Puerto Rico Housing Finance Authority

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

Audited Financial Statements
As of and for the Year Ended

June 30, 2022

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Basic Financial Statements for the Year Ended June 30, 2022,
and Independent Auditors' Report

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De Angel & Compañía
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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Puerto Rico Housing Finance Authority
San Juan, Puerto Rico

Opinion

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the **Puerto Rico Housing Finance Authority** (the Authority), a component unit of the *Government Development Bank for Puerto Rico* (GDB), as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities, the Business-type Activities, and each major fund of the Authority as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of a proportionate share of the net pension liability, and the schedule of contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board* (GASB), which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Other Matters (Continued)

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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San Juan, Puerto Rico
June 7, 2023
2023-06-53

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This management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the **Puerto Rico Housing Finance Authority** (the Authority) for the fiscal year ended June 30, 2022. The MD&A is intended to serve as an introduction to the Authority's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. The MD&A is designed to (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the Authority's financial activities, and (c) highlight individual fund matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the Authority's financial condition, the following financial statements, notes, and required supplementary information should be reviewed in their entirety.

Financial Highlights

- The Net position of the Authority increased by approximately $14.5 million during fiscal year 2022, from $231.5 million as of June 30, 2021, to $246 million as of June 30, 2022.

- Operating income of the Operating and Administrative fund was approximately $8.7 million for the fiscal year ended June 30, 2022, compared to an operating loss of approximately $6.0 million for the fiscal year ended June 30, 2021. There were net inter-fund transfers of approximately $2.2 million during the fiscal year ended June 30, 2022. The total operating revenues of the Proprietary Fund increased to approximately $29 million in fiscal year 2022 from approximately $16.2 million in fiscal year 2021. Total operating expenses of the Proprietary Fund decreased to approximately $20.3 million in fiscal year 2022 from approximately $22.2 million in fiscal year 2021.

- During fiscal year 2022, the Authority was granted approximately $277.7 million in federal subsidies from the following programs: (i) approximately $135.3 million through the Housing Urban Development Program (HUD or HUD Program); (ii) approximately $5.2 million through the HOME Investment Partnerships Federal Program (the Home Program); (iii) approximately $107.2 million through the Community Development Block Grant Disaster Recovery Program (the CDBG Program); and approximately $30 million through the American Rescue Plan Act (the ARPA Program).

- Approximately $5 million was granted in subsidies through the Affordable Housing Mortgage Subsidy Programs during the fiscal year ended June 30, 2022.

Using this Report

This report consists of a series of financial statements and supplementary information. The Statement of Net Position and the Statement of Activities as well as the Proprietary Fund financial statements provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. Governmental funds' financial statements show how services were financed in the short term, as well as how much may remain for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide statements by providing information about the Authority's major funds.

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the Authority's finances is: "Is the Authority, as a whole, better off or worse off as a result of the year's activities?"

The Statement of Net Position and the Statement of Activities report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflow of resources using the accrual basis of accounting. All the current year's revenues and expenses are taken into account, regardless of when cash was received or paid.

These two statements report on the Authority's net position and changes in it. One can think of the Authority's net position the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in net position are one indicator of whether the Authority's financial health is improving or deteriorating. One may need to consider other non-financial factors, such as changes in the Authority's operating nature, the low-income housing subsidy and mortgage environments, and new laws and regulations.

In the Statement of Net Position and the Statement of Activities, the operations of the Authority are divided into two kinds of activities:

- *Governmental Activities* – Most of the Authority's basic services are reported here, such as low-income housing assistance programs financed through federal grants.

- *Business-type Activities* – The Authority charges fees to its customers to help it cover all or part of the cost of certain services it provides. The main activities included herein include programs for financing the purchase of residential units by low and moderate-income families and loan insurance programs.

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Reporting Major Funds

Fund Financial Statements

Financial statements prepared at the fund level provide additional details about the Authority's financial position and activities. By definition, funds are accounting entities with a self-balancing set of accounts created to carry out specific activities or achieve specific goals. Information presented in the governmental fund financial statements differs from the information presented in the government-wide statements because the perspective and basis of accounting used to prepare the governmental fund financial statements are different from the perspective and basis of accounting used to prepare the government-wide statements. The Authority's governmental and proprietary fund types use different perspectives and accounting bases. The funds presented in the fund financial statements are categorized as major funds as required by accounting principles generally accepted in the United States of America (U.S. GAAP).

The Authority uses two (2) fund types for operations – governmental and proprietary:

- *Governmental Funds* – Most of the Authority's basic services and expenditures are reported in governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end that are available for spending. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Assets and liabilities that do not impact current financial resources, such as capital assets and long-term liabilities, are not recognized in the governmental fund's statements. The governmental fund's statements provide a detailed short-term view of the Authority's income low-income housing programs financed with federal financial assistance programs. Governmental funds information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. The reconciliations between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are presented following the fund financial statements.

- *Proprietary Funds* – These funds are utilized when the Authority charges customers to recover its costs of providing services. Proprietary funds report on business-type activities, which include one enterprise fund. The Authority's enterprise fund is the same as the business-type activities reported in the government-wide statements. Proprietary fund statements are prepared using the economic resources measurement focus and the accrual basis of accounting. In addition to a Balance Sheet and a Statement of Revenues, Expenses, and Changes in Net Position, proprietary funds are also required to report a Statement of Cash Flows.

