

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

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

YEARS ENDED JUNE 30, 2011 AND 2010

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-23
BASIC FINANCIAL STATEMENTS:	
STATEMENTS OF NET ASSETS	24-25
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	26-27
STATEMENTS OF CASH FLOWS	28-29
NOTES TO BASIC FINANCIAL STATEMENTS	30-53



BAKER TILLY
PUERTO RICO

Certified Public Accountants and Business Consultants

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

P.O. Box 366202
San Juan, PR 00936-6202

Tel. 787-622-8855
Fax: 787-622-8850
www.bakertillyrr.com

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the Puerto Rico Public Housing Administration (the Administration), a fund of the Commonwealth of Puerto Rico, and a component unit of the Puerto Rico Department of Housing as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These basic financial statements are the responsibility of the Administration's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Administration as of June 30, 2011 and 2010 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

Baker Tilly Puerto Rico, CPAs, PSC

Guaynabo, Puerto Rico

BAKER TILLY PUERTO RICO, CPAs, PSC

September 30, 2011

License No. 218

The stamp number E12233 was
affixed to the original report.

Expires December 1, 2011



**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010**

Our discussion and analysis of the Puerto Rico Public Housing Administration ("the PRPHA") financial performance provides an overview of the PRPHA's financial activities for the fiscal years ended on June 30, 2011 and 2010. Please read it in conjunction with the financial statements, which begin on page 24. Prior fiscal year information is shown as needed for comparative purposes.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010**

FINANCIAL HIGHLIGHTS

The financial statements for fiscal years ending on June 30, 2011 and 2010 are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34 Basic Financial Statements and Management's Discussion Analysis for State and Local Government.

Statement of Net Assets

- As of June 30, 2011 the PRPHA's total assets are approximately \$2,601 million representing a net increase of 0.7% or approximately \$19 million when compared with prior fiscal year. This increase includes the following variances between the current and prior fiscal year balances:

Increases

- Cash and cash equivalents increased by approximately \$68 million or 41%.
- Fiscal agent funds increased by approximately \$1.2 million or 4.8%.
- Capital assets, net increased by approximately \$12 million or 0.6%

Decreases

- Net rent and other receivables decreased by approximately \$17 million or 31%.
- Escrow account restricted decreased by approximately \$15 million or 4.1%.
- Restricted assets decreased by approximately \$29 million or 33%.
- Total liabilities amounted to approximately \$571 million representing a decrease of approximately \$57 million or 9% when compared to prior year balance. The main drivers of this decrease are the balances of the accounts payable and accrued liabilities and the bonds payable which had decreases by approximately \$28 million and \$29 million, respectively.

Statement of Revenues, Expenses and Changes in Net Assets

- The current fiscal year's financial statements reflect a net operating loss before non-operating revenues (expenses) and grants amounting to approximately \$293 million, representing a loss increase of 2% from prior fiscal year. The operating loss is due to the nature of the PRPHA's financial presentation as a series of non-operating revenues and contributions from HUD are received during the year which helps subsidize those operating expenses. The net operating loss balance includes approximately \$33 million in revenues and approximately \$326 million in expenses.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010**

FINANCIAL HIGHLIGHTS (CONTINUED)

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

- Non-operating revenues and expenses amounted to approximately \$292 million and \$73 million, respectively, resulting in a net effect of approximately \$219 million in net non-operating revenues, (expenses) and grants or a decrease of approximately \$7 million in comparison with prior year.
- Considering all operating and non-operating revenues and expenses, the PRPHA end up with a loss before HUD contributions of approximately \$74 million, an increase of approximately \$12 million in comparison with prior fiscal year. Said loss gets eliminated with the capital contributions from HUD which amounted to approximately \$150 million during the current fiscal year. Such contributions helped the PRPHA finish with a positive change in net assets of approximately \$75 million, an increase of approximately \$7 million when compared to prior fiscal year.
- The balance of net assets at the end of the year amounted to approximately \$2 billion, representing an increase of approximately \$75 million or 4% when compared to prior year.

REPORTING THE ADMINISTRATION AS A WHOLE

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

As shown in *Table 1*, the PRPHA net assets amounted to approximately \$2,030 million or a net increase of 4% from 2010 to 2011 as demonstrated in the financial statements.

Of this amount, approximately \$21 million is restricted for specific purposes, including the Homeownership initiative and the modernization of the PRPHA projects. Unrestricted net assets are the funds of net assets that can be used to finance day-to-day operations (for example, to cover management fees, management cost, utilities, negative rent, professional services and others). These assets come from debt covenants, enabling legislation or other legal requirements and amounted to approximately \$117 million at the end of this fiscal year. The PRPHA net assets include approximately \$1,892 million of investments in capital assets, net of related debt. See Note 16 for restricted net assets reconciliation.

COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 YEARS ENDED JUNE 30, 2011 AND 2010

REPORTING THE ADMINISTRATION AS A WHOLE (CONTINUED)

Table 1

Summary of Net Assets (\$ in thousands)

Assets and liabilities	30-Jun-11	30-Jun-10	Inc(Dec)	% Change
Current Assets	\$ 311,163,357	\$ 259,603,571	\$ 51,559,786	20%
Capital Assets (net)	1,878,295,591	1,866,540,688	11,754,903	1%
Other Non-current Assets	411,832,004	456,512,036	(44,680,032)	-10%
Total Assets	<u>2,601,290,952</u>	<u>2,582,656,295</u>	<u>18,634,657</u>	1%
Current Liabilities	66,042,745	92,539,146	(26,496,401)	-29%
Non-current Liabilities	504,964,831	535,228,736	(30,263,905)	-6%
Total Liabilities	<u>571,007,576</u>	<u>627,767,882</u>	<u>(56,760,306)</u>	-9%
Net Assets	<u>\$2,030,283,376</u>	<u>\$1,954,888,413</u>	<u>\$ 75,394,963</u>	4%

The change in net assets during fiscal year 2011 amounted to approximately \$75 million and is due to the net effect of the operations which are explained as follows:

Result of Operations

As shown in *Table 2* the total operating revenues amounted to approximately \$34 million and \$29 million for fiscal years ended June 30, 2011 and 2010, respectively. This represents an increase of approximately \$5 million or 17%.

Table 2

<u>OPERATING REVENUES</u>	<u>2011</u>	<u>2010</u>	<u>Inc/Dec</u>
Rent and miscellaneous income	\$ 30,200,386	\$ 25,342,605	\$ 4,857,781
Fees earned asset management	3,273,536	3,316,921	(43,385)
	<u>\$ 33,473,922</u>	<u>\$ 28,659,526</u>	<u>\$ 4,814,396</u>

The results of net non-operating revenues (expenses) and grants amounted to approximately \$219 million during fiscal year 2011. This represents a decrease of approximately \$7 million in comparison with prior year.

Tables 3 and 4 detail the amounts received by each fund, the Non-Operating Revenues and the Capital Contribution received from HUD in order to operate the PHA. As of 2011, the Public Housing Fund received 81% of the Total Non-Operating Revenues, which is consistent with 2010. The amount received for the Capital Fund Program and ARRA Funds for the Non-Operating Revenues is approximately 19% of Total Non-Operating Revenues, also consistent with prior year. These costs are for soft costs expenditures which include relocation costs, administrative expenses among other related costs.

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 YEARS ENDED JUNE 30, 2011 AND 2010**

REPORTING THE ADMINISTRATION AS A WHOLE (CONTINUED)

**TABLE 3
 FY2011**

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

**TABLE 4
 FY2010**

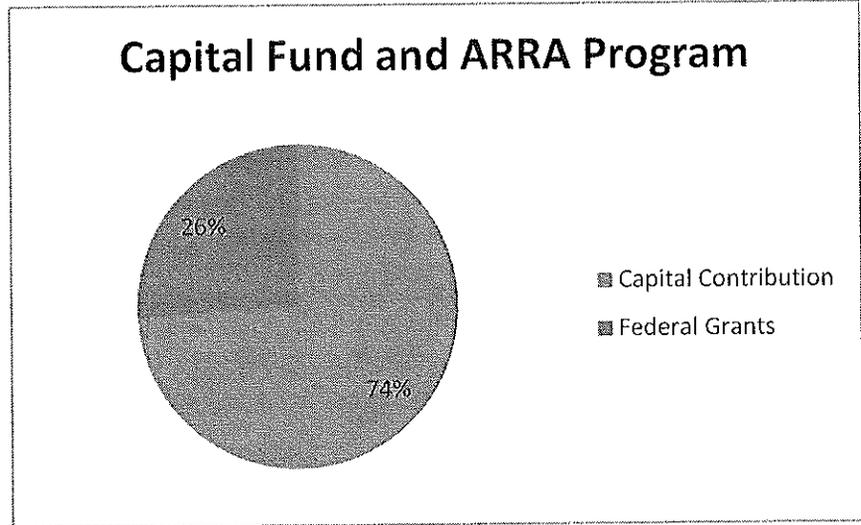
Program Title	CFDA Number	Non- Operating Federal Grants		Capital Contributions		Non- Operating Revenues
Capital Fund Program	14.872	\$ 46,486,439	17%	\$ 74,785,725	58%	\$ 121,272,164
Public Housing	14.850	218,675,182	80%	-		218,675,182
Capital Fund Recovery Grant (ARRA)	14.885	8,118,681	3%	55,161,639	42%	63,280,320
		<u>\$ 273,280,302</u>		<u>\$ 129,947,364</u>		<u>\$ 403,227,666</u>

