

**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, 2014 AND 2013

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

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INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying basic 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, 2014 and 2013, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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

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

(Continues)

**President of the Governing Board
Puerto Rico Public Housing Administration
San Juan, Puerto Rico**

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the basic financial statements referred to in the first paragraph of this report present fairly, in all material respects, the financial position of the Administration as of June 30, 2014 and 2013 and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Administration are intended to present the financial position, the changes in its financial position 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 the financial position of the Commonwealth of Puerto Rico, the changes in its financial position or its cash flows in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements in fiscal year 2014 the Administration adopted the new accounting guidance, GASB Statement No.65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Subsequent Event

As described in note 17 to the financial statements on August 14, 2014 the Administration received the assignment of a note receivable from the Puerto Rico Housing Financing Authority for the amount of \$100 million related to the mixed finance low income housing development transaction known as Vivienda Modernization.

Other Matters

Grant Programs

The Administration receives financial assistance from the federal government in the form of grants and receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations including the expenditure of resources for eligible purposes. Substantially, all grants are subject to audit under Circular Letter A-133 of the Office of Management and Budget of the United States of America and compliance audits by the grantor agencies. Disallowance as a result of these audits may become liabilities of the Administration. Nevertheless, the Administration's management believes that disallowed expenditures, if any, will not have a material effect on its financial position and are uncertain at this time. Accordingly, no provision for any liability that may result has been made in the financial statements.

(Continues)



President of the Governing Board
Puerto Rico Public Housing Administration
San Juan, Puerto Rico

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters (Continued)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Guaynabo, Puerto Rico

December 24, 2014
The stamp number E147001 was
affixed to the original of this report.

Balay T. H. Lugo to R. C. P. A. P. S. C.
BAKER TILLY PUERTO RICO, CPAs, PSC

License No. 218
Expires December 1, 2017



**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

Our discussion and analysis of Puerto Rico Public Housing Administration ("PRPHA") financial performance provides an overview of PRPHA's financial activities for the fiscal years ended on June 30, 2014 and 2013. Please read it in conjunction with the financial statements, which begin on page 26. Prior fiscal year information is shown as needed for comparative purposes.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

Management's Discussion and Analysis serves as an introduction to the PRPHA's basic financial statements, which include: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Fund Net Position, 3) Statement of Cash Flows, and 4) Notes to the Basic Financial Statements. These statements and information represent the actual financial position of PRPHA. Below, you will find a brief explanation of the statements and notes.

- 1) The **Statement of Net Position** presents PRPHA's total assets plus deferred outflows of resources equals liabilities plus deferred inflows of resources plus net position, at the end of the fiscal year. The difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as net position.
- 2) The **Statement of Revenues, Expenses, and Changes in Fund Net Position** shows how PRPHA's net position changed during the fiscal year. PRPHA reports all changes in net position as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow.
- 3) The **Statement of Cash Flows** shows PRPHA's cash inflows and outflows for the year. It also shows how cash and cash equivalents were provided by and used in PRPHA's operating, investing, non-capital financing, capital and related financing activities. The net increase or decrease in PRPHA's cash and cash equivalents is added to the beginning balance of the fiscal 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. PRPHA uses the direct method of presenting cash flows, which includes a reconciliation of net cash used by operating activities to net operating loss.
- 4) 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 PRPHA's financial health.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

FINANCIAL HIGHLIGHTS

The financial statements for fiscal years ended on June 30, 2014 and 2013 are presented in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*"; and the Statement No. 34 "*Basic Financial Statements and Management's Discussion Analysis for State and Local Government*".

Statement of Net Position

- As of June 30, 2014 PRPHA's total assets are approximately \$2,288 million representing a net decrease of \$281 million or 11% when compared with the prior fiscal year. This decrease includes the following variances between the current and prior fiscal year balances:

Increases:

- Cash and cash equivalents increased by approximately \$7 million or 2%.
- Note receivable increased by \$100 million or 100%.

Decreases:

- Fiscal agent funds decreased by approximately \$307 million or 97%.
- Current restricted assets decreased by approximately \$7 million or 81%.
- Restricted assets decreased by approximately \$2 million or 5%.
- Capital assets, net decreased by approximately \$66 million or 4%.
- Rent and other accounts receivable decreased by approximately \$5 million or 13%.

Total liabilities amounted to approximately \$197 million representing a decrease of approximately \$332 million or 63% when compared to prior years balance. The main driver of this decrease is the net effect on bonds payable balances which decreased by approximately \$318 million.

- As of June 30, 2013 PRPHA's total assets are approximately \$2,569 million, as restated, representing a net decrease of \$49 million or 19% when compared with prior fiscal year. This decrease includes the following variances between the current and prior fiscal year balances:

Increases:

- Cash and cash equivalents increased by approximately \$31 million or 12%
- Fiscal agent funds increased by approximately \$307 million or 1036%.
- Current restricted assets increased by approximately \$6.9 million or 4%.

Decreases:

- Escrow account, restricted decreased by approximately \$325 million or 100%.
- Restricted assets decreased by approximately \$9.7 million or 18%.
- Capital assets, net decreased by approximately \$29 million or 2%.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

FINANCIAL HIGHLIGHTS (CONTINUED)

Total liabilities amounted to approximately \$529 million representing a decrease of approximately \$20 million or 4% when compared to prior year balance. The main driver of this decrease is the net effect on bonds payable balances which decreased by approximately \$30 million.

Statement of Revenues, Expenses, and Changes in Fund Net Position

- 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 decrease in the loss of 2% from the prior fiscal year. The net operating loss is due to the nature of PRPHA's financial presentation as a series of non-operating revenues and contributions from HUD are received annually which help subsidize those operating expenses.

The net operating loss balance includes approximately \$38 million in revenues and approximately \$351 million in expenses. Operating revenues decreased by approximately \$2 million and expenses decreased by approximately \$10 million.

Non-operating revenues (expenses) and grants amounted to approximately \$282 million, \$84 million more when compared with the prior fiscal year. Non-operating revenues mainly increased due to a note receivable of \$100 million due from Vivienda Modernization 1, LLC (see note 17).

Considering all operating and non-operating revenues and expenses, PRPHA ends up with a loss before HUD contributions of approximately \$32 million, a decrease of approximately \$92 million in comparison with the prior fiscal year. This loss is reduced with the capital contributions from HUD which amounted to \$83 million during the current fiscal year

The balance of net position at the end of the year amounted to approximately \$2,090 billion, representing an increase of approximately \$51 million compared to prior year, as restated.

- The prior fiscal year's financial statements reflect a net operating loss before non-operating revenues (expenses) and grants amounting to approximately \$321 million, representing an increase in the loss of 2% from the prior fiscal year. The net operating loss is due to the nature of PRPHA's financial presentation as a series of non-operating revenues and contributions from HUD received during the years which help subsidize those operating expenses. In addition, a reserve due to impairment of capital assets of \$3.5 million was accounted for during 2013.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

FINANCIAL HIGHLIGHTS (CONTINUED)

Statement of Revenues, Expenses and Changes in Fund Net Position (continued)

The 2013 net operating loss balance includes approximately \$39 million in revenues and approximately \$361 million in expenses. Operating revenues increased by approximately \$1 million. However, expenses increased by approximately \$8 million.

Non-operating revenues (expenses) and grants amounted to approximately \$197 million, \$2 million less than the 2012 fiscal year.

Considering all operating and non-operating revenues and expenses, PRPHA ends up with a loss before HUD contributions of approximately \$124 million, an increase of approximately \$9 million in comparison with the prior fiscal year. This loss is reduced with the capital contributions from HUD which amounted to \$110 million during 2013.

The balance of net position for the year ended June 30, 2013 amounted to approximately \$2,039 million, as restated, representing a decrease of approximately \$28 million compared to 2012, as restated.

REPORTING THE ADMINISTRATION AS A WHOLE

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

As shown in *Table 1*, PRPHA's Net Position amounted to approximately \$2,090 million with a net increase of 2.5% from 2013 to 2014 and a net decrease of 1.4% from 2012 to 2013.

Of this amount, approximately \$30 and \$22 millions are restricted for specific purposes for the years ended June 30, 2014 and 2013. This includes the homeownership initiative and the modernization of PRPHA projects. Unrestricted amounts are the funds 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 \$422 and \$323 million at the end of fiscal years 2014 and 2013, respectively. PRPHA's Net Position includes approximately \$1,638 and \$1,693 million of investments in capital assets, net of related debt for the years ended June 30, 2014 and 2013, respectively.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

REPORTING THE ADMINISTRATION AS A WHOLE (CONTINUED)

Table 1: Summary of Statement of Net Position

	June 30,		
	2014	Restated 2013	2012
Assets			
Current Assets	\$ 363,640,592	\$ 676,294,229	\$ 357,646,141
Capital Assets (net)	1,781,273,558	1,847,389,384	1,876,275,238
Other Non-current Assets	143,073,557	45,346,168	384,285,841
Total Assets	2,287,987,707	2,569,029,781	2,618,207,220
Liabilities			
Current Liabilities	53,717,757	374,708,502	75,245,656
Non-current Liabilities	143,304,669	154,535,793	474,373,784
Total Liabilities	197,022,426	529,244,295	549,619,440
Deferred Inflows of Resources			
Rent received in advance from tenants	780,313	766,070	793,171
Net Position	\$ 2,090,184,968	\$ 2,039,019,416	\$ 2,067,794,609

The Change in Net Position amounted to \$51 and (\$29) millions at the end of June 30, 2014 and 2013, respectively.