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

Overall Financial Position and Results of Operations

We provide the readers of these basic financial statements with the following summary discussion and analysis of the relevant facts that affected the wide government-wide financial statements as of June 30, 2022, and June 30, 2021 (in thousands):

	Governmental activities		Business-type activities		Total	
	2022	2021	2022	2021	2022	2021
Assets:						
Cash	$ 90,620	27,007	67,513	51,956	158,133	78,963
Investments and deposits placed with banks	41,765	44,193	142,199	152,522	183,965	196,715
Loans receivable, net	-	-	156,599	161,265	156,599	161,265
Capital assets	9	18	8,578	8,384	8,587	8,402
Other assets	(93)	(2,044)	29,809	23,050	29,716	21,006
Total assets	$ 132,301	69,174	404,698	397,177	536,999	466,351
Deferred outflows of resources	-	-	13,583	16,599	13,583	16,599
Liabilities:						
Due in less than one year	$ 95,988	36,295	52,481	46,827	148,469	83,122
Due in more than one year	2,696	2,795	148,962	161,336	151,658	164,131
Total liabilities	$ 98,684	39,090	201,442	208,163	300,127	247,253
Deferred inflows of resources	$ -	-	4,405	4,157	4,405	4,157
Net position:						
Invested in capital assets	$ 9	18	8,578	8,384	8,587	8,402
Restricted	33,607	30,066	13,681	17,455	47,289	47,521
Unrestricted position	-	-	190,175	175,617	190,175	175,617
Total net position	$ 33,617	30,084	212,434	201,456	246,051	231,540

Governmental activities net position

Total assets from Governmental Activities were approximately $132.3 million as of June 30, 2022. Total liabilities were approximately $98.7 million as of June 30, 2022, for a net position of approximately $33.6 million for the fiscal year ended June 30, 2022. The net position has been broken down into a net investment in capital assets of approximately $9,201 and the remaining balance as the restricted component of the net position of approximately $33.6 million.

The total aggregate amount of investments and investment contracts was approximately $32.7 million as of June 30, 2022, and, together with cash and deposits placed with banks of approximately $99.7 million, accounting for most of the assets held by Governmental Activities. These assets are restricted to providing funds for the execution of the various affordable and other housing programs managed by the Authority. The aggregate amount of cash, investments, and deposits on June 30, 2022, had a net increase of approximately $61.2 million over the prior year.

The increase in cash and investments and deposits placed with banks is mainly due to the increase in the cash of the CDBG Program of $3.5 million and a new federal program described below with $54.2 million. This increase is mostly due to a timing difference between the receipt of the funds and their disbursement. Most of the cash held at the end of the fiscal year is from advances made by the Operating and Administrative fund. The most significant part of the increase in cash, $54.2 million, is due to the inception of the American Rescue Plan Act (the ARPA Program) during fiscal year 2022.

The Authority received $75 million under the ARPA Program to prevent mortgage delinquencies and defaults, foreclosures, loss of utilities or home energy services, and displacement of homeowners experiencing financial hardship after January 21, 2020, as a result of the COVID-19 pandemic. Other assets are mainly restricted and are composed mostly of amounts due from the HUD, HOME, and CDBG federal programs offset by the internal balances with the business-type activities.

A decrease of $1.6 million in fiscal year 2022 as compared to the prior fiscal year is mainly due to a $6.8 million increase in Due from Federal Government offset by an increase of $5.2 million in "*Due to other funds*". Liabilities due in less than one year increased by approximately $13.9 million in fiscal year 2022 over the prior fiscal year. This resulted from an increase in the accounts payable and accrued liabilities of the CDBG Program and ARPA Program amounting to approximately $5.4 million and $8.1 million, respectively. These increases were caused by an increase of $9.3 million in the accounts payable of the CDBG Program offset by the explanations above.

Business-type activities net position

Total assets from Business-type Activities were approximately $404.7 million as of June 30, 2022. Deferred outflows of resources were approximately $13.6 million. Total liabilities were approximately $201.4 million and deferred inflows of resources were approximately $4.4 million, for a net position of approximately $212.4 million during the fiscal year ended June 30, 2022. The net position has been broken down into a net position invested in net capital assets of approximately $8.6 million and restricted for affordable housing programs of $13.7 million. The remaining balance is the unrestricted component of the net position and amounted to approximately $190.2 million. An increase of $7.5 million in total assets of the Business-type Activities in the fiscal year 2022 was mainly due to the operating income of $8.4 million during fiscal year 2022.

The decrease of $47.8 million in deposits placed with banks from the fiscal year 2021 is mainly due to the maturity of a time deposit of approximately $56.2 million from which $8.4 million was reinvested in a new time deposit and $47.9 million in treasury bills. The increase of $37.6 million in investments is the net effect of new treasury bills purchased less approximately $9 million of collateralized mortgage obligation payments. This is all due to the cash management activities of the Authority.

The total aggregate amount of investments and investment contracts was approximately $97.2 million, loans receivable, net of approximately $156.6 million, and cash and deposits placed with banks of $77 million, accounting for most of the assets held by the Business-type Activities for the fiscal year ended June 30, 2022.

Statement of Activities

The statement of activities shows the sources of the Authority's changes in net position as they arise through its various programs and functions. Programs such as the HUD Program, HOME Program, and My New Home Program are shown as governmental activities and other programs (Mortgage Loan Insurance and Home Purchase Stimulus Program) are shown as type business-type activities.

