

**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)**

**BASIC FINANCIAL STATEMENTS  
WITH ACCOMPANYING INDEPENDENT AUDITORS' REPORT**

**YEARS ENDED JUNE 30, 2012 AND 2011**

**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)**

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### **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of the Puerto Rico Public Housing Administration (the Administration), a fund of the Commonwealth of Puerto Rico, and a component unit of the Puerto Rico Department of Housing as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Administration's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Administration as of June 30, 2012 and 2011 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

President of the Governing Board  
Puerto Rico Public Housing Administration  
San Juan, Puerto Rico  
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**INDEPENDENT AUDITORS' REPORT (CONTINUED)**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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 audits 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.

As discussed in Note 1, the basic financial statements of the Administration are intended to present the financial position and the changes in net assets and cash flows of only that portion of the Commonwealth of Puerto Rico that is attributable to the transactions of the Administration. They do not purport to, and do not, present fairly the financial position and changes in financial position of the Commonwealth of Puerto Rico, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the basic financial statements, the Administration has expended certain federal grant funds in a manner that may have violated certain of the restrictive provisions of the related grants. The possible outcome of these matters, which have been reported to appropriate federal officials, is uncertain at this time. Accordingly, no provision for any liability has been made in the financial statements for possible federal claims for refunds of those grant monies.

Guaynabo, Puerto Rico

October 12, 2012  
The stamp number E42033 was  
affixed to the original of this report.

*Baker Tilly Puerto Rico, CPAs, PSC*  
**BAKER TILLY PUERTO RICO, CPAs, PSC**

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**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2012 AND 2011**

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Our discussion and analysis of the Puerto Rico Public Housing Administration (“the PRPHA”) financial performance provide an overview of the PRPHA’s financial activities for the fiscal years ended on June 30, 2012 and 2011. Please read it in conjunction with the financial statements, which begin on page 22. Prior fiscal year information is shown as needed for comparative purposes.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

The PRPHA Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, a Statement of Cash Flows, and the Notes to the Basic Financial Statements, a Schedule of Expenditures of Federal Awards, and its related Notes. These statements and information represent the actual financial condition of the PRPHA. Below, you will find a brief explanation of the statements and notes.

The **Statement of Net Assets** presents the PRPHA’s total assets and liabilities at the end of the fiscal year. The difference between the two is reported as Net Assets, which represents the PRPHA’s net worth, in its total assets, as opposed to the creditors’ interest or total liabilities. Any changes in Net Assets are used as a useful indicator as to whether the PRPHA’s financial health is improving or deteriorating.

The **Statement of Revenues, Expenses, and Changes in Net Assets** shows how the PRPHA’s Net Assets changed during the fiscal year. The PRPHA reports all changes in net assets as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow.

The **Statement of Cash Flows** shows the PRPHA’s cash inflows and outflows for the year. It also shows how cash and cash equivalents were provided by and used in the PRPHA’s operating, non-capital financing, capital and related financing, and investing activities. The net increase or decrease in the PRPHA’s cash and cash equivalents is added to the beginning balance at the beginning of the year to arrive at the cash and cash equivalents balance at the end of the fiscal year. This statement is presented on a cash basis and only presents cash receipt and cash disbursement information. The PRPHA uses the direct method of presenting cash flows, which includes a reconciliation of net cash used by operating activities to net operating loss.

The **Notes to the Financial Statement** are an integral part of the financial statements, in which information is disclosed that is essential for a full understanding of the PRPHA’s financial health.

**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEARS ENDED JUNE 30, 2012 AND 2011**

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## **FINANCIAL HIGHLIGHTS**

The financial statements for fiscal years ended on June 30, 2012 and 2011 are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34 Basic Financial Statements and Management's Discussion Analysis for State and Local Government.

### *Statement of Net Assets*

- As of June 30, 2012 the PRPHA's total assets are approximately \$2,618 million representing a net increase of \$17 million or 0.1% when compared with prior fiscal year. This increase includes the following variances between the current and prior fiscal year balances:

#### Increases:

- Cash and cash equivalents increased by approximately \$32 million or 14%.
- Fiscal agent funds increased by approximately \$1.3 million or 5%.
- Rent and other accounts receivables, net increased by approximately \$12 million or 31%.

#### Decreases:

- Escrow account restricted decreased by approximately \$22 million or 6%.
  - Restricted assets decreased by approximately \$5 million or 8%.
  - Capital assets, net decreased by approximately \$2 million or 0.1%.
- Total liabilities amounted to approximately \$550 million representing a decrease of approximately \$21 million or 4% when compared to prior year balance. The main driver of this decrease is the bond payable balances which had a decrease of approximately \$29.3 million.

### *Statement of Revenues, Expenses and Changes in Net Assets*

- The current fiscal year's financial statements reflect a net operating loss before non-operating revenues (expenses) and grants amounting to approximately \$314 million, representing a loss increase of 7% from prior fiscal year. The net operating loss is due to the nature of the PRPHA's financial presentation as a series of non-operating revenues and contributions from HUD are received during the years which help subsidize those operating expenses. The net operating loss balance includes approximately \$38 million in revenues and approximately \$352 million in expenses. Operating revenues and expenses increased by approximately \$5 million and \$26 million, respectively.

**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEARS ENDED JUNE 30, 2012 AND 2011**

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**FINANCIAL HIGHLIGHTS (CONTINUED)**

*Statement of Revenues, Expenses and Changes in Net Assets (continued)*

- Non-operating revenues and expenses amounted to approximately \$278 million and \$79 million, respectively, resulting in a net effect of approximately \$199 million in net non-operating revenues and a decrease of approximately \$20 million in comparison with prior year.
- Considering all operating and non-operating revenues and expenses, the PRPHA ends up with a loss before HUD contributions of approximately \$115 million, an increase of approximately \$41 million in comparison with prior fiscal year. This loss gets eliminated with the capital contributions from HUD which amounted to \$153 million during the current fiscal year. Such contributions helped the PRPHA finish with a positive change in net assets of approximately \$38 million, representing a decrease of approximately \$39 million when compared to prior fiscal year.
- The balance of net assets at the end of the year amounted to approximately \$2 billion, representing an increase of approximately \$38 million or 2% when compared to prior year.

**REPORTING THE ADMINISTRATION AS A WHOLE**

The Statement of Net Assets and the Statement of Revenues, Expenditures and Changes in Net Assets report information about the PRPHA's activities in a way that helps gather an understanding of the financial situation of the Organization as a whole. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

As shown in *Table 1* below, the PRPHA Net assets amounted to approximately \$2 billion with a net increase of 2% from 2012 to 2011 as demonstrated in the Financial Statements.

Of this amount, approximately \$21.6 million is restricted for specific purposes, including the Homeownership initiative and the modernization of the PRPHA projects. Unrestricted net assets are the funds of net assets that can be used to finance day-to-day operations (for example, to cover management fees, management cost, utilities, negative rent, professional services and others). These assets come from debt covenants, enabling legislation, or other legal requirements that amounted to approximately \$327 million at the end of this fiscal year. The PRPHA net assets include approximately \$1.7 billion of investments in capital assets, net of related debt.

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 YEARS ENDED JUNE 30, 2012 AND 2011**

**REPORTING THE ADMINISTRATION AS A WHOLE (CONTINUED)**

**Table 1 : Summary of Net Assets (\$ in thousands)**

<u>Assets and liabilities</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Inc(Dec)</u>	<u>% Change</u>
Current Assets	\$ 357,646,141	\$ 311,163,357	\$ 46,482,784	15%
Capital Assets (net)	1,876,275,238	1,878,295,591	(2,020,353)	0%
Other Non-current Assets	384,285,841	411,832,004	(27,546,163)	-7%
Total Assets	2,618,207,220	2,601,290,952	16,916,268	1%
Current Liabilities	76,038,827	66,042,745	9,996,082	15%
Non-current Liabilities	474,373,784	504,964,831	(30,591,047)	-6%
Total Liabilities	550,412,611	571,007,576	(20,594,965)	-4%
Net Assets	\$ 2,067,794,609	\$ 2,030,283,376	\$ 37,511,233	2%

The Change in Net Assets during fiscal year 2012 amounted to \$38 million for the fiscal year ended and is due to the net effect of the operations which is explained as follows:

**Result of Operations**

As shown in *Table 2* below the total operating revenues amounted to approximately \$38.4 million and \$33.5 million for fiscal years ended June 30, 2012 and 2011, respectively. This represents an increase of \$4.9 million or 15%.

**Table 2 : Operating revenues**

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Rent, fees and other	\$ 35,097,817	\$ 30,200,386	\$ 4,897,431	16%
Fees earned asset management, net	3,313,872	3,273,536	40,336	1%
	<u>\$ 38,411,689</u>	<u>\$ 33,473,922</u>	<u>\$ 4,937,767</u>	<u>15%</u>

The results of net non-operating revenues (expenses) and grants amounted to approximately \$199 million during fiscal year 2012. This represents a decrease of approximately \$20 million in comparison with prior year.

*Tables 3 and 4* detail the amounts received by each fund, the Non-Operating Revenues and the Capital Contribution received from HUD in order to operate the PHA. As of 2012, the Public Housing Fund received 88% of the Total Non-Operating Revenues, which is consistent with 2011. The amount received for the Capital Fund Program and ARRA Funds for the Non-Operating Revenues is approximately 2% of Total Non-Operating Revenues, also consistent with prior year. These costs are for soft costs expenditures which include relocation costs, administrative expenses among other related costs. During the current year, the PRPHA received for the first year funds under the federal program HOPE VI - CFDA #14.866 amounting to approximately \$3.3 million. This

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 YEARS ENDED JUNE 30, 2012 AND 2011**

**REPORTING THE ADMINISTRATION AS A WHOLE (CONTINUED)**

**Table 3: FY2012**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Non-Operating</u>		<u>Capital</u>		<u>Non-Operating Revenues</u>
		<u>Federal Grants</u>	<u>%</u>	<u>Contributions</u>	<u>%</u>	
Capital Fund Program	14.872	\$ 25,825,870	10%	\$ 111,525,451	73%	\$ 137,351,321
Public Housing	14.850	230,655,607	88%	-		230,655,607
Capital Fund Recovery Fund (ARRA)	14.885	5,769,159	2%	37,769,678	25%	43,538,837
HOPE VI	14.866	-		3,295,516	2%	3,295,516
		<u>\$ 262,250,636</u>		<u>\$ 152,590,645</u>		<u>\$ 414,841,281</u>

**Table 4 FY2011**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Non- Operating</u>		<u>Capital</u>		<u>Nonoperating Revenues</u>
		<u>Federal Grants</u>	<u>%</u>	<u>Contributions</u>	<u>%</u>	
Capital Fund Program	14.872	\$ 39,567,330	15%	\$ 89,200,594	60%	\$ 128,767,924
Public Housing	14.850	219,106,545	81%	-		219,106,545
Capital Fund Recovery Fund (ARRA)	14.885	11,261,985	4%	54,523,848	36%	65,785,833
HOPE VI	14.866	-		5,887,928	4%	5,887,928
		<u>\$269,935,860</u>		<u>\$ 149,612,370</u>		<u>\$ 419,548,230</u>

Graphs 1 and 2 present the distribution of Non-operating Federal Grants and Capital Contributions of the Capital Fund Program and ARRA Program when compared to Non-operating Revenues received from HUD in 2012 and 2011, respectively.

