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

Basic Financial Statements

June 30, 2014

(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

The Board of Directors of
Puerto Rico Housing Finance Authority:

Report on the Financial Statements

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 the Puerto Rico Housing Finance Authority (the Authority), a component unit of the Government Development Bank of Puerto Rico (GDB), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

GDB

As discussed in note 12 to the financial statements, the Authority has significant balances and transactions with GDB, including deposits and other investments amounting to approximately $170.6 million as of June 30, 2014. Additionally, GDB has provided significant financial support to the Authority in terms of notes payable and lines of credit. As of June 30, 2014, GDB has significant balances of loans receivable from the Commonwealth of Puerto Rico (the Commonwealth), its agencies and instrumentalities. 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. Accordingly, the collectibility of these loans may be affected by budgetary constraints, the fiscal situation, the credit rating of the Commonwealth, 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 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.

Adoption of New Accounting Principle

As discussed in note 2 to the financial statements, in fiscal year 2014, the Authority retrospectively adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 to 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

KPMG LLP

San Juan, Puerto Rico
March 30, 2015

Stamp No. E148857 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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, 2014. The information presented here should be read in conjunction with the Authority's basic financial statements, including the notes thereto.

Financial Highlights

- Net position of the Authority decreased $7.7 million, from an adjusted beginning of the year amount of $430.3 million to $422.6 million as of June 30, 2014.
- The Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2013; and has applied it retroactively to the financial statements for all periods presented. GASB 65 requires, among other things, that (1) deferred loss on refunding be reported as a deferred outflow of resources, (2) debt issuances costs are to be recognized as an expense in the period incurred and can no longer be deferred and amortized over the life of the debt, (3) loan origination fees, net of costs, are to be recognized in the period incurred and can no longer be deferred and amortized over the life of the loan, and (4) fees received for a commitment to originate or purchase a loan or group of loans should be recorded as a liability and, if the commitment is exercised, recognized as revenue in the period of exercise, and can no longer be deferred and amortized over the life of the loan as an adjustment of yield. As a result of the implementation, the beginning net position of the Authority was increased by $23.5 million.
- Operating income of the Operating and Administrative fund was $2.6 million for the year ended June 30, 2014 while it had a decrease in net position amounting to $5.3 million. There were net interfund transfers in the amount of $7.9 million during the year ended June 30, 2014. Total operating revenues of the proprietary fund increased to $45 million from $43 million in 2013. Total operating expenses decreased to $43 million in 2014 from $48 million in 2013.
- Special obligations notes of the Third Party Origination Program amounting to $30 million were repaid during the current fiscal year resulting in a gain on early extinguishment of $36,685.
- During fiscal year 2014, $138 million and $10 million were granted in subsidies through the Housing Urban Development Program (HUD) and the HOME Program, respectively.
- My Own Home Program started during fiscal year 2014 and had revenues of $9.6 million, expenditures of $15.3 million, and transfers in of $6.1 million.
- On July 31, 2014, the Governor of the Commonwealth of Puerto Rico signed the Home Investment Partnerships Program (HOME) Voluntary Repayment Settlement Agreement (the Agreement) with HUD. The Agreement establishes the reimbursement to the HOME program of $14.2 million, from nonfederal funds, for disallowed expenditures in connection with HUD-funded projects, as defined and described in the Agreement, in two installments of $10 million and $4.2 million due on October 1, 2014 and October 1, 2015, respectively.
- On August 8, 2014, the Authority and the Government Development Bank For Puerto Rico (GDB) modified the terms of the Investments Repurchase Agreement (the Agreement) extending its maturity date until July 1, 2018. The Agreement among other things establishes a 3% interest rate, which will be revised annually and will be based on the average cost of funds of GDB plus .25% basis points.

Overview of the Financial Statements

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as an 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 position provides information on the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the reporting period. Changes in net position 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 proprietary 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 Authority's governmental activities. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

- *Proprietary Funds* – Proprietary 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.

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, 2014 and 2013 (in thousands):

		Governmental activities		Business-type activities		Total	
		2014	2013	2014	2013	2014	2013
Assets:							
Cash	$	5,444	14,599	14,248	2,596	19,692	17,195
Investments and deposits placed with banks		96,646	89,129	463,043	524,488	559,689	613,617
Loans receivable, net		—	—	307,012	295,842	307,012	295,842
Capital assets		2	5	1,682	2,004	1,684	2,009
Other assets		5,737	6,372	24,551	23,924	30,288	30,296
Total assets	$	107,829	110,105	810,536	848,854	918,365	958,959
Deferred outflows of resources	$	—	—	2,872	—	2,872	—
Liabilities:							
Due in less than one year	$	29,069	76,275	58,343	59,313	87,412	135,588
Due in more than one year		208,429	161,051	202,783	255,466	411,212	416,517
Total liabilities	$	237,498	237,326	261,126	314,779	498,624	552,105
Net position:							
Net investment in capital assets	$	2	5	1,682	2,004	1,684	2,009
Restricted		324	20,009	149,298	167,702	149,622	187,711
Unrestricted position (deficit)		(129,995)	(147,235)	401,302	364,369	271,307	217,134
Total net position	$	(129,669)	(127,221)	552,282	534,075	422,613	406,854

The net position of the Authority decreased $7.7 million from $430.3 million (as restated for implementation of GASB 65) at June 30, 2013 to $422.6 million at June 30, 2014, mainly as a result of the continued use of the Authority's assets to provide subsidies to the citizens through programs like My Own Home. Subsidies under My Own Home program amounted to approximately $15 million. As a result of this program, during the fiscal year ended June 30, 2014, approximately 4,000 low or moderate income citizens were able to acquire their principal residence.

An analysis of the statement of net position of the Authority reveals a decrease in investments and deposits placed with banks amounting to $61 million in its business-type activities. This decrease is mainly related to scheduled payments of long-term debt, which amounted to $37 million during the fiscal year 2014 and the early redemption of the special obligation notes of the Third Party Origination Program amounting to $30 million. This was the major cause of the reduction in total liabilities, of business-type activities, amounting to $54 million.

Statement of Activities

The statement of activities shows the sources of the Authority's changes in net position as they arise through its various programs and functions. Programs such as the HUD Programs, HOME Program, Closing Costs Assistance Program, and My New Home Program are shown as governmental activities and other programs (Mortgage Loan Insurance and Home Purchase Stimulus Program) are shown as business-type activities. A condensed summary of activities for the fiscal years ended June 30, 2014 and 2013 is shown in the table below (in thousands):

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	$ —	—	18,812	12,450	18,812	12,450
Financing and investment	4,105	3,923	26,660	30,914	30,765	34,837
Operating grants, capital grants, and contributions	163,522	170,501	—	—	163,522	170,501
Total revenues	167,627	174,424	45,472	43,364	213,099	217,788
Program expenses:						
General government and other	5,525	6,884	—	—	5,525	6,884
Housing assistance programs	172,436	230,366	—	—	172,436	230,366
Operating and administrative	—	—	42,868	48,032	42,868	48,032
Total program expenses	177,961	237,250	42,868	48,032	220,829	285,282
Change in net position before transfers	(10,334)	(62,826)	2,604	(4,668)	(7,730)	(67,494)
Transfers	7,921	1,226	(7,921)	(1,226)	—	—
Decrease in net position	(2,413)	(61,600)	(5,317)	(5,894)	(7,730)	(67,494)
Net position, beginning of year	(127,221)	(65,621)	534,075	539,969	406,854	474,348
Cumulative effect of change in accounting principle	(35)	—	23,523	—	23,488	—
Net position, beginning of year, as restated	(127,256)	(65,621)	557,598	539,969	430,342	474,348
Net position, end of year	$ (129,669)	(127,221)	552,281	534,075	422,612	406,854

Total revenues decreased from approximately $218 million in 2013 to approximately $213 million in 2014 or $5 million. The decrease in total revenues was mainly due to the following:

- Decrease of approximately $4 million in financing and investment revenues. This decrease is mainly related to the extinguishment of the investments related to the Homeownership Mortgage Revenue Bonds on April 24, 2013 for the repayment of bonds. Interest income related to such investments amounted to approximately $4.5 million for the year ended on June 30, 2013.