A condensed summary of activities for the fiscal years ended June 30, 2022, and June 30, 2021, is shown in the table on the following page (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program revenues:						
Charges for services	$ -	-	19,977	6,240	19,977	6,240
Financing and investment	1,225	1,826	9,104	10,409	10,329	12,235
Operating grants, capital grants, and contributions	287,192	205,814	-	-	287,192	205,814
Total revenues	288,417	207,640	29,081	16,649	317,498	224,289
Program expenses:						
General government and other	7,103	3,775	-	-	7,103	3,775
Housing assistance programs	275,618	181,668	-	-	275,618	181,668
Operating and administrative	-	-	20,266	22,150	20,266	22,150
Total program expenses	282,721	185,443	20,266	22,150	302,987	207,593
Change in net position before transfers	5,696	22,197	8,815	(5,501)	14,511	16,696
Transfers	(2,163)	(26,235)	2,163	26,235	-	-
Increase (decrease) in net position	3,532	(4,038)	10,979	20,734	14,511	16,696
Net position, beginning of year	30,084	34,122	201,455	180,722	231,540	214,844
Net position, end of year	$ 33,617	$ 30,084	$ 212,434	$ 201,456	$ 246,051	$ 231,540

Governmental activities analysis

Total revenues of governmental activities increased by approximately $80.8 million in 2022 from 2021. The increase was mainly due to increases of $64.8 million and $30 million in the revenues of the CDBG Program and the ARPA Program, respectively offset by a decrease of $16.4 million in the revenues of the Affordable Housing Subsidy Program. The CDBG Program started providing grants at the end of the fiscal year 2020 and has continued increasing the number of participants that receive benefits, accordingly, its revenues increased to cover those participants. As previously explained, the ARPA Program started providing benefits during fiscal year 2022, accordingly, its assets also increased.

A decrease in the revenues of the Affordable Housing Subsidy Program is due to a decrease in the receipts of Commonwealth Appropriations related to Act No. 22, which assigns the Authority the unclaimed funds in local financial institutions that can be used in the future for subsidies or be transferred to the Operating Fund as payment for debts paid on behalf of the Subsidy Fund.
The increase in expenses of the governmental activities of $97.3 million is mainly due to the following:

- $64.6 million increase in the expenses of the CDBG Program ($107.2 million in fiscal year 2022 versus $42.6 million in fiscal year 2021).

- $30 million increase in expenses of ARPA. The program started in fiscal year 2022 as mentioned above.

Business-type activities analysis

The increase in total revenues amounting to approximately $12.4 million is mainly due to the following:

- $6.2 million switch in the equity pickup on PRHFA RLF Investment Fund, LLC from a loss of $5.2 million in fiscal year 2021 to earnings of $1 million in fiscal year 2022.

- $6.2 million increase in net release of allowances. The net release of allowances in fiscal year 2022 amounted to approximately $8 million versus approximately $1.8 million in fiscal year 2021.

Governmental Fund Results

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

HUD Programs – This fund accounts for the U.S. Housing Act Section 8 programs administered by the Authority under the authorization of HUD. Presently, the Authority operates three programs whereby income low-income families receive direct or indirect 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 low and income moderate-income markets.

The expenditures of the HUD Programs increased by approximately $2.7 million from approximately $132.6 million in the fiscal year 2021 to approximately $135.3 million in the fiscal year 2022. This increase is mainly the result of an increase in rents by HUD.

HOME Program – This fund accounts for funds received from HUD for the administration of the HOME Program. The main purpose of this program is to increase the supply of decent and affordable housing for low and very low-income families. Revenues decreased from approximately $8.4 million in the fiscal year 2021 to approximately $5.4 million in the fiscal year 2022 mainly due to the recognition in fiscal year 2021 of $2.8 million in revenues that were unearned revenues in the fiscal year 2020. Expenditures in fiscal year 2022 and fiscal year 2021 remained comparable at $5.2 million in each fiscal year.

CDBG Programs – This special revenue fund is used to account for the specific revenue sources related to the sub-recipient agreements entered between the Authority and PRDOH to administer Community Development Block Grant – Disaster Recovery (CDBG-DR) funds. Revenues and expenditures amounted to $107.5 million and $107.2 million, respectively, for the fiscal year 2022.

ARPA Program – This special revenue fund accounts for revenue sources of the American Rescue Plan Act (ARPA) that is intended to prevent mortgage delinquencies and defaults, foreclosures, loss of utilities or home energy services, and displacement of homeowners experiencing financial hardship after January 21, 2020, as a result of the COVID 19 pandemic.

Affordable Housing Subsidy Program – This fund is used to account for the proceeds of specific local revenue sources under the different subsidy programs of the Authority. During the fiscal year ended June 30, 2022, the fund balance increased by $3.2 million as compared to a decrease of $4.6 million in the fiscal year ended June 30, 2021. The decrease in fund balance for the fiscal year 2021 was caused by a transfer out amounting to $26.2 million offset with $15.6 million in Commonwealth Appropriations related to Act No. 22, which assigns the Authority the unclaimed funds in local financial institutions that can be used in the future for subsidies or be transferred to the Operating Fund as payment for debts paid on behalf of the Subsidy Fund. In the fiscal year 2022, Commonwealth Appropriations amounted to $7.9 million, a decrease of $18.3 million from the prior fiscal year, but transfers to the Operating and Administrative fund only amounted to $2.2 million, compared to $26.2 million in fiscal year 2021. Such lower transfers were mostly responsible for the increase of $3.2 million in fiscal year 2022.

