Puerto Rico Housing Finance Authority

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

Basic Financial Statements, Required Supplementary Information and Additional Combining Supplementary Information as of and for the Year Ended June 30, 2009, and Independent Auditors' Report

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

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Puerto Rico Housing Finance Authority (the "Authority"), a component unit of Government Development Bank for Puerto Rico, as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Authority, as of June 30, 2009, and the respective changes in financial position and respective cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 to 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Authority's respective financial statements that collectively comprise the Authority's basic financial statements. The additional supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional supplementary information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

November 27, 2009

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This section of the Puerto Rico Housing Finance Authority's (the "Authority") annual financial report presents management's discussion and analysis of the Authority's financial performance for the year ended June 30, 2009. Please read it in conjunction with the Authority's basic financial statements, which follow this section.

1. FINANCIAL HIGHLIGHTS

- Net assets of the Authority decreased $23 million, from $629 million as of June 30, 2008, to $606 million as of June 30, 2009. The decrease resulted from a decrease in the net assets of governmental activities of $54 million, from $83 million in 2008 to $29 million in 2009; and an increase of $31 million in the net assets of business-type activities, from $546 million in 2008 to $577 million in 2009.

- Operating income of business-type activities was $25 million and $16 million for the years ended June 30, 2009 and 2008, respectively. Total operating revenues increased to $113 million in 2009 from $109 million in 2008. Total operating expenses decreased to $88 million in 2009 from $92 million in 2008. There were net interfund transfers in amounting to $7 million for the year ended June 30, 2009.

- The Authority established an allowance for uncollectible accounts of $25 million for the amount due from the federal government (FEMA) under the New Secure Housing Program.

- Significant transactions undertaken during the year include the partial redemption of the Single Family Mortgage Revenue Bonds Portfolio X with unused proceeds for $145 million.

- The Authority sold $33.5 million of single-family mortgage loans receivable. The net proceeds from the sale of these loans amounted to approximately $33.8 million.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of three parts, management's discussion and analysis (this section), the basic financial statements and additional supplementary information. The basic financial statements include two types of statements that present different views of the Authority:

- The first two statements are the government-wide financial statements that provide information about the Authority's overall financial position and results. These statements, which are presented on the accrual basis of accounting, consist of the statement of net assets and the statement of activities.

- The remaining statements are fund financial statements of the Authority's major and nonmajor governmental funds, for which activities are funded primarily from Commonwealth appropriations and for which the Authority follows the modified accrual basis of accounting, and of the Authority's major and nonmajor enterprise funds, which operate similar to business activities and for which the Authority follows the accrual basis of accounting.

- The basic financial statements also include the notes to financial statements section that explains some of the information in the government-wide and fund financial statements and provides more detailed data.

- The notes to the basic financial statements are followed by a supplementary information section, which presents information of the fund financial statements of nonmajor funds for governmental and enterprise activities.

The government-wide financial statements report information about the Authority as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when the cash is received or paid.

3. FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Authority's most significant funds and not the Authority as a whole. The Authority has two types of funds:

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

Enterprise Funds — The Authority's primary activities are included in its enterprise funds, which are accounted for in a manner similar to businesses operating in the private sector. Funding has primarily arisen through accumulated enterprise earnings, the issuance of tax-exempt bonds, the proceeds of which are primarily used to grant various types of loans to finance low and moderate-income housing. The net assets of these funds represent earnings accumulated since their inception, and are generally restricted for program purposes.

4. FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

We provide the readers of these basic financial statements with the following summarized discussion and analysis of the relevant facts that affected the government-wide financial statements as of June 30, 2009 and 2008:

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Assets:						
Cash	$ 3,301	$ 7,909	$ 25,125	$ 26,605	$ 28,426	$ 34,514
Investments, investment contracts, and deposits placed with banks	158,589	189,649	1,411,396	1,562,237	1,569,985	1,751,886
Loans receivable, net	2,063	2,520	202,691	205,717	204,754	208,237
Capital assets			4,159	4,546	4,159	4,546
Other assets, net of internal balances	(5,530)	20,405	46,576	45,060	41,046	65,465
Total assets	158,423	220,483	1,689,947	1,844,165	1,848,370	2,064,648
Liabilities:						
Current liabilities	84,532	80,370	76,817	82,748	161,349	163,118
Long-term liabilities	45,015	57,015	1,036,170	1,215,755	1,081,185	1,272,770
Total liabilities	129,547	137,385	1,112,987	1,298,503	1,242,534	1,435,888
Net assets:						
Invested in capital assets			4,159	4,546	4,159	4,546
Restricted	93,609	115,429	231,811	229,459	325,420	344,888
Unrestricted	(64,733)	(32,331)	340,990	311,657	276,257	279,326
Total	$ 28,876	$ 83,098	$ 576,960	$ 545,662	$ 605,836	$ 628,760

The net assets of the Authority decreased $23 million from $629 million in 2008 to $606 million in 2009 as a result of a decrease of $216 million in total assets and $193 million in liabilities. The decrease in total assets is mainly due to the following:

- Investments, investment contracts, and deposits placed with banks decreased to $1,570 million in 2009 from $1,752 million in 2008, or $182 million. This decrease was principally the result of the partial redemption of the Single Family Mortgage Revenue Bonds Portfolio X with unused proceeds for $145 million.

- Loans receivable decreased $3 million, from $208 million in 2008 to $205 million in 2009. The decrease in loans receivable was principally the result of the sale of loans amounting to $33.5 million that took place in fiscal year 2009, a significant increase when compared to loan sales of $5 million during 2008. Also, principal collected during 2009 amounted to $12.7 million. The decrease was partially offset by loan originations of approximately $42.4 million.

- Combined capital assets and other assets decreased $25 million when compared to those combined figures in the previous year. The decrease occurred as a result of the allowance for uncollectible accounts of $25 million established on the amounts due from the federal government under the New Secure Housing Program.

The decrease in total liabilities is mainly due to the following:

- Current liabilities decreased from $163 million in 2008 to $161 million in 2009 or $2 million.
- Long-term liabilities decreased mainly as a result of an early redemption of the Single Family Mortgage Revenue Bonds Portfolio X for $145 million.

5. STATEMENT OF ACTIVITIES

The statement of activities shows the sources of the Authority's changes in net assets as they arise through its various programs and functions. Programs like the Affordable Housing Mortgage Subsidy Programs (AHMSP), the Key for Your Home Program, and the New Secure Housing Program, are shown as governmental activities, and other programs (Operating and Administrative, Single Family Mortgage Revenue Bonds, and Mortgage Loan Insurance) are shown as business-type activities. Condensed statements of activities for the fiscal years ended June 30, 2009 and 2008, are shown in the table below (amounts in thousands):

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	$ -	$ -	$ 11,391	$ 10,905	$ 11,391	$ 10,905
Financing and investment	6,616	10,228	101,322	97,610	107,938	107,838
Operating grants, capital grants, and contributions	127,411	133,012			127,411	133,012
Total revenues	134,027	143,240	112,713	108,515	246,740	251,755
Program expenses:						
General government and other	4,555	5,163			4,555	5,163
Housing assistance programs (including interest expense)	177,085	144,439			177,085	144,439
Operating and administrative			15,652	20,263	15,652	20,263
Mortgage Trust III			33,599	34,482	33,599	34,482
Single Family Mortgage Revenue Bonds — Portfolio IX			7,051	7,278	7,051	7,278
Single Family Mortgage Revenue Bonds — Portfolio X			5,107	12,790	5,107	12,790
Single Family Mortgage Revenue Bonds Portfolio XI			10,692	772	10,692	772
Mortgage-Backed Certificates 2006 Series A			7,704	8,381	7,704	8,381
Other business-type activities			8,219	8,087	8,219	8,087
Total expenses	181,640	149,602	88,024	92,053	269,664	241,655
Change in net assets before special items and transfers	(47,613)	(6,362)	24,689	16,462	(22,924)	10,100
Special Item — Early retirement program				(8,837)		(8,837)
Transfers	(6,609)	(4,235)	6,609	4,235		
Increase (decrease) in net assets	(54,222)	(10,597)	31,298	11,860	(22,924)	1,263
Net assets — beginning of year	83,098	93,695	545,662	533,802	628,760	627,497
Net assets — end of year	$ 28,876	$ 83,098	$ 576,960	$ 545,662	$ 605,836	$ 628,760

Total revenues decreased from $252 million in 2008 to $247 million in 2009 or $5 million. Operating grants and contributions were reduced by $6 million when compared to the prior year. Commonwealth appropriations decreased from $12 million in 2008 to $2 million in 2009, or $10 million. Although Commonwealth appropriations continue as a source of repayment for most of the Authority's governmental activities debt, they have been reduced the past several years because of the Commonwealth's budget constraints. Revenues from HUD Programs increased from $116 million in 2008 to $119 million in 2009, or $3 million, because various new projects have been added under the direct supervision of the Authority.

Total expenses increased from $242 million in 2008 to $270 million in 2009 or $28 million, mainly due to an increase of $32 million in expenses of governmental activities and a decrease of $4 million in expenses of business-type activities. The increase in expenses of governmental activities was due to an increase of $7 million in subsidy payments of the Key For Your Home Program. In addition, the Authority recorded a provision for uncollectible accounts of $25 million on the amounts due from federal government. The decrease in program expenses of the business-type activities was the result of a decrease in the provision for loan losses of $2 million. In addition, salaries and fringe benefits decreased by $2 million as a result of the early retirement program provided in 2008.

6. GOVERNMENTAL FUND RESULTS

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

New Secure Housing Program — This fund is used to account for the resources available under the New Secure Housing Program to provide housing assistance benefits for specific participants that were affected by Hurricane Georges in 1998 or that live in hazard prone areas. This fund receives resources from the federal government, under a Federal Emergency Management Agency (FEMA) program, intended to provide financial resources to eligible participants for the relocation or reconstruction of their homes. The Authority restructured on a long-term basis its existing $50 million revolving credit facility with the Government Development Bank for Puerto Rico (the "Bank") to complete the New Secure Housing Program through December 2009. The obligation will require debt service payments of approximately $67.6 million over a period of 20 years. The Operating and Administrative fund will assume the debt service payments until Commonwealth appropriations are available.

No revenues from the federal government or from Commonwealth appropriations were recognized during 2009 or 2008 since FEMA discontinued reimbursing the Authority's allowable costs under the program. Construction costs paid during the years ended June 30, 2009 and 2008, amounted to $6 million each, which are presented as housing assistance program expenditures in the accompanying statement of revenues, expenditures, and changes in fund balance — governmental funds.

HUD Programs — This fund accounts for the U.S Housing Act Section 8 programs administered by the Authority under the authorization of the U.S. Department of Housing and Urban Development (HUD). Presently, the Authority operates four programs whereby low-income families receive directly or indirectly subsidies to pay for their rent. The housing vouchers program enables families to obtain rental housing in a neighborhood of their choice. The other programs are project-based subsidies whereby housing developers are given incentives to keep their properties available for certain markets. The expenditures of the HUD Programs fund increased $3 million from $116 million in 2008 to $119 million in 2009. The expenditures in the housing vouchers program of the HUD Programs fund increased $2 million because 115 additional vouchers were awarded when compared to the previous year.

The Key for Your Home Program — This fund accounts for the subsidy to low and moderate-income families with costs directly related to the purchase and rehabilitation of housing units. Total revenues during fiscal years 2009 and 2008, were $3 million and $4 million, respectively. Revenues arose principally from penalty reimbursements received from early payment of mortgages and interest income on deposits placed with banks. The fund had expenditures of $21 million and $13 million in 2009 and 2008, respectively. Currently, this fund has a fund balance of $15 million. In prior years, this fund has received transfers from the AHMSP funds. Act No. 124, the enabling legislation pursuant to which the AHMSP was created, allows for the transfer of fund surplus identified in other stages under the act to be used, among other permissible uses, to increase the Key for Your Home Program fund.

