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

BASIC FINANCIAL STATEMENTS
WITH ACCOMPANYING INDEPENDENT AUDITORS' REPORT

YEARS ENDED JUNE 30, 2010 AND 2009

BAKER TILLY PUERTO RICO, CPAs, PSC
Certified Public Accountants

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the Puerto Rico Public Housing Administration (the Administration), a fund of the Commonwealth of Puerto Rico, and a component unit of the Puerto Rico Department of Housing, as of and for the year ended June 30, 2010, as listed in the table of contents. These basic financial statements are the responsibility of the Administration's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements of the Administration for the year ended June 30, 2009, were audited by other auditors whose report dated March 30, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Administration as of June 30, 2010, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 24 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Guaynabo, Puerto Rico

BAKER TILLY PUERTO RICO, CPAs, PSC

December 30, 2010
The stamp number 2578241 was
affixed to the original of this report.

License No. 218
Expires December 1, 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

Our discussion and analysis of the Puerto Rico Public Housing Administration (the Administration or PRPHA) financial performance provides an overview of the Administration's financial activities for the fiscal years ended June 30, 2010 and 2009. Please read it in conjunction with the financial statements, which begin on page 25. Prior fiscal year information is shown as needed for comparative purposes.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

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

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

FINANCIAL HIGHLIGHTS

The financial statements for 2010 and 2009 are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34 Basic Financial Statements and Management's Discussion Analysis for State and Local Government.

- As of June 30, 2010 the Administration's total assets are $2,583 million representing a net increase of 1% from the total assets as of June 30, 2009 which amounted to $2,557 million. Seventy three percent 73% of this amount represents capital assets. Refer to the Capital Assets section of this document for further discussion.

- During 2010, the Administration's total assets exceeded its total liabilities by $1,955 million. Of this amount, $75 million approximately, represent Unrestricted Net Assets, representing a net decrease of $43 million since for 2009, $117 million approximately represented Unrestricted Net Assets. As of 2009, the total assets of the Administration exceeded its total liabilities by $1,913 million (Net Assets).

- The current year's financial statements reflect that the Administration operating deficit was reduced to $287 million or a reduction of 1% from year 2009, mainly due to an increase of $2 million dollars of operating revenues and $3 million decrease of operating expenses.

- Changes in the Administration's Net Assets showed $68 million for 2010 and $(-23) million for 2009 representing a net increase of $91 million. The net assets change of $68 million is due to $68 million of operating revenues, less $355 million of operating expenses for a net operating loss of $(286 million) plus Non Operating revenues and grants of $226 million for a loss before contribution of $(62 million). HUD's capital contributions of $130 million offset the $62 million loss to obtain the change in net assets of $68 million.

- Net Assets at the end of the year amounted to $1,955 million representing a 3% increase from 2009 Net assets of $1,913 million. However, a prior year adjustment of ($26 million) was reported this year due to three events: (1) $14 million of unrecorded interest accrued related to a zero coupon investment (2003 bonds) (2) Overstatement of ($22 million) in the 2003 Bonds Debt Service Fund account, which included said income received from HUD and intended for a pass thru entity for the payment of 2008 Bonds debt service. Said amount was not transferred by the trustee bank to the correct account, therefore the account from were the 2008 debt service was paid was understated. Subsequently, the correction was done by the trustee bank during fiscal year 2010. (3) A write off of ($18 million) in Construction in Progress invested in five projects completed during the year and that 100% ownership was transferred during the 2008 tax credit transaction to Vivienda Modernization LLC, a private entity.

REPORTING THE ADMINISTRATION AS A WHOLE

Our analysis of the Administration as a whole follows. One of the most important questions asked about the Administration's financial position is: Is the Administration as a whole better off or worse off as a result of the year's activities? The Statement of Net Assets and the Statement of Revenues, Expenditures and Changes in Net Assets report information about the Administration as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

As shown in table 1, the Administration's Net Assets increased to $1,955 million or a net increase of two percent 2% from 2010 to 2009 as demonstrated in the Financial Statements.

Of this amount, $21 million is restricted for specific purposes, including the Homeownership initiative and the modernization of the PRPHA projects. Unrestricted Net Assets are the funds of net assets that can be used to finance day-to-day operations (for example, to cover management fees, management cost, utilities, negative rent, professional services and others). These assets come from debt covenants, enabling legislation, or other legal requirements that amounted to $75 million at the end of this fiscal year. The balance of $1,858 million represents investments in capital assets, net of debt. See Note 16 for restricted net assets reconciliation.

Table 1

Summary of Net Assets ($ in thousands)

Assets and liabilities	30-Jun-10	30-Jun-09	Inc (Dec)	% Change
Current Assets	259,603,571	208,606,098	50,997,473	24%
Capital Assets (net)	1,866,540,688	1,905,501,464	(38,960,776)	-2%
Other Non-current Assets	456,512,036	442,842,371	13,669,665	3%
Total Assets	**2,582,656,295**	**2,556,949,933**	**25,706,362**	**1%**
Current Liabilities	92,539,146	81,998,040	10,541,106	13%
Non-Current Liabilities	535,228,736	562,009,505	(26,780,769)	-5%
Total Liabilities	**627,767,882**	**644,007,545**	**(16,239,663)**	-3%
Net Assets	**1,954,888,413**	**1,912,942,388**	**41,946,025**	**2%**

The Change in Net Assets during fiscal year 2010 amounted to $68 million and is due to the net effect of the operations which are explained as follows:

Result of Operations

As shown in *Table 2* the total operating revenues amounted to $68 million for the fiscal year ended June 30, 2010 and $66 million for fiscal year ended 2009. This represents an increase of $1 million (2%).

Table 2

OPERATING REVENUES	2010	2009	Inc/Dec
Rent and Misc Income	25,342,605	24,862,459	(52,457)
Fees earned Asset Management	42,475,569	41,368,381	1,107,188
	$ 67,818,174	$ 66,230,840	$ 1,054,731

During 2010, other non-operating revenues amounting to $225million are divided as follows: $273 million came from the U.S. Department of Housing (HUD), $1.5 million in Legislative Appropriations, .1 received from gain on sale of dwelling properties,$21 million of interest earned, ($24 million) in interest expense, ($46 million) represents payments to sub-grantee of: (1) transfer of $15 million in subsidy received for the 33 properties of Vivienda Modernization LLC) and (2) $31 million in HUD's contribution received and transferred to a pass thru entity for the payment of the 2008 debt service arising from the tax credit transaction.

In 2009, other non-operating revenues amounted to $157 million divided as follows: $240 million came from the U.S. Department of Housing (HUD), ($45 million) due to loss on sale of dwelling property, $2 million of interest earned, ($26 million) in interest expense, ($14 million) representing payment to sub-grantee (transfer of subsidy received for the 33 properties of Vivienda Modernization LLC). The loss of ($45 million) was due to the transfer of 33 properties to the P.R. Department of Housing as part of the financing structure of a mixed finance transaction involving Vivienda Modernization LLC, a limited liability Company. P.R. Department of Housing is the managing partner of Vivienda Modernization LLC.

Tables 3 and 4 detail the amounts received by each fund, the Non-Operating Revenues/Federal Grants and the Capital Contribution received from HUD in order to operate the PHA. As of 2010, the Public Housing Fund received 80% of the Total Non-Operating Revenues/Federal Grants, which decreased compared to 2009 that received 88%. The amount received for the Capital Fund Program and ARRA Funds for the Non-Operating Revenues/Federal Grants is 20%, an increase of 8% compared to 2009. These costs are for soft costs expenditures which include relocation costs, administrative expenses among other related costs.

Table 3

FY 2010

Program Title	Federal CFDA Number	Non Operating Revenues Federal Grants		Capital Contributions		Non Operating Revenues and Contributions
Capital Fund Program	14.872	46,486,439	17%	74,785,725	57.6%	121,272,165
Public Housing	14.850	218,675,182	80%	0	0.0%	218,675,182
Capital Fund Recovery Grant (ARRA)	14.885	8,118,681	3%	55,161,639	42.4%	63,280,320
		273,280,302	100%	129,947,364	100%	403,227,667