Proprietary Fund Results

The following is an analysis of the financial position and results of operations of the major proprietary fund (the Proprietary Fund):

Operating and Administrative – The net position of the Operating and Administrative fund increased from approximately $201.5 million on June 30, 2021, to approximately $212.4 million on June 30, 2022, or approximately $10.8 million, responding to the operating income for fiscal year 2022 of approximately $8.7 million and by transfers amounting to $2.2 million.

Capital Assets

The Authority's investment in capital assets for its business-type activities as of June 30, 2022, and June 30, 2021, amounted to approximately $8.6 and $8.4 million, respectively, net of accumulated depreciation and amortization. Capital assets include leasehold improvements, information systems, office furniture, equipment, right-to-use assets, and vehicles.

Authority Debt

The Authority uses long-term debt as its main tool to meet its policy objectives. Debt is issued to provide low-interest-rate mortgage opportunities to qualified buyers. This is achieved through the acquisition of mortgage-backed securities that are secured with low-income housing assistance mortgages or through providing subsidies for the down payment and/or the principal and interest payments on mortgage loans. On June 30, 2022, and June 30, 2021, the total debt outstanding was approximately $111.4 million and $121.1 million, respectively. The decrease in total debt of approximately $9.7 million corresponds mainly to scheduled debt service payments for the year and amortization of premiums and discounts. The credit rating of the Authority's public debt is AAA, as determined by Fitch Ratings in July 2022. Refer to Note 10 to the basic financial statements for additional information on borrowed funds.

Requests for Information

This financial report is designed to provide a general overview of the Authority'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.

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Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Net Position
June 30, 2022

	Governmental Activities	Business-type Activities	Total
Assets			
Cash	$ 90,619,778	$ 67,513,073	$ 158,132,851
Deposits placed with banks	9,066,616	9,442,803	18,509,419
Investments and investments contracts	32,698,531	97,235,430	129,933,961
Investment in PRHFA RLF Investment Fund, LLC	-	35,521,155	35,521,155
Loans receivable - net	-	156,598,722	156,598,722
Interest and other receivables	434,906	4,828,048	5,262,954
Due from federal government	21,246,418	-	21,246,418
Other assets	-	31,515	31,515
Internal balances	(21,774,396)	21,774,396	-
Real estate available for sale, net	-	3,174,909	3,174,909
Capital assets, net	9,201	8,577,767	8,586,968
Total assets	132,301,054	404,697,818	536,998,872
Deferred outflows of resources			
Loss on bond refundings	-	1,042,126	1,042,126
Goodwill	-	363,767	363,767
Pension related	-	12,062,120	12,062,120
Other post employment benefits related	-	115,007	115,007
Total deferred outflows of resources	-	13,583,020	13,583,020
Liabilities			
Accounts payable and accrued liabilities	28,625,622	9,037,797	37,663,419
Accrued interest payable	68,617	5,561	74,178
Matured interest payable	1,067,736	-	1,067,736
Unearned revenue	45,663,507	8,222,575	53,886,082
Liability for losses on mortgage loan insurance	-	1,191,512	1,191,512
Due to Commonwealth	-	18,643,295	18,643,295
Lease liability:			
Due within one year		150,871	150,871
Due in more than one year		258,317	258,317
Notes and mortgage-backed certificates payable:			
Matured and due within one year	20,562,751	11,583,114	32,145,865
Due in more than one year	2,696,171	76,531,708	79,227,879
Total pension liability			
Due within one year	-	3,530,830	3,530,830
Due in more than one year	-	70,899,622	70,899,622
Total other post employment benefits liability			
Due within one year	-	115,007	115,007
Due in more than one year	-	1,271,933	1,271,933
Total liabilities	98,684,404	201,442,142	300,126,546
Deferred inflows of resources - pension related	-	4,404,659	4,404,659
Net position:			
Net investment in capital assets	9,201	8,577,767	8,586,968
Restricted for:			
Affordable housing programs	33,607,449	13,681,298	47,288,747
Unrestricted	-	190,174,972	190,174,972
Total net position	$ 33,616,650	$ 212,434,037	$ 246,050,687

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, 2022

		Program Revenues			Net (expenses) revenues and changes in net position		
	Expenses	Charges for Services - fees, commissions, and others	Charges for Services - financing and investment	Operating grants and contributions	Governmental activities	Business-type activities	Total
Functions/programs:							
Governmental activities:							
General government and other	$ 7,103,045	$ -	$ -	$ -	$ (7,103,045)	$ -	$ (7,103,045)
Housing assistance program	275,618,183	-	1,225,002	287,192,074	12,798,893	-	12,798,893
Total governmental activities	282,721,228	-	1,225,002	287,192,074	5,695,848	-	5,695,848
Business-type activities:							
Operating and administrative	20,265,679	19,976,613	9,104,145	-	-	8,815,079	8,815,079
Total business-type activities	20,265,679	19,976,613	9,104,145	-	-	8,815,079	8,815,079
Total functions/programs	$ 302,986,907	19,976,613	10,329,147	287,192,074	5,695,848	8,815,079	14,510,927
Transfers in (out) - net					(2,163,460)	2,163,460	-
Change in net position					3,532,388	10,978,539	14,510,927
Net position - Beginning of year					30,084,262	201,455,498	231,539,760
Net position - End of year					$ 33,616,650	$ 212,434,037	$ 246,050,687

