engaged primarily in the sale of alcoholic beverages for consumption inside such establishments like bars, small eateries, and any other similar place, were required to close.

By September 11, 2020, the three-week average of COVID-19 cases and deaths had decreased materially. Accordingly, on that date, the Governor signed executive order EO 2020-066, which extended the mandatory curfew and modified the restrictions to allow additional commercial activities through October 2, 2020. Specifically, EO 2020-066 eliminated the lockdown and restrictions on certain allowed commercial activities on Sundays, allowed the consumption, sale, and distribution of alcoholic beverages until 10:00 p.m., and increased the capacity of all commercial businesses that were allowed to operate from 25% maximum capacity to 50% maximum capacity. EO 2020-066 also allowed hotel common areas, casinos, movie theaters, and gymnasiums to operate at 25% maximum capacity, and it reopened beaches and marinas while establishing parameters to maintain adequate social distancing.

On October 16, 2020, the Governor signed executive order EO 2020-077, which extended the mandatory curfew until November 13, 2020, and eased certain restrictions imposed by EO 2020-066 in order to promote economic activity. However, due to a sustained increase in the number of confirmed COVID-19 cases, in the utilization of hospital capacity, and in the number of COVID-19 related deaths, on November 13, 2020, the Governor issued executive order EO 2020-080. This executive order extended the mandatory curfew until December 11, 2020 and reinstated certain restrictions in commercial activities. Among other things, EO 2020-080 reduced the occupancy limit of certain business activities from 55 percent to 30 percent and activated the Puerto Rico National Guard to help assist in EO 2020-080's implementation.

Following concerns raised by the Puerto Rico Department of Health and the medical community about increases in infections, hospitalizations, and related deaths, on December 3, 2020, the Governor signed executive order EO 2020-087 which imposed additional restrictions on commercial activities to prevent mass gatherings and to help control the spread of the virus. Among the new restrictions are the following: (i) lockdown order in effect on Sundays with limited exceptions; (ii) mandatory curfew in effect from 9:00 p.m. until 5:00 a.m. and businesses that are allowed to operate must close by 8:30 p.m.; (iii) consumption, sale, and distribution of alcoholic beverages is prohibited in all authorized businesses from 5:00 a.m. Saturday to 5:00 a.m. Monday; (iv) shopping malls are allowed to operate but must limit their capacity to one (1) person for every seventy-five (75) square feet in the hallway areas; (v) bars, nightclubs, and other similar establishments which engage primarily in the sale of alcoholic beverages for consumption must remain closed; (vi) common areas in housing complexes, such as pools and parks, must remain closed; and (vii) beaches are opened strictly for professional and recreational sports and remain closed to persons wishing to socialize and gather in groups. EO 2020-087 will be in effect from December 7, 2020 until January 7, 2021.

As the Government observes and assesses the results of its measures to control the negative health and economic effects of COVID-19 on the people of Puerto Rico and Puerto Rico's economy, it will re-evaluate and further amend business restrictions as necessary to promote economic recovery while preserving the health, welfare, and safety of the people of Puerto Rico.

2. Economic Stabilization Measures

On March 23, 2020, the Oversight Board agreed with the Commonwealth to provide support to the Puerto Rican people, frontline workers, educators and students, and small businesses. The $787 million Emergency Measure Support Package consists of $500 million that had to be authorized as an incremental appropriation to the fiscal year 2020 General Fund budget in compliance with the budgetary process under PROMESA, $157 million of reapportionment within the current fiscal year 2020 Commonwealth General Fund budget, and $131 million of Federal funds. This Emergency Measures Support Package is in addition to the availability of $160 million from Puerto Rico's Emergency Reserve Fund the Oversight Board had already authorized.

On March 27, 2020, then-President Trump signed into law the Coronavirus, Aid, Relief, and Economic Security Act (CARES Act), commonly known as "Phase Three" of coronavirus economic relief. The CARES Act provides a stimulus to individuals, businesses, and hospitals in response to the economic distress caused by the COVID-19 pandemic; creates a $349 billion loan program for small businesses, including 501(c)(3) non-profits and physician practices; allocates $500 billion for assistance to businesses, states, and municipalities; expands telehealth services in Medicare, including services unrelated to COVID-19 treatments; expands eligibility for unemployment insurance and provides people with an additional $600 per week on top of the unemployment amount determined by each state; expands the Defense Production Act, allowing for a period of two years when the government may correct any shortfall in resources without regard to the current expenditure limit of $50 million; provides the U.S. Secretary of the Treasury with the authority to make loans or loan guarantees to states, municipalities, and eligible businesses and loosens a variety of regulations prior legislation imposed through the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Economic Stabilization Act of 2008, and others; and authorizes supplemental appropriations to help the government respond to COVID-19 pandemic emergency.