RESULT OF OPERATIONS

Tables 2 and 3 detail the amounts received by each fund, the Non-Operating Federal Grants and the Capital Contribution received from HUD in order to operate the PRPHA. As of 2014 and 2013, the Public Housing Fund received 85% and 81%, respectively, of the total Non-Operating Federal Grants. The amount received for the Capital Fund Program of the total Non-Operating Federal Grants was approximately 15% and 19% for 2014 and 2013, respectively. These costs are for soft costs expenditures which include relocation costs, administrative expenses among other related costs. During the 2014 and 2013, PRPHA received under the federal program HOPE VI - CFDA #14.866 approximately \$2 and \$4 million, respectively. This federal program focuses on three general areas: physical improvements, management improvements, and social and community services to address resident's needs.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

RESULT OF OPERATIONS (CONTINUED)

Table 2 **FY 2014**

Program Title	CFDA Number	Non-Operating Federal Grants	%	Capital Contributions	%	Non-Operating Revenues
Capital Fund Program	14.872	\$ 35,012,027	15%	\$ 80,957,167	97%	\$ 115,969,194
Public Housing	14.850	203,794,950	85%	-		203,794,950
HOPE VI	14.866	-		2,214,478	3%	2,214,478
		<u>\$ 238,806,977</u>	100%	<u>\$ 83,171,645</u>	100%	<u>\$ 321,978,622</u>

Table 3 **FY 2013**

Program Title	CFDA Number	Non-Operating Federal Grants	%	Capital Contributions	%	Non-Operating Revenues
Capital Fund Program	14.872	\$ 48,630,582	19%	\$ 105,928,567	96%	\$ 154,559,149
Public Housing	14.850	211,095,447	81%	-		211,095,447
HOPE VI	14.866	-		4,320,476	4%	4,320,476
		<u>\$ 259,726,029</u>	100%	<u>\$ 110,249,043</u>	100%	<u>\$ 369,975,072</u>

Graph 1 and 2 presents the distribution of Non-operating Federal Grants and Capital Contributions of the Capital Fund Program (CFP) when compared to Non-operating Revenues received from HUD in 2014 and 2013, respectively.

For fiscal year 2014, the Capital Fund received \$116 million, detailed as follows: \$35 million for Non-operating Federal Grants and \$81 million for Capital Contribution. The Non-operating Revenues of CFP for 2014 include soft costs of \$29 million, \$12 million of Management Fees (COCC) and \$17 million from the account 1406 (transfer for operations). Other soft costs include relocation costs, administrative expenses among other related costs.

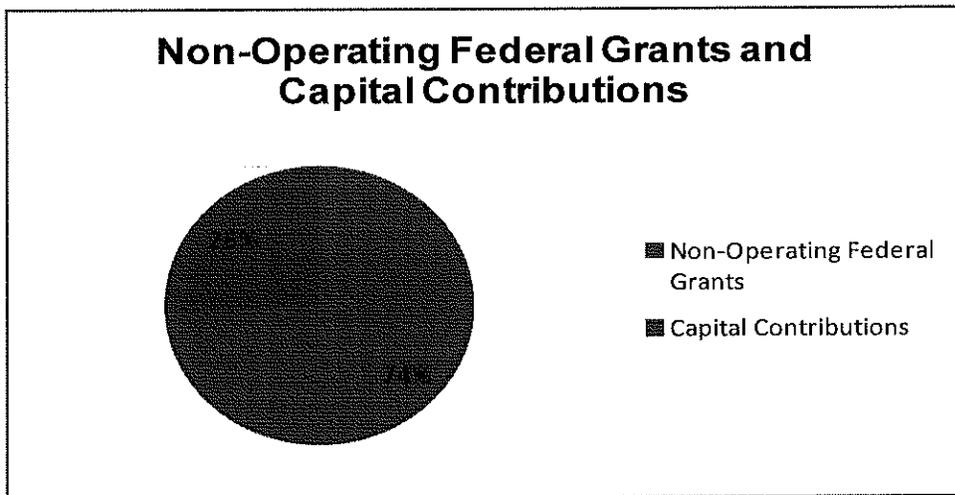
In 2013, the Capital Fund received \$155 million, detailed as follows: \$49 million for Non-Operating Federal Grants and \$106 million for Capital Contribution. The Non-operating Revenues of CFP for 2013 includes soft cost of \$38 million, \$17 million of Management Fees (COCC) and \$21 million from the account 1406 (transfer for operations). Other soft costs include relocation costs and administrative expenses among other related costs.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION

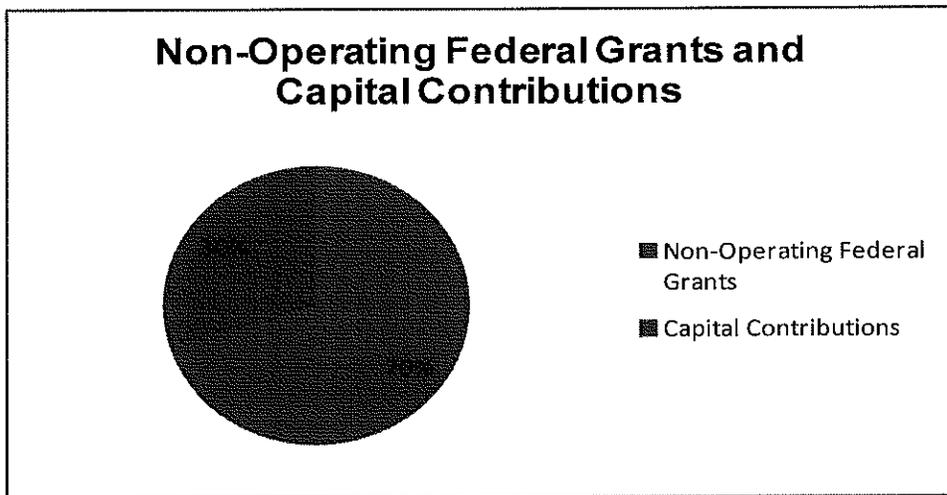
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013

RESULT OF OPERATIONS (CONTINUED)

GRAPH 1: FY 2014



GRAPH 2: FY 2013



COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013

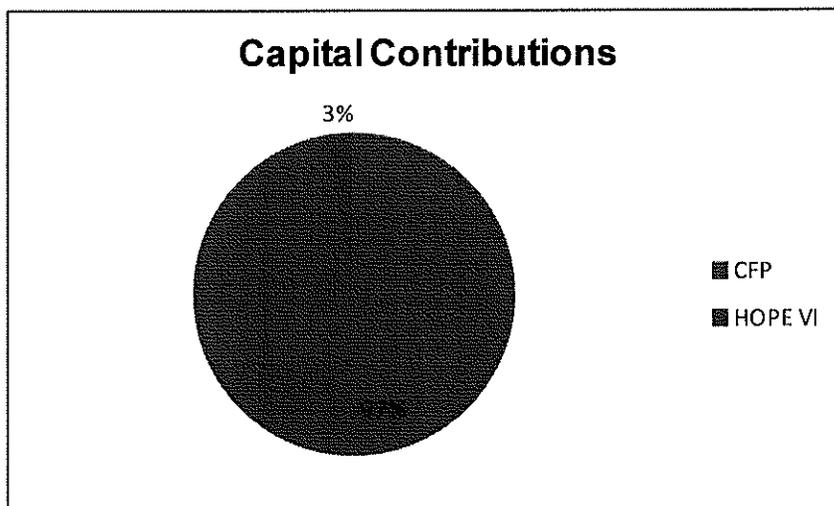
RESULT OF OPERATIONS (CONTINUED)

Graphs 3 and 4 show the capital contributions.

For fiscal year 2014, the total capital contributions amounted to approximately \$83 million. From this amount, a total of \$81 million was received from Capital Fund Program representing 97% of total capital investment and \$2 million or 3% were received from HOPE VI. From the amount received from HUD under Capital Fund Program, \$46.2 million were used to pay Bond Debt Service related to the 2003 and 2008 Bond Issues.

For fiscal year 2013, the total capital contributions amounted to \$110 million. From this amount, a total of \$106 million was received from Capital Fund Program representing 96% of total capital investment and \$4 million or 4% were received from Hope VI. From the amount received from HUD under Capital Fund Program, \$46.7 million were used to pay Bond Debt Service related to the 2003 and 2008 Bond Issues.

GRAPH 3: FY 2014



COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013

RESULT OF OPERATIONS (CONTINUED)

GRAPH 4: FY 2013

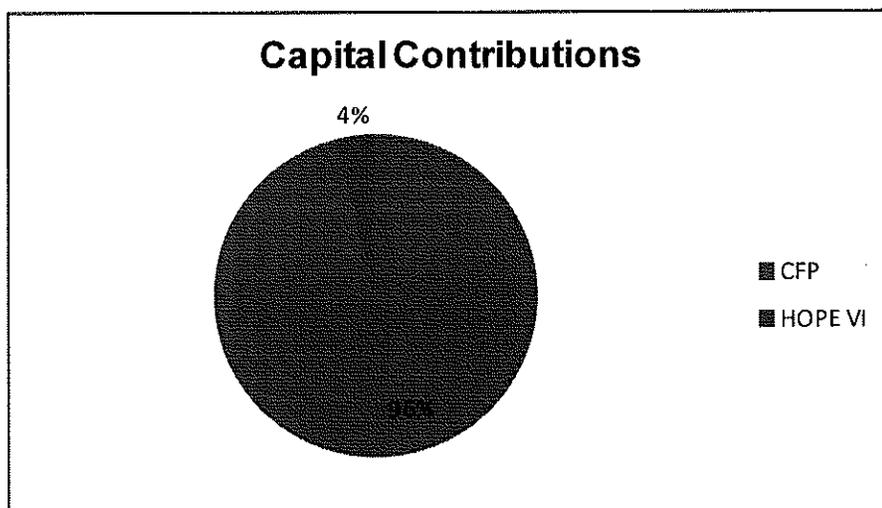


Table 4 presents the detail of operating expenses. Total operating expenses are approximately \$351 million for the fiscal year ended June 30, 2014 and \$361 million for the fiscal year ended June 30, 2013, representing a decrease of 3% in 2014 and an increase of 2% in 2013.

Table 4: Total Operating Expenses

	2014	2013	2012
Administrative salaries	\$ 53,644,109	\$ 56,590,982	\$ 51,809,612
Tenant service salaries and other tenant services	44,415,268	57,131,487	53,350,234
Repairs, maintenance and utilities	74,101,094	79,740,693	75,559,822
Depreciation	95,739,765	96,001,885	96,799,527
Insurance	10,887,914	10,995,606	14,667,863
Other general and administrative	72,434,778	60,325,850	60,319,689
Total	\$ 351,222,928	\$ 360,786,503	\$ 352,506,747

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

RESULT OF OPERATIONS (CONTINUED)

Total operating expenses decreased by \$10 million during 2014, mostly driven by the decrease in tenant services and salaries. Other general and administrative increased from 2013 to 2014 mainly due to impairment of \$26 million recognized in 2014. For 2013, total operating expenses increased by \$8 million, mostly driven by the increase in administrative salaries, tenant services salaries and other tenant services and repairs and maintenance expenses.