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
June 30, 2022

Assets	**HUD Programs**	**HOME Programs**	**CDBG Programs**	**ARPA Program**	**Affordable Housing Subsidy Programs**	**Total**
Cash	$ 6,389	$ 75,040	$ 7,308,939	$ 54,181,866	$ 29,047,544	$ 90,619,778
Deposits placed with banks	-	-	-	-	9,066,616	9,066,616
Investments and investments contracts	-	-	-	-	32,698,531	32,698,531
Interest and other receivables	-	4,469	290,197	-	140,240	434,906
Due from federal government	836,212	3,015,079	17,395,127	-	-	21,246,418
Total assets	$ 842,601	3,094,588	24,994,263	54,181,866	70,952,931	154,066,249
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	$ 6,389	$ 2,567,531	$ 14,671,753	$ 8,115,824	$ 3,264,125	$ 28,625,622
Unearned revenue	-	-	-	45,663,507	-	45,663,507
Due to other funds	836,212	527,616	10,095,996	402,535	9,912,037	21,774,396
Matured note payable	-	-	-	-	19,909,611	19,909,611
Matured principal on appropriation note	-	-	-	-	551,670	551,670
Matured interest payable	-	-	-	-	1,067,736	1,067,736
Total liabilities	842,601	3,095,147	24,767,749	54,181,866	34,705,179	117,592,542
Deferred inflows of resources:						
Unavailable revenue	-	908,613	-	-	-	908,613
Fund balances (deficit):						
Restricted for affordable housing programs	-	-	226,514	-	36,247,752	36,474,266
Deficit unassigned	-	(909,172)	-	-	-	(909,172)
Total fund balances (deficit)	-	(909,172)	226,514	-	36,247,752	35,565,094
Total liabilities, deferred inflows of resources and fund balances	$ 842,601	$ 3,094,588	$ 24,994,263	$ 54,181,866	$ 70,952,931	$ 154,066,249

See accompanying notes to basic financial statements.

Puerto Rico Housing Finance Authority

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

Reconciliation of the Balance Sheet –Governmental Funds to the Statement of Net Position

June 30, 2022

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

Total fund balances	$ 35,565,094
Capital assets used in governmental activities are not financial resources and, therefore, are not report in the funds	9,201
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Note payable due in more than one year	(2,797,641)
Accrued interest payable is not due and payable in the current period	(68,617)
Deferred inflows of resources reported in the governmental funds are recognized as revenue in the governmental activities	908,613
Net position of governmental activities	$ 33,616,650

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 Balances (Deficit) –Governmental Funds

For the Year Ended June 30, 2022

	HUD Programs	HOME Programs	CDBG Programs	ARPA Program	Affordable Housing Subsidy Programs	Total
Revenues:						
Intergovernmental-federal government	$ 135,304,162	$ 5,378,527	$107,453,499	$ 29,974,035	$ -	$ 278,110,223
Commonwealth appropiations	-	-	-	-	7,880,000	7,880,000
Interest income on investment and investment contracts	-	-	-	-	1,829,266	1,829,266
Interest income on deposits placed with banks	-	-	-	19,751	14,065	33,816
Net decrease in fair value of investments	-	-	-	-	(604,264)	(604,264)
Other income	-	57,214	-	-	1,308,731	1,365,945
Total revenues	135,304,162	5,435,741	107,453,499	29,993,786	10,427,798	288,614,986
Expenditures:						
Current:						
Housing assistance programs	132,334,738	4,675,249	106,111,564	27,635,042	4,688,505	275,445,098
General government and other	2,969,424	563,141	1,115,421	2,358,744	87,154	7,093,884
Debt service:						
Principal	-	-	-	-	101,402	101,402
Interest	-	-	-	-	170,766	170,766
Total expenditures	135,304,162	5,238,390	107,226,985	29,993,786	5,047,827	282,811,150
Excess of revenues over expenditures	-	197,351	226,514	-	5,379,971	5,803,836
Other financing sources (uses)						
Transfers out, net	-	-	-	-	(2,163,460)	(2,163,460)
Net change in fund balances	-	197,351	226,514	-	3,216,511	3,640,376
Fund balance (deficit) — beginning of year	-	(1,106,523)	-	-	33,031,241	31,924,718
Fund balance (deficit) — end of year	$ -	$ (909,172)	$ 226,514	$ -	$ 36,247,752	$ 35,565,094

See accompanying notes to basic financial statements

Amounts reported for governmental activities in the statement of activities are different because:	
Net changes in fund balance — total governmental funds	$ 3,640,376
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.	(2,704)
The issuance of long-tem debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect in net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items as follows:	
Net decrease in long term accrued interest payable	385
Principal on appropriation note - matured	101,402
Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which depreciation exceeded capital outlays in the current period.	(9,161)
Some intergovernmental revenue in the statement of activities do not provide current financial resources, and therefore, are deferred in the governmental funds. Also, intergovernmental revenue related to prior periods that became available during the current period is reported in the governmental funds but is eliminated in the statement of activities. This amount is the net adjustment.	(197,910)
Change in net position of governmental activities	$ 3,532,388

