Puerto Rico Housing Finance Authority

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

Basic Financial Statements,
Required Supplementary Information,
and Additional Supplementary Information
as of and for the Year Ended June 30, 2012,
and Independent Auditors' Report

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors of
Puerto Rico Housing Finance Authority:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Puerto Rico Housing Finance Authority (the "Authority"), a component unit of Government Development Bank for Puerto Rico (GDB), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Authority, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 11 to the basic financial statements, the Authority has significant balances and transactions with GDB, including deposits and other investments amounting to approximately $196 million as of June 30, 2012. Additionally, GDB has provided significant financial support to the Authority in terms of notes payable and lines of credit. As discussed in GDB's basic financial statements, GDB's loans to the Commonwealth of Puerto Rico (the "Commonwealth") and its agencies and instrumentalities amounted to approximately $5.7 billion or 36% of GDB's total assets as of June 30, 2012. These loans are expected to be collected from appropriations from, proceeds from bond issuances of, or revenues generated by the Commonwealth and/or its agencies and instrumentalities. Since 2000, the Commonwealth's recurring expenditures have exceeded its recurring revenues and its credit ratings have been lowered. In addition, many of the Commonwealth's agencies and instrumentalities have had losses from operations during the past years. The collectibility of these loans may be affected by budgetary constraints, the fiscal situation, and the credit ratings of the Commonwealth and its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges, and/or bond issuances. Continuance of and/or significant negative changes in these factors may affect the ability of the Commonwealth and its agencies and instrumentalities to repay their outstanding loan balances with GDB and, accordingly, may have an adverse impact on GDB's financial condition, liquidity, funding sources, and results of operations, which could also result in an adverse impact on the Authority's financial condition, liquidity, funding sources, and results of operations.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 10 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 managements' 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The combining nonmajor fund financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Deloitte & Touche LLP

January 31, 2013

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This section presents a narrative overview of the financial performance of Puerto Rico Housing Finance Authority (the "Authority") as of and for the year ended June 30, 2012. The information presented here should be read in conjunction with the Authority's basic financial statements, including the notes thereto.

1. FINANCIAL HIGHLIGHTS

- Net assets of the Authority decreased $115 million, from $609 million as of June 30, 2011, to $494 million as of June 30, 2012. The decrease was the net result of a decrease of $10 million in the net assets of governmental activities and a decrease of $105 in the net assets of business-type activities.

- Operating income of enterprise fund activities was $11 million for the year ended June 30, 2012. Total operating revenues of enterprise funds decreased to $78 million in 2012 from $103 million in 2011. Total operating expenses decreased to $67 million in 2012 from $93 million in 2011. There were net interfund transfers in the amount of $82 million during the year ended June 30, 2012.

- The Authority obtained a line of credit facility of approximately $64 million from Government Development Bank for Puerto Rico ("GDB") under the provisions of Act No. 122 to partially finance the operations of My New Home Program fund. As of June 30, 2012, the line of credit had a total outstanding balance of $45.6 million. For the year ended June 30, 2012, total subsidies provided by this program amounted to $68.5 million.

- In July 2011, the Authority restructured bonds of the Mortgage Trust III with a carrying amount of approximately $404 million. As a result of the transaction, the Authority recorded a loss on early extinguishment of bonds payable of approximately $29 million. The restructuring released $60 million in excess collateral that were transferred to the Authority's Operating and Administrative fund.

- On September 22, 2011, the Board of Directors of the Authority approved the second phase of Protecting Your Home Program. This second phase was financed with the Authority's own funds. This program provides mortgage payment subsidy up to 18 months or $20,000, whichever is less, and is intended to reduce the amount of home foreclosures among low and moderate income families with recent financial difficulties. A third phase of this program, which was also financed by the Authority's own funds commenced during the month of March 2012. For the period ended June 30, 2012, total subsidies provided by to this program amounted to $19.8 million.

- On October 4, 2011, the Authority issued $18 million Special Obligation Notes 2011 A Series. The 2011 Notes will be collateralized by certain second mortgage originated under the Home Purchase Stimulus Program and will be repaid from collections of principal and interest of the underlying collateral. The second mortgages loans will be guaranteed by the Authority's Act No. 87 insurance. The Home Purchase Stimulus Program concluded on April 30, 2012. The fourth and last issuance of Special Obligation Notes is expected to take place during the first semester of fiscal year 2013.

- The Authority in partnership with Citigroup (Citi) created a $45 million revolving loan fund that will provide capital for the construction of for-sale single and multifamily housing for low and moderate-income residents of Puerto Rico. The Puerto Rico Community Development Fund (PRCDF) utilized its 2009 New Market Tax Credits allocation for the transaction. The Authority and the Citi participation was arranged through a direct leveraged investment structure, with Citi acting as the tax credit equity investor, investing approximately $11.8 million in an Investment Fund, in which Citi is the sole owner. The Authority serves as the Investment Fund controlling entity and senior leverage lender providing a loan in the amount of approximately $33.2 million. Capitalized with $45 million, the Investment Fund made four separate Qualified Equity Investments in the Puerto Rico Community Development Fund I (PRCDF I), a sub-allocatee Community Development Entity (CDE), of which Citi has 99.99% ownership interest and PRCDF has 0.01% ownership interest and serves as the entity's managing member. After making distributions of approximately $2.3 million in fees and transactional expenses, the CDE then made a total of $42.7 million Qualified Low Income Community Investments (QLICI) in construction loans into six Qualified Active Low Income Community Business (QALICB) consisting of owners for low and moderate income housing developments.

- On January 30, 2012, the Authority entered into a transition agreement by which the Puerto Rico Department of Housing ("DOH") would assume its obligations as New Secure Housing Program (NSHP) sub-grantee and project owner, including vacant housing units dispositions, open space monitoring and other related matters. The Authority will continue to assume the payment of principal and interest on the $67 million line of credit with GDB, until such debt can be assumed by the Commonwealth. As of June 30, 2012, the line of credit of the Program had an outstanding balance of $53.8 million including accrued interest. The DOH would prospectively assume any additional liability that might be requested by the Federal Emergency Management Administration ("FEMA") for events of noncompliance of the NSHP.

- The Authority restructured the Portfolio IX and X of its Affordable Housing Mortgage Subsidy Program (Act No. 124), which were collateralized by several Government National Mortgage Association ("GNMA") certificates and other liquid assets. The restructuring consisted of defeasing the bonds outstanding amounting to approximately $162 million, selling the GNMA certificates in the secondary market, and establishing an escrow account for the payment of pending subsidies. The transaction released to the Authority over $30 million in excess collateral, net of transaction costs, to be utilized to finance housing subsidy programs of the Authority and for other operational purposes.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as introduction to the basic financial statements of the Authority. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Government-Wide Financial Statements — The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The statement of net assets provides information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The statement of activities presents information on how the Authority's net assets changed during the reporting period. Changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements — A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority's funds are divided in two categories: governmental funds and enterprise funds.

- *Governmental Funds* — Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

  Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of financial decisions related to the A's governmental activities. Both the governmental fund balance sheet and the governmental statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

- *Enterprise Funds* — Enterprise funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail.

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

3. FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

We provide the readers of these basic financial statements with the following summarized discussion and analysis of the relevant facts that affected the government-wide financial statements as of June 30, 2012 and June 30, 2011 (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Cash	$ 67,333	$ 9,390	$ 18,872	$ 9,730	$ 86,205	$ 19,120
Investments and deposits placed with banks	103,502	154,134	607,041	1,199,000	710,543	1,353,134
Loans receivable — net			289,751	246,803	289,751	246,803
Capital assets	19	42	11,356	3,103	11,375	3,145
Other assets, net of internal balances	(16,724)	(21,445)	41,129	66,488	24,405	45,043
Total assets	154,130	142,121	968,149	1,525,124	1,122,279	1,667,245
Liabilities:						
Due in less than one year	84,343	106,585	91,008	107,297	175,351	213,882
Due in more than one year	115,506	71,142	337,172	773,228	452,678	844,370
Total liabilities	199,849	177,727	428,180	880,525	628,029	1,058,252
Net assets:						
Invested in capital assets	19	42	11,356	3,103	11,375	3,145
Restricted	59,415	50,720	157,278	311,329	216,693	362,049
Unrestricted assets (deficit)	(105,153)	(86,368)	371,335	330,167	266,182	243,799
Total net assets	$ (45,719)	$(35,606)	$539,969	$ 644,599	$ 494,250	$ 608,993

The net assets of the Authority decreased \$115 million from \$609 million at June 30, 2011, to \$494 million at June 30, 2012, as a result of a decrease of \$545 million in total assets and \$430 million in total liabilities. The decrease in total assets is mainly due to the following:

- Cash increased \$67 million, from \$19 million in June 2011 to \$86 million in June 2012. The increase was the result of the release of excess collateral from the restructuring of Mortgage Trust III and Portfolios IX and X.

- Investments, investment contracts, and deposits placed with banks decreased from \$1,353 million at June 30, 2011 to \$711 million at June 30, 2012, or a \$642 million decrease. This decrease resulted from the use of investments to fund the repayment of bonds payable, including the bonds paid in the restructuring of the Authority's Mortgage Trust III and Portfolios IX and X, and to fund the originations of loans receivable.

- Other assets decreased \$21 million, from \$45 million at June 30, 2011 to \$24 million at June 30, 2012. This decrease is mainly the result of the following:

    - Decrease of \$8 million in amounts due from federal government \$21 million in 2011 to \$13 million in 2012. This decrease was mainly as a result of the conclusion of the American Recovery and Reinvestment Act of 2009 (ARRA) Programs.

    - Transfer of \$9 million of property held in trust for DOH to capital assets.

    - Decrease of \$2 million in deferred debt issue costs as a result of the restructuring of the Authority's Portfolio IX and X bonds payable.

The decrease in total liabilities is mainly due to the decrease in bonds, notes, and mortgage-backed certificates payable of \$473 million, from \$844 million in 2011 to \$371 million in 2012. The decrease was mainly due to the repayment of bonds, notes, and mortgage-backed certificates, including the bonds paid during the restructuring of the Authority's Mortgage Trust III and Portfolio IX and X. The decrease was mainly offset by the issuance of the Authority's special obligation notes. The decrease in total liabilities was partially offset by the increase of \$47 million in amounts due to GDB, which increased from \$105 million in 2011 to \$152 million in 2012. The increase was mainly due to the drawdown from the line of credit established to finance the My New Home Program's operations.

4. STATEMENT OF ACTIVITIES

The statement of activities shows the sources of the Authority's changes in net assets as they arise through its various programs and functions. Programs such as the Housing and Urban Development (HUD) Programs, ARRA Programs, Closing Costs Assistance Program, My New Home Program, and Protecting Your Home Program are shown as governmental activities and other programs (Operating and Administrative, Single-Family Mortgage Revenue Bonds Portfolio IX, Mortgage Loan Insurance, and Home Purchase Stimulus Program) are shown as business-type activities. Condensed statements of activities for the fiscal years ended June 30, 2012 and 2011 are shown in the table below (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	$ -	$ -	$ 16,758	$ 13,321	$ 16,758	$ 13,321
Financing and investment	4,683	4,690	60,903	89,326	65,586	94,016
Operating grants, capital grants, and contributions	177,001	279,609	-	-	177,001	279,609
Total revenues	181,684	284,299	77,661	102,647	259,345	386,946
Program expenses:						
General government and other	8,392	6,155			8,392	6,155
Housing assistance programs	265,319	311,951			265,319	311,951
Operating and administrative			26,972	28,713	26,972	28,713
Mortgage Trust III			40,226	31,666	40,226	31,666
Home Purchase Stimulus Program			3,233	1,855	3,233	1,855
Mortgage-Backed Certificates 2006 Series A			6,053	6,537	6,053	6,537
Other business-type activities	-	-	23,893	24,733	23,893	24,733
Total program expenses	273,711	318,106	100,377	93,504	374,088	411,610
Change in net assets (deficiency) before transfers	(92,027)	(33,807)	(22,716)	9,143	(114,743)	(24,664)
Transfers	81,914	(220)	(81,914)	220	-	-
Increase (decrease) in net assets (deficiency)	(10,113)	(34,027)	(104,630)	9,363	(114,743)	(24,664)
Net assets (deficiency) — beginning of year	(35,606)	(1,579)	644,599	635,236	608,993	633,657
Net assets (deficiency) — end of year	$(45,719)	$(35,606)	$539,969	$644,599	$494,250	$ 608,993

Total revenues decreased from $387 million in 2011 to $259 million in 2012 or $128 million. The decrease in total revenues is mainly due to the following:

- Operating grants and contributions decreased from $280 million in 2011 to $177 million in 2012 or $103 million. The Authority received approximately $75 million in ARRA funds during 2012 when compared to the prior year as a result of the conclusion of the ARRA Programs. Additionally, the Authority received a contribution of $37 million during 2011 from the Commonwealth for the Closing Costs Assistance Program; no such contribution from the Commonwealth was received during 2012. The decrease in operating grants and contributions was partially offset by an increase in HUD grants of $7 million.

- Financing and investment revenues decreased from $94 million in 2011 to $66 million in 2012 or $28 million. The restructuring of the Mortgage Trust III's caused a decrease the average balance of investments and loans receivable, which resulted in a decrease in investment income and interest income on loans of $30 million during 2012.

Total program expenses decrease from $412 million in 2011 to $374 million in 2012 or $38 million. The decrease in expenses of governmental activities was mainly due to a decrease in expenses of ARRA Programs of $75 million as a result of the conclusion of these programs. The decrease was partially offset by an increase in expenses of My New Home Program of $38 million.

Although transfers of $82 million are transactions that are offset at the government-wide financial statements level, they mainly took place to use business-type funds to finance subsidy programs of the governmental activities.

5. GOVERNMENTAL FUND RESULTS

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

HUD Programs — This fund accounts for the U.S. Housing Act Section 8 programs administered by the Authority under the authorization of the U.S. Department of Housing and Urban Development. Presently, the Authority operates three programs whereby low-income families receive directly or indirectly subsidies to pay for their rent. The housing vouchers program enables families to obtain rental housing in a neighborhood of their choice. The other programs are project-based subsidies whereby housing developers are given incentives to keep their properties available for certain markets. The expenditures of the HUD Programs increased $7 million from $127 million in 2011 to $134 million in 2012 because additional vouchers were awarded when compared to the previous year.

ARRA Programs — On February 17, 2009, ARRA was signed into law in the United States of America. The purpose of ARRA is to jumpstart the nation's ailing economy, with a primary focus on creating and savings jobs in the near term and investing in infrastructure that will provide long-term economic benefits. During the year ended June 30, 2012, the Authority expended $21 million as part of this program.

Affordable Housing Mortgage Subsidy Program (AHMSP) (Stage 7) — These special revenue funds are used to account for the proceeds of specific revenue sources under Stage 7 of the AHMSP that are legally restricted for expenditures to promote the origination of mortgage loans by financial institutions in the private sector to low and moderate-income families. Under this stage, the Authority commits to provide subsidy for the down payment and/or the principal and interest payments on mortgage loans originated under a predetermined schedule of originations. Loans originated, as well as servicing, are kept by the originating financial institution. There was no open schedule of originations under these stages as of June 30, 2012. This program provided subsidies of $1.4 million during 2012.