Graphs 1 and 2 present the distribution of non operating revenue and contributions of Capital Fund Program received from HUD in 2011 and 2010, respectively. In total for FY 2011, Capital Fund and ARRA received \$195 million, detailed as follows: \$51 million for non operating federal grants and \$144 million for capital contribution. The Non-Operating Revenues of CFP for 2011 include soft costs of \$12 million, \$14 million of Management Fee (COCC) and \$14 million from the account 1406 (transfer for operations) and \$11 million for ARRA of which \$4.2 million was the program fee paid to the COCC. The soft costs include relocation costs, administrative expenses among other related costs. In 2010, the Capital Fund and ARRA Program received \$184 million, detailed as follows: \$55 million for non operating revenues and \$130 million for capital contribution. The Non-Operating Revenues of Capital Fund for 2010 includes soft cost of \$ 9.6 million, \$13.6 million of Management Fee (COCC) and \$23.2 million from the account 1406 (transfer for operations). The soft costs include relocation costs and administrative expenses among other related costs.

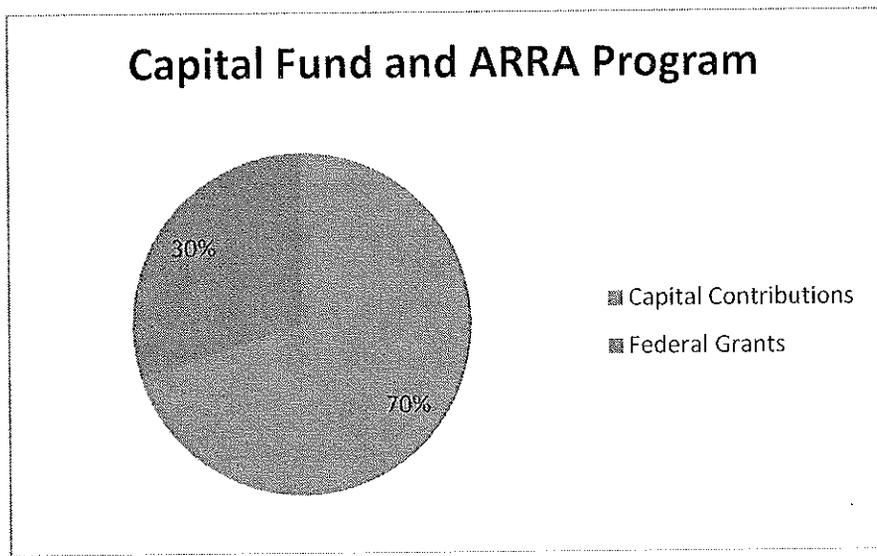
**COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010**

Result of Operations (Continued)

GRAPH 1 2011



GRAPH 2 2010

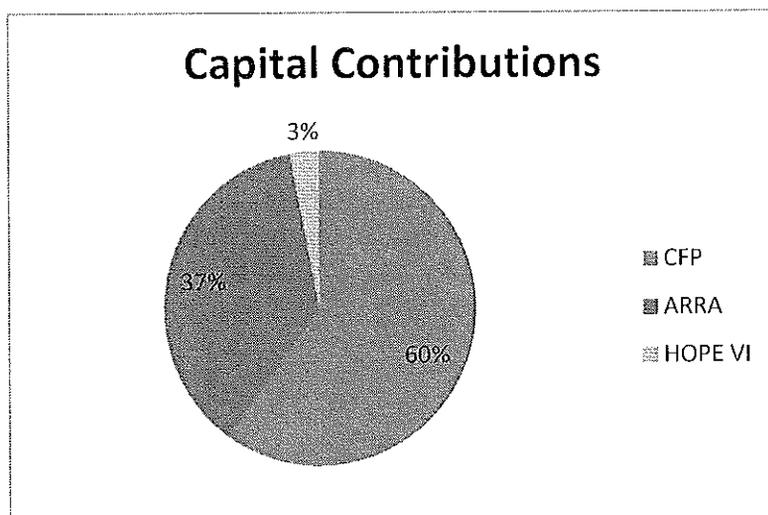


**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 YEARS ENDED JUNE 30, 2011 AND 2010**

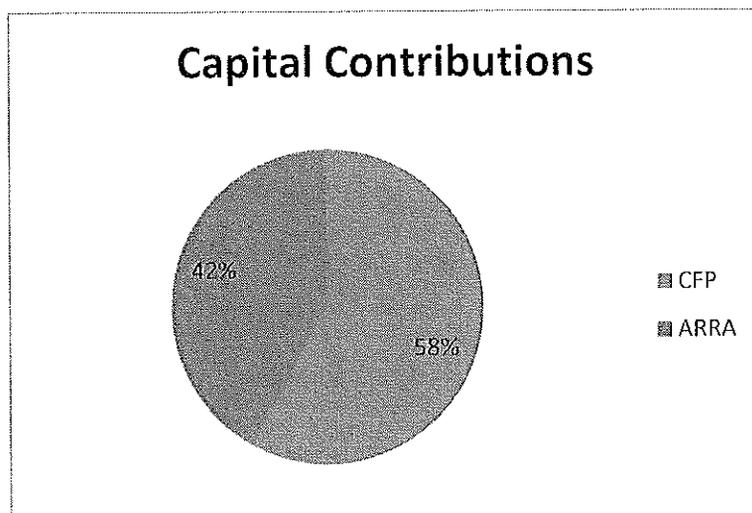
Result of Operations (Continued)

In Graphs 3 and 4 we show the capital investment. For fiscal year 2011, the total capital investment amounted to approximately \$150 million. From this amount, a total of \$89 million was received from Capital Fund Program representing 59% of total capital investment, \$56 million (37%) was from the Capital Fund Recovery Grant (ARRA) and \$6 million (4%) were received for HOPE VI. From the amount received from HUD under Capital Fund Program, \$49 million were used to pay Bond Debt Service related to the 2003 and 2008 Bond Issues.

GRAPH 3 FY 2011



GRAPH 4 FY 2010



**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 YEARS ENDED JUNE 30, 2011 AND 2010**

Result of Operations (Continued)

For fiscal year 2010, the total capital investment amounted to \$130 million. From this amount, a total of \$75 million was received from HUD representing 58% of total capital investment and \$55 million from the ARRA Program or 42%. From the amount received from HUD under Capital Fund Program, \$49 million were used to pay Bond Debt Service related to the 2003 and 2008 Bond Issues.

Table 5 presents, in millions of dollars, the detail of operating expenses during fiscal years 2011 and 2010. Total operating expenses are approximately \$326 million for the fiscal year ended June 30, 2011 and \$316 million for the fiscal year ended June 30, 2010, representing an increase of 3%.

Table 5: TOTAL OPERATING EXPENSES

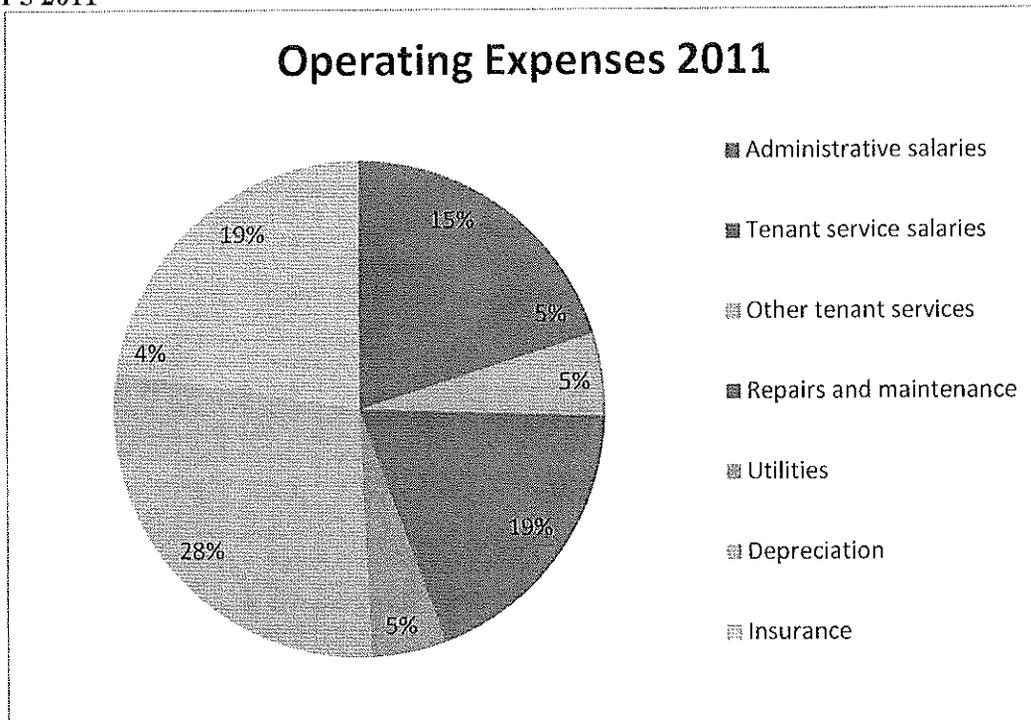
<u>(in millions)</u>	<u>2011</u>	<u>2010</u>	<u>Inc/Dec</u>	<u>% Change</u>
Tenant services, utilities and maintenance	\$ 111	\$103	8	8%
Depreciation	92	84	8	10%
General and administrative	110	113	(3)	-3%
Insurance expense	<u>13</u>	<u>16</u>	<u>(3)</u>	<u>-19%</u>
Total	<u>\$ 326</u>	<u>\$316</u>	<u>10</u>	<u>3%</u>