Amendments to the Authority's Organic Act

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

* * * * *

	1 Business Activities	2 State/Local	9 Other Federal Program 2	14.239 HOME Investment Partnerships Program	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	8 Other Federal Program 1	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Subtotal	ELIM	Total
111 Cash - Unrestricted	$ 53,055,196	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 53,055,196	$ -	$ 53,055,196
112 Cash - Restricted - Modernization and Development	-	-	-	-	-	-	-	-	-	-	-
113 Cash - Other Restricted	12,439,479	24,745,712	6,389	65,291	1,051,658	122,075	-	249,021	38,679,625	-	38,679,625
114 Cash - Tenant Security Deposits	-	-	-	-	-	-	-	-	-	-	-
115 Cash - Restricted for Payment of Current Liabilities	-	-	-	-	-	-	-	-	-	-	-
100 Total Cash	65,494,675	24,745,712	6,389	65,291	1,051,658	122,075	-	249,021	91,734,821	-	91,734,821
121 Accounts Receivable - PHA Projects	-	-	-	-	-	-	-	-	-	-	-
122 Accounts Receivable - HUD Other Projects	-	-	-	-	-	-	-	-	-	-	-
124 Accounts Receivable - Other Government	-	-	800,810	4,150,911	-	45,003	-	91,799	5,088,523	-	5,088,523
125 Accounts Receivable - Miscellaneous	1,122,545	3,435	-	-	990	6,630	-	13,524	1,147,124	-	1,147,124
126 Accounts Receivable - Tenants	-	-	-	-	-	-	-	-	-	-	-
126.1 Allowance for Doubtful Accounts -Tenants	-	-	-	-	-	-	-	-	-	-	-
126.2 Allowance for Doubtful Accounts - Other	(192,848)	-	-	-	-	-	-	-	(192,848)	-	(192,848)
127 Notes, Loans, & Mortgages Receivable - Current	4,528,775	-	-	-	-	-	-	-	4,528,775	-	4,528,775
128 Fraud Recovery	-	-	-	-	913,860	155,998	-	318,216	1,388,074	-	1,388,074
128.1 Allowance for Doubtful Accounts - Fraud	-	-	-	-	(913,860)	(155,998)	-	(318,216)	(1,388,074)	-	(1,388,074)
129 Accrued Interest Receivable	1,187,757	121,323	-	-	-	-	-	-	1,309,080	-	1,309,080
120 Total Receivables, Net of Allowances for Doubtful Accounts	6,646,229	124,758	800,810	4,150,911	990	51,633	-	105,323	11,880,654	-	11,880,654
131 Investments - Unrestricted	27,724,362	-	-	-	-	-	-	-	27,724,362	-	27,724,362
132 Investments - Restricted	60,786,683	38,884,948	-	-	-	-	-	-	99,671,631	-	99,671,631
135 Investments - Restricted for Payment of Current Liability	-	-	-	-	-	-	-	-	-	-	-
142 Prepaid Expenses and Other Assets	16,128	-	-	-	-	-	-	-	16,128	-	16,128
143 Inventories	-	-	-	-	-	-	-	-	-	-	-
143.1 Allowance for Obsolete Inventories	-	-	-	-	-	-	-	-	-	-	-
144 Inter Program Due From	11,052,151	-	-	-	-	-	-	-	11,052,151	(11,052,151)	-
145 Assets Held for Sale	2,632,081	-	-	-	-	-	-	-	2,632,081	-	2,632,081
150 Total Current Assets	174,352,309	63,755,418	807,199	4,216,202	1,052,648	173,708	-	354,344	244,711,828	(11,052,151)	233,659,677