My New Home Program — This program provides subsidies to eligible families in the purchase of a principal residence though reimbursements of origination and closing costs. During the year ended June 30, 2012, total subsidy expenditures amounted to $69 million.

At June 30, 2012, the Authority had various governmental funds in a deficit position. The Authority expects to cover these deficits through contributions from the Commonwealth. Refer to Note 19 to the basic financial statements for additional information on these funds.

6. ENTERPRISE FUND RESULTS

Total net assets of the Authority's enterprise funds decreased during the year ended June 30, 2012, by $105 million. Following is an analysis of the financial position and results of operations of the major enterprise funds:

Operating and Administrative — The net assets of the Operating and Administrative fund increased from $365 million at June 30, 2011 to $383 million at June 30, 2012, or $18 million. The change in net assets increased from $3 million deficit in 2011 to a $18 million superavit in 2012 or a change of $21 million, which was mainly due to a net increase of interfund transfers.

Mortgage Trust III — Investment income and interest income on loans for 2012 amounted to $9 million while interest expense and fees amounted to $10 million during the year ended June 30, 2012. Since the bonds accounted for in this fund are zero-coupon bonds, interest payments are not required to be made until maturity. During the year, the fund made principal payments of $31 million on matured bonds.

Home Purchase Stimulus Program — This program was created as part of Act No. 9, approved on March 9, 2009, to help families in the acquisition of a new or existing house through the issuance of a second mortgage. During the year ended June 30, 2012, the Authority originated loans receivable in the amount of $27 million through this program. On April 30, 2012, the Authority decided to discontinue the origination of loans through this program.

Mortgage-Backed Certificates 2006 Series A — This fund had investment income of $7.6 million and incurred interest expense on bonds payable of $6.0 million during 2012. Also during 2012, this fund paid $8.3 million of mortgage-backed certificates payable.

7. CAPITAL ASSETS

The Authority's investment in capital assets for its business-type activities as of June 30, 2012 and 2011, amounted to approximately $11.4 million and $3.1 million, respectively, net of accumulated depreciation and amortization. Capital assets include land, leasehold improvements, information systems, office furniture, equipment, and vehicles. Refer to Note 8 to the basic financial statements for additional information on capital assets.

8. AUTHORITY DEBT

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

At June 30, 2012 and June 30, 2011, total debt outstanding amounted to $527 million and $952 million, respectively. Debt issuances during 2012 and 2011 totaled $76.4 million and $14.2 million, respectively. Debt issued in 2012 consisted of $422 thousand from a revolving credit facility with GDB under the co-participation program, $9.2 million of Special Obligation Notes, 2011 Series A under the Home Purchase Stimulus Program, $15.0 million from notes payable to GDB under the AHMSP stages, $2.6 million under the NSHP's line of credit, $3.5 million from the refunding of the AHMSP Stage 7 note payable, and $45.6 million under My New Home Program's line of credit. Debt repaid during 2012 and 2011 amounted to approximately $502 million and $78 million, respectively. Refer to Note 9 to the basic financial statements for additional information on borrowed funds.

9. REQUESTS FOR INFORMATION

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

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF NET ASSETS (DEFICIENCY)
AS OF JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS :			
Cash	$ -	$ 5,031,473	$ 5,031,473
Deposits placed with banks		92,549,306	92,549,306
Investments and investment contracts		18,188,384	18,188,384
Loans receivable — net		239,917,752	239,917,752
Interest and other receivables		2,758,781	2,758,781
Other assets		65,606	65,606
Due from (to) other funds	(30,626,515)	30,626,515	-
Restricted assets:			
Cash	67,332,719	13,840,426	81,173,145
Deposits placed with banks	23,967,179	77,602,460	101,569,639
Investments and investment contracts	79,535,290	418,700,747	498,236,037
Interest and other receivables	366,571	2,136,278	2,502,849
Due from Commonwealth of Puerto Rico	303,214		303,214
Due from federal government — net	13,195,782		13,195,782
Loans receivable — net		49,833,294	49,833,294
Real estate available for sale		1,702,014	1,702,014
Deferred debt issue costs	36,804	3,215,006	3,251,810
Real estate available for sale		624,898	624,898
Capital assets:			
Land		8,880,000	8,880,000
Other capital assets	19,034	2,476,409	2,495,443
Total assets	154,130,078	968,149,349	1,122,279,427
LIABILITIES AND NET ASSETS (DEFICIENCY):			
Liabilities:			
Accounts payable and accrued liabilities		15,220,872	15,220,872
Accrued interest payable		78,381	78,381
Due to Government Development Bank for Puerto Rico — due in more than one year		3,129,245	3,129,245
Liabilities payable from restricted assets:			
Accounts payable and accrued liabilities	44,102,271	41,296,848	85,399,119
Accrued interest payable	78,396	532,586	610,982
Notes payable — due in more than one year	3,426,866	26,732,803	30,159,669
Due to Government Development Bank for Puerto Rico:			
Due in one year	40,162,774		40,162,774
Due in more than one year	112,078,627		112,078,627
Bonds and mortgage-backed certificates payable:			
Due in one year		33,879,591	33,879,591
Due in more than one year		307,310,042	307,310,042
Total liabilities	199,848,934	428,180,368	628,029,302
Net assets (deficiency):			
Invested in capital assets	19,034	11,356,409	11,375,443
Restricted for:			
Affordable housing programs	59,414,808	91,492,275	150,907,083
Other housing programs		3,024,494	3,024,494
Mortgage loan insurance		62,761,594	62,761,594
Unrestricted	(105,152,698)	371,334,209	266,181,511
TOTAL NET ASSETS (DEFICIENCY)	$ (45,718,856)	$ 539,968,981	$ 494,250,125

See notes to basic financial statements.

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank of Puerto Rico)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services — Fees, Commissions, and Others	Charges for Services — Financing and Investment	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS:							
Governmental activities:							
General government and other	$ 8,391,940	$ -	$ -	$ -	$ (8,391,940)	$ -	$ (8,391,940)
Housing assistance programs	265,318,823		4,683,435	177,000,706	(83,634,682)		(83,634,682)
Total governmental activities	273,710,763	-	4,683,435	177,000,706	(92,026,622)	-	(92,026,622)
Business-type activities:							
Operating and administrative	26,972,336	10,004,857	19,067,003			2,099,524	2,099,524
Mortgage Trust III	40,226,922		9,204,869			(31,022,053)	(31,022,053)
Home Purchase Stimulus Program	3,232,747		964,014			(2,268,733)	(2,268,733)
Mortgage-Backed Certificates 2006 Series A	6,052,799		7,602,524			1,549,725	1,549,725
Other business-type activities	23,892,613	6,753,198	24,064,550			6,925,135	6,925,135
Total business-type activities	100,377,417	16,758,055	60,902,960	-	-	(22,716,402)	(22,716,402)
Total functions/programs	$374,088,180	$16,758,055	$65,586,395	$177,000,706	(92,026,622)	(22,716,402)	(114,743,024)
TRANSFER IN (OUT) — Net					81,913,929	(81,913,929)	
CHANGE IN NET ASSETS (DEFICIENCY)					(10,112,693)	(104,630,331)	(114,743,024)
NET ASSETS (DEFICIENCY) — Beginning of year					(35,606,163)	644,599,312	608,993,149
NET ASSETS (DEFICIENCY) — End of year					$(45,718,856)	$ 539,968,981	$ 494,250,125

See notes to basic financial statements.

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

BALANCE SHEET — GOVERNMENTAL FUNDS
AS OF JUNE 30, 2012

	HUD Programs	ARRA Programs	Affordable Housing Mortgage Subsidy Program Stage 7	My New Home Program	Other Nonmajor Governmental Funds	Eliminations	Total
ASSETS							
DUE FROM OTHER FUNDS	$ -	$ -	$ -	$ -	$ 381,894	$ (303,809)	$ 78,085
RESTRICTED:							
Cash	1,519,328	258	52,167	7,185,283	58,575,679		67,332,715
Deposits placed with banks				9,570,892	14,396,287		23,967,179
Investments and investment contracts			20,722,916		58,812,375		79,535,291
Interest and other receivables	3,156		80,002	87,894	195,521		366,573
Due from Commonwealth of Puerto Rico			303,214				303,214
Due from federal government	1,289,279				11,906,503		13,195,782
TOTAL	$ 2,811,763	$ 258	$ 21,158,299	$ 16,844,069	$ 144,268,259	$ (303,809)	$ 184,778,839
LIABILITIES AND FUND BALANCES (DEFICIT)							
LIABILITIES:							
Due to other funds	$ 1,344,112	$ -	$ 1,667,842	$ 36,613	$ 27,959,842	$ (303,809)	$ 30,704,600
Payable from restricted assets:							
Accounts payable and accrued liabilities	1,467,651	258	686,494	19,439,663	22,508,204		44,102,270
Deferred revenue					2,772,782		2,772,782
Due to Government Development Bank for Puerto Rico			39,277,522		885,252		40,162,774
Total liabilities	2,811,763	258	41,631,858	19,476,276	54,126,080	(303,809)	117,742,426
FUND BALANCES (DEFICIT):							
Restricted for affordable housing programs					96,760,994		96,760,994
Unassigned			(20,473,559)	(2,632,207)	(6,618,815)		(29,724,581)
Total fund balances (deficit)	-	-	(20,473,559)	(2,632,207)	90,142,179	-	67,036,413
TOTAL	$ 2,811,763	$ 258	$ 21,158,299	$ 16,844,069	$ 144,268,259	$ (303,809)	$ 184,778,839

See notes to basic financial statements.

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

RECONCILIATION OF THE BALANCE SHEET — GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS (DEFICIENCY)
AS OF JUNE 30, 2012

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS (DEFICIENCY) ARE DIFFERENT BECAUSE:	
Total fund balances	$ 67,036,413
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	19,034
Deferred debt issue costs that are recorded as expenditures in governmental funds, but are capitalized in the government-wide financial statements	36,804
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds	(115,505,493)
Accrued interest payable not due and payable in the current period	(78,396)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds	2,772,782
NET DEFICIENCY OF GOVERNMENTAL ACTIVITIES	$ (45,718,856)

See notes to basic financial statements.

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	HUD Programs	ARRA Programs	Affordable Housing Mortgage Subsidy Program Stage 7	My New Home Program	Other Nonmajor Governmental Funds	Total
REVENUES:						
Commonwealth appropriations for repayment of bonds or housing assistance programs	$ -	$ -	$ 2,001,956	$ -	$ 1,087,207	$ 3,089,163
Intergovernmental — federal government	133,780,257	21,198,803			18,483,624	173,462,684
Interest income on deposits placed with banks			211	148,509	97,991	246,711
Interest income on investments and investment contracts			1,477,352		3,045,662	4,523,014
Net decrease in fair value of investments					(86,286)	(86,286)
Other	4,376		3,272	1,123,296	1,121,288	2,252,232
Total revenues	133,784,633	21,198,803	3,482,791	1,271,805	23,749,486	183,487,518
EXPENDITURES:						
Current:						
General government and other	5,047,527		45,305		3,167,263	8,260,095
Housing assistance programs	128,737,106	21,198,803	1,410,472	68,539,537	42,326,750	262,212,668
Debt service:						
Principal			1,711,322		157,812	1,869,134
Interest			923,443		1,814,648	2,738,091
Total expenditures	133,784,633	21,198,803	4,090,542	68,539,537	47,466,473	275,079,988
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			(607,751)	(67,267,732)	(23,716,987)	(91,592,470)
OTHER FINANCING SOURCES (USES):						
Proceeds from issuance of long-term debt			3,575,390	45,000,000	1,758,580	50,333,970
Payments to refunded bonds escrow agent			(3,099,914)			(3,099,914)
Transfers in				50,433,835	84,457,130	134,890,965
Transfers out					(52,977,036)	(52,977,036)
Total other financing sources — net	-	-	475,476	95,433,835	33,238,674	129,147,985
NET CHANGE IN FUND BALANCES			(132,275)	28,166,103	9,521,687	37,555,515
FUND BALANCES — Beginning of year			(20,341,284)	(30,798,310)	80,620,492	29,480,898
FUND BALANCES — End of year	$ -	$ -	$ (20,473,559)	$ (2,632,207)	$ 90,142,179	$ 67,036,413

See notes to basic financial statements

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:	
Net changes in fund balance — total governmental funds	$ 37,555,515
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds; neither transaction, however, has any effect on net assets	(45,696,178)
Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This amount is the depreciation for the year	(22,677)
Revenues in the statement of activities that do provide current financial resources are not reported as revenues in the governmental funds	(1,803,381)
Governmental funds report the effect of issuance costs when debt is first issued, whereas these costs are deferred and amortized in the statement of activities. This amount is the amortization for the year	(145,972)
CHANGE IN NET ASSET OF GOVERNMENTAL ACTIVITIES	$(10,112,693)

See notes to basic financial statements.