Graph 5 and 6 present the distribution in terms of percentages of total operating expenses for fiscal years 2011 and 2010, respectively. It should be noted that for 2011 and 2010, sixty eight percent (68%) of the PRPHA's resources were devoted to tenant services and maintenance including salaries, utilities and general and administrative expenses.

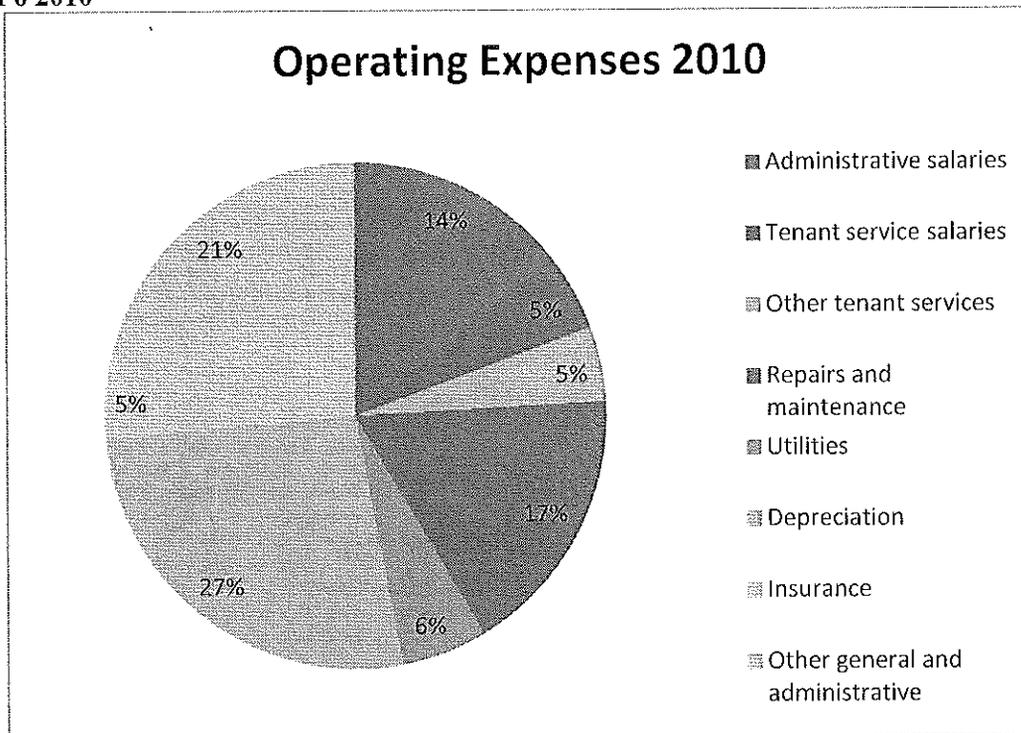
Operating expenses increased by a net effect of \$10 million, during 2011, mostly driven by the increase in tenant services, utilities, maintenance and depreciation for the year of approximately \$8 million each.

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 YEARS ENDED JUNE 30, 2011 AND 2010**

GRAPH 5 2011



GRAPH 6 2010



COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 YEARS ENDED JUNE 30, 2011 AND 2010

Result of Operations (Continued)

Table 6 presents a Summary of Revenues, Expenses and Changes in Net Assets during fiscal years 2011 and 2010.

Table 6

	<u>2011</u>	<u>2010</u>	<u>Inc/Dec</u>	<u>% Change</u>
Operating revenues	\$ 33,473,922	\$ 28,659,526	\$ 4,814,396	16.80%
Operating expense	<u>326,341,877</u>	<u>316,061,813</u>	<u>10,280,064</u>	<u>3.25%</u>
Net operating (loss) before nonoperating revenues (expenses) and grants	(292,867,955)	(287,402,287)	(5,465,668)	1.90%
Nonoperating revenues (expenses) and grants	<u>218,650,548</u>	<u>225,565,573</u>	<u>(6,915,025)</u>	<u>-3.07%</u>
Loss before contribution	(74,217,407)	(61,836,714)	(12,380,693)	20.02%
Capital contribution from the US Department of Housing and Urban Development	<u>149,612,370</u>	<u>129,947,364</u>	<u>19,665,006</u>	<u>15.13%</u>
Change in net assets	75,394,963	68,110,650	7,284,313	10.69%
Beginning net assets	<u>1,954,888,413</u>	<u>1,912,942,388</u>	<u>41,946,025</u>	<u>2.19%</u>
Prior Period	<u>-</u>	<u>(26,164,625)</u>	<u>26,164,625</u>	<u>-100.00%</u>
Ending net assets	<u>\$ 2,030,283,376</u>	<u>\$ 1,954,888,413</u>	<u>\$ 75,394,963</u>	<u>3.86%</u>

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 YEARS ENDED JUNE 30, 2011 AND 2010**

2011 vs 2010

- The Operating loss before non-operating revenues (expenses) and grants of the PRPHA for the fiscal year 2011 amounts to approximately \$293 million, representing a net increase in the loss position of 2% when compared to prior fiscal year. The main drivers of this increase are the increases in depreciation expense, repairs and maintenance of approximately \$8 million and \$6 million, respectively. Other general and administrative decreased by approximately \$7 million.
- Net non-operating revenues and expenses decreased by approximately \$7 million in comparison with prior fiscal year, due mainly to an increase in depreciation.
- Capital Contributions increased by approximately \$20 million due to an increase in capital expenditures during the modernization process of PRPHA buildings.

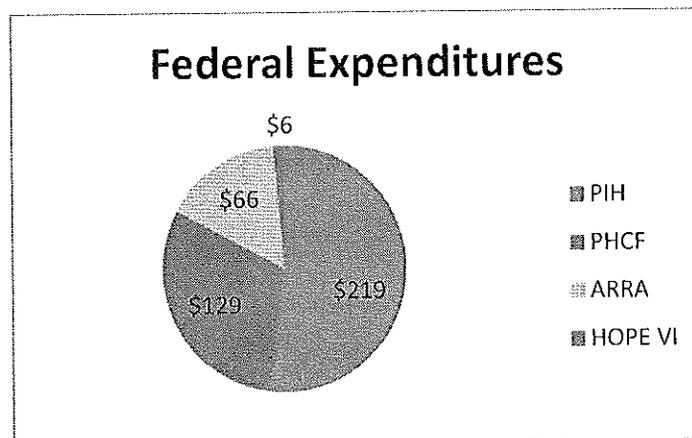
Tables 8 and Graphs 7 and 8 present the expenditures for each of the PRPHA's federal programs for the fiscal years ended 2011 and 2010. From the Public and Indian Housing Program (PIHP), the PRPHA expended \$219 million, which represent fifty one percent (51%) of total federal expenditures for fiscal year 2011. Current fiscal year expenditures for PIHP stayed consistent with prior year. Approximately \$129 million were expended from the Public Housing Capital Fund during the current year, representing an increase of approximately \$8 million from prior fiscal year. From the American Recovery and Reinvestment Act (ARRA) Funds, the PRPHA spent approximately \$66 million, which is consistent with the expenditures on this fund during prior year of \$63 million. There is a new federal grant active during the current year which is the CFDA 14.866, Revitalization of Severe/Distressed Public Housing. From this fund, the PRPHA spent approximately \$6 million.