	1 Business Activities	2 State/Local	9 Other Federal Program 2	14.239 HOME Investment Partnerships Program	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	8 Other Federal Program 1	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Subtotal	ELIM	Total
161 Land	7,752,713	-	-	-	-	-	-	-	7,752,713	-	7,752,713
162 Buildings	-	-	-	-	-	-	-	-	-	-	-
163 Furniture, Equipment & Machinery - Dwellings	-	-	-	-	-	-	-	-	-	-	-
164 Furniture, Equipment & Machinery - Administration	7,197,635	-	-	213,708	-	-	-	-	7,411,343	-	7,411,343
165 Leasehold Improvements	4,236,023	-	-	-	-	-	-	-	4,236,023	-	4,236,023
166 Accumulated Depreciation	(10,789,523)	-	-	(171,228)	-	-	-	-	(10,960,751)	-	(10,960,751)
167 Construction in Progress	-	-	-	-	-	-	-	-	-	-	-
168 Infrastructure	-	-	-	-	-	-	-	-	-	-	-
160 Total Capital Assets, Net of Accumulated Depreciation	8,396,848	-	-	42,480	-	-	-	-	8,439,328	-	8,439,328
171 Notes, Loans and Mortgages Receivable - Non-Current	145,940,652	-	-	-	-	-	-	-	145,940,652	-	145,940,652
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due	24,671,326	-	-	-	-	-	-	-	24,671,326	-	24,671,326
173 Grants Receivable - Non Current	-	-	-	-	-	-	-	-	-	-	-
174 Other Assets	8,090	-	-	-	-	-	-	-	8,090	-	8,090
176 Investments in Joint Ventures	-	-	-	-	-	-	-	-	-	-	-
180 Total Non-Current Assets	179,016,916	-	-	42,480	-	-	-	-	179,059,396	-	179,059,396
200 Deferred Outflow of Resources	15,013,907	-	-	-	-	-	-	-	15,013,907	-	15,013,907
290 Total Assets and Deferred Outflow of Resources	$ 368,383,132	$ 63,755,418	$ 807,199	$ 4,258,682	$ 1,052,648	$ 173,708	$ -	$ 354,344	$ 438,785,131	$ (11,052,151)	$ 427,732,980

	1 Business Activities	2 State/Local	9 Other Federal Program 2	14.239 HOME Investment Partnerships Program	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	8 Other Federal Program 1	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Subtotal	ELIM	Total
311 Bank Overdraft	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
312 Accounts Payable <= 90 Days	7,717,693	2,209,826	45	3,813,723	100,046	-	1,871,849	-	15,713,182	-	15,713,182
313 Accounts Payable >90 Days Past Due	753,961	-	-	-	-	215	-	438	754,614	-	754,614
321 Accrued Wage/Payroll Taxes Payable	1,256,900	-	-	-	-	-	-	-	1,256,900	-	1,256,900
322 Accrued Compensated Absences - Current Portion	601,626	-	-	125,557	227,847	-	-	-	955,030	-	955,030
324 Accrued Contingency Liability	-	-	-	-	-	-	-	-		-	-
325 Accrued Interest Payable	7,255	-	-	-	-	-	-	-	7,255	-	7,255
331 Accounts Payable - HUD PHA Programs	-	445,294	6,344	-	4,298	11,734	-	23,938	491,608	-	491,608
332 Account Payable - PHA Projects	-	262,746	-	-	-	-	-	-	262,746	-	262,746
333 Accounts Payable - Other Government	-	-	-	-	-	-	-	-	-	-	-
341 Tenant Security Deposits	-	-	-	-	-	-	-	-	-	-	-
342 Unearned Revenue	2,576,828	-	-	-	-	128,023	-	261,152	2,966,003	-	2,966,003
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue	-	-	-	-	-	-	-	-	-	-	-
344 Current Portion of Long-term Debt - Operating Borrowings	12,221,123	6,427,209	-	-	-	-	2,361,515	-	21,009,847	-	21,009,847
345 Other Current Liabilities	-	-	-	-	-	-	-	-	-	-	-
346 Accrued Liabilities - Other	8,759,769	-	-	-	-	-	-	-	8,759,769	-	8,759,769
347 Inter Program - Due To	-	9,864,900	800,810	269,620	14,269	33,736	-	68,816	11,052,151	(11,052,151)	-
348 Loan Liability - Current	-	-	-	-	-	-	-	-	-	-	-
310 Total Current Liabilities	33,895,155	19,209,975	807,199	4,208,900	346,460	173,708	4,233,364	354,344	63,229,105	(11,052,151)	52,176,954
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	-	-	-	-	-	-	-	-		-	-
352 Long-term Debt, Net of Current - Operating Borrowings	97,313,823	50,848,268	-	-	-	-	45,846,859	-	194,008,950	-	194,008,950
353 Non-current Liabilities - Other	-	-	-	-	-	-	-	-		-	-
354 Accrued Compensated Absences - Non Current	-	-	-	-	-	-	-	-		-	-
355 Loan Liability - Non Current	-	-	-	-	-	-	-	-		-	-
356 FASB 5 Liabilities	-	-	-	-	-	-	-	-		-	-
357 Accrued Pension and OPEB Liabilities	56,139,209	-	-	-	-	-	-	-	56,139,209	-	56,139,209
350 Total Non-Current Liabilities	153,453,032	50,848,268	-	-	-	-	45,846,859	-	250,148,159	-	250,148,159
300 Total Liabilities	187,348,187	70,058,243	807,199	4,208,900	346,460	173,708	50,080,223	354,344	313,377,264	(11,052,151)	302,325,113
400 Deferred Inflow of Resources	6,851,141	-	-	-	-	-	-	-	6,851,141	-	6,851,141
508.4 Net Investment in Capital Assets	8,396,848	-	-	42,480	-	-	-	-	8,439,328	-	8,439,328
511.4 Restricted Net Position	24,252,805	-	-	-	-	-	-	-	24,252,805	-	24,252,805
512.4 Unrestricted Net Position	141,534,151	(6,302,825)	-	7,302	706,188	-	(50,080,223)	-	85,864,593	-	85,864,593
513 Total Equity - Net Assets / Position	174,183,804	(6,302,825)	-	49,782	706,188	-	(50,080,223)	-	118,556,726	-	118,556,726
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	$ 368,383,132	$ 63,755,418	$ 807,199	$ 4,258,682	$ 1,052,648	$ 173,708	$ -	$ 354,344	$ 438,785,131	$ (11,052,151)	$ 427,732,980