Total program expenses decreased from approximately $285 million in 2013 to approximately $215 million in 2014 or $70 million. The decrease in program expense was mainly due to the following:

- Decrease in expenses of Housing Assistance Programs amounting to approximately $58 million. This decrease is mainly due to a decrease of approximately $35 million in expenses of My New Home Program. All funds assigned to My New Home Program were disbursed and the Program concluded in February 2013. Contributing to the decrease also were decreases in the expenses of the HOME Program and Affordable Housing Mortgage Subsidy Programs Act No. 124 amounting to approximately $15 million and $12 million, respectively. These decreases were partially offset by the expenses of My Own Home Program, which commenced during fiscal year 2014, amounting to approximately $15 million.

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 $2 million from approximately $141 million in 2013 to approximately $143 million in 2014 because additional vouchers were awarded when compared to the previous year.

HOME Program – This fund accounts for funds received from the U.S. Department of Housing and Urban Development for the administration of the HOME Program. The main purpose of this program is to increase the supply of decent and affordable housing for low and very low-income families. The expenditures of the HOME Program amounted to approximately $10 million for the fiscal year ended June 30, 2014, a decrease of $12 million over the expenditures of the previous fiscal year. This decrease resulted as a hold from HUD was placed on the use of program's funds pending resolution of the Voluntary Repayment Settlement Agreement. See more information in note 16.

Affordable Housing Subsidy Program – This fund is used to account for the proceeds of specific local revenue sources under the different subsidy programs of the Authority. During 2014, approximately $21 million was granted in subsidies on the various programs of the Authority.

Proprietary Fund Results

Total net position of the Authority's proprietary fund decreased during the year ended June 30, 2014, by $5.3 million. Following is an analysis of the financial position and results of operations of the major proprietary fund:

Operating and Administrative – The net position of the Operating and Administrative fund decreased from approximately $557.6 million at June 30, 2013, adjusted for the cumulative effect of change in accounting principle of $23.5 million, to approximately $552.3 million at June 30, 2014, or approximately $5.3 million. The change in net position in 2014 and 2013 was a decrease of $5.3 million and $5.9 million, respectively.

Capital Assets

The Authority's investment in capital assets for its business-type activities as of June 30, 2014 and 2013, amounted to approximately $1.7 million and $2 million, respectively, net of accumulated depreciation and amortization. Capital assets include leasehold improvements, information systems, office furniture, equipment, and vehicles.

Authority Debt

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

At June 30, 2014 and 2013, total debt outstanding amounted to approximately $444.5 million and $491.6 million, respectively. Debt issuances, including interest on lines of credit, during 2014 and 2013 totaled $49.4 million and $217.8 million, respectively. The most important debt issues in 2014 were an increase in the line of credit of My New Home Program amounting to $4.2 million and the conversion of $39.3 million from short-term debt to long-term debt of the Affordable Housing Mortgage Subsidy Program. Debt repaid, during 2014 and 2013, amounted to approximately $71.6 million and $249.5 million, respectively. Refer to note 10 to the basic financial statements for additional information on borrowed funds.

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 Position

June 30, 2014

		Governmental activities	Business-type activities	Total
Assets:				
Cash	$	5,444,174	14,248,154	19,692,328
Deposits placed with banks		7,963,449	223,032,022	230,995,471
Investments and investments contracts		88,682,092	240,010,543	328,692,635
Loans receivable – net		—	307,012,173	307,012,173
Interest and other receivables		332,576	4,222,786	4,555,362
Due from federal government – net		12,275,733	—	12,275,733
Other assets		—	74,785	74,785
Internal balances		(6,871,118)	6,871,118	—
Real estate available for sale		—	13,381,923	13,381,923
Capital assets		2,129	1,682,025	1,684,154
Total assets		107,829,035	810,535,529	918,364,564
Deferred outflows of resources:				
Deferred loss on refundings		—	2,872,326	2,872,326
Liabilities:				
Accounts payable and accrued liabilities:				
Due in one year		28,996,898	20,190,180	49,187,078
Due in more than one year		4,814,033	—	4,814,033
Accrued interest payable		70,752	78,238	148,990
Due to Government Development Bank for Puerto Rico:				
Due in one year		2,034	—	2,034
Due in more than one year		200,180,518	—	200,180,518
Notes, bonds and mortgage-backed certificates payable:				
Due in one year		—	38,074,416	38,074,416
Due in more than one year		3,434,252	202,783,084	206,217,336
Total liabilities		237,498,487	261,125,918	498,624,405
Net position (deficit):				
Net investment in capital assets		2,129	1,682,025	1,684,154
Restricted for:				—
Affordable housing programs		323,682	32,263,554	32,587,236
Mortgage loan insurance		—	72,545,011	72,545,011
Debt service		—	43,131,537	43,131,537
Other housing programs		—	1,357,386	1,357,386
Unrestricted		(129,995,263)	401,302,424	271,307,161
Total net position (deficit)	$	(129,669,452)	552,281,937	422,612,485

See accompanying notes to basic financial statements.

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

Statement of Activities

Year ended June 30, 2014

		Program revenues			Net (expenses) revenues and changes in net position		
	Expenses	**Charges for services – fees, commissions, and others**	**Charges for services - financing and investment**	**Operating grants and contributions**	**Governmental activities**	**Business-type activities**	**Total**
Functions/programs:							
Governmental activities:							
General government and other	$ 5,524,634	—	—	—	(5,524,634)	—	(5,524,634)
Housing assistance program	172,436,286	—	4,105,029	163,521,882	(4,809,375)	—	(4,809,375)
Total governmental activities	177,960,920	—	4,105,029	163,521,882	(10,334,009)	—	(10,334,009)
Business-type activities:							
Operating and administrative	42,867,646	18,812,396	26,660,406	—	—	2,605,156	2,605,156
Total business-type activities	42,867,646	18,812,396	26,660,406	—	—	2,605,156	2,605,156
Total functions/programs	$ 220,828,566	18,812,396	30,765,435	163,521,882	(10,334,009)	2,605,156	(7,728,853)
Transfers in (out) – net					7,920,902	(7,920,902)	—
Change in net position					(2,413,107)	(5,315,746)	(7,728,853)
Net position (deficit) – beginning of year (as restated, see note 2)					(127,256,345)	557,597,683	430,341,338
Net position (deficit) – end of year					$ (129,669,452)	552,281,937	422,612,485

See accompanying notes to basic financial statements.