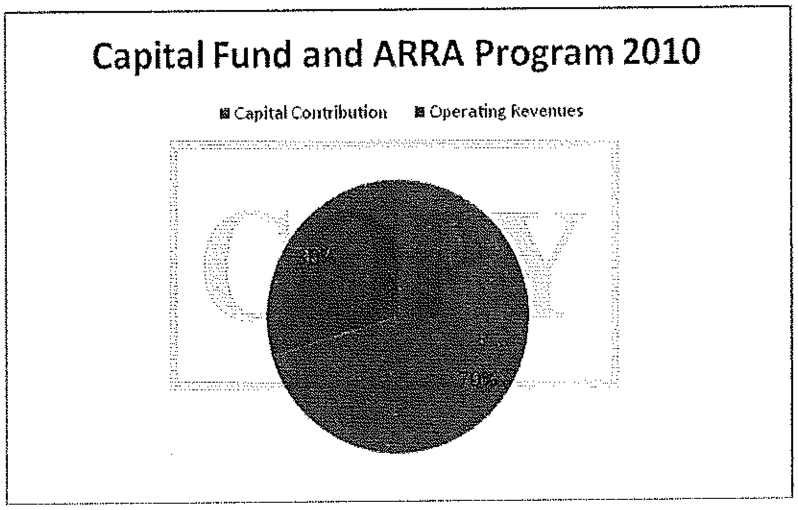
Table 4

FY 2009

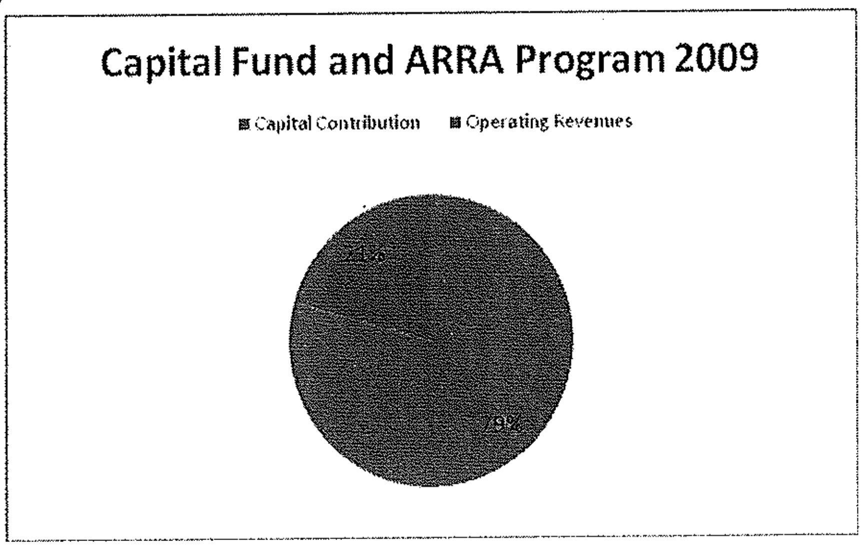
Program Title	Federal CFDA Number	Non Operating Revenues Federal Grants		Capital Contributions		Non Operating Revenues and Contributions
Capital Fund Program	14.872	28,816,193	12%	108,791,194	98.1%	137,607,387
Public Housing	14.850	211,713,574	88%	81,726	0.1%	211,795,300
Capital Fund Recovery Grant (ARRA)	14.885			1,974,342	1.8%	1,974,342
		240,529,767	100%	110,847,262	100%	351,377,029

Graphs 1 and 2 present the distribution of non operating revenue and contributions of Capital Fund Program received from HUD in 2010 and 2009, respectively. In 2010, Capital Fund and ARRA Program received $185 million, detailed as follows: $55 million for non operating revenues and $130 million for capital contribution. The Non Operating Revenues of CFP for 2010 include soft costs of $9.6 million, $13.6 million of Management Fee (COCC) and $23.2 million from the account 1406 (transfer for operations) and $8 million for ARRA of which $4.2 million was the program fee paid to the COCC. The soft costs include relocation costs, administrative expenses among other related costs. In 2009, the Capital Fund and ARRA Program received $140 million, detailed as follows: $29 million for non operating revenues and $111 million for capital contribution. The non- operating revenues of Capital Fund for 2009 includes soft cost of $ 2 million, $14 million of Management Fee (COCC) and $13 million from the account 1406 (transfer for operations). The soft costs include relocation costs and administrative expenses among other related costs.

GRAPH 2 2010

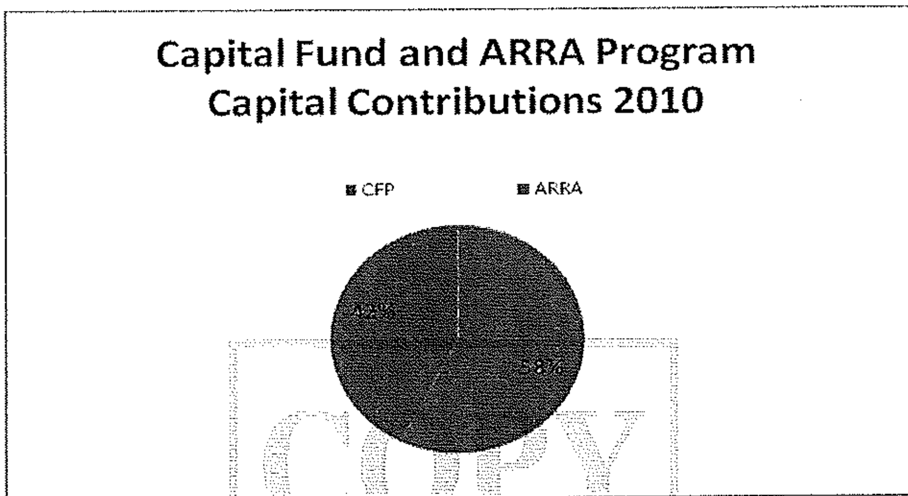


GRAPH 1 2009



In Graphs 3 and 4 we show the capital investment. For fiscal year 2010, the total capital investment amounted to $130 million. From this amount, a total of $75 million was received from Capital Fund Program representing 58% of total capital investment and $55 million or 42% was from the Capital Fund Recovery Grant, American Recovery and Reinvestment Act (ARRA). From the amount received from HUD under Capital Fund Program, $49 million were used to pay Bond Debt Service related to the 2003 and 2008 Bond Issues.

GRAPH 3 FY 2010



GRAPH 4 FY 2009

For fiscal year 2009, the total capital investment amounted to $111 million. From this amount, a total of $109 million was received from HUD representing 98% of total capital investment and $2 million from the ARRA Program or 2%. From the amount received from HUD under Capital Fund Program, $72 million were used to pay Bond Debt Service related to the 2003 and 2008 Bond Issues.

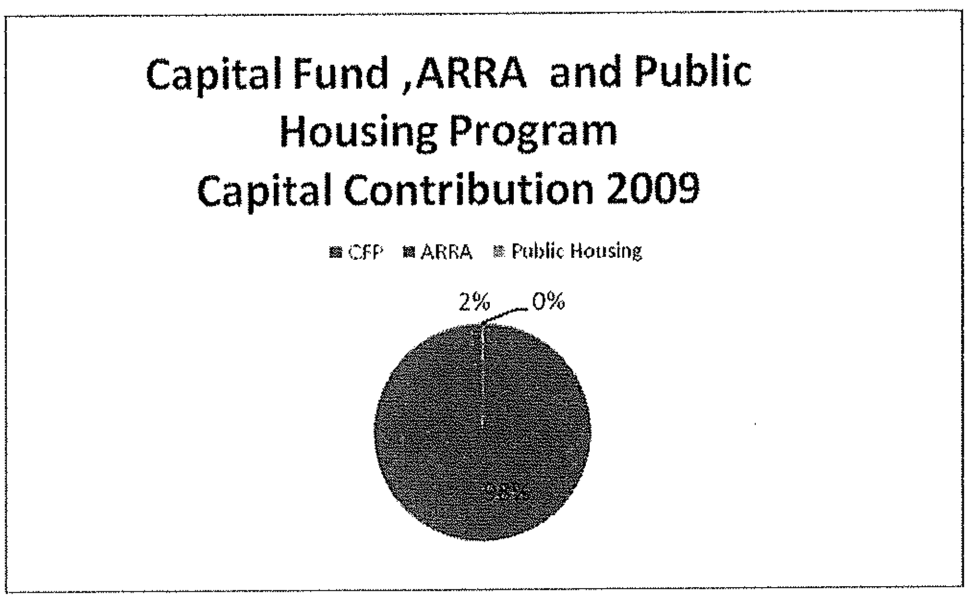


Table 5 presents, in millions of dollars, the detail of operating expenses during fiscal years 2010 and 2009. Total operating expenses totaled $355 million for the fiscal year ended June 30, 2010 and $358 million for the fiscal year ended June 30, 2009, representing a decrease of 1%