	1 Business Activities	2 State/Local	9 Other Federal Program 2	14.239 HOME Investment Partnerships Program	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	8 Other Federal Program 1	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
70400 Tenant Revenue - Other	-	-	-	-	-	-	-	-	-	-	-
70500 Total Tenant Revenue	-	-	-	-	-	-	-	-	-	-	-
70600 HUD PHA Operating Grants	-	-	132,381,107	10,365,399	15,168,533	612,979	-	1,250,401	159,778,419	-	159,778,419
70610 Capital Grants	-	-	-	-	-	-	-	-	-	-	-
70710 Management Fee	-	-	-	-	-	-	-	-	-	-	-
70720 Asset Management Fee	-	-	-	-	-	-	-	-	-	-	-
70730 Book Keeping Fee	-	-	-	-	-	-	-	-	-	-	-
70740 Front Line Service Fee	-	-	-	-	-	-	-	-	-	-	-
70750 Other Fees	-	-	-	-	-	-	-	-	-	-	-
70700 Total Fee Revenue	-	-	-	-	-	-	-	-	-	-	-
70800 Other Government Grants	-	19,337,000	-	-	-	-	-	-	19,337,000	-	19,337,000
71100 Investment Income - Unrestricted	1,693,446	-	-	-	-	-	-	-	1,693,446	-	1,693,446
71200 Mortgage Interest Income	5,479,300	-	-	-	-	-	-	-	5,479,300	-	5,479,300
71300 Proceeds from Disposition of Assets Held for Sale	-	-	-	-	-	-	-	-	-	-	-
71310 Cost of Sale of Assets	-	-	-	-	-	-	-	-	-	-	-
71400 Fraud Recovery	-	269,968	-	-	27,466	224	-	457	298,115	-	298,115
71500 Other Revenue	10,648,614	5,930,612	-	152,690	5,624	224	-	457	16,738,221	-	16,738,221
71600 Gain or Loss on Sale of Capital Assets	70,000	-	-	-	-	-	-	-	70,000	-	70,000
72000 Investment Income - Restricted	1,923,612	1,133,600	-	-	-	-	-	-	3,057,212	-	3,057,212
70000 Total Revenue	19,814,972	26,671,180	132,381,107	10,518,089	15,201,623	613,427	-	1,251,315	206,451,713	-	206,451,713
91100 Administrative Salaries	5,449,929	-	-	368,901	768,301	-	-	-	6,587,131	-	6,587,131
91200 Auditing Fees	181,419	-	-	-	-	-	-	-	181,419	-	181,419
91300 Management Fee	-	-	-	-	-	-	-	-	-	-	-
91310 Book-keeping Fee	-	-	-	-	-	-	-	-	-	-	-
91400 Advertising and Marketing	-	-	-	-	-	-	-	-	-	-	-
91500 Employee Benefit contributions - Administrative	7,574,604	-	-	130,424	397,337	-	-	-	8,102,365	-	8,102,365
91600 Office Expenses	2,038,284	-	-	-	309,635	-	-	-	2,347,919	-	2,347,919
91700 Legal Expense	-	-	-	-	-	-	-	-	-	-	-
91800 Travel	-	-	-	-	-	-	-	-	-	-	-
91810 Allocated Overhead	-	-	-	-	-	-	-	-	-	-	-
91900 Other	-	-	-	-	-	-	-	-	-	-	-
91000 Total Operating - Administrative	15,244,236	-	-	499,325	1,475,273	-	-	-	17,218,834	-	17,218,834