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

Balance Sheet – Governmental Funds

June 30, 2014

Assets		HUD Programs	HOME Programs	Affordable Housing Subsidy Programs	Total
Cash	$	1,262,030	1,244,108	2,938,036	5,444,174
Deposits placed with banks		—	—	7,963,449	7,963,449
Investments and investments contracts		—	—	88,682,092	88,682,092
Interest and other receivables		2,862	—	329,714	332,576
Due from federal government – net		1,027,663	11,248,070	—	12,275,733
Total assets	$	2,292,555	12,492,178	99,913,291	114,698,024
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	$	1,517,486	9,420,107	7,434,903	18,372,496
Due to Government Development Bank for Puerto Rico		—	—	2,034	2,034
Due to other funds		775,069	2,748,389	3,347,660	6,871,118
Total liabilities		2,292,555	12,168,496	10,784,597	25,245,648
Fund balances:					
Restricted for affordable housing programs		—	323,682	89,128,694	89,452,376
Total fund balances		—	323,682	89,128,694	89,452,376
Total liabilities and fund balances	$	2,292,555	12,492,178	99,913,291	114,698,024

See accompanying 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 Position

June 30, 2014

Amounts reported for governmental activities in the statement of net position are different because:		
Total fund balances	$	89,452,376
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		2,129
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
Note payable due in more than one year		(3,434,252)
Due to Government Development Bank for Puerto Rico due in more than one year		(200,180,518)
Contingency for disallowed costs not due and payable in the current period and are therefore not reported in the funds		(15,438,435)
Accrued interest payable is not due and payable in the current period and is therefore not reported in the funds		(70,752)
Net position of governmental activities	$	(129,669,452)

See accompanying 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

Year ended June 30, 2014

	HUD Programs	HOME Programs	Affordable Housing Subsidy Programs	Total
Revenues:				
Commonwealth appropriation for repayment of bonds or housing assistance programs	$ —	—	9,282,493	9,282,493
Intergovernmental-federal government	142,493,693	16,618,015	—	159,111,708
Interest income on deposits placed with banks	—	—	101,978	101,978
Interest income on investment and investment contracts	—	—	4,147,108	4,147,108
Net decrease in fair value of investments	—	—	(42,079)	(42,079)
Other income	66,297	829,049	1,123,194	2,018,540
Total revenues	142,559,990	17,447,064	14,612,694	174,619,748
Expenditures:				
Current:				
General government and other	4,772,996	647,479	101,214	5,521,689
Repayment of disallowed costs			624,403	624,403
Housing assistance programs	137,786,994	9,692,907	21,302,786	168,782,687
Debt service:				
Principal	—	—	1,851,918	1,851,918
Interest	—	—	11,221,085	11,221,085
Total expenditures	142,559,990	10,340,386	35,101,406	188,001,782
Excess (deficiency) of revenues over expenditures	—	7,106,678	(20,488,712)	(13,382,034)
Other financing sources (uses):				
Proceeds from issuance of long-term debt	—	—	47,618,557	47,618,557
Transfers in	—	—	7,920,902	7,920,902
Total other financing sources (uses)	—	—	55,539,459	55,539,459
Net change in fund balances	—	7,106,678	35,050,747	42,157,425
Fund balance (deficit) – beginning of year	—	(6,782,996)	54,077,947	47,294,951
Fund balance – end of year	$ —	323,682	89,128,694	89,452,376

See accompanying 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

Year ended June 30, 2014

Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in fund balance – total governmental funds	$	42,157,425
The issuance of long-tem debt (e.g., bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect in net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items as follows:		
Proceeds from issuance of long term debt		(47,618,557)
Principal payments on long term debt		1,851,918
Payment of long term accrued interest payable due to Government Development Bank for Puerto Rico		3,202,986
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		(2,945)
Decrease in estimate of contingency for disallowed costs not due and payable in the current period		4,364,500
Disallowed costs previously reported in the statement of activities that are being reported as expenses in the governmental funds when the first installment payment was made		624,403
Revenues previously reported in the statement of activities that are now being reported as revenues in the governmental funds		(6,992,837)
Change in net position of governmental activities	$	(2,413,107)

See accompanying notes to basic financial statements.

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

Balance Sheet – Proprietary Fund

June 30, 2014

		Operating and Administrative
Assets:		
Current assets:		
Cash	$	3,584,931
Deposits placed with banks		136,194,317
Loans receivable – net		13,150,796
Interest receivable		1,924,100
Other receivables		1,091,746
Other assets		74,785
Due from other funds		6,871,118
Restricted:		
Cash		10,663,223
Deposits placed with banks		86,837,705
Investments and investments contracts		26,327,664
Interest receivable		1,179,791
Other receivables		27,149
Total current assets		287,927,325
Noncurrent assets:		
Investments and investments contracts		17,943,541
Loans receivable – net		223,164,039
Real estate available for sale		8,983,708
Capital assets		1,682,025
Restricted:		
Investments and investments contracts		195,739,338
Loans receivable – net		70,697,338
Real estate available for sale		4,398,215
Total noncurrent assets		522,608,204
Total assets		810,535,529
Deferred outflows of resources:		
Deferred loss on refundings		2,872,326
Liabilities:		
Current liabilities:		
Current liabilities payable from unrestricted assets:		
Accounts payable and accrued liabilities		11,680,659
Total current liabilities payable from unrestricted assets		11,680,659
Current liabilities payable from restricted assets:		
Accrued interest payable		78,238
Accounts payable and accrued liabilities		3,458,793
Allowance for losses on mortgage loans insurance		5,050,728
Bonds, notes and mortgage – backed certificates payable		38,074,416
Total current liabilities payable from restricted assets		46,662,175
Noncurrent liabilities:		
Noncurrent liabilities payable from restricted assets:		
Bonds, notes and mortgage – backed certificates payable		202,783,084
Total noncurrent liabilities		202,783,084
Total liabilities		261,125,918
Net position:		
Net investment in capital assets		1,682,025
Restricted for:		
Mortgage loans insurance		72,545,011
Affordable housing programs		32,263,554
Debt service		43,131,537
Other housing programs		1,357,386
Unrestricted		401,302,424
Total net position		552,281,937
Total liabilities and net position	$	813,407,855

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Change in Net Position – Proprietary Fund

Year ended June 30, 2014

		Operating and Administrative
Operating revenues:		
Investment income:		
Interest income on deposits placed with banks	$	2,108,633
Interest income on investment and investment contracts		8,366,610
Net decrease in fair value of investments		(388,423)
Total investment income		10,086,820
Interest income on loans		16,573,586
Total investment income and interest income on loans		26,660,406
Noninterest income:		
Fiscal agency fees		127,522
Commitment, guarantee, service, and administrative fees		6,539,542
Mortgage loans insurance premiums		5,486,923
Release of allowance on mortgage loans insurance		127,799
Release of allowance for losses on other real estate owned		4,335,974
Other income		2,194,636
Total noninterest income		18,812,396
Total operating revenues		45,472,802
Operating expenses:		
Provision for loan losses		1,598,345
Interest expense – bonds, notes, and mortgage-backed certificates		17,874,960
Other noninterest expenses:		
Salaries and fringe benefits		10,912,401
Occupancy and equipment costs		2,450,210
Depreciation and amortization		860,563
Legal and professional fees		3,500,210
Office and administrative		1,078,713
Subsidy and trustee fees		312,214
Net loss from sale of foreclosed real estate available for sale		572,875
Other expense		3,718,840
Total noninterest expense		23,406,026
Total operating expenses		42,879,331
Operating income		2,593,471
Nonoperating income (expenses):		
Contributions to others		(25,000)
Gain on early extinguishment of notes payable		36,685
Transfers out		(7,920,902)
Change in net position		(5,315,746)
Net position – beginning of year (as restated, see note 2)		557,597,683
Net position – end of year	$	552,281,937

See accompanying notes to basic financial statements.