Table 8

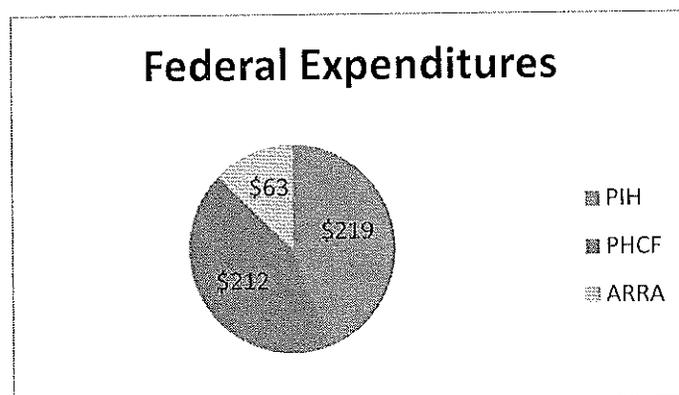
(In millions)	2011	2010	Inc/Dec	% Change
Public and Indian Housing	\$ 219	\$ 219	\$ -	0%
Public Housing Capital Fund	129	121	8	7%
Capital Fund Recovery Grant	66	63	3	5%
Revitalization of Severe/Distressed Public Housing	6	-	6	100%
Total	\$ 420	\$ 403	\$ 17	4%

COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

GRAPH 7 2011



GRAPH 8 2010



Budgetary Highlights

Summary

Table 9 details a comparison of the final budget for the Public and Indian Housing Program (PIHP) and the Central Office Cost Center Fund for fiscal years ending 2011 and 2010. PIHP operated in FY2011 with a revised final budget of \$295 million while the fiscal year 2010 final budget was \$275 million. The net increase of \$20 million was mainly due to a use of operating reserve of \$14,228,810 and a repayment of an account receivable from the Department of Housing of \$4,610,000.

COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 YEARS ENDED JUNE 30, 2011 AND 2010

Budgetary Highlights (continued)

Summary (continued)

Table 9

<u>Description</u>	<u>Final Budget Approved 2010-2011</u>	<u>Final Budget Approved 2009-2010</u>	<u>Inc/Dec</u>	<u>% Change</u>
Public and Indian Housing including Fees	\$ 277,089,956	\$ 258,065,965	\$ 19,023,991	7%
Capital Fund Program Fee	13,734,516	13,753,475	(18,959)	0%
ARRA Fee for COCC	4,214,157	2,809,186	1,404,971	50%
Total	<u>\$ 295,038,629</u>	<u>\$ 274,628,626</u>	<u>\$ 20,410,003</u>	<u>7%</u>

Table 10 details a comparison of the final Public and Indian Housing Program (PIHP) and Central Office Cost Center (COCC) expenditures budgets for fiscal years ending 2011 and 2010. PIHP operated in FY 2011 with a revised final budget of \$283 million and \$255 million for 2010 respectively. These funds are used by the PRPHA mostly in the ordinary and extraordinary maintenance of the PRPHA's federal public housing projects throughout the island.

Table 10: PUBLIC AND INDIAN HOUSING AND CENTRAL OFFICE COST CENTER

<u>Description</u>	<u>Approved 2010- 2011</u>		<u>Approved 2009- 2010</u>		<u>Inc/Dec</u>	<u>% Change</u>
Administrative Expense	\$ 84,921,029	29%	\$ 75,185,449	27%	\$ 9,735,580	13%
Tenant Services Expense	55,351,544	19%	41,487,594	15%	13,863,950	33%
Utilities	17,891,573	6%	17,203,940	6%	687,633	4%
Maintenance/Oper. Exp	58,883,637	20%	58,529,299	21%	354,338	1%
Protective Services Expense	24,891,263	8%	17,124,018	6%	7,767,245	45%
General Expense	41,000,747	14%	42,283,014	15%	(1,282,267)	-3%
Reserve	-	0%	2,978,218	1%	(2,978,218)	-100%
Total Operating Expense	<u>\$282,939,793</u>	<u>96%</u>	<u>\$254,791,532</u>	<u>93%</u>	<u>\$28,148,261</u>	<u>11%</u>

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

Budgetary Highlights (Continued)

The final operating budget for fiscal year ended 2011 included a subsidy from HUD of \$219,070,014 million compared to \$218,919,768 million for 2010 as showed on *Table 11*. The increase of \$150,246 is due to the proration factor established by HUD. The budget also combines an estimated dwelling rental income of \$25 million on 2011 and \$28 million in 2010. The decrease of \$2.4 million in the rental revenue is due to the estimated vacancy calculation. For 2011, the transfer to be used for administrative expenses from the CFP program increase to \$14 million when compared to fiscal year 2010, amount transferred of \$11 million. This increase was used in the ordinary maintenance of the projects. The total Financial Resources for 2011 show a net increase of \$11 million mainly due to the use of the operating reserve.

Table 11

Description	2010-2011	2009-2010	Inc/Dec	% Change
Estimated Subsidy (includes Add On and Uses)	\$ 219,070,014	\$ 218,919,768	\$ 150,246	0%
Estimated Rental Income	25,079,585	27,515,318	(2,435,733)	-9%
Capital Fund Program %	14,107,547	10,510,878	3,596,669	34%
Transfer from COCC to Projects	2,435,179	1,120,000	1,315,179	117%
Use of excess reserve	<u>8,556,037</u>	<u>-</u>	<u>8,556,037</u>	<u>100%</u>
Total Financial Resources	<u>269,248,362</u>	<u>258,065,964</u>	<u>11,182,398</u>	<u>4%</u>
Reasonable Fees to be Charged to Low Income Housing Program ⁽¹⁾	40,711,906	41,116,910	(405,004)	-1%
Projects Operating Expenditures (Does not include Non Routine)	132,598,259	148,323,664	(15,725,405)	-11%
Project Insurance and Telephone	16,585,281	16,647,171	(61,890)	0%
Resident Service Programs, Security and Non Routine Exp	61,168,989	32,000,000	29,168,989	91%
Utilities Expenses	<u>17,891,573</u>	<u>17,000,000</u>	<u>891,573</u>	<u>5%</u>
Project Expenditures	<u>268,956,008</u>	<u>255,087,745</u>	<u>13,868,263</u>	<u>5%</u>
Net Operating Income/Reserve	<u>\$ 292,354</u>	<u>\$ 2,978,219</u>	<u>\$ (2,685,865)</u>	<u>-90%</u>

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

COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Budgetary Highlights (Continued)

Table 12 shows the breakdown of the total budget for FYE 2011, including the Central Office Cost Center (COCC).

Table 12

Description	COCC	Projects	Total Budget FYE 2010- 2011
Administrative Expense	\$52,091,381	\$ 32,829,648	\$ 84,921,029
Tenant Services Expense	362,540	54,989,004	55,351,544
Utilities	2,000,000	15,891,573	17,891,573
Ord. Maintenance/Operational Expense	1,087,620	57,796,017	58,883,637
Protective Services Expense	926,074	23,965,189	24,891,263
General Expense	11,309,737	29,691,010	41,000,747
Total Operating Expense	<u>67,777,352</u>	<u>215,162,441</u>	<u>282,939,793</u>
NON-ROUTINE EXPENDITURES			
Extraordinary Maintenance	-	9,014,314	9,014,314
Replacement of Nonexpendable Equipment	-	594,312	594,312
Property Betterment and Additions	1,160,000	1,330,210	2,490,210
Total Non-Routine Expenditures	<u>1,160,000</u>	<u>10,938,836</u>	<u>12,098,836</u>
Total Budget	<u>\$68,937,352</u>	<u>\$ 226,101,277</u>	<u>\$295,038,629</u>

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 YEARS ENDED JUNE 30, 2011 AND 2010**

Budgetary Highlights (continued)

CENTRAL OFFICE COST CENTER (COCC)- PHA charges fees in lieu of cost allocations; and record all financial transaction as a different fund (see *Table 13*). The COCC report these fees charged as revenue. In turn, projects will report the fees levied as expenses. *Table 13* details the Central Office Cost Center Budget Summary which includes Fees charges to Low Rent Program for \$40.7 million, \$13.7 million from Capital Fund Program as Program Fee and \$4.2 from ARRA funds as Administrative fees.

Table 13

CENTRAL OFFICE COST CENTER BUDGET SUMMARY

	<u>Amount</u>
Fees charged to AMP's Low Rent Program	\$40,711,906
Capital Fund Program Management Fee	13,734,516
ARRA Management Fee	4,214,157
Use of reserve	5,666,773
Account receivable repayment from Department of Housing	<u>4,610,000</u>
 Total Financial Resources for COCC	 <u>\$ 68,937,352</u>

ASSETS AND LIABILITIES

At the end of fiscal year 2011, the PRPHA had approximately \$2,601 million in assets. For fiscal year 2010, this amount was approximately \$2,583 million as detailed below (*Table 14*).