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)
Number RQ 911
Housing Financial Data Schedules
June 30, 2018

	1 Business Activities	2 State/Local	9 Other Federal Program 2	14.239 HOME Investment Partnerships Program	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	8 Other Federal Program 1	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Subtotal	ELIM	Total
92000 Asset Management Fee	-	-	-	-	-	-	-	-	-	-	-
92100 Tenant Services - Salaries	-	-	-	-	-	-	-	-	-	-	-
92200 Relocation Costs	-	-	-	-	-	-	-	-	-	-	-
92300 Employee Benefit Contributions - Tenant Services	-	-	-	-	-	-	-	-	-	-	-
92400 Tenant Services - Other	-	-	-	-	-	-	-	-	-	-	-
92500 Total Tenant Services	-	-	-	-	-	-	-	-	-	-	-
93100 Water	-	-	-	-	-	-	-	-	-	-	-
93200 Electricity	280,000	-	-	-	37,577	-	-	-	317,577	-	317,577
93300 Gas	-	-	-	-	-	-	-	-	-	-	-
93400 Fuel	-	-	-	-	-	-	-	-	-	-	-
93500 Labor	-	-	-	-	-	-	-	-	-	-	-
93600 Sewer	-	-	-	-	-	-	-	-	-	-	-
93700 Employee Benefit Contributions - Utilities	-	-	-	-	-	-	-	-	-	-	-
93800 Other Utilities Expense	-	-	-	-	-	-	-	-	-	-	-
93000 Total Utilities	280,000	-	-	-	37,577	-	-	-	317,577	-	317,577
94100 Ordinary Maintenance and Operations - Labor	-	-	-	-	-	-	-	-	-	-	-
94200 Ordinary Maintenance and Operations - Materials and Other	-	-	-	-	-	-	-	-	-	-	-
94300 Ordinary Maintenance and Operations Contracts	-	-	-	-	-	-	-	-	-	-	-
94500 Employee Benefit Contributions - Ordinary Maintenance	-	-	-	-	-	-	-	-	-	-	-
94000 Total Maintenance	-	-	-	-	-	-	-	-	-	-	-
95100 Protective Services - Labor	-	-	-	-	-	-	-	-	-	-	-
95200 Protective Services - Other Contract Costs	-	-	-	-	-	-	-	-	-	-	-
95300 Protective Services - Other	-	-	-	-	-	-	-	-	-	-	-
95500 Employee Benefit Contributions - Protective Services	-	-	-	-	-	-	-	-	-	-	-
95000 Total Protective Services	-	-	-	-	-	-	-	-	-	-	-

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	1 Business Activities	2 State/Local	9 Other Federal Program 2	14.239 HOME Investment Partnerships Program	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	8 Other Federal Program 1	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Subtotal
96110 Property Insurance	-	-	-	-	-	-	-	-	-
96120 Liability Insurance	-	-	-	-	-	-	-	-	-
96130 Workmen's Compensation	-	-	-	-	-	-	-	-	-
96140 All Other Insurance	-	-	-	-	-	-	-	-	-
96100 Total insurance Premiums	-	-	-	-	-	-	-	-	-
96200 Other General Expenses	6,431,775	5,259,680	2,971,311	256,352	39,206	81,345	-	165,935	15,205,604
96210 Compensated Absences	-	-	-	21,443	92,775	-	-	-	114,218
96300 Payments in Lieu of Taxes	-	-	-	-	-	-	-	-	-
96400 Bad debt - Tenant Rents	-	-	-	-	-	-	-	-	-
96500 Bad debt - Mortgages	15,323,905	-	-	-	-	-	-	-	15,323,905
96600 Bad debt - Other	-	-	-	-	-	-	-	-	-
96800 Severance Expense	-	-	-	-	-	-	-	-	-
96000 Total Other General Expenses	21,755,680	5,259,680	2,971,311	277,795	131,981	81,345	-	165,935	30,643,727
96710 Interest of Mortgage (or Bonds) Payable	7,799,228	-	-	-	-	-		-	7,799,228
96720 Interest on Notes Payable (Short and Long Term)	-	2,616,347	-	-	-	-	1,353,384	-	3,969,731
96730 Amortization of Bond Issue Costs	-	-	-	-	-	-		-	
96700 Total Interest Expense and Amortization Cost	7,799,228	2,616,347	-	-	-	-	1,353,384	-	11,768,959
96900 Total Operating Expenses	45,079,144	7,876,027	2,971,311	777,120	1,644,831	81,345	1,353,384	165,935	59,949,097
97000 Excess of Operating Revenue over Operating Expenses	(25,264,172)	18,795,153	129,409,796	9,740,969	13,556,792	532,082	(1,353,384)	1,085,380	146,502,616
97100 Extraordinary Maintenance	-	-	-	-	-	-	-	-	-
97200 Casualty Losses - Non-capitalized	-	-	-	-	-	-	-	-	-
97300 Housing Assistance Payments	-	-	129,409,796	9,794,347	12,830,532	532,082	-	1,085,380	153,652,137
97350 HAP Portability-In	-	-	-	-	5,624	-	-	-	5,624
97400 Depreciation Expense	342,925	-	-	1,720	-	-	-	-	344,645
97500 Fraud Losses	-	-	-	-	-	-	-	-	-
97600 Capital Outlays - Governmental Funds	-	-	-	-	-	-	-	-	-
97700 Debt Principal Payment - Governmental Funds	-	-	-	-	-	-	-	-	-
97800 Dwelling Units Rent Expense	-	-	-	-	-	-	-	-	-
90000 Total Expenses	45,422,069	7,876,027	132,381,107	10,573,187	14,480,987	613,427	1,353,384	1,251,315	213,951,503