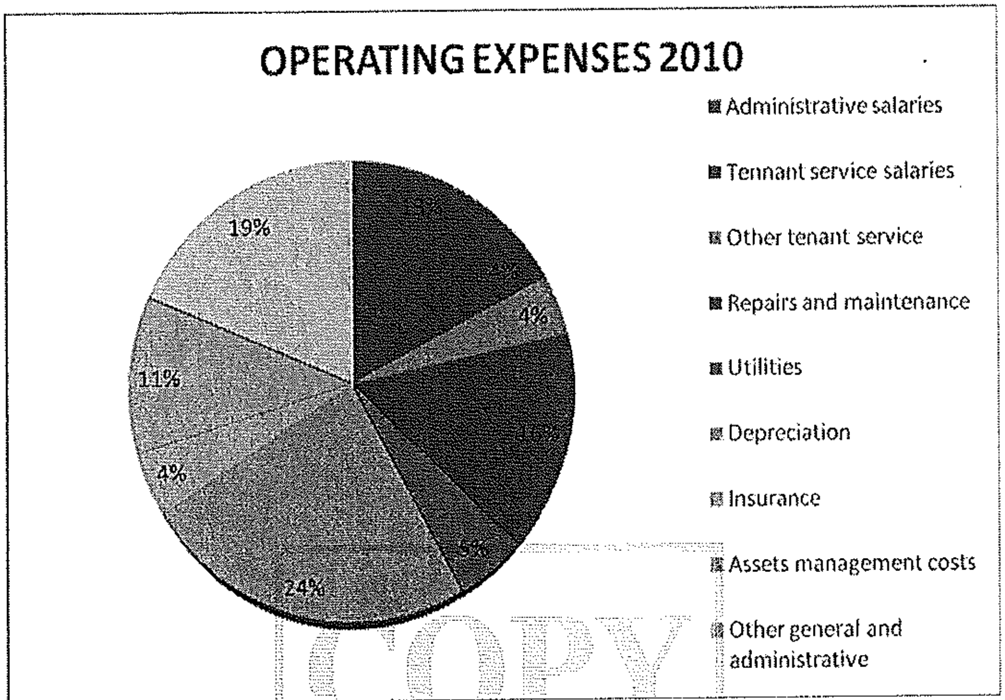
Table 5 TOTAL OPERATING EXPENSES

(in millions)	2010	2009	Inc/Dec	% Change
Tenant services, utilities and maintenance	103	105	(2)	-2%
Depreciation	84	83	1	1%
General and administrative	113	111	2	1%
Insurance expense	16	21	-5	-24%
Asset Management Cost	39	38	1	3%
Total	$ 355	$ 358	$ (3)	-1%

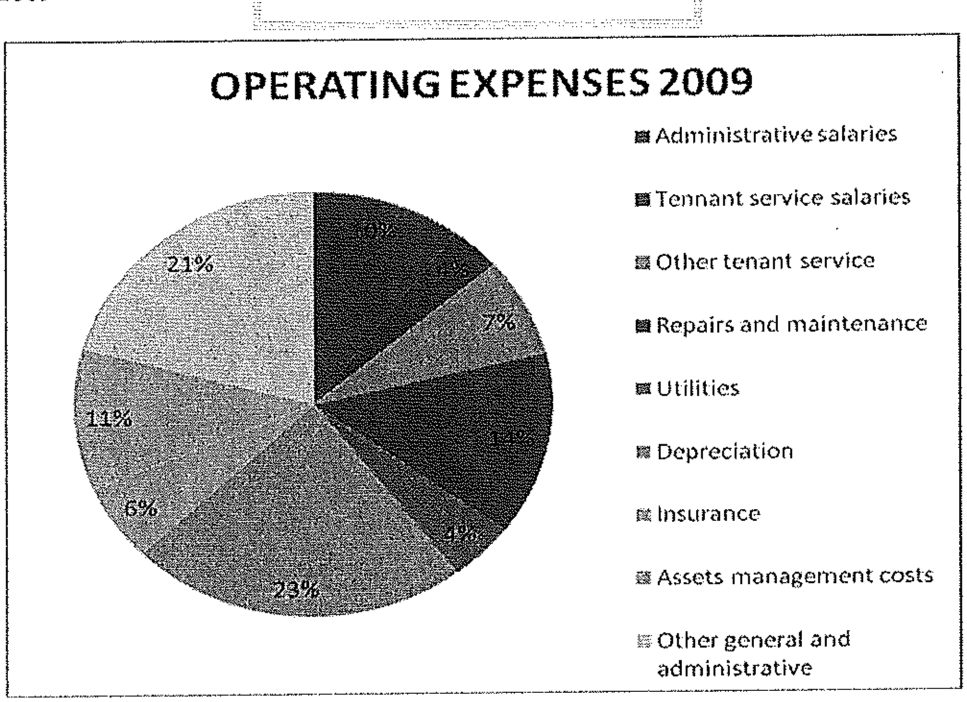
Graph 5 and 6 present the distribution in terms of percentages of total operating expenses for fiscal years 2010 and 2009, respectively. It should be noted that for 2010 and 2009, $216 million or sixty one percent (61%) of the Administration's resources were devoted to tenant services and maintenance including salaries, utilities and General and Administrative expenses.

Operating Expenses decreased by a net effect of $3 million, during 2010, because the Insurance Policy Values were reevaluated and the insurance expense was reduced by $5 million. Other tenant services were reduced by $12 million, Administrative and Tenant Services salaries increased by $12 million, Other General and Administrative expenses decreased by $6 million. Repairs and Utilities increased by $5 million. Depreciation increased by $1 million and Asset Management Costs increased by $711,468.

GRAPH 5 2010



GRAPH 6 2009



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

Table 6 presents a Summary of Revenues, Expenses and Changes in Net Assets during fiscal years 2010 and 2009.

Table 6

	2010	2009	Inc/Dec	% Change
Operating Revenues				
Rent and other	25,342,605	24,862,459	480,146	2%
Fees earned asset management	42,475,569	41,368,381	1,107,188	3%
	$ 67,818,174	$ 66,230,840	$ 1,587,334	2%
Operating expense				
Administrative salaries	45,620,227	36,569,858	9,050,369	25%
Tennant service salaries	15,590,834	12,620,053	2,970,781	24%
Other tenant service	15,116,548	26,888,108	(11,771,560)	-44%
Repairs and maintenance	54,848,267	49,994,089	4,854,178	10%
Utilities	17,419,461	16,132,181	1,287,280	8%
Depreciation	84,013,342	82,642,278	1,371,064	2%
Insurance	15,795,746	20,800,784	(5,005,038)	-24%
Assets management costs	39,158,648	38,447,180	711,468	2%
Other general and administrative	67,657,388	73,901,437	(6,244,049)	-8%
	$ 355,220,461	$ 357,995,968	$ (2,775,507)	-1%
Net operating (loss) before non-operating revenues and grants	(287,402,287)	(291,765,128)	4,362,841	-1%
Non operating revenues and grant				
Federal grants	273,280,302	240,529,767	32,750,535	14%
Gain (loss) on sale of dwelling property	118,408	(45,220,079)	45,338,487	-100%
Interest earned	20,563,482	2,509,530	18,053,952	719%
State Legislative Appropriations	1,500,000	-	1,500,000	100%
Interest expense	(24,038,810)	(25,723,353)	1,684,543	-7%
Payments to sub-grantee	(45,857,809)	(14,335,390)	(31,522,419)	220%
	$ 225,565,573	$ 157,760,475	$ 67,805,098	43%
Loss before contribution	(61,836,714)	(134,004,653)	72,167,939	-54%
Capital contribution from the US Department of Housing and urban development	129,947,364	110,847,262	19,100,102	17%
Change in the net assets	68,110,650	(23,157,391)	91,268,041	-394%
Beginning net assets	1,912,942,388	1,936,099,779	(23,157,391)	-1%
Prior Period	(26,164,625)		(26,164,625)	100%
Ending net assets	1,954,888,413	1,912,942,388	41,946,025	2%

2010 vs 2009

- The Operating Loss of the PRPHA for 2010 shows $4 million less than in 2009, representing a decrease of 1%, due to the net effect of the decrease in operating expenses of $3 million and an increase of $2 million in operating revenues for 2010 when compared to fiscal year 2009 Operating Expenses of $358 million with operating revenues totaling $66 million.

- The increase of $1 million in operating revenues is mainly due to an increase in Asset Management Fees earned of $1 million.

- Net non- operating revenues and expenses increased $68 million, mainly due to PRPHA's receipt of $33 million in an increase of Federal Grants which includes an increase in operating subsidy due to formula and appropriations percentage. During 2009 a loss was reported of $45 million due to mixed finance transaction which decreased the revenues for the year. For 2010, PRPHA reports an increase of $18 million in interest earned and a decrease of $1.6 million in interest expense. The payments to sub-grantee of $46 million was due to $31 million in transfer to pay the debt related to 2008 bonds issued during the mixed finance transaction and $15 million transfer as operating subsidy for the 33 properties of Vivienda Modernization LLC.

- Capital Contributions increased $19,100,102 due to an increase in capital expenditures during the modernization process of PRPHA buildings.

Revenues and Expenses on a Gross Basis

Table 7 presents a Summary of Revenues, Expenses on a Gross Basis and for fiscal years 2010 and 2009.