AHMSP - Stages 7, 8, and 9 — The Stage 7 is a major fund and Stages 8 and 9 are nonmajor funds but management has elected to present these separately in the balance sheet and statement of revenues, expenditures, and changes in fund balance to be consistent with their presentation in prior years. Following is an analysis of the results of operations of these funds:

These funds' operating objective is to provide funds for low-income families to be used either for the down payment on mortgages or mortgage subsidy payments. The funds receive appropriations from the Commonwealth to fund these payments.

AHMSP - Stage 7—Expenditures exceeded revenues by $2 million for the year ended June 30, 2009. This is attributed to lower than expected Commonwealth appropriations received for the payment of the annual debt service.

AHMSP - Stage 8 — This fund had a net change in fund balance of $51,000 resulting from revenues of $867,000 less total expenditures of $816,000.

AHMSP - Stage 9 — During the year ended June 30, 2009, the fund received an appropriation from the Commonwealth in the amount of $26,092. These funds were used to repay advances from the Government Development Bank for Puerto Rico that had been used to fund subsidy payments.

7. ENTERPRISE FUND RESULTS

Total net assets of the Authority's enterprise funds increased during the year ended June 30, 2009 by $31 million. Following is an analysis of the financial position and results of operations of the major enterprise funds:

Operating and Administrative — The net assets of the Operating and Administrative fund increased from $314 million in 2008 to $345 million in 2009 or $31 million. The change in net assets increased from a negative $22 million in 2008 to a positive $31 million in 2009 or a change of $53 million, which was mainly due to fluctuations in the operating expenses, special item, and interfund transfers financial statement line items. Operating expenses decreased from $20 million in 2008 to $16 million in 2009 or a decrease of $4 million. Net interfund transfers went from net transfers out of $19 million in 2008 to net transfers in of $22 million in 2009 or a change of $41 million. During 2008, the Authority established an early retirement program, which resulted in an expense of $8.8 million for the year ended June 30, 2008. During 2009, the Authority closed-out the Soft Lending Program fund and transferred $19 million into the Operating and Administrative fund. Also, operating revenues decreased from $26 million in 2008 to $24 million in 2009 resulting from a lower interest rate environment and external aspects affecting the mortgage lending and real estate sectors.

Mortgage Trust III — Investment income for 2009 amounted to $40 million while interest expense on bonds payable amounted to $33 million during the year ended June 30, 2009. Since the bonds accounted for in this fund are zero-coupon bonds, interest payments are not required to be made until maturity. During the year, the fund made principal payments of $43 million on matured bonds.

Single Family Mortgage Revenue Bonds - Portfolio IX — This fund had investment income of $10 million and incurred in interest expense on bonds payable of $7 million. The fund received $0.5 million from AHMSP - Stage 9 fund to finance its operations. During the year, the fund paid $5.2 million of bonds payable.

Single Family Mortgage Revenue Bonds - Portfolio X — The period of origination of mortgage loans under the trust agreement expired on June 1, 2008, and mandatory bond redemption took place on July 15, 2008 for $145 million.

Mortgage-Backed Certificates 2006 Series A — This fund had investment income of $13 million and incurred in interest expense on bonds payable of $8 million. During the year, the fund paid $11 million of bonds payable.

Single Family Mortgage Revenue Bonds - Portfolio XI — This fund had investment income of $3 million and incurred in interest expense on bonds payable of $11 million. The fund received $8 million from AHMSP Stage 11 governmental fund to finance its operations.

8. CAPITAL ASSETS

The Authority's investment in capital assets for its business-type activities as of June 30, 2009 and 2008, amounted to approximately $4.2 million and $4.5 million, respectively, net of accumulated depreciation and amortization. Capital assets include leasehold improvements, information systems, office furniture, equipment, and vehicles.

9. AUTHORITY DEBT

The Authority uses long-term debt as its main funding tool to meet its policy objectives. Debt is issued to provide low interest rate mortgage opportunities to qualified buyers. This is achieved through the acquisition of collateralized mortgage obligations that are secured with low-income housing assistance mortgages.

At June 30, 2009 and 2008, total debt outstanding amounted to $1,215 million and $1,396 million, respectively. Debt issuances during 2009 and 2008 totaled $8.7 million and $209 million, respectively. Debt issued in 2009 consisted of approximately $7 million in lines of credit and notes payable due to the Bank to finance the New Secure Housing Program expenditures and subsidy payments of governmental activities, and $1.6 million from the revolving credit facilities with the Bank under the co-participation program. Debt repaid during 2009 and 2008 amounted to approximately $225 million and $111 million, respectively. During the year ended June 30, 2009, the Authority repaid bonds and notes payable of governmental and business-type activities amounting to $9 million and $215 million, respectively.

10. REQUESTS FOR INFORMATION

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

PUERTO RICO HOUSING FINANCE AUTHORITY

(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Net Assets
As of June 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	$ -	$ 7,227,598	$ 7,227,598
Deposits placed with banks		106,450,606	106,450,606
Investments and investment contracts		17,628,800	17,628,800
Interest and other receivables		3,403,175	3,403,175
Internal balances-net	(9,422,765)	9,422,765	-
Restricted assets:			
Cash	3,301,322	17,897,272	21,198,594
Deposits placed with banks	44,795,966	365,380,399	410,176,365
Investments and investment contracts	113,793,425	921,936,380	1,035,729,805
Interest and other receivables	3,043,125	14,099,244	17,142,369
Loans receivable, net	2,062,522	5,891,379	7,953,901
Deferred bond issue costs	329,907	7,042,206	7,372,113
Real estate available for sale	519,466	1,291,251	1,810,717
Loans receivable, net		196,799,957	196,799,957
Real estate available for sale		2,436,865	2,436,865
Property held in trust for the Puerto Rico Department of Housing		8,880,000	8,880,000
Capital assets		4,158,795	4,158,795
Total assets	158,422,968	1,689,946,692	1,848,369,660
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts payable and accrued liabilities		9,662,802	9,662,802
Notes payable due in more than one year	4,811,238		4,811,238
Liabilities payable from restricted assets:			
Due to Government Development Bank for Puerto Rico —			
Due in one year	66,324,839		66,324,839
Notes payable to Government Development Bank for Puerto Rico			-
Due in one year	3,311,815		3,311,815
Due in more than one year	40,203,959	1,597,005	41,800,964
Accrued interest payable	256,831	2,352,382	2,609,213
Accounts payable and accrued liabilities	14,638,751	782,665	15,421,416
Bonds and mortgage-backed certificates payable:			
Due in one year		64,019,136	64,019,136
Due in more than one year		1,034,573,020	1,034,573,020
Total liabilities	129,547,433	1,112,987,010	1,242,534,443
NET ASSETS:			
Invested in capital assets		4,158,795	4,158,795
Restricted for:			
Debt service	31,311,164	-	31,311,164
Affordable housing programs	62,297,410	172,958,355	235,255,765
Mortgage loan insurance		58,852,573	58,852,573
Unrestricted	(64,733,039)	340,989,959	276,256,920
Total net assets	$ 28,875,535	$ 576,959,682	$ 605,835,217

See accompanying notes to basic financial statements.

PUERTO RICO HOUSING FINANCE AUTHORITY

(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Activities
For the Year Ended June 30, 2009

		Program Revenues			Net Revenues (Expenses) and Changes in Net Assets		
Functions/programs	**Expenses**	**Charges for Services - Fees, Commissions, and Others**	**Charges for Services - Financing and Investment**	**Operating Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**
Governmental activities:							
General government and other	$ 4,554,651	$ -	$ -	$ -	$ (4,554,651)	$ -	$ (4,554,651)
Housing assistance programs	177,085,390	-	6,616,164	127,410,878	(43,058,348)	-	(43,058,348)
Total governmental activities	181,640,041	-	6,616,164	127,410,878	(47,612,999)	-	(47,612,999)
Business-type activities:							
Operating and administrative	15,652,567	8,133,042	16,238,627			8,719,102	8,719,102
Mortgage Trust III	33,598,444		40,168,823			6,570,379	6,570,379
Single Family Mortgage Revenue Bonds — Portfolio IX	7,051,327		9,769,714			2,718,387	2,718,387
Single Family Mortgage Revenue Bonds — Portfolio X	5,106,841		6,605,416			1,498,575	1,498,575
Single Family Mortgage Revenue Bonds — Portfolio XI	10,691,769	8,475	2,828,132			(7,855,162)	(7,855,162)
Mortgage-Backed Certificates 2006 Series A	7,704,155		13,196,559			5,492,404	5,492,404
Other business-type activities	8,218,647	3,249,594	12,514,299	-	-	7,545,246	7,545,246
Total business-type activities	88,023,750	11,391,111	101,321,570	-	-	24,688,931	24,688,931
Total	$ 269,663,791	$ 11,391,111	$ 107,937,734	$ 127,410,878	(47,612,999)	24,688,931	(22,924,068)
Transfers					(6,609,006)	6,609,006	-
Change in net assets					(54,222,005)	31,297,937	(22,924,068)
Net assets — beginning of year					83,097,540	545,661,745	628,759,285
Net assets — end of year					$ 28,875,535	$ 576,959,682	$ 605,835,217

See accompanying notes to basic financial statements.

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)
Balance Sheet - Governmental Funds
As of June 30, 2009

	AHMSP - Stage 7	AHMSP - Stage 8	AHMSP - Stage 9	New Secure Housing Program	The Key for Your Home Program	HUD Programs	Other Nonmajor Governmental Funds	Eliminations	Total Governmental Funds
ASSETS									
Due from other funds	$ -	$ 31,769	$ -	$ 36,883	$ 591,748	$ -	$ 15,548,411	$ (13,196,483)	$ 3,012,328
Restricted:									
Cash		87,169		25,413	60,305	2,945,938	182,497		3,301,322
Deposits placed with banks					13,846,078		30,949,888		44,795,966
Investments and investment contracts	21,869,155	15,482,771	12,476,026				63,965,473		113,793,425
Interest receivable	86,611	68,758	2,807	33	123,982	82	234,542		516,815
Other current receivables					15,000	2,511,310			2,526,310
Loans receivable, net							2,062,522		2,062,522
Real estate available for sale	-	-	-	-	-	-	519,466	-	519,466
TOTAL	$ 21,955,766	$ 15,670,467	$ 12,478,833	$ 62,329	$ 14,637,113	$ 5,457,330	$ 113,462,799	$ (13,196,483)	$ 170,528,154
LIABILITIES AND FUND BALANCE (DEFICIT)									
LIABILITIES:									
Due to other funds	$ 18,428,482	$ -	$ -	$ 6,158,130	$ -	$ 1,013,195	31,769	$ (13,196,483)	12,435,093
Restricted:									
Accounts payable and accrued liabilities	1,287,018	498,422	294,449	5,698,699	34,601	4,444,135	2,381,427		14,638,751
Due to Government Development Bank for Puerto Rico	52,404,062	-	340,458	-	-	-	13,580,319	-	66,324,839
Total liabilities	72,119,562	498,422	634,907	11,856,829	34,601	5,457,330	15,993,515	(13,196,483)	93,398,683
FUND BALANCE (DEFICIT):									
Reserved for:									
Long-term loans receivable and other assets							2,581,988		2,581,988
Debt service							29,079,600		29,079,600
Unreserved-special revenue funds	(50,163,796)	15,172,045	11,843,926	(11,794,500)	14,602,512	-	65,807,696	-	45,467,883
Total fund balance (deficit)	(50,163,796)	15,172,045	11,843,926	(11,794,500)	14,602,512	-	97,469,284		77,129,471
	$ 21,955,766	$ 15,670,467	$ 12,478,833	$ 62,329	$ 14,637,113	$ 5,457,330	$ 113,462,799	$ (13,196,483)	$ 170,528,154

Amounts reported for governmental activities in the statement of net assets are different because:	
Total fund balance	$ 77,129,471
Deferred bond issue costs that are recorded as expenditures in governmental funds, but are capitalized in the government-wide financial statement	329,907
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(48,327,012)
Accrued interest payable not due and payable in the current period	(256,831)
Net assets of governmental activities	$ 28,875,535

See accompanying notes to basic financial statements.