	1 Business Activities	2 State/Local	9 Other Federal Program 2	14.239 HOME Investment Partnerships Program	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	8 Other Federal Program 1	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Subtotal	ELIM	Total
10010 Operating Transfer In	16,681,700	8,307,644	-	-	-	-	-	-	24,989,344	-	24,989,344
10020 Operating transfer Out	(12,618,102)	(12,371,242)	-	-	-	-	-	-	(24,989,344)	-	(24,989,344)
10030 Operating Transfers from/to Primary Government	-	-	-	-	-	-	-	-	-	-	-
10040 Operating Transfers from/to Component Unit	-	-	-	-	-	-	-	-	-	-	-
10050 Proceeds from Notes, Loans and Bonds	-	-	-	-	-	-	-	-	-	-	-
10060 Proceeds from Property Sales	-	-	-	-	-	-	-	-	-	-	-
10070 Extraordinary Items, Net Gain/Loss	-	-	-	-	-	-	-	-	-	-	-
10080 Special Items (Net Gain/Loss)	-	-	-	-	-	-	-	-	-	-	-
10091 Inter Project Excess Cash Transfer In	-	-	-	-	-	-	-	-	-	-	-
10092 Inter Project Excess Cash Transfer Out	-	-	-	-	-	-	-	-	-	-	-
10093 Transfers between Program and Project - In	-	-	-	-	-	-	-	-	-	-	-
10094 Transfers between Project and Program - Out	-	-	-	-	-	-	-	-	-	-	-
10100 Total Other financing Sources (Uses)	4,063,598	(4,063,598)	-	-	-	-	-	-	-	-	-
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	$ (21,543,499)	$ 14,731,555	$ -	$ (55,098)	$ 720,636	$ -	$ (1,353,384)	$ -	$ (7,499,790)	-	(7,499,790)
11020 Required Annual Debt Principal Payments	-	-	-	-	-	-	-	-	-	-	-
11030 Beginning Equity	203,037,218	(21,034,380)	-	104,880	(14,448)	-	(48,726,839)	-	133,366,431	-	133,366,431
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	(7,309,915)	-	-	-	-	-	-	-	(7,309,915)	-	(7,309,915)
11050 Changes in Compensated Absence Balance	-	-	-	-	-	-	-	-	-	-	-
11060 Changes in Contingent Liability Balance	-	-	-	-	-	-	-	-	-	-	-
11070 Changes in Unrecognized Pension Transition Liability	-	-	-	-	-	-	-	-	-	-	-
11080 Changes in Special Term/Severance Benefits Liability	-	-	-	-	-	-	-	-	-	-	-
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents	-	-	-	-	-	-	-	-	-	-	-
11100 Changes in Allowance for Doubtful Accounts - Other	-	-	-	-	-	-	-	-	-	-	-
11170 Administrative Fee Equity	-	-	-	-	192,487	-	-	-	192,487	-	192,487
11180 Housing Assistance Payments Equity	-	-	-	-	513,701	-	-	-	513,701	-	513,701
11190 Unit Months Available	-	-	18,193	-	27,768	996	-	2,088	49,045	-	49,045
11210 Number of Unit Months Leased	-	-	16,921	-	25,828	953	-	1,944	45,646	-	45,646
11270 Excess Cash	-	-	-	-	-	-	-	-	-	-	-
11610 Land Purchases	-	-	-	-	-	-	-	-	-	-	-
11620 Building Purchases	-	-	-	-	-	-	-	-	-	-	-
11630 Furniture & Equipment - Dwelling Purchases	-	-	-	-	-	-	-	-	-	-	-
11640 Furniture & Equipment - Administrative Purchases	-	-	-	-	-	-	-	-	-	-	-
11650 Leasehold Improvements Purchases	-	-	-	-	-	-	-	-	-	-	-
11660 Infrastructure Purchases	-	-	-	-	-	-	-	-	-	-	-
13510 CFFP Debt Service Payments	-	-	-	-	-	-	-	-	-	-	-
13901 Replacement Housing Factor Funds	-	-	-	-	-	-	-	-	-	-	-