For fiscal year 2012, Capital Fund and ARRA Program received \$181 million, detailed as follows: \$32 million for Non-operating Federal Grants and \$149 million for Capital Contribution. The Non-operating Revenues of CFP for 2012 include soft costs of \$13.2 million, \$11.2 million of Management Fee (COCC) and \$2 million from the account 1406 (transfer for operations) and \$5.7 million for ARRA of which \$2.6 million was the program fee paid to the COCC. The soft costs include relocation costs, administrative expenses among other related costs.

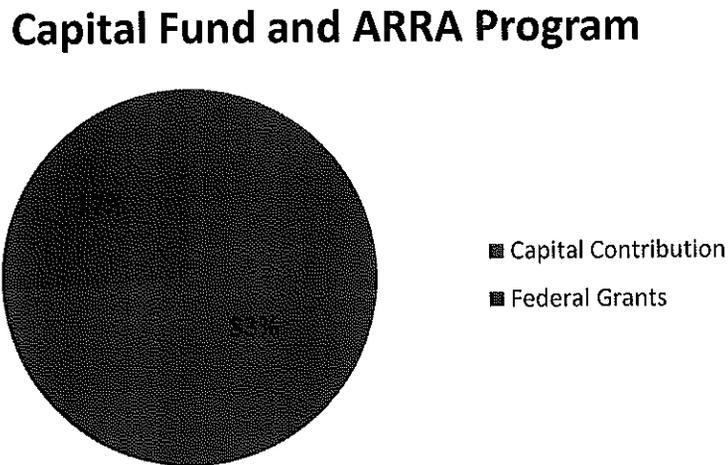
In 2011, the Capital Fund and ARRA Program received \$195 million, detailed as follows: \$51 million for nonoperating revenues and \$144 million for capital contribution. The Non-operating Revenues of Capital Fund for 2011 includes soft cost of \$12 million, \$14 million of Management Fee (COCC) and \$13 million from the account 1406 (transfer for operations). The soft costs include relocation costs and administrative expenses among other related costs.

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PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEARS ENDED JUNE 30, 2012 AND 2011**

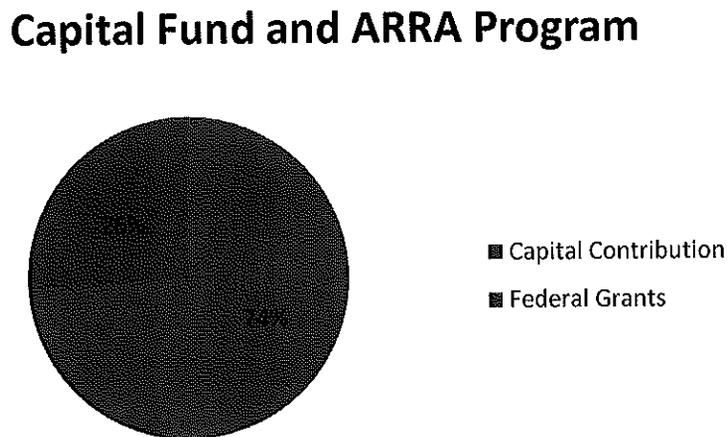
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**Result of Operations**

**GRAPH 1: FY2012**



**GRAPH 2: FY2011**



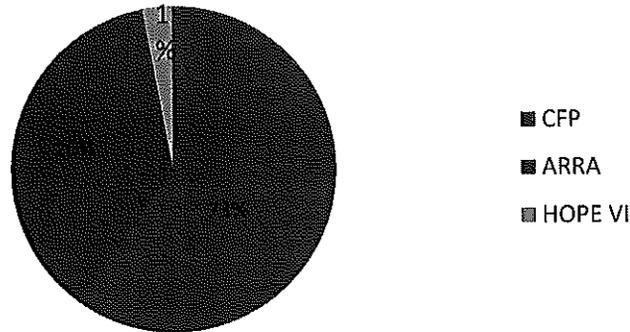
**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 YEARS ENDED JUNE 30, 2012 AND 2011**

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**Result of Operations (Continued)**

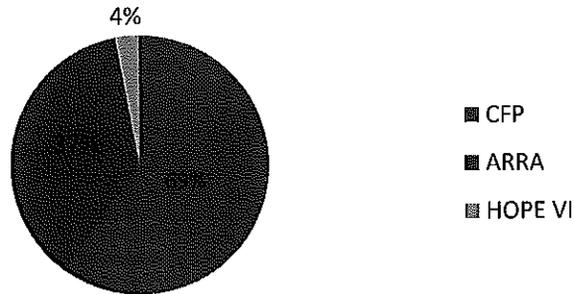
**GRAPH 3: FY 2012**

**Capital Contributions**



**GRAPH 4: FY 2011**

**Capital Contributions**



In Graphs 3 and 4 we show the capital investment.

For fiscal year 2012, the total capital investment amounted to approximately \$153 million. From this amount, a total of \$112 million was received from Capital Fund Program representing (73%) of total capital investment, \$38 million or (25%) was from the Capital Fund Recovery Grant (ARRA) and \$3 million or (2%) were received for HOPE VI. From the amount received from HUD under Capital Fund Program, \$47.2 million were used to pay Bond Debt Service related to the 2003 and 2008 Bond Issues.

For fiscal year 2011, the total capital investment amounted to \$150 million. From this amount, a total of \$89 million was received from HUD representing (60%) of total capital investment, \$55 million (36%) was from the Capital Fund Recovery Grant (ARRA) and \$6 million (4%) was received from Hope VI. From the amount received from HUD under Capital Fund Program, \$49 million were used to pay Bond Debt Service related to the 2003 and 2008 Bond Issues.

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 YEARS ENDED JUNE 30, 2012 AND 2011**

**Result of Operations (Continued)**

Table 5 presents, in millions of dollars, the detail of operating expenses during fiscal years 2012 and 2011. Total operating expenses are approximately \$353 million for the fiscal year ended June 30, 2012 and \$326 million for the fiscal year ended June 30, 2011, representing an increase of 8%.

**Table 5 : Total Operating Expenses**

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Tenant services	\$ 53,350,234	\$ 34,308,366	\$ 19,041,868	56%
Administrative salaries	51,809,612	48,979,543	2,830,069	6%
Utilities, repairs and maintenance	75,559,822	77,421,399	(1,861,577)	-2%
Depreciation	96,799,527	92,033,056	4,766,471	5%
General and administrative and other	60,319,689	60,945,500	(625,811)	-1%
Insurance expense	<u>14,667,863</u>	<u>12,654,013</u>	<u>2,013,850</u>	<u>16%</u>
Total	<u>\$ 352,506,747</u>	<u>\$ 326,341,877</u>	<u>\$ 26,164,870</u>	<u>8%</u>

Total Operating Expenses increased by \$26 million, during 2012, mostly driven by the increase in tenant services, administrative salaries, depreciation and insurance expenses.

Table 6 presents a Summary of Revenues, Expenses and Changes in Net Assets during fiscal years 2012 and 2011.

<b>Table 6:</b>	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Operating revenues	\$ 38,411,689	\$ 33,473,922	\$ 4,937,767	15%
Operating expense	<u>352,506,747</u>	<u>326,341,877</u>	<u>26,164,870</u>	<u>8%</u>
Net operating (loss) before nonoperating revenues and	(314,095,058)	(292,867,955)	(21,227,103)	7%
Revenues (expenses) and grants, net	<u>199,015,647</u>	<u>218,650,548</u>	<u>(19,634,901)</u>	<u>-9%</u>
Loss before contribution	(115,079,411)	(74,217,407)	(40,862,004)	55%
Capital contribution from the US Department of Housing and Urban Development	<u>152,590,644</u>	<u>149,612,370</u>	<u>2,978,274</u>	<u>2%</u>
<b>Change in net assets</b>	37,511,233	75,394,963	(37,883,730)	-50%
Beginning net assets	<u>2,030,283,376</u>	<u>1,954,888,413</u>	<u>75,394,963</u>	<u>4%</u>
<b>Ending net assets</b>	<u>\$ 2,067,794,609</u>	<u>\$ 2,030,283,376</u>	<u>\$ 37,511,233</u>	<u>2%</u>

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 YEARS ENDED JUNE 30, 2012 AND 2011**

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**Result of Operations (Continued)**

- The net operating loss before nonoperating revenues and grants of the PRPHA for the fiscal year 2012 amounts to approximately \$314 million, representing a net increase in the loss position of 7% when compared to prior fiscal year. The main drivers of this increase are the increases in tenant services, depreciation expense and insurance expense (as shown in Table 6).
- Net non-operating revenues and expenses decreased by approximately \$19.6 million in comparison with prior fiscal year, due mainly to the decrease in federal grants of \$8 million and the increase in the net loss on disposition and sale of dwelling properties of \$12 million. The disposition of dwelling property is mainly related to the demolition of one of the public housing projects.
- Capital Contributions increased by approximately \$2.9 million due to an increase in capital expenditures during the modernization process of PRPHA buildings.

Table 7 and Graphs 5 and 6 present the expenditures for each of the PRPHA's federal programs for the fiscal years ended 2012 and 2011. From the Public and Indian Housing Program (PIHP), the PRPHA expended \$231 million, which represents 56% of total federal expenditures for fiscal year 2012. Current fiscal year expenditures for PIHP stayed consistent with prior year.

Approximately \$137 million were expended from the Public Housing Capital Fund during the current year, representing an increase of approximately \$8 million from prior fiscal year. The PRPHA spent \$44 million from American Recovery and Reinvestment Act (ARRA) Funds, a decrease of \$22 million when compared with prior fiscal year expenditures of \$66 million. This grant reached the expenditure deadline on March 2012. In addition, PRPHA spent approximately \$3 million from HOPE VI.