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

BALANCE SHEET — ENTERPRISE FUNDS
AS OF JUNE 30, 2012

ASSETS	Operating and Administrative	Mortgage Trust III	Home Purchase Stimulus Program	Mortgage-Backed Certificates 2006 Series A	Others Nonmajor Enterprise Funds	Eliminations	Total
CURRENT ASSETS:							
Cash	$ 5,031,473	$ -	$ -	$ -	$ -	$ -	$ 5,031,473
Deposits placed with banks	92,549,306						92,549,306
Loans receivable — net	27,750,000						27,750,000
Interest receivable	1,775,714						1,775,714
Other receivables	983,067						983,067
Other assets	65,606						65,606
Due from other funds	31,100,401	12,500	109,484		20,573	(538,358)	30,704,600
Restricted:							
Cash	3,647,627	741	9,564,277		627,781		13,840,426
Deposits placed with banks			86,901	10,706,191	66,809,368		77,602,460
Investments and investment contracts		16,930,568					16,930,568
Interest receivable		676,768	691	543,930	763,859		1,985,248
Other receivables			133,000		18,030		151,030
Total current assets	162,903,194	17,620,577	9,894,353	11,250,121	68,239,611	(538,358)	269,369,498
NONCURRENT ASSETS:							
Investments and investment contracts	18,188,384						18,188,384
Loans receivable — net	212,167,752						212,167,752
Real estate available for sale	624,898						624,898
Capital assets	11,356,409						11,356,409
Restricted:							
Investments and investment contracts		140,785,022		118,708,395	142,276,762		401,770,179
Loans receivable — net			49,833,294				49,833,294
Deferred debt issue costs			276,588	1,347,605	1,590,813		3,215,006
Real estate available for sale					1,702,014		1,702,014
Total noncurrent assets	242,337,443	140,785,022	50,109,882	120,056,000	145,569,589	-	698,857,936
TOTAL	$405,240,637	$158,405,599	$60,004,235	$131,306,121	$213,809,200	$(538,358)	$968,227,434

(Continued)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

BALANCE SHEET — ENTERPRISE FUNDS
AS OF JUNE 30, 2012

LIABILITIES AND NET ASSETS	Operating and Administrative	Mortgage Trust III	Home Purchase Stimulus Program	Mortgage-Backed Certificates 2006 Series A	Others Nonmajor Funds	Eliminations	Total
CURRENT LIABILITIES:							
Current liabilities payable from unrestricted assets:							
Accounts payable and accrued liabilities	$ 15,220,872	$ -	$ -	$ -	$ -	$ -	$ 15,220,872
Accrued interest payable	78,381						78,381
Due to other funds	220,641				395,802	(538,358)	78,085
Total current liabilities payable from unrestricted assets	15,519,894	-	-	-	395,802	(538,358)	15,377,338
Current liabilities payable from restricted assets:							
Accrued interest payable				13,529	519,057		532,586
Accounts payable and accrued liabilities	3,647,627	150,000	30,137,462	94,837	2,967,876		36,997,802
Bonds, notes, and mortgage-backed certificates payable		18,175,000		11,619,591	4,085,000		33,879,591
Total current liabilities payable from restricted assets	3,647,627	18,325,000	30,137,462	11,727,957	7,571,933	-	71,409,979
Total current liabilities	19,167,521	18,325,000	30,137,462	11,727,957	7,967,735	(538,358)	86,787,317
NONCURRENT LIABILITIES:							
Noncurrent liabilities payable from unrestricted assets — notes payable to Government Development Bank for Puerto Rico	3,129,245						3,129,245
Noncurrent liabilities payable from restricted assets:							
Allowance for losses on mortgage loan insurance					4,299,046		4,299,046
Bonds, notes, and mortgage-backed certificates payable		109,473,556	26,732,803	80,541,486	117,295,000		334,042,845
Total noncurrent liabilities payable from restricted assets	-	109,473,556	26,732,803	80,541,486	121,594,046	-	338,341,891
Total noncurrent liabilities	3,129,245	109,473,556	26,732,803	80,541,486	121,594,046	-	341,471,136
Total liabilities	22,296,766	127,798,556	56,870,265	92,269,443	129,561,781	(538,358)	428,258,453
NET ASSETS:							
Invested in capital assets	11,356,409						11,356,409
Restricted for:							
Mortgage loan insurance					62,761,594		62,761,594
Affordable housing programs		30,594,543		39,036,678	21,861,054		91,492,275
Other housing programs			3,024,494				3,024,494
Unrestricted	371,587,462	12,500	109,476		(375,229)		371,334,209
Total net assets	382,943,871	30,607,043	3,133,970	39,036,678	84,247,419	-	539,968,981
TOTAL	$ 405,240,637	$ 158,405,599	$ 60,004,235	$ 131,306,121	$ 213,809,200	$ (538,358)	$ 968,227,434

See notes to basic financial statements.

(Concluded)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Operating and Administrative	Mortgage Trust III	Home Purchase Stimulus Program	Mortgage-Backed Certificates 2006 Series A	Others Nonmajor Funds	Total
OPERATING REVENUES:						
Investment income:						
Interest income on deposits placed with banks	$ 596,676	$ 427,097	$ 19,512	$ 26,583	$ 373,263	$ 1,443,131
Interest income on investments and investment contracts	1,506,354	1,401,538		6,744,114	14,943,141	24,595,147
Net increase (decrease) in fair value of investments	(5,483)	7,367,613		831,829	8,748,146	16,942,105
Total investment income	2,097,547	9,196,248	19,512	7,602,526	24,064,550	42,980,383
Interest income on loans	16,969,456	8,621	944,502			17,922,579
Total investment income and interest income on loans	19,067,003	9,204,869	964,014	7,602,526	24,064,550	60,902,962
Noninterest income:						
Fiscal agency fees	76,204					76,204
Commitment, guarantee, service, and administrative fees	9,249,802				2,311,240	11,561,042
Mortgage loan insurance premiums					4,300,523	4,300,523
Other income	678,851				141,435	820,286
Total noninterest income	10,004,857	-	-	-	6,753,198	16,758,055
Total operating revenues	29,071,860	9,204,869	964,014	7,602,526	30,817,748	77,661,017

(Continued)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Operating and Administrative	Mortgage Trust III	Home Purchase Stimulus Program	Mortgage-Backed Certificates 2006 Series A	Others Nonmajor Funds	Total
OPERATING EXPENSES:						
Provision for loan losses	$ 2,068,679	$ -	$ 1,247,212	$ -	$ -	$ 3,315,891
Interest expense — bonds, notes, and mortgage-backed certificates	125,033	9,717,240	1,812,355	5,981,671	15,977,710	33,614,009
Other noninterest expenses:						
Salaries and fringe benefits	9,738,695					9,738,695
Occupancy and equipment costs	2,608,496					2,608,496
Depreciation and amortization	1,022,126					1,022,126
Legal and professional fees	5,785,835				1,356,519	7,142,354
Office and administrative	872,611		126,080		34,952	1,033,643
Subsidy and trustee fees	241,714	137,501	41,249	71,128	95,885	587,477
Provision for losses on mortgage loan insurance					627,039	627,039
Other	4,494,640		5,859		2,722,549	7,223,048
Total noninterest expenses	24,764,117	137,501	173,188	71,128	4,836,944	29,982,878
Total operating expenses	26,957,829	9,854,741	3,232,755	6,052,799	20,814,654	66,912,778
OPERATING INCOME (LOSS)	2,114,031	(649,872)	(2,268,741)	1,549,727	10,003,094	10,748,239
NONOPERATING EXPENSES:						
Contributions to others	(14,500)	(1,512,242)				(1,526,742)
Loss on early extinguisment of bonds payable		(28,859,940)			(3,077,959)	(31,937,899)
TRANSFERS IN	84,339,200		2,842,527		6,703,880	93,885,607
TRANSFERS OUT	(68,241,501)	(60,000,000)		(2,859,606)	(44,698,429)	(175,799,536)
CHANGE IN NET ASSETS	18,197,230	(91,022,054)	573,786	(1,309,879)	(31,069,414)	(104,630,331)
NET ASSETS — Beginning of year	364,746,641	121,629,097	2,560,184	40,346,557	115,316,833	644,599,312
NET ASSETS — End of year	$382,943,871	$ 30,607,043	$ 3,133,970	$39,036,678	$ 84,247,419	$ 539,968,981

See notes to basic financial statements.

(Concluded)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Operating and Administrative	Mortgage Trust III	Home Purchase Stimulus Program	Mortgage-Backed Certificates 2006 Series A	Other Nonmajor Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash received from interest on housing program loans	$ 12,016,546	$ 27,094	$ -	$ -	$ -	$ 12,043,640
Cash paid for housing program loans originated	(87,180,764)					(87,180,764)
Principal collected on housing program loans	61,127,586					61,127,586
Cash received from other operating noninterest income	9,584,340		1,617,450		2,669,951	13,871,741
Cash received from mortgage loans insurance premiums					5,775,539	5,775,539
Cash paid for noninterest expenses	(6,858,025)	(62,500)	(92,369)		(2,222,212)	(9,235,106)
Cash paid for salaries and fringe benefits	(9,474,054)				(750)	(9,474,804)
Internal balances	33,527,856	(12,500)	(126,534)		(968,565)	32,420,257
Net cash provided by (used in) operating activities	12,743,485	(47,906)	1,398,547	-	5,253,963	19,348,089
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Proceeds from issuance of notes payable to Government Development Bank for Puerto Rico	422,190					422,190
Proceeds from issuance of bonds payable			9,180,000			9,180,000
Payments of bonds payable		(144,035,954)	(10,000)	(8,259,472)	(176,885,000)	(329,190,426)
Payment of bond issue costs			(105,148)			(105,148)
Interest paid	(73,497)	(576)		(5,095,229)	(16,062,690)	(21,231,992)
Payments on early extinguishment of bonds payable in excess of principal balance		(28,419,382)			(3,077,958)	(31,497,340)
Contributions to others	(14,500)					(14,500)
Transfers in	64,903,200		2,842,527		6,703,880	74,449,607
Transfers out	(68,241,501)	(60,000,000)		(2,859,606)	(43,422,756)	(174,523,863)
Net cash provided by (used in) noncapital financing activities	(3,004,108)	(232,455,912)	11,907,379	(16,214,307)	(232,744,524)	(472,511,472)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Acquisition of capital assets	(395,561)					(395,561)

(Continued)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Operating and Administrative	Mortgage Trust III	Home Purchase Stimulus Program	Mortgage-Backed Certificates 2006 Series A	Other Nonmajor Funds	Total
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchases of investments	$ -	$(160,164,524)	$ -	$ -	$ (31,699,385)	$(191,863,909)
Proceeds from sale of investments		60,000,000			184,691,762	244,691,762
Proceeds from redemptions of investments	92,523	11,019,598		8,267,078	64,769,206	84,148,405
Net decrease (increase) in deposits placed with banks	(5,666,770)	318,946,268	(62,933)	1,133,571	(5,009,557)	309,340,579
Cash received from interest on investments	2,031,129	1,340,911	19,166	6,813,658	15,689,779	25,894,643
Principal collected on other than housing program loans			312,039			312,039
Originations of other than housing program loans			(17,968,000)			(17,968,000)
Fees collected on other than housing program loans			9,089,332			9,089,332
Proceeds from sale of real estate available for sale	355,273				1,423,395	1,778,668
Disbursements for acquisition of and improvements to real estate available for sale					(2,723,191)	(2,723,191)
Net cash provided by investing activities	(3,187,845)	231,142,253	(8,610,396)	16,214,307	227,142,009	462,700,328
NET CHANGE IN CASH	6,155,971	(1,361,565)	4,695,530		(348,552)	9,141,384
CASH — Beginning of year	2,523,129	1,362,306	4,868,747		976,333	9,730,515
CASH — End of year	$ 8,679,100	$ 741	$ 9,564,277	$ -	$ 627,781	$ 18,871,899
RECONCILIATION TO BALANCE SHEET — Enterprise Funds:						
Cash — unrestricted	$ 5,031,473					$ 5,031,473
Cash — restricted	3,647,627	741	9,564,277		627,781	13,840,426
TOTAL CASH — End of year	$ 8,679,100	$ 741	$ 9,564,277	$ -	$ 627,781	$ 18,871,899

(Continued)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Operating and Administrative	Mortgage Trust III	Home Purchase Stimulus Program	Mortgage-Backed Certificates 2006 Series A	Other Nonmajor Funds	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:						
Operating income (loss)	$ 2,114,031	$ (649,871)	$ (2,268,742)	$ 1,549,727	$ 10,003,094	$ 10,748,239
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	1,022,126					1,022,126
Accretion of deferred loan fees						
Net decrease (increase) in fair value of investments	5,483	(7,367,613)		(831,829)	(8,748,146)	(16,942,105)
Interest income on investments and investment contracts, and deposits placed with banks	(2,103,030)	(1,828,635)	(19,512)	(6,770,697)	(15,316,404)	(26,038,278)
Capitalized interest on loans receivable	(4,745,499)		(944,502)			(5,690,001)
Provision for loan losses	2,068,679		1,247,212			3,315,891
Provision for losses on mortgage loan insurance					627,039	627,039
Loss on sale of real estate held for sale	189,828				492,047	681,875
Provision (credit) for losses on real estate held for sale	49,313				1,408,825	1,458,138
Interest expense	125,033	9,717,240	1,812,355	5,981,671	15,977,710	33,614,009
Changes in operating assets and liabilities:						
Accrued interest on housing program loans	(207,412)	18,473				(188,939)
Housing program loans originated	(87,180,764)					(87,180,764)
Collections of mortgage and construction loans	61,127,586					61,127,586
Other accounts receivable and prepaid expenses	(545,185)		1,623,300		133,147	1,211,262
Accounts payable and accrued liabilities	7,030,800	75,000	74,970	71,128	1,645,218	8,897,116
Accrued salaries and fringe benefits	264,640					264,640
Internal balances	33,527,856	(12,500)	(126,534)		(968,567)	32,420,255
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 12,743,485	$ (47,906)	$ 1,398,547	$ -	$ 5,253,963	$ 19,348,089

(Continued)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Operating and Administrative	Mortgage Trust III	Home Purchase Stimulus Program	Mortgage-Backed Certificates 2006 Series A	Other Nonmajor Funds	Total
NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES:						
Capitalized interest on loans receivable	$ 4,745,499	$ -	$ 944,502	$ -	$ -	$ 5,690,001
Loans receivable originated not disbursed	$ -	$ -	$ 9,370,000	$ -	$ -	$ 9,370,000
Accretion of discount on investments and investment contracts	$ -	$ 1,985,960	$ -	$ -	$ -	$ 1,985,960
Accretion of discount on bonds payable	$ -	$ 9,716,666	$ 1,781,012	$ 497,920	$ -	$ 11,995,598
Amortization of deferred loss on refunding (included in interest expense)	$ -	$ -	$ -	$ 281,506	$ -	$ 281,506
Amortization of bond issue costs (included in interest expense)	$ -	$ -	$ 31,342	$ 108,137	$ 722,959	$ 862,438
Transfer of loans receivable to real estate available for sale	$ 257,151	$ -	$ 10,374	$ -	$ -	$ 267,525
Interfund transfers not received	$ 19,436,000	$ -	$ -	$ -	$ -	$ 19,436,000
Transfers to Government Development Bank for Puerto Rico:						
Investments transferred in lieu of payment of bonds	$ -	$160,577,659	$ -	$ -	$ -	$ 160,577,659
Investments transferred in lieu of payment of nonoperating expenses	$ -	$ 494,013	$ -	$ -	$ -	$ 494,013
Investments transferred as contribution	$ -	$ 1,512,713	$ -	$ -	$ -	$ 1,512,713
Loans receivable transferred in lieu of payment of bonds	$ -	$ 2,792,834	$ -	$ -	$ -	$ 2,792,834
Transfers within enterprise funds:						
Real estate available for sale	$ (376,150)	$ -	$ -	$ -	$ 376,150	$ -
Due (from) to other funds	$ 376,150	$ -	$ -	$ -	$ (376,150)	$ -
Interfund transfer of interest receivable	$ -	$ -	$ -	$ -	$ (397,100)	$ (397,100)
Interfund transfer of internal balances	$ -	$ -	$ -	$ -	$ 425,291	$ 425,291
Interfund transfer of liabilities	$ -	$ -	$ -	$ -	$ 10,356	$ 10,356

See notes to basic financial statements.

(Concluded)

1. REPORTING ENTITY

Puerto Rico Housing Finance Authority (the "Authority") is a component unit of Government Development Bank for Puerto Rico ("GDB" or the "Bank"), which is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth"). The Authority was created in 1977 to provide public and private housing developers with interim and permanent financing through mortgage loans for the construction, improvement, operation, and maintenance of rental housing for low and moderate-income families. The Authority also issues bonds and notes, the proceeds of which are deposited in separate trusts and generally invested in mortgage-backed securities collateralized by mortgage loans on properties located in Puerto Rico purchased by low and moderate-income families or used to provide subsidies to such families for the acquisition of their primary residence. The Authority is authorized by the U.S. Department of Housing and Urban Development (HUD) to administer the U.S. Housing Act Section 8 program in Puerto Rico, to administer the HOME Investment Partnerships (HOME) Program, and to act as an approved mortgagor, both for multifamily rental units and for single-family homes. In addition, it is an authorized issuer of Government National Mortgage Association (GNMA) mortgage-backed securities and is Puerto Rico's State Credit Agency for the Low-Income Housing Tax Credit Program under Section 42 of the U.S. Internal Revenue Code.