1. Summary of Significant Accounting Policy

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

* * * * *

PUERTO RICO HOUSING FINANCE AUTHORITY

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	2017	2016	2015	2014	2013
Proportion of the Net Pension Liability	0.15977%	0.15693%	0.16041%	0.16041%	0.16145%
Proportionate Share of the Net Pension Liability	54,671,304	59,160,168	53,475,928	48,658,344	42,252,542
Covered - Employee Payroll	6,051,520	6,200,000	7,300,000	6,600,000	6,500,000
Proportionate Share of the Net Pension Liability as Percentage of Covered-Employee Payroll	903.43%	954.20%	732.55%	737.25%	650.04%
Plan Fiduciary Net Position as a Percentage of the Net Pension Liability	-6.16%	-3.36%	-2.00%	0.27%	2.53%

PUERTO RICO HOUSING FINANCE AUTHORITY

(A Component Unit of Government Development Bank for Puerto Rico)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	2017	2016	2015	2014	2013
Contractually Required Contribution (Actuarially Determined)	2,322,775	1,049,170	1,021,203	983,298	936,705
Contributions in Relation to the Actuarially Required Contributions	2,242,751	1,349,666	1,311,003	1,223,698	936,705
Contribution Deficiency (Excess)	80,024	(300,496)	(289,800)	(240,400)	-
Covered - Employee Payroll	6,051,520	6,200,000	7,300,000	6,600,000	6,500,000
Contributions as a Percentage of Covered-Employee Payroll	37.06%	21.77%	17.96%	18.54%	14.41%

PUERTO RICO HOUSING FINANCE AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF TOTAL POSTEMPLOYMENT BENEFIT LIABILITY

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	2017	**2016**
Proportion of the total OPEB liability	0.15947%	0.14574%
Proportionate Share of the total OPEB liability	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

Puerto Rico Housing Finance Authority

(A Component Unit of the Government Development Bank for Puerto Rico)
PHA Number RQ911
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Pass-Through to Sub-recipients	Total Federal Expenditures
US Department of Housing and Urban Development (HUD):				
Section 8 Project Based Cluster:				
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249			$ 557,888
Lower Income Housing Assistance Program - Section 8				
Moderate Rehabilitation	14.856			1,306,852
Total Section 8 Project-Based Cluster				1,864,740
HOME Investment Partnerships Program	14.239			10,615,078
Section 8 Housing Choice Vouchers	14.871			14,464,072
Total Department of Housing and Urban Development (HUD)				26,943,890
US Department of Homeland Security				
Pass-Through the Puerto Rico Public-Private Partnerships Authority:				
Disaster Grant - Public Assistance (Presidentially Declared Disasters)	97.036			53,444
TOTAL FEDERAL FINANCIAL ASSISTANCE				$ 26,997,334

See notes to schedule of expenditures of federal awards

1. Basis of Presentation

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

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

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

Major Funds:		
HUD Programs	$	148,713,102
HOME Programs		10,615,078
Operating and administrative		53,444
Less:		
Performance Based Contract Administrator Program (CFDA 14.327) excluded from coverage under Uniform Guidance		132,384,290
Total expenditures in schedule of expenditures of federal awards	$	26,997,334

2. Catalog of Federal Domestic Assistance (CFDA)

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

3. Clusters

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

Cluster	Federal Program	Federal CFDA Number
	Section 8 New Construction and Substantial Rehabilitation	14.182
Section 8 Project-Based Cluster	Section 8 Housing Assistance Payments Programs	14.195
	Section 8 Moderate Rehabilitation Single Room Occupancy	14.249
	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856

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

To the Board of Directors of
Puerto Rico Housing Finance Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Puerto Rico Housing Finance Authority ("the Authority"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February XX, 2021.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2018-001 that we consider to be material weakness.