Table 7

	2010	2009	Increase/(Decrease)	%Change
Program Revenues:				
Operating Revenues	$ 67,818,174	$ 66,230,840	$ 1,587,334	2%
Subsidies and Grants	273,280,302	240,529,767	32,750,535	14%
Investment Income	20,563,482	2,509,530	18,053,952	719%
State Funds	1,500,000	-	1,500,000	100%
Gain (loss) on sale of dwelling properties	118,408	(45,220,079)	45,338,487	-100%
Total Program Revenues	$ 363,280,366	$ 264,050,058	$ 99,230,308	38%
Program Expenses:				
Operating Expenses	355,220,461	357,995,968	$ (2,775,507)	-1%
Interest expense	24,038,810	25,723,353	(1,684,543)	-7%
Transfer to Sub-grantee	45,857,809	14,335,390	31,522,419	220%
Total Program Expenses	$ 425,117,080	$ 398,054,711	$ 27,062,369	7%
Loss before Capital Contributions	(61,836,714)	(134,004,653)	72,167,939	-54%
Capital contribution from the US Department of Housing and Urban Development	129,947,364	110,847,262	19,100,102	17%
Change in the net assets	68,110,650	(23,157,391)	91,268,041	-394%
Beginning net assets	1,912,942,388	1,936,099,779	(23,157,391)	-1%
Prior Period Adjustment	(26,164,625)		(26,164,625)	-100%
Ending net assets	$ 1,954,888,413	$ 1,912,942,388	$ 41,946,025	2%

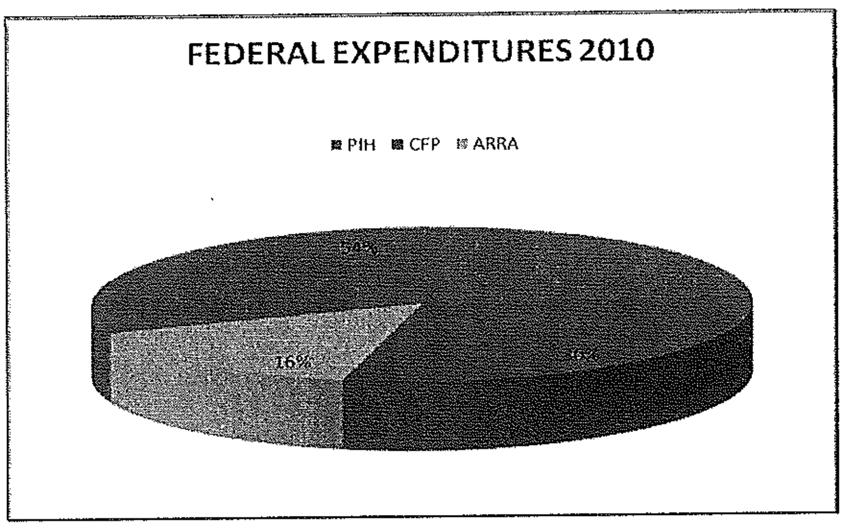
The increases/decreases in the table above are explained in the discussion following the Summary of Revenues, Expenses and Changes in Net Assets.

Tables 8 and Graphs 7 and 8 present the expenditures for each of the Administration's federal programs for the fiscal years ended 2010 and 2009. The Public and Indian Housing Program (PIHP) has $219 million which represent fifty four percent (54%) of total of federal awards expenditures for 2010, while for 2009 PIHP were $212 million or sixty percent (60%) of total federal awards expenditures. The Capital Fund Program for 2010 was $121 million compared with 2009 when the funds awarded were $138 million, representing a decrease of twelve percent (12%) Most of these expenditures were capitalized as Construction in Progress within the Administration's group of accounts since it represents the cost of ongoing modernization projects. The American Recovery and Reinvestment Act (ARRA) Funds was $63 million representing sixteen percent (16%) of the total federal awards for 2010. Compared to 2009 there was an increase of $61 million, since is the second fiscal year of availability of funds and the agency has already expended 35% percent of the grant. These funds are available until March 2012.

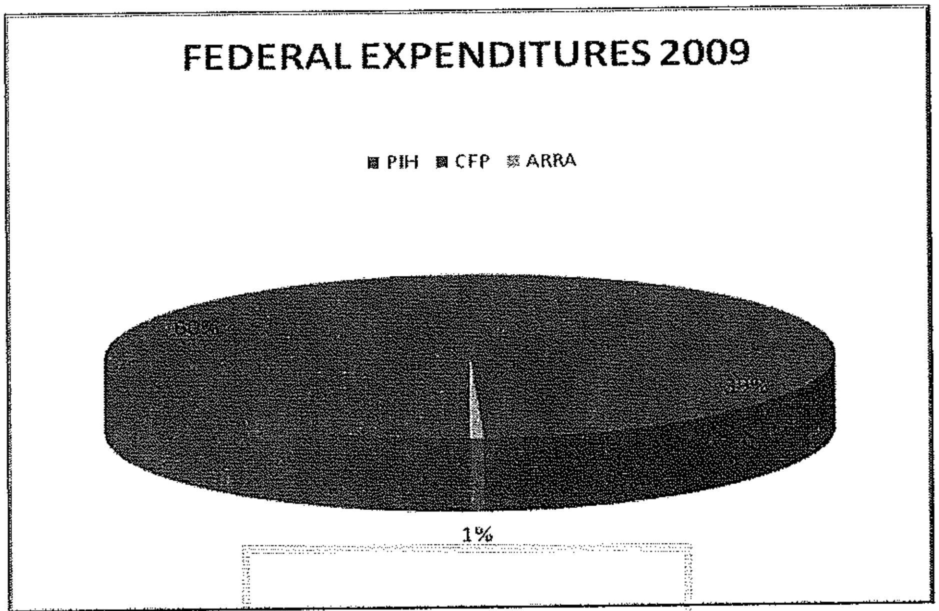
TABLE 8

(In millions)	2010	2009	Inc/Dec	% Change
Public and Indian Housing	219	212	7	3%
Public Housing Capital Fund	121	138	(17)	-12%
Capital Fund Recovery Grant	63	2	61	3050%
Total	403	352	51	14%

GRAPH 7 2010



GRAPH 8 2009



Budgetary Highlights

Summary

Table 9 details a comparison of the final budget for the Public and Indian Housing Program (PIHP) and the Central Office Cost Center Fund for fiscal years ending 2010 and 2009. PIHP operated in FY 2010 with a revised final budget of $275 million and $277 million for 2009. The net decrease of $2 million was due to a decrease of $5 million in operating subsidy and an increase of $2 million received as administrative fees for the ARRA funds.

Table 9

Description	Final Budget Approved 2009-2010	Final Budget Approved 2008-2009	Change	%
Public and Indian Housing including Fees	258,065,965	262,928,079	(4,862,114)	-1%
Capital Fund Fee Program Fee	13,753,475	13,753,474	1	0%
ARRA fee for COCC	2,809,186	-	2,809,186	
Total	**274,628,626**	**276,681,553**	**(2,052,927)**	**-1%**

Table 10 details a comparison of the final Public and Indian Housing Program (PIHP) and Central Office Cost Center (COCC) expenditures budgets for fiscal years ending 2010 and 2009. PIHP operated in FY 2010 with a revised final budget of $275 million and $277 million for 2009 respectively. These funds are used by the Administration mostly in the ordinary and extraordinary maintenance of the Administration's federal public housing projects throughout the island.

Table 10 PUBLIC AND INDIAN HOUSING AND CENTRAL OFFICE COST CENTER

Description	Final Budget Approved 2009-2010		Final Budget Approved 2008-2009		Difference	Change %
Administrative Expense	$75,185,449	27%	$67,710,629	24%	$7,474,820	11%
Tenant Services Expense	41,487,594	15%	41,868,127	15%	($380,533)	-1%
Utilities	17,203,940	6%	21,242,221	8%	($4,038,281)	-19%
Maintenance/Oper. Exp	58,529,299	21%	51,828,742	19%	$6,700,557	13%
Protective Services Expense	17,124,018	6%	22,683,715	8%	($5,559,697)	-25%
General Expense	42,283,014	15%	55,321,560	20%	($13,038,546)	-24%
Reserve	2,978,218	1%	0		$2,978,218	-
Total Operating Expense	**$254,791,532**	**93%**	**$260,654,994**	**94%**	**($5,863,462)**	**-2%**
NON-ROUTINE EXPENDITURES						
Extraordinary Maintenance	17,538,909	6%	400,000	0%	$17,138,909	4285%
Replacement of Nonexpendable Equipment	90,697	0%	2,064,439	1%	($1,973,742)	-96%
Property Betterment and Additions	2,207,488	1%	13,562,120	5%	($11,354,632)	-84%
Total Non-Routine Expenditures	**$19,837,094**	**7%**	**$16,026,559**	**6%**	**$3,810,535**	**24%**
Total Budget	**$274,628,626**	**100%**	**$276,681,553**	**100%**	**($2,052,927)**	**-1%**

The final operating budget for FYE 2010 included a subsidy from HUD of $218 million compared to $211 million for 2009 as showed on *Table 11*. Such increase is due to the Public Housing Operating Fund Program amended on September 19, 2005. This rule amends the regulations and a new formula calculates the subsidy provided by Department of Housing and Urban Development (HUD). This significant event affected dramatically the amount received and has allowed the Agency to address various imminent necessities of the projects. The budget also combines an estimated dwelling rental income of $28 million on 2010 and $27 million in 2009. For 2010, the transfer to be used for administrative expenses from the CFP program was reduced to $11 million when compared to fiscal year 2009, for which the amount transferred was $24 million.