Table 5 presents a Summary of Revenues, Expenses, and Changes in Net Position during fiscal years 2014 and 2013.

Table 5:

	June 30		
	2014	Restated 2013	2012
Operating revenues	\$ 37,524,956	\$ 39,442,656	\$ 38,411,689
Operating expenses	351,222,928	360,786,503	352,506,747
Net operating loss before non-operating revenues and grants	(313,697,972)	(321,343,847)	(314,095,058)
Non-operating revenues (expenses) and grants	281,691,879	197,258,255	199,015,647
Loss before contributions from HUD	(32,006,093)	(124,085,592)	(115,079,411)
Capital contributions from HUD	83,171,645	110,249,043	152,590,644
Change in net position	51,165,552	(13,836,549)	37,511,233
Net position at beginning of year, as previously reported	2,042,526,817	2,067,794,609	2,030,283,376
Prior period adjustment		(11,097,204)	-
Cummulative effect of change in accounting principle	(3,507,401)	(3,841,440)	-
Net position at beginning of the year, as restated	2,039,019,416	2,052,855,965	2,030,283,376
Net position, at end of year	\$ 2,090,184,968	\$ 2,039,019,416	\$ 2,067,794,609

- The net operating loss before non-operating revenues (expenses) and grants of PRPHA for the fiscal year 2014 amounted to approximately \$314 million, representing a net decrease in the loss of 3% when compared to prior fiscal year. The main drivers of this decrease are the decreases in tenant salaries and other general and administrative expenses, (as shown in Table 4).
- Net non-operating revenues (expenses) and grants increased by approximately \$84 million in comparison with the prior fiscal year, mainly due to the net effect of the reduction in Federal Grants and recognition of other revenue from a note assigned related to Vivienda Modernization 1, LLC.
- Capital Contributions decreased by approximately \$27 million due to a decrease in capital expenditures during the modernization process of PRPHA buildings.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

RESULT OF OPERATIONS (CONTINUED)

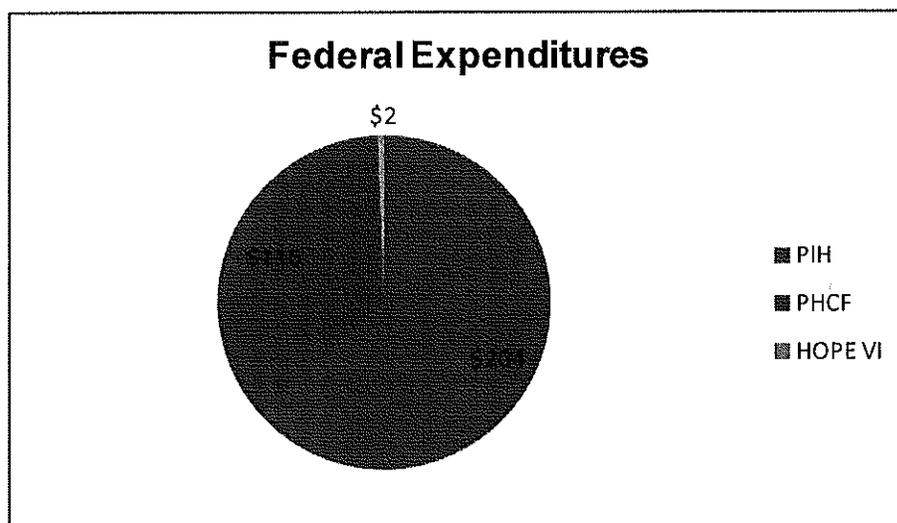
Table 6 and Graphs 5, 6 and 7 present the expenditures for each of PRPHA's federal programs for the fiscal years ended 2014, 2013 and 2012. From the Public and Indian Housing Program (PIHP), PRPHA expended \$204 million, which represents 63% of total federal expenditures for fiscal year 2014. Approximately \$116 million were expended from the Public Housing Capital Fund during the current year, representing a decrease of approximately \$39 million from prior fiscal year. In addition, PRPHA spent approximately \$2 million from HOPE VI.

During the fiscal year ended June 30, 2013, approximately \$155 million were expended from the Public Housing Capital Fund, representing an increase of approximately \$18 million, from FY 2012, and spent approximately \$4 million from HOPE VI.

Table : 6 (in millions)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Public and Indian Housing	\$ 204	\$ 211	\$ 231
Public Housing Capital Fund	116	155	137
HOPE IV	2	4	3
Capital Fund Recovery Grant	-	-	44
Total federal expenditures	\$ 322	\$ 370	\$ 415

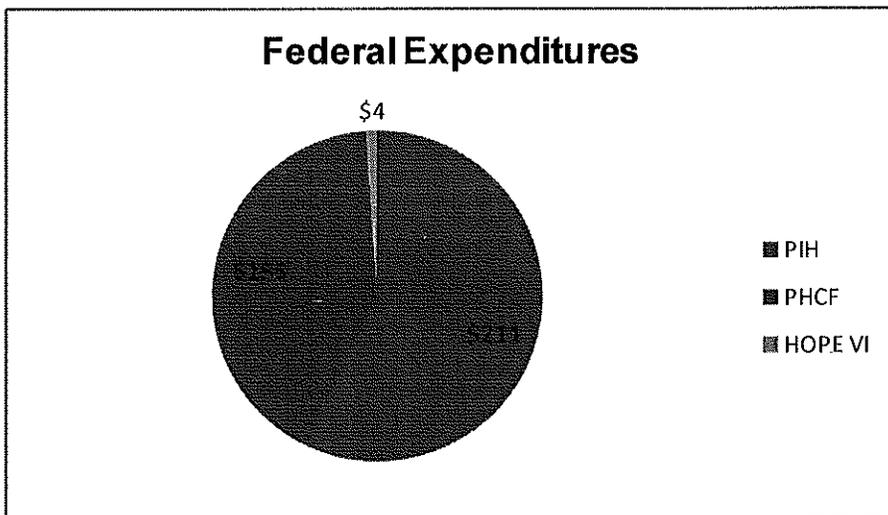
GRAPH 5: FY 2014



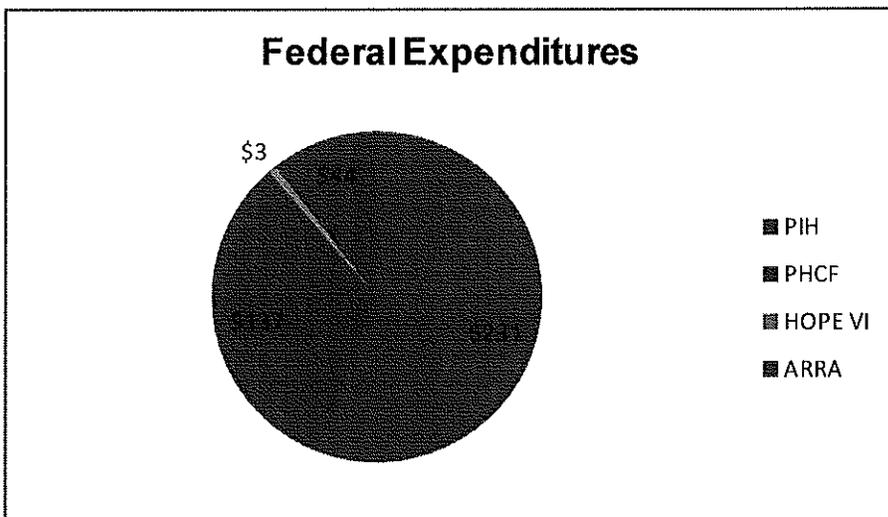
COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013

RESULT OF OPERATIONS (CONTINUED)

GRAPH 6: FY 2013



GRAPH 7: FY 2012



**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

BUDGETARY HIGHLIGHTS

Summary

Table 7 details a comparison of the final budget for the Public and Indian Housing Program (PIHP) and the Central Office Cost Center (COCC) Fund. PIHP operated in FY2014 with a revised final budget of \$292 million while the fiscal year 2013 final budget was \$307 million. The net decrease of \$15 and \$40 million for 2014 and 2013, respectively, was mainly because the Administration received less in subsidy due to a reduced in congress appropriations

Table 7:

<u>Description</u>	<u>Final Budget Approved 2014-2013</u>	<u>Final Budget Approved 2013-2012</u>	<u>Final Budget Approved 2012-2011</u>
Public and Indian Housing, including fees	\$ 267,337,816	\$ 283,154,955	\$ 320,270,717
Capital Fund Program Fee	9,869,977	19,030,475	11,212,596
Use of reserve and other income	14,743,937	5,081,953	13,000,000
ARRA.Fee for COCC	-	-	2,635,272
Total	\$ 291,951,730	\$ 307,267,383	\$ 347,118,585

Table 8 details a comparison of the final Public and Indian Housing Program (PIHP) and Central Office Cost Center (COCC) expenditures budgets for fiscal years ending 2014, 2013 and 2012. PIHP operated in FY 2014 and 2013 with a revised final budget of \$267 and \$280 million, respectively. These funds are used by PRPHA mostly in the ordinary and extraordinary maintenance of PRPHA's federal public housing projects throughout the island.

Table 8: Public and Housing and Central Office Cost Center

<u>Description</u>	<u>Final Budget Approved 2014-2013</u>	<u>Final Budget Approved 2013-2012</u>	<u>Final Budget Approved 2012-2011</u>
Administrative Expense	\$ 80,130,945	\$ 76,529,538	\$ 76,223,384
Tenant Services Expense	54,510,182	63,778,413	69,336,364
Utilities	17,947,034	17,709,016	19,196,411
Maintenance/Oper. Exp	55,805,216	62,815,526	60,755,639
Protective Service Expense	9,026,595	10,065,018	12,503,776
General Expense	49,172,982	49,283,658	47,646,845
Total Operating Expense	266,592,954	280,181,169	285,662,419
Non-Routine Expenses	25,358,776	27,086,214	61,456,166
Total Expenses	\$ 291,951,730	\$ 307,267,383	\$ 347,118,585

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

BUDGETARY HIGHLIGHTS (CONTINUED)

The final operating budget for fiscal year ended 2014 included a subsidy from HUD of approximately \$183 million compared to \$206 million for 2013. The decrease of \$23 million is due to a reduction of funds received from HUD. The budget also combines an estimated dwelling rental income of \$27 million for 2014 and 2013. For 2014, the transfer to be used for administrative expenses from the CFP program decreased to \$4 million when compared to fiscal year 2013 amount transferred of \$5 million. The total Financial Resources for 2014 show a net decrease of \$36 million mainly due to estimated subsidy and use of the operating reserve.