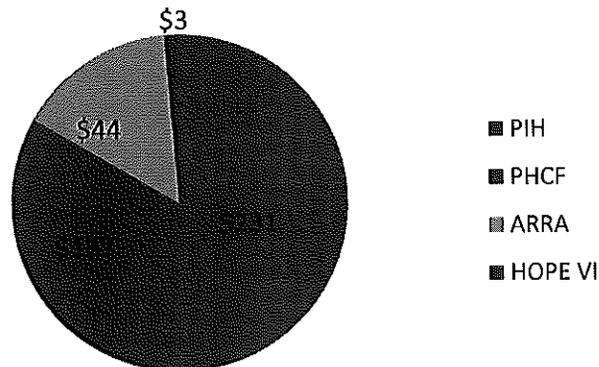
<b><u>Table 7 (in millions)</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>Increase (Decrease)</u></b>	<b><u>% Change</u></b>
Public and Indian Housing	\$ 231	\$ 219	\$ 12	5%
Public Housing Capital Fund	137	129	8	6%
Capital Fund Recovery Grant	44	66	(22)	-33%
HOPE IV	<u>3</u>	<u>6</u>	<u>(3)</u>	<u>-50%</u>
<b>Total</b>	<b><u>\$ 415</u></b>	<b><u>\$ 420</u></b>	<b><u>\$ (5)</u></b>	<b><u>-1%</u></b>

**COMMONWEALTH OF PUERTO RICO  
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 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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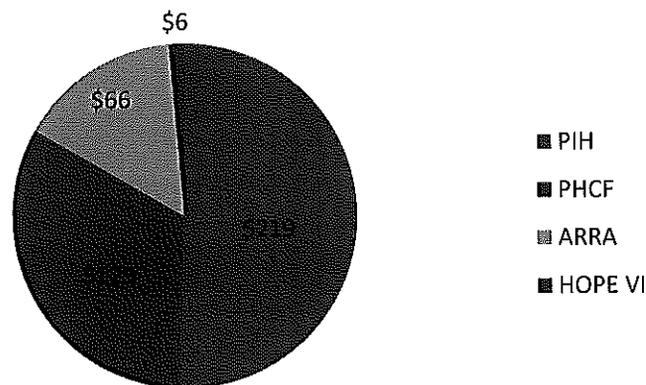
**GRAPH 5: FY 2012**

**Federal Expenditures**



**GRAPH 6: FY 2011**

**Federal Expenditures**



**Budgetary Highlights**

**Summary**

*Table 8* details a comparison of the final budget for the Public and Indian Housing Program (PIHP) and the Central Office Cost Center Fund for fiscal years ending 2012 and 2011. PIHP operated in FY2012 with a revised final budget of \$347 million while the fiscal year 2011 final budget was \$295 million. The net increase of \$52 million was mainly due to an increase in the operating subsidy received, use of excess reserves and fees.

**COMMONWEALTH OF PUERTO RICO  
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 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 YEARS ENDED JUNE 30, 2012 AND 2011**

**Budgetary Highlights (continued)**

Summary (continued)

**Table 8**

<u>Description</u>	<u>Final Budget Approved 2012- 2011</u>	<u>Final Budget Approved 2011- 2010</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Public and Indian Housing including Fees	\$ 320,270,717	\$ 269,248,362	\$ 51,022,355	19%
Capital Fund Program Fee	11,212,596	13,734,516	(2,521,920)	-18%
ARRA Fee for COCC	2,635,272	4,214,157	(1,578,885)	-37%
Use of reserve and other income	13,000,000	7,841,594	5,158,406	65%
<b>Total</b>	<b>\$ 347,118,585</b>	<b>\$ 295,038,629</b>	<b>\$ 52,079,956</b>	<b>18%</b>

*Table 9* details a comparison of the final Public and Indian Housing Program (PIHP) and Central Office Cost Center (COCC) expenditures budgets for fiscal years ending 2012 and 2011. PIHP operated in FY 2012 with a revised final budget of \$286 million and \$283 million for 2011 respectively. These funds are used by the PRPHA mostly in the ordinary and extraordinary maintenance of the PRPHA's federal public housing projects throughout the island.

**Table 9 : PUBLIC AND INDIAN HOUSING AND CENTRAL OFFICE COST CENTER**

<u>Description</u>	<u>Final Budget Approved 2012-2011</u>	<u>Final Budget Approved 2011-2010</u>	<u>Increase Decrease</u>	<u>% Change</u>
Administrative Expense	\$ 76,223,384	\$ 84,921,029	\$ (8,697,645)	-10%
Tenant Services Expense	69,336,364	55,351,544	13,984,820	25%
Utilities	19,196,411	17,891,573	1,304,838	7%
Maintenance/Oper. Exp	60,755,639	58,883,637	1,872,002	3%
Protective Services Expense	12,503,776	24,891,263	(12,387,487)	-50%
General Expense	47,646,845	41,000,747	6,646,098	16%
Reserve	-	-	-	0%
<b>Total Operating Expense</b>	<b>\$ 285,662,419</b>	<b>\$ 282,939,793</b>	<b>\$ 2,722,626</b>	<b>1%</b>

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**Budgetary Highlights (Continued)**

The final operating budget for fiscal year ended 2012 included a subsidy from HUD of \$230,617,483 million compared to \$219,070,014 million for 2011 as showed on *Table 10*. The increase of \$11 million is due to the proration factor established by HUD. The budget also combines an estimated dwelling rental income of \$24 million on 2012 and \$25 million in 2011. The decrease of \$1 million in the rental revenue is due to the estimated vacancy calculation. For 2012, the transfer to be used for administrative expenses from the CFP program decreased to \$2 million when compared to fiscal year 2011, amount transferred of \$14 million. The total Financial Resources for 2012 show a net increase of \$51 million mainly due to the use of the operating reserve.

**Table 10**

<b><u>Description</u></b>	<b><u>2012-2011</u></b>	<b><u>2010-2011</u></b>	<b><u>Increase Decrease</u></b>	<b><u>% Change</u></b>
Estimated Subsidy (includes Add On and Uses)	\$ 230,617,483	\$ 219,070,014	\$ 11,547,469	5%
Estimated Rental Income	24,111,217	25,079,585	(968,368)	-4%
Capital Fund Program %	2,063,165	14,107,547	(12,044,382)	-85%
Transfer from COCC to Projects	1,460,532	2,435,179	(974,647)	-40%
Use of excess reserve	<u>62,018,320</u>	<u>8,556,037</u>	<u>53,462,283</u>	<u>625%</u>
Total Financial Resources	<u>320,270,717</u>	<u>269,248,362</u>	<u>51,022,355</u>	<u>19%</u>
Reasonable Fees to be Charged to Low Income Housing Program <sup>1</sup>	42,172,092	40,711,906	1,460,186	4%
Projects Operating Expenditures (Does not include Non Routine)	152,138,820	132,598,259	19,540,561	15%
Project Insurance and Telephone	18,419,582	16,585,281	1,834,301	11%
Resident Service Programs, Security and Non Routine Exp	90,323,811	61,168,989	29,154,822	48%
Utilities Expenses	<u>17,216,412</u>	<u>17,891,573</u>	<u>(675,161)</u>	<u>-4%</u>
Project Expenditures	<u>320,270,717</u>	<u>268,956,008</u>	<u>51,314,709</u>	<u>19%</u>
Net Operating Income/Reserve	<u>\$ -</u>	<u>\$ 292,354</u>	<u>\$ (292,354)</u>	<u>-1%</u>

- 1 990.280(b)4 Project-specific operating costs also shall include a property management fee charged to each project that is used to fund operations of the central office. Amounts to be charged to each project for the property management fee must be reasonable.

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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**Budgetary Highlights (Continued)**

*Table 11* shows the breakdown of the total budget for FYE 2012, including the Central Office Cost Center (COCC).

**Table 11**

<u>Description</u>	<u>COCC</u>	<u>Projects</u>	<u>Total Budget FYE 2011-2012</u>
Administrative Expense	\$ 40,506,158	\$ 35,717,226	\$ 76,223,384
Tenant Services Expense	5,936,568	63,399,796	69,336,364
Utilities	1,980,000	17,216,411	19,196,411
Ord. Maintenance/Operational Expense	2,699,177	58,056,462	60,755,639
Protective Services Expense	926,732	11,577,044	12,503,776
General Expense	<u>15,312,648</u>	<u>32,334,197</u>	<u>47,646,845</u>
<b>Total Operating Expense</b>	<u>67,361,283</u>	<u>218,301,136</u>	<u>285,662,419</u>
 <b>NON-ROUTINE EXPENDITURES</b>			
Extraordinary Maintenance	-	57,799,703	57,799,703
Replacement of Nonexpendable Equipment	4,037	-	4,037
Property Betterment and Additions	<u>1,654,640</u>	<u>1,997,786</u>	<u>3,652,426</u>
<b>Total Non-Routine Expenditures</b>	<u>1,658,677</u>	<u>59,797,489</u>	<u>61,456,166</u>
 <b>Total Budget</b>	 <u>\$ 69,019,960</u>	 <u>\$ 278,098,625</u>	 <u>\$ 347,118,585</u>

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 YEARS ENDED JUNE 30, 2012 AND 2011**

**Budgetary Highlights (continued)**

CENTRAL OFFICE COST CENTER (COCC)- PHA charges fees in lieu of cost allocations; and record all financial transaction as a different fund (see *Table 13*). The COCC report these fees charged as revenue. In turn, projects will report the fees levied as expenses. *Table 13* details the Central Office Cost Center Budget Summary which includes Fees charges to Low Rent Program for \$42 million, \$11 million from Capital Fund Program as Program Fee and \$2.6 from ARRA funds as Administrative fees.

**Table 13**

**CENTRAL OFFICE COST CENTER BUDGET SUMMARY**

	<u>Amount</u>
Fees charged to AMP's Low Rent Program	\$ 42,172,092
Capital Fund Program Management Fee	11,212,596
ARRA Management Fee	2,635,272
Use of reserve	13,000,000
Account receivable repayment from DOH	<u>-</u>
Total Financial Resources for COCC	<u>\$ 69,019,960</u>

**ASSETS AND LIABILITIES**

At the end of fiscal year 2012, the PRPHA had approximately \$2,618 million in assets. For fiscal year 2011, this amount was approximately \$2,601 million as detailed below (*Table 14*).