Table 11

Description	2009-2010	2008-2009	Change	%
Estimated Subsidy (includes Add On and Uses)	$218,919,768	$211,089,098	$7,830,670	4%
Estimated Rental Income	27,515,318	26,703,903	$811,415	3%
Capital Fund Program %	10,510,878	23,727,653	($13,216,775)	-56%
Transfer from COCC to Projects	1,120,000	1,407,425	($287,425)	-20%
Total Financial Resources	258,065,964	262,928,079	-4,862,115	-2%
Reasonable Fees to be Charge to Low Income Housing Program (1)	41,116,910	42,734,136	-1,617,226	-4%
Projects Operating Expenditures (Does not Include Non Routine)	148,323,664	120,658,408	27,665,256	23%
Project Insurance and Telephone	16,647,171	22,824,099	-6,176,928	-27%
Resident service Programs, Security and Non Routine Exp	32,000,000	54,790,616	-22,790,616	-42%
Utilities Expenses	17,000,000	21,204,236	-4,204,236	-20%
Projects Expenditures	255,087,745	262,211,495	-7,123,750	-3%
Net Operating Income /Reserve	$2,978,219	$716,584	$2,261,635	316%

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

Table 12 shows the breakdown of the total budget for FYE 2010, including the Central Office Cost Center (COCC).

Table 12

DESCRIPTION	COCC	PROJECTS (1)	TOTAL BUDGET FYE 2009-2010
Administrative Expense	37,995,588	37,189,861	75,185,449
Tenant Services Expense	4,272,185	37,215,409	41,487,594
Utilities	200,000	17,003,940	17,203,940
Ord. Maintenance/Operational Expense	2,005,367	56,523,932	58,529,299
Protective Services Expense	1,397,552	15,726,466	17,124,018
General Expense	11,049,531	31,233,483	42,283,014
Reserve		2,978,218	2,978,218
Total Operating Expense	56,920,223	197,871,309	254,791,532
			-
NON-ROUTINE EXPENDITURES			-
Extraordinary Maintenance	-	17,538,909	17,538,909
Replacement of Nonexpendable Equipment	67,074	23,623	90,697
Property Betterment and Additions	692,274	1,515,214	2,207,488
Total Non-Routine Expenditures	759,348	19,077,746	19,837,094
			-
Total Budget	$57,679,571	$216,949,055	$274,628,626

(1) **An elimination column has been added to assist in the consolidation of the financial statements. It provides a location in which to post eliminating entries. These entries will be necessary to adjust transactions between the projects and the COCC or inter-project transactions. This prevents double counting/reporting of these transactions as they flow upward to the overall financial statements. For example, the fee expense charged to each project and fee revenue earned by the COCC is eliminated in order to reflect only the true revenues and expenses in the top-level financial reporting.**

CENTRAL OFFICE COST CENTER (COCC)- PHA charges fees in lieu of cost allocations; and record all financial transaction as a different fund (see *Table 13*). The COCC report these fees charged as revenue. In turn, projects will report the fees levied as expenses. *Table 13* details the Central Office Cost Center Budget Summary which includes Fees charges to Low Rent Program for $42.7 million and $13.7 million from Capital Fund Program as Program Fee.

Table 13

CENTRAL OFFICE COST CENTER BUDGET SUMMARY	
	Amount
Fees charged to AMP's Low Rent Program	$41,116,910
Capital Fund Program Management FEE	13,753,475
ARRA Management Fee	2,809,186
Total Financial Resources for COCC	$57,679,571
Total Expenditures for COCC (Includes Salaries, indirect cost, management fees)	$57,679,571
NET OPERATING INCOME OR LOSS	-

ASSETS AND LIABILITIES

At the end of fiscal year 2010, the Administration had $2,583 million in Assets. For fiscal year 2009, the amount was $2,557 million as detailed below (*Table 14*). The net increase was due mostly to the increase in cash, a decrease in capital assets and an increase in restricted assets.

Table 14

ASSETS	2010	2009	Inc/Dec	% Change
Cash	167	119	48	40.34%
Accounts Receivable	56	54	2	3.70%
Materials and Supplies	10	8	2	25.00%
Fiscal agent funds	25.3	24.3	1	4.12%
Restricted Assets	454	441	13	2.95%
Capital Assets	1,866	1,906	-40	-2.10%
Unamortized Debt Issuance Costs	4.5	4.8	-0.3	-6.25%
TOTAL	**2,583**	**2,557**	**26**	1%

Capital Assets

At the end of fiscal year 2010, the Administration had $1,867 million in Capital Assets, net of corresponding accumulated depreciation, invested in a broad range of capital assets. For fiscal year 2009, the amount was $1,906 million (see Table 15 and Graphs 9 and 10 below).

Of the total capital assets, $1,178 million or sixty three percent (63%) was invested in Buildings and Improvements during fiscal year 2010, a decrease of four (-4%) when compared with Buildings and Improvements of $1,232 million for fiscal year 2009. Construction in Progress (CIP) of $473 million in 2010 represents an increase of four percent (4%) when compared with CIP of $455 million, as of fiscal year 2009. The net reduction in Total Capital Assets of $38 million is mostly due a reduction of Buildings and improvements of ($54 million), a decrease of one million in Furniture and Fixtures and one million in Vehicles and an increase of CIP of $18 million.

The net effect of the increase of Buildings and Improvements is due to the capitalization of structures for $27,952 million, the acquisitions of 33 units of the Low Rent Public Housing Project, Vistas de Isabela for $3,977 million, the retirement of assets for $7,285 million and depreciation expense of $77,817 million. As of June 30, 2010, there were twenty three (23) active projects under construction. There were also ten projects (10) in substantial completion and two (2) on hold projects.

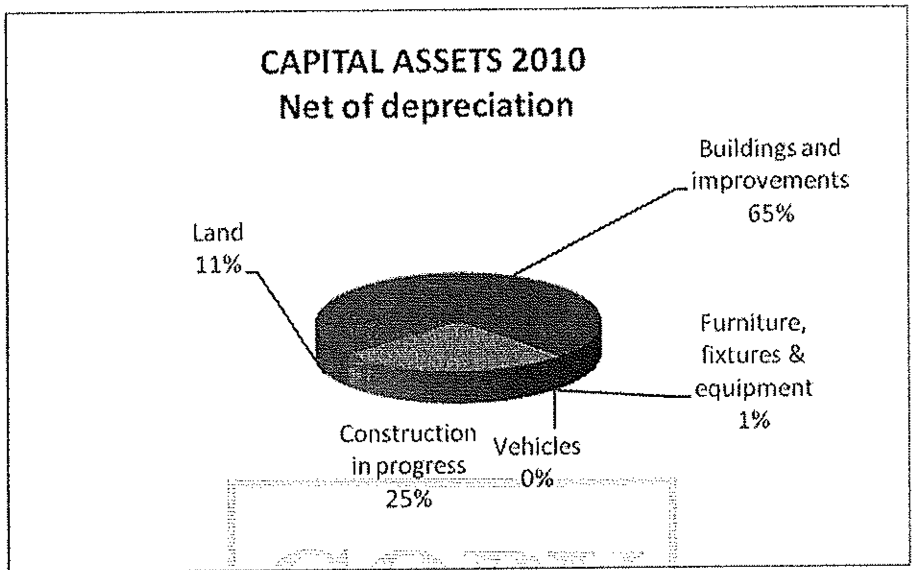
As of June 30, 2009, there were eleven (11) active projects under construction. There were also eleven projects (11) on substantial completion and five (5) on hold projects. The net reduction in Total Capital Assets as of 2009 of $208 million was mostly due to the effect of the transfer of the CIP and the book value of the thirty three (33) projects to Department of Housing of Puerto Rico (DOH) as part of a Mixed Finance Transaction. DOH subsequently sold the properties to Vivienda Modernization LLC.

During 2010, we have invested from the Bonds Series 2003 a total of $2 million, compared to 2009 when the amount invested was $9 million; this decrease is due to the mixed finance transaction.

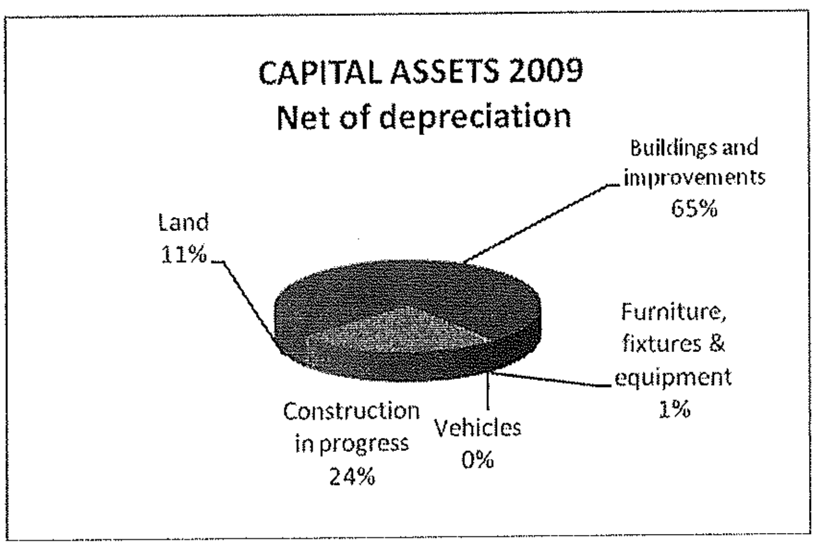
Table 15

Capital Assets (Net of Accumulated Depreciation, in millions)	2010	2009	Inc/Dec	% Change
Land	202	202	-	0%
Buildings and improvements	1,178	1,232	(53.9)	-4%
Furniture, fixtures & equipment	11	12	(1.0)	-8%
Vehicles	3	4	(1.0)	-25%
Construction in progress	473	455	18.0	4%
Total	1,867	1,905	(37.9)	-2%

GRAPH 9- 2010



GRAPH 10- 2009



LIABILITIES

LONG TERM LIABILITIES:

As of June 30, 2010, the total liability related to the financial agreement entered during December 2003, between the Puerto Rico Housing Finance Authority (the bond issuer) and US Bank Trust National Association (the trustee), that was executed through a bond issue of $663,060,000 is $556,697,767. These bonds were refinanced during fiscal year 2009. Simultaneously with the issuance of the Series 2008 Capital Fund Bonds, $391,185,000 of the 2003 Bonds was defeased. The defeasance reduced the outstanding principal amount of 2003 Bonds to approximately $219 million and decreased the resultant annual gross debt service requirements from approximately $51.3 million to approximately $18.6 million. As of June 2010, the defeasance escrow amounted to $379,096,230. The debt service for the defeased portion of the 2003 Bonds will be paid from the defeasance escrow and the debt service for the undefeased 2003 Bonds will continue to be paid from capital funds of the PRPHA together with debt service on the 2008 Bonds pursuant to the schedule submitted as part of the CFFP submission and the final debt service schedule as submitted to HUD.