The final operating budget for fiscal year ended 2013 included a subsidy from HUD of approximately \$207 million compared to \$231 million for 2012. The decrease of \$24 million is due to a reduction of funds received from HUD. The budget also combines an estimated dwelling rental income of \$27 million on 2013 and \$24 million in 2012. For 2013, the transfer to be used for administrative expenses from the CFP program increased to \$21 million when compared to fiscal year 2012 amount transferred of \$2 million. The total Financial Resources for 2013 show a net decrease of \$37 million mainly due to estimated subsidy and use of the operating reserve.

Table 9

<u>Description</u>	<u>2013-2014</u>	<u>2012-2013</u>	<u>2011-2012</u>
Estimated Subsidy (includes Add On and Uses)	\$ 183,059,084	\$ 206,948,702	\$ 230,617,483
Estimated Rental Income	26,743,841	26,754,981	24,111,217
Capital Fund Program %	16,992,857	21,267,515	2,063,165
Transfer from COCC to Projects	4,381,554	4,710,450	1,460,532
Use of excess reserve	16,024,973	23,473,307	62,018,320
Total Financial Resources	247,202,309	283,154,955	320,270,717
Reasonable Fees to be Charged to Low Income Housing Program ¹	44,202,634	42,777,507	42,172,092
Projects Operating Expenditures (Does not include Non Routine)	128,084,172	141,201,654	152,138,820
Projects Insurance and Telephone Resident Service Programs, Security and Non Routine Exp.	16,052,228	16,052,228	18,419,582
Utilities Expenses	42,655,289	66,915,580	90,323,811
	16,207,986	16,207,986	17,216,412
Project Expenditures	247,202,309	283,154,955	320,270,717
Net Operating Income/Reserve	\$ -	\$ -	\$ -

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)
YEARS ENDED JUNE 30, 2014 AND 2013

BUDGETARY HIGHLIGHTS (CONTINUED)

Table 10 shows the breakdown of the total budget for FYE 2014, including the Central Office Cost Center (COCC).

Table 10

<u>Description</u>	<u>COCC</u>	<u>Projects</u>	<u>Total Budget FYE 2013-2014</u>
Administrative Expense	\$ 45,304,930	\$ 34,826,015	\$ 80,130,945
Tenant Services Expense	330,000	54,180,182	54,510,182
Utilities	1,739,048	16,207,986	17,947,034
Ord. Maintenance/Operational Expense	1,424,804	54,380,412	55,805,216
Protective Service Expense	661,506	8,365,089	9,026,595
General Expense	17,163,864	32,009,118	49,172,982
Total Operating Expense	<u>66,624,152</u>	<u>199,968,802</u>	<u>266,592,954</u>
NON-ROUTINE EXPENDITURES			
Extraordinary Maintenance	-	21,253,907	21,253,907
Replacement of Nonexpendable Equipment	50,000	58,997	108,997
Property Betterment and Additions	2,142,396	1,853,476	3,995,872
Total Non-Routine Expenditures	<u>2,192,396</u>	<u>23,166,380</u>	<u>25,358,776</u>
Total Budget	<u>\$ 68,816,548</u>	<u>\$ 223,135,182</u>	<u>\$ 291,951,730</u>

Central Office Cost Center (COCC) charges fees in lieu of cost allocations and record all financial transactions as a different fund (see *Table 11*). COCC reports these fees charged as revenue. In turn, projects will report the fees levied as expenses. *Table 11* details the Central Office Cost Center Budget Summary which includes Fees charged to Low Rent Program for \$44 million, \$10 million from Capital Fund Program as Program Fee and \$15 million from reserve funds.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

BUDGETARY HIGHLIGHTS (CONTINUED)

Table 11: Central Office Cost Center Budget Summary

	Amount
Fees Charges to AMP's Low Rent Program	\$ 44,202,634
Capital Fund Program Management Fee	9,869,977
Use of Reserve	14,743,937
Total Financial Resources for COCC	<u>\$ 68,816,548</u>
Total Expenditures for COCC (Includes salaries, indirect cost, management fees)	<u>\$ 68,816,548</u>

ASSETS AND LIABILITIES

At the end of fiscal year 2014, PRPHA had approximately \$2,288 million in total assets. For fiscal year 2013, this amount was approximately \$2,569 million, as restated, as detailed below (Table 12).

Table 12 (in millions)

Assets	June 30		
	2014	Restated 2013	2012
Cash and cash equivalents (unrestricted and restricted)	\$ 304	\$ 297	\$ 267
Rent and other accounts receivable, net	37	42	51
Materials and supplies	11	11	11
Restricted assets	1	2	2
Fiscal agent funds, restricted	11	317	28
Capital assets, net	1,781	1,847	1,876
Other noncurrent assets	143	53	383
Total Assets	<u>\$ 2,288</u>	<u>\$ 2,569</u>	<u>\$ 2,618</u>

Cash and Cash Equivalents (unrestricted and restricted)

As shown in the table above, for 2014, cash and cash equivalents increased by approximately \$7 million when compared with the prior fiscal year.

For 2013, increase in cash and cash equivalent was approximately \$30 million when compared with 2012. The main driver of this increase is due to pending obligations not spent as fiscal year end but recognized as payables.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

ASSETS AND LIABILITIES (CONTINUED)

Rent and Other Accounts Receivable, net

Rent and other accounts receivable had a net decrease of approximately \$5 million when compared with prior fiscal year mainly due to a decrease of \$3 million in repayments of advances to the management agents and a decrease of \$2 million in others receivables.

For 2013, Rent and other receivable had a net decreased of approximately \$9 million when compared to 2012, mainly due to an increase in repayments of advances to the management agents, a decrease of \$7 million in other receivables and a decrease of \$5 million in accounts receivable for tenants.

Capital Assets, net

At the end of the fiscal year 2014, capital assets decreased by approximately \$66 million when compared with prior fiscal year. The main driver of this decrease is the net effect of a decrease in construction in progress, the increase in the accumulated depreciation and an adjustment due to the impairment of projects (See Table 13, Graphs 8 and 9 below). Of the total of \$3,348 billion, \$2,793 billion were invested in Buildings and Buildings Improvements during the current fiscal year, representing an increase of approximately \$44 million in comparison with prior fiscal year. Construction in progress (CIP) for the current fiscal year amounted to approximately \$299 million representing a decrease of \$21 million with prior year.

At the end of the fiscal year 2013, capital assets decreased by approximately \$29 million when compared with prior fiscal year. The main driver of this decrease is the net effect of an increase in Buildings and Building Improvements and a higher increase in the accumulated depreciation (See Table 13, Graphs 8 and 9 below). Of the total of \$3,323 billion, \$2,749 billion were invested in Buildings and Buildings Improvements during the current fiscal year, representing an increase of approximately \$44 million in comparison with prior fiscal year. Construction in progress (CIP) for the current fiscal year amounted to approximately \$320 million representing a decrease of \$21 million with prior year.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

ASSETS AND LIABILITIES (CONTINUED)

Capital Assets, net (continued)

Table 13:

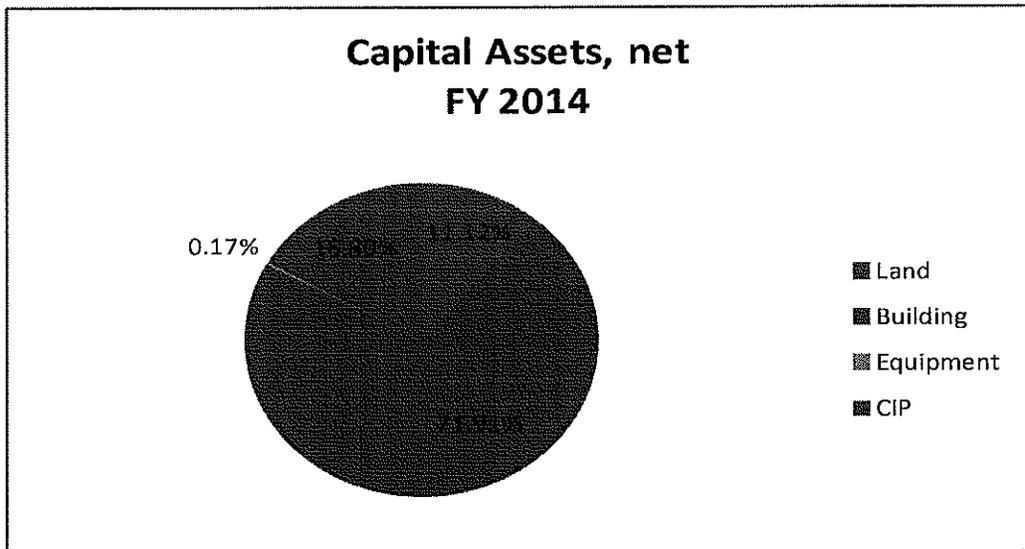
Capital Assets (Net of Accumulated Depreciation, in millions)	2014	2013	2012
Land	\$ 198	\$ 196	\$ 203
Building and building improvements	2,793	2,749	2,705
Furniture, fixtures and equipment	41	41	40
Vehicles	17	17	17
Construction in progress (CIP)	299	320	299
Subtotal	<u>3,348</u>	<u>3,323</u>	<u>3,264</u>
Less: accumulated depreciation	<u>(1,567)</u>	<u>(1,476)</u>	<u>(1,387)</u>
Capital Assets, net	<u><u>\$ 1,781</u></u>	<u><u>\$ 1,847</u></u>	<u><u>\$ 1,877</u></u>

COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION

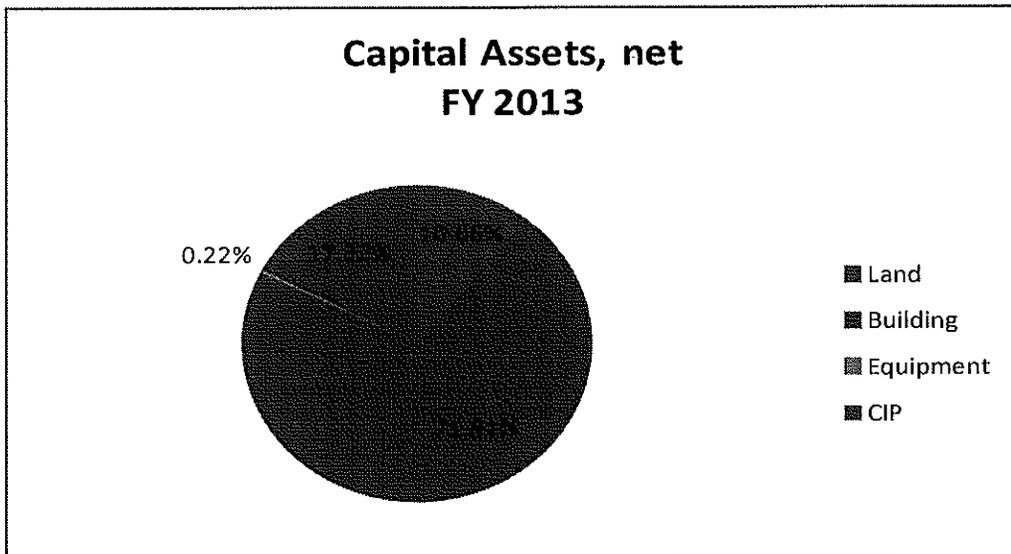
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 YEARS ENDED JUNE 30, 2014 AND 2013

ASSETS AND LIABILITIES (CONTINUED)

GRAPH 8: FY 2014



GRAPH 9: FY 2013



COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013

ASSETS AND LIABILITIES (CONTINUED)

Non-current Assets

For the fiscal year ended June 30, 2014, non-current assets increased by approximately \$32 million, in the current year, mainly due to the net effect of a decrease in capital assets and the recognition of the note receivable from Vivienda Modernization 1, LLC.

For the fiscal year ended June 30, 2013, non-current assets decreased by approximately \$365 million mainly due to the decrease in escrow account restricted and restricted assets balances of approximately \$325 and \$10 million, respectively. Most of these balances were used to pay the current portion of the outstanding debt.

LIABILITIES

Bonds Payable

As of June 30, 2014, the total liability related to the financial agreement entered during December 2003, between the Puerto Rico Housing Finance Administration (the bond issuer) and US Bank Trust National Association (the trustee), that was executed through a bond issue of \$663,060,000 had decrease to \$151,179,149. 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. During 2014, the debt service for the defeased portion of the 2003 Bonds was paid from the defeasance escrow. The debt service for the remaining balance of the 2003 Bonds will continue to be paid from capital funds of 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 consists of the following:

	<u>2014</u>	<u>2013</u>
Current portion	\$ 10,600,000	\$ 317,420,000
Long-term portion	<u>140,579,149</u>	<u>151,398,832</u>
Bonds Payable, net	<u>\$ 151,179,149</u>	<u>\$ 468,818,832</u>

Current Liabilities

As of June 30, 2014, PRPHA had a total of approximately \$54 million in current liabilities. Of this amount, \$11 million represents the current portion of bonds payable, \$40 million are accounts payable and accrued liabilities and other current liabilities amounted to approximately \$3 million. As of June 30, 2013, the amount of current liabilities was \$375 million, of which \$317 million represented the current portion of bonds payable, \$52 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, 2014 AND 2013**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND PROJECTIONS

On September 19, 2005, the United States Department of Housing and Urban Development (HUD) published 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 (PI-IAs) 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.

In the following fiscal year we have been very conservative establishing an amount of \$372.2 million as the budget for fiscal year 2015, where \$330 million will be assigned for operations and the ordinary maintenance of PRPHA projects including the Central Office Cost Center, \$1.2 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 is included to be invested in the modernization of the projects and related costs such as relocation and inspection of projects as a projected amount of \$41 million.

The following table shows the budget petition to the Governing Board of PRPHA for the fiscal year 2015 for the federal projects administered by PRPHA and its Central Office Cost Center:

<u>Description</u>	<u>2014-2015</u>	<u>%</u>
Estimated subsidy (includes add on and uses)	\$ 216,268,937	65%
Estimated Rental Income	27,924,095	8%
Capital Fund Program % 1406	22,358,173	7%
Capital Fund Program % 1410	10,206,478	3%
Use of operating reserve (projects)	35,000,000	11%
Use of reserve (COCC)	14,858,583	4%
Transfer from COCC to Projects/Other	3,794,614	1%
Total Financial Resources	<u>\$ 330,410,880</u>	<u>100%</u>

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013

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

<u>Description</u>	<u>2014-2015</u>	<u>%</u>
Reasonable fess to be charge to low income housing program COCC expenditures	\$ 45,935,242	14%
Projects operating expenditures (does not include nonroutine)/C)CC Exp	178,352,193	54%
Project insurance and telephone	16,196,736	5%
Resident service programs, security and nonroutine exp	70,655,229	21%
Utilities expenses	19,271,480	6%
Projects expenditures	<u>\$ 330,410,880</u>	<u>100%</u>
Net Operating Income/Reserve	<u>\$ -</u>	<u>0%</u>

The following table shows the budget projections for fiscal years 2013 to 2016 for the federal projects administered by PRPHA:

<u>Description</u>	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>
Estimated Subsidy (includes Add On and Uses)	\$ 206,948,702	\$ 183,059,084	\$ 216,268,937	\$ 222,757,005
Estimated Rental Income	26,754,981	26,743,841	27,924,095	28,761,818
Capital Fund Program % 1406	21,267,515	16,992,857	22,358,173	23,028,918
Transfer from COCC to Projects	4,710,450	4,381,554	3,794,614	3,908,452
Use of Excess Reserve	23,473,307	16,024,973	35,000,000	36,050,000
Total Financial Resources	<u>\$ 283,154,955</u>	<u>\$ 247,202,309</u>	<u>\$ 305,345,819</u>	<u>\$ 314,506,193</u>

REQUEST FOR INFORMATION

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

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

**STATEMENTS OF NET POSITION
YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>Restated 2013</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$ 296,306,322	\$ 297,021,121
Cash and cash equivalents, restricted (Note 5)	7,903,088	367,143
Rent and other accounts receivable, net (Note 3)	36,501,895	41,892,512
Materials and supplies	10,733,382	11,068,563
Restricted assets (Note 5)	1,595,905	8,524,890
Fiscal agent funds, restricted (Note 4)	10,600,000	317,420,000
Total current assets	<u>363,640,592</u>	<u>676,294,229</u>
Restricted assets (Note 5)	43,073,557	45,346,168
Capital assets, net (Note 6)	1,781,273,558	1,847,389,384
Note receivable (Note 15)	100,000,000	-
Total non-current assets	<u>1,924,347,115</u>	<u>1,892,735,552</u>
Total assets	<u>\$ 2,287,987,707</u>	<u>\$ 2,569,029,781</u>
LIABILITIES		
Current portion of bonds payable, restricted (Note 7)	\$ 10,600,000	\$ 317,420,000
Current portion of accrued compensated absences and termination benefits (Note 8)	2,737,808	2,969,900
Accounts payable and accrued liabilities (Note 8)	39,771,547	52,432,666
Accrued bond interest payable	608,402	1,885,936
Total current liabilities	<u>53,717,757</u>	<u>374,708,502</u>
Long-term portion of accrued compensated absences and termination benefits (Note 8)	2,725,520	3,136,961
Long-term portion of bonds payable, net (Notes 7)	140,579,149	151,398,832
Total non-current liabilities	<u>143,304,669</u>	<u>154,535,793</u>
Total liabilities	<u>197,022,426</u>	<u>529,244,295</u>
DEFERRED INFLOWS OF RESOURCES		
Rent receive in advance from tenants	780,313	766,070
NET POSITION		
Net investment in capital assets	1,637,730,302	1,692,777,883
Restricted (Note 14)	30,698,177	22,968,890
Unrestricted	421,756,489	323,272,643
Total net position	<u>2,090,184,968</u>	<u>2,039,019,416</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 2,287,987,707</u>	<u>\$ 2,569,029,781</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 REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	Restated 2013
Operating revenues		
Rent, fees and other	\$ 34,109,004	\$ 36,052,133
Fees earned asset management, net	3,415,952	3,390,523
	<u>37,524,956</u>	<u>39,442,656</u>
Operating expenses		
Administrative salaries	53,644,109	56,590,982
Tenant service salaries	17,408,445	18,486,719
Other tenant services	27,006,823	38,644,768
Repairs and maintenance	57,415,387	66,508,843
Utilities	16,685,707	13,231,850
Depreciation	95,739,765	96,001,885
Insurance	10,887,914	10,995,606
Impairment of capital assets	26,128,194	3,459,770
Other general and administrative	46,306,584	56,866,080
	<u>351,222,928</u>	<u>360,786,503</u>
Net operating loss before non-operating revenues (expenses) and grants	<u>(313,697,972)</u>	<u>(321,343,847)</u>
Non-operating revenues (expenses) and grants (Notes 1, 3, 7, 10 and 15):		
Loss on disposition of dwelling properties and equipment, net	(1,219,825)	(2,601,274)
Legislative appropriation	1,415,000	1,500,000
Interest earned	2,984,280	5,973,654
Interest expense	(13,468,812)	(20,749,317)
Payments to sub-grantee	(46,825,741)	(46,590,837)
Federal grants	238,806,977	259,726,029
Other revenue ,transfer of note receivable from other agency	100,000,000	-
	<u>281,691,879</u>	<u>197,258,255</u>
Loss before capital contributions from the U.S. Department of Housing and Urban Development (HUD)	<u>(32,006,093)</u>	<u>(124,085,592)</u>
Capital contributions from the U.S. Department of Housing and Urban Development (HUD)	<u>83,171,645</u>	<u>110,249,043</u>
Change in net position	<u>51,165,552</u>	<u>(13,836,549)</u>
Net position at beginning of year, as previously reported	2,042,526,817	2,067,794,609
Prior period adjustment	-	(11,097,204)
Cummulative effect of change in accounting principle	(3,507,401)	(3,841,440)
Net position at beginning of year, as restated	<u>2,039,019,416</u>	<u>2,052,855,965</u>
Net position, at end of year	<u>\$ 2,090,184,968</u>	<u>\$ 2,039,019,416</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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from tenants and federal grants	\$ 42,915,573	\$ 48,360,301
Cash payments to employees	(71,687,285)	(74,847,459)
Cash payments to suppliers and management agents	(170,622,912)	(176,692,073)
Net cash used in operating activities	<u>(199,394,624)</u>	<u>(203,179,231)</u>
Cash flows from investing activities:		
Interest received from investments	2,984,280	5,973,654
Net cash provided by investing activities	<u>2,984,280</u>	<u>5,973,654</u>
Cash flows from capital and related financing activities:		
Interest paid in capital funds	(14,966,029)	(23,597,851)
Proceeds from capital contributions	83,171,645	110,249,043
Proceeds from sale of dwelling	284,080	447,410
Principal payments of bonds payable	(317,420,000)	(27,940,000)
Cash outlays to sub-grantee	(46,825,741)	(46,590,837)
Cash outlays in capital assets	(57,256,038)	(84,445,700)
Funding of escrow account, net	6,945,000	318,428,390
Net cash (used in) provided by capital and related financing activities	<u>(346,067,083)</u>	<u>246,550,455</u>
Cash flows from non-capital financing activities:		
Legislative and federal grants contributions received	240,221,977	261,226,029
Net cash provided by non-capital financing activities	<u>240,221,977</u>	<u>261,226,029</u>
Net (decrease) increase in cash and cash equivalents	(302,255,450)	310,570,907
Cash and cash equivalents, at beginning of year	<u>661,734,322</u>	<u>351,163,415</u>
Cash and cash equivalents, at end of year	<u>\$ 359,478,872</u>	<u>\$ 661,734,322</u>
Cash and cash equivalents		
Unrestricted	\$ 296,306,322	\$ 297,021,121
Restricted:		
Cash and cash equivalents, restricted	7,903,088	367,143
Fiscal agent funds	10,600,000	317,420,000
Restricted assets	44,669,462	46,926,058
	<u>\$ 359,478,872</u>	<u>\$ 661,734,322</u>