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

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to governmental entities. The Authority follows Governmental Accounting Standards Board (GASB) pronouncements under the hierarchy established by GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its financial statements. The Authority has elected to apply all applicable statements and interpretations issued by the Financial Accounting Standards Board (FASB) after November 30, 1989, in accounting and reporting for its enterprise funds and business-type activities to the extent they do not conflict with GASB pronouncements.

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

Government-Wide and Fund Financial Statements

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

The statement of net assets (deficiency) presents the Authority's assets and liabilities, with the difference reported as net assets. Net assets (deficiency) are reported in three categories:

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

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

- Unrestricted net assets (deficiency) consist of net assets (deficiency) that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on use that are imposed by management, but such constraints may be removed or modified.

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

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

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

Fund balances for each governmental fund are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable — amounts that cannot be spent because they are not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.

- Restricted — amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.

- Committed — amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.

- Assigned — amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.

- Unassigned — amounts that are available for any purpose.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then, unrestricted resources as they are needed.

Measurement Focus, Basis of Accounting, and Financial Statements Presentation

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

Governmental Funds Financial Statements — The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 120 days after the end of the fiscal year. Principal revenue sources considered susceptible to accrual include federal and Commonwealth funds to be received by the HUD Programs, American Recovery and Reinvestment Act (ARRA) Funds, HOME Program, and Closing Costs Assistance Program. Other revenues are considered to be measurable and available only when cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Interest on general long-term obligations is generally recognized when paid.

- Debt service principal expenditures and claims and judgments are recorded only when payment is due.

Governmental Funds — The following governmental activities of the Authority are classified as major governmental funds:

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

ARRA Programs — This special revenue fund accounts for funds received under Title XII and Section 1602 of the ARRA of 2009. Title XII is a grant program that provides funds for capital investments in Low-Income Housing Tax Credit projects. Section 1602 grants funds to states to finance construction or acquisition and rehabilitation of qualified low-income building for low-income housing in lieu of low-income housing tax credits.

Affordable Housing Mortgage Subsidy Programs ("AHMSP") (Stage 7) — This special revenue fund is used to account for the proceeds of specific revenue sources under Stage 7 of the AHMSP that are legally restricted for expenditures to promote the origination of mortgage loans by financial institutions in the private sector to low and moderate-income families. Under this stage, the Authority commits to provide subsidy for the down payment and/or the principal and interest payments on mortgage loans originated under a predetermined schedule of originations. Loans originated, as well as servicing, are kept by the originating financial institution. There was no open schedule of originations under this stage as of June 30, 2012.

My New Home Program — This special revenue fund accounts for revenues provided by Act No. 122 of August 6, 2010, as amended, to provide subsidies to eligible individuals of families for the purchase of an eligible principal residence.

The following governmental activities of the Authority are accounted for in other nonmajor governmental funds:

AHMSP (Stages 2, 3, 6, 8, 9, 10, and 11) — These special revenue funds are used to account for the proceeds of specific revenue sources under Stages 2, 3, 6, 8, 9, 10, and 11 of the AHMSP that are legally restricted for expenditures to promote the origination of mortgage loans by financial institutions in the private sector to low and moderate-income families. Under these stages, the Authority commits to provide subsidy for the down payment and/or the principal and interest payments on mortgage loans originated under a predetermined schedule of originations and, in the case of Stages 9, 10, and 11, to acquire such mortgages in the form of mortgage-backed securities issued by financial institutions. Loans originated, as well as servicing, are kept by the originating financial institution. There was no open schedule of originations under these stages as of June 30, 2012.

AHMSP Mortgage-Backed Certificates — This special revenue fund is used to account for specific revenue sources used to provide subsidy for the mortgages underlying the mortgage-backed securities held as collateral for the mortgage-backed certificates issued in fiscal year 2007.

AHMSP Act No. 124 — This special revenue fund accounts for excess subsidy funds, as well as accumulated net assets released periodically from arbitrage structures used to provide housing assistance.

Closing Costs Assistance Program — This special revenue fund accounts for revenues received mainly from appropriations from the Commonwealth to provide subsidies to eligible individuals of families for the purchase of an eligible principal residence.

New Secure Housing Program — This special revenue fund is used to account for federal and local resources directed to plan, coordinate, and develop the construction of new housing units as a replacement for those destroyed by Hurricane Georges in 1998, and to attend the housing needs of those families living in hazard-prone areas.

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

Protecting Your Home Program — This special revenue fund accounts for mortgage payment subsidy for up to 18 months or $20,000, whichever is less, and is intended to reduce the amount of home foreclosures among low and moderate-income families with recent financial difficulties. This loss mitigation program was financed with $20 million coming from releases of excess funds from previous bond issuances under the AHMSP and the Authority's own funds.

Enterprise Funds' Financial Statements — The financial statements of the enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

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

Enterprise Funds — The following business-type activities of the Authority are classified as major enterprise funds:

Operating and Administrative — The Operating and Administrative fund accounts for lending and guarantee activities, except those accounted for in other enterprise funds, and most of the general and administrative activities of the Authority.

Mortgage Trust III — This fund is used to account for the financing of low and moderate-income families' purchase of residential housing from the proceeds of bond issuances. In July 2011, the Authority restructured approximately $425 million face amount of Mortgage Trust III bonds. The restructuring took place as follows: (1) tender offer amounting to approximately $144 million (including expenses related to the transaction) to acquire and cancel bonds with a carrying amount of approximately $112 million, and (2) purchase AAA securities amounting to approximately $160 million to establish an escrow for the payment through maturity of bonds with a carrying amount of approximately $129 million.

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

Mortgage-Backed Certificates 2006 Series A — This fund is used to account for the proceeds received in connection with the issuance of mortgage-backed certificates (the "Mortgage-Backed Certificates"), which were used to defease the Collateralized Mortgage Revenue Bonds 1994 Series A and the Single Family Mortgage Portfolio I and Portfolio IV bonds.

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

The following business-type activities of the Authority are accounted for in other nonmajor enterprise funds:

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

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

Single Family Mortgage Revenue Bonds Portfolio IX — This fund is part of the Authority's AHMSP and is used to account for bond issuances, the proceeds of which are mainly used to purchase mortgage-backed securities collateralized by loans originated to finance lowand moderate-income families' purchase of residential housing units. As of June 30, 2012, this fund has been closed.

Single-Family Mortgage Revenue Bonds Portfolio X and XI — These funds are part of the Authority's AHMSP and are used to account for bond issuances, the proceeds of which are mainly used to purchase mortgage-backed securities collateralized by loans originated to finance low and moderate-income families' purchase of residential housing units. As of June 30, 2012, the Single-Family Mortgage Revenue Bonds Portfolio X fund has been closed.

Homeownership Mortgage Revenue Bonds (Series 1998) — This fund is used to account for the proceeds of bond issuances to finance the acquisition of GNMA certificates backed by mortgage loans originated by eligible institutions to finance the purchase of qualified single-family residential housing.

Homeownership Mortgage Revenue Bonds (Series 2001) — This fund is used to account for the proceeds of bond issuances to finance the acquisition of GNMA certificates backed by mortgage loans originated by eligible institutions to finance the purchase of single family residential housing.

Homeownership Mortgage Revenue Bonds (Series 2003) — This fund is used to account for subsidies provided to low and moderate-income families in obtaining a mortgage loan.

PRCDF — This fund is used to account for the Authority's investment in Puerto Rico Community Development Fund, LLC ("PRCDF").

Investments and Investment Contracts — Investments and investment contracts are carried at fair value, except for money market instruments and participating investment contracts with a remaining maturity at the time of purchase of one year or less and nonparticipating investment contracts (guaranteed investment contracts), which are carried at cost, and investment positions in 2a-7 like external investment pools, which are carried at the pools' share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in net increase (decrease) in fair value of investments.

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

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

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

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

Loans considered to be impaired are generally reduced to the present value of expected future cash flows, discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, by establishing a valuation allowance.

Due from (to) Other Funds — Interfund receivables and payables have been eliminated from the statement of net assets (deficiency), except for the residual amounts due between governmental and business-type activities.

Debt Issue Costs — Debt issue costs are deferred, and amortized, as a component of interest expense, over the term of the related debt, using systematic and rational methods. Issuance costs of the bonds accounted for in the governmental funds are recorded as expenditures when paid.

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

Capital Assets — Capital assets, which include land, leasehold improvements, information systems, office furniture, equipment, and vehicles, are reported in the governmental activities and business-type activities columns in the government-wide financial statements. Capital assets are defined by the Authority as assets which have a cost of $500 or more at the date of acquisition and have an expected useful life of three or more years. Purchased capital assets are valued at historical cost. Donated fixed assets are recorded at their fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend the asset's useful life are not capitalized.

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

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

Compensated Absences — The employees of the Authority are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of 72 and 90 days, respectively. In the event of employee resignation, an employee is reimbursed for accumulated vacation and sick leave days up to the maximum allowed. The enterprise fund financial statements and the government-wide financial statements present the cost of accumulated vacation and sick leave as a liability.

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

Refundings — Refundings involve the issuance of new debt whose proceeds are used to repay immediately (current refunding) or at a future time (advance refunding) previously issued debt. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is recorded as an addition to or deduction from the new debt.

No-Commitment Debt — The Authority has issued notes and bonds in connection with the financing of low and moderate-income housing projects. Certain of the obligations issued by the Authority are considered no-commitment debt and are excluded, along with the related assets held in trust, from the accompanying basic financial statements. The Authority and the Commonwealth, except for the assets held in trust and earnings thereon, are not liable directly or indirectly for the payment of such obligations.

Certain other collateralized obligations of the Authority are included in the accompanying basic financial statements because either they represent general obligations of the Authority or it maintains effective control over the assets transferred as collateral.

Loan Origination Costs and Commitment Fees — GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Issues*, requires that loan origination and commitment fees and direct origination costs be amortized over the contractual life of the related loan. The Authority generally recognizes commitment fees as income when collected and the related loan origination costs as expense when incurred. Effective July 1, 2006, the Authority defers and amortizes loan origination fees for certain single-family mortgage loans over the contractual life of such loans. In the opinion of management, the difference between the two methods does not have a significant effect on the Authority's financial position and changes in financial position.

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

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

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

Mortgage Loan Insurance Premiums — Premiums on insured mortgage loans are recognized as earned.

Future Adoption of Accounting Pronouncements — The GASB has issued the following statements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for periods beginning after December 15, 2011.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus — an amendment of GASB Statements No. 14 and No. 34*, which is effective for periods beginning after June 15, 2012.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for periods beginning after December 15, 2011.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is effective for periods beginning after December 15, 2011.
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for periods beginning after December 15, 2011.
- GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*, which is effective for periods beginning after December 15, 2012.
- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which is effective for periods beginning after June 15, 2013.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pension – an amendment of GASB Statement No. 27*, which is effective for periods beginning after June 15, 2014.

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

3. CASH AND DUE FROM BANKS, AND DEPOSITS PLACED WITH BANKS

The table presented below discloses the level of custodial credit risk assumed by the Authority at June 30, 2012. Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Funds deposited with GDB or the Economic Development Bank for Puerto Rico (EDB), a component unit of the Commonwealth, are not covered by this Commonwealth's requirement.

The Authority follows GDB's policies for deposits placed with banks, which establish maximum exposure limits for each institution based on the institution's capital, financial condition, and credit rating assigned by nationally recognized rating agencies. Maturities of deposits placed with banks at June 30, 2012, are as follows:

Year Ending June 30	Amount
2013	$ 180,818,680
2014	111,572
2022	9,150
2031	13,179,543
Total	$ 194,118,945

As of June 30, 2012, $249,514,602 of the depository bank balance of $281,127,993 was uninsured and uncollateralized as follows:

	Carrying Amount	Depository Bank Balance	Uninsured and Uncollateralized
Cash	$ 86,204,618	$ 87,010,853	$ 68,695,923
Deposits placed with banks	194,118,945	194,117,140	180,818,680
Total	$ 280,323,563	$ 281,127,993	$ 249,514,603

Uninsured and uncollateralized cash of approximately $68.7 million as of June 30, 2012, represents the bank balance of cash deposited at GDB. These deposits are exempt from the collateral requirement established by the Commonwealth. In addition, uninsured and uncollateralized deposits placed with banks consist of certificates of deposit issued by GDB and EDB amounting to approximately $180.8 million as of June 30, 2012.

Reconciliation to the government-wide statement of net assets (deficiency) as of June 30, 2012, is as follows:

Unrestricted:	
Cash	$ 5,031,473
Deposits placed with banks	92,549,306
Total unrestricted	97,580,779
Restricted:	
Cash	81,173,145
Deposits placed with banks	101,569,639
Total restricted	182,742,784
Total	$280,323,563

4. INVESTMENTS AND INVESTMENT CONTRACTS

The Authority follows GDB's investment policies, which provide that investment transactions shall be entered into only with counterparties that are rated BBB+/A-1 or better by Standard & Poor's or equivalent rating by Fitch Ratings or Moody's Investors Service, depending on the type and maturity of the investment and the counterparty to the transaction. Any exceptions must be approved by the Authority's Board of Directors. These investment policies also provide that purchases and sales of investment securities shall be made using the delivery versus payment method. The Authority does not have a formal policy for interest rate risk management.

The following table summarizes the type and maturities of investments held by the Authority at June 30, 2012. Investments by type in any one issuer representing 5% or more of total investments of the Authority have been separately disclosed. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
Mortgage-backed securities:					
GNMA	$ -	$ 1,115,796	$ 8,638,017	$ 242,834,881	$ 252,588,694
FNMA				7,535,209	7,535,209
Other				195,741	195,741
Federal Home Loan Bank (FHLB)		37,297,606	11,120,350		48,417,956
Fixed-income external investment pool — Federated Government Obligations	5,862,805				5,862,805
U.S. Treasury obligations	17,211,095	37,827,465			55,038,560
Israel aid bonds		20,082,343	34,176,733		54,259,076
Nonparticipating investment contracts:					
Trinity Funding Co.				26,461,444	26,461,444
Citibank				17,628,800	17,628,800
GDB				15,147,370	15,147,370
Banco Popular				14,443,140	14,443,140
Santander				11,161,986	11,161,986
Monumental Life				7,135,227	7,135,227
Other				543,912	543,912
Total investments	$ 23,073,900	$ 96,323,210	$ 53,935,100	$ 343,087,710	516,419,920
Equity interest in Puerto Rico Community Development Fund					4,501
Total					$ 516,424,421

Reconciliation to the government-wide statement of net assets as of June 30, 2012, is as follows:

Unrestricted investments and investment contracts	$ 18,188,384
Restricted investments and investment contracts	498,236,037
Total	$516,424,421

At June 30, 2012, substantially, all of the Authority's investments in mortgage-backed securities were held by trustees in connection with bonds issued by the Authority, the terms of which provide for early redemption of the bonds if the securities are early repaid.