Balance of the CFP Bonds Payable:

Debt	**2010**	**2009**
Current Portion	25,390,000	24,380,000
Long Term Portion	531,307,767	559,803,424
Liabilities	556,697,767	584,183,424.00

OTHER LIABILITIES:

The Administration has a total of $93 million in current liabilities. Of this amount, $25 million represents the current portion of bonds payable, $64 million are account payables and accrued liabilities, and other accounts payable amount to $4 million. As of June 2009, the amount of current liabilities was $82 million, of which $24 million represented the current portion of bonds payable, $55 million were accounts payable and accrued liabilities and other accounts payable amounted to $3 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND PROJECTIONS

On September 19, 2005, the United States Department of Housing and Urban Development (HUD) published at 24 CFR, Part 990 Revision to the Public Housing Operating Fund Program; Final Rule (The Final Rule). This rule states that, in accordance with the directives received from the U.S Congress, Public Housing Agencies (PHAs) and HUD are to convert from an agency-centric model to an asset-management model. The asset management model is more consistent with the management norms in the broader multi-family management industry. In order to implement asset management, the Final Rule stipulates that PHAs must implement project-based management (PBM), project-based budgeting (PBB), and project-based accounting (PBA).

Due to the Final Rule, HUD's Financial Reporting has moved toward a Project Based Accounting (PBA) and a Fee for Service Approach. In the Fee-for-Service approach, projects will pay the central office fees for services provided. Applicability of asset management requirements will vary by size. The Operating Fund Rule (24 CFR 990), requires that all PHAs with 250 or more units convert to asset management and, thus, adopt a fee-for-service approach for overhead and certain centrally-provided property management services. As scheduled, this FYE is the second year of compliance for Budgeting and Accounting and the changes performed to comply with the regulation are being completed.

This coming fiscal year we have been very conservative establishing the original budget for fiscal year 2011, the total recommended budget is $ 472 million, where $282 million will be assigned for operations and the ordinary maintenance of the PRPHA projects including Central Office Cost Center. The estimated amount included in the original budget to be invested in the modernization of the projects is a projected amount of $190 million. The financial resources of these funds are $426 million from Federal funds, an estimated $25 million from rent collections and other miscellaneous income and $21 million from program income from the Bond Issuance 2003.

For next fiscal year, we expect to continue the accelerated project modernization program to ensure the on time budget completion of the projects.

REQUEST FOR INFORMATION

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

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009

ASSETS

	2010	2009
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 166,253,945	$ 116,148,213
Cash and cash equivalents, restricted (Note 5)	872,165	2,762,541
Rent and other accounts receivable, net of allowance for doubtful accounts of $13,221,668 in 2010 and $10,311,616 in 2009 (Note 3)	55,776,630	53,939,707
Other assets	-	1,901,547
Materials and supplies	9,750,085	7,919,998
Restricted assets (Note 5)	1,560,746	1,554,092
Fiscal agent funds (Note 4)	25,390,000	24,380,000
Total current assets	259,603,571	208,606,098
NONCURRENT ASSETS:		
Escrow account restricted (Note 5)	362,441,230	362,910,808
Restricted assets (Note 5)	89,561,290	75,088,009
Capital assets, net (Note 6)	1,866,540,688	1,905,501,464
Unamortized debt issuance costs (Note 7)	4,509,516	4,843,554
	2,323,052,724	2,348,343,835
TOTAL ASSETS	$ 2,582,656,295	$ 2,556,949,933

See notes to financial statements.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENTS OF NET ASSETS (CONTINUED)
JUNE 30, 2010 AND 2009

LIABILITIES AND NET ASSETS

	2010	2009
CURRENT LIABILITIES:		
Current portion of bonds payable (Notes 7 and 8)	$ 25,390,000	$ 24,380,000
Current portion of accrued compensated absences (Note 9)	2,710,166	2,740,588
Accounts payable and accrued liabilities	61,541,989	51,920,052
Accrued bond interest payable (Note 8)	2,201,845	2,271,813
Deferred revenues	695,146	685,587
Total current liabilities	92,539,146	81,998,040
NON-CURRENT LIABILITIES:		
Long term accrued compensated absences (Note 9)	3,920,969	2,206,081
Bonds payable, net of unamortized premium and current portion (Notes 7 and 8)	531,307,767	559,803,424
Total liabilities	627,767,882	644,007,545
Commitments and contingencies (Notes 11, 12, 13, 14 and 17)		
NET ASSETS (Notes 5 and 16):		
Invested in capital assets, net of related debt	1,858,274,621	1,789,425,825
Restricted	21,176,962	5,837,789
Unrestricted	75,436,830	117,678,774
Total net assets	1,954,888,413	1,912,942,388
TOTAL LIABILITIES AND NET ASSETS	**$ 2,582,656,295**	**$ 2,556,949,933**

See notes to financial statements.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING REVENUES (Note 1):		
Rent, fees and other	$ 25,342,605	$ 24,862,459
Fees earned asset management	42,475,569	41,368,381
	67,818,174	66,230,840
OPERATING EXPENSES (Notes 1, 3, 6, 9 and 12):		
Administrative salaries	45,620,227	36,569,858
Tenant service salaries	15,590,834	12,620,053
Other tenant services	15,116,548	26,888,108
Repairs and maintenance	54,848,267	49,994,089
Utilities	17,419,461	16,132,181
Depreciation	84,013,342	82,642,278
Insurance	15,795,746	20,800,784
Asset management costs	39,158,648	38,447,180
Other general and administrative	67,657,388	73,901,437
	355,220,461	357,995,968
NET OPERATING LOSS BEFORE NON-OPERATING REVENUES (EXPENSES) AND GRANTS	(287,402,287)	(291,765,128)

See notes to financial statements.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (CONTINUED)
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
NON-OPERATING REVENUES (EXPENSES) AND GRANTS (Notes 1, 3, 7, 8, 11 and 14):		
Gain (loss) on sale of dwelling properties	118,408	(45,220,079)
Legislative appropriation	1,500,000	-
Interest earned	20,563,482	2,509,530
Interest expense	(24,038,810)	(25,723,353)
Payment to sub-grantee	(45,857,809)	(14,335,390)
Federal grants	273,280,302	240,529,767
	225,565,573	157,760,475
LOSS BEFORE CONTRIBUTIONS	(61,836,714)	(134,004,653)
CAPITAL CONTRIBUTIONS FROM THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)	129,947,364	110,847,262
CHANGE IN NET ASSETS	68,110,650	(23,157,391)
Net assets at beginning of year, as previously reported	1,912,942,388	1,936,099,779
Prior period adjustments (Note 18)	(26,164,625)	-
Net assets at beginning of year, as restated	1,886,777,763	1,936,099,779
NET ASSETS, AT END OF YEAR	$ 1,954,888,413	$ 1,912,942,388

See notes to financial statements.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from tenants and federal grants	$ 65,981,251	$ 63,931,072
Cash payments to employees	(59,526,595)	(50,117,630)
Cash payments to suppliers and management agents	(202,194,649)	(248,056,444)
Net cash used in operating activities	(195,739,993)	(234,243,002)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest paid in capital funds	(26,880,398)	(28,712,332)
Proceeds from capital contributions	129,947,364	110,847,262
Proceeds from sale of dwelling	2,266,851	808,211
Principal payments of bonds payable	(24,380,000)	(23,505,000)
Cash outlays to sub-grantee	(45,857,809)	(14,335,390)
Cash outlays in capital assets	(71,785,602)	(33,540,360)
Funding of escrow account, net	(540,422)	(381,365,248)
Net cash used by capital and related financing activities	(37,230,016)	(369,802,857)
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:		
Subsidies and grants received	274,780,302	240,529,767
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemption of certificates of deposits for restricted purposes	1,901,547	157,985,781
Funding of restricted assets	14,479,935	-
Interest received from investments	5,863,516	2,509,530
Net cash provided by investing activities	22,244,998	160,495,311
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	64,055,291	(203,020,781)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	228,317,855	431,338,636
CASH AND CASH EQUIVALENTS, AT END OF YEAR	$ 292,373,146	$ 228,317,855