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

Statement of Cash Flows – Proprietary Fund

Year ended June 30, 2014

Cash flows from operating activities:	
Cash received from interest on mortgage and construction loans	$ 13,429,251
Cash paid for mortgage and construction loans originated	(32,920,675)
Principal collected on mortgage and construction loans	49,290,477
Cash received from other operating noninterest income	8,740,354
Cash received from mortgage loans insurance premiums	5,291,019
Cash paid for noninterest expenses	(8,613,203)
Cash paid from transit account	(1,107,533)
Cash payments for salaries and fringe benefits	(11,622,927)
Internal balances	(1,650,936)
Net cash provided by operating activities	20,835,827
Cash flows from noncapital financing activities:	
Payment of note payable	(29,776,955)
Payments of bonds payable	(34,923,738)
Cash received for in-substance defeasance of bonds	36,685
Interest paid	(7,004,585)
Contribution to others	(25,000)
Transfers in	3,954,619
Transfers out	(11,875,521)
Net cash used in noncapital financing activities	(79,614,495)
Cash flows from capital and related financing activity:	
Acquisition of capital assets	(538,285)
Net cash used in capital and related financing activity	(538,285)
Cash flows from investing activities:	
Purchase of investments	(2,293,875)
Proceeds from redemptions of investments	45,154,634
Net change in deposits placed with banks	18,196,684
Cash received from interest on investments	10,603,240
Origination of other than housing program loans	(25,000)
Fees collected on other than housing program loans	753,059
Proceeds from sale of real estate held for sale	1,481,204
Acquisition of real estate held for sale	(2,900,641)
Net cash provided by investing activities	70,969,305
Net change in cash	11,652,352
Cash, beginning of year	2,595,802
Cash, end of year	$ 14,248,154
Reconciliation to balance sheet – proprietary funds:	
Cash – unrestricted	$ 3,584,931
Cash – restricted	10,663,223
Total cash at year-end	$ 14,248,154

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

Statement of Cash Flows – Proprietary Fund

Year ended June 30, 2014

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	2,593,471
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		860,563
Net decrease in fair value of investments		388,423
Interest income on investments		(10,475,243)
Capitalized interest and deferred amortization on loans		(3,467,617)
Tax credit fees		(109,660)
Provision for loan losses		1,598,345
Loss on sale of real estate held for sale		572,875
Provision (release) for losses on mortgage loans insurance		(127,799)
Provision (release) for losses on real estate held for sale		(4,335,974)
Net decrease in market value of real estate held for sale		2,805,932
Interest expense		17,874,960
Accrued interest on mortgage and construction loans		318,299
Housing program loans originated		(32,920,675)
Collections of mortgage and construction loans		49,290,477
Other accounts receivable and prepaid expenses		188,114
Accounts payable and accrued liabilities		(749,669)
Accounts payable – transit account		(1,107,533)
Accrued salaries and fringe benefits		(710,526)
Internal balances		(1,650,936)
Net cash provided by operating activities	$	20,835,827
Noncash investing and noncapital financing activities:		
Capitalized interest and deferred amortization on loans	$	3,467,617
Net decrease in fair value of investments		(388,423)
Accretion of discount on investments		1,976,403
Accretion (amortization) of discount (premium) on bonds payable		11,099,659
Amortization of deferred loss (included in interest expense)		289,000
Interfund transfer of mortgage loans receivable to other real estate held for sale		31,921
Interfund transfer of mortgage loans receivable		103,156

See accompanying notes to basic financial statements.

(1) Reporting Entity

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

(2) Restatement of Net Position

The Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2013. GASB 65 requires, among other things, that (1) deferred loss on refunding be reported as a deferred outflow of resources, (2) debt issuances costs are to be recognized as an expense in the period incurred and can no longer be deferred and amortized over the life of the debt, (3) loan origination fees, net of costs, are to be recognized in the period incurred and can no longer be deferred and amortized over the life of the loan, and (4) fees received for a commitment to originate or purchase a loan or group of loans should be recorded as a liability and, if the commitment is exercised, recognized as revenue in the period of exercise and can no longer be deferred and amortized over the life of the loan as an adjustment of yield.

The following table illustrates the cumulative effect of the retroactive application of GASB 65 related to the deferment of debt issue costs, origination fees and costs, and commitment fees. The effect is reported in the government-wide financial for statements (for governmental and business-type activities) and in the fund financial statements (business-type activities) at July 1, 2013:

		Governmental activities	Business-type activities
Net position – beginning of year, as previously reported	$	(127,221,381)	534,074,590
Cumulative effect of change in accounting principle at July 1, 2013 for:			
Debt issue costs		(34,964)	(2,907,736)
Origination fees		—	3,019,984
Commitment fees		—	23,410,845
Net position – beginning of year, as restated	$	(127,256,345)	557,597,683

Deferred loss on refundings amounting to approximately $2.9 million were reclassified and presented as deferred outflows of resources in accordance with GASB 65.

(3) Basis of Presentation and Summary of Significant Accounting Policies

The accounting and reporting policies of the Authority conform to U.S. generally accepted accounting principles (GAAP), as applicable to governmental entities. The Authority follows 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 preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reported period. Actual results could differ from those estimates.

(a) Government-Wide and Fund Financial Statements

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

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

- Net investment in capital assets consist of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any.
- Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or are imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often is designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

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

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

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

(b) Fund Balances

Fund balances 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* – Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact.

- *Restricted* – Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or law or regulations of other governments; or imposed by law though constitutional provisions or by enabling legislation.
- *Committed* – Fund balance is reported as committed when the resources can be used only for specific purposes pursuant to constraints imposed by ordinance or resolution of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Authority did not have any committed resources as of June 30, 2014.
- *Assigned* – Fund balance is reported as assigned when resources are constrained by the Authority's intent to use them for specific purposes, but are neither restricted nor committed (generally by executive orders of the Authority's Executive Director), are reported as assigned fund balance.
- *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 thereafter unrestricted resources as needed.

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

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

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

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

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

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

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

> **Affordable Housing Mortgage Subsidy Programs (AHMSP) Act No. 124** –Under this program, the Authority commits to provide a subsidy for the down payment and/or the principal and interest payments on mortgage loans originated under a predetermined schedule of originations. Loans originated, as well as servicing, are kept by the originating financial institution. There was no open schedule of originations under this program as of June 30, 2014.
>
> **My New Home Program** – This program has revenues provided by Act No. 122 of August 6, 2010, as amended, which assigned to the Housing Finance Authority, for a period of seven years, a portion of no less than 80% of the unreserved monies and other liquid funds abandoned or unclaimed in financial institutions that will be transferred to the general fund of the Commonwealth. This program provides subsidies to eligible families in the purchase of a principal residence through reimbursement of origination and closing costs.
>
> **My Own Home Program** – This program has revenues provided by Act No. 34 of June 26, 2013. This program provides subsidies to eligible families in the purchase of a principal residence through reimbursement of origination and closing costs.
>
> **Closing Costs Assistance Program** – This program provides subsidies to eligible individuals of families for the purchase of an eligible principal residence. This program concluded on June 30, 2014.
>
> **New Secure Housing Program** – This program provided federal and local resources directed to plan, coordinate, and develop the construction of new housing units as a replacement for those destroyed by Hurricane Georges in 1998, and to attend to the housing needs of those families

living in hazard-prone areas. No additional subsidies are expected to be provided under this program.