Investments in fixed-income external investment pools had an average maturity of less than 60 days; accordingly, they are presented as investments with maturities of less than one year.

All of the Authority's investments in mortgage-backed securities guaranteed by GNMA and Israel Aid Bonds carry the explicit guarantee of the U.S. government. The credit quality ratings for investments in debt securities and nonparticipating investment contracts, excluding mortgage-backed securities guaranteed by GNMA and Israel Aid Bonds, as of June 30, 2012, are as follows:

	Credit Risk Rating		
Securities Type	**AAA to A-**	**BBB**	**BB**
Mortgage-backed securities:			
FNMA	$ 7,535,209	$ -	$ -
Other	195,741		
FHLB	48,417,956		
Fixed-income external investment pool —			
Federated Government Obligations	5,862,805		
Nonparticipating investment contracts:			
Trinity	26,461,444		
Citibank	17,628,800		
GDB		15,147,370	
Banco Popular			14,443,140
Santander	11,161,986		
Monumental Life	7,135,227		
Other		543,912	
Total	$ 124,399,168	$ 15,691,282	$ 14,443,140

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

5. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable as of June 30, 2012, consist of:

	Business-Type Activities		
	Operating and Administrative	**Other Nonmajor**	**Total**
Real estate loans — all types of residential property, bearing interest at various rates ranging from 5% to 18%	$ 279,437,838	$ 77,000,430	$ 356,438,268
Less allowance for loan losses	(36,552,441)	(2,638,677)	(39,191,118)
Less deferred origination fees	(2,967,645)	(24,528,459)	(27,496,104)
	$ 239,917,752	$ 49,833,294	$ 289,751,046

Reconciliation to the government-wide statement of net assets (deficiency) as of June 30, 2012, is as follows:

Unrestricted loans receivable — net	$239,917,752
Restricted loans receivable — net	49,833,294
Total	$289,751,046

Real estate loans receivable represent secured loans with a first lien on the related real estate property granted to low and moderate-income families for the acquisition of single-family units and to developers of multifamily housing units in Puerto Rico. Prior to providing mortgage financing to developers, the Authority obtains representations and approvals from appropriate Commonwealth and U.S. government agencies as to the qualifications of the prospective sponsors, as well as the financial feasibility of each project. Real estate loans are generally collectible monthly at various dates through the year 2049. The collection of noninsured/nonguaranteed real estate loans to developers is dependent on the ability of each housing project to generate sufficient funds to service its debt, which, for other than certain federally assisted housing projects, is predicated on the ability to obtain rent increases to offset increases in operating costs.

At June 30, 2012, nonperforming loans amounted to approximately $51.0 million. Interest income that would have been recorded in the year if these loans had performed in accordance with their original terms would have been approximately $525,000.

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

The loans considered impaired as of June 30, 2012, and the related interest income for the year then ended, are as follows:

Recorded investment in impaired loans:	
Requiring an allowance for loan losses	$44,559,000
Not requiring an allowance for loan losses	27,728,000
Total	$72,287,000
Related allowance for loan losses	$30,598,000
Average recorded investment in impaired loans	61,937,000
Interest income recognized on impaired loans	1,218,000

The summary of the activity in the allowance for loan losses for the year ended June 30, 2012, is as follows:

	Operating and Administrative	**Other Nonmajor**	**Total**
Balance — beginning of year	$34,264,503	$1,391,465	$35,655,968
Provision for loan losses	2,068,678	1,247,212	3,315,890
Net recoveries	219,260		219,260
Balance — end of year	$36,552,441	$2,638,677	$39,191,118

6. DUE FROM FEDERAL GOVERNMENT

The Authority, as a public housing agency, is authorized to administer the U.S. Housing Act Section 8 Programs in Puerto Rico. The revenues and expenses of such federal financial assistance are accounted for as a major governmental fund under the HUD Programs fund. Revenues and expenditures related to the administration of the U.S. Housing Act Section 8 Programs amounted to approximately $133.8 million during the year ended June 30, 2012. This amount includes approximately $5 million of administrative fees for services performed as contract administrator, which are reimbursed by HUD. As of June 30, 2012, the amounts due from federal government under the HUD Programs fund amounted to approximately $1.3 million.

During the year ended June 30, 2012, the Authority expended approximately $17.0 million of HOME Program funds, of which $11.9 million are due from the federal government as of June 30, 2012. In accordance with the Authority's accounting policies, the Authority has deferred the recognition of revenue of approximately $2.8 million due from the federal government in the fund financial statements as such amounts are not considered to be available. This amount has been has recorded as a deferred revenue in the accompanying balance sheet — governmental funds.

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

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

Under the terms of the grant, the construction of, and relocation of participants to new secure housing units was to be completed by December 31, 2007. In addition, FEMA would reimburse 75% of the allowable costs of the NSH Program. Funds collected under the NSH Program since its inception amounted to approximately $113 million and are subject to compliance audits under OMB Circular A-133 and federal granting agencies audits.

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

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

On January 30, 2012, the Authority and the Department of Housing entered into a transition agreement by which the Department of Housing would assume its obligations as the NSH Program sub-grantee and project owner, including vacant property dispositions, open space monitoring and other related matters. The Authority will continue to assume the amounts payable under the $67 million nonrevolving line of credit with GDB, until such debt can be assumed by the Commonwealth. The Department of Housing would prospectively assume, without recourse, any additional funds that might be requested by FEMA for events of noncompliance, including related costs.

Based on all these facts and that no reimbursements have been received from FEMA since April 2007, management has decided to establish an allowance for the $26 million due from FEMA at June 30, 2012.

7. REAL ESTATE AVAILABLE FOR SALE

Real estate available for sale at June 30, 2012, consisted of the following:

	Business-Type Activities		
	Operating and Administrative	Other Nonmajor	Total
Residential (1–4 units)	$ 7,935,063	$ 5,664,578	$ 13,599,641
Valuation allowance	(7,310,165)	(3,962,564)	(11,272,729)
Total real estate available for sale	$ 624,898	$ 1,702,014	$ 2,326,912

Reconciliation to the government-wide statement of net assets (deficiency):

Unrestricted real estate available for sale	$ 624,898
Restricted real estate available for sale	1,702,014
Total	$ 2,326,912

The following is a summary of the activity in the valuation allowance for the year ended June 30, 2012:

	Business-Type Activities		
	Operating and Administrative	Other Nonmajor	Total
Balance — beginning of year	$7,383,818	$3,380,560	$10,764,378
Provision (credit) for possible losses	49,313	1,408,825	1,458,138
Write-offs	(122,966)	(826,821)	(949,787)
Balance — end of year	$7,310,165	$3,962,564	$11,272,729

8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012, was as follows:

Governmental activities:

	Beginning Balance	Additions	Reductions/ Reclassifications	Ending Balance
Capital assets:				
Information systems	$ 66,329	$ -	$ -	$ 66,329
Office furniture and equipment	33,967			33,967
Vehicles	66,135			66,135
Total capital assets	166,431	-	-	166,431
Less accumulated depreciation and amortization for:				
Information systems	(35,494)	(17,436)		(52,930)
Office furniture and equipment	(23,094)	(5,241)		(28,335)
Vehicles	(66,132)			(66,132)
Total accumulated depreciation and amortization	(124,720)	(22,677)	-	(147,397)
Capital assets — net	$ 41,711	$ (22,677)	$ -	$ 19,034

Business-type activities:

	Beginning Balance	Additions	Reductions/ Reclassifications	Ending Balance
Capital assets not being depreciated — land	$ -	$ -	$ 8,880,000	$ 8,880,000
Capital assets being depreciated:				
Leasehold improvements	4,002,942			4,002,942
Information systems	2,671,943	366,418		3,038,361
Office furniture and equipment	2,118,760	29,143		2,147,903
Vehicles	150,023			150,023
Total capital assets being depreciated	8,943,668	395,561	-	9,339,229
Less accumulated depreciation and amortization for:				
Leasehold improvements	(2,051,353)	(364,012)		(2,415,365)
Information systems	(1,786,720)	(502,667)		(2,289,387)
Office furniture and equipment	(1,874,213)	(145,155)		(2,019,368)
Vehicles	(128,408)	(10,292)		(138,700)
Total accumulated depreciation and amortization	(5,840,694)	(1,022,126)	-	(6,862,820)
Total capital assets being depreciated — net	3,102,974	(626,565)	-	2,476,409
Total capital assets — net	$ 3,102,974	$ (626,565)	$ 8,880,000	$ 11,356,409

The Authority maintained a line of credit of $50 million with a commercial bank to provide funds to the Department of Housing to finance the operations of the "Revitalización de Santurce" Program. The project's objective was to rehabilitate and redevelop the Santurce sector in the Municipality of San Juan through purchase and expropriations of properties for redevelopment of commercial and residential projects. The Authority entered into a collaborative agreement with the Department of Housing under which it would finance the property acquisition efforts under the Program. The funds for the Department of Housing's property expropriation efforts of real property were withdrawn from the line of credit. Once the property was acquired, the Department of Housing would immediately transfer ownership to the Authority to collateralize the line of credit. The Department of Housing subsequently would enter into purchase agreements with developers that met the Program's underlying objectives. The product of the sale of the properties to the developers would serve to repay the line of credit. However, due to the general real estate market conditions and lack of financing the projects under which conditioned purchase agreements were subscribed were no longer feasible. In turn, the Authority repaid the outstanding balance and retained title to the properties held in trust in lieu of payment amounting to $8,880,000 which are included as part of capital assets in the accompanying statement of net assets (deficiency) and balance sheet — enterprise funds.

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

The activity of bonds, mortgage-backed certificates, and notes payable for the year ended June 30, 2012, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Commonwealth appropriation note payable — AHMSP Stage 7	$ 4,811,237	$ 3,500,735	$ (4,811,237)	$ 3,500,735	$ -
Due to GDB:					
AHMSP Stage 7	39,281,780	494,079	(498,339)	39,277,520	39,277,523
AHMSP Stage 10	13,646,635	953,226	(14,599,861)		
AHMSP Law 124		13,512,041		13,512,041	
My New Home Program		45,635,000		45,635,000	
New Secure Housing Program	52,684,197	2,643,833	(1,511,190)	53,816,840	885,251
Add unamortized premium and less deferred loss on refundings		74,656	(148,525)	(73,869)	
Total governmental activities	$ 110,423,849	$66,813,570	$ (21,569,152)	$ 155,668,267	$40,162,774
Business-type activities:					
Mortgage Trust III	$ 861,803,874	$ -	$ (695,778,872)	$ 166,025,002	$18,175,000
Mortgage-Backed Certificates — 2006 Series A	111,188,910		(8,259,470)	102,929,440	11,619,591
Revenue bonds:					
Single Family Mortgage Revenue Bonds — Portfolio IX	98,150,000		(98,150,000)		
Single Family Mortgage Revenue Bonds — Portfolio X	70,275,000		(70,275,000)		
Single Family Mortgage Revenue Bonds — Portfolio XI	18,280,000		(725,000)	17,555,000	320,000
Homeownership Mortgage Revenue Bonds 2000 Series	44,205,000		(2,835,000)	41,370,000	1,480,000
Homeownership Mortgage Revenue Bonds 2001 Series	45,500,000		(3,225,000)	42,275,000	1,725,000
Homeownership Mortgage Revenue Bonds 2003 Series	21,855,000		(1,675,000)	20,180,000	560,000
Total revenue bonds	298,265,000	-	(176,885,000)	121,380,000	4,085,000
Subtotal	1,271,257,784		(880,923,342)	390,334,442	33,879,591
Notes payable:					
GDB (Operating and Administrative)	2,707,055	422,190		3,129,245	
Special obligation notes (Home Purchase Stimulus Program)	29,000,000	18,000,000	(10,000)	46,990,000	
Plus unamortized premium	462,248		(38,643)	423,605	
Less unaccreted discount and deferred loss on refundings	(461,640,146)	(8,820,000)	400,634,535	(69,825,611)	
Total business-type activities	$ 841,786,941	$ 9,602,190	$ (480,337,450)	$ 371,051,681	$33,879,591

The annual debt service requirements to maturity, including principal and interest, for long-term debt, other than amounts due to GDB as of June 30, 2012, are as follows:

Years Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Business-Type Activities Principal	Business-Type Activities Interest
2013	$ -	$ 203,532	$ 33,879,591	$ 10,795,372
2014		195,620	35,987,066	10,143,293
2015		195,620	39,187,294	9,543,182
2016	103,049	192,958	20,736,769	8,963,234
2017	83,595	190,022	36,558,737	8,405,158
2018-2022	468,075	895,711	120,544,469	40,695,550
2023-2027	476,786	785,744	54,627,392	35,548,178
2028-2032	2,369,230	213,360	51,448,906	21,617,901
2033-2037			27,993,452	9,356,397
2038-2042			16,370,766	2,083,729
Total	$3,500,735	$2,872,567	$ 437,334,442	$ 157,151,994

Governmental Activities:

Notes payable of governmental activities, excluding amounts due to GDB, consist of the following:

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

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

During the fiscal year ended June 30, 2012, the PFC issued PFC 2011 Series A and B and PFC 2012 Series A bonds, and refunded a portion of certain of its outstanding Commonwealth appropriation bonds issued in 2004 under Act No. 164 of December 17, 2001, including $3.1 million of the Note. The Authority recognized a mirror effect of these current refundings by the PFC in its own notes payable in proportion to the portion of the Authority's note payable included in the PFC refundings. As a result of the PFC refundings, the Authority recognized a deferred loss on defeasance, prepaid expenses for the bond issuance costs and a premium on note payable of $148,525, $36,804, and $74,656, respectively. In addition, as part of these transactions, the Authority recorded a due from Commonwealth amounting to $303,214 at June 30, 2012 for advances made to the bond trustee to cover future debt service requirements of the refunded notes. The aggregate debt service requirements of the refunded notes in excess of the advances already made to the bond trustee will be funded with annual appropriations from the Commonwealth.

In December 2011, the Puerto Rico Sales Tax Financing Corporation (known as "COFINA" by its Spanish Acronym), issued bonds and a portion of the proceeds of this bond issuance was used to cancel certain appropriation bonds of the Commonwealth of Puerto Rico and its agencies, departments and certain component units, including $1,711,322 of the Note. As a result of this bond defeasance, the Authority recognized a contribution from COFINA of $1,745,125 for the year ended June 30, 2012, which has been included as part of operating grants and contributions in the accompanying statement of activities and as part of Commonwealth appropriations for repayment of bonds or housing assistance programs in the accompanying statement of revenues, expenditures, and changes in fund balances — governmental funds.

The Note's outstanding principal balance at June 30, 2012, was $3,500,735 and matures throughout August 1, 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds. The applicable percentage is the percentage representing the proportion of the amount paid by the PFC on the PFC Bonds serviced by the Note to the aggregate amount paid by the PFC on all the PFC Bonds issued by the PFC under Act No. 164.