**Table 14 (in millions)**

<b>ASSETS</b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>Increase</u></b>	<b><u>%</u></b>
			<b><u>Decrease</u></b>	<b><u>Change</u></b>
Cash and cash equivalents	\$ 267	\$ 234	\$ 33	14%
Accounts receivable, net	51	39	12	31%
Materials and supplies	11	10	1	10%
Restricted assets	2	2	-	0%
Fiscal agent funds	28	27	1	4%
Capital assets, net	1,876	1,878	(2)	0%
Other noncurrent assets	<u>383</u>	<u>411</u>	<u>(28)</u>	<u>-7%</u>
<b>TOTAL</b>	<b><u>\$ 2,618</u></b>	<b><u>\$ 2,601</u></b>	<b><u>\$ 17</u></b>	<b><u>1%</u></b>

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 YEARS ENDED JUNE 30, 2012 AND 2011**

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**Cash and cash equivalents**

As shown in the table above, cash and cash equivalents increased by approximately \$33 million when compared with prior fiscal year. The main drivers of this increase are the new investments in certificates of deposits of approximately \$47 million during the year and other operating cash outflows of approximately \$14 million.

**Accounts receivable**

Accounts receivable had a net increase of approximately \$12 million when compared with prior fiscal year mainly due to an increase in repayments of advances to the management agents, an increase of \$9 million in other receivable and increase of \$3 million in accounts receivable from tenants.

**Capital assets**

At the end of the fiscal year 2012, consistent with prior fiscal year, the PRPHA had approximately \$1,876 million in Capital assets, net of corresponding accumulated depreciation. (See *Table 15*, Graphs 7 and 8 below).

Of the total of \$3,264 billion, \$2,705 billion were invested in Buildings and Buildings Improvements during the current fiscal year, representing an increase of approximately \$148 million in comparison with prior fiscal year. Construction in progress (CIP) for the current fiscal year amounted to approximately \$299 millions representing a decrease of \$74 million with prior year.

*Table 15*

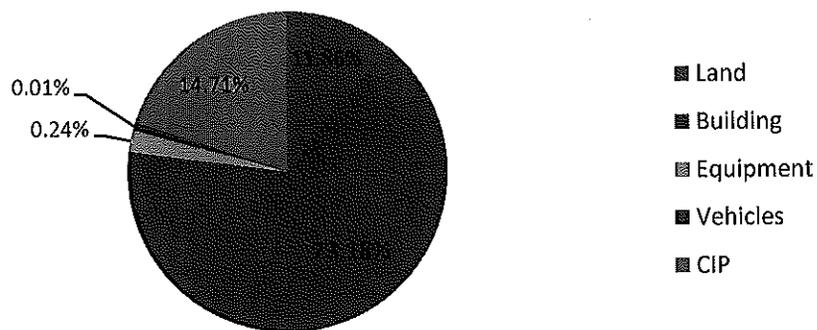
<b>Capital Assets (Net of Accumulated Depreciation, in millions)</b>	<b>2012</b>	<b>2011</b>	<b>Increase Decrease</b>	<b>% Change</b>
Land	\$ 203	\$ 203	\$ -	0%
Buildings and building improvements	2,705	2,557	148	6%
Furniture, fixtures and equipment	40	40	-	0%
Vehicles	17	17	-	0%
Construction in progress	299	373	(74)	-20%
Less accumulated depreciation	<u>(1,388)</u>	<u>(1,311)</u>	<u>(77)</u>	<u>6%</u>
<b>Capita assets, net</b>	<u>\$ 1,876</u>	<u>\$ 1,879</u>	<u>\$ (3)</u>	<u>0%</u>

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 YEARS ENDED JUNE 30, 2012 AND 2011**

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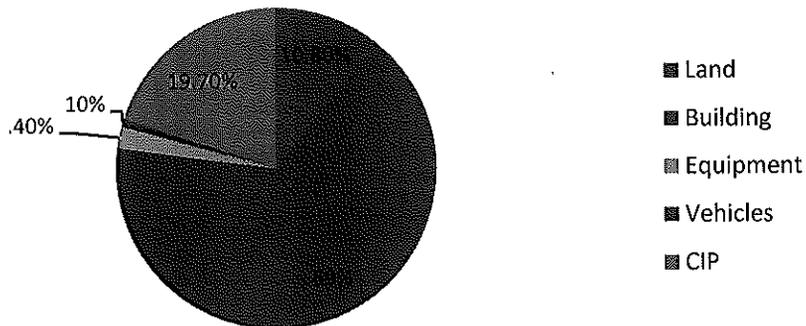
**GRAPH 7: FY2012**

**Capital Assets, net  
 FY2012**



**GRAPH 8: FY2011**

**Capital Assets, net  
 FY2011**



**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 YEARS ENDED JUNE 30, 2012 AND 2011**

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**Other non-current assets**

Other non-current assets decreased by approximately \$28 million mainly due to the decrease in the escrow account restricted and restricted assets balances of approximately \$22 million and \$5 million, respectively. Most of these balances were used to pay the current portion of the outstanding debt.

**LIABILITIES**

**LONG-TERM LIABILITIES:**

As of June 30, 2012, the total liability related to the financial agreement entered during December 2003, between the Puerto Rico Housing Finance Authority (the bond issuer) and US Bank Trust National Association (the trustee), that was executed through a bond issue of \$663,060,000 is \$499,216,272. These bonds were refinanced during fiscal year 2009. Simultaneously with the issuance of the Series 2008 Capital Fund Bonds, \$391,185,000 of the 2003 Bonds was defeased. The defeasance reduced the outstanding principal amount of 2003 Bonds to approximately \$219 million and decreased the resultant annual gross debt service requirements from approximately \$51.3 million to approximately \$18.6 million. As of June 2012, the defeasance escrow amounted to \$325,373,390. The debt service for the defeased portion of the 2003 Bonds will be paid from the defeasance escrow and the debt service for the undefeased 2003 Bonds will continue to be paid from capital funds of the PRPHA together with debt service on the 2008 Bonds pursuant to the schedule submitted as part of the CFFP submission and the final debt service schedule as submitted to HUD.

Balance of the CFP Bonds Payable:

<u>Debt</u>	<u>2012</u>	<u>2011</u>
Current portion	\$ 27,940,000	\$ 26,615,000
Long-term portion	<u>471,276,272</u>	<u>501,949,700</u>
<b>Liabilities</b>	<u>\$ 499,216,272</u>	<u>\$ 528,564,700</u>

**OTHER LIABILITIES:**

As of June 30, 2012, the PRPHA had a total of approximately \$76 million in current liabilities. Of this amount, \$28 million represents the current portion of bonds payable, \$43 million are accounts payable and accrued liabilities. As of June 2011, the amount of current liabilities was \$66 million, of which \$27 million represented the current portion of bonds payable, \$34 million were accounts payable and accrued liabilities and other current liabilities amounted to approximately \$5 million.

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 YEARS ENDED JUNE 30, 2012 AND 2011**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND PROJECTIONS**

On September 19, 2005, the United States Department of Housing and Urban Development (HUD) published at 24 CFR, Part 990 Revision to the Public Housing Operating Fund Program; Final Rule (The Final Rule). This rule states that, in accordance with the directives received from the U.S Congress, Public Housing Agencies (PHAs) and HUD are to convert from an agency-centric model to an asset-management model. Due to the Final Rule, HUD's Financial Reporting has moved toward a Project Based Accounting (PBA) and a Fee for Service Approach. In the Fee-for-Service approach, projects will pay the central office fees for services provided. Applicability of asset management requirements will vary by size. The Operating Fund Rule (24 CFR 990), requires that all PHAs with 250 or more units convert to asset management and, thus, adopt a fee-for-service approach for overhead and certain centrally-provided property management services.

This coming fiscal year we have been very conservative establishing an amount of \$377 million as the budget for fiscal year 2013, where \$305 million will be assigned for operations and the ordinary maintenance of the PRPHA projects including Central Office Cost Center, \$1.5 million assigned by the Commonwealth of Puerto Rico to cover the payroll and miscellaneous expenses for the 33 state public housing projects and an estimated amount included to be invested in the modernization of the projects as a projected amount of \$70.4 million.

The following table shows the budget petition to the Governing Board of PRPHA for the next fiscal year 2013 for the federal projects administered by PRPHA and its Central Office Cost Center:

<u>Description</u>	<u>2012-2013</u>	<u>%</u>
Estimated subsidy (includes add on and uses)	\$ 226,803,185	75%
Estimated Rental Income	25,964,895	9%
Capital Fund Program % 1406	14,966,921	5%
Capital Fund Program % 1410	13,000,000	4%
Use of operating reserve (projects)	9,433,980	3%
Use of reserve (COCC)	13,000,000	4%
Transfer from COCC to Projects / Other	<u>1,460,532</u>	<u>0%</u>
Total Financial Resources	<u>\$ 304,629,513</u>	<u>100%</u>

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 YEARS ENDED JUNE 30, 2012 AND 2011**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND PROJECTIONS  
 (CONTINUED)**

<b>Description</b>	<b><u>2012-2013</u></b>	<b><u>%</u></b>
Reasonable fees to be charge to low income housing program COCC expenditures	\$ 42,455,402	14%
Projects operating expenditures (does not include nonroutine) /COCC Exp	161,051,971	53%
Project insurance and telephone	17,770,741	6%
Resident service programs, security and nonroutine exp	63,328,254	21%
Utilities expenses	<u>20,023,145</u>	<u>7%</u>
Projects expenditures	<u>304,629,513</u>	<u>100%</u>
Net Operating Income /Reserve	<u>\$ -</u>	<u>0%</u>

The following table shows the budget projections for fiscal years 2012 to 2015 for the federal projects administered by PRPHA:

<b><u>Description</u></b>	<b><u>2011-2012</u></b>	<b><u>2012-2013</u></b>	<b><u>2013-2014</u></b>	<b><u>2014-2015</u></b>
Estimated Subsidy (includes Add On and Uses)	\$ 222,356,064	\$ 226,803,185	\$ 231,339,249	\$ 235,966,034
Estimated Rental Income	25,455,779	25,964,895	26,484,192	27,013,877
Capital Fund Program % 1406	1,388,882	14,966,921	15,257,673	15,554,239
Others/Transfer from COCC to Projects/Other	1,460,532	1,460,532	1,460,532	1,460,532
Use of Operating Reserve	<u>22,526,476</u>	<u>9,433,980</u>	<u>9,638,482</u>	<u>9,847,074</u>
Total Financial Resources	<u>\$ 273,187,733</u>	<u>\$ 278,629,513</u>	<u>\$ 284,180,128</u>	<u>\$ 289,841,756</u>

**REQUEST FOR INFORMATION**

This financial report is designed to provide our tenants, contractors, investors, creditors, and oversight entities with a general overview of the PRPHA's finances and to show the PRPHA's accountability for the monies it received. If you have any questions about this report or need additional financial information, contact the Administrator at the PRPHA Area, PO Box 363188, San Juan, PR 00936-3188, call (787) 282-6472, or e-mail at [earivera@avp.gobierno.pr](mailto:earivera@avp.gobierno.pr).