TABLE 14

ASSETS	2011	2010	Inc/Dec	% Change
Cash	\$ 234	\$ 167	\$ 67	40%
Accounts receivable, net	39	56	(17)	-30%
Materials and supplies	10	10	-	0%
Restricted assets	2	2	-	0%
Fiscal agent Funds	27	25	2	7%
Capital Assets	1,878	1,866	12	1%
Other noncurrent assets	<u>411</u>	<u>457</u>	<u>(46)</u>	<u>-10%</u>
 TOTAL	 <u>\$ 2,601</u>	 <u>\$ 2,583</u>	 <u>18</u>	 <u>1%</u>

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 YEARS ENDED JUNE 30, 2011 AND 2010**

Cash and cash equivalents

As shown in the table above, cash and cash equivalents increased by approximately \$67 million when compared with prior fiscal year. The main drivers of this increase are the new investments in certificates of deposits of approximately \$37 million during the year and other operating cash inflows of approximately \$20 million.

Accounts receivable

Accounts receivables had a net decreased by approximately \$17 million when compared with prior fiscal year mainly due to repayments of advances to the management agents, the repayment of the receivable from the Department of Housing and a reduction in the HUD grant receivable as of the end of the fiscal year.

Capital Assets

At the end of the fiscal year 2011, consistent with prior fiscal year, the PRPHA had approximately \$1.9 billion in Capital assets, net of corresponding accumulated depreciation. (See Table 15 and Graphs 9 and 10 below).

Of the total \$1.9 billion, \$1.3 billion (69%) was invested in buildings and improvements, vehicles and equipment during the current fiscal year, representing an increase of approximately \$113 million (9%) in comparison with prior fiscal year. Construction in progress (CIP) for the current fiscal year amounted to approximately \$373 million representing a decrease of \$100 million (21%) with prior year. Land increased by \$772 thousand dollars (0.4%) during the current fiscal year with an ending balance of approximately \$203 million.

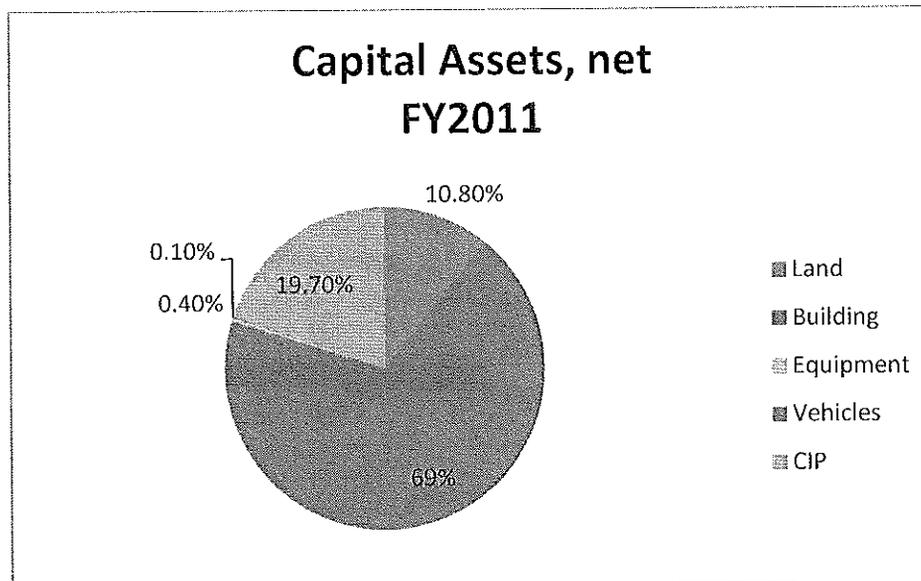
The net increase of Building and Improvements and land is due to the purchase of 84 new residential units of Vistas de Isabela in the Municipality of Isabela. PRPHA also acquired 16 units of public housing Cesar "Coca" Gonzalez in the Municipality of Vieques. The remaining increase is due to the capitalization of finished construction of modernized facilities and the sale of a series of residential units (S-H).

Table 15

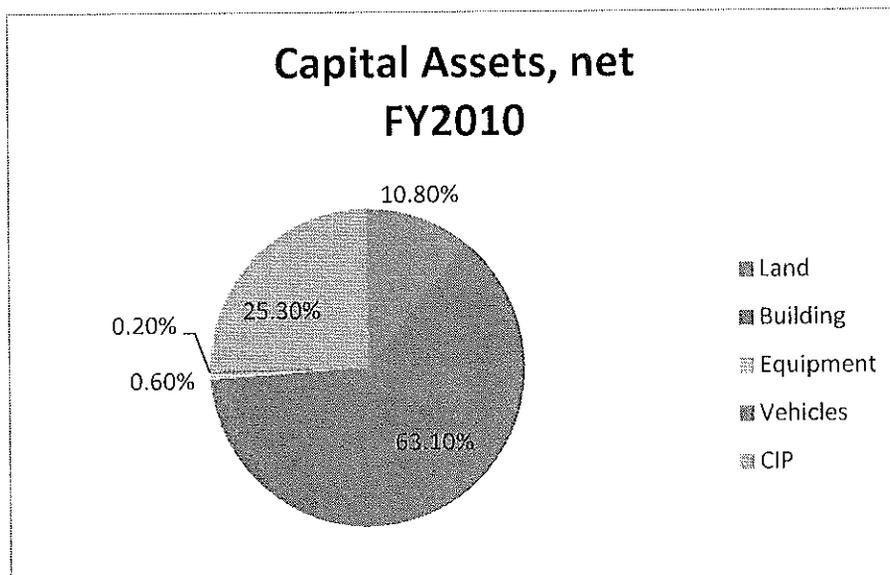
Capital Assets (Net of Accumulated Depreciation, in millions)	2011	2010	Inc/Dec	% Change
Land	\$ 203	\$ 202	\$ 1	0%
Buildings and improvements	2,557	2,355	202	9%
Furniture, fixtures and equipment	40	41	(1)	-2%
Vehicles	17	17	-	0%
Construction in progress	373	473	(100)	-21%
Less accumulated depreciation	(1,311)	(1,222)	(89)	7%
Total	\$ 1,879	\$1,866	\$ 13	1%

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

GRAPH 9- 2011



GRAPH 10- 2010



**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 YEARS ENDED JUNE 30, 2011 AND 2010**

Other non-current assets

Other non-current assets decreased by approximately \$45 million mainly due to the decrease in the escrow account restricted and restricted assets balances of approximately \$15 million and \$30 million, respectively. Most of these balances were used to pay the current portion of the outstanding debt.

LIABILITIES

LONG-TERM LIABILITIES:

As of June 30, 2011, the total liability related to the financial agreement entered during December 2003, between the Puerto Rico Housing Finance Authority (the bond issuer) and US Bank Trust National Association (the trustee), that was executed through a bond issue of \$663,060,000 is \$528,564,700. These bonds were refinanced during fiscal year 2009. Simultaneously with the issuance of the Series 2008 Capital Fund Bonds, \$391,185,000 of the 2003 Bonds was defeased. The defeasance reduced the outstanding principal amount of 2003 Bonds to approximately \$219 million and decreased the resultant annual gross debt service requirements from approximately \$51.3 million to approximately \$18.6 million. As of June 2011, the defeasance escrow amounted to \$347,482,255. The debt service for the defeased portion of the 2003 Bonds will be paid from the defeasance escrow and the debt service for the undefeased 2003 Bonds will continue to be paid from capital funds of the PRPHA together with debt service on the 2008 Bonds pursuant to the schedule submitted as part of the CFFP submission and the final debt service schedule as submitted to HUD.

Balance of the CFP Bonds Payable:

<u>Debt</u>	<u>2011</u>	<u>2010</u>
Current portion	\$ 26,615,000	\$ 25,390,000
Long-term portion	<u>501,949,700</u>	<u>531,307,767</u>
Liabilities	<u>\$ 528,564,700</u>	<u>\$ 556,697,767</u>

OTHER LIABILITIES:

As of June 30, 2011, the PRPHA had a total of approximately \$66 million in current liabilities. Of this amount, \$27 million represents the current portion of bonds payable, \$34 million are account payables and accrued liabilities, and other current liabilities amounted to \$5 million. As of June 2010, the amount of current liabilities was approximately \$93 million, of which \$25 million represented the current portion of bonds payable, \$62 million were accounts payable and accrued liabilities and other current liabilities amounted to approximately \$5 million.

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 YEARS ENDED JUNE 30, 2011 AND 2010**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND PROJECTIONS

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

This coming fiscal year we have been very conservative establishing an amount of \$ 426 million as the budget for fiscal year 2012, where \$299 million will be assigned for operations and the ordinary maintenance of the PRPHA projects including Central Office Cost Center, \$1.5 million assigned by the Commonwealth of Puerto Rico to cover the payroll and miscellaneous expenses for the 33 state public housing projects, \$32.5 million will be used from the operating reserve from the federal projects and the COCC budget and an estimated amount included to be invested in the modernization of the projects as a projected amount of \$93 million.