PUERTO RICO HOUSING FINANCE AUTHORITY

(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2009

	AHMSP-Stage 7	AHMSP-Stage 8	AHMSP-Stage 9	New Secure Housing Program	The Key for Your Home Program	HUD Programs	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:								
Commonwealth appropriations	$ 416,858	$ -	$ 26,092	$ -	$ -	$ -	$ 1,810,481	$ 2,253,431
Intergovernmental – federal government						118,532,083		118,532.083
Interest income on deposits placed with banks				1,959	589,411		664,276	1,255,646
Interest income on investment and investment contracts	1,465,287	821,013	516,782				2,220,618	5,023,700
Interest income on loans							224,595	224,595
Net increase in fair value of investments		46,046					66,177	112,223
Other income	-	-	-	497,594	1,930,969	-	345,893	2,774,456
Total revenues	1,882,145	867,059	542,874	499,553	2,520,380	118,532,083	5,332,040	130,176,134
EXPENDITURES:								
General government and other	8,500	8,545				4,303,112	234,494	4,554,651
Housing assistance programs	2,047,270	807,053	811,571	5,693,642	20,745,483	114,228,971	4.403,030	148.737,020
Credit for loan losses							(87,422)	(87,422)
Debt service:								
Principal	150,768			1,851,918				2,002,686
Interest	1,593,414	-	12,364	-	-	-	493,199	2,098,977
Total expenditures	3,799.952	815,598	823,935	7,545,560	20,745,483	118.532,083	5.043,301	157,305,912
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,917,807)	51,461	(281,061)	(7,046,007)	(18,225,103)	-	288,739	(27,129,778)
OTHER FINANCING SOURCES (USES):								
Issuance of long-term debt				5,103,909				5,103.909
Transfers in							13.067,892	13,067.892
Transfers out	-	-	(519,863)	-	-	-	(19,157,035)	(19,676,898)
Total other financing sources (uses)	-	-	(519,863)	5,103,909	-	-	(6,089,143)	(1,505,097)
NET CHANGE IN FUND BALANCE	(1,917.807)	51,461	(800,924)	(1,942,098)	(18,225,103)	-	(5.800,404)	(28,634,875)
FUND BALANCE (DEFICIT) — Beginning of year	(48,245,989)	15,120,584	12,644,850	(9,852,402)	32,827,615	-	103,269,688	105,764,346
FUND BALANCE (DEFICIT) — End of year	$ (50,163,796)	$ 15,172,045	$ 11,843,926	$ (11,794,500)	$ 14,602,512	$ -	$ 97,469,284	$ 77,129,471

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance-total governmental funds	$ (28,634,875)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	(3,101,223)
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(26,320,315)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds	3,850,908
Governmental funds report the effect of issuance costs when debt is firstissued, whereas these costs are deferred and amortized in the statement of activities. This amount is the amortization for the year.	(16,500)
Change in net assets of governmental activities	$ (54,222.005)

See accompanying notes to basic financial statements.

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)
Balance Sheet - Enterprise Funds
As of June 30, 2009

	Operating and Administrative	Mortgage Trust III	Single Family Mortgage Revenue Bonds - Portfolio IX	Single Family Mortgage Revenue Bonds - Portfolio X	Single Family Mortgage Revenue Bonds - Portfolio XI	Mortgage-Backed Certificates 2006 Series A	Other Nonmajor Funds	Eliminations	Total Enterprise Funds
ASSETS									
CURRENT ASSETS:									
Cash	$ 7,227,598	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,227,598
Deposits placed with banks	106,450,606								106,450,606
Loans receivable	4,776,000								4,776,000
Interest receivable	1,614,970								1,614,970
Other current receivables	1,785,803								1,785,803
Other assets	2,402								2,402
Due from other funds	12,435,093						72,848	(72,848)	12,435,093
Restricted:									
Cash		17,767,124					130,148		17,897,272
Deposits placed with banks		310,210,750	56,634	24,493			55,088,522		365,380,399
Investments and investment contracts		4,574			184,205,478		696,849		184,906,901
Loans receivable		600,000							600,000
Interest receivable		11,413,853	561,447	373,335	72,427	696,996	975,148		14,093,206
Other assets	-	5,038	-	-	-	-	1,000	-	6,038
Total current assets	134,292,472	340,001,339	618,081	397,828	184,277,905	696,996	56,964,515	(72,848)	717,176,288
NONCURRENT ASSETS:									
Restricted:									
Investments and investment contracts		207,643,654	130,296,211	86,403,955	16,299,050	150,459,223	145,927,386		737,029,479
Loans receivable, net		5,291,379							5,291,379
Deferred bond issue costs			474,742	2,230,276	2,403,187	1,712,252	221,749		7,042,206
Real estate available for sale							1,291,251		1,291,251
Investments and investment contracts	17,628,800								17,628,800
Loans receivable, net	192,023,957								192,023,957
Real estate available for sale	2,436,865								2,436,865
Property held in trust for the Puerto Rico Department of Housing	8,880,000								8,880,000
Capital assets	4,158,795	-	-	-	-	-	-		4,158,795
Total noncurrent assets	225,128,417	212,935,033	130,770,953	88,634,231	18,702,237	152,171,475	147,440,386	-	975,782,732
TOTAL	$ 359,420,889	$ 552,936,372	$ 131,389,034	$ 89,032,059	$ 202,980,142	$ 152,868,471	$ 204,404,901	$ (72,848)	$ 1,692,959,020

See accompanying notes to basic financial statements.

(Continued)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)
Balance Sheet - Enterprise Funds
As of June 30, 2009

	Operating and Administrative	Mortgage Trust III	Single Family Mortgage Revenue Bonds - Portfolio IX	Single Family Mortgage Revenue Bonds - Portfolio X	Single Family Mortgage Revenue Bonds - Portfolio XI	Mortgage-Backed Certificates 2006 Series A	Other Nonmajor Funds	Eliminations	Total Enterprise Funds
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES:									
Accounts payable and accrued liabilities	$ 9,662,802	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,662,802
Due to other funds	3,085,176	-	-	-	-	-	-	(72,848)	3,012,328
Total current liabilities payable from unrestricted assets	12,747,978	-	-	-	-	-	-	(72,848)	12,675,130
Current liabilities payable from restricted assets :									
Bonds and mortgage-backed certificates payable		43,060,000	2,350,000	1,285,000	3,020,000	11,264,136	3,040,000		64,019,136
Accrued interest payable			547,531	362,399	862,385	17,468	562,599		2,352,382
Accounts payable and accrued liabilities	-	75,000	23,232	15,810	16,250	-	463,721	-	594,013
Total current liabilities payable from restricted assets	-	43,135,000	2,920,763	1,663,209	3,898,635	11,281,604	4,066,320	-	66,965,531
Total current liabilities	12,747,978	43,135,000	2,920,763	1,663,209	3,898,635	11,281,604	4,066,320	(72,848)	79,640,661
NONCURRENT LIABILITIES:									
Noncurrent liabilities payable from unrestricted assets — Notes payable to Government Development Bank for Puerto Rico	1,597,005	-	-	-	-	-	-	-	1,597,005
Payable from restricted assets:									
Estimated liability for losses on mortgage loans insurance							188,652		188,652
Bonds and mortgage-backed certificates payable	-	403,941,406	116,940,000	78,745,000	196,980,000	107,256,614	130,710,000	-	1,034,573,020
Total current liabilities payable from restricted assets	-	403,941,406	116,940,000	78,745,000	196,980,000	107,256,614	130,898,652	-	1,034,761,672
Total noncurrent liabilities	1,597,005	403,941,406	116,940,000	78,745,000	196,980,000	107,256,614	130,898,652	-	1,036,358,677
Total liabilities	14,344,983	447,076,406	119,860,763	80,408,209	200,878,635	118,538,218	134,964,972	(72,848)	1,115,999,338
NET ASSETS:									
Invested in capital assets	4,158,795								4,158,795
Restricted for:									
Mortgage loan insurance							58,852,573		58,852,573
Affordable housing programs		105,859,966	11,528,271	8,623,850	2,101,507	34,330,253	10,514,508		172,958,355
Unrestricted	340,917,111	-	-	-	-	-	72,848	-	340,989,959
Total net assets	345,075,906	105,859,966	11,528,271	8,623,850	2,101,507	34,330,253	69,439,929	-	576,959,682
TOTAL	$ 359,420,889	$ 552,936,372	$ 131,389,034	$ 89,032,059	$ 202,980,142	$ 152,868,471	$ 204,404,901	$ (72,848)	$ 1,692,959,020

See accompanying notes to basic financial statements.

(Concluded)

PUERTO RICO HOUSING FINANCE AUTHORITY

(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Revenues, Expenses, and Changes in Net Assets - Enterprise Funds
For the Year Ended June 30, 2009

	Operating and Administrative	Mortgage Trust III	Single Family Mortgage Revenue Bonds - Portfolio IX	Single Family Mortgage Revenue Bonds - Portfolio X	Single Family Mortgage Revenue Bonds - Portfolio XI	Mortgage-Backed Certificates 2006 Series A	Other Nonmajor Funds	Total Enterprise Funds
OPERATING REVENUES:								
Investment income:								
Interest income on deposits placed with banks	$ 2,149,887	$ 22,383,151	$ 488	$ 272	$ 210	$ -	$ 1,449,207	$ 25,983,215
Interest income on investment and investment contracts	1,466,957	16,156,764	6,981,701	4,928,916	2,285,119	9,021,076	7,779,280	48,619,813
Net increase (decrease) in fair value of investments	(500)	1,139,924	2,787,525	1,676,228	542,803	4,175,483	3,285,812	13,607,275
Total investment income	3,616,344	39,679,839	9,769,714	6,605,416	2,828,132	13,196,559	12,514,299	88,210,303
Interest income on loans	12,622,283	488,984	-	-	-	-	-	13,111,267
Total investment income and interest income	16,238,627	40,168,823	9,769,714	6,605,416	2,828,132	13,196,559	12,514,299	101,321,570
Noninterest income:								
Fiscal agency fees	458,767							458,767
Commitment, guarantee, service, and administrative fees	6,759,630						103,754	6,863,384
Mortgage loan insurance premiums							3,000,213	3,000,213
Net gain from sale of foreclosed real estate available for sale	354,389						128,877	483,266
Net gain on sale of loans	335,030							335,030
Other income	225,226	-	-	-	8,475	-	16,750	250,451
Total noninterest income	8,133,042	-	-	-	8,475	-	3,249,594	11,391,111
Total operating revenues	24,371,669	40,168,823	9,769,714	6,605,416	2,836,607	13,196,559	15,763,893	112,712,681
OPERATING EXPENSES:								
Provision (credit) for loan losses	(1,520,015)						980,000	(540,015)
Credit for losses on mortgage loan insurance							(253,000)	(253,000)
Provision for amounts due from departments and agencies of the Commonwealth of Puerto Rico	88,925							88,925
Interest expense — Bonds and notes payable	17,708	33,448,444	6,920,732	5,090,692	10,676,769	7,728,863	7,263,296	71,146,504
Other noninterest expenses:								
Salaries and fringe benefits	10,667,803							10,667,803
Occupancy and equipment costs	2,188,588							2,188,588
Depreciation and amortization	1,031,370							1,031,370
Legal and professional fees	2,565,639			3,500			103,265	2,672,404
Office and administrative	398,496							398,496
Subsidy and trustee fees	24,692	150,000	24,421	12,649	15,000	(24,708)	61,546	263,600
Other expense	189,361	-	106,174	-	-	-	63,540	359,075
Total noninterest expense	17,065,949	150,000	130,595	16,149	15,000	(24,708)	228,351	17,581,336
Total operating expenses	15,652,567	33,598,444	7,051,327	5,106,841	10,691,769	7,704,155	8,218,647	88,023,750
OPERATING INCOME (LOSS)	8,719,102	6,570,379	2,718,387	1,498,575	(7,855,162)	5,492,404	7,545,246	24,688,931
TRANSFERS:								
Transfers in	30,725,802		519,863	498,669	7,700,867	2,167,524	6,595,883	48,208,608
Transfer out	(8,434,064)	(10,760,318)	-	-	-	(2,110,392)	(20,294,828)	(41,599,602)
CHANGE IN NET ASSETS	31,010,840	(4,189,939)	3,238,250	1,997,244	(154,295)	5,549,536	(6,153,699)	31,297,937
NET ASSETS — Beginning of year	314,065,066	110,049,905	8,290,021	6,626,606	2,255,802	28,780,717	75,593,628	545,661,745
NET ASSETS — End of year	$ 345,075,906	$ 105,859,966	$ 11,528,271	$ 8,623,850	$ 2,101,507	$ 34,330,253	$ 69,439,929	$ 576,959,682