Compliance and Other Matters

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

The Authority's Response to Findings

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

Purpose of this Report

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

LHD America, LLC

License No. 349
Expiration Date: December 1, 2023

San Juan, PR
March 2, 2021

Stamp No. E441138 of Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

LHD AMERICA LLC
Certified Public Accountants
Business & Tax Advisors

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

To the Board of Directors of
Puerto Rico Housing Finance Authority

Report on Compliance for Each Major Federal Program

We have audited the Puerto Rico Housing Finance Authority's ("the Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2018. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-002. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control over Compliance

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

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

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

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

LHD America, LLC

San Juan, PR
March 2, 2021

License No. 349
Expiration Date: December 1, 2023

Stamp No. E441139 of Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Part I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Significant deficiencies identified?	____ yes __X__ no
• Material weakness identified?	__X__ yes ____ no
Noncompliance that is material to financial statements noted?	____ yes __X__ no

Federal Awards

Internal control over major programs:	
• Significant deficiencies identified?	____ yes __X__ no
• Material weakness identified?	____ yes __X__ none reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?	__X__ yes ____ no

Major Programs:

CFDA Number	**Name of Federal Program**
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between Type A and Type B programs:	$809,920
Auditee qualify as low-risk auditee?	____ yes __X__ no

Section II-Financial Statements

Finding No. 2018-001 – Internal Control Over Financial Reporting

Criteria

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

Condition and Context

During our audit procedures, we noted the following:

- Management did not perform an analysis to reconcile the HOME program general ledger account balances against the program records which resulted in several adjustments to adjust the program, revenue, expense account receivable and payable accounts. Also, during our audit procedures we noted that there were unrecorded liabilities as of June 30, 2018 and the deferred income analysis was performed during the audit.
- Untimely collectability review of a loan to a related party that eventually resulted in an adjustment establishing an allowance for loan losses of approximately $14 million.
- The Authority's allowances for loan losses accounts were not adjusted timely to in accordance with the analysis made by management and in one instance the adjustment was incorrectly posted in the general ledger.
- The balances of the due to/from accounts between the proprietary and governmental funds did not agree as of June 30, 2018.
- An analysis was not performed to ensure that interest income was not accrued on impaired cash accounts that resulted in various adjustments during the audit.
- The accrued vacation and sick leave account balances were not adjusted timely in accordance with the subsidiary ledger.
- Untimely recognized adjustments to certain transactions, such as: salaries and medical claims allocation by fund, administrative revenue and due from federal government under the HUD programs, reserve for the mortgage loan insurance portfolio, and deferred income and premium revenue; among several other correcting adjusting entries identified.

Cause and effect

The Authority does not have proper internal controls to ensure a timely and complete financial closing process. As a result, the Authority's accounting records required multiple correcting adjustments in order to present fairly its financial statements. A similar audit finding was reported during the prior audit (2017-02); however, the severity and instances of correcting adjustments made exceeded that of the prior year.

Recommendation

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

Views of responsible officials:

The Authority has already a formal set of manuals with procedures of accounting and risk departments, which includes financial closing processes. The procedures will be reviewed and will establish more robust and stricter timeframes to complete the closing process.

Responsible Person:

Hector L. Orsini Vélez / Amanda Oyola

Section III- Federal Award Findings and Questioned Costs

Finding No. 2018-002 Data Collection Form Due Dates

Name of Federal Agency

U.S. Department of Housing and Urban Development

Federal Program

Various

Award Number and Year

Various awards

Questioned costs:

None

Criteria

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

Condition

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

Cause and Effect

Information to complete the financial statements audit procedures was not available within the required period. Data collection form and single audit report were not submitted in a timely manner as required by the Uniform Guidance. A similar audit finding was reported during the prior audit (2017-003).

Recommendation

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

***Views of Responsible Officials*:**

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

***Responsible Person*:**

Hector L. Orsini Vélez / Amanda Oyola

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

Condition and Context

The Authority's June 30, 2017 financial statements did not present any custodial credit loss on its deposits with the Economic Development Bank.

Recommendation

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

Current status

No similar finding was noted during the 2018 audit.

Finding No. 2017-002 Internal Control over Financial Reporting

Condition

We noted that the Authority did not maintain an effective internal control to ensure a timely and complete financial closing process.

Recommendation

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

Current status

A similar finding (2018-001) was noted in the 2018 audit.

Finding No. 2017-003 Data Collection Form Due Dates

Condition

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

Recommendation

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

Current status

A similar finding (2018-002) was noted in the 2018 audit.