Proprietary Funds' Financial Statements – The financial statements of the proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

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

Proprietary Fund – The following business-type activities of the Authority are reported as a single-major proprietary fund:

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

Mortgage Trust III – Initially, this program provided resources for the financing of low and moderate-income families' purchase of residential housing from the proceeds of bond issuances. Currently, the program has monies in an escrow to be used for the payment through maturity of bonds with a carrying amount of approximately $101 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 – The program received resources from the proceeds of the issuance of mortgage-backed certificates (the Mortgage-Backed Certificates), which were used to defease the Collateralized Mortgage Revenue Bonds 1994 Series A and the Single Family Mortgage Portfolio I and Portfolio IV bonds.

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

Mortgage Loans Insurance – The mortgage loan insurance program was created 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 Loan Insurance (Act No. 89) – The land acquisition and construction loan insurance program provides mortgage credit insurance to low and moderate-income families for the purchase of 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 XI – Under this program, as part of the Authority's AHMSP, bonds were issued and the proceeds were mainly used to purchase mortgage-backed securities collateralized by loans originated to finance low and moderate-income families' purchase of residential housing units.

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.

Debt Issue Costs – Debt issue costs are recognized as an expense in the period incurred.

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

Capital Assets – Capital assets, which include leasehold improvements, information systems, office furniture and equipment and vehicles, are reported in the governmental activities and business-type activities columns in the government-wide financial statements and in the proprietary fund. Capital assets are defined by the Authority as assets, which have a cost of $500 or more at the date of acquisition and have an expected useful life of three or more years. Purchased capital assets are valued at historical cost. Donated fixed assets are recorded at their 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 proprietary fund financial statements and the government-wide financial statements present the cost of accumulated vacation and sick leave as a liability. In the governmental funds, such liability is recorded only for the current portion.

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

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 reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Loan Origination Costs and Commitment Fees – GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, requires that loan origination and commitment fees be recognized as revenues in the period received and that direct origination costs be recognized as an expense in the period incurred.

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 Loans Insurance Premiums – Premiums on insured mortgage loans are recognized as earned.

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

Change in Governmental Funds Presentation – During 2014, the Authority reassessed the presentation of all funds. Due to their similar purpose, the Authority combined all funds previously reported as proprietary into a single fund. In the governmental funds, the Affordable Housing Mortgage Subsidy Programs (AHMSP) Act No. 124 fund was combined with My New Home Program Fund, My Own Home Program Fund, the New Secure Housing Program Fund and the Closing Cost Assistance Program Fund, due to similar purpose of these funds. The new combined governmental fund is called the Affordable Housing Subsidy Programs fund.

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

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which is effective for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. Once adopted, the Authority will be required to report a liability equivalent to its portion of the amount by which the total pension liability exceeds the pension plan's net position available for paying benefits.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

  The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

  A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*, which is effective for periods beginning after June 15, 2014. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined-benefit pension plan after measurement date of the government's beginning net pension liability.

The impact that these statements will have on the Authority's basic financial statements, has not yet been determined.

(4) Cash and Deposits Placed with Banks

The table presented below discloses the level of custodial credit risk assumed by the Authority at June 30, 2014. Custodial credit risk is the risk that in the event of a financial institution's failure, the Authority's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Funds deposited with GDB or the Economic Development Bank for Puerto Rico (EDB), a component unit of the Commonwealth, are not covered by this Commonwealth 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. All deposits placed with banks at June 30, 2014 mature in fiscal year 2015.

As of June 30, 2014, approximately $238.4 million of the depository bank balance of approximately $251 million was uninsured and uncollateralized as follows:

	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Cash	$ 19,692,328	19,987,202	7,398,324
Deposits placed with banks	230,995,471	230,995,471	230,995,471
Total	$ 250,687,799	250,982,673	238,393,795

Uninsured and uncollateralized cash of approximately $7.4 million as of June 30, 2014, 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 includes certificates of deposit, all maturing within six months, issued by GDB and EDB amounting to approximately $218 million as of June 30, 2014. Refer to note 12 for further discussion of risks associated with GDB.

(5) 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 following table summarizes the type and maturities of investments held by the Authority at June 30, 2014. 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	$ 523,180	251,584	3,571,440	112,089,033	116,435,237
FNMA	—	—	271,075	5,331,067	5,602,142
Other	—	—	—	189,764	189,764
Federal Home Loan Bank (FHLB)	8,784,837	38,072,182	2,559,157	—	49,416,176
Fixed-income external investment pool – Federated Government Obligations	—	—	—	5,327,465	5,327,465
U.S. treasury obligations	15,504,682	—	—	—	15,504,682
Israel aid bonds	12,580,983	42,576,850	—	—	55,157,833
Nonparticipating investment contracts:					
Trinity Funding Co.	—	—	—	20,481,044	20,481,044
Citibank, N.A.	—	17,628,800	—	—	17,628,800
GDB	—	—	—	15,485,905	15,485,905
Banco Popular de Puerto Rico	—	—	—	15,512,161	15,512,161
Banco Santander Puerto Rico	—	—	—	11,398,435	11,398,435
Other	—	—	—	548,491	548,491
Total investments	$ 37,393,682	98,529,416	6,401,672	186,363,365	328,688,135
Equity interest in Puerto Rico Community Development Fund					4,500
Total					$ 328,692,635

At June 30, 2014 substantially all of the Authority's investments in mortgage-backed securities were held by trustees in connection with bonds issued by the Authority, the terms of which provide for early redemption of the bonds if the securities are repaid early.

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

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

All of the Authority's investments in mortgage-backed securities guaranteed by GNMA, U.S. Treasury, and Israel aid bonds carry the explicit "full faith and credit" guarantee of the U.S. government. The credit quality ratings for investments in debt securities and nonparticipating investment contracts, excluding mortgage-backed securities guaranteed by GNMA, U.S. Treasury and Israel aid bonds, as of June 30, 2014, are as follows:

	Credit risk rating					
Securities type	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**
Mortgage-backed securities:						
FNMA	$ —	5,602,142	—	—	—	—
Other	—	189,764	—	—	—	—
FHLB	49,416,176	—	—	—	—	—
Fixed-income external investment pool – Federated Government Obligations	5,327,465	—	—	—	—	—
Nonparticipating investment contracts:						
Trinity Funding Co.	—	20,481,044	—	—	—	—
Citibank, N.A.	—		17,628,800	—	—	—
GDB	—	—	—	—	15,485,905	—
Banco Santander de Puerto Rico	—	—	—	11,398,435	—	—
Banco Popular de Puerto Rico	—	—	—	—	—	15,512,161
Other	—	—	—	—	548,491	—
Total	$ 54,743,641	26,272,950	17,628,800	11,398,435	16,034,396	15,512,161

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.

(6) Loans Receivable and Allowance for Loan Losses

Loans receivable as of June 30, 2014, consist of the following

Real estate loans – all types of residential property, bearing interest at various rates ranging from 5% to 18%	$	342,456,264
Less allowance for loan losses		(35,444,091)
	$	307,012,173

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.