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
 STATEMENTS OF NET ASSETS  
 JUNE 30, 2012 AND 2011**

**ASSETS**

	<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 2)	\$ 266,012,634	\$ 234,111,991
Cash and cash equivalents, restricted (Note 5)	566,650	346,252
Rent and other accounts receivable, net of allowance for doubtful accounts of \$19,527,507 in 2012 and \$21,502,629 in 2011 (Note 3)	50,810,157	38,667,579
Materials and supplies	10,743,580	9,857,092
Restricted assets (Note 5)	1,573,120	1,565,443
Fiscal agent funds (Note 5)	<u>27,940,000</u>	<u>26,615,000</u>
Total current assets	<u>357,646,141</u>	<u>311,163,357</u>
<b>NONCURRENT ASSETS:</b>		
Escrow account restricted (Note 5)	325,373,390	347,482,255
Restricted assets (Note 5)	55,071,011	60,174,271
Capital assets, net (Note 6)	1,876,275,238	1,878,295,591
Unamortized debt issuance costs (Note 7)	<u>3,841,440</u>	<u>4,175,478</u>
Total noncurrent assets	<u>2,260,561,079</u>	<u>2,290,127,595</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,618,207,220</u></b>	<b><u>\$ 2,601,290,952</u></b>
<b>CURRENT LIABILITIES:</b>		
Current portion of bonds payable (Note 8)	\$ 27,940,000	\$ 26,615,000
Current portion of accrued compensated absences and termination benefits (Note 9)	2,779,107	2,709,953
Accounts payable and accrued liabilities	42,525,509	33,932,371
Accrued bond interest payable	2,001,040	2,103,165
Deferred revenues	<u>793,171</u>	<u>682,256</u>
Total current liabilities	<u>76,038,827</u>	<u>66,042,745</u>
<b>NONCURRENT LIABILITIES:</b>		
Long-term accrued compensated absences and termination benefits (Note 9)	3,097,512	3,015,131
Bonds payable, net of unamortized premium and current portion (Notes 7 and 8)	<u>471,276,272</u>	<u>501,949,700</u>
Total noncurrent liabilities	<u>474,373,784</u>	<u>504,964,831</u>
Total liabilities	<u>550,412,611</u>	<u>571,007,576</u>
Commitments and contingencies (Notes 12,13,15 and 18)		
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	1,718,857,607	1,892,392,270
Restricted (Note 15)	21,620,036	20,616,517
Unrestricted	<u>327,316,966</u>	<u>117,274,589</u>
Total net assets	<u>2,067,794,609</u>	<u>2,030,283,376</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 2,618,207,220</u></b>	<b><u>\$ 2,601,290,952</u></b>

See notes to financial statements.

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES:</b>		
Rent, fees and other	\$ 35,097,817	\$ 30,200,386
Fees earned asset management, net	<u>3,313,872</u>	<u>3,273,536</u>
	<u>38,411,689</u>	<u>33,473,922</u>
<b>OPERATING EXPENSES:</b>		
Administrative salaries	51,809,612	48,979,543
Tenant service salaries	16,904,616	16,486,711
Other tenant services	36,445,618	17,821,655
Repairs and maintenance	57,649,334	61,450,664
Utilities	17,910,488	15,970,735
Depreciation	96,799,527	92,033,056
Insurance	14,667,863	12,654,013
Other general and administrative	<u>60,319,689</u>	<u>60,945,500</u>
	<u>352,506,747</u>	<u>326,341,877</u>
<b>NET OPERATING LOSS BEFORE NONOPERATING REVENUES (EXPENSES) AND GRANTS</b>	<u>(314,095,058)</u>	<u>(292,867,955)</u>
<b>NON-OPERATING REVENUES (EXPENSES) AND GRANTS (Notes 1,3,7,8, and 11):</b>		
Loss on disposition of dwelling properties and equipment, net	(12,291,907)	(440,787)
Legislative appropriation	1,767,954	1,656,503
Interest earned	13,622,009	20,441,643
Interest expense	(22,147,234)	(23,360,803)
Payment to sub-grantee	(44,185,811)	(49,581,868)
Federal grants	<u>262,250,636</u>	<u>269,935,860</u>
	<u>199,015,647</u>	<u>218,650,548</u>
<b>LOSS BEFORE CAPITAL CONTRIBUTIONS FROM THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)</b>	(115,079,411)	(74,217,407)
<b>CAPITAL CONTRIBUTIONS FROM THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)</b>	<u>152,590,644</u>	<u>149,612,370</u>
<b>CHANGE IN NET ASSETS</b>	37,511,233	75,394,963
Net assets at beginning of year	<u>2,030,283,376</u>	<u>1,954,888,413</u>
<b>NET ASSETS, AT END OF YEAR</b>	<u>\$ 2,067,794,609</u>	<u>\$ 2,030,283,376</u>

See notes to financial statements.

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
 STATEMENTS OF CASH FLOWS  
 YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from tenants and federal grants	\$ 26,269,111	\$ 50,582,973
Cash payments to employees	(68,562,693)	(66,372,305)
Cash payments to suppliers and management agents	<u>(179,175,427)</u>	<u>(196,572,082)</u>
Net cash used in operating activities	<u>(221,469,009)</u>	<u>(212,361,414)</u>
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:</b>		
Interest received from investments	<u>13,622,009</u>	<u>6,258,984</u>
Net cash provided by investing activities	<u>13,622,009</u>	<u>6,258,984</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Interest paid in capital funds	(24,648,749)	(25,868,512)
Proceeds from capital contributions	152,590,644	149,612,370
Proceeds from sale of dwelling	834,376	369,716
Principal payments of bonds payable	(26,615,000)	(25,390,000)
Cash outlays to sub-grantee	(44,185,811)	(49,581,868)
Cash outlays in capital assets	(108,475,629)	(104,604,812)
Funding of escrow account, net	<u>22,679,038</u>	<u>29,147,984</u>
Net cash used by capital and related financing activities	<u>(27,821,131)</u>	<u>(26,315,122)</u>
<b>CASH FLOWS PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES:</b>		
Subsidies and grants received	<u>264,018,589</u>	<u>271,592,363</u>
Net cash provided by non-capital financing activities	<u>264,018,589</u>	<u>271,592,363</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>28,350,458</b>	<b>39,174,811</b>
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR</b>	<u>322,812,957</u>	<u>283,638,146</u>
<b>CASH AND CASH EQUIVALENTS, AT END OF YEAR</b>	<u>\$ 351,163,415</u>	<u>\$ 322,812,957</u>
<b>CASH AND CASH EQUIVALENTS</b>		
Unrestricted	\$ 266,012,634	\$ 234,111,991
Restricted:		
Cash and cash equivalents, restricted	566,650	346,252
Fiscal agent funds	27,940,000	26,615,000
Restricted assets	<u>56,644,131</u>	<u>61,739,714</u>
	<u>\$ 351,163,415</u>	<u>\$ 322,812,957</u>

Continued

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
 STATEMENTS OF CASH FLOWS (CONTINUED)  
 YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>RECONCILIATION OF NET OPERATING LOSS BEFORE NONOPERATING REVENUES (EXPENSES) AND GRANTS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
<b>NET OPERATING LOSS BEFORE NONOPERATING REVENUES (EXPENSES) AND GRANTS</b>	(\$ 314,095,058)	(\$ 292,867,955)
<b>ADJUSTMENTS TO RECONCILE NET OPERATING LOSS BEFORE NONOPERATING REVENUES (EXPENSES) AND GRANTS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Depreciation	96,799,527	92,033,056
Allowance for doubtful accounts, net	3,049,014	8,280,961
(Increase) decrease rent and other accounts receivable	(15,191,592)	8,828,090
(Increase) decrease in materials and supplies	(886,488)	107,007
Increase (decrease) in deferred revenues	110,915	(12,890)
Increase (decrease) in accounts payable, accrued liabilities, and accrued compensated absences and benefits	<u>8,744,673</u>	<u>(28,729,683)</u>
Total adjustments	<u>92,626,049</u>	<u>80,506,541</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>(\$ 221,469,009)</u>	<u>(\$ 212,361,414)</u>

See notes to financial statements.

**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
NOTES TO BASIC FINANCIAL STATEMENTS**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Puerto Rico Public Housing Administration of the Commonwealth of Puerto Rico (the PRPHA or Administration) is a governmental entity created by Act No. 66 from August 17, 1989 ascribed to the Puerto Rico Department of Housing (the Department) by Act No. 58 of August 9, 1991. On August 9, 1991 it assumed certain assets, liabilities and operations of the Puerto Rico Urban Renewal and Housing Corporation (PRURHC), which is currently under liquidation by the Office for the Administration of the Assets of CRUV (OAAC) attached to the Puerto Rico Department of Housing. The PRPHA is engaged in the implementation of the governmental policy related to the public housing projects and its administration. During August 1992, the administrator subcontracted the administration of the public housing projects to the private sector. The primary source of funds to carry out the management, maintenance and improvement of public housing are Federal Government subsidies and grants. The PRPHA operates approximately 55,000 public housing units, located in 328 (295 federally subsidized and 33 state subsidized) residential complexes throughout the island.

The PRPHA accounts for the public housing and urban development activities in which tenant rentals or sales of real properties cover only a portion of costs and subsidies or operating grants necessary to meet operating expenses.

**Reporting entity**

The PRPHA is for financial reporting purposes part of the Commonwealth of Puerto Rico, and its financial data is reported as part of the general fund in the Commonwealth of Puerto Rico's financial statements. The PRPHA's accompanying financial statements are issued solely for the information and use of the PRPHA's management, the Puerto Rico Treasury Department, the US Housing and Urban Development Department and other oversight bodies and are not intended to be and should not be used by anyone other than these specifies parties.

**Summary of significant accounting policies**

**Measurement focus, basis of accounting and financial statements presentation**

The basic financial statements of the PRPHA have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities.

**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

---

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Summary of significant accounting policies (continued)**

Measurement focus, basis of accounting and financial statements presentation (continued)

The PRPHA's reporting entity applies all relevant Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless they conflict with Governmental Accounting Standards Board (GASB) pronouncements.

The basic financial statements report uses 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.