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 Net Position –Proprietary Fund –Operating and Administrative Fund
June 30, 2022

Assets		
Current assets:		
Cash	$	43,730,201
Deposits placed with banks		653,505
Interest receivable		927,999
Other receivables		3,563,013
Other assets		31,515
Due from other funds		21,774,396
Restricted:		
Cash		23,782,872
Deposits placed with banks		8,789,298
Interest receivable		265,238
Other receivables		71,798
Total current assets		103,589,835
Noncurrent assets:		
Investments and investments contracts		54,656,615
Investment in PRHFA RLF Investment Fund, LLC		35,521,155
Loans receivable - net		106,456,090
Capital assets		8,577,767
Restricted:		
Investments and investments contracts		42,578,815
Loans receivable - net		50,142,632
Real estate available for sale		3,174,909
Total noncurrent assets		301,107,983
Total assets		404,697,818
Deferred outflows of resources		
Loss on bond refundings		1,042,126
Goodwill		363,767
Pension related		12,062,120
Other post employment benefits related		115,007
Total deferred outflows of resources		13,583,020
Total assets and deferred outflows of resources	$	418,280,838

Continues

Puerto Rico Housing Finance Authority

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

Statement of Net Position –Proprietary Fund –Operating and Administrative Fund

June 30, 2022

Liabilities		
Current liabilities:		
Current liabilities payable from unrestricted assets:		
Accounts payable and accrued liabilities	$	8,688,006
Lease liability		150,871
Due to Commonwealth		18,643,295
Total pension liability		3,530,830
Total other post employment benefits liability		115,007
Total current liabilities payable from unrestricted assets		31,128,009
Current liabilities payable from restricted assets:		
Accrued interest payable		5,561
Accounts payable and accrued liabilities		349,791
Lease liability		258,317
Unearned revenue		8,222,575
Liability for losses on mortgage loan insurance		1,191,512
Notes and mortagage-backed certificates payable		11,583,114
Total current liabilities payable from restricted assets		21,610,870
Noncurrent liabilities payable from unrestricted assets -		
Total pension liability		70,899,622
Total other post employment benefits liability		1,271,933
Total noncurrent liabilities payable from unrestricted assets		72,171,555
Noncurrent liabilities payable from restricted assets -		
Notes and mortagage-backed certificates payable		76,531,708
Total liabilities		201,442,142
Deferred inflows of resources - pension related		4,404,659
Total liabilities and deferred inflows of resources		205,846,801
Net position:		
Net investment in capital assets		8,577,767
Restricted for:		
Affordable housing programs		13,681,298
Unrestricted		190,174,972
Total net position		212,434,037
Total liabilities, deferred inflows of resources and net position	$	418,280,838

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, Expenses, and Change in Net Position –Proprietary Fund – Operating and Administrative Fund
For the Year Ended June 30, 2022

Operating revenues:	
Investment income:	
Interest income on investment and investment contracts	$ 2,285,207
Interest income on deposits placed with banks	84,070
Net decrease in fair value of investments	(2,530,382)
Total investment income	(161,105)
Interest income on loans	9,143,856
Total investment income and interest income on loans	8,982,751
Noninterest income:	
Commitment, guarantee, service, and administrative fees	4,928,382
Other income	3,369,274
Mortgage loans insurance premiums	2,529,963
Release of allowance for loan losses	3,416,201
Release of allowance for losses on mortgage loan insurance	3,773,442
Release of allowance for losses on other real estate owned	788,082
Recovery of custodial credit risk loss on deposits	138,348
Equity pickup on earnings of PRHFA RLF Investment Fund, LLC	1,032,921
Total noninterest income	19,976,613
Total operating revenues	28,959,364
Operating expenses:	
Interest expense - bonds, notes and mortgage-backed certificates	5,474,987
Other noninterest expenses:	
Salaries and fringe benefits	7,542,469
Pension and other than pension benefits	3,101,780
Legal and professional fees	2,226,237
Occupancy and equipment costs	368,533
Office and administrative	621,228
Other real estate owned maintenance and related expenses	81,342
Depreciation and amortization	712,633
Subsidy and trustee fees	136,470
Total noninterest expense	14,790,692
Total operating expenses	20,265,679
Operating income	8,693,685
Nonoperating income:	
Net gain on sale of loans	121,394
Total nonoperating income	121,394
Transfers in, net	2,163,460
Change in net position	10,978,539
Net position — beginning of year	201,455,498
Net position — end of year	$ 212,434,037

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 –Proprietary Fund –Operating and Administrative Fund
For the Year Ended June 30, 2022