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

The following table presents the aging of the recorded investments in real estate single-family unit mortgage loans and their allowance for loan losses as of June 30, 2014:

Loan aged category		Total loan balance	Allowance for loan losses
Current	$	80,048,497	2,319,174
7–30 months		9,819,590	3,324,663
31–60 months		4,141,958	4,087,186
Subtotal		94,010,045	9,731,023
Other nonaged loans		6,894,825	6,751,804
Total amount	$	100,904,870	16,482,827

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

Loans are determined to be impaired when, based on current conditions and events, it is probable that the Authority will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the observable market price or the fair value of the collateral, if the loan is collateral dependent. As of June 30, 2014, all multifamily housing unit loans are classified as collateral dependent.

The following table presents the risk category of multifamily housing unit loans subject to risk rating and their allowance for loan losses as of June 30, 2014:

Loan risk category		Total loan amount	Allowance for loan losses
Excellent	$	4,442,437	44,425
Good		87,594,744	875,948
Special Mention		6,227,852	62,279
Doubtful		17,302,221	10,647,273
Loss		1,984,639	1,984,639
Total amount	$	117,551,893	13,614,564

The table presented above of multifamily housing unit loans does not include loans insured by HUD amounting to approximately $14.3 million and a loan of approximately $33.2 million to a related party (refer to note 12), which was evaluated individually and for which an allowance for loan losses was not deemed necessary.

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

The allowance for loan losses on second mortgage loans is determined considering delinquency levels of the first mortgage loans. Such delinquency levels are obtained from a third party vendor. As of June 30, 2014, the outstanding balance of second mortgage loans was approximately $75.5 million with an allowance for loans losses of $5.3 million.

At June 30, 2014, nonperforming loans amounted to approximately $45.7 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 $3.3 million. The Authority generally measures impairment of loans based upon the present value of a loan's expected future cash flows, except when foreclosure or liquidation is probable, or when the primary source of repayment is provided by real estate collateral. In these circumstances, impairment is measured based upon the fair value of 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, 2014, and the related interest income for the year then ended, are as follows:

Recorded investment in impaired loans:		
Requiring an allowance for loan losses	$	42,521,970
Not requiring an allowance for loan losses		3,186,240
Total	$	45,708,210
Related allowance for loan losses	$	26,795,565
Average recorded investment in impaired loans		45,099,501
Interest income recognized on impaired loans		1,251,382

The summary of the activity in the allowance for loan losses for the year ended June 30, 2014, is as follows:

Balance – beginning of year	$	37,741,663
Provision for loan losses		1,598,345
Write-offs		(4,612,461)
Recoveries		716,544
Balance – end of year	$	35,444,091

(7) 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 $142.5 million during the year ended June 30, 2014. This amount includes approximately $4.7 million of administrative fees for services performed as contract administrator, which are reimbursed by HUD. As of June 30, 2014, the amounts due from federal government under the HUD Programs fund amounted to approximately $1 million.

During the year ended June 30, 2014, the Authority expended approximately $10.3 million of HOME Program funds. The Authority has approximately $11.2 million due from the federal government as of June 30, 2014 related to the HOME Program.

The New Secure Housing Program (the NSH Program) constituted an intergovernmental effort to provide long-term hazard mitigation assistance to the 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 subgrantee, and the Authority was named the administrator of the NSH Program.

Under the NSH Program, the Authority was responsible for project management, including contracting, supervising, and paying the designers, inspectors, and legal services needed for the NSH Program. The Authority also provided all the funding for the NSH Program through a $67 million nonrevolving line of credit with GDB. 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 subgrantee and project owner, including vacant property dispositions, open space monitoring, and other related matters. The Authority will continue to assume the amounts payable under the $67 million nonrevolving line of credit with GDB, until such debt can be assumed by the Commonwealth. The Department of Housing would prospectively assume, without recourse, any additional funds that might be requested by FEMA for events of noncompliance, including related costs. The outstanding balance at June 30, 2014 was approximately $49.6 million included as long term debt in governmental activities.

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

(8) Real Estate Available for Sale

Real estate available for sale at June 30, 2014, consisted of the following:

Land	$	8,880,000
Residential (1–4 units)		13,578,413
Valuation allowance		(9,076,490)
Total real estate available for sale	$	13,381,923

The following is a summary of the activity in the valuation allowance for the year ended June 30, 2014:

Balance – beginning of year	$	12,990,815
Provision (credit) for possible losses		(4,335,974)
Write-offs		(93,764)
Recoveries		515,413
Balance – end of year	$	9,076,490

(9) Capital Assets

Capital assets activity for the year ended June 30, 2014, was as follows:

Governmental Activities

	Beginning balance	Additions	Reductions	Ending balance
Capital assets:				
Information systems	$ 66,329	—	—	66,329
Office furniture and equipment	37,074	—	—	37,074
Vehicles	66,135	—	—	66,135
Total capital assets	169,538	—	—	169,538
Less accumulated depreciation and amortization for:				
Information systems	(66,307)	—	—	(66,307)
Office furniture and equipment	(32,025)	(2,945)	—	(34,970)
Vehicles	(66,132)	—	—	(66,132)
Total accumulated depreciation and amortization	(164,464)	(2,945)	—	(167,409)
Total capital assets – net	$ 5,074	(2,945)	—	2,129

Business-Type Activities

	Beginning balance	Additions	Reductions	Ending balance
Leasehold improvements	$ 4,019,317	38,130	—	4,057,447
Information systems	3,432,274	460,389	—	3,892,663
Office furniture and equipment	2,152,658	39,766	—	2,192,424
Vehicles	190,757	—	—	190,757
Total capital assets	9,795,006	538,285	—	10,333,291
Less accumulated depreciation and amortization for:				
Leasehold improvements	(2,779,424)	(366,786)	—	(3,146,210)
Information systems	(2,758,155)	(448,292)	—	(3,206,447)
Office furniture and equipment	(2,103,258)	(36,315)	—	(2,139,573)
Vehicles	(149,866)	(9,170)	—	(159,036)
Total accumulated depreciation and amortization	(7,790,703)	(860,563)	—	(8,651,266)
Total capital assets – net	$ 2,004,303	(322,278)	—	1,682,025

(10) Notes, Bonds, and Mortgage-Backed Certificates Payable, and Other Liabilities

The activity of bonds, mortgage-backed certificates, and notes payable for the year ended June 30, 2014, is as follows:

	Beginning balance (as restated)	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Commonwealth appropriation note payable – AHMSP Act No. 124	$ 3,500,735	—	—	3,500,735	—
Due to GDB:					
Investments Repurchase Agreement - AHMSP Act No 124	—	39,278,886	—	39,278,886	—
Line of Credit – AHMSP Act No 124	13,347,718	933,804	—	14,281,522	—
Line of Credit – My New Home Program	92,916,470	8,328,676	(4,175,731)	97,069,415	—
Line of Credit – New Secure Housing Program	51,362,930	826,561	(2,636,762)	49,552,729	2,034
Less unaccreted discount	(70,179)	—	3,696	(66,483)	—
Total governmental activities	$ 161,057,674	49,367,927	(6,808,797)	203,616,804	2,034
Business-type activities:					
Collateralized Mortgage Obligation Bonds – Mortgage Trust III	$ 147,850,002	—	(23,530,000)	124,320,002	26,795,000
Mortgage-Backed Certificates – 2006 Series A	93,463,043	—	(9,188,138)	84,274,905	10,964,416
Revenue bonds:					
Single Family Mortgage Revenue Bonds – Portfolio XI	16,600,000	—	(1,415,000)	15,185,000	315,000
Subtotal	257,913,045	—	(34,133,138)	223,779,907	38,074,416
Notes payable:					
Special obligation notes (Home Purchase Stimulus Program)	76,444,600	—	(790,600)	75,654,000	—
Special obligation notes (Third Party Origination Program)	29,776,955	—	(29,776,955)	—	—
Plus unamortized premium	369,325	—	(39,240)	330,085	—
Less unaccredited discount	(70,045,391)	—	11,138,899	(58,906,492)	—
Total business-type activities	$ 294,458,534	—	(53,601,034)	240,857,500	38,074,416

The annual debt service requirements to maturity, including principal and interest, for long-term debt, excluding amounts due to GDB, as of June 30, 2014, are as follows:

	Governmental activities		**Business-type activities**	
	Principal	**Interest**	**Principal**	**Interest**
Year(s) ending June 30:				
2015	$ —	195,620	38,074,416	4,534,329
2016	103,049	192,958	17,546,769	4,096,693
2017	83,595	190,022	33,208,737	3,701,889
2018	86,478	186,839	19,877,460	3,331,224
2019	89,716	183,308	20,404,153	2,988,218
2020–2024	429,439	854,985	73,388,055	25,938,294
2025–2029	2,056,125	633,311	30,081,516	26,665,028
2030–2034	652,333	36,373	22,457,249	19,051,635
2035–2039	—	—	30,017,978	10,469,946
2040–2043	—	—	14,377,574	1,275,468
Total	$ 3,500,735	2,473,416	299,433,907	102,052,724

Governmental Activities

Note Payable to Puerto Rico Public Finance Corporation – On December 27, 2001, the Authority entered into a loan agreement (the Note) with the GDB to refinance the AHMSP Stage 7 note payable of the Puerto Rico Housing Bank, as authorized by Act No. 164 of December 17, 2001. The Puerto Rico Public Finance Corporation (PFC) 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 underfunded notes will be funded with annual appropriations from the Commonwealth.

During the fiscal year ended June 30, 2012, the PFC issued PFC 2011 Series A and B and PFC 2012 Series A bonds, and refunded a portion of certain of its outstanding Commonwealth appropriation bonds issued in

2004 under Act No. 164 of December 17, 2001, including $3.1 million of the Note. The Authority recognized a mirror effect of these current refundings by the PFC in its own notes payable in proportion to the portion of the Authority's note payable included in the PFC refundings.

The Note's outstanding principal balance at June 30, 2014, was approximately $3.5 million and matures throughout August 1, 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds. The applicable percentage is the percentage representing the proportion of the amount paid by the PFC on the PFC Bonds serviced by the Note to the aggregate amount paid by the PFC on all the PFC Bonds issued by the PFC under Act No. 164, which was 6% at June 30, 2014.

Investments Repurchase Agreement – AHMSP Act No 124 – On August 8, 2014, the Authority and GDB modified the terms of the Investments Repurchase Agreement (the Agreement) extending its maturity date until July 1, 2018. Accordingly, it was recharacterized from short-term borrowings to long-term debt in the government-wide financial statements governmental activities as of June 30, 2014. The Agreement among other things establishes a 3% interest rate, which will be revised annually and will be based on the average cost of funds of GDB plus .25% basis points. The outstanding balance under this agreement was approximately $39.3 million at June 30, 2014.

AHMSP Act No 124 – On June 3, 2011, the Authority entered into an agreement with GDB to establish a line of credit to provide for the payment of subsidies under the Program. The line of credit bears interest at 7% and matures on June 30, 2018. As of June 30, 2014, the outstanding balance amounted to approximately $14.3 million.

My New Home Program Financing – On June 30, 2011, the Authority entered into an agreement with GDB to establish a line of credit facility of approximately $64 million. The financing was provided under the provisions of Act No. 122 of August 6, 2010 (Act No. 122), *Act for the Financing of My New Home Program*. Under this program, the Authority subsidizes closing costs assistance to eligible families for the purchase of a principal residence through reimbursements of origination and closing costs up to 5% of the selling price of the residence. The line of credit consisted of $40 million to collect moneys advanced by the Authority's Operating and Administrative fund to this program, $20 million to continue the financing of the program, and $4 million to establish a reserve for the payment of interest and other financing expenses. As a source of repayment, Act No. 122 assigned to the Authority, for a period of seven years, a portion of no less than 80% of the unreserved moneys and other liquid funds abandoned or unclaimed in financial institutions of Puerto Rico that will be transferred to the general fund of the Commonwealth. Act No. 42 of February 14, 2012 amended Act No. 122 increasing the portion of unreserved monies and other liquid funds abandoned or unclaimed to 85% and 100% once the claims for any pending debt related to tax credit are paid. In addition, Act No. 42 eliminates the seven-year limit and establishes the funding in perpetual form. The funding will enter into effect in September 2014. As of June 30, 2014, the Authority's cumulative drawdowns amounted to approximately $97.1 million. The program to subsidize closing costs assistance terminated in February 2013, and no additional subsidies are expected to be provided by the Authority under this program.

Business-Type Activities

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

Description and maturity date	Interest rate	Amount outstanding
Collateralized Mortgage Obligation Bonds – Mortgage Trust III:		
Each July 1 and January 1 until January 1, 2021	Zero Coupon	$ 101,465,563
Single Family Mortgage Revenue Bonds – Portfolio XI – Each December 1 and June 1 until December 1, 2039	3.46%–5.45%	15,185,000
Mortgage-Backed Certificates, 2006 Series A – principal and interest payable monthly from September 29, 2006 to August 29, 2030	2.955%–6.56%	78,035,033
Special Obligation Notes, 2010 Series A and B – Principal and interest payable monthly from July 1, 2019 to May 1, 2040	6.95%–6.974%	18,716,947
Special Obligation Notes, 2011 Series A – Principal and interest payable monthly from September 1, 2021 to September 1, 2041	7.00%	10,485,973
Special Obligation Notes, 2012 Series A – Principal and interest payable monthly from June 18, 2022 to September 1, 2041	7.00%	16,968,984
		$ 240,857,500

Special Obligation Notes (Third Party Origination Program) – On May 30, 2014, the Authority repaid these notes and recorded a gain on early extinguishment of $36,685.

Compensated Absences – The activity for compensated absences, included within accounts payable and accrued liabilities of the operational and administrative fund, during the year ended June 30, 2014, is as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Vacation	$ 749,449	796,428	(742,617)	803,260	803,260
Sick leave	679,311	475,901	(390,579)	764,633	764,633
Total	$ 1,428,760	1,272,329	(1,133,196)	1,567,893	1,567,893

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

(11) Mortgage Loans Insurance Program

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

Additionally, the Authority created the Puerto Rico Housing Administration program, 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 loans insurance program. As of June 30, 2014, the mortgage loans insurance program covered loans aggregating to approximately $546 million. An allowance of $5.1 million was recorded as of June 30, 2014 as an estimate of the losses inherent in the portfolio.