Net operating loss includes revenues and expenses related to the primary, continuing operations of the PRPHA. Principal operating revenues are tenants' rentals or sales of real estate properties. Principal operating expenses are the costs of carrying out the management, maintenance and improvement of public housing units and include administrative expenses and depreciation of capital assets. Non-operating revenues and grants consist primarily of Federal Governmental subsidies and grants, and fees from public housing projects management agents.

Fair value of financial instruments

The following methods and assumptions were used by the PRPHA in estimating the fair value of its financial instruments:

*Cash and cash equivalents:* The carrying amount reported in the statements of net assets for cash and cash equivalents approximates its fair value.

*Restricted assets:* The carrying amount reported in the statements of net assets for restricted assets approximates its fair value.

*Accounts receivable and accounts payable:* The carrying amount reported in the statements of net assets for accounts receivable and accounts payable approximates its fair value.

*Bonds payable:* The carrying amount of the PRPHA's bonds payable approximates its fair value, which is based on the borrowing rates currently available to the Administration for loans with similar terms and average maturities.

**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Summary of significant accounting policies (continued)**

Statement of cash flows

For purposes of the statement of cash flows, the Administration considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Receivables

Receivables are stated net of estimated allowances for uncollectible accounts, which allowances are determined based upon past collection experience and current economic conditions, among other factors.

Materials and supplies

Materials and supplies are primarily used for the maintenance of the public housing projects and are recorded at cost on a first-in, first-out basis, not to exceed market.

Restricted assets

Restricted assets include funds received from the U.S. Department of Housing and Urban Development (HUD) or other sources earmarked for certain specific purposes.

Capital assets

The PRPHA defines capital assets as assets, which has an initial individual cost of \$500 or more at the date of acquisition. Capital assets, consisting mostly of land and structures, the majority of which are used as public housing rental dwellings, are stated at cost, as determined from original Actual Development Cost Certificates (ADCC) submitted to HUD. Major modernizations and betterments are capitalized while replacements, maintenance and repairs which do not improve or extend the life of the respective assets are expensed currently. When assets are sold, retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and charged against contributed capital.

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

---

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
 (CONTINUED)**

**Summary of significant accounting policies (continued)**

Major classifications and related estimated useful lives are as follow:

<u>Description</u>	<u>Estimated Useful Lives</u>
Land	
Buildings	50 years
Betterments and improvements	25 years
Furniture, fixtures and equipment	3 to 7 years

Depreciation is provided on the straight-line basis over the estimated useful lives of the capital assets.

Unamortized debt issuance costs, premiums, and discounts

Unamortized debt issuance costs are capitalized and amortized over the life of the related debt using a method that approximates the effective interest method.

Bonds payable are reported net of applicable bond premium or discount. Unamortized debt issuance costs are reported as an asset on the balance sheets.

Deferred revenue

Deferred revenue arises from rent received in advance from tenants.

Accounting for compensated absences

Employees earn vacation and sick leave based on a prescribed formula. The amount of vacation and sick pay earned and not used by the PRPHA's employees is accrued as a liability as the benefits are earned by the employees and the employees' rights to receive compensation are attributable to services already rendered and it is probable that the PRPHA will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Accrued compensated absences include payroll related expenses.

**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Summary of significant accounting policies (continued)**

Pension benefits

The PRPHA's employees participate in the Government of Puerto Rico Employees Retirement System (the Plan), a cost sharing multiple employer plan. The PRPHA recognizes annual pension expense equal to its required contribution to the Plan. The Commonwealth funds any past or future unfunded liability related to the PRPHA's employees.

Annual contributions

Under the Federally-Assisted Low Income Housing Program (Title III), HUD makes annual contributions to the Administration. Contributions received for public housing construction and/or modernization projects and for the payment or forgiveness of principal amounts of notes and bonds payable are recorded as capital contributions. Contributions received for the subsidy of operations, as reimbursement of expenses, and for payment of interest are credited to operating revenues. Grants are recorded in the accounting period in which they are earned and become measurable.

Net assets

Net assets are the difference between assets and liabilities and are presented in three components as follows:

- Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets - Consists of net assets with constrain placed on the use either by (1) external groups such as creditors, grantors, contributors, or law or regulations of other government; or (2) law through constitutional provisions or enabling legislations.
- Unrestricted net assets – Consists of all other assets that do not meet the definitions of “restricted” or “invested in capital assets, net of related debt”.

**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

---

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Summary of significant accounting policies (continued)**

Use of estimates

Management of the Authority has made a number of estimates and assumptions relating to the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Risk management

The Administration is exposed to various risks of loss, torts, theft, damage to, and destruction of assets, employee injuries and illnesses, natural disasters and other losses. Commercial insurance coverage is obtained for claims arising from such matters. Such coverage is negotiated by the Department of Treasury of the Commonwealth of Puerto Rico and paid by the Administration.

Subsequent events

In May 2009, the Financial Accounting Standards Board (FASB) established standards related to accounting for, and disclosure of, events that occur after the statement of position date, but before financial statements are issued or are available to be issued. Management has evaluated subsequent events through October 12, 2012, the date the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2012 that required recognition or disclosure in the current period financial statements.

**2. DEPOSITS AND CUSTODIAL CREDIT RISK**

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the Federal Government or the Commonwealth of Puerto Rico. The Administration is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the Federal and Commonwealth laws. During the year, the Administration invests its funds in interest bearing bank accounts and certificates of deposit. The Administration is subject to the following credit risk:

Custodial credit risk is the risk that in the event of bank failure, government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk.

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

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**2. DEPOSITS AND CUSTODIAL CREDIT RISK (CONTINUED)**

The Commonwealth requires that public funds deposited in commercial banks 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.

The Administration had the following amounts deposited in commercial banks:

<u>Depository Account</u>	<u>Bank Balance</u>	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Insured	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held in the Administration's name	<u>143,733,087</u>	<u>146,520,324</u>
	<u>\$ 143,983,087</u>	<u>\$ 146,770,324</u>

In addition, as of June 30, 2012 and 2011, the PRPHA's custodial credit risk was approximately \$162.2 million and \$126.5 million, respectively, which are the cash balances deposited in the Government Development Bank for Puerto Rico and the Economic Development Bank for Puerto Rico. These deposits are exempt from the collateral requirement established in the laws of the Commonwealth of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

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**3. RENT AND OTHER ACCOUNTS RECEIVABLE**

Accounts receivable and the allowance for doubtful accounts at June 30, consist of the following:

<u>Description</u>	<u>2012</u>	<u>2011</u>
Rent and other receivables:		
Legislative appropriations	\$ 5,316,292	\$ 4,481,025
Accounts receivable from tenants	18,474,181	15,490,923
Others	<u>24,016,870</u>	<u>14,959,846</u>
	47,807,343	34,931,794
Less: allowance for doubtful accounts, including an allowance for EIV of \$4,110,406 in 2012	<u>(19,527,507)</u>	<u>(21,502,629)</u>
Total rent and other accounts receivable, net	28,279,836	13,429,165
HUD grants receivable	10,321,011	8,623,648
Interest receivable	135,663	40,405
Accounts receivable from Vivienda Modernization 1, LLC	-	53,556
Accounts receivable from Department of Housing of the Commonwealth of Puerto Rico	136,696	400,000
Advances to management agents	<u>11,936,951</u>	<u>16,120,805</u>
Total accounts receivable	<u>\$ 50,810,157</u>	<u>\$ 38,667,579</u>

The HUD grant receivable represents the amount pending to be received by the PRPHA as of June 30, 2012 and 2011 under the Capital Fund's expenditure driven agreement for allowable costs already incurred at June 30, 2012 and 2011, but for which HUD had not made the drawdown of funds on behalf of the PRPHA. These costs are mainly for capital assets additions and other expenses related with the modernization of dwelling units.

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

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**4. FISCAL AGENT FUNDS**

This amount represents the current portion of restricted funds on deposits with the fiscal agent (US Bank Trust National Association) for the payment of interest on, and principal of, the fixed liability of obligations, and the current liabilities incurred for the modernization of housing projects, of the Capital Fund Program Bonds.

The current portion amount deposited by the Administration with this fiscal agent for the years ended June 30, 2012 and 2011 amounted to \$27,940,000 and \$26,615,000, respectively. This reclassification is solely to comply with financial statement presentation required by Real Estate Assessment Center (REAC). The Administration will use this amount for the repayment of principal of the outstanding debt incurred for the modernization of housing projects under the Capital Revenue Bond agreement.

The fiscal agent funds are provided from the following sources:

	<u>2012</u>	<u>2011</u>
Escrow account	\$18,330,000	\$ 17,455,000
Restricted assets	<u>9,610,000</u>	<u>9,160,000</u>
Total fiscal agent funds	<u>\$27,940,000</u>	<u>\$ 26,615,000</u>

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

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**5. RESTRICTED ASSETS**

Restricted assets at June 30 consist of the following:

<u>Description</u>	<u>Classification</u>	<u>2012</u>
Certificate of deposit at .53% due on August 6, 2012	Short-term	\$ 1,573,120
Certificate of deposit at .55% due on September 12, 2012	Short-term	150,673
Certificate of deposit at .55% due on September 12, 2012	Short-term	517,055
Fiscal agent funds	Short-term	27,940,000
Cash and cash equivalents in Government Development Bank	Short-term	<u>566,650</u>
Total restricted assets, current		30,747,498
Deposit with HUD	Long-term	1,521,156
Cash restricted for operating expenses of dwelling units	Long-term	17,291,382
Escrow account	Long-term	325,373,390
Cash restricted on capital fund program bonds	Long-term	<u>35,590,745</u>
		<u>\$ 410,524,171</u>

<u>Description</u>	<u>Classification</u>	<u>2011</u>
Certificate of deposit at .34% due on July 28, 2011	Short-term	\$ 1,565,443
Fiscal agent funds	Short-term	26,615,000
Cash and cash equivalents in Government Development Bank	Short-term	<u>346,252</u>
Total restricted assets, current		28,526,695
Deposit with HUD	Long-term	1,521,156
Cash restricted for operating expenses of dwelling units	Long-term	17,183,666
Escrow account	Long-term	347,482,255
Cash restricted on capital fund program bonds	Long-term	<u>41,469,449</u>
		<u>\$ 436,183,221</u>

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

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**5. RESTRICTED ASSETS (CONTINUED)**

At June 30, the funds received from (deposited with) HUD earmarked for certain specific purposes include:

<u>Description</u>	<u>2012</u>	<u>2011</u>
Homebuyers earned home payment	\$ 314,624	\$ 313,080
Proceeds from units sold under Turnkey III projects remitted to HUD	1,521,156	1,521,156
Amount to be used for the repair and/or improvement of the electric and plumbing systems, kitchen cabinets and other non-routine maintenance of the Turnkey III projects	1,258,496	1,252,363
Amount to be used for the repayment of principal and interest of the 2003 Capital Revenue Bonds	353,313,391	374,097,255
Amount to be used on operating expenses of dwelling units of Turnkey III projects	17,959,110	17,183,666
Proceeds from the Capital Fund Program Bonds to be used for the modernization of approximately 40 properties containing approximately 8,000 units	35,590,744	41,469,449
Investment with Government Development Bank	<u>566,650</u>	<u>346,252</u>
	410,524,171	436,183,221
Less: Amount to be used for the repayment of principal, interest and other current liabilities to be incurred for the modernization of housing project of the Capital Revenue Bonds and held with fiscal agent	<u>(27,940,000)</u>	<u>(26,615,000)</u>
Total restricted assets - earmarked for specific purposes	<u>\$ 382,584,171</u>	<u>\$ 409,568,221</u>

**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**6. CAPITAL ASSETS:**

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance at June 30, 2012</u>
Capital assets not being depreciated:					
Land	\$ 202,887,034	\$ 512,500	\$ (331,450)	\$ -	\$ 203,068,084
Intangible Asset	266,757	-	-	-	266,757
Construction in progress	<u>372,925,813</u>	<u>96,089,145</u>	-	<u>(170,482,417)</u>	<u>298,532,541</u>
Total capital assets not being depreciated	<u>576,079,604</u>	<u>96,601,645</u>	<u>(331,450)</u>	<u>(170,482,417)</u>	<u>501,867,382</u>
Capital assets being depreciated:					
Buildings and building improvements	2,556,851,731	10,211,500	(32,819,051)	170,482,417	2,704,726,597
Furnitures, fixtures and equipment	39,874,524	1,584,158	(1,965,074)	(21,560)	39,472,048
Vehicles	16,813,561	78,326	-	21,560	16,913,447
	<u>2,613,539,816</u>	<u>11,873,984</u>	<u>(34,784,125)</u>	<u>170,482,417</u>	<u>2,761,112,092</u>
Less: accumulated depreciation	<u>(1,311,323,829)</u>	<u>(97,404,925)</u>	<u>22,024,518</u>	-	<u>(1,386,704,236)</u>
Total capital assets being depreciated, net	<u>1,302,215,987</u>	<u>(85,530,941)</u>	<u>(12,759,607)</u>	<u>170,482,417</u>	<u>1,374,407,856</u>
Total capital assets, net	<u>\$ 1,878,295,591</u>	<u>\$ 11,070,704</u>	<u>\$ (13,091,057)</u>	\$ -	<u>\$ 1,876,275,238</u>

**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**6. CAPITAL ASSETS (CONTINUED):**

	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance at June 30, 2011</u>
Capital assets not being depreciated:					
Land	\$ 202,114,999	\$ 923,000	\$ (150,965)	-	\$ 202,887,034
Other assets	266,757	-	-	-	266,757
Construction in progress	473,079,973	91,782,670	-	(191,936,830)	372,925,813
Total capital assets not being depreciated	<u>675,461,729</u>	<u>92,705,670</u>	<u>(150,965)</u>	<u>(191,936,830)</u>	<u>576,079,604</u>
Capital assets being depreciated:					
Buildings and building improvements	2,355,291,034	10,735,240	(1,111,373)	191,936,830	2,556,851,731
Furniture, fixtures and equipment	40,858,130	1,163,903	(2,147,509)	-	39,874,524
Vehicles	16,813,561	-	-	-	16,813,561
Less: accumulated depreciation	<u>2,412,962,725</u>	<u>11,899,143</u>	<u>(3,258,882)</u>	<u>191,936,830</u>	<u>2,613,539,816</u>
	<u>(1,221,883,766)</u>	<u>(92,003,676)</u>	<u>2,563,613</u>	<u>-</u>	<u>(1,311,323,829)</u>
Total capital assets being depreciated, net	<u>1,191,078,959</u>	<u>(80,104,533)</u>	<u>(695,269)</u>	<u>191,936,830</u>	<u>1,302,215,987</u>
Total capital assets, net	<u>\$ 1,866,540,688</u>	<u>\$ 12,601,137</u>	<u>\$ (846,234)</u>	<u>\$ -</u>	<u>\$ 1,878,295,591</u>

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

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**7. UNAMORTIZED DEBT ISSUANCE COSTS**

The unamortized debt issuance costs consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Debt issuance costs	\$4,175,478	\$4,509,516
Less: current year amortization	<u>(334,038)</u>	<u>(334,038)</u>
	<u>\$3,841,440</u>	<u>\$4,175,478</u>

**8. CAPITAL FUND PROGRAM BONDS**

On December 18, 2003, the PRPHA issued \$663,060 million face value of Capital Fund Program Bonds at a net premium of \$29,625 million. Interest on the bonds at 2.0% to 5.0% is payable semiannually on each June 1 and December 1. To pay the debt service, the Administration pledged future revenues derived from Capital Fund Grants received from HUD. The purpose of the issuance of the Capital Program Fund Bonds is for the modernization of approximately 40 properties containing approximately 8,000 units. The financing arrangement was executed through a bond issue between the Puerto Rico Housing Finance Authority (the bond issuer) and U.S. Bank Trust National Association (the Trustee). The Government Development Bank for Puerto Rico (GDB) has agreed with the Administration to make loans to the Administration in replacement of the loan from proceeds of the bonds and the Administration will, in certain circumstances, be obligated to make repayments of these GDB loans from Capital Fund Program (CFP) moneys. HUD has agreed, subject to the availability of appropriations, to make payments needed for debt service on the loan automatically and directly to the trustee and/or GDB, both for the benefit of the Administration. Both payments will not be subjected to recaptures.

HUD has authorized the pledge and assignment of revenues and of CFP monies payable to the Trustee under the loan agreement and to the GDB under the GDB project loan agreement for the purpose of securing the payment of principal and interest on the loan and principal and interest owing to the GDB.

**COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**8. CAPITAL FUND PROGRAM BONDS (CONTINUED)**

The following is a summary of the activity of the Capital Fund Program bonds payable as of June 30:

<u>2012</u>	<u>Balance at June 30, 2011</u>	<u>Increases and new issuances</u>	<u>Decreases and payments</u>	<u>Balance at June 30, 2012</u>	<u>Amounts of principal due within one year</u>
Capital Fund Program Bonds, maturing in various dates through the year 2024, bearing interest at rates between 2% to 5% annually	\$ 523,060,000	-	\$ (26,615,000)	\$ 496,445,000	\$ 27,940,000
Unamortized net premium	<u>5,504,700</u>	<u>-</u>	<u>(2,733,428)</u>	<u>2,771,272</u>	<u>-</u>
	<u>\$ 528,564,700</u>	<u>\$ -</u>	<u>\$ (29,348,428)</u>	<u>\$ 499,216,272</u>	<u>\$ 27,940,000</u>

<u>2011</u>	<u>Balance at June 30, 2010</u>	<u>Increases and new issuances</u>	<u>Decreases and payments</u>	<u>Balance at June 30, 2011</u>	<u>Amounts of principal due within one year</u>
Capital Fund Program Bonds, maturing in various dates through the year 2024, bearing interest at rates between 2% to 5% annually	\$ 548,450,000	-	\$ (25,390,000)	\$ 523,060,000	\$ 26,615,000
Unamortized net premium	<u>8,247,767</u>	<u>-</u>	<u>(2,743,067)</u>	<u>5,504,700</u>	<u>-</u>
	<u>\$ 556,697,767</u>	<u>\$ -</u>	<u>\$ (28,133,067)</u>	<u>\$ 528,564,700</u>	<u>\$ 26,615,000</u>

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**8. CAPITAL FUND PROGRAM BONDS (CONTINUED)**

The net premium is amortized, over the life of the debt, using the interest method, as an adjustment to interest expense. Amortization for the years ended June 30, 2012 and 2011 amounted to \$2,733,428 and \$2,743,067, respectively.

The principal and interest payments of bonds payable for the next five years and thereafter are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 27,940,000	\$ 23,321,860	\$ 51,261,860
2014	29,335,000	21,926,560	51,261,560
2015	30,810,000	20,451,635	51,261,635
2016	32,390,000	18,871,635	51,261,635
2017	34,050,000	17,210,635	51,260,635
2018-2022	198,220,000	54,778,232	252,998,232
2023-2025	143,700,000	13,381,365	157,081,365
	<u>\$ 496,445,000</u>	<u>\$ 169,941,922</u>	<u>\$ 666,386,922</u>

**9. ACCOUNTS PAYABLE, ACCRUED LIABILITIES, COMPENSATED ABSENCES AND TERMINATION BENEFITS**

The accounts payable and accrued liabilities consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Contractors and others	\$ 25,696,435	\$ 18,687,665
Reserve for contingencies	6,000,000	6,000,000
Fee retention to contractors	1,834,460	1,885,182
Others	8,994,614	7,359,524
	<u>\$ 42,525,509</u>	<u>\$ 33,932,371</u>

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**9. ACCOUNTS PAYABLE, ACCRUED LIABILITIES, COMPENSATED ABSENCES AND TERMINATION BENEFITS (CONTINUED)**

Accrued compensated absences and termination benefits activity for the years ended June 30, was as follows:

<u>Year</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
2012	<u>\$ 5,725,084</u>	<u>\$ 3,505,478</u>	<u>(\$ 3,353,943)</u>	<u>\$ 5,876,619</u>	<u>\$ 2,779,107</u>
2011	<u>\$ 6,631,135</u>	<u>\$ 3,415,085</u>	<u>(\$ 4,321,136)</u>	<u>\$ 5,725,084</u>	<u>\$ 2,709,953</u>

**10. CAPITAL CONTRIBUTIONS**

Capital contributions received during the years ended June 30, from HUD, were as follow:

<u>Description</u>	<u>2012</u>	<u>2011</u>
Contributed capital for the Development and Modernization of Public Housing Capital Fund Program (CFP)	<u>\$ 152,590,644</u>	<u>\$ 149,612,370</u>

**11. OTHER FEDERAL GRANTS**

As permitted in the Omnibus Consolidated Rescissions and Appropriations Act (OCRA), which was enacted on April 24, 1996, during the fiscal years ended June 30, 2012 and 2011, the PRPHA transferred to operational activities 10% and 20%, respectively, of the Public Housing Capital Fund Program (CFP) approved annual grants. These transfers amounted to \$15,916,172 and \$27,680,998, respectively for these fiscal years. Also, the PRPHA transferred to operational activities 1.5% of the Public Housing Capital Fund Stimulus Recovery Act which amounted to \$2,635,272 and \$4,212,329 for the year ended June 30, 2012 and 2011, respectively. These transfers were approved by the HUD Caribbean Field Office and were included as part of federal grants revenue.