My New Home Program Financing — On June 30, 2011, the Authority entered into an agreement with GDB to establish a line of credit facility of approximately $64 million. The financing was provided under the provisions of Act No. 122 of August 6, 2010 ("Act No. 122"), *Act for the Financing of My New Home Program*. Under this program, the Authority subsidizes closing costs assistance to eligible families for the purchase of a principal residence through reimbursements of origination and closing costs up to 5% of the selling price of the residence. The line of credit consisted of $40 million to collect moneys advanced by the Authority's Operating and Administrative fund to this program, $20 million to continue the financing of the program, and $4 million to establish a reserve for the payment of interest and other financing expenses. As a source of repayment, Act No. 122 assigned to the Authority, for a period of seven years, a portion of no less than 80% of the unreserved moneys and other liquid funds abandoned or unclaimed in financial institutions of Puerto Rico that will be transferred to the general fund of the Commonwealth. Act No. 42 of February 14, 2012 amended Act No. 122 on the portion of unreserved monies and other liquid funds abandoned or unclaimed to 85% and 100% once the claims for any pending debt related to tax credit are paid. In addition, Act No. 42 eliminates the seven year limit and establishes the funding in perpetual form. The funding will enter into effect in September 2014. During 2012, the Authority's drawdowns amounted to $45.6 million.

Business-Type Activities

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

Description and Maturity Date	Interest Rate	Amount Outstanding
Mortgage Trust III:		
Each July 1 and January 1 until July 1, 2013	Zero Coupon	$ 18,017,946
Each July 1 and January 1 until January 1, 2021	Zero Coupon	109,630,609
Single Family Mortgage Revenue Bonds — Portfolio XI — Each December 1 and June 1 until December 1, 2039	3.460%–5.45%	17,555,000
Homeownership Mortgage Revenue Bonds 2000 Series — Each June 1 and December 1 until December 1, 2032	4.65%–5.20%	41,370,000
Homeownership Mortgage Revenue Bonds 2001 Series:		
Each December 1 until December 1, 2012	4.60%–4.70%	2,495,000
June 1, 2013, and each December 1 and June 1 thereafter to December 1, 2033	5.30%–5.50%	39,780,000
Homeownership Mortgage Revenue Bonds 2003 Series:		
Each December 1 until December 1, 2013	3.80%–4.00%	1,805,000
June 1, 2013, and each December 1 and June 1 thereafter to December 1, 2033	4.375%–4.875%	18,375,000
Mortgage-Backed Certificates, 2006 Series A — principal and interest payable monthly from September 29, 2006 to August 29, 2030	2.955%–6.560%	92,161,078
Special Obligation Notes, 2010 Series A and B — Principal and interest payable monthly from July 1, 2019 to November 1, 2040	6.95%–6.974%	16,918,887
Special Obligation Notes, 2011 Series A — Principal and interest payable monthly from September 1, 2021 to September 1, 2041	7.000%	9,813,916
Total		$ 367,922,436

Mortgage Trust III — In July 2011, the Authority restructured bonds of the Mortgage Trust III with a carrying amount of approximately $404 million. The restructuring took place as follows: 1) tender offer amounting to approximately $144 million (including expenses related to the transaction) to acquire and cancel bonds with a carrying amount of approximately $112 million, and 2) purchase AAA securities amounting to approximately $160 million to establish an escrow account for the payment through maturity of bonds with a carrying amount of approximately $129 million. As a result of the transaction, the Authority recorded a loss on early extinguishment of bonds payable of approximately $29 million. In connection with this transaction, the Authority also redeemed at carrying value approximately $163 million in bonds held by GDB. The restructuring released $60 million in excess collateral that were transferred to the Authority's Operating and Administrative fund.

Portfolio IX and X — On April 25, 2012, the Authority repaid bonds with a book value of approximately $162 million through the sale of investments that were held as collateral for such bonds. The Authority recorded a loss on early extinguishment of bonds payable of approximately $3.1 million in the accompanying statement of activities. In this transaction, the Authority was able to release approximately $30 million in excess collateral, which were transferred to the Authority's AHMSP Act No. 124 fund and to its Operating and Administrative fund. Investments amounting to approximately $11 million were also transferred to the Authority's AHMSP Act No. 124 fund in order to continue the subsidy payments on the mortgage loans related to the AHMSP.

Notes Payable to GDB — On October 7, 2008, the Authority entered in an agreement with GDB to obtain a credit facility to manage its co-participation program. Under this program, the Authority participates in conjunction with private banks in the granting of construction loans to developers that qualified under Act No. 24. The credit facility has a maximum credit limit of $50 million, matures on October 7, 2014, and bears a variable interest consisting of prime rate, plus 1% (4.25% at June 30, 2012). The note's outstanding balance at June 30, 2012, amounted to $3,129,245.

Special Obligation Notes, 2010 Series A and B Series — During the year ended June 30, 2012 the Authority issued $18 million of Special Obligation Notes. These notes are collateralized by certain second mortgages originated under the Home Purchase Stimulus Program. These Notes will be repaid from collections of principal and interest of the underlying collateral, net of servicing and guarantee fees. The second mortgage loans are guaranteed by the Authority's Act No. 87 insurance program.

Compensated Absences — The activity for compensated absences, included within accounts payable and accrued liabilities, during the year ended June 30, 2012, is as follows:

	Beginning Balance	Provision	Reductions	Ending Balance	Due Within One Year
Vacation	$ 554,946	$ 916,494	$ (777,402)	$ 694,038	$ 694,038
Sick leave	511,805	575,711	(509,045)	578,471	578,471
Total	$1,066,751	$1,492,205	$ (1,286,447)	$1,272,509	$1,272,509

Compensated absences are available to be liquidated by the employees during the year.

10. MORTGAGE LOAN INSURANCE

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

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

The Commonwealth guarantees up to $75 million of the principal insured by the mortgage loan insurance program. As of June 30, 2012, the mortgage loan insurance program covered loans aggregating to approximately $482 million.

The mortgage insurance loan total premium and investment income for the two years ended on June 30, 2012 and 2011 are as follows:

	2012	2011
Mortgage loan insurance premiums	$4,300,523	$3,774,823
Investment income	430,222	547,720
Total	$4,730,745	$4,322,543

The regulations adopted by the Authority, requires the establishment of adequate reserves to guarantee the solvency of the Mortgage Loan Insurance fund. At June 30, 2012, the Authority had restricted net assets for such purposes of approximately $62.7 million.

The following table represents the changes in the allowance for losses on mortgage loan insurance for the years ended on June 30, 2012 and 2011:

	2012	2011
Balance — beginning of year	$ 3,672,007	$ 346,330
Provision for losses on mortgage loan insurance	627,039	3,325,677
Claims paid	1,766,843	(3,064,766)
Recoveries	(1,766,843)	3,064,766
Balance — end of year	$ 4,299,046	$ 3,672,007

11. RELATED-PARTY TRANSACTIONS

A summary of the most significant related-party balances and transactions as of June 30, 2012, and for the year ended is as follows:

Commonwealth — Legislative appropriations of approximately $1,344,038 million were received by the governmental funds during the year ended June 30, 2012. These appropriations are restricted for the payment of certain bonds and to support affordable housing programs.

GDB — The Authority has the following additional related-party balances and transactions with GDB as of and for the year ended June 30, 2012:

	Carrying Amount	Interest Rate	Interest Income (Expense)
Assets:			
Cash — including accrued interest	$ 67,427,219	Variable	$ 30,077
Deposits placed with banks — including accrued interest	112,534,959	0.47–7.25%	776,116
Nonparticipating investment contracts		Zero Coupon	
Nonparticipating investment contracts — including accrued interest	15,762,349	4.50%–8.00%	953,312
Total	$195,724,527		$ 1,759,505
Liabilities:			
Lines of credit and notes payable — including accrued interest	$155,449,028	1.54%–7.00%	$ (2,690,591)
Total	$155,449,028		$ (2,690,591)
Expenses — administrative charges	$ (236,212)		

As disclosed above, the Authority has significant balances and transactions with GDB, including deposits and other investments amounting to approximately $196 million as of June 30, 2012. Additionally, GDB has provided significant financial support to the Authority in terms of notes payable and lines of credit. As discussed in GDB's basic financial statements, GDB's loans to the Commonwealth of Puerto Rico (the "Commonwealth") and its agencies and instrumentalities amounted to approximately $5.7 billion or 36% of GDB's total assets as of June 30, 2012. These loans are expected to be collected from appropriations from, proceeds from bond issuances of, or revenues generated by the Commonwealth and/or its agencies and instrumentalities. Since 2000, the Commonwealth's recurring expenditures have exceeded its recurring revenues and its credit ratings have been lowered. In addition, many of the Commonwealth's agencies and instrumentalities have had losses from operations during the past years. The collectibility of these loans may be affected by budgetary constraints, the fiscal situation, and the credit ratings of the Commonwealth and its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges, and/or bond issuances. Continuance of and/or significant negative changes in these factors may affect the ability of the Commonwealth and its agencies and instrumentalities to repay their outstanding loan balances with GDB and, accordingly, may have an adverse impact on GDB's financial condition, liquidity, funding sources, and results of operations, which could also result in an adverse impact on the Authority's financial condition, liquidity, funding sources, and results of operations.

Additional financial information related to GDB is provided on its stand-alone financial statements for the year ended June 30, 2012, a copy of which can be obtained from Government Development Bank, P.O. Box 42001, San Juan, Puerto Rico 00940-2001.

Department of Housing — At June 30, 2012, the Authority has an amount due from the Department of Housing amounting to $581,687. Management has fully reserved this balance as of June 30, 2012.

The Authority entered into a 30-year lease agreement with the Department of Housing to rent office space expiring in 2037. During the term of the lease, the Authority will pay an annual rent of $1.5 million. The agreed-upon rent includes parking spaces, maintenance, and security services in common areas. The Department of Housing will be responsible for the payment of utilities in exchange for an additional payment of $350,000 payable in a lump sum on or before August 31 of each year. Rent expense during the year ended June 30, 2012, amounted to $1.5 million.

Investment in Puerto Rico Community Development Fund, LLC — Puerto Rico Community Development Fund, LLC ("PRCDF"), an entity organized under the laws of Delaware, is a Community Development Entity ("CDE"). PRCDF has two members, the Authority (50%) and the Department of Housing (50%). On November 30, 2009, PRCDF was allocated $45,000,000 of New Markets Tax Credits for investments in, or loans to, Qualified Active Low-Income Community Businesses ("QALICB's") whose principal activities involve the development or rehabilitation of real estate. In October 2011 and in February 2012, PRCDF transferred $13,500,000 and $31,500,000, respectively, of its allocation to PRCDF I, LLC ("PRCDF I"). PRCDF I, an entity organized under the laws of Delaware, is also a CDE. PRCDF I has one managing member, PRCDF (.01%) and one investor member, PRHFA RLF Investment Fund, LLC (99.99%), which is wholly owned by Citi Community Capital ("Citi"). The managing member and the investor member have made capital contributions of $4,500 and $45,000,000, respectively. The capital contributions have been used to establish a loan revolving fund for loans to QALICB's.

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

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

To qualify as a CDE, an organization must:

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

During 2012, the Authority provided a loan of approximately $33.2 million to PRHFA RLF Investment Fund, LLC. The Authority used its own funds and the $29.5 million contributed by the Commonwealth for the co-participation program under Act No. 9 of March 9, 2009 to fund the loan. Under the co-participation program, the Authority facilitates construction and/or permanent loans for low and moderate income housing projects while sharing the risks with private institutions.

In February 2012, the Authority's loans to four QALICB's were paid-off by PRCDF I. The principal collected from PRCDF I on said date amounted to approximately $30.7 million.

12. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

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

The amount of the collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. Collateral generally includes income-producing commercial properties. At June 30, 2012, commitments to extend credit amounted to approximately $75.6 million.

Commitments to purchase mortgage-backed securities are agreements to acquire such securities at a fixed price on behalf of certain housing programs. At June 30, 2012, there were no commitments outstanding to purchase mortgage-backed securities.

13. RETIREMENT SYSTEM

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, is 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 Authority hired before January 1, 2000, and less than 55 years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of accumulated contributions.

The Retirement System provides retirement, death, and disability benefits pursuant to legislation enacted by the Commonwealth's Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and nonoccupational disabilities. However, a member must have at least 10 years of service to receive nonoccupational disability benefits.

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

Participants who have completed at least 30 years of creditable service are entitled to receive the merit annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

Commonwealth legislation requires employees to contribute 5.775% for the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Authority is required to contribute 10.275% of the participant's gross salary. As required by Act No. 116 of July 6, 2011 the employer's contribution will increase annually by 1.00% until June 30, 2016. Effective July 1, 2016, the employer's contribution will increase by 1.25% annually, until reaching 20.525%.

Defined Contribution Plan — The Legislature of the Commonwealth 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 "Savings Plan") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000, 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 contributions to the defined benefit pension plan, plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to individual accounts established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semiannually.

The Authority is required by Act No. 305 to contribute 10.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan. As required by Act No. 116 of July 6, 2011, the employer's contribution will increase annually by 1.00% until June 30, 2016. Effective July 1, 2016, the employer's contribution will increase by 1.25% annually, until reaching 20.525%.

Upon retirement, the balance in the participant's account will 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 will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump sum to any beneficiaries. Participants have the option of a lump-sum payment or purchase of an annuity contract in case of permanent disability.

Total employee contributions for the defined benefit pension plan and the defined contribution plan during the year ended June 30, 2012, amounted to approximately $132,651 and $300,359, respectively. The Authority's contributions for the years ended June 30, 2012, 2011, and 2010, amounted to approximately $526,291, $499,000, and $538,000, respectively. These amounts represented 100% of the required contribution for the corresponding year. Individual information for each option is not available since the allocation is performed by the Retirement System itself.

Additional information on the Retirement System is provided on its stand-alone financial statements for the year ended June 30, 2012, a copy of which can be obtained from the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918.

14. TERMINATION BENEFITS

On October 13, 2010, the Authority announced to its employees a voluntary termination plan (the "Plan") based on Act No. 70 enacted on July 2, 2010. The Plan was approved by the Authority's board of directors on October 6, 2010. Act No. 70 provides that eligible employees may retire from employment from the Commonwealth in exchange for an early pension, an economic incentive, and other benefits.

The Plan only applied to employees who were ten years or less from retirement in accordance with their applicable retirement plans as of December 1, 2010. The Plan approved by the Authority's board of directors provides the following:

- The employee will receive an annuity of fifty percent of the salary in effect at September 30, 2010. The Authority is responsible for the payment of the annuity in addition to the related employee and employer contributions to Retirement Systems for a maximum period of ten years.

- The employee will receive an economic incentive of six month's salary. This incentive is exempt from income taxes as established by Act No. 70.

- The employee will receive the benefits of health and dental insurance for a period of one year.

The total amount of employees that were voluntarily separated from employment as of June 30, 2012 was six. Employee and employer contributions to the Retirement System and the employee annuity for the applicable period were discounted based on the average interest rate of unpledged investments. As of June 30, 2012, the total liability related to this plan was approximately $1.0 million.

15. COMMITMENTS AND CONTINGENCIES

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

Custodial Activities of Enterprise Funds — At June 30, 2012, the Authority was custodian of $227,879 in restricted funds of former "*Corporación de Renovación Urbana y Vivienda*"CRUV. As of June 30, 2012, such funds were deposited with GDB. These funds are not owned by the Authority's enterprise funds and, thus, are not reflected in the basic financial statements.