See accompanying notes to basic financial statements.

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Cash Flows – Enterprise Funds
For the Year Ended June 30, 2009

	Operating and Administrative	Mortgage Trust III	Single Family Mortgage Revenue Bonds-Portfolio IX	Single Family Mortgage Revenue Bonds-Portfolio X	Single Family Mortgage Revenue Bonds-Portfolio XI	Mortgage-Backed Certificates 2006 Series A	Other Nonmajor Funds	Eliminations	Total Enterprise Funds
Cash flows from operating activities:									
Cash received from interest on mortgage and construction loans	$ 11,975,308	$ 492,307	$ -	$ -	$ -	$ -	$ -	$ -	$ 12,467,615
Cash paid for mortgage and construction loans originated	(40,692,867)						(980,000)		(41,672,867)
Principal collected on mortgage and construction loans	12,141,808	582,284							12,724,092
Proceeds from sale of mortgage and construction loans	33,838,068								33,838,068
Cash received from other operating noninterest income	9,702,396				8,475		120,507		9,831,378
Cash received from mortgage loans insurance premiums							3,000,213		3,000,213
Cash paid for noninterest expenses	(11,581,607)	(150,000)	(131,314)	(3,499)	(16,309)		(73,074)		(11,955,803)
Cash payments for salaries and fringe benefits	(10,382,442)								(10,382,442)
Internal balances	(4,467,998)	-	-	-	-	-	(261,212)	-	(4,729,210)
Net cash provided by (used in) operating activities	532,666	924,591	(131,314)	(3,499)	(7,834)	-	1,806,434	-	3,121,044
Cash flows from noncapital financing activities:									
Proceeds from issuance of notes payable to Government Development Bank for Puerto Rico	1,597,005								1,597,005
Payments of bonds payable		(43,270,000)	(5,160,000)	(144,565,000)		(10,552,160)	(11,540,000)		(215,087,160)
Interest paid			(6,778,425)	(5,405,556)	(10,233,630)	(6,546,849)	(7,119,561)		(36,084,021)
Transfers in	18,985,485		519,863	498,669	7,700,867		329,343		28,034,227
Transfers out	-	-	-	-	-	(2,110,392)	(20,294,828)	-	(22,405,220)
Net cash provided by (used in) noncapital financing activities	20,582,490	(43,270,000)	(11,418,562)	(149,471,887)	(2,532,763)	(19,209,401)	(38,625,046)	-	(243,945,169)
Cash flows from capital and related financing activities — Acquisition of capital assets	(643,852)	-	-	-	-	-	-	-	(643,852)
Cash flows from investing activities:									
Purchases of investments		(7,244,868)	(12,251,398)	(8,306,012)	(16,139,598)	(21,109,154)	(17,883,691)		(82,934,721)
Proceeds from sales and redemptions of investments	25,500	40,261,788	16,799,889	152,165,103	16,177,872	31,240,795	29,637,129		286,308,076
Net change in deposits placed with banks	(22,353,626)	(21,660,434)	(5,798)	650,150			15,206,369		(28,163,339)
Cash received from interest on investments	3,406,671	27,079,940	7,007,183	4,966,145	2,486,014	9,075,262	9,274,012		63,295,227
Proceeds from sale of real estate held for sale	1,250,485						561,202		1,811,687
Acquisition of real estate held for sale	(102,821)						(376,000)		(478,821)
Net change in other assets	155,917	(5,039)	-	-	-	-	(1,000)	-	149,878
Net cash provided by (used in) investing activities	(17,617,874)	38,431,387	11,549,876	149,475,386	2,524,288	19,206,903	36,418,021	-	239,987,987
Net change in cash	2,853,430	(3,914,022)	-	-	(16,309)	(2,498)	(400,591)	-	(1,479,990)
Cash — beginning of year	4,374,168	21,681,146	-	-	16,309	2,498	530,739	-	26,604,860
Cash — end of year	$ 7,227,598	$ 17,767,124	$ -	$ -	$ -	$ -	$ 130,148	$ -	$ 25,124,870
Reconciliation to enterprise funds balance sheet:									
Cash – unrestricted	$ 7,227,598	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,227,598
Cash – restricted	-	17,767,124	-	-	-	-	130,148	-	17,897,272
Total cash at year-end	$ 7,227,598	$ 17,767,124	$ -	$ -	$ -	$ -	$ 130,148	$ -	$ 25,124,870

See accompanying notes to basic financial statements.

(Continued)

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Cash Flows – Enterprise Funds
For the Year Ended June 30, 2009

	Operating and Administrative	Mortgage Trust III	Single Family Mortgage Revenue Bonds-Portfolio IX	Single Family Mortgage Revenue Bonds-Portfolio X	Single Family Mortgage Revenue Bonds-Portfolio XI	Mortgage-Backed Certificates 2006 Series A	Other Nonmajor Funds	Total Enterprise Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:								
Operating income (loss)	$ 8,719,102	$ 6,570,379	$ 2,718,387	$ 1,498,575	$ (7,855,162)	$ 5,492,404	$ 7,545,246	$ 24,688,931
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:								
Depreciation and amortization	1,031,370							1,031,370
Amortization of deferred loan fees, net	(586,146)							(586,146)
Net decrease (increase) in fair value of investments	500	(1,139,924)	(2,787,525)	(1,676,228)	(542,803)	(4,175,483)	(3,285,812)	(13,607,275)
Interest income on investments	(3,616,844)	(38,539,915)	(6,982,189)	(4,929,188)	(2,285,329)	(9,021,076)	(9,228,487)	(74,603,028)
Capitalized interest on loans receivable	(728,393)							(728,393)
Gain on sale of loans	(335,030)							(335,030)
Provision (credit) for loan losses	(1,520,015)						980,000	(540,015)
Credit for losses on mortgage loan insurance							(253,000)	(253,000)
Provision for amounts due from departments and agencies of the Commonwealth of Puerto Rico	88,925							88,925
Gain on sale of real estate held for sale	(354,389)						(128,877)	(483,266)
Provision (credit) for losses on real estate held for sale	(128,824)						6,926	(121,898)
Interest expense	17,708	33,448,444	6,920,732	5,090,692	10,676,769	7,728,863	7,263,296	71,146,504
Changes in operating assets and liabilities:								
Accrued interest on mortgage and construction loans	81,418	3,323						84,741
Mortgage and construction loans originated	(40,692,867)						(980,000)	(41,672,867)
Collections of mortgage and construction loans	12,141,808	582,284						12,724,092
Proceeds from sale of mortgage and construction loans	33,838,068							33,838,068
Other accounts receivable	2,844,925							2,844,925
Accounts payable and accrued liabilities	(6,004,525)		(719)	12,650	(1,309)	(24,708)	148,354	(5,870,257)
Accrued salaries and fringe benefits	203,873							203,873
Internal balances	(4,467,998)	-	-	-	-	-	(261,212)	(4,729,210)
Net cash provided by (used in) operating activities	$ 532,666	$ 924,591	$ (131,314)	$ (3,499)	$ (7,834)	$ -	$ 1,806,434	$ 3,121,044
Noncash investing and noncapital financing activities:								
Accretion of discount on investments	$ -	$ 10,515,446	$ -	$ -	$ -	$ -	$ -	$ 10,515,446
Amortization of bond issue costs			163,529	336,622	328,154	155,186	185,848	1,169,339
Accretion of discount on bonds payable, net		33,448,444				668,602		34,117,046
Amortization of deferred loss (included in interest expense)						359,647		359,647
Intrafund transfer of mortgage loans receivable to other real estate held for sale	1,306,364							1,306,364
Internal balances	(2,326,254)	10,760,318				(2,167,524)	(6,266,540)	-
Transfers in	10,760,318					2,167,524	6,266,540	19,194,382
Transfers out	(8,434,064)	(10,760,318)						(19,194,382)

See accompanying notes to basic financial statements.

(Concluded)

1. REPORTING ENTITY

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

The Authority, in conjunction with the Puerto Rico Department of Housing (the "Department of Housing"), is the entity responsible for certifying projects under the New Secure Housing Program (known in Spanish as Nuevo Hogar Seguro) with the approval of the Federal Emergency Management Agency (FEMA). This program is directed to plan, coordinate, and develop the construction of new housing as a replacement to those destroyed by Hurricane Georges in 1998, and to attend the housing needs of families living in hazard-prone areas.

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to governmental entities. The Authority follows Governmental Accounting Standards Board (GASB) pronouncements under the hierarchy established by GASB Statement No. 55, *The Hierarchy of Generally Accepted Principles for State and Local Governments*, in the preparation of its financial statements. In the past, the Authority followed FASB pronouncements to the extent they did not conflict with GASB pronouncements.

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

Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

Separate financial statements are provided for governmental funds and enterprise funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column, except for those governmental nonmajor funds which management has elected to present separately in the financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2009, is reported only in the government-wide financial statements.

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

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

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

Affordable Housing Mortgage Subsidy Programs (AHMSP) (Stages 7, 8, and 9) — These special revenue funds are used to account for the proceeds of specific revenue sources under Stages 7, 8, and 9 of the AHMSP that are legally restricted for expenditures to promote the origination of mortgage loans by financial institutions in the private sector to low- and moderate-income families. Under these stages, the Authority commits to provide subsidy for the down payment and/or the principal and interest payments on mortgage loans originated under a predetermined schedule of originations and, in the case of Stage 9, to acquire such mortgages in the form of mortgage-backed securities issued by the financial institutions. Loans originated, as well as servicing, are kept by the originating financial institution. There was no open schedule of originations under these stages as of June 30, 2009.

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

The Key for Your Home Program — This special revenue fund was created to provide subsidy to low- and moderate-income families of costs directly related to the purchase and rehabilitation of housing units, subject to certain maximum amounts.

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

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

AHMSP (Stages 2, 3 and 6) — These special revenue funds are similar to Stages 7 and 8 described above. There was no open schedule of originations under these stages as of June 30, 2009.