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**12. EMPLOYEE'S RETIREMENT PLAN**

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (the System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of, the Commonwealth of Puerto Rico. All regular employees of the Administration under age fifty-five (55) at the date of employment become members of the System as a condition to their employment.

The System provides retirement, death and disability benefits pursuant to Act No. 447 from May 15, 1951. Disability retirement benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least ten (10) years of service to receive non-occupational disability. No benefits are payable if the participant receives a refund of accumulated contributions. Retirement benefits depend upon age at retirement and number of years of creditable service. Benefits vest after ten years of plan's participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service, or members who have attained age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of twenty (20) years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation, as defined, or if they have attained age fifty-five (55), will receive 75% of the average compensation, as defined.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the salary in excess of \$550. The Administration's contribution is 9.275% of gross salary.

On September 24, 1999, the Legislature of the Commonwealth enacted Act No. 305, which established a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, elected either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, were only allowed to become members of System 2000.

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**12. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of pension assets, which are invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternative. Participants receive periodic account statements similar to those of defined contributions plans showing their accrued balances.

Disability pensions will not be granted under System 2000. The employers' contribution (9.275% of the employee's salary) is used to fund the deficiency of the defined benefit plan. Total employee contributions during the year ended June 30, 2012 and 2011, amounted to \$1,369,500 and \$1,261,168, respectively. Employer's contributions paid represented 100% of the required contributions. For the years ended June 30, 2012 and 2011, total covered payroll was \$15,178,149 and \$13,597,499, respectively. Covered payroll refers to all compensation paid by the Administration to employees covered by the System on which contributions for the pension are based.

**13. COMMITMENTS AND CONTINGENCIES**

The Administration is a defendant in a number of lawsuits pertaining to material matters, including those claims asserted which are incidental to performing their routine operations. These litigations include, but are not limited to, actions commenced and claims asserted against the Administration arising out of alleged torts, alleged breaches of contracts, alleged violation of law, discriminations against employees and/or former employees, unlawful discharge, unlawful dispossession on tenants and condemnation proceedings, among others. The Administration's management, after consultation with its legal counsel, has determined that at this stage it cannot determine the financial effects of these outstanding litigations and claims.

Law 104 from June 30, 1995, as amended, of the Commonwealth of Puerto Rico, known as *Claims and Lawsuits against the State*, provides that lawsuits and claims initiated by an agency or instrumentality of the Commonwealth of Puerto Rico may be represented by the Commonwealth of Puerto Rico's Department of Justice. Any adverse claims to the defendants are to be paid by the Commonwealth of Puerto Rico's General Fund within the limitations provided by the law. However, the Secretary of the Treasury has the right of requesting the reimbursement of the funds expended for these purposes from the defendants. For the years ended June 30, 2012 and 2011, the accounts payable and accrued liabilities include litigation contingencies accrual for \$6,000,000.

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**13. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

As of June 30, 2012 and 2011, the Administration had pending construction projects contracts in progress for the development and modernization of public housing projects. Total commitments related to these construction contracts amounted to \$212,057,331 and \$232,932,480, for the year then ended, respectively.

**14. FEDERAL FINANCIAL ASSISTANCE**

The Administration receives financial assistance from the Federal Government. Federal assistance is subject to the financial and compliance audits by the grantor agencies, which could result in requests for reimbursement by the grantor agencies for expenditures, if disallowed under the terms of the program grants. The amounts of expenditures if any, which may be disallowed by the granting agencies, cannot be determined at this time. The Administration believes that such disallowances, if any, will not have an adverse effect on the financial position of the Administration.

**15. RESTRICTED NET ASSETS**

Restricted net assets at June 30 consist of the following:

	<u>2012</u>	<u>2011</u>
Restricted assets (Note 5)	\$ 410,524,171	\$ 436,183,221
Restricted for capital fund program bonds	(35,590,745)	(41,469,449)
Defeasance escrow	(325,373,390)	(347,482,255)
Current portion of bonds payable	<u>(27,940,000)</u>	<u>(26,615,000)</u>
Net assets restricted	<u>\$ 21,620,036</u>	<u>\$ 20,616,517</u>

The PRPHA operates the Turnkey III projects in accordance with requirements for the Homeownership Opportunity Program for Low Income Families. The amount deposited with HUD for the year ended June 30, 2012 and 2011 amounted to \$1,521,156 and represents amounts remitted to HUD related to the proceeds of the units sold under Turnkey III projects. During 1986, Congressional Legislation was approved to return the funds to the PRPHA in order to establish a loan fund oriented towards improving the dwelling units. These loans, which are exclusively for the Turnkey III owners, will allow them to repair and/or improve the electrical equipment and other systems.

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## **16. RELATED PARTY TRANSACTIONS**

### General

The Administrator of the PHA is appointed by the Governor of Puerto Rico and, by law, the appointee is the Secretary of the Department of Housing of the Commonwealth of Puerto Rico (“DOH”). As a consequence, we have considered the DOH as a related party.

The PHA has a joint agreement with the DOH to share a series of resources, especially considering that both entities share the same central office building. Services that are shared include general maintenance, office space, utilities, human resources and payroll, accounting and other general and administrative services. During the fiscal years ended on June 30, 2012 and 2011, the PHA has paid approximately \$5 million to the DOH for these services.

### Mixed Finance

On August 1, 2008, the Department of Housing of the Commonwealth of Puerto Rico (“DOH”), entered into an agreement of partnership in its capacity of general partner (the General Partner) with Hudson SLP XL LLC, a Delaware limited liability company, as the Special Limited Partner (the Special Limited Partner) and Hudson Housing Tax Credit Fund XL LP (a Delaware limited partnership), who will act as the Investment Partnership (the “Investment Partnership”; collectively with the Special Limited Partner, the “Limited Partners”) to form Vivienda Modernization Holding 1, S.E. (the Partnership) pursuant to the Puerto Rico Civil Code.

The Partnership was formed to acquire the 100% member interest in Vivienda Modernization Holding 1, LLC, a Puerto Rico limited liability company (the Project Company). The Project Company has been formed to acquire, develop, rehabilitate, own, maintain and operate thirty-three 33 residential rental housing developments intended for rental to persons of low and moderate income located in the Commonwealth of Puerto Rico.

The Project Company has been organized exclusively to acquire 99 year term surface right with respect to the land and to acquire, develop, finance, rehabilitate, maintain, operate, lease and sell or otherwise dispose of each apartment complex in order to obtain for the company and its member statutory compliance, long term appreciation, cash income, tax benefits consisting of Tax Credits and Tax Losses over the term hereof. On August 7, 2008, the Administration and the Project Company entered into a Regulatory and Operating Agreement (the Agreement).

The Administration and the Project Company have determined that it would be deliverable for the public housing rental developments to undergo comprehensive modernization (e.g. new floors, electrical wiring, plumbing, windows, doors, roofs and accessibility features) or development, which modernization or development will be undertaken and operated by the Project Company. The developments are collectively known as “Vivienda Modernization 1, LLC”.

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**16. RELATED PARTY TRANSACTIONS (CONTINUED)**

Mixed Finance (Continued)

The Project Company has entered into a Purchase and Sales Agreement dated August 7, 2008 with the Department of Housing of the Commonwealth of Puerto Rico (DOH). Under this agreement, the Project Company has acquired the surface rights of a property (the Property) and the improvements erected on such Property from the DOH under those certain deeds of Constitution of Surface Rights and Transfer of Improvements dated August 7, 2008, which will require the Project Company to rehabilitate or construct on the Property four thousand one hundred thirty-two (4,132) residential rental units (the Units or collectively the Development) all of which will receive the benefit of operating subsidy and the benefit of low income housing tax credits under Section 42 of the Internal Revenue Code of 1986, as amended. Eighty-four (84) of the units, all of which will be located at the Brisas de Cayey II Site, are to be newly constructed. The remaining units will be modernized.

The title to the eligible public housing projects was transferred by the Administration to the DOH, who in turn sold the buildings and improvements of the project to Vivienda Modernization 1, LLC by way of a constitution of surface rights over, upon and underneath the transferred land and conveyance of improvements. The development comprises 33 public housing sites as mentioned above and were transferred to the Project Company by the deed. Each site has a separate Asset Management Project Number that, to the extent the site is adjacent to or near a public housing site owned by the Administration.

Based on the Purchase and Sale Agreement, the Administration received \$92,479,688 from the Project Company which was used to pay eligible project expenses incurred by the Administration on an interim basis to minimize the expenditure of 2003 tax exempt bonds that were ineligible for inclusion in the tax credit transaction. The Administration received \$18,137,698 from the Project Company for CFP funds previously expensed by the Administration from June and July 2009.

The Administration has entered into an Interagency Agreement dated August 7, 2008 with DOH, in DOH's capacity as general partner of the Partnership, to delegate management and operational duties related to the Development to the Administration as set forth in the Interagency Agreement. Project Company and the Administration also intend that the Units be developed, operated and managed so as to assure receipt by the Project Company of the aforementioned economic and tax benefits to the full extent available to Owner.

The Administration has submitted, and HUD has approved in writing, a rental term sheet for the mixed-finance development in accordance with Section 35 of the Act and the regulations under 24 CFR 941 subpart F (the Mixed-Finance Proposal). HUD authorized the Administration to use a combination of private financing, public housing and other funds to develop public housing units. Projects developed under this method of financing are known as "Mixed Finance" projects.

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**17. RECENT ACCOUNTING PRONOUNCEMENTS**

GASB Statement No. 61, The Financial Reporting Entity: Omnibus will be effective for the PRPHA beginning with its fiscal year ending on June 30, 2013. This statement improves financial reporting for a governmental financial reporting entity. This statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units. The PRPHA management has not yet determined the effect this statement will have on the PRPHA financial statements.

**18. TERMINATION BENEFITS**

On July 2, 2011, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Puerto Rico Public Housing Authority (PRPHA). Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50 % of each employee' salary, as defined. In this early retirement benefit program, the PRPHA will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the PRPHA.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the PRPHA's financial statements of a liability of \$855,497 in the statement of net assets as of June 30, 2012 and a charge of \$55,784 in the statement of activities for the year ended June 30, 2012. At June 30, 2012, unpaid long-term benefits granted on this program were discounted at 1.79%.