The mortgage insurance loan total premium and investment income for the year ended on June 30, 2014 is as follows:

Mortgage loans insurance premiums	$	5,486,923
Investment income		792,157
Total	$	6,279,080

The regulations adopted by the Authority, requires the establishment of adequate reserves to guarantee the solvency of the mortgage loans insurance fund. At June 30, 2014, the Authority had restricted net position for such purposes of approximately $72.5 million.

(12) Related-Party Transactions

A summary of the most significant related-party balances and transactions as of June 30, 2014, and for the year ended is as follows:

Commonwealth – Legislative appropriations of approximately $9.3 million were received by the governmental funds during the year ended June 30, 2014. 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, 2014:

		Carrying amount	Interest rate		Interest income (expense)
Assets:					
Cash – including accrued interest	$	6,974,155	Variable	$	7,308
Deposits placed with banks – including accrued interest		147,564,873	0.56–1.05%		1,440,775
Nonparticipating investment contracts – including accrued interest		16,104,387	4.50%–5.25%		827,253
Total	$	170,643,415		$	2,275,336
Liabilities:					
Lines of credit and notes payable – including accrued interest	$	200,182,552	1.25%–7.00%	$	(11,221,085)
Total	$	200,182,552		$	(11,221,085)
Expenses – administrative charges	$	232,307			

As disclosed above, the Authority has significant balances and transactions with GDB, including deposits and other investments amounting to approximately $170.6 million as of June 30, 2014. Additionally, GDB has provided significant financial support to the Authority in terms of notes payable and lines of credit. GDB’s loans to the Commonwealth of Puerto Rico (the Commonwealth) and its agencies and instrumentalities amounted to approximately $6.9 billion or 48% of GDB’s total assets as of June 30, 2013, the last available audited financial statements. 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, 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, 2014, 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, 2014.

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, 2014, 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 (0.01%) and one investor member, PRHFA RLF Investment Fund, LLC (99.99%), which is wholly owned by Citi Community Capital (Citi). The managing member and the investor member have made capital contributions of $4,500 and $45,000,000, respectively. The capital contributions have been used to establish a loan revolving fund for loans to QALICB's.

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

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

To qualify as a CDE, an organization must:

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

(13) 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, 2014, commitments to extend credit amounted to approximately $47 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, 2014, there were no commitments outstanding to purchase mortgage-backed securities.

(14) Retirement System

Substantially all full-time employees of the Authority are covered by The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System). The Retirement System consists of different benefit structures pursuant to Act No. 447 of May 15, 1951, as amended, including a cost-sharing, multi-employer, defined benefit program and a cash balance program, similar to a cash balance plan. The Retirement System is sponsored by the Commonwealth and the Authority.

On July 6, 2011, the Commonwealth enacted Act No. 116 increasing the employer contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

On April 4, 2013, the Commonwealth enacted Act No. 3 to increase the employee contribution rate from 8.275% to 10% effective July 1, 2013.

Total employee contributions to the Retirement System, including System 2000, for the year ended June 30, 2014, amounted to approximately $200,000 and $611,000, respectively. The Authority's contributions for the years ended June 30, 2014, 2013, and 2012, amounted to approximately $1.1 million, $727,000, and $526,000, 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 in its standalone financial statements, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

(15) Early Retirement Programs

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 10 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 10 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, 2014 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, 2014, the total liability related to this plan was approximately $800,000 and is included in accounts payable and accrued liabilities of business-type activities.

(16) Commitments and Contingencies

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

Custodial Activities of Proprietary Fund – At June 30, 2014, the Authority was custodian of $245,150 in restricted funds of former "*Corporación de Renovación Urbana y Vivienda*" (CRUV). As of June 30, 2014, such funds were deposited with GDB. These funds are not owned by the Authority's proprietary fund and, thus, are not reflected in the basic financial statements.

Loan Sales and Securitization Activities – On July 13, 1992, the Authority entered into an agreement to securitize approximately $20.7 million of mortgage loans into a FNMA certificate. The Authority agreed to repurchase, at a price of par plus accrued interest, each and every mortgage loan backing up such security certificate that became delinquent for 120 days or more. As of June 30, 2014, the aggregate outstanding principal balance of the loans pooled into the FNMA certificate amounted to $311,196.

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, 2014, the principal balance of the mortgage loans serviced for others is as follows:

Investor		Amount
PRCDF I	$	40,098,500
R-G Mortgage, Inc. or its successor		1,256,054
CRUV or its successor without guaranteed mortgage loan payments		24,251
Total	$	41,378,805

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 $375,000 has been included as part of accounts payable and accrued liabilities in the accompanying statement of net position.

HOME Program – The U.S. Office of Inspector General (OIG) 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 ineligible purposes. OIG identified in its examinations disallowed costs, amounting to approximately $18.3 million. The Authority recorded a contingency for such disallowed costs, and additional amounts identified internally as potential disallowances, amounting to approximately $20.4 million. On May 2013, the Authority entered into a three-year repayment plan to reimburse the HOME Program, beginning on August 1, 2013, approximately $1.8 million that were determined to be disallowed costs within the $18.3 million discussed above.

On July 31, 2014, the Governor of the Commonwealth signed the HOME Voluntary Repayment Settlement Agreement (the Agreement) with HUD. The Agreement establishes the reimbursement to the HOME Program of an additional $14.2 million, from nonfederal funds, for disallowed expenditures in connection with HUD-funded projects, as defined and described in the Agreement, in two installments of $10 million and $4.2 million due on October 1, 2014 and October 1, 2015, respectively. During the year ended June 30, 2014, the Affordable Housing Subsidy Program paid $624,403 to the HOME Program to cover the installment payments due under the $1.8 million repayment plan. At June 30, 2014 the total liability amounted to approximately $16 million and is included in accounts payable and accrued liabilities of governmental activities.

Other federal programs are also subject to audits. Such audits could result in claims against the resources of the Authority. No provision has been made for any liabilities that may arise from such audits since the amount, if any, cannot be determined at this date.

(17) Conduit Debt and Programs Sponsored by the Authority

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 approximately $151.1 million at June 30, 2014.

On August 1, 2008, the Authority issued the Capital Fund Modernization Subordinate Bonds amounting to approximately $384.5 million and the Housing Revenue Bonds amounting to $100 million. 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 $384.5 million bonds are limited obligations of the Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by HUD with an outstanding balance of approximately $307.8 million at June 30, 2014. The $100 million 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.

(18) Interfund Balances and Transfers

The summary of the interfund balances as of June 30, 2014, between the governmental funds and the proprietary fund is as follows:

Receivable by	Payable by	Purpose		Amount
Proprietary fund:	Governmental funds:			
Operating and Administrative	HOME Programs	Reimbursement of expenditures	$	2,748,389
Operating and Administrative	HUD Programs	Reimbursement of expenditures		775,069
Operating and Administrative	AHS Programs	Reimbursement of expenditures		3,347,660
Program			$	6,871,118

The summary of the interfund transfers for the year ended June 30, 2014, is as follows:

Transfer out	Transfer in	Purpose		Amount
Proprietary fund:	Governmental funds:			
Operating and administrative	AHS Programs	Subsidy payments	$	1,820,902
Operating and administrative	AHS Programs	Contribution		6,100,000
			$	7,920,902

(19) Subsequent Events

The Authority evaluated subsequent events until March 30, 2015, the date the financial statements were available to be issued. There were no material subsequent events that require further disclosures.