AHMSP (Stages 10 and 11) — These special revenue funds are similar to Stage 9 described above. At June 30, 2009, the Authority had commitments, expiring on September 1, 2009, for the acquisition of mortgage-backed securities amounting to approximately $184 million.

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

AHMSP Law 124 — This special revenue fund accounts for excess subsidy funds as well as accumulated net assets released periodically from arbitrage structures used to provide housing assistance.

Special Obligation Refunding Bonds — Debt Service — This debt service fund accounts for the funds and assets transferred by the Commonwealth through legislative appropriations and by the liquidator of the former Corporación de Renovación Urbana y Vivienda (CRUV).

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

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

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

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

Mortgage Trust III — This fund is used to account for the financing of low- and moderate-income families' purchase of residential housing from the proceeds of bond issuances.

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

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

The Mortgage-Backed Certificates are limited obligations of the Authority, payable from and secured by certain mortgage-backed-securities guaranteed by GNMA and Federal National Mortgage Association (FNMA), (the "Mortgage-Backed Securities"), as well as from moneys in certain funds and accounts established in the trust indenture for the issuance of the Mortgage-Backed Certificates. The Mortgage-Backed Securities are backed by mortgage loans made by participating lending institutions to low- and moderate-income families to finance the purchase of qualified single-family residential housing units in Puerto Rico under the Authority's AHMSP Law 124. Each class of Mortgage-Backed Certificates will be paid from a separate and distinct stream of principal and interest payments from designated mortgage loans per class of Mortgage-Backed Certificates, as paid through the corresponding Mortgage-Backed Securities into which the class mortgage loans are pooled as well as moneys deposited in certain funds and accounts established in the trust indenture. The scheduled and unscheduled principal payments derived from class mortgage loans and interest will be paid on a monthly basis. The principal payments on each Mortgage-Backed Certificate will depend on the principal payments, including prepayments, on the related class mortgage loans. The payments, including prepayments, on the mortgage loans is dependent on a variety of economic and social factors, including the level of market interest rates.

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

Mortgage Loan Insurance — The mortgage loan insurance program was created by law to provide mortgage credit insurance to low- and moderate-income families on loans originated by the Authority and other financial institutions. This activity can be increased through legislative appropriations, if and when needed, and derives its revenue from premiums charged to the borrowers, interest on investments, and sales of properties acquired through foreclosure. The Authority manages the risk of loss of its mortgage loan insurance activities by providing its insurance program only to financial institutions that (1) maintain certain defined minimum capital, (2) are qualified based on experience and resources, (3) perform certain collection efforts, and (4) comply with established procedures and requirements. In addition, the Authority requires certain loan-to-value ratios on loans insured and inscription of the collateral in the property registry of the Commonwealth.

During the year ended June 30, 2008, the Authority created the Puerto Rico Housing Administration program, known in Spanish as "FHA Boricua", expanding requirements and parameters under the existing Act No. 87, *Mortgage Loan Insurance.* The program allows citizens, paying an annual insurance premium, to originate mortgage loans with up to a 98% loan to value (LTV) ratio. The program insures participating lending institutions in events of foreclosure. The program will be financed through annual insurance premiums, commitment and transaction fees, and proceeds from any sale of foreclosed real estate. The program also requires participants to comply with various eligibility requirements.

The Commonwealth guarantees up to $75 million of the principal insured by the mortgage loan insurance program. As of June 30, 2009, the mortgage loan insurance program covered loans aggregating to approximately $607 million.

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

Land Acquisition and Construction Loans Insurance (Act 89) — The land acquisition and construction loans insurance program provides mortgage credit insurance to low- and moderate-income families for the purchase of land lots. The program is financed by further legislative appropriations and proceeds from mortgage insurance premiums and any other income derived from this insurance activity. Under this program, the Authority is authorized to commit the good faith and credit of the Commonwealth up to $5 million for the issuance of debenture bonds.

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

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

Soft Lending Trust – This fund was established to provide gap financing to developers of multifamily rental units. The fund was closed during the year ended June 30, 2009 and all its net assets transferred to the Operating and Administrative fund.

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

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

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

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

Loans recorded in the governmental funds are presented at the outstanding unpaid principal balance reduced by the allowance for loan losses. A reserve for long-term loans and other assets is recorded within fund balance representing amounts not to be collected within the next fiscal year.

Interfund Balances — Interfund receivables and payables have been eliminated from the statement of net assets, except for the residual amounts due between governmental and business-type activities.

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

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

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

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

Leasehold improvements	Lesser of 10 years or lease term
Office furniture and equipment	5 years
Information systems	3 years
Vehicles	5 years

Compensated Absences — The employees of the Authority are granted 30 days of vacation and 18 days of sick leave annually. In the event of employee resignation, an employee is reimbursed for accumulated vacation days up to the maximum allowed. The enterprise fund financial statements and the government-wide financial statements present the cost of accumulated vacation and sick leave as a liability. There are no employees paid by governmental funds.

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

Deferred Revenues — Deferred revenues at the governmental fund level arise when potential revenues do not meet the available criterion for recognition in the current period. Available is defined as due at June 30 and expected to be collected within 120 days thereafter to pay obligations due at June 30. Deferred revenues at the government-wide level arise only when the Authority receives resources before it has a legal claim to them.

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

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

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

Governmental Funds — Reservations of Fund Balance — The governmental fund financial statements present reservations of fund balance for portions of fund balances that are legally segregated for a specific future use or are not available for other future spending.

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

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

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

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

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

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

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for periods beginning after June 15, 2009.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for periods beginning after June 15, 2009.
- GASB Statement No. 54, *Fund Balance Reporting and Governmental Type Fund Definitions*, which is effective for periods beginning after June 15, 2010.

The Authority is in the process of evaluating the effect of the adoption of these statements, if any, on the Authority's basic financial statements.

3. CASH AND DEPOSITS PLACED WITH BANKS

The table presented below discloses the level of custodial credit risk assumed by the Authority at June 30, 2009. Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Funds deposited with GDB or the Economic Development Bank (EDB) for Puerto Rico, a component unit of the Commonwealth, are not covered by this Commonwealth requirement.

The Authority follows GDB's policies for deposits placed with banks, which establish maximum exposure limits for each institution based on the institution's capital, financial condition, and credit rating assigned by nationally recognized rating agencies. Maturities of deposits placed with banks at June 30, 2009, are as follows: $403,339,674 in July 2009, $26,135,756 in August 2009, $44,857,702 in September 2009, $12,000,000 in October 2009, $16,293,839 in November and $14,000,000 in December 2009.

As of June 30, 2009, $546,045,340 of the depository bank balance of $548,468,891 was uninsured and uncollateralized as follows:

	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Cash	$ 28,426,192	$ 31,841,920	$ 29,612,709
Deposits placed with banks	516,626,971	516,626,971	516,432,631
Total	$ 545,053,163	$ 548,468,891	$ 546,045,340

Uninsured and uncollateralized cash of approximately $29.6 million at June 30, 2009, represents the bank balance of cash deposited at GDB and at trustees of $11.6 million and $18.0 million, respectively. These deposits are exempt from the collateral requirement established by the Commonwealth. In addition, deposits placed with banks include certificates of deposit issued by GDB and EDB amounting to $516,432,631.

Reconciliation to the government-wide statement of net assets as of June 30, 2009, is as follows:

Unrestricted:	
Cash and due from banks	$ 7,227,598
Deposits placed with banks	106,450,606
Total unrestricted	113,678,204
Restricted:	
Cash	21,198,594
Deposits placed with banks	410,176,365
Total restricted	431,374,959
Total	$ 545,053,163

4. INVESTMENTS

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

The following table summarizes the type and maturities of investments held by the Authority at June 30, 2009. Investments by type in any one issuer representing 5% or more of total investments of the Authority have been separately disclosed. Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
GNMA	$ -	$ 3,304,156	$ 1,909,887	$ 501,082,464	$ 506,296,507
FNMA				16,232,710	16,232,710
Federal Home Loan Mortgage Corporation (FHLMC)	4,574		51,429	18,491,820	18,547,823
Fixed-income external investment pool — Federated Government Obligations	213,822,733				213,822,733
Puerto Rico Housing Bank Portfolio II bonds				4,015,239	4,015,239
Nonparticipating investment contracts:					
CDC Funding				23,209,010	23,209,010
GDB				184,932,101	184,932,101
Other			17,628,800	68,673,682	86,302,482
Total	$ 213,827,307	$ 3,304,156	$ 19,590,116	$ 816,637,026	$ 1,053,358,605

Reconciliation to the government-wide statement of net assets:

Unrestricted investments and investment contacts	$ 17,628,800
Restricted investments and investment contacts	1,035,729,805
Total	$ 1,053,358,605

At June 30, 2009, substantially all of the Authority's investments in mortgage-backed securities were held by trustees in connection with bonds issued by the Authority, the terms of which provide for early redemption of the bonds if the securities are early repaid.

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

All of the Authority's investments in mortgage-backed securities guaranteed by GNMA carry the explicit guarantee of the U.S. government. The credit quality ratings for investments in debt securities and nonparticipating investment contracts, excluding mortgage-backed securities guaranteed by GNMA, at June 30, 2009, are as follows:

	Credit Risk Rating	
	AAA to A-	**BBB**
Securities Type		
Mortgage-backed securities:		
FNMA	$ 16,232,710	$ -
FHLMC	18,547,823	
Federated government obligations	213,822,733	
Puerto Rico Housing Bank Portfolio II bonds (in-substance defeased)	4,015,239	
Nonparticipating investment contracts	95,956,383	198,487,210
Total	$ 348,574,888	$ 198,487,210

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

5. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable at June 30, 2009 consist of:

		Business-type Activities		
	Governmental Activities	Operating and Administrative	Mortgage Trust III	Total
Real estate loans – all types of residential property, bearing interest at various rates ranging from 2.46% to 18.0%	$ 2,591,441	$ 219,073,755	$ 5,891,379	$ 227,556,575
Less allowance for loan losses	(528,919)	(20,482,699)		(21,011,618)
Less deferred origination fees	-	(1,791,099)	-	(1,791,099)
Total	$ 2,062,522	$ 196,799,957	$ 5,891,379	$ 204,753,858

Reconciliation to the government-wide statement of net assets:

Unrestricted loans receivable-net	$ 196,799,957
Restricted loans receivable-net	7,953,901
Total	$ 204,753,858

Real estate loans receivable represent secured loans with a first lien on the related real estate property granted to low and moderate-income families for the acquisition of single-family units and to developers of multi-family housing units in Puerto Rico. Prior to providing mortgage financing to developers, the Authority obtains representations and approvals from appropriate Commonwealth and U.S. government agencies as to the qualifications of the prospective sponsors, as well as the financial feasibility of each project. Real estate loans are generally collectible monthly at various dates through the year 2047. The collection of noninsured/nonguaranteed real estate loans to developers is dependent on the ability of each housing project to generate sufficient funds to service its debt, which, for other than certain federally assisted housing projects, is predicated on the ability to obtain rent increases to offset increases in operating costs.

At June 30, 2009, nonperforming loans amounted to approximately $46.5 million. Interest income that would have been recorded during 2009 if these loans had performed in accordance with their original terms would have been approximately $2.7 million.