See notes to financial statements.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH AND CASH EQUIVALENTS		
Unrestricted	$ 166,253,945	$ 116,148,213
Restricted:		
Cash and cash equivalents, restricted	872,165	2,762,541
Fiscal agent funds	25,390,000	24,380,000
Restricted assets	99,857,036	85,027,101
	$ 292,373,146	$ 228,317,855
RECONCILIATION OF NET OPERATING LOSS BEFORE NON-OPERATING REVENUE AND GRANTS TO NET CASH USED IN OPERATING ACTIVITIES:		
NET OPERATING LOSS BEFORE NON-OPERATING REVENUES AND GRANTS	($ 287,402,287)	($ 291,765,128)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Depreciation	84,013,342	82,642,278
Allowance for doubtful accounts	2,910,052	2,908,844
Increase in receivables	(4,746,975)	(5,201,712)
Increase in materials and supplies	(1,830,087)	(1,169,448)
Increase in deferred revenues	9,559	6,699
Increase (decrease) in accounts payable, accrued liabilities, and accrued compensated absences	11,306,403	(21,664,535)
Total adjustments	91,662,294	57,522,126
NET CASH USED IN OPERATING ACTIVITIES	($ 195,739,993)	($ 234,243,002)

See notes to financial statements.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Puerto Rico Public Housing Administration of the Commonwealth of Puerto Rico (the Administration) is a governmental entity created by Act No. 66 from August 17, 1989 ascribed to the Puerto Rico Department of Housing (the Department) by Act No. 58 of August 9, 1991. On August 9, 1991 it assumed certain assets, liabilities and operations of the Puerto Rico Urban Renewal and Housing Corporation (PRURHC), which is currently under liquidation by the Office for the Administration of the Assets of CRUV (OAAC) attached to the Puerto Rico Department of Housing. The Administration is engaged in the implementation of the governmental policy related to the public housing projects and its administration. During August 1992, the administrator subcontracted the administration of the public housing projects to the private sector. The primary source of funds to carry out the management, maintenance and improvement of public housing are Federal Government subsidies and grants. The Administration operates approximately 54,000 public housing units, located in 363 (330 federally subsidized and 33 state subsidized) residential complexes throughout the island.

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

Reporting entity

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

Summary of significant accounting policies

Measurement focus, basis of accounting and financial statements presentation

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

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

Summary of significant accounting policies (continued)

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

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

The basic financial statements report uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

Fair value of financial instruments

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

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

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

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

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

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

Summary of significant accounting policies (continued)

Statement of cash flows

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

Receivables

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

Materials and supplies

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

Restricted assets

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

Capital assets

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

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

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

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

Summary of significant accounting policies (continued)

Unamortized debt issuance costs, premiums, and discounts

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

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

Deferred Revenue

Deferred revenue arises from rent received in advance from tenants.

Accounting for Compensated Absences

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

Pension Benefits

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

Annual contributions

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

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

Summary of significant accounting policies (continued)

Net assets

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

- Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- Restricted net assets - Consists of net assets with constrain placed on the use either by (1) external groups such as creditors, grantors, contributors, or law or regulations of other government; or (2) law through constitutional provisions or enabling legislations.

- Unrestricted net assets – Consists of all other assets that do not meet the definitions of "restricted" or "invested in capital assets, net of related debt".

Use of Estimates

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

Risk management

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

Subsequent events

In May 2009, the Financial Accounting Standards Board (FASB) established standards related to accounting for, and disclosure of, events that occur after the statement of position date, but before financial statements are issued or are available to be issued. Management has evaluated subsequent events through December 29, 2010, the date the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2010 that required recognition or disclosure in the current period financial statements.

2. DEPOSITS AND CUSTODIAL CREDIT RISK

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

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

The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of Federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth.

The Administration had the following amounts deposited in commercial banks:

	Bank Balance	
Depository Account	**June 30, 2010**	**June 30, 2009**
Insured	$ 250,000	$ 250,000
Collateralized:		
Collateral held in the Administration's name	43,266,013	16,530,027
	$43,516,013	**$16,780,027**

In addition, as of June 30, 2010 and 2009, the Administration's custodial credit risk was approximately $151.5 million and $52.9 million, respectively, which are the cash balances deposited in the Government Development Bank for Puerto Rico and the Economic Development Bank for Puerto Rico. These deposits are exempt from the collateral requirement established in the laws of the Commonwealth of Puerto Rico.

3. ACCOUNTS RECEIVABLE

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

Description	2010	2009
Rent and other receivables:		
Legislative appropriations	$ 4,475,993	$ 4,772,446
Accounts receivable from tenants	10,851,294	9,264,219
Others	13,328,441	12,862,337
	28,655,728	26,899,002
Less: allowance for doubtful accounts	(13,221,668)	(10,311,616)
Total rent and other accounts receivable, net	15,434,060	16,587,386
HUD grants receivable	14,596,635	18,307,454
Interest receivable	31,174	27,942
Account receivable from Vivienda Modernization 1, LLC	466,176	3,863,375
Account Receivable from Department of Housing of the Commonwealth of Puerto Rico	3,410,000	-
Advances to management agents	21,838,585	15,153,550
Total accounts receivable	$ 55,776,630	$ 53,939,707

The HUD grant receivable represents the amount pending to be received by the Administration as of June 30, 2010 and 2009 under the Capital Fund's expenditure driven agreement for allowable costs already incurred at June 30, 2010 and 2009, but for which HUD had not made the drawdown of funds on behalf of the Administration. These costs are mainly for capital assets additions and other expenses related with the modernization of dwelling units.

4. FISCAL AGENT FUNDS

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

The current portion amount deposited by the Administration with this fiscal agent for the years ended June 30, 2010 and 2009 amounted to $25,390,000 and $24,380,000 respectively. This reclassification is solely to comply with financial statement presentation required by Real Estate Assessment Center (REAC). The Administration will use this amount for the repayment of principal of the outstanding debt incurred for the modernization of housing projects under the Capital Revenue Bond agreement.

The fiscal agent funds are provided from the following sources:

	2010	2009
Escrow account	$ 16,655,000	$ 15,985,000
Restricted assets	8,735,000	8,395,000
	$ 25,390,000	$ 24,380,000

5. RESTRICTED ASSETS

Restricted assets at June 30 consist of the following:

Description	Classification	2010
Certificate of deposit at .34% due on July 28, 2010	Short-term	$ 1,560,745
Fiscal agent funds	Short-term	25,390,000
Cash and cash equivalents in Government Development Bank		872,165
Total restricted assets, current		27,822,910
Deposit with HUD	Long-term	1,521,156
Cash restricted for operating expenses of dwelling units	Long-term	17,222,896
Escrow account	Long-term	362,441,230
Cash restricted on capital fund program bonds	Long-term	70,817,239
Total restricted assets		$ 479,825,431
		2009
Certificate of deposit at .66% due on August 24, 2009	Short-term	$ 1,554,092
Fiscal agent funds	Short-term	24,380,000
Cash and cash equivalents in Government Development Bank		2,762,541
Total restricted assets, current		28,696,633
Deposit with HUD	Long-term	1,521,156
Escrow account	Long-term	362,910,808
Cash restricted on capital fund program bonds	Long-term	73,566,853
Total restricted assets		$ 466,695,450

5. RESTRICTED ASSETS (CONTINUED)

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

Description	2010	2009
Homebuyers earned home payment	$ 312,148	$ 310,818
Proceeds from units sold under Turnkey III projects remitted to HUD	1,521,156	1,521,156
Amount to be used for the repair and or improvement of the electric and plumbing systems, kitchen cabinets and other non-routine maintenance of the Turnkey III projects	1,248,597	1,243,274
Amount to be used for the repayment of principal and interest of the 2003 Capital Revenue Bonds	387,831,230	378,905,808
Amount to be used on operating expenses of dwelling units of Turnkey III projects	17,222,896	-
Amount reserve on capital fund program bonds	70,817,239	81,951,853
Investment with Government Development Bank	872,165	2,762,541
	479,825,431	466,695,450
Less: amount to be used for the repayment of principal, interest and other current liabilities to be incurred for the modernization of housing project of the Capital Revenue Bonds and held with fiscal agent	(25,390,000)	(24,380,000)
	$ 454,435,431	$ 442,315,450

6. CAPITAL ASSETS:

The activity of the capital assets for the fiscal years ended June 30 was as follows:

	Balance at June 30, 2009	Additions	Retirements	Transfers	Balance at June 30, 2010
Capital assets not being depreciated:					
Land	$ 202,114,999	$ -	$ -	$ -	$ 202,114,999
Other assets	-	266,757	-	-	266,757
Construction in progress	455,280,843	65,292,339	($ 19,540,764)	($ 27,952,445)	473,079,973
Total capital assets not being Depreciated	657,395,842	65,559,096	(19,540,764)	27,952,445	675,461,729
Capital assets being depreciated:					
Buildings and building improvements	2,330,649,010	3,977,255	(7,287,676)	27,952,445	2,355,291,034
Furniture, fixtures and equipment	40,202,708	2,178,443	(1,523,021)	-	40,858,130
Vehicles	16,742,753	70,808	-	-	16,813,561
	2,387,594,471	6,226,506	(8,810,697)	27,952,445	2,412,962,725
Less: accumulated depreciation	(1,139,488,849)	(84,013,170)	1,618,253	-	(1,221,883,766)
Total capital assets being depreciated, net	1,248,105,622	(77,786,664)	(7,192,444)	27,952,445	1,191,078,959
Total capital assets, net	$ 1,905,501,464	($ 12,227,568)	($ 26,733,208)	$ -	$ 1,866,540,688

6. CAPITAL ASSETS (CONTINUED):

	Balance at June 30, 2008	Additions	Retirements	Transfers	Balance at June 30, 2009
Capital assets not being depreciated:					
Land	$ 202,114,999	$ -	$ -	$ -	$ 202,114,999
Construction in progress	615,549,201	15,888,617	(110,809,143)	(65,347,832)	455,280,843
Total capital assets not being Depreciated	817,664,200	15,888,617	(110,809,143)	(65,347,832)	657,395,842
Capital assets being depreciated:					
Buildings and building improvements	2,353,240,738	7,344,034	(95,204,266)	65,347,832	2,330,728,338
Furniture, fixtures and equipment	38,272,831	10,210,254	(476,287)	(7,883,418)	40,123,380
Vehicles	9,323,910	97,455	(562,030)	7,883,418	16,742,753
	2,400,837,479	17,651,743	(96,242,583)	65,347,832	2,387,594,471
Less: accumulated depreciation	(1,105,401,797)	(82,642,278)	48,555,226	-	(1,139,488,849)
Total capital assets being depreciated, net	1,295,435,682	(64,990,535)	(47,687,357)	65,347,832	1,248,105,622
Total capital assets, net	$ 2,113,099,882	($ 49,101,918)	($ 158,496,500)	$ -	$ 1,905,501,464

7. UNAMORTIZED DEBT ISSUANCE COSTS

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

	2010	2009
Debt issuance costs	$ 5,177,593	$ 5,177,593
Less current year amortization	(668,077)	(334,039)
	$ 4,509,516	$ 4,843,554

8. CAPITAL FUND PROGRAM BONDS

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

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

8. CAPITAL FUND PROGRAM BONDS (CONTINUED)

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

2010	Balance at June 30, 2009	Increases and new issuances	Decreases and payments	Balance at June 30, 2010	Amounts of principal due within one year
Capital Fund Program Bonds, maturing in various dates through the year 2024, bearing interest at rates between 2% to 5% annually	$ 572,830,000	$ -	($ 24,380,000)	$ 548,450,000	$ 25,390,000
Unamortized net premium	11,353,424	-	(3,105,657)	8,247,767	
	$ 584,183,424	$ -	($ 27,485,657)	$ 556,697,767	$ 25,390,000

2009	Balance at June 30, 2008	Increases and new issuances	Decreases and Payments	Balance at June 30, 2009	Amounts of principal due within one year
Capital Fund Program Bonds, maturing in various dates through the year 2024, bearing interest at rates between 2% to 5% annually	$ 596,335,000	$ -	($ 23,505,000)	$ 572,830,000	$ 24,380,000
Unamortized net premium	14,597,762	-	(3,244,338)	11,353,424	
	$ 610,932,762	$ -	($ 26,749,338)	$ 584,183,424	$ 24,380,000

8. CAPITAL FUND PROGRAM BONDS (CONTINUED)

The net premium is amortized, over the life of the debt, using the interest method, as an adjustment to interest expense. Amortization for the years ended June 30, 2010 and 2009 amounted to $3,105,657 and $3,244,328, respectively.

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

Year ending June 30,	Principal	Interest	Total
2011	$ 25,390,000	$ 25,868,510	$ 51,258,510
2012	26,615,000	24,644,460	51,259,460
2013	27,940,000	23,321,860	51,261,860
2014	29,335,000	21,926,560	51,261,560
2015-2019	170,675,000	85,627,300	256,302,300
2019-2023	218,385,000	36,761,143	255,146,143
2023-2025	50,110,000	2,305,060	52,415,060
	$ 548,450,000	$ 220,454,893	$ 768,904,893

9. ACCRUED COMPENSATED ABSENCES

Accrued compensated absences activity for the years ended June 30, 2010 and 2009, was as follows:

Beginning Balance	Additions	Deductions	Ending balance	Due within one year
2010				
$ 4,946,669	$ 3,521,132	($1,836,666)	$ 6,631,135	$ 2,710,166
2009				
$ 5,874,388	$ 2,625,232	($3,552,951)	$ 4,946,669	$ 2,740,588

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

10. CAPITAL CONTRIBUTIONS

Capital contributions received during the years ended June 30, 2010 and 2009 from HUD, were as follow:

Description	2010	2009
Contributed capital for the Development and Modernization of Public Housing Capital Fund Program (CFP)	$129,947,364	$110,847,262

11. OTHER FEDERAL GRANTS

As permitted in the Omnibus Consolidated Rescissions and Appropriations Act (OCRA), which was enacted on April 24, 1996, during the fiscal years ended June 30, 2010 and 2009, the Administration transferred to operational activities 30% and 20%, respectively, of the Public Housing Capital Fund Program (CFP) approved annual grants. These transfers amounted to $36,843,392 and $26,475,367, respectively for these fiscal years. Also, the Administration transferred to operational activities 7% of the Public Housing Capital Fund Stimulus Recovery Act which amounted to $4,215,228 for the year ended June 30, 2010. These transfers were approved by the HUD Caribbean Field Office and were included as part of federal grants revenue.

12. EMPLOYEE'S RETIREMENT PLAN

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

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

12. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

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

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

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

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

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

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

12. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

Disability pensions will not be granted under System 2000. The employers' contribution (9.275% of the employee's salary) is used to fund the deficiency of the defined benefit plan.

Total employer contributions during the year ended June 30, 2010 and 2009, amounted to $1,329,285 and $1,366,331, respectively. Employer's contributions paid represented 100% of the required contributions.

For the years ended June 30, 2010 and 2009, total covered payroll was $14,680,064 and $14,731,332, respectively. Covered payroll refers to all compensation paid by the Administration to employees covered by the System on which contributions for the pension are based.

13. COMMITMENTS AND CONTINGENCIES

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

Law 104 from June 30, 1995, as amended, of the Commonwealth of Puerto Rico, known as *Claims and Lawsuits against the State*, provides that lawsuits and claims initiated by an agency or instrumentality of the Commonwealth of Puerto Rico may be represented by the Commonwealth of Puerto Rico's Department of Justice. Any adverse claims to the defendants are to be paid by the Commonwealth of Puerto Rico's General Fund within the limitations provided by the law. However, the Secretary of the Treasury has the right of requesting the reimbursement of the funds expended for these purposes from the defendants. For the years ended June 30, 2010 and 2009, the accounts payable and accrued liabilities include litigation contingencies accrual for $6,000,000.

As of June 30, 2010 and 2009, the Administration had pending construction projects contracts in progress for the development and modernization of public housing projects. Total commitments related to these construction contracts amounted to approximately $321,977,650 and $232,137,000, respectively.

14. FEDERAL FINANCIAL ASSISTANCE

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

15. RECLASSIFICATIONS

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation. The reclassifications had no effects in the change in net assets.

16. RESTRICTED NET ASSETS

Restricted net assets at June 30, consist of the following:

	2010	2009
Restricted assets	$ 479,825,431	$ 466,695,450
Restricted for capital fund program bonds	(70,817,239)	(73,566,853)
Defeasance escrow	(362,441,230)	(362,910,808)
Current portion of bonds payable	(25,390,000)	(24,380,000)
Net assets restricted	$ 21,176,962	$ 5,837,789

The Administration operates the Turnkey III projects in accordance with requirements for the Homeownership Opportunity Program for Low Income Families. The amount deposited with HUD for the year ended June 30, 2010 and 2009 amounted to $1,521,156, and represents amounts remitted to HUD related to the proceeds of the units sold under Turnkey III projects. During 1986, Congressional Legislation was approved to return the funds to the Administration in order to establish a loan fund oriented towards improving the dwelling units. These loans, which are exclusively for the Turnkey III owners, will allow them to repair and/or improve the electrical equipment and other systems.

17. MIXED FINANCE TRANSACTION

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

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

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

On August 7, 2008 the Administration and the Project Company entered into a Regulatory and Operating Agreement (the Agreement).

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

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

17. MIXED FINANCE TRANSACTION (CONTINUED)

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

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

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

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

18. PRIOR PERIOD ADJUSTMENTS

The beginning net asset at July 1, 2009 has been restated by the Administration from the balances previously reported to reflect the following adjustments:

Understatement of accounts payable to sub-grantee	($21,984,859)
Understatement of increase in value of escrow account	13,972,000
Overstatement of capital assets transferred to the Department of Housing of the Commonwealth of Puerto Rico (DOH) in the Mixed Finance transaction made on August 2008 (see details in Note 17)	(18,151,766)
	($26,164,625)