Continues

**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, 2014 AND 2013**

Reconciliation of net operating loss before non- operating revenues (expenses) and grants to net cash used in operating activities:	<u>2014</u>	<u>2013</u>
Net operating loss before non-operating revenues (expenses) and grants	<u>\$ (313,697,972)</u>	<u>\$ (321,343,847)</u>
Adjustments to reconcile net operating loss before non- operating revenues (expenses) and grants to net cash used in operating activities		
Depreciation	95,739,765	96,001,885
Impairment of capital assets	26,128,194	3,459,770
Bad debt expense	2,139,162	5,728,054
Decrease in rent and other accounts receivable, net	3,203,714	3,189,592
Decrease (increase) in materials and supplies	335,181	(324,983)
Increase (decrease) in deferred revenues inflows of resources	14,243	(27,101)
(Decrease) increase accounts payable, accrued liabilities, and accrued compensated absences and benefits	<u>(13,256,911)</u>	<u>10,137,399</u>
Total adjustments	<u>114,303,348</u>	<u>118,164,616</u>
Net cash used in operating activities	<u>\$ (199,394,624)</u>	<u>\$ (203,179,231)</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
YEARS ENDED JUNE 30, 2014 AND 2013**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Puerto Rico Public Housing Administration of the Commonwealth of Puerto Rico (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. 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. PRPHA operates approximately 55,000 public housing units, located in 365 (332 federally subsidized and 33 state subsidized) residential complexes throughout the island.

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

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 accompanying financial statements are issued solely for the information and use of 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 specified parties.

Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting and Financial Statements Presentation

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

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.

**COMMONWEALTH OF PUERTO RICO
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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

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)

Net operating loss includes revenues and expenses related to the primary, continuing operations of 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 PRPHA in estimating the fair value of its financial instruments:

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

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

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

Bonds payable: As of June 30, 2014, the fair value of the PRPHA's bonds payable ranged from 100% to 112% of their carrying amount. However, this value may change in the near term.

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.

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**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)

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

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.

PRPHA evaluates the recoverability of its capital assets, if circumstances indicate impairment may have occurred pursuant to GASB 42, *Accounting for Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This analysis is performed by using the service units approach. For the fiscal years ended June 30, 2014 and 2013, PRPHA recognized a loss on impairment for certain capital assets of \$26,128,194 and \$3,459,770, respectively, because of certain dwelling units identified for demolition and/or units which are not in use for an extended period of time.

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.

**COMMONWEALTH OF PUERTO RICO
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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

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

Summary of Significant Accounting Policies (Continued)

Deferred Inflows of Resources

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 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 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.

Pension Benefits

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

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net position is presented in three components as follows:

- Net investment in capital assets - 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 position - Consist of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- Unrestricted net position - Consists of all other assets that do not meet the definitions of "restricted" or "invested in capital assets, net of related debt."

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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

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

Summary of Significant Accounting Policies (Continued)

Transactions Affecting Beginning Net Position

Change in Accounting Principle

GASB 65, *Financial Reporting of Items Previously Reported as Assets and Liabilities*, was effective for the Administration's year ended June 30, 2011 and represents a change from one generally accepted accounting principle to another generally accepted accounting principle that is the current preferred industry practice. Under GASB 65, bond issuance costs, exclusive of prepaid insurance, were reclassified to a non-operating expense. The fiscal year 2013 financial statements have been restated to reflect the retroactive applications of this change in accounting principle.

Prior Period Adjustment

The beginning net position as July 1, 2012 has been restated by the Administration from the balances previously reported to correct the overstatement of capital assets for the amount of \$11,097,204 due to the unrecorded transfer of certain capital assets to the Department of Housing related to the Vivienda Modernization tax credit transaction.

Financial Statement Effect of the Change in Accounting Principle

The effect of the change in accounting principle was to reduce beginning net position by the following amounts as of June 30:

	<u>2014</u>	<u>2013</u>
Net position, beginning of year as originally reported	\$ 2,042,526,817	\$ 2,067,794,609
Cummulative effect of change in accounting principle	(3,507,401)	(3,841,440)
Prior period adjustment, correction of capital assets	-	(11,097,204)
Net position, beginning of year as restated	<u>\$ 2,039,019,416</u>	<u>\$ 2,052,855,965</u>

Use of Estimates

Management of the Administration 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.

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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

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

Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements

The GASB has issued the following accounting standards which were adopted, when applicable, by PRPHA or are being evaluated for the impact that these standards will have in the financial statements:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities, or vice versa. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The implementation of this statement in fiscal year 2013 updated the titles of certain basic financial statements and captions within the financial statements.

GASB Statement No. 66, *Technical Corrections 2012*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*.

This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013

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

Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements (Continued)

GASB Statement No. 67, *Financial Reporting for Pension Plans* — an amendment of GASB Statement No. 25. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* — an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement also provides accounting and financial guidance for disposals of government operations that have been transferred or sold. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

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

Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements (Continued)

GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. The objective of this Statement is to improve accounting and financial reporting by state and local government that extend and receive nonexchange financial guarantees. This Statement requires a government entity guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. This Statement is effective for financial statements for periods beginning after June 15, 2013.

GASB Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date – an Amendment of GASB Statement No.68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net position liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

Reclassifications

Certain amounts in the 2013 financial statements have been reclassified to conform with the 2014 presentation with no effect on previously reported change in net assets.

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 December 24, 2014, the date the financial statements were available to be issued. See Note 17 for subsequent event disclosure.

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:

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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

2. DEPOSITS AND CUSTODIAL CREDIT RISK (CONTINUED)

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.

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 at:

<u>Bank (s) balance in</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Insured depository accounts	\$ 250,000	\$ 250,000
Collateralized depository accounts-held under the Administration's name	47,843,908	19,541,991
	<u>\$ 48,093,908</u>	<u>\$ 19,791,991</u>

In addition, as of June 30, 2014 and 2013, PRPHA's custodial credit risk was approximately \$282.2 million and \$306.5 million, respectively, which are the cash balances deposited in the Government Development Bank for Puerto Rico (GDB) 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.

During the fiscal year ended June 30, 2013 a total of approximately \$124.6 million were transferred from the collateral held depository account to the Government Development Bank of Puerto Rico, which offer to PRPHA a more competitive interest rate.

As of the date these financial statements were issued, the GDB's liquidity and financial condition is principally depended on the repayment of loans made to the Commonwealth and its public corporations, which face significant fiscal and financial challenge in their ability to generate sufficient funds from other sources.

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013

3. RENT AND OTHER ACCOUNTS RECEIVABLE, NET

Rent and other accounts receivable, net of the allowance for doubtful accounts, consist of the following at June 30:

Description	2014	2013
Rent and other receivables:		
Legislative appropriations	\$ -	\$ 1,023,258
Accounts receivable from tenants	15,863,313	13,346,316
Others	14,604,545	16,552,958
	<u>30,467,858</u>	<u>30,922,532</u>
Less: allowance for doubtful accounts, including an allowance for enterprise income verification (EIV) of \$5,534,508 in 2014 and \$4,932,198 in 2013	<u>(16,525,080)</u>	<u>(15,201,114)</u>
Total rent and other accounts receivable, net	13,942,778	15,721,418
HUD grants receivable	7,106,082	8,944,218
Interest receivable	1,113,663	527,109
Accounts receivable from Department of Housing of the Commonwealth of Puerto Rico	1,370,888	360,710
Advances to management agents	<u>12,968,484</u>	<u>16,339,057</u>
Total accounts receivable	<u>\$ 36,501,895</u>	<u>\$ 41,892,512</u>

The HUD grant receivable represents the amount pending to be receive by PRPHA as of June 30, 2014 and 2013 under the Capital Fund's expenditure driven agreement for allowable costs already incurred at June 30, 2014 and 2013, but for which HUD had not made the drawdown of funds on behalf of PRPHA. These costs are mainly for capital assets additions and other expenses related with the modernization of dwelling units.