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

The following is a summary of loans considered impaired as of June 30, 2009, and the related interest income for the year then ended:

Recorded investment in impaired loans:	
Requiring an allowance for loan losses	$ 46,244,000
Not requiring an allowance for loan losses	-
Total	$ 46,244,000
Related allowance for loan losses	$ 7,627,000
Average recorded investment in impaired loans	50,428,000
Interest income recognized on impaired loans	-

The summary of the activity in the allowance for loan losses for the year ended June 30, 2009 is as follows:

		Enterprise Fund		
	Governmental Activities	Operating and Administrative	Other Nonmajor Enterprise Funds	Total
Balance, beginning of year	$ 613,179	$ 24,481,020	$ -	$ 25,094,199
Provision (credit) for loan losses	(87,422)	(1,520,015)	980,000	(627,437)
Transfer to Operating and Administrative Fund		- 980,000	- (980,000)	- -
Net recoveries (charge-offs)	3,163	(3,458,306)		(3,455,143)
Balance, end of year	$ 528,919	$ 20,482,699	$ -	$ 21,011,618

During the year ended June 30, 2009, the Authority sold approximately $33.5 million of single family mortgage loans receivable. The net proceeds from the sale of these loans amounted to approximately $34.0 million, including $156,000 of accrued interest. The net gain on the sale of these loans was approximately $335,000.

6. DUE FROM FEDERAL GOVERNMENT

Under the New Secure Housing Program (the "Program"), the Authority is responsible for administering the Program, including contracting, supervising and paying the designers, inspectors, and legal services needed for the Program. The Authority also provides all the funding for the Program through a $67 million non-revolving line of credit with GDB. The Department of Housing is responsible for land acquisitions, auctioning projects, awarding construction contracts, qualifying participants, and selling housing units to eligible participants.

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

In April 2007, FEMA discontinued reimbursing the Authority's allowable costs based on the Program's noncompliance with the scheduled dates for construction activities and case management. The Department of Housing requested a one-year extension up to December 31, 2008, and although original request was denied, FEMA granted such request in 2007.

On June 6, 2008, the Department of Housing requested an additional one-year extension up to December 31, 2009, for the completion of the construction and relocation of participants into new secure housing facilities. On July 1, 2008, FEMA denied the additional one-year extension. The Department of Housing requested through the Governor's Authorized Representative (GAR) on September 19, 2008, a reconsideration of FEMA's decision not to grant the extension. On December 23, 2008, FEMA granted a one year extension up to December 31, 2009. On November 16, 2009, FEMA granted an additional six-month extension up to June 30, 2010.

Significant progress has been made to date in the construction activities and in the case management of the Program. Notwithstanding the foregoing, there is still uncertainty about the compliance with the scheduled date of completion. Based on this and the fact that no reimbursements have been received from FEMA since April 2007, management has decided to establish an allowance for the $24.8 million due from FEMA.

7. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions/ Reclassifications	Ending Balance
Capital assets:				
Leasehold improvements	$ 3,933,095	$ 32,939	$ -	$ 3,966,034
Information systems	1,477,100	414,389	(385,050)	1,506,439
Office furniture and equipment	2,038,896	145,066	(102,613)	2,081,349
Vehicles	104,565	51,458		156,023
Total capital assets	7,553,656	643,852	(487,663)	7,709,845
Less accumulated depreciation and amortization for:				
Leasehold improvements	(965,436)	(360,611)		(1,326,047)
Information systems	(933,161)	(285,909)	385,050	(834,020)
Office furniture and equipment	(1,012,099)	(372,375)	102,613	(1,281,861)
Vehicles	(96,647)	(12,475)		(109,122)
Total accumulated depreciation and amortization	(3,007,343)	(1,031,370)	487,663	(3,551,050)
Total capital assets — net	$ 4,546,313	$ (387,518)	$ -	$ 4,158,795

8. BONDS AND NOTES PAYABLE AND OTHER LIABILITIES

The activity of bonds and notes payable for the year ended June 30, 2009, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Commonwealth appropriation note payable — AHMSP Stage 7	$ 4,962,006	$ -	$ (150,768)	$ 4,811,238	$ -
Due to GDB:					
AHMSP Stage 7	52,659,823		(255,761)	52,404,062	52,404,062
AHMSP Stage 9	354,185	12,365	(26,092)	340,458	340,458
AHMSP Stage 10	14,897,601	493,199	(1,810,481)	13,580,319	13,580,319
New Secure Housing Program	44,189,766	6,563,815	(7,237,807)	43,515,774	3,311,815
Total governmental activities	$ 117,063,381	$ 7,069,379	$ (9,480,909)	$ 114,651,851	$ 69,636,654
Business-type activities:					
Mortgage Trust III	$ 990,663,874	$ -	$ (43,270,000)	$ 947,393,874	$ 43,060,000
Mortgage-Backed Certificates — 2006 Series A	142,633,975		(10,552,160)	132,081,815	11,264,136
Revenue bonds:					
Single Family Mortgage Revenue Bonds — Portfolio IX	124,450,000		(5,160,000)	119,290,000	2,350,000
Single Family Mortgage Revenue Bonds — Portfolio X	224,595,000		(144,565,000)	80,030,000	1,285,000
Single Family Mortgage Revenue Bonds — Portfolio XI	200,000,000			200,000,000	3,020,000
Homeownership Mortgage Revenue Bonds 2000	56,235,000		(3,815,000)	52,420,000	1,130,000
Homeownership Mortgage Revenue Bonds 2001	60,975,000		(5,365,000)	55,610,000	1,295,000
Homeownership Mortgage Revenue Bonds 2003	28,080,000		(2,360,000)	25,720,000	615,000
Total revenue bonds	694,335,000		(161,265,000)	533,070,000	9,695,000
Subtotal	1,827,632,849		(215,087,160)	1,612,545,689	64,019,136
Notes payable (Operating and Administrative) due to GDB		1,597,005		1,597,005	
Plus unamortized premium	600,857		(49,163)	551,694	
Less unaccreted discount and deferred amount on refunds	(549,031,083)		34,525,856	(514,505,227)	
Total business-type activities	$ 1,279,202,623	$ 1,597,005	$ (180,610,467)	$ 1,100,189,161	$ 64,019,136

The annual debt service requirements to maturity, including principal and interest, for long-term debt, other than amounts due to GDB as of June 30, 2009, are as follows:

Years Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest
2010	$ -	$ 256,831	$ 64,019,136	$ 33,931,424
2011		256,831	62,081,192	33,121,749
2012		256,831	62,165,354	32,182,523
2013		256,831	61,633,154	31,302,906
2014	95,757	217,922	57,880,850	30,358,105
2015–2019	524,890	1,012,614	273,109,288	136,829,612
2020–2024	449,503	781,392	180,328,484	108,912,131
2025–2029	1,584,006	614,649	633,888,231	77,521,138
2030–2034	2,157,082	83,355	137,125,000	40,939,711
2035–2039			73,815,000	12,325,286
2040–2044			6,500,000	147,604
Total	$ 4,811,238	$ 3,737,256	$ 1,612,545,689	$ 537,572,189

Governmental Activities

Notes payable by governmental activities consist of the following:

Description and Maturity Date	Interest Rate	Amount Outstanding
Note Payable Affordable Housing Mortgage Subsidy Program Stage 7 — July 1, 2009 and each July 1 thereafter to July 1, 2031	4.1%–5.25%	$ 4,811,238

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

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

The Note's outstanding balance at June 30, 2009, was $4,811,238 and matures on July 1, 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the Public Finance Corporation Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by the Public Finance Corporation on the PFC Bonds serviced by the Note to the aggregate amount paid by the Public Finance Corporation on all the PFC Bonds issued by the Public Finance Corporation under Act No. 164.

Business-Type Activities

Bonds payable by business-type activities consist of the following:

Description and Maturity Date	Interest Rate	Amount Outstanding
Mortgage Trust III:		
January 1, 2001, and each July 1 and January 1 thereafter to July 1, 2011	Zero Coupon	$ 62,439,937
January 1, 2001, and each July 1 and January 1 thereafter to January 1, 2021	Zero Coupon	245,102,593
January 1, 2026	Zero Coupon	139,458,876
Single Family Mortgage Revenue Bonds — Portfolio IX — June 1, 2005, and each December 1 and June 1 thereafter to December 1, 2012	3.85%–5.60%	119,290,000
Single Family Mortgage Revenue Bonds – Portfolio X — December 1, 2007, and each December 1 and June 1 thereafter to December 1, 2037	4.15%–5.65%	80,030,000
Single Family Mortgage Revenue Bonds — Portfolio XI — December 1, 2009 and each December 1 and June 1 thereafter to December 1, 2039	2.60%–5.45%	200,000,000
Homeownership Mortgage Revenue Bonds 2000 Series — December 1, 2002 and each June 1 and December 1 thereafter to December 1, 2032	4.25%–5.20%	52,420,000
Total (forward)		$ 898,741,406

Description and Maturity Date	Interest Rate	Amount Outstanding
Brought forward		$ 898,741,406
Homeownership Mortgage Revenue Bonds 2001 Series:		
December 1, 2002, and each December 1 thereafter to December 1, 2012	4.35%-4.70%	5,540,000
June 1, 2013, and each December 1 and June 1 thereafter to December 1, 2033	4.45%-5.50%	50,070,000
Homeownership Mortgage Revenue Bonds 2003 Series:		
December 1, 2005, and each December 1 thereafter to December 1, 2013	3.2%-4.00%	3,285,000
June 1, 2013, and each December 1 and June 1 thereafter to December 1, 2033	4.375%-4.875%	22,435,000
Mortgage-Backed Certificates, 2006 Series A — Principal and interest payable monthly from September 29, 2006 to August 29, 2030	2.955%-6.560%	118,520,750
Total		$ 1,098,592,156

The Authority has defeased certain bonds by placing the proceeds of new bonds in a irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the accompanying financial statements. During 2009, $51 million of bonds that were considered defeased were repaid. At June 30, 2009, there are no bonds outstanding that are considered defeased.

Notes Payable to Government Development Bank for Puerto Rico - On October 7, 2008, the Authority entered in an agreement with GDB to create a credit facility to manage its co-participation program. Under this program, the Authority participates in conjunction with private banks in the granting of construction loans to developers that qualify under Act 124. The credit facility has a maximum credit limit of $50 million, matures on October 7, 2014, and bears a variable interest consisting of prime rate, plus 1% (4.25% at June 30, 2009).

Compensated Absences

The activity for compensated absences, included within accounts payable and accrued liabilities, during the year ended June 30, 2009, is as follows:

	Beginning Balance	Provision	Reductions	Ending Balance	Due Within One Year
Vacation	$ 643,086	$ 733,298	$ (691,561)	$ 684,823	$ 684,823
Sick leave	505,789	440,482	(408,480)	537,791	537,791
Total	$ 1,148,875	$ 1,173,780	$ (1,100,041)	$ 1,222,614	$ 1,222,614

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

10. RESTRICTED NET ASSETS — MORTGAGE LOAN INSURANCE FUND

The Authority is required by law to maintain a liability for estimated losses on insured mortgage loans, which is computed as a percentage of the outstanding principal balance of the insured mortgage loans. Losses incurred upon the foreclosure and subsequent gains or losses on the disposal of properties are credited/charged to the estimated liability for mortgage loan insurance losses. At June 30, 2009, the Authority had restricted net assets for such purposes of approximately $58.9 million.

11. RELATED-PARTY TRANSACTIONS

A summary of the most significant related-party balances and transactions as of June 30, 2009, and for the year then ended is as follows:

Commonwealth of Puerto Rico — Legislative appropriations of approximately $2.3 million were received by the governmental funds during the year ended June 30, 2009. These appropriations are restricted for the payment of certain bonds and to support low-income housing assistance programs.

Department of Housing — At June 30, 2009, the Authority has an amount due from the Department of Housing amounting to $581,687. Management has fully reserved this balance as of June 30, 2009.