The following table shows the budget petition to the Governing Board of PRPHA for the next fiscal year 2012 for the federal projects administered by PRPHA and its Central Office Cost Center:

Description	2011-2012	%
Estimated Subsidy (includes Add On and Uses)	\$222,356,064	74%
Estimated Rental Income	25,455,779	9%
Capital Fund Program % 1406	1,388,882	0%
Capital Fund Program % 1410	13,000,000	4%
Use of Operating Reserve (Projects)	22,526,476	8%
Use of Reserve (COCC)	13,000,000	4%
Transfer from COCC to Projects/Other	<u>1,460,532</u>	<u>0%</u>
Total Financial Resources	<u>\$299,187,733</u>	100%

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 YEARS ENDED JUNE 30, 2011 AND 2010**

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

Description	<u>2011-2012</u>	<u>%</u>
Reasonable Fees to be Charged to Low Income Housing Program / COCC expenditures	\$ 41,322,585	14%
Projects Operating Expenditures (Does not Include Non Routine) /COCC Exp	155,924,619	52%
Project Insurance and Telephone	17,834,060	6%
Resident service Programs, Security and Non Routine Exp	63,946,523	21%
Utilities Expenses	<u>20,159,946</u>	<u>7%</u>
Projects Expenditures	<u>299,187,733</u>	<u>100%</u>
Net Operating Income /Reserve	<u>\$ 0</u>	<u>0%</u>

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

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

REQUEST FOR INFORMATION

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

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)
 STATEMENTS OF NET ASSETS
 JUNE 30, 2011 AND 2010**

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$ 234,111,991	\$ 166,253,945
Cash and cash equivalents, restricted (Note 5)	346,252	872,165
Rent and other accounts receivable, net of allowance for doubtful accounts of \$21,502,629 in 2011 and \$13,221,668 in 2010, respectively (Note 3)	38,667,579	55,776,630
Materials and supplies	9,857,092	9,750,085
Restricted assets (Note 5)	1,565,443	1,560,746
Fiscal agent funds (Note 4)	<u>26,615,000</u>	<u>25,390,000</u>
Total current assets	<u>311,163,357</u>	<u>259,603,571</u>
NONCURRENT ASSETS:		
Escrow account restricted (Note 5)	347,482,255	362,441,230
Restricted assets (Note 5)	60,174,271	89,561,290
Capital assets, net (Note 6)	1,878,295,591	1,866,540,688
Unamortized debt issuance costs (Note 7)	<u>4,175,478</u>	<u>4,509,516</u>
	<u>2,290,127,595</u>	<u>2,323,052,724</u>
TOTAL ASSETS	<u>\$2,601,290,952</u>	<u>\$2,582,656,295</u>

Continue

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)
 STATEMENTS OF NET ASSETS (CONTINUED)
 JUNE 30, 2011 AND 2010**

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES:		
Current portion of bonds payable (Notes 7 and 8)	\$ 26,615,000	\$ 25,390,000
Current portion of accrued compensated absences and termination benefits (Notes 9 and 20)	2,709,953	2,710,166
Accounts payable and accrued liabilities (Note 9)	33,932,371	61,541,989
Accrued bonds interest payable (Note 8)	2,103,165	2,201,845
Deferred revenues	<u>682,256</u>	<u>695,146</u>
Total current liabilities	<u>66,042,745</u>	<u>92,539,146</u>
NON-CURRENT LIABILITIES:		
Long term accrued compensated absences and termination benefits (Notes 9 and 20)	3,015,131	3,920,969
Bonds payable, net of unamortized premium and current portion (Notes 7 and 8)	<u>501,949,700</u>	<u>531,307,767</u>
Total liabilities	<u>571,007,576</u>	<u>627,767,882</u>
Commitments and contingencies (Notes 11,12,13,14 and 17)		
NET ASSETS (Notes 5 and 16):		
Invested in capital assets, net of related debt	1,892,392,270	1,858,274,621
Restricted	20,616,517	21,176,962
Unrestricted	<u>117,274,589</u>	<u>75,436,830</u>
Total net assets	<u>2,030,283,376</u>	<u>1,954,888,413</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,601,290,952</u>	<u>\$ 2,582,656,295</u>

See notes to financial statements.

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)
 STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS
 YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Rent, fees and other	\$ 30,200,386	\$ 25,342,605
Fees earned asset management	<u>3,273,536</u>	<u>3,316,921</u>
	<u>33,473,922</u>	<u>28,659,526</u>
OPERATING EXPENSES		
Administrative salaries	48,979,543	45,620,227
Tenant service salaries	16,486,711	15,590,834
Other tenant services	17,821,655	15,116,548
Repairs and maintenance	61,450,664	54,848,267
Utilities	15,970,735	17,419,461
Depreciation	92,033,056	84,013,342
Insurance	12,654,013	15,795,746
Other general and administrative	<u>60,945,500</u>	<u>67,657,388</u>
	<u>326,341,877</u>	<u>316,061,813</u>
NET OPERATING LOSS BEFORE NON-OPERATING REVENUES (EXPENSES) AND GRANTS	<u>(292,867,955)</u>	<u>(287,402,287)</u>

Continue

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)
 STATEMENTS OF CASH FLOWS
 YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from tenants and federal grants	\$ 50,582,973	\$ 65,981,251
Cash payments to employees	(66,372,305)	(59,526,595)
Cash payments to suppliers and management agents	<u>(196,572,082)</u>	<u>(202,194,649)</u>
Net cash used in operating activities	<u>(212,361,414)</u>	<u>(195,739,993)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest paid in capital funds	(25,868,512)	(26,880,398)
Proceeds from capital contributions	149,612,370	129,947,364
Proceeds from sale of dwelling	369,716	7,001,786
Principal payments of bonds payable	(25,390,000)	(24,380,000)
Cash outlays to sub-grantee	(49,581,868)	(45,857,809)
Cash outlays in capital assets	(104,604,812)	(71,785,602)
Funding of escrow account, net	<u>29,147,984</u>	<u>469,578</u>
Net cash used in capital and related financing activities	<u>(26,315,122)</u>	<u>(31,485,081)</u>
CASH FLOWS PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES:		
Subsidies and grants received	<u>271,592,363</u>	<u>274,780,302</u>
Net cash provided by non-capital financing activities	<u>271,592,363</u>	<u>274,780,302</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemption of certificates of deposits for restricted purposes	-	1,901,547
Interest received from investments	<u>6,258,984</u>	<u>5,863,516</u>
Net cash provided by investing activities	<u>6,258,984</u>	<u>7,765,063</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	39,174,811	55,320,291
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	<u>283,638,146</u>	<u>228,317,855</u>
CASH AND CASH EQUIVALENTS, AT END OF YEAR	<u>\$ 322,812,957</u>	<u>\$ 283,638,146</u>

See notes to financial statements.

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO PUBLIC HOUSING ADMINISTRATION
 (A FUND OF THE COMMONWEALTH OF PUERTO RICO)
 STATEMENTS OF CASH FLOWS (CONTINUED)
 YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CASH AND CASH EQUIVALENTS		
Unrestricted	\$ 234,111,991	\$ 166,253,945
Restricted:		
Cash and cash equivalents, restricted	346,252	872,165
Fiscal agent funds	26,615,000	25,390,000
Restricted assets	61,739,714	91,122,036
	<u>\$ 322,812,957</u>	<u>\$ 283,638,146</u>
 RECONCILIATION OF NET OPERATING LOSS BEFORE NON-OPERATING REVENUE (EXPENSES) AND GRANTS TO NET CASH USED IN OPERATING ACTIVITIES:		
 NET OPERATING LOSS BEFORE NON-OPERATING REVENUES (EXPENSES) AND GRANTS	<u>(292,867,955)</u>	<u>(287,402,287)</u>
 ADJUSTMENTS TO RECONCILE NET OPERATING LOSS BEFORE NON-OPERATING REVENUES (EXPENSES) AND GRANTS TO NET CASH USED IN OPERATING ACTIVITIES:		
Depreciation	92,033,056	84,013,342
Allowance for doubtful accounts	8,280,961	2,910,052
Decrease (increase) in rent and other accounts receivables	8,828,090	(4,746,975)
Decrease (increase) in materials and supplies	107,007	(1,830,087)
(Decrease) increase in deferred revenues	(12,890)	9,559
(Decrease) increase in accounts payable, accrued liabilities and compensated absences and benefits	<u>(28,729,683)</u>	<u>11,306,403</u>
Total adjustments	<u>80,506,541</u>	<u>91,662,294</u>
 NET CASH USED IN OPERATING ACTIVITIES	<u><u>(\$ 212,361,414)</u></u>	<u><u>(\$ 195,739,993)</u></u>

See notes to financial statements.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Puerto Rico Public Housing Administration of the Commonwealth of Puerto Rico (the PRPHA or Administration) is a governmental entity created by Act No. 66 from August 17, 1989 ascribed to the Puerto Rico Department of Housing (the Department) by Act No. 58 of August 9, 1991. On August 9, 1991 it assumed certain assets, liabilities and operations of the Puerto Rico Urban Renewal and Housing Corporation (PRURHC), which is currently under liquidation by the Office for the Administration of the Assets of CRUV (OAAC) attached to the Puerto Rico Department of Housing. The PRPHA is engaged in the implementation of the governmental policy related to the public housing projects and its administration. During August 1992, the administrator subcontracted the administration of the public housing projects to the private sector. The primary source of funds to carry out the management, maintenance and improvement of public housing are Federal Government subsidies and grants. The PRPHA operates approximately 55,000 public housing units, located in 363 (330 federally subsidized and 33 state subsidized) residential complexes throughout the island.

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

Reporting entity

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

Summary of significant accounting policies

Measurement focus, basis of accounting and financial statements presentation

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

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

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

Summary of significant accounting policies (continued)

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

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

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

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

Fair value of financial instruments

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

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

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

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

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

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

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

Summary of significant accounting policies (continued)

Statement of cash flows

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

Receivables

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

Materials and supplies

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

Restricted assets

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

Capital assets

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

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

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

Summary of significant accounting policies (continued)

Major classifications and related estimated useful lives are as follow:

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

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

Unamortized debt issuance costs, premiums, and discounts

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

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

Deferred revenue

Deferred revenue arises from rent received in advance from tenants.

Accounting for compensated absences

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

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

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

Summary of significant accounting policies (continued)

Pension benefits

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

Annual contributions

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

Net assets

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

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

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

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

Summary of significant accounting policies (continued)

Use of estimates

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

Risk management

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

Subsequent events

In May 2009, the Financial Accounting Standards Board (FASB) established standards related to accounting for, and disclosure of, events that occur after the statement of position date, but before financial statements are issued or are available to be issued. Management has evaluated subsequent events through September 30, 2011, the date the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2011 that required recognition or disclosure in the current period financial statements.

2. DEPOSITS AND CUSTODIAL CREDIT RISK

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the Federal Government or the Commonwealth of Puerto Rico. The Administration is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the Federal and Commonwealth laws. During the year, the Administration invests its funds in interest bearing bank accounts and certificates of deposit. The Administration is subject to the custodial credit risk which is the risk that in the event of bank failure, government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk.

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

2. DEPOSITS AND CUSTODIAL CREDIT RISK (CONTINUED)

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

The Administration had the following amounts deposited in commercial banks:

<u>Depository Account</u>	<u>Bank Balance</u>	
	<u>30-Jun-11</u>	<u>30-Jun-10</u>
Insured	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held in the Administration's name	<u>30,308,092</u>	<u>43,266,013</u>
	<u>\$ 30,558,092</u>	<u>\$ 43,516,013</u>

In addition, as of June 30, 2011 and 2010, the PRPHA's custodial credit risk was approximately \$79.8 million and \$151.5 million, respectively, which are the cash balances deposited in the Government Development Bank for Puerto Rico and the Economic Development Bank for Puerto Rico. These deposits are exempt from the collateral requirement established in the laws of the Commonwealth of Puerto Rico.

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

3. RENT AND OTHER ACCOUNTS RECEIVABLE

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

<u>Description</u>	<u>2011</u>	<u>2010</u>
Rent and other receivables:		
Legislative appropriations	\$ 4,481,025	\$ 4,475,993
Accounts receivable from tenants	15,490,923	10,851,294
Others	<u>14,959,846</u>	<u>13,328,441</u>
	34,931,794	28,655,728
Less: allowance for doubtful accounts	<u>(21,502,629)</u>	<u>(13,221,668)</u>
 Total rent and other accounts receivable, net	 13,429,165	 15,434,060
 HUD grants receivable	 8,623,648	 14,596,635
 Interest receivable	 40,405	 31,174
 Accounts receivable from Vivienda Modernization 1, LLC	 53,556	 466,176
 Accounts receivable from Department of Housing of the Commonwealth of Puerto Rico	 400,000	 3,410,000
 Advances to management agents	 <u>16,120,805</u>	 <u>21,838,585</u>
 Total accounts receivable	 <u>\$ 38,667,579</u>	 <u>\$ 55,776,630</u>

The HUD grant receivable represents the amount pending to be received by the PRPHA as of June 30, 2011 and 2010 under the Capital Fund's expenditure driven agreement for allowable costs already incurred at June 30, 2011 and 2010, but for which HUD had not made the drawdown of funds on behalf of the PRPHA. These costs are mainly for capital assets additions and other expenses related with the modernization of dwelling units.

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

4. FISCAL AGENT FUNDS

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

The current portion amount deposited by the Administration with this fiscal agent for the years ended June 30, 2011 and 2010 amounted to \$26,615,000 and \$25,390,000, respectively. This reclassification is solely to comply with financial statement presentation required by Real Estate Assessment Center (REAC). The Administration will use this amount for the repayment of principal of the outstanding debt incurred for the modernization of housing projects under the Capital Revenue Bond agreement.

The fiscal agent funds are provided from the following sources:

	<u>2011</u>	<u>2010</u>
Escrow account	\$17,455,000	\$ 16,655,000
Restricted assets	<u>9,160,000</u>	<u>8,735,000</u>
	<u>\$26,615,000</u>	<u>\$ 25,390,000</u>

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

5. RESTRICTED ASSETS

Restricted assets at June 30 consist of the following:

<u>Description</u>	<u>Classification</u>	<u>2011</u>
Certificate of deposit at .34% due on July 28, 2011	Short-term	\$ 1,565,443
Fiscal agent funds	Short-term	26,615,000
Cash and cash equivalents in Government Development Bank	Short-term	<u>346,252</u>
Total restricted assets, current		28,526,695
Deposit with HUD	Long-term	1,521,156
Cash restricted for operating expenses of dwelling units	Long-term	17,183,666
Escrow account	Long-term	347,482,255
Cash restricted on capital fund program bonds	Long-term	<u>41,469,449</u>
		<u>\$ 436,183,221</u>
		<u>2010</u>
Certificate of deposit at .34% due on July 28, 2010	Short-term	\$ 1,560,746
Fiscal agent funds	Short-term	25,390,000
Cash and cash equivalents in Government Development Bank	Short-term	<u>872,165</u>
Total restricted assets, current		27,822,911
Deposit with HUD	Long-term	1,521,156
Cash restricted for operating expenses of dwelling units	Long-term	17,222,895
Escrow account	Long-term	362,441,230
Cash restricted on capital fund program bonds	Long-term	<u>70,817,239</u>
		<u>\$479,825,431</u>

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

5. RESTRICTED ASSETS (CONTINUED)

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

<u>Description</u>	<u>2011</u>	<u>2010</u>
Homebuyers earned home payment	\$ 313,080	\$ 312,148
Proceeds from units sold under Turnkey III projects remitted to HUD	1,521,156	1,521,156
Amount to be used for the repair and/or improvement of the electric and plumbing systems, kitchen cabinets and other non-routine maintenance of the Turnkey III projects	1,252,363	1,248,598
Amount to be used for the repayment of principal and interest of the 2003 Capital Revenue Bonds	374,097,255	387,831,230
Amount to be used on operating expenses of dwelling units of Turnkey III projects	17,183,666	17,222,895
Amount reserve on capital fund program bonds	41,469,449	70,817,239
Investment with Government Development Bank	<u>346,252</u>	<u>872,165</u>
	436,183,221	479,825,431
Less: Amount to be used for the repayment of principal, interest and other current liabilities to be incurred for the modernization of housing project of the Capital Revenue Bonds and held with fiscal agent	<u>(26,615,000)</u>	<u>(25,390,000)</u>
	<u>\$ 409,568,221</u>	<u>\$ 454,435,431</u>

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

6. CAPITAL ASSETS:

	<u>Balance</u> <u>at June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u> <u>at June 30, 2011</u>
Capital assets not being depreciated:					
Land	\$ 202,114,999	\$ 923,000	\$ (150,965)	\$ -	\$ 202,887,034
Intangible asset	266,757	-	-	-	266,757
Construction in progress	473,079,973	91,782,670	-	(191,936,830)	372,925,813
Total capital assets not being depreciated	<u>\$ 675,461,729</u>	<u>92,705,670</u>	<u>(150,965)</u>	<u>(191,936,830)</u>	<u>\$ 576,079,604</u>
Capital assets being depreciated:					
Buildings and building improvements	2,355,291,034	10,735,240	(1,111,373)	191,936,830	2,556,851,731
Furniture, fixtures and equipment	40,858,130	1,163,903	(2,147,509)	-	39,874,524
Vehicles	16,813,561	-	-	-	16,813,561
Less: accumulated depreciation	<u>2,412,962,725</u>	<u>11,899,143</u>	<u>(3,258,882)</u>	<u>191,936,830</u>	<u>2,613,539,816</u>
	<u>(1,221,883,766)</u>	<u>(92,003,676)</u>	<u>2,563,612</u>	<u>-</u>	<u>(1,311,323,829)</u>
Total capital assets being depreciated, net	<u>1,191,078,959</u>	<u>(80,104,533)</u>	<u>(695,270)</u>	<u>191,936,830</u>	<u>1,302,215,987</u>
Total capital assets, net	<u>\$ 1,866,540,688</u>	<u>\$ 12,601,137</u>	<u>\$ (846,235)</u>	<u>\$ -</u>	<u>\$ 1,878,295,591</u>

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

6. CAPITAL ASSETS (CONTINUED):

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

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

7. UNAMORTIZED DEBT ISSUANCE COSTS

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

	<u>2011</u>	<u>2010</u>
Debt issuance costs	\$ 4,509,516	\$ 5,177,593
Less: current year amortization	<u>(334,038)</u>	<u>(668,077)</u>
	<u>\$ 4,175,478</u>	<u>\$ 4,509,516</u>

8. CAPITAL FUND PROGRAM BONDS

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

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

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

8. CAPITAL FUND PROGRAM BONDS (CONTINUED)

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

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

2010

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

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

8. CAPITAL FUND PROGRAM BONDS (CONTINUED)

The net premium is amortized, over the life of the debt, using the interest method, as an adjustment to interest expense. Amortization for the years ended June 30, 2011 and 2010 amounted to \$2,743,067 and \$3,105,657, respectively. The principal and interest payments of bonds payable for the next five years and thereafter are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 26,615,000	\$ 24,644,460	\$ 51,259,460
2013	27,940,000	23,321,860	51,261,860
2014	29,335,000	21,926,560	51,261,560
2015	30,810,000	20,451,635	51,261,635
2016	32,390,000	18,871,635	51,261,635
2017-2021	188,625,000	67,673,550	256,298,550
2022-2025	187,345,000	17,696,692	205,041,692
	<u>\$ 523,060,000</u>	<u>\$ 194,586,392</u>	<u>\$ 717,646,392</u>

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

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

	<u>2011</u>	<u>2010</u>
Contractors and others	\$ 18,687,665	\$ 50,670,046
Reserve for contingencies	6,000,000	6,000,000
Fee retention to contractors	1,885,182	2,190,872
Others	7,359,524	2,681,073
	<u>\$ 33,932,371</u>	<u>\$ 61,541,991</u>

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

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

Accrued compensated absences and termination benefits activity for the years ended June 30, 2011 and 2010, were as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
<u>2011</u>				
\$ <u>6,631,135</u>	\$ <u>3,415,085</u>	\$ <u>(4,321,136)</u>	\$ <u>5,725,084</u>	\$ <u>2,709,953</u>
<u>2010</u>				
\$ <u>4,946,669</u>	\$ <u>3,521,132</u>	\$ <u>(1,836,666)</u>	\$ <u>6,631,135</u>	\$ <u>2,710,166</u>

10. CAPITAL CONTRIBUTIONS

Capital contributions received during the years ended June 30, 2011 and 2010 from HUD, were as follow:

<u>Description</u>	<u>2011</u>	<u>2010</u>
Contributed capital for the Development and Modernization of Public Housing Capital Fund Program (CFP)	\$ <u>149,612,370</u>	\$ <u>129,947,364</u>

11. OTHER FEDERAL GRANTS

As permitted in the Omnibus Consolidated Rescissions and Appropriations Act (OCRA), which was enacted on April 24, 1996, during the fiscal years ended June 30, 2011 and 2010, the PRPHA transferred to operational activities 20.1% and 30%, respectively, of the Public Housing Capital Fund Program (CFP) approved annual grants. These transfers amounted to \$27,680,998 and \$36,843,392, respectively for these fiscal years. Also, the PRPHA transferred to operational activities 7% of the Public Housing Capital Fund Stimulus Recovery Act which amounted to \$4,212,329 and \$4,215,228 for the years ended June 30, 2011 and 2010, respectively. These transfers were approved by the HUD Caribbean Field Office and were included as part of federal grants revenue.

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

12. EMPLOYEES' RETIREMENT PLAN

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

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

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service, or members who have attained age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of twenty (20) years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation, as defined, or if they have attained age fifty-five (55), will receive 75% of the average compensation, as defined. Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the salary in excess of \$550. The Administration's contribution is 9.275% of gross salary.

On September 24, 1999, the Legislature of the Commonwealth enacted Act No. 305, which established a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, elected either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, were only allowed to become members of System 2000. System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of pension assets, which are invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth.

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

12. EMPLOYEES' RETIREMENT PLAN (CONTINUED)

The annuity is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternative. Participants receive periodic account statements similar to those of defined contributions plans showing their accrued balances.

Disability pensions will not be granted under System 2000. The employers' contribution (9.275% of the employee's salary) is used to fund the deficiency of the defined benefit plan. Total employer contributions during the year ended June 30, 2011 and 2010, amounted to \$1,261,168 and \$1,329,285, respectively. Employer's contributions paid represented 100% of the required contributions. For the years ended June 30, 2011 and 2010, total covered payroll was \$13,597,499 and \$14,680,064, respectively. Covered payroll refers to all compensation paid by the Administration to employees covered by the System on which contributions for the pension are based.

13. COMMITMENTS AND CONTINGENCIES

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

Law 104 from June 30, 1995, as amended, of the Commonwealth of Puerto Rico, known as *Claims and Lawsuits against the State*, provides that lawsuits and claims initiated by an agency or instrumentality of the Commonwealth of Puerto Rico may be represented by the Commonwealth of Puerto Rico's Department of Justice. Any adverse claims to the defendants are to be paid by the Commonwealth of Puerto Rico's General Fund within the limitations provided by the law. However, the Secretary of the Treasury has the right of requesting the reimbursement of the funds expended for these purposes from the defendants. For the years ended June 30, 2011 and 2010, the accounts payable and accrued liabilities include litigation contingencies accrual for \$6,000,000.

As of June 30, 2011 and 2010, the Administration had pending construction projects contracts in progress for the development and modernization of public housing projects. Total commitments related to these construction contracts amounted to approximately \$232,932,480 and \$321,977,650, for the years then ended, respectively.

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

14. FEDERAL FINANCIAL ASSISTANCE

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

15. RECLASSIFICATIONS

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation. The reclassifications had no effects in the change in net assets.

16. RESTRICTED NET ASSETS

Restricted net assets at June 30 consist of the following:

	<u>2011</u>	<u>2010</u>
Restricted assets	\$ 436,183,221	\$ 479,825,431
Restricted for capital fund program bonds	(41,469,449)	(70,817,239)
Defeasance escrow	(347,482,255)	(362,441,230)
Current portion of bonds payable	<u>(26,615,000)</u>	<u>(25,390,000)</u>
Net assets restricted	<u>\$ 20,616,517</u>	<u>\$ 21,176,962</u>

The PRPHA operates the Turnkey III projects in accordance with requirements for the Homeownership Opportunity Program for Low Income Families. The amount deposited with HUD for the years ended June 30, 2011 and 2010 amounted to \$1,521,156 and represents amounts remitted to HUD related to the proceeds of the units sold under Turnkey III projects. During 1986, Congressional Legislation was approved to return the funds to the PRPHA in order to establish a loan fund oriented towards improving the dwelling units. These loans, which are exclusively for the Turnkey III owners, will allow them to repair and/or improve the electrical equipment and other systems.

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

17. RELATED PARTY TRANSACTIONS

General

The Administrator of the PHA is appointed by the Governor of Puerto Rico and, by law, the appointee is the Secretary of the Department of Housing of the Commonwealth of Puerto Rico ("DOH"). The PHA has a joint agreement with the DOH to share a series of resources, especially considering that both entities share the same central office building. Services that are shared include general maintenance, office space, utilities, human resources and payroll, accounting and other general and administrative services. During the fiscal years ended June 30, 2011 and 2010, the PHA has paid approximately \$5 million to the DOH for these services.

Mixed finance

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

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

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

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

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

17. RELATED PARTY TRANSACTIONS (CONTINUED)

Mixed finance (continued)

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

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

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

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

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

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

18. PRIOR PERIOD ADJUSTMENTS

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

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

19. RECENT ACCOUNTING PRONOUNCEMENTS

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

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

20. TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Puerto Rico Public Housing Administration (PRPHA). Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50 % of each employee' salary, as defined. In this early retirement benefit program, the PRPHA will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the PRPHA.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the PRPHA's financial statements of a liability of \$799,713 in the statement of net assets as of June 30, 2011 and a charge of \$799,713 in the statement of activities for the year ended June 30, 2011. At June 30, 2011, unpaid long-term benefits granted on this program were discounted at 3.29%.