Loan Sales and Securitization Activities — On July 13, 1992, the Authority entered into an agreement to securitize approximately $20.7 million of mortgage loans into a FNMA certificate. The Authority agreed to repurchase, at a price of par plus accrued interest, each and every mortgage loan backing up such security certificate that became delinquent for 120 days or more. As of June 30, 2012, the aggregate outstanding principal balance of the loans pooled into the FNMA certificate amounted to $497,383.

Mortgage Loan Servicing Activities — The Authority acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2012, the principal balance of the mortgage loans serviced for others is as follows:

Investor	Amount
PRCDF I	$42,750,000
R-G Mortgage, Inc. or its successor	1,379,516
CRUV or its successor without guaranteed mortgage loan payments	32,498
Total	$44,162,014

Litigation — The Authority is a defendant in several lawsuits arising out of the normal course of business. Management, based on discussion with legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material effect on the financial position or results of operations of the Authority. A liability to cover litigation claims and contingencies amounting to $305,000 has been included as part of accounts payable and accrued liabilities in the accompanying statement of net assets (deficiency).

HOME Program — The U.S. Office of Inspector General (OIG) has performed various examinations of the HOME Program covering fiscal years ended prior to July 1, 2010. These examinations covered periods in which the HOME Program was under the administration of the Department of Housing. These examinations identified instances of noncompliance with terms and conditions of the grant agreements, applicable federal law, and the HOME Program's regulations, including but not limited to the expenditure of resources for eligible purposes. OIG identified in its examinations disallowed costs amounting to approximately of $18.3 million. The Authority's management is of the opinion that these disallowed costs are a liability of the Department of Housing and, therefore, the Authority has not recorded a contingency in its basic financial statements.

16. NO-COMMITMENT DEBT AND PROGRAMS SPONSORED BY THE AUTHORITY

Certain bonds of the Authority are considered no-commitment debt as more fully described in Note 2. At June 30, 2012, there were restricted assets held in trust by others, outstanding obligations, fund balances, and excess of fund expenses over revenues, net of transfers (all of which are excluded from the accompanying basic financial statements), as indicated below (unaudited):

Restricted assets	$ 1,572,582
Restricted liabilities (no-commitment debt)	1,572,582
Restricted fund balance	$ -
Excess of fund expenses over revenues	$ 231,828

In December 2003, the Authority issued $663 million in Capital Fund Program Bonds Series 2003 to lend the proceeds thereof to the Public Housing Administration (PHA), a governmental instrumentality of the Commonwealth. PHA utilized such funds for improvements to various public housing projects in the Commonwealth. The Capital Fund Program Bonds Series 2003 are limited obligations of the Authority, which will be paid solely from an annual allocation of public housing capital funds when received from the U.S. Department of Housing and Urban Development and other funds available under the bonds indenture. Accordingly, these bonds are considered no-commitment debt and are not presented in the accompanying basic financial statements. The outstanding balance of these bonds amounted to $496,500,000 at June 30, 2012.

On August 1, 2008, the Authority issued the Capital Fund Modernization Program Subordinate Bonds amounting to $384,475,000 and the Housing Revenue Bonds amounting to $100,000,000. The proceeds from the issuance will be mainly used to finance a loan to a limited liability company (the "LLC") and pay the costs of issuance. The $384,475,000 bonds are limited obligations of the Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by HUD with an outstanding balance of $331,900,000 at June 30, 2012. The $100,000,000 bonds were also limited obligations of the Authority, payable from amounts deposited in escrow accounts with a trustee and the proceeds of a loan to be made by the Authority to the LLC using moneys received as a grant from DOH. Payment of principal of the Housing Revenue Bonds was also secured by an irrevocable standby letter of credit issued by GDB. The Housing Revenue Bonds were paid-off on September 30, 2011.

17. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

For a significant portion of the Authority's financial instruments (principally loans), fair values are not readily available since there are no available trading markets. Accordingly, fair values can only be derived or estimated using valuation techniques, such as present-valuing estimated future cash flows using discount rates, which reflect the risk involved, and other related factors. Minor changes in assumptions or estimation methodologies may have a material effect on the results derived therein.

The fair values reflected below are indicative of the interest rate environment as of June 30, 2012, and do not take into consideration the effects of interest rate fluctuations. In different interest rate scenarios, fair value results can differ significantly. Furthermore, actual prepayments may vary significantly from those estimated resulting in materially different fair values.

The difference between the carrying value and the estimated fair value may not be realized, since, in many of the cases, the Authority intends to hold the financial instruments until maturity, or because the financial instruments are restricted. Comparability of fair values among financial institutions is not likely, due to the wide range of permitted valuation techniques and numerous estimates that must be made in the absence of secondary market prices.

The following methods and assumptions were used by the Authority in estimating fair values of the financial instruments for which it is practicable to estimate such values:

- Short-term financial instruments, such as cash, deposits placed with banks, due from federal government, and interest and other receivables and payables, have been valued at the carrying amounts reflected in the statement of net assets (deficiency), as these are reasonable estimates of fair value given the relatively short period of time between origination of the instruments and their expected realization.

- Financial instruments that are primarily traded in secondary markets, such as most investments and certain bonds, were valued using quoted market prices, recent trades or quotations received from independent broker dealers or pricing service organizations.

- Financial instruments that are not generally traded, such as investment contracts, and bonds, mortgage-backed certificates, and notes issued with fixed interest rates, were fair valued using the present values of estimated future cash flows at the appropriate discount rates. Bonds, mortgage-backed certificates, and notes issued with interest rates floating within certain ranges were fair valued at their outstanding principal balance.

- Loans and commitments to extend credit are generally granted for low-cost housing development projects. For these types of loans and commitments, there is no secondary market and the actual future cash flows may vary significantly as compared to the cash flows projected under the agreements, due to the degree of risk. Accordingly, management has opted not to disclose the fair value of these financial instruments, as such information may not be estimated with reasonable precision.

The carrying amounts and estimated fair values of the Authority's financial instruments as of June 30, 2012, are as follows (in millions):

	Carrying Amount	Fair Value
Financial assets:		
Cash	$ 86	$ 86
Deposits placed with banks	194	194
Investments and investment contracts	516	546
Interest and other receivables	5	5
Due from federal government	13	13
Financial liabilities:		
Due to GDB	155	155
Accounts payable and accrued liabilities	101	101
Accrued interest payable	1	1
Bonds, mortgage-backed certificates, and notes payable	371	400

18. INTERFUND BALANCES AND TRANSFERS

The summary of the interfund balances as of June 30, 2012, between governmental funds and enterprise funds is as follows:

Receivable By	Payable by	Purpose	Amount
Enterprise fund:	Governmental fund:		
Operating and Administrative	Other nonmajor (AHMSP Act No. 124)	Reimbursement of expenditures	$ 19,436,821
Operating and Administrative	Other nonmajor (AHMSP Act No. 124)	Reimbursement of expenditures	40,000
Operating and Administrative	HUD Programs	Reimbursement of expenditures	1,344,112
Operating and Administrative	Other nonmajor (HOME Program)	Reimbursement of expenditures	1,536,344
Operating and Administrative	AHMSP Stage 7	Reimbursement of expenditures	1,667,842
Operating and Administrative	My New Home Program	Reimbursement of expenditures	36,613
Operating and Administrative	Other nonmajor (New Secure Housing Program)	Reimbursement of expenditures	54,117
Operating and Administrative	Other nonmajor (Protecting Your Home Program)	Reimbursement of expenditures	6,588,751
Subtotal			30,704,600
Governmental fund:	Enterprise fund:		
Other nonmajor (New Secure Housing Program)	Operating and Administrative	Reimbursement of expenditures	(78,085)
Total internal balances — net			$ 30,626,515

The summary of the interfund balances as of June 30, 2012, between enterprise funds is as follows:

Receivable By	Payable by	Purpose	Amount
Operating and Administrative	Other nonmajor (Homeownership Mortgage Revenue Bonds)	Agency fees	$ 6,495
Mortgage Trust III	Operating and Administrative	Agency fees	12,500
Operating and Administrative	Other nonmajor (Mortgage Loan Insurance)	Claims mortgage loan insurance	389,306
Other nonmajor (Mortgage Loan Insurance)	Operating and Administrative	Claims mortgage loan insurance	20,573
Home Purchase Stimulus Program	Operating and Administrative	Reimbursement of loan origination	109,484
Total			$ 538,358

The summary of the interfund balances as of June 30, 2012, among governmental funds is as follows:

Receivable By	Payable by	Purpose	Amount
Other nonmajor (Protecting Your Home Program)	Other nonmajor (AHMSP Act No. 124)	Reimbursement of expenditures	$ 303,809

The summary of the interfund transfers for the year ended June 30, 2012, is as follows:

Transfer Out	Transfer In	Purpose	Amount
Governmental funds:	Governmental funds:		
Other nonmajor (AHMSP Stage 9)	Other nonmajor (AHMSP Act No. 124)	Contribution	$ 17,998,786
Other nonmajor (AHMSP Stage 10)	Other nonmajor (AHMSP Act No. 124)	Contribution	7,898,289
Closing Cost Assistance Program	My New Home Program	Subsidy payments	5,433,835
Other nonmajor (AHMSP Act No. 124)	Other nonmajor (AHMSP Stage 10)	Defeasance costs	175,117
Other nonmajor (AHMSP Act No. 124)	Other nonmajor (AHMSP Stage 9)	Defeasance costs	415,103
Governmental funds:	Enterprise funds:		
Other nonmajor (AHMSP Stage 9)	Other nonnmajor (Single-Family Mortgage Revenue Bonds Portfolio IX)	Debt service payments	368,637
Other nonmajor (AHMSP Act No. 124)	Other nonmajor (Single-Family Mortgage Revenue Bonds Portfolio X)	Defeasance costs	614,103
Other nonmajor (AHMSP Stage 10)	Other Nonmajor (Single-Family Mortgage Revenue Bonds Portfolio X)	Debt service payments	168,129
Other nonmajor (AHMSP Act No. 124)	Operating and Administrative	Contribution	19,436,821
Other nonmajor (AHMSP Act No. 124)	Other Nonmajor (Single-Family Mortgage Revenue Bonds Portfolio IX)	Defeasance costs	468,088
Operating and Administrative	Other nonmajor (New Secure Housing Program)	Subsidy payments	1,511,190
Other Monmajor(Single-Family Mortgage Revenue Bonds Portfolio IX)	Other nonmajor (AHMSP Act No. 124)	Subsidy payments	12,147,749
Other Monmajor (Single-Family Mortgage Revenue Bonds Portfolio X)	Other nonmajor (AHMSP Act No. 124)	Subsidy payments	15,758,391

(Continued)

Transfer Out	Transfer In	Purpose	Amount
Enterprise funds:	Governmental funds:		
Other Monmajor (Single-Family Mortgage Revenue Bonds Portfolio IX)	Other nonmajor (AHMSP Stage 9)	Contribution	$ 4,711,362
Other Monmajor (Single-Family Mortgage Revenue Bonds Portfolio X)	Other nonmajor (AHMSP Stage 9)	Contribution	3,268,025
Other Monmajor (Single-Family Mortgage Revenue Bonds Portfolio IX)	Other nonmajor (AHMSP Stage 10)	Contribution	2,192,239
Other Monmajor (Single-Family Mortgage Revenue Bonds Portfolio X)	Other nonmajor (AHMSP Stage 10)	Contribution	1,520,903
Mortgage-Backed Certificates 2006 Series A	Other nonmajor (AHMSP Mortgage-Backed Certificates)	Subsidy payments	2,859,606
Operating and Administrative	My New Home Program	Subsidy payments	30,000,000
Operating and Administrative	My New Home Program	Subsidy payments	15,000,000
Operating and Administrative	Other nonmajor (Protecting Your Home Program)	Subsidy payments	14,000,000
Enterprise funds:	Enterprise funds:		
Mortgage Trust III	Operating and Administrative	Release of excess funds	60,000,000
Other nonmajor (Single-Family Mortgage Revenue Bonds Portfolio IX)	Operating and Administrative	Debt service payments	4,902,379
Other nonmajor (Homeownership Mortgage Revenue Bonds (Series 2001))	Other nonmajor (Homeownership Mortgage Revenue Bonds (Series 2003))	Debt service payments	197,141
Operating and Administrative	Home Purchase Stimulus Program	Trust fees payments	117,378
Operating and Administrative	Home Purchase Stimulus Program	Contribution	2,725,148
Operating and Administrative	Other nonmajor (Single-Family Mortgage Revenue Bonds Portfolio X)	Debt service payments	4,887,784

(Concluded)

19. DEFICIT OF GOVERNMENTAL FUNDS

The following governmental funds reflect a deficit at June 30, 2012: My New Home Program, AHMSP Stage 7, HOME Program and New Secure Housing Program for the amount of $2.6 million, $20.4 million, $2.6 million and $4 million respectively. The deficits of the My New Home Program and the AHMSP Stage 7 are due to amounts borrowed by the Authority from GDB that were used to provide housing subsidies. The deficit of the New Secure Housing Program is due to FEMA discontinued reimbursement of the Authority's allowable costs. The deficit of the HOME Program is due to the deferral of revenue that was not considered available for current expenditures. Except for the Home Program, the Authority expects to cover these deficits through contributions from the Commonwealth.

20. SUBSEQUENT EVENTS

On July 13, 2012, the Authority amended the line of credit facility with GDB of My New Home Program to increase the maximum amount limit from approximately $64 million to $116 million. The line consists of $100 million to finance this program, $10 million to repay advances made by the Authority's operating and administrative fund to this program, and $6 million to establish a reserve for interest as transfers from Commonwealth's general fund are expected to begin in September 2014.

On July 24, 2012, the Authority issued general obligation bonds, amounting to $38 million secured by mortgage-backed securities amounting to $38 million. The principal of and interest on the bonds will be payable by the Authority regardless of the performance of the mortgage loan collateral. The notes will carry a 5.875% annual interest rate paid monthly. The notes are subject to a redemption schedule that ranges from 103% to 100% on or after the second throughout the fifth anniversary of the date of issuance.

On August 21, 2012, the Authority launched the fourth phase of the Protecting Your Home Program. This loss mitigation program assists with subsidies for up to 18 months or $20,000, whichever is less, and is intended to avoid principal residence foreclosures among low and moderate income families with recent financial difficulties. The Program was financed with $10 million governmental type funds released from collapsed arbitrage structures used to provide housing assistance programs (Portfolio 9 & 10).

On October 25, 2012, the Authority issued approximately $30.5 million of its special obligation notes, 2012 Series A (the "2012 Notes") at an aggregate discounted price of $15,542,250. The 2012 Notes will be collateralized by certain second mortgages originated under the Home Purchase Stimulus Program and will be repaid from collections of principal and interest of the underlying collateral. The mortgage loans will be guaranteed by the Authority's Act No. 87 mortgage loan insurance.