Government Development Bank for Puerto Rico

The Authority has the following related-party balances and transactions with GDB:

	Carrying Amount	Interest Rate	Income (Expense)
Assets:			
Deposits — including accrued interest	$ 8,216,540	Variable	$ 79,705
Certificates of deposit — including accrued interest	476,515,270	1.40%–7.25%	24,742,389
Nonparticipating investment contracts — including accrued interest	184,995,327	4.50%–8.29%	15,701,468
Total	$ 669,727,137		$ 40,523,562
Liabilities:			
Lines of credit and notes payable — including accrued interest	$ 111,455,326	1.37%–4.25%	$ (3,310,501)
Bonds payable	139,458,876	Zero coupon	(10,513,378)
Total	$ 250,914,202		$ (13,823,879)
Expenses — administrative charges			$ 120,000

Lease Commitments — The Authority entered into a 30-year lease agreement with the Department of Housing to rent office space expiring in 2037. During the term of the lease, the Authority will pay an annual rent of $1.5 million. The agreed upon rent includes parking spaces, maintenance and security services in common areas. The Department of Housing will be responsible for payment of utilities in exchange for an additional payment of $350,000 payable in a lump sum on or before August 31 of each year. Rent expense during the year ended June 30, 2009 amounted to $1,500,000.

12. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since these commitments might expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Authority evaluates each customer's creditworthiness on a case-by-case basis. The amount of the collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. Collateral generally includes income-producing commercial properties. At June 30, 2009, commitments to extend credit amounted to approximately $12,765,000.

Commitments to purchase mortgage-backed securities are agreements to acquire such securities at a fixed price on behalf of certain housing programs. At June 30, 2009, the Authority had commitments to purchase mortgage-backed securities amounting to approximately $184 million.

13. RETIREMENT SYSTEM

Defined Benefit Pension Plan — The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "Retirement System"), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth. All regular employees of the Authority hired before January 1, 2000, and under 55 years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of accumulated contributions.

The Retirement System provides retirement, death, and disability benefits pursuant to legislation enacted by the Commonwealth's Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and no occupational disabilities. However, a member must have at least 10 years of service to receive no occupational disability benefits.

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

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

Commonwealth legislation requires employees to contribute 5.775% for the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Authority is required by the same statute to contribute 9.275% of the participant's gross salary.

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

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

The Authority is required by Act No. 305 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

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

Total employee contributions to the above-mentioned plans during the year ended June 30, 2009, amounted to approximately $591,000 The Authority's contributions for the years ended June 30, 2009, 2008, and 2007 amounted to approximately $579,000, $675,000, and $594,000, respectively. These amounts represented 100% of the required contribution for the corresponding year. Individual information for each option is not available since the allocation is performed by the Retirement System itself.

Additional information on the Retirement System is provided in its stand-alone financial statements for the year ended June 30, 2009, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, PO Box 42004, San Juan PR 00940-2004.

14. COMMITMENTS AND CONTINGENCIES

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

Custodial Activities of Enterprise Funds — At June 30, 2009, the Authority was custodian of $191,644 in restricted funds of CRUV. As of June 30, 2009, such funds were deposited with GDB. These funds are not owned by the Authority's enterprise funds and, thus, are not reflected in the basic financial statements.

Loan Sales and Securitization Activities — On July 13, 1992, the Authority entered into an agreement to securitize approximately $20.7 million of mortgage loans into a FNMA certificate. The Authority agreed to repurchase, at a price of par plus accrued interest, each and every mortgage loan backing up such security certificate that became delinquent for 120 days or more. As of June 30, 2009, the aggregate outstanding principal balance of the loans pooled into the FNMA certificate amounted to $643,285.

Mortgage Loan Servicing Activities — The Authority acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2009, the principal balance of the mortgage loans serviced for others is as follows:

Popular Mortgage	$ 128,178
R-G Mortgage, Inc.	1,548,223
CRUV or its successor without guaranteed mortgage loan payments	49,048
Total	$ 1,725,449

Litigation — The Authority is a defendant in several lawsuits arising out of the normal course of business. Management, based on discussion with legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material effect on the financial position or results of operations of the Authority.

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

Certain bonds of the Authority are considered no-commitment debt as more fully described in Note 2. At June 30, 2009, there were restricted assets held in trust by others, outstanding obligations, fund balances, and excess of fund expenses over revenues, net of transfers (all of which are excluded from the accompanying basic financial statements), as indicated below (unaudited):

Restricted assets	$ 9,222,065
Restricted liabilities (no-commitment debt)	8,013,477
Restricted fund balance	$ 1,208,588
Excess of fund expenses over revenues	$ 160,346

In December 2003, the Authority issued $663 million in Capital Fund Program Bonds Series 2003 to lend the proceeds thereof to the Public Housing Administration (PHA), a governmental instrumentality of the Commonwealth. PHA utilized such funds for improvements to various public housing projects in the Commonwealth. The Capital Fund Program Bonds Series 2003 are limited obligations of the Authority, which will be paid solely from an annual allocation of public housing capital funds when received from the U.S. Department of Housing and Urban Development and other funds available under the bonds indenture. Accordingly, these bonds are considered no-commitment debt and are not presented in the accompanying basic financial statements. The outstanding balance of these bonds amounted to $572 million at June 30, 2009.

On August 1, 2008, the Authority issued the Capital Fund Modernization Program Subordinate Bonds amounting to $384,475,000 and the Housing Revenue Bonds amounting to $100,000,000. The proceeds from the issuance were mainly used to finance a loan to a limited liability company (the "LLC") and pay the costs of issuance. The $384,475,000 bonds are limited obligations of the Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by the U.S. Department of Housing and Urban Development with an outstanding balance of $368,620,000 at June 30, 2009. The $100,000,000 bonds are also limited obligations of the Authority, payable from amounts deposited in escrow accounts with a trustee and the proceeds of a loan to be made by the Authority to the LLC using moneys received as a grant from the Department of Housing of Puerto Rico. Payment of principal, of the Housing Revenue Bonds is also secured by an irrevocable standby letter of credit issued by the Bank. These bonds are considered no-commitment debt and, accordingly, are excluded, along with the related assets held in trust, from the Authority's financial statements.

In addition, the Authority, as a public housing agency, is authorized to administer the U.S. Housing Act Section 8 Programs in Puerto Rico. The revenues and expenses of such federal financial assistance are accounted for as a major governmental fund under HUD Programs. The Revenues and expenditures related to the administration of the U.S. Housing Act Section 8 Programs amounted to $118,532,083 for the year ended June 30, 2009. This amount includes $4,303,112 of administrative fees for services performed as contract administrator, which are reimbursed by the U.S. Department of Housing and Urban Development.

16. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair values reflected below are indicative of the interest rate environment as of June 30, 2009, and do not take into consideration the effects of interest rate fluctuations. In different interest rate scenarios, fair value results can differ significantly. Furthermore, actual prepayments may vary significantly from those estimated resulting in materially different fair values.

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

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

- Short-term financial instruments, such as cash, deposits placed with banks, and accrued interest receivable and payable have been valued at the carrying amounts reflected in the statement of net assets, as these are reasonable estimates of fair value given the relatively short period of time between origination of the instruments and their expected realization.

- Financial instruments that are primarily traded in secondary markets, such as most investments, were valued using either quoted market prices, prices obtained from a pricing service organization, or quotations received from independent broker dealers.

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

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

The carrying amounts and estimated fair values of the Authority's financial instruments at June 30, 2009, are as follows:

	Carrying Amount	Fair Value
	(In Millions)	
Financial assets:		
Cash and due from banks	$ 28	$ 28
Deposits placed with banks	517	517
Investments and investment contracts	1,053	1,045
Accrued interest and other receivables	21	21
Financial liabilities:		
Due to and notes payable to GDB	111	111
Accounts payable and accrued liabilities	25	25
Accrued interest payable	3	3
Bonds and notes payable	1,103	1,129

17. INTERFUND BALANCES AND TRANSFERS

The summary of the interfund balances as of June 30, 2009, between governmental funds and enterprise funds is as follows:

Receivable by	Payable By	Purpose	Amount
Governmental funds:	**Enterprise funds:**		
New Secure Housing Program	Operating and Administrative	Reimbursement of expenditures	$ 36,883
Other nonmajor funds (Special Obligation Refunding Bonds)	Operating and Administrative	Reimbursement of loan origination	2,383,697
The Key for your Home Program	Operating and Administrative	Advances	591,748
Enterprise funds:	**Governmental funds:**		
Operating and Administrative	New Secure Housing Program	Debt service payments	(6,158,130)
Operating and Administrative	AHMSP Stage 7	Reimbursement of expenditures	(5,263,768)
Operating and Administrative	HUD Programs	Administrative fees	(1,013,195)
			$ (9,422,765)

The summary of the interfund balances as of June 30, 2009, between governmental funds is as follows:

Receivable by	Payable By	Purpose	Amount
Other nonmajor funds (Special Obligation Refunding Bonds)	AHMSP Stage 7	Advances	$ 13,164,714
AHMSP Stage 8	Other nonmajor funds (AHMSP Mortgage-Backed Certificate 2006)	Reimbursement of expenditures	31,769
Total balance among governmental funds eliminated			$ 13,196,483

The summary of the interfund balances as of June 30, 2009, between enterprise funds is as follows:

Receivable by	Payable By	Purpose	Amount
Other nonmajor funds (Mortgage Loan Insurance)	Operating and Administrative	Acquisition of real estate available for sale	$ 72,848

The summary of interfund transfers for the year ended June 30, 2009, is as follows:

Transfer Out	Transfer In	Transfer for	Amount
Governmental Funds	**Governmental Funds**		
Other nonmajor funds (AHMSP Stage 10)	Other nonmajor funds (AHMSP Law 124)	Release of excess funds	$ 10,957,500
Enterprise Funds	**Governmental Funds**		
Mortgage-Backed Certificates 2006 Series A	Other nonmajor funds (AHMSP Mortgage-Backed Certificates)	Subsidy payments	2,110,392
Governmental Funds	**Enterprise Funds**		
AHMSP Stage 9	Single Family Mortgage Revenue Bonds - Portfolio IX	Debt service payments	519,863
Other nonmajor funds (AHMSP Stage 10)	Single Family Mortgage Revenue Bonds - Portfolio X	Debt service payments	498,669
Other nonmajor funds (AHMSP Stage 11)	Single Family Mortgage Revenue Bonds - Portfolio XI	Debt service payments	7,700,867
Enterprise Funds	**Enterprise Funds**		
Other nonmajor funds (Soft-Lending Trust)	Operating and Administrative	Release of funds	19,965,485
Operating and Administrative	Other nonmajor funds (Home Ownership Mortgage Revenue Bonds)	Contribution	2,281,172
Operating and Administrative	Other nonmajor funds (Home Ownership Mortgage Revenue Bonds - 2001)	Contribution	3,985,368
Operating and Administrative	Mortgage-Backed Certificates 2006 Series A	Contribution	2,167,524
Mortgage Trust III	Operating and Administrative	Contribution	10,760,318
Other nonmajor funds (Home Ownership Mortgage Revenue Bonds - 2001)	Other nonmajor funds (Home Ownership Mortgage Revenue Bonds - 2003)	Subsidy payments	329,343

18. FUND BALANCE DEFICIT

The following governmental funds reflect a deficit fund balance at June 30, 2009: AHMSP Stage 7, AHMSP Stage 10, and New Secure Housing Program for the amount of $50.2 million, $7.5 million and $11.8 million, respectively. The deficit of the AHMSP Stage 7 and AHMSP Stage 10 is due to the amounts borrowed from GDB that were used to provide housing subsidies. The deficit of the New Secure Housing Program is due to FEMA discontinued reimbursement of the Authority's allowable costs. The Authority expects to cover these deficits through contributions from the Commonwealth and through the liquidation and transfer of net assets of the Special Obligations Refunding Bonds-Debt Service fund (see Note 19).