Cash flows from operating activities:	
Cash received from interest on mortgage and construction loans	$ 8,648,357
Cash paid for mortgage and construction loans originated	(18,386,123)
Principal collected on mortgage and construction loans	22,807,684
Cash received from other operating noninterest income	7,503,641
Cash received from nonoperating income	5,724,258
Cash received from mortgage loans insurance premiums	2,129,338
Cash paid for noninterest expenses	(4,393,255)
Cash payments for salaries and fringe benefits	(7,567,710)
Other operating payments	(5,148,757)
Net cash provided by operating activities	11,317,433
Cash flows from noncapital financing activities:	
Payments of mortgage backed certificates and notes payable	(11,996,987)
Interest paid	(2,950,012)
Transfers in	3,429,112
Transfers out	(1,265,652)
Net cash used in noncapital financing activities	(12,783,539)
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(186,433)
Net cash used in capital and related financing activities	(186,433)
Cash flows from investing activities:	
Purchase of investments	(153,416,431)
Proceeds from redemptions of investments	119,807,609
Net change in deposits placed with banks	47,979,004
Cash received from interest on investments and deposits	2,399,601
Proceeds from sale of real estate held for sale	3,667,912
Acquisition of real estate held for sale	(3,228,149)
Net cash provided by investing activities	17,209,546
Net change in cash	15,557,007
Cash, beginning of year	51,956,066
Cash, end of year	$ 67,513,073
Reconciliation of statement of net position — proprietary funds:	
Cash – unrestricted	$ 43,730,201
Cash – restricted	23,782,872
Total cash at year-end	$ 67,513,073

(continues)

Puerto Rico Housing Finance Authority
(A Component Unit of the Government Development Bank for Puerto Rico)
Statement of Cash Flows –Proprietary Fund –Operating and Administrative Fund
For the Year Ended June 30, 2022

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	8,693,685
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		712,633
Release of allowance for loan losses		(3,416,201)
Interest expense		5,474,987
Release of allowance for losses on other real estate owned		(788,082)
Release of allowance for losses on mortgage loan insurance		(3,773,442)
Interest income on investment and investment contracts and deposits		(2,285,207)
Other income		(3,369,274)
Net decrease in fair value of investments		2,530,382
Capitalized interest		(1,715,991)
Recovery of custodial credit risk loss on deposits		(138,348)
Decrease (increase) in:		
Mortgage and construction loans		6,382,835
Accrued interest on mortgage and construction loans		521,922
Interest and other receivables		(1,017,421)
Other assets		(5,560)
Internal balances		(5,201,078)
Deferred outflow of resources - pension related		9,435,049
(Decrease) increase in:		
Accounts payable and accrued liabilities		916,211
Accrued interest payable		794
Unearned revenue		5,191,147
Liability for losses on mortgage loan insurance		(3,773,442)
Net pension liability		(3,152,850)
Total other post employment benefits liability		(152,496)
Deferred inflows of resources - pension related		247,180
Net cash provided by operating activities	$	11,317,433
Noncash investing and noncapital financing activities:		
Capitalized interest and deferred amortization on loans	$	1,715,991
Net Increase (decrease) in fair value of investments	$	(2,530,382)
Accretion/(amortization) of discount (premium) on bonds payable	$	2,306,787
Amortization of deferred loss (included in interest expense)	$	219,020
Pension and other postemployment benefits payments made after the measurement date by the Commonwealth on behalf of the Authority	$	3,645,837
2021 deferred outflows of resources applied to reduce net pension and other postemployment benefits liabilities	$	(3,734,044)

See accompanying notes to basic financial statements.

1. REPORTING ENTITY

Puerto Rico Housing Finance Authority (the Authority) is a component unit of the Government Development Bank for Puerto Rico (GDB), which is a component unit of the Commonwealth of Puerto Rico (the Commonwealth). The Authority operates under Act No. 103 of August 11, 2001, 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 Board of Directors of the Authority consists of seven (7) total members composed of (i) two (2) ex officio members consisting of the Secretary of Housing, who serves as its President, and the Chairperson of the Board of Directors of GDB, and (ii) five (5) additional members appointed by the Governor of the Commonwealth, three (3) of which must be members of the Board of Directors of GDB and two (2) of which must be private sector members.

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

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Authority conform to U.S. GAAP.

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

(a) Government-Wide and Fund Financial Statements

Government-Wide Financial Statements – The statement of net position and the statement of activities report information on all activities of the Authority. The effect of interfund balances has been removed from the government-wide statement of net position, except for the residual amounts due between governmental and business-type activities. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Authority's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange 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. The following is a description of the Authority's government-wide financial statements.

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

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

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

- Unrestricted net position consists of a net position that does not meet the definition of the two preceding categories. The unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. The unrestricted net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are being offset by program revenues.

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

Fund Financial Statements – Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Authority that are reported in the accompanying basic financial statements have been classified into governmental and proprietary funds.

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

(b) Fund Balances

Fund balances of the governmental funds are reported as restricted because the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

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

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

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

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

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

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

- **CDBG Programs** – This special revenue fund is used to account for the specific revenue sources related to the subrecipient agreements entered between the Authority and PRDOH on September 19, 2019, and July 2, 2020, to administer Community Development Block Grant – Disaster Recovery (CDBG-DR) funds. Under the first agreement, the PRDOH allocated $100 million to the Authority, which will be used in conjunction with the Low-Income Housing Tax Credit Program for the construction of affordable rental housing. Under the second agreement, the PRDOH allocated $156 million to the Authority to undertake the Homebuyer Assistance Program. This program will provide financial assistance to qualified homebuyers to cover closing costs and down payment assistance. The Authority will be reimbursed from these allocations for certain costs incurred in the management of these programs.

- **ARPA Program –** This special revenue fund accounts for revenue sources of the American Rescue Plan Act (ARPA) that is intended to prevent mortgage delinquencies and defaults, foreclosures, loss of utilities or home energy services, and displacement of homeowners experiencing financial hardship after January 21, 2020, as a result of the COVID 19 pandemic.