* * * * * *

ADDITIONAL SUPPLEMENTARY INFORMATION

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

AHMSP

Act No. 124

COMBINING BALANCE SHEET INFORMATION — OTHER NONMAJOR GOVERNMENTAL FUNDS
AS OF JUNE 30, 2012

	HOME Program	New Secure Housing Program	Closing Cost Assistance Program	Protecting Your Home Program	AHMSP Mortgage-Backed Certificates	AHMSP Act No. 124	AHMSP Stage 2	AHMSP Stage 3	AHMSP Stage 6	AHMSP Stage 8	AHMSP Stage 9	AHMSP Stage 10	AHMSP Stage 11	Total Other Nonmajor Governmental Funds
ASSETS														
DUE FROM OTHER FUNDS	$ -	$ 78,085	$ -	$ 303,809	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 381,894
RESTRICTED:														
Cash	2,082,150	270,967	373,432	10,513,554	2,834,229	42,500,486	417	417	27					58,575,679
Deposits placed with banks				9,788,660	2,393,795	2,213,832								14,396,287
Investments and investment contracts						12,060,754	8,484,280	6,324,756	11,434,736	15,881,846			4,626,003	58,812,375
Interest and other receivables		23	41	17,848	478	57,566	9,736	7,799	29,481	72,511			38	195,521
Due from federal government	11,906,503													11,906,503
TOTAL	$ 13,988,653	$ 349,075	$ 373,473	$ 20,623,871	$ 5,228,502	$ 56,832,638	$ 8,494,433	$ 6,332,972	$ 11,464,244	$ 15,954,357	$ -	$ -	$ 4,626,041	$ 144,268,259
LIABILITIES AND FUND BALANCES (DEFICIT)														
LIABILITIES:														
Due to other funds	$ 1,536,344	$ 54,117	$ -	$ 6,588,751	$ -	$ 19,780,630	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 27,959,842
Payable from restricted assets:														
Accounts payable and accrued liabilities	12,307,626	3,400,422	26,100	904,954	4,460,152	347,334	82,681	24,892	283,523	412,810			257,710	22,508,204
Deferred revenues	2,772,782													2,772,782
Due to Government Development Bank for Puerto Rico		885,252												885,252
Total liabilities	16,616,752	4,339,791	26,100	7,493,705	4,460,152	20,127,964	82,681	24,892	283,523	412,810	-	-	257,710	54,126,080
FUND BALANCES (DEFICIT):														
Restricted for affordable housing programs			347,373	13,130,166	768,350	36,704,673	8,411,752	6,308,080	11,180,722	15,541,547			4,368,331	96,760,994
Unassigned	(2,628,099)	(3,990,716)												(6,618,815)
Total fund balances (deficit)	(2,628,099)	(3,990,716)	347,373	13,130,166	768,350	36,704,673	8,411,752	6,308,080	11,180,722	15,541,547	-	-	4,368,331	90,142,179
TOTAL	$ 13,988,653	$ 349,075	$ 373,473	$ 20,623,871	$ 5,228,502	$ 56,832,637	$ 8,494,433	$ 6,332,972	$ 11,464,245	$ 15,954,357	$ -	$ -	$ 4,626,041	$ 144,268,259

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES INFORMATION — OTHER NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	HOME Program	New Secure Housing Program	Closing Cost Assistance Program	Protecting Your Home Program	AHMSP Mortgage-Backed Certificates	AHMSP Act No. 124	AHMSP Stage 2	AHMSP Stage 3	AHMSP Stage 6	AHMSP Stage 8	AHMSP Stage 9	AHMSP Stage 10	AHMSP Stage 11	Total Other Nonmajor Governmental Funds
REVENUES:														
Commonwealth appropriations for repayment of bonds or housing assistance programs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,087,207	$ -	$ 1,087,207
Intergovernmental — federal government	18,483,624													18,483,624
Interest income on deposits placed with banks	95	275	13,306	61,425	6,802	16,088								97,991
Interest income on investments and investment contracts						72,174	479,403	351,132	611,133	868,813	465,212	197,232	563	3,045,662
Net increase (decrease) in fair value of investments							(2,224)	751	(12,469)	(28,763)	(29,740)	(13,841)		(86,286)
Other	171,175	700	83,985	29,524		835,904								1,121,288
Total revenues	18,654,894	975	97,291	90,949	6,802	924,166	477,179	351,883	598,664	840,050	435,472	1,270,598	563	23,749,486
EXPENDITURES:														
Current:														
General government and other	1,210,393	32,078		1,185,403		12,720	5,004	5,004	10,999	8,500	415,103	282,059		3,167,263
Housing assistance programs	15,830,739	1,764,893	80,666	19,775,653	1,663,571	26,237	314,932	155,073	423,197	799,152	747,004	594,256	151,377	42,326,750
Debt service:														
Principal												157,812		157,812
Interest		885,252										929,396		1,814,648
Total expenditures	17,041,132	2,682,223	80,666	20,961,056	1,663,571	38,957	319,936	160,077	434,196	807,652	1,162,107	1,963,523	151,377	47,466,473
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,613,762	(2,681,248)	16,625	(20,870,107)	(1,656,769)	885,209	157,243	191,806	164,468	32,398	(726,635)	(692,925)	(150,814)	(23,716,987)
OTHER FINANCING SOURCES (USES):														
Issuance of long-term debt		1,758,580												1,758,580
Transfers in		1,511,190		14,000,000	2,859,606	53,803,585					8,394,490	3,888,259		84,457,130
Transfers out			(5,433,835)			(21,109,360)					(18,367,423)	(8,066,418)		(52,977,036)
Total other financing sources (uses) — net	-	3,269,770	(5,433,835)	14,000,000	2,859,606	32,694,225	-	-	-	-	(9,972,933)	(4,178,159)	-	33,238,674
NET CHANGES IN FUND BALANCES	1,613,762	588,522	(5,417,210)	(6,870,107)	1,202,837	33,579,434	157,243	191,806	164,468	32,398	(10,699,568)	(4,871,084)	(150,814)	9,521,687
FUND BALANCES — Beginning of year	(4,241,861)	(4,579,238)	5,764,583	20,000,273	(434,487)	3,125,239	8,254,509	6,116,274	11,016,254	15,509,149	10,699,568	4,871,084	4,519,145	80,620,492
FUND BALANCES — End of year	$ (2,628,099)	$ (3,990,716)	$ 347,373	$ 13,130,166	$ 768,350	$ 36,704,673	$8,411,752	$6,308,080	$11,180,722	$15,541,547	$ -	$ -	$ 4,368,331	$ 90,142,179

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

COMBINING BALANCE SHEET INFORMATION — OTHER NONMAJOR ENTERPRISE FUNDS
AS OF JUNE 30, 2012

ASSETS	Mortgage Loan Insurance	Land Acquisition and Construction Loan Insurance	PRCDF	Single Family Mortgage Revenue Bonds Portfolio IX	Single-Family Mortgage Revenue Bonds Portfolio X	Single-Family Mortgage Revenue Bonds Portfolio XI	Homeownership Mortgage Revenue Bonds	Homeownership Mortgage Revenue Bonds (Series 2001)	Homeownership Mortgage Revenue Bonds (Series 2003)	Total Other Nonmajor Enterprise Funds
CURRENT ASSETS:										
Due from other funds	$ 20,573	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ 20,573
Restricted:										
Cash	599,160	260	26,306					2,055		627,781
Deposits placed with banks	65,815,952	881,842				2	111,572			66,809,368
Investments and investment contracts										
Accrued interest receivable	215,621	2,811				78,354	191,594	205,230	70,249	763,859
Other receivables	18,030									18,030
Total current assets	66,669,336	884,913	26,306	-	-	78,356	303,166	207,285	70,249	68,239,611
NONCURRENT ASSETS:										
Restricted:										
Investments and investment contracts	1,517,615		4,501			19,761,176	48,798,878	52,489,707	19,704,885	142,276,762
Loans receivable — net										
Deferred debt issue costs						1,572,504			18,309	1,590,813
Real estate available for sale	1,702,014									1,702,014
Total noncurrent assets	3,219,629	-	4,501	-	-	21,333,680	48,798,878	52,489,707	19,723,194	145,569,589
TOTAL	$ 69,888,965	$ 884,913	$ 30,807	$ -	$ -	$ 21,412,036	$ 49,102,044	$ 52,696,992	$ 19,793,443	$ 213,809,200

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PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

COMBINING BALANCE SHEET INFORMATION — OTHER NONMAJOR ENTERPRISE FUNDS
AS OF JUNE 30, 2012

LIABILITIES AND NET ASSETS	Mortgage Loan Insurance	Land Acquisition and Construction Loan Insurance	PRCDF	Single Family Mortgage Revenue Bonds Portfolio IX	Single-Family Mortgage Revenue Bonds Portfolio X	Single-Family Mortgage Revenue Bonds Portfolio XI	Homeownership Mortgage Revenue Bonds	Homeownership Mortgage Revenue Bonds (Series 2001)	Homeownership Mortgage Revenue Bonds (Series 2003)	Total Other Nonmajor Enterprise Funds
CURRENT LIABILITIES:										
Current liabilities payable from unrestricted assets — due to other funds	$ 389,307	$ -		$ -	$ -	$ -	$ 6,495	$ -	$ -	$ 395,802
Current liabilities payable from restricted assets:										
Accrued interest payable						77,081	176,877	185,321	79,778	519,057
Accounts payable and accrued liabilities	2,807,752		4,499			1,459	99,901	43,956	10,309	2,967,876
Bonds, notes, and mortgage-backed certificates payable						320,000	1,480,000	1,725,000	560,000	4,085,000
Total current liabilities payable from restricted assets	2,807,752	-	4,499	-	-	398,540	1,756,778	1,954,277	650,087	7,571,933
Total current liabilities	3,197,059	-	4,499	-	-	398,540	1,763,273	1,954,277	650,087	7,967,735
NONCURRENT LIABILITIES — Noncurrent liabilities payable from restricted assets:										
Allowance for losses on mortgage loan insurance	4,299,046									4,299,046
Bonds, notes, and mortgage-backed certificates payable						17,235,000	39,890,000	40,550,000	19,620,000	117,295,000
Total noncurrent liabilities payable from restricted assets	4,299,046	-	-	-	-	17,235,000	39,890,000	40,550,000	19,620,000	121,594,046
Total liabilities	7,496,105	-	4,499	-	-	17,633,540	41,653,273	42,504,277	20,270,087	129,561,781
NET ASSETS (DEFICIENCY):										
Restricted for:										
Mortgage loan insurance	62,761,594									62,761,594
Affordable housing programs		884,913	26,308			3,778,496	7,455,266	10,192,715	(476,644)	21,861,054
Unrestricted net deficiency	(368,734)						(6,495)			(375,229)
Total net assets (deficiency)	62,392,860	884,913	26,308	-	-	3,778,496	7,448,771	10,192,715	(476,644)	84,247,419
TOTAL	$ 69,888,965	$ 884,913	$ 30,807	$ -	$ -	$ 21,412,036	$ 49,102,044	$ 52,696,992	$ 19,793,443	$ 213,809,200

(Concluded)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of Government Development Bank for Puerto Rico)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION — OTHER NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Mortgage Loan Insurance	Land Acquisition and Construction Loan Insurance	PRCDF	Single Family Mortgage Revenue Bonds Portfolio IX	Single-Family Mortgage Revenue Bonds Portfolio X	Single-Family Mortgage Revenue Bonds Portfolio XI	Homeownership Mortgage Revenue Bonds	Homeownership Mortgage Revenue Bonds (Series 2001)	Homeownership Mortgage Revenue Bonds (Series 2003)	Total Other Nonmajor Enterprise Funds
OPERATING REVENUES:										
Investment income:										
Interest income on deposits placed with banks	$ 367,297	$ 5,355	$ 10	$ 55	$ 164	$ 50	$ 332	$ -	$ -	$ 373,263
Interest income on investments and investment contracts	97,042			4,655,470	3,352,508	963,920	2,409,375	2,586,957	877,869	14,943,141
Net increase (decrease) in fair value of investments	(34,117)			4,185,444	3,707,401	68,066	314,333	447,633	59,386	8,748,146
Total investment income	430,222	5,355	10	8,840,969	7,060,073	1,032,036	2,724,040	3,034,590	937,255	24,064,550
Interest income on loans										
Total investment income and interest income on loans	430,222	5,355	10	8,840,969	7,060,073	1,032,036	2,724,040	3,034,590	937,255	24,064,550
Noninterest income:										
Commitment, guarantee, service, and administrative fees	338,871		1,937,500				27,536	7,333		2,311,240
Mortgage loan insurance premiums	4,300,523									4,300,523
Other income	141,435									141,435
Total noninterest income	4,780,829	-	1,937,500	-	-	-	27,536	7,333	-	6,753,198
Total operating revenues	5,211,051	5,355	1,937,510	8,840,969	7,060,073	1,032,036	2,751,576	3,041,923	937,255	30,817,748

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COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION — OTHER NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Mortgage Loan Insurance	Land Acquisition and Construction Loan Insurance	PRCDF	Single Family Mortgage Revenue Bonds Portfolio IX	Single-Family Mortgage Revenue Bonds Portfolio X	Single-Family Mortgage Revenue Bonds Portfolio XI	Homeownership Mortgage Revenue Bonds	Homeownership Mortgage Revenue Bonds (Series 2001)	Homeownership Mortgage Revenue Bonds (Series 2003)	Total Other Nonmajor Enterprise Funds
OPERATING EXPENSES:										
Provision for loan losses	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest expense — Bonds, notes and mortgage-backed certificates				5,448,615	3,764,311	1,215,916	2,208,652	2,322,159	1,018,057	15,977,710
Other noninterest expenses:										
Legal and professional fees	69,113		1,211,202				76,204			1,356,519
Office and administrative				34,952						34,952
Subsidy and trustee fees				20,679	9,870	17,153	12,322	19,577	16,284	95,885
Provision for losses on mortgage loan insurance	627,039									627,039
Other	1,861,811		700,000					160,738		2,722,549
Total noninterest expense	2,557,963	-	1,911,202	55,631	9,870	17,153	88,526	180,315	16,284	4,836,944
Total operating expenses	2,557,963	-	1,911,202	5,504,246	3,774,181	1,233,069	2,297,178	2,502,474	1,034,341	20,814,654
OPERATING INCOME (LOSS)	2,653,088	5,355	26,308	3,336,723	3,285,892	(201,033)	454,398	539,449	(97,086)	10,003,094
NONOPERATING EXPENSES — Loss on early extinguishment of bonds payable				(530,347)	(2,547,612)					(3,077,959)
TRANSFERS IN				836,724	5,670,015				197,141	6,703,880
TRANSFERS OUT				(23,953,969)	(20,547,319)			(197,141)		(44,698,429)
CHANGE IN NET ASSETS	2,653,088	5,355	26,308	(20,310,869)	(14,139,024)	(201,033)	454,398	342,308	100,055	(31,069,414)
NET ASSETS — Beginning of year	59,739,772	879,558		20,310,869	14,139,024	3,979,529	6,994,373	9,850,407	(576,699)	115,316,833
NET ASSETS — End of year	$ 62,392,860	$ 884,913	$ 26,308	$ -	$ -	$ 3,778,496	$ 7,448,771	$ 10,192,715	$ (476,644)	$ 84,247,419

(Concluded)