4. FISCAL AGENT FUNDS, RESTRICTED

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, 2014 and 2013 amounted to \$10,600,000 and \$317,420,000, 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.

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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

4. FISCAL AGENT FUNDS, RESTRICTED (CONTINUED)

The fiscal agent funds are provided from the following sources:

	<u>2014</u>	<u>2013</u>
Escrow account	\$ -	\$ 307,330,000
Restricted assets	10,600,000	10,090,000
Total fiscal agent funds	<u>\$ 10,600,000</u>	<u>\$ 317,420,000</u>

5. RESTRICTED ASSETS

Restricted assets at June 30 consist of the following:

<u>Description</u>	<u>Classification</u>	<u>2014</u>
Certificate of deposit at 1% due on August 5, 2014	Short-term	\$ 1,595,905
Certificate of deposit at .60% due on September 9, 2014	Short-term	152,334
Certificate of deposit at .60% due on September 9, 2014	Short-term	522,757
Fiscal Agent Funds	Short-term	10,600,000
Cash and cash equivalents in Government Development Bank	Short-term	7,903,088
Total restricted assets, current		<u>20,774,084</u>
Deposits with HUD	Long-term	1,521,156
Cash restricted for operating expenses of dwelling units	Long-term	19,002,937
Cash restricted on capital fund program bonds	Long-term	21,874,374
		<u>\$ 63,172,551</u>
<u>Description</u>	<u>Classification</u>	<u>2013</u>
Certificate of deposit at 1% due on August 5, 2013	Short-term	\$ 1,579,890
Certificate of deposit at .54% due on September 9, 2013	Short-term	151,513
Certificate of deposit at .54% due on September 9, 2013	Short-term	519,938
Fiscal Agent Funds	Short-term	317,420,000
Escrow account	Short-term	6,945,000
Cash and cash equivalents in Government Development Bank	Short-term	367,143
Total restricted assets, current		<u>326,983,484</u>
Deposits with HUD	Long-term	1,521,156
Cash restricted for operating expenses of dwelling units	Long-term	18,829,250
Cash restricted on capital fund program bonds	Long-term	24,324,311
		<u>\$ 371,658,201</u>

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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

5. RESTRICTED ASSETS (CONTINUED)

At June 30, the funds received from and/or held by HUD earmarked for certain specific purposes include:

<u>Description</u>	<u>2014</u>	<u>2013</u>
Homebuyers earned home payment	\$ 319,181	\$ 315,978
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	1,276,724	1,263,912
Amount to be used for the repayment of principal and interest of the 2003 Capital Revenue Bonds	10,600,000	324,365,000
Amount to be used on operating expenses of dwelling units of Turnkey III projects	19,678,028	19,500,701
Proceeds from the Capital Fund Program Bonds to be used for the modernization of approximately 40 properties containing approximately 8,000 units	21,874,374	24,324,311
Investment with Government Development Bank	7,903,088	367,143
	<u>63,172,551</u>	<u>371,658,201</u>
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	-	(317,420,000)
Total restricted assets-earmarked for specific purposes	<u>\$ 63,172,551</u>	<u>\$ 54,238,201</u>

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 years ended June 30, 2014 and 2013 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 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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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

6. CAPITAL ASSETS, NET

Capital assets net of accumulated depreciation consist of the following:

	Balance at June 30, 2013	Additions	Retirements	Transfers	Balance at June 30, 2014
Capital assets not being depreciated:					
Land	\$ 196,640,375	-	\$ (149,058)	\$ 1,123,877	\$ 197,615,194
Intangible asset	266,757	-	-	-	266,757
Construction in progress	320,278,713	55,396,958	-	(76,405,572)	299,270,099
Total capital assets not being depreciated	<u>517,185,845</u>	<u>55,396,958</u>	<u>(149,058)</u>	<u>(75,281,695)</u>	<u>497,152,050</u>
Capital assets being depreciated:					
Buildings and building improvements	2,749,145,285		(31,170,742)	75,281,695	2,793,256,238
Furnitures, fixtures and equipments	40,663,234	1,765,265	(1,240,279)	-	41,188,220
Vehicles	16,952,259	224,804	(71,149)	-	17,105,914
Total capital assets being depreciated	<u>2,806,760,778</u>	<u>1,990,069</u>	<u>(32,482,170)</u>	<u>75,281,695</u>	<u>2,851,550,372</u>
Less: accumulated depreciation	<u>(1,476,557,239)</u>	<u>(95,739,765)</u>	<u>4,868,140</u>	<u>-</u>	<u>(1,567,428,864)</u>
Total capital assets being depreciated, net	<u>1,330,203,539</u>	<u>(93,749,696)</u>	<u>(27,614,030)</u>	<u>75,281,695</u>	<u>1,284,121,508</u>
Total capital assets, net	<u>\$ 1,847,389,384</u>	<u>\$ (38,352,738)</u>	<u>\$ (27,763,088)</u>	<u>\$ -</u>	<u>\$ 1,781,273,558</u>

COMMONWEALTH OF PUERTO RICO
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
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6. CAPITAL ASSETS, NET (CONTINUED)

	Balance at June 30, 2012	Additions	Retirements	Transfers	Balance at June 30, 2013
Capital assets not being depreciated:					
Land	\$ 203,068,084	\$ 5,299,925	\$ (11,727,634)	\$ -	\$ 196,640,375
Intangible Asset	266,757	-	-	-	266,757
Construction in progress	298,532,541	129,206,290	(58,248,447)	(49,211,671)	320,278,713
Total capital assets not being depreciated	<u>501,867,382</u>	<u>134,506,215</u>	<u>(69,976,081)</u>	<u>(49,211,671)</u>	<u>517,185,845</u>
Capital assets being depreciated:					
Buildings and building improvements	2,704,726,597	6,256,788	(11,049,771)	49,211,671	2,749,145,285
Furniture, fixtures and equipments	39,472,048	2,195,922	(1,004,736)	-	40,663,234
Vehicles	16,913,447	44,212	(5,400)	-	16,952,259
Total capital assets being depreciated	<u>2,761,112,092</u>	<u>8,496,922</u>	<u>(12,059,907)</u>	<u>49,211,671</u>	<u>2,806,760,778</u>
Less: accumulated depreciation	<u>(1,386,704,236)</u>	<u>(96,001,885)</u>	<u>6,148,882</u>	<u>-</u>	<u>(1,476,557,239)</u>
Total capital assets being depreciated, net	<u>1,374,407,856</u>	<u>(87,504,963)</u>	<u>(5,911,025)</u>	<u>49,211,671</u>	<u>1,330,203,539</u>
Total capital assets, net	<u>\$ 1,876,275,238</u>	<u>\$ 47,001,252</u>	<u>\$ (75,887,106)</u>	<u>\$ -</u>	<u>\$ 1,847,389,384</u>

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7. BONDS PAYABLE, NET

Bonds payable consist of Capital Fund Program Bonds. On December 18, 2003, 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 Administration (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) monies. 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. These bonds were refinanced during fiscal year 2009. 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. The debt service for the defeased portion of the 2003 Bonds will be paid from a defeasance escrow and the debt service for the undefeased 2003 Bonds will continue to be paid from capital funds of PRPHA together with debt service on the 2008 Bonds pursuant to the schedule submitted as part of the CFP submission and the final debt service schedule as submitted to HUD.

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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
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7. BONDS PAYABLE, NET (CONTINUED)

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

2014	Balance at June 30, 2013	Increases and new issuances	Decreases and payments/ amortization	Balance at June 30, 2014
Capital Fund Program Bonds, maturing in various dates through the year 2025, bearing interest rates between 2% to 5% annually	\$ 468,505,000	-	\$ (317,420,000)	\$ 151,085,000
Unamortized net premium	313,832	-	(219,683)	94,149
	<u>\$ 468,818,832</u>	<u>-</u>	<u>\$ (317,639,683)</u>	<u>151,179,149</u>
Less: Current portion of bonds payable				(10,600,000)
Long-term portion of bonds payable, net				<u>\$ 140,579,149</u>
2013	Balance at June 30, 2012	Increases and new issuances	Decreases and payments/ amortization	Balance at June 30, 2013
Capital Fund Program Bonds, maturing in various dates through the year 2025, bearing interest rates between 2% to 5% annually	\$ 496,445,000	-	\$ (27,940,000)	\$ 468,505,000
Unamortized net premium	2,771,272	-	(2,457,440)	313,832
	<u>\$ 499,216,272</u>	<u>-</u>	<u>\$ (30,397,440)</u>	<u>468,818,832</u>
Less: Current portion of bonds payable				(317,420,000)
Long-term portion of bonds payable, net				<u>\$ 151,398,832</u>

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7. BONDS PAYABLE, NET (CONTINUED)

The net premium is amortized over the life of the debt, using the interest method, as an adjustment to interest expense. Interest expense for the years ended June 30, 2014 and 2013 amounted to \$219,682 and \$2,457,440, 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>
2015	\$ 10,600,000	\$ 7,035,822	\$ 17,635,822
2016	11,140,000	6,492,322	17,632,322
2017	11,715,000	5,920,947	17,635,947
2018	12,315,000	5,320,197	17,635,197
2019	12,945,000	4,688,697	17,633,697
2020-2025	92,370,000	13,440,276	105,810,276
	<u>\$ 151,085,000</u>	<u>\$ 42,898,261</u>	<u>\$ 193,983,261</u>

8. ACCOUNTS PAYABLE, ACCRUED LIABILITIES, COMPENSATED ABSENCES AND TERMINATION BENEFITS

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

	<u>2014</u>	<u>2013</u>
Contractors and others	\$ 18,726,981	\$ 29,224,012
Reserve for contingencies	6,000,000	6,000,000
Fee retention to contractors	119,784	125,824
Others	14,924,782	17,082,830
	<u>\$ 39,771,547</u>	<u>\$ 52,432,666</u>

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8. ACCOUNTS PAYABLE, ACCRUED LIABILITIES, COMPENSATED ABSCENCES AND TERMINATION BENEFITS (CONTINUED)

Compensated absences and termination benefits consist of the following at June 30:

Year	Beginning Balance	Additions	Deductions	Ending Balance	Due within one year	Long-term portion
2014	\$ 6,106,861	\$ 2,665,756	\$(3,309,289)	\$ 5,463,328	\$2,737,808	\$ 2,725,520
2013	\$ 5,876,619	\$ 3,642,820	\$(3,412,578)	\$ 6,106,861	\$2,969,900	\$ 3,136,961

9. CAPITAL CONTRIBUTIONS

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

	2014	2013
Contributed capital for the development and modernization of the Public Housing Capital Fund Program (CFP)	\$ 83,171,645	\$ 110,249,043

10. OTHER FEDERAL GRANTS

The Omnibus Consolidated Rescissions and Appropriations Act (OCRAA) enacted on April 24, 1996, permits the PRPHA to transfer funds from the Public Housing Capital Fund Program (CFP) approved annual grants to operational activities in amounts ranging from 10% to 20%. For the fiscal years ended June 30, 2014 and 2013, these transfers amounted to \$29,211,918 and \$37,986,206, respectively, representing an average of 10% of the grants received for the years.