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

  → **Affordable Housing Mortgage Subsidy Programs (AHMSP) Act No. 124** –Under this program, the Authority commits to provide a subsidy for the down payment and/or the principal and interest payments on mortgage loans originated under a predetermined schedule of originations. Loans originated, as well as servicing, are kept by the originating financial institution. There was no open schedule of originations under this program as of June 30, 2022.

  → **My New Home Program** – This program has revenues provided by Act No. 122 of August 6, 2010, as amended, which assigned to the Authority, in perpetuity, a portion of no less than 85% of the unreserved monies and other liquid funds abandoned or unclaimed in financial institutions that will be transferred to the general fund of the

Commonwealth. This program provides subsidies to eligible families for the purchase of a principal residence through reimbursement of origination and closing costs.

→ **My Own Home Program** – This program has revenues provided by Act No. 34 of June 26, 2014. This program provides subsidies to eligible families for the purchase of a principal residence through reimbursement of origination and closing costs.

Proprietary Fund Financial Statements – The financial statements of the Proprietary Fund are reported using the economic resources measurement focus and the accrual basis of accounting.

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

Proprietary Fund – The following business-type activity of the Authority is reported as a single, major Proprietary Fund:

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

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

→ **Mortgage-Backed Certificates 2006 Series A** – The program received resources from the proceeds of the issuance of mortgage-backed certificates (the Mortgage-Backed Certificates), which were used to defease the Collateralized Mortgage Revenue Bonds 1994 Series A and the Single-Family Mortgage Portfolio I and Portfolio IV bonds.

The Mortgage-Backed Certificates are limited obligations of the Authority, payable from and secured by certain mortgage-backed securities guaranteed by Government National Mortgage Associations (GNMA) and Federal National Mortgage Association (FNMA) (the Mortgage-Backed Securities), as well as from money in certain funds and accounts established in the trust indenture for the issuance of the Mortgage-Backed Certificates. The Mortgage-Backed Securities are backed by mortgage loans made by participating lending institutions to low and moderate-income families to finance the purchase of qualified single-family residential housing units in Puerto Rico under the Authority's AHMSP Act No. 124.

Each class of Mortgage-Backed Certificates will be paid from a separate and distinct stream of principal and interest payments from designated mortgage loans per class of Mortgage-Backed Certificates, as paid through the corresponding Mortgage-Backed Securities into which the class mortgage loans are pooled, as well as money 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 monthly.

The rates of principal payments on each Mortgage-Backed Certificate will depend on the rates of principal payments, including prepayments, on the related class mortgage loans. The rates of the payments, including prepayments, on the mortgage loans, are dependent on a variety of economic and social factors, including the level of market interest rates.

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

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

(d) Fair Value Measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

(e) 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. The Authority’s investments and investment contracts have recurring fair value measurements as of June 30, 2020, using quoted market prices (Level 1 inputs). Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in a net increase (decrease) in the 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, the 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.

(f) Investment in PRHFA RLF Investment Fund

The Authority accounts for its investment in PRHFA RLF Investment Fund (RLF) using the equity method of accounting. Under the equity method of accounting, the Authority recognizes the net income or loss of RLF, by increasing or decreasing its investment, after intra-entity profits and losses are eliminated, if any. Dividends paid by RLF, if any, will decrease the investment.

(g) Loans Receivable and Allowance for Loan Losses

Loans are presented at the outstanding unpaid principal balance reduced by an allowance for loan losses. Loans are measured for impairment when it is probable that all amounts, including principal and interest, will not be collected by the contractual terms of the loan agreement. Interest accrual ceases when collectability is uncertain, for single-family loans is 90 days past due, for multiple-family loans is 180 pasts due, and for construction loans when it is considered impaired. Once a loan is placed in nonaccrual status, all accrued but uncollected interest is reversed against current interest income. Interest income on nonaccrual loans is, thereafter, recognized as income only to the extent collected. Nonaccrual loans are returned to 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 collectability of the principal is unlikely. Recoveries of amounts previously charged off are credited to the allowance. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the outstanding loans receivable portfolio and the related allowance may change in the near future.

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

(h) Interfund Activities

Legally required transfers are reported when incurred as transfer in by the recipient fund and as transfer out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements.

(i) Right to Use Lease Assets

Right-to-use assets are representative of the Authority's right to use an asset over the life of a lease in which it is the lessee. The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. Right-to-use assets are amortized over the shorter of the asset's useful life or the term of the lease.

(j) 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 on because the Authority has taken possession of the collateral, even though legal foreclosure or repossession proceedings have not taken place. Those properties are carried at the lower of cost or fair value, which is established by a third-party professional assessment or based upon an appraisal, minus estimated costs to sell.

At the time of acquisition of properties in full or in partial satisfaction of loans, any excess of the loan balance over the fair value of the properties, minus estimated costs to sell, is charged against the allowance for loan losses. Subsequent declines in the value of real estate available for sale are charged to expense. Gain or loss on the sale of real estate available for sale are included within revenues or expenses in the accompanying statement of activities, and within noninterest income or noninterest expense in the accompanying statement of revenues, expenses, and change in net position.

(k) Capital Assets

Capital assets, which include leasehold improvements, information systems, office furniture and equipment, and vehicles, are reported in the governmental activities and business-type activities columns in the government-wide financial statements and the Proprietary Fund. Capital assets are defined by the Authority as assets that 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 acquisition value refers to the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. 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 