19. SUBSEQUENT EVENTS

On August 21, 2009, the Authority's Board of Directors authorized the liquidation of the Special Obligations Refunding Bonds – Debt Service fund and transfer of its net assets to the AHMSP Stage 7 fund. The Authority will use the proceeds to partially repay the amounts due to GDB.

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PUERTO RICO HOUSING FINANCE AUTHORITY

(A Component Unit of the Government Development Bank for Puerto Rico)
Combining Balance Sheet Information - Other Nonmajor Governmental Funds
As of June 30, 2009

	AHMSP – Stage 2	AHMSP – Stage 3	AHMSP – Stage 6	AHMSP – Stage 10	AHMSP – Stage 11	AHMSP – Mortgage-Backed Certificates	AHMSP – Law 124	Special Obligations Refunding Bonds – Debt Service	Total Other Nonmajor Governmental Funds
ASSETS									
Due from other funds	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,548,411	$ 15,548,411
Restricted:									
Cash	417	417	108,379				18,323	54,961	182,497
Deposits placed with banks							17,566,861	13,383,027	30,949,888
Investments and investment contracts	8,310,763	5,785,978	10,935,403	6,188,913	28,920,405	2,333,876	1,490,135		63,965,473
Interest receivable	10,048	7,515	31,684	662	32	585	72,199	111,817	234,542
Loans receivable, net								2,062,522	2,062,522
Real estate available for sale	-	-	-	-	-	-	350,424	169,042	519,466
TOTAL	$ 8,321,228	$ 5,793,910	$ 11,075,466	$ 6,189,575	$ 28,920,437	$ 2,334,461	$ 19,497,942	$ 31,329,780	$ 113,462,799
LIABILITIES AND FUND BALANCE (DEFICIT)									
LIABILITIES:									
Due to other funds	$ -	$ -	$ -	$ -	$ -	$ 31,769	$ -	$ -	$ 31,769
Restricted:									
Accounts payable and accrued liabilities	393,617	42,417	290,885	147,650	21,000	1,424,840	42,402	18,616	2,381,427
Due to Government Development Bank for Puerto Rico	-	-	-	13,580,319	-	-	-	-	13,580,319
Total liabilities	393,617	42,417	290,885	13,727,969	21,000	1,456,609	42,402	18,616	15,993,515
FUND BALANCE (DEFICIT):									
Reserved for:									
Long-term loans receivable and other assets							350,424	2,231,564	2,581,988
Debt service								29,079,600	29,079,600
Unreserved-special revenue funds	7,927,611	5,751,493	10,784,581	(7,538,394)	28,899,437	877,852	19,105,116		65,807,696
Total fund balance (deficit)	7,927,611	5,751,493	10,784,581	(7,538,394)	28,899,437	877,852	19,455,540	31,311,164	97,469,284
TOTAL	$ 8,321,228	$ 5,793,910	$ 11,075,466	$ 6,189,575	$ 28,920,437	$ 2,334,461	$ 19,497,942	$ 31,329,780	$ 113,462,799

PUERTO RICO HOUSING FINANCE AUTHORITY

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

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Information - Other Nonmajor Governmental Funds

For the Year Ended June 30, 2009

	AHMSP – Stage 2	AHMSP – Stage 3	AHMSP – Stage 6	AHMSP – Stage 10	AHMSP – Stage 11	AHMSP – Mortgage-Backed Certificates	AHMSP – Law 124	Special Obligations Refunding Bonds – Debt Service	Total Other Nonmajor Governmental Funds
REVENUES:									
Commonwealth appropriations	$ -	$ -	$ -	$ 1,810,481	$ -	$ -	$ -	$ -	$ 1,810,481
Interest income on deposits placed with banks							317,503	346,773	664,276
Interest income on investment and investment contracts	460,633	321,897	570,488	418,121	301,738	61,368	86,373		2,220,618
Interest income on loans								224,595	224,595
Net increase in fair value of investments	7,330	11,509	18,224				29,114		66,177
Other income	-	-	-	-	-	-	54,058	291,835	345,893
Total revenues	467,963	333,406	588,712	2,228,602	301,738	61,368	487,048	863,203	5,332,040
EXPENDITURES:									
General government and other	5,004	5,004	10,214	42,501			9,522	162,249	234,494
Housing assistance programs	357,017	164,324	517,545	638,516	832,069	1,863,828	29,731		4,403,030
Credit for loan losses								(87,422)	(87,422)
Debt service – interest	-	-	-	493,199	-	-	-	-	493,199
Total expenditures	362,021	169,328	527,759	1,174,216	832,069	1,863,828	39,253	74,827	5,043,301
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	105,942	164,078	60,953	1,054,386	(530,331)	(1,802,460)	447,795	788,376	288,739
OTHER FINANCING SOURCES (USES):									
Transfers in						2,110,392	10,957,500		13,067,892
Transfers out	-	-	-	(11,456,168)	(7,700,867)	-	-	-	(19,157,035)
Total other financing sources (uses)	-	-	-	(11,456,168)	(7,700,867)	2,110,392	10,957,500	-	(6,089,143)
NET CHANGE IN FUND BALANCE	105,942	164,078	60,953	(10,401,782)	(8,231,198)	307,932	11,405,295	788,376	(5,800,404)
FUND BALANCE (DEFICIT) — Beginning of year	7,821,669	5,587,415	10,723,628	2,863,388	37,130,635	569,920	8,050,245	30,522,788	103,269,688
FUND BALANCE (DEFICIT) — End of year	$ 7,927,611	$ 5,751,493	$ 10,784,581	$ (7,538,394)	$ 28,899,437	$ 877,852	$ 19,455,540	$ 31,311,164	$ 97,469,284

PUERTO RICO HOUSING FINANCE AUTHORITY
(A Component Unit of the Government Development Bank for Puerto Rico)
Combining Balance Sheet Information - Other Nonmajor Enterprise Funds
As of June 30, 2009

	Mortgage Loan Insurance Fund	Land Acquisition and Construction Loans Insurance	Homeownership Mortgage Revenue Bonds	Homeownership Mortgage Revenue Bonds – 2001	Homeownership Mortgage Revenue Bonds – 2003	Total Other Nonmajor Enterprise Funds
ASSETS						
CURRENT ASSETS:						
Due from other funds	$ 72,848	$ -	$ -	$ -	$ -	$ 72,848
Restricted:						
Cash	122,389	259	7,500			130,148
Deposits placed with banks	54,118,293	858,817	111,412			55,088,522
Investments and investment contracts					696,849	696,849
Interest receivable	372,051	6,042	241,610	263,523	91,922	975,148
Other assets	1,000	-	-	-	-	1,000
Total current assets	54,686,581	865,118	360,522	263,523	788,771	56,964,515
NONCURRENT ASSETS:						
Restricted:						
Investments and investment contracts	3,340,238		56,820,842	62,761,480	23,004,826	145,927,386
Deferred bond issue costs			357	116,442	104,950	221,749
Real estate available for sale	1,291,251	-	-	-	-	1,291,251
Total noncurrent assets	4,631,489	-	56,821,199	62,877,922	23,109,776	147,440,386
TOTAL	$ 59,318,070	$ 865,118	$ 57,181,721	$ 63,141,445	$ 23,898,547	$ 204,404,901
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES — Current liabilities payable from restricted assets :						
Bonds payable	$ -	$ -	$ 1,130,000	$ 1,295,000	$ 615,000	$ 3,040,000
Accrued interest payable			222,844	240,039	99,716	562,599
Accounts payable and accrued liabilities	203,997	-	183,339	72,522	3,863	463,721
Total current liabilities payable from restricted assets	203,997	-	1,536,183	1,607,561	718,579	4,066,320
NONCURRENT LIABILITIES — Payable from restricted assets:						
Estimated liability for losses on mortgage loans insurance	188,652					188,652
Bonds payable	-	-	51,290,000	54,315,000	25,105,000	130,710,000
Total noncurrent liabilities payable from restricted assets	188,652	-	51,290,000	54,315,000	25,105,000	130,898,652
Total liabilities	392,649	-	52,826,183	55,922,561	25,823,579	134,964,972
NET ASSETS (DEFICIT):						
Restricted for:						
Mortgage loan insurance	58,852,573					58,852,573
Affordable housing programs		865,118	4,355,538	7,218,884	(1,925,032)	10,514,508
Unrestricted	72,848	-	-	-	-	72,848
Total net assets (deficit)	58,925,421	865,118	4,355,538	7,218,884	(1,925,032)	69,439,929
TOTAL	$ 59,318,070	$ 865,118	$ 57,181,721	$ 63,141,445	$ 23,898,547	$ 204,404,901

PUERTO RICO HOUSING FINANCE AUTHORITY

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

Combining Statement of Revenues, Expenses, and Changes in Net Assets Information- Other Nonmajor Enterprise Funds

For the Year Ended June 30, 2009

	Mortgage Loan Insurance Fund	Land Acquisition and Construction Loans Insurance	Homeownership Mortgage Revenue Bonds	Soft Lending Trust	Homeownership Mortgage Revenue Bonds – 2001	Homeownership Mortgage Revenue Bonds – 2003	Total Other Nonmajor Enterprise Funds
OPERATING REVENUES:							
Investment income:							
Interest income on deposits placed with banks	$ 996,868	$ 21,041	$ 1,770	$ 429,528	$ -	$ -	$ 1,449,207
Interest income on investments and investment contracts	219,399		3,020,028		3,363,917	1,175,936	7,779,280
Net increase in fair value of investments	107,483	-	1,347,981	-	1,295,573	534,775	3,285,812
Total investment income	1,323,750	21,041	4,369,779	429,528	4,659,490	1,710,711	12,514,299
Noninterest income:							
Commitment, guarantee, service, and administrative fees	69,091		27,330		7,333		103,754
Mortgage loan insurance premiums	3,000,213						3,000,213
Net gain from sale of foreclosed real estate available for sale	128,877						128,877
Other income	16,750	-	-	-	-	-	16,750
Total noninterest income	3,214,931	-	27,330	-	7,333	-	3,249,594
Total operating revenues	4,538,681	21,041	4,397,109	429,528	4,666,823	1,710,711	15,763,893
OPERATING EXPENSES:							
Provision for loan losses				980,000			980,000
Credit for losses on mortgage loan insurance	(253,000)						(253,000)
Interest expense — Bonds and notes payable			2,865,023		3,106,711	1,291,562	7,263,296
Other noninterest expenses:							
Legal and professional fees			101,155		2,110		103,265
Subsidy and trustee fees			14,445		30,820	16,281	61,546
Other expense	63,540	-	-	-	-	-	63,540
Total noninterest expense	63,540	-	115,600	-	32,930	16,281	228,351
Total operating expenses	(189,460)	0	2,980,623	980,000	3,139,641	1,307,843	8,218,647
OPERATING INCOME (LOSS)	4,728,141	21,041	1,416,486	(550,472)	1,527,182	402,868	7,545,246
TRANSFERS:							
Transfers in			2,281,172		3,985,368	329,343	6,595,883
Transfer out	-	-	-	(19,965,485)	(329,343)	-	(20,294,828)
CHANGE IN NET ASSETS	4,728,141	21,041	3,697,658	(20,515,957)	5,183,207	732,211	(6,153,699)
NET ASSETS (DEFICIT) — Beginning of year	54,197,280	844,077	657,880	20,515,957	2,035,677	(2,657,243)	75,593,628
NET ASSETS (DEFICIT) — End of year	$ 58,925,421	$ 865,118	$ 4,355,538	$ -	$ 7,218,884	$ (1,925,032)	$ 69,439,929