11. EMPLOYEE'S RETIREMENT PLAN

PRPHA participates in the Employee's Retirements System of the Government of Puerto Rico and its instrumentalities. Normally, all employees of the PRHA participate in the System. Since its origin in 1951, the System has suffered changes as discussed ahead.

(a) Defined Contribution Hybrid Program

On April 4, 2013, the Legislature enacted Act. No. 3, which amended Act No. 447 and Act. No. 305 to establish, among other things, a defined contribution hybrid program (the Hybrid Program) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit pension plan and the defined contribution plan, and were rehired on or after July 1, 2013, become members of the Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Hybrid Program.

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
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11. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

(a) Defined Contribution Hybrid Program (Continued)

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

Participants in the defined contribution plan who as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants in the Program who as of June 30, 2013, have not reach the age of 60 can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

Act. No. 3 requires employees to contribute ten percent of their monthly gross salary to the Hybrid Program. Employee contributions are credited to individual accounts established under the Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty five percent is required for the purchase of disability insurance.

PRPHA is required to contribute 12.275% of each participant's gross salary. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent. Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1st by one point twenty-five percent.

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

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11. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

(b) Defined Contribution Plan

The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to establish, among other things, a defined contribution savings plan program (the Program) to be administered by the Retirement System. All regular employees hired for the first time on between January 1, 2000 and June 30, 2013, and former employees who participated in the defined benefit pension plan, received a refund of their contributions, and were rehired on or after January 1, 2000, become members of the Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined benefit pension plan had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

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

PRPHA was required to contribute 10.275% of each participant's gross salary. The Retirement System used those contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan. On April 4, 2013, Act. No. 3 was amended to establish the Hybrid Program.

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

(c) Defined Benefit Pension Plan

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System), created pursuant to Act No. 447 of May 15, 1951, as amended, was a cost-sharing, multiple-employer, defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth. All regular employees of the Corporation hired prior to January 1, 2000, and less than 55 years of age at the date of employment became members of the Retirement System as a condition of their employment. No benefits were payable if the participant received a refund of their accumulated contributions.

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11. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

(c) Defined Benefit Pension Plan (Continued)

The Retirement System provided retirement, death, and disability benefits pursuant to legislation enacted by the Legislature. Retirement benefits depended upon age at retirement and the number of years of creditable service. Benefits vested after 10 years of plan participation. Disability benefits were available to members for occupational and no occupational disabilities. However, a member needed to have at least 10 years of service to receive no occupational disability benefits.

Members who had attained 55 years of age and had completed at least 25 years of creditable service, or members who had attained 58 years of age and had completed 10 years of creditable service, were entitled to an annual benefit payable monthly for life. The amount of the annuity was 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case was the annuity less than \$200 per month.

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

Commonwealth's legislation required employees to contribute 5.775% of the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The PRPHA was required to contribute 10.275% of each participant's gross salary. On April 4, 2013, Act 447 was amended to establish the Hybrid Program.

(d) Contributions and Administrative Information

During the years ended June 30, 2014 and 2013, PRPHA contributions to this plan amounted to approximately \$722,072 and \$1,809,589, respectively. These amounts represented 100% of the required contribution for the corresponding year. In fiscal year 2014, all contributions were made to the Hybrid Program. In 2013, the individual information for each option is not available since the allocation was performed by the Retirement System itself.

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12. 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 25, 1955, 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, 2014 and 2013, the accounts payable and accrued liabilities include litigation contingencies accrual for \$6,000,000 and \$6,381,862 as a special reserve for certain utilities charges claimed by PRPHA.

As of June 30, 2014 and 2013, 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 \$132,904,102 and \$113,656,228, for the years then ended, respectively.

13. FEDERAL FINANCIAL ASSISTANCE

The Administration receives financial assistance from the Federal Government. Federal assistance is subject to audit under Circular A-133 of the Office of Management and Budget of the United States of America 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 a material effect on the financial position of the Administration.

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14. RESTRICTED NET POSITION

Restricted net position at June 30 consists of the following:

	<u>2014</u>	<u>2013</u>
Restricted assets (Note 5)	\$ 63,172,551	\$ 371,658,201
Capital fund program bonds, restricted	(21,874,374)	(24,324,311)
Escrow account, restricted	-	(6,945,000)
Current portion of bonds payable, restricted	(10,600,000)	(317,420,000)
Net position, restricted	<u>\$ 30,698,177</u>	<u>\$ 22,968,890</u>

15. RELATED PARTY TRANSACTIONS

General

The Administrator of the PRPHA 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").

The PRPHA 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, other general and administrative services. During the fiscal years ended on June 30, 2014 and 2013, the PRPHA has paid approximately \$4.5 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.

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15. RELATED PARTY TRANSACTIONS (CONTINUED)

Mixed Finance (Continued)

The Administration submitted, and HUD 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.

The Project Company was 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 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".

The Project Company 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 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.

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 in June and July 2009.

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15. RELATED PARTY TRANSACTIONS (CONTINUED)

Mixed Finance (Continued)

The Administration 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 before mentioned economic and tax benefits to the full extent available to Owner.

As of June 30, 2014 PRPHA has a permanent note receivable for the amount of \$100,000,000 from Vivienda Modernization 1, LLC (the Obligor) which was assigned to PRPHA by Puerto Rico Housing Finance Authority, (the lender) and is related to the mixed finance low income housing development transaction known as Vivienda Modernization.

The permanent note was executed to evidence the unconditional obligation of the Obligor as stated in the permanent loan agreement for the amount of \$100,000,000. The permanent loan was requested by the Obligor to the Lender for the repayment in full of certain Short Term Bond in the aggregate principal amount of \$100,000,000 issued by the Lender as conduit debt for the Obligor. The DOH provided a grant to the Lender to fund the permanent loan that was assigned to PRPHA in consideration of mutual covenants and agreements and other good and valuable considerations as stated in certain Interagency Agreement among the DOH, the Puerto Rico Housing Financing Authority, the Government Development Bank of Puerto Rico and PRPHA dated August 7, 2008.

The permanent note bears no interest unless there is an event of default which is defined at the failure, the Obligor of the note, to pay the amount due by September 1, 2053, the due date of the note. In addition, prior to an event of default, no payment shall be due on this note, until certain \$382,345,829 CFFP Bond loan note and certain \$102,889,959 deferred purchase price note of August 7, 2008 have been paid in full. Once said loans have been paid in full, the Obligor is required to make quarterly payments equal to 100% of Obligor's net cash flows for the immediately preceding calendar quarter, subject to the terms of the Intercreditor and Subordination agreement. In the event of default by the Obligor the note becomes due, and in the event of a sale or refinancing of all or a material portion of the properties, 100% of the net cash flows from proceeds of the capital transaction shall be paid by the Obligor; otherwise the note is due on September 1, 2053. The permanent note has a collateral security agreement which mainly consist of a security interest of 100% of the membership interest of Vivienda Modernization 1, LLC granted by Vivienda Modernization Holding 1, S.E.

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YEARS ENDED JUNE 30, 2014 AND 2013**

16. TERMINATION BENEFITS

On July 2, 2010, 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 Administration (PRPHA). Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. In this early retirement benefit program, 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 PRPHA.

The financial impact resulting for the benefits granted to participants on this program was the recognition within PRPHA's financial statements of a liability of \$ 752,759 in the statement of net position as of June 30, 2013 and a charge of \$102,737 in the statement of revenues, expenses and changes in fund net position for the year then ended. For the year ended June 30, 2014, the financial impact result in a decrease in liability and expense for \$47,741 in the statement of net position and the statement of revenues, expenses and changes in fund net position, respectively. Unpaid long-term benefits granted on this program were discounted at 2.64% and 2.75% for the years ended June 30, 2014 and 2013, respectively.

17. SUBSEQUENT EVENT

On August 14, 2014 PRPHA (as Assignee) signed an Assignment and Assumption of Permanent Loan Agreement (the Agreement) for the amount of \$100,000,000 with the Puerto Rico Housing Finance Authority (as Assignor). The Assignor and the Assignee are parties to a certain Intercreditor and Subordinator Agreement (the Intercreditor) dated August 7, 2008, executed in connection with the mixed finance low income housing development known as Vivienda Modernization. The agreement is executed to implement and evidence the assignment of the permanent loan previously mentioned to PRPHA where Vivienda Modernization 1, LLC is the Obligor, and all its rights, titles and interest including a security agreement. The condition for the assignment was established in the Intercreditor as the payment in full of certain \$100,000,000 Short Term Bond issued by Puerto Rico Housing Financing Authority as a conduit debt for Vivienda Modernization 1, LLC. The DOH provided a grant to the Assignor for the payment in full of such Short Term bond and to make the Permanent Loan previously mentioned to the Obligor. Since the transaction that allowed the assignment of the permanent note had been met at fiscal year end, PRPHA accepted the assignment of the original \$100,000,000 permanent note representing the indebtedness under the Permanent Loan and recognized the transaction as of June 30, 2014. The permanent loan bears no interest unless there is an event of default which is defined as the failure of the Obligor of the note to pay the amount due by September 1, 2053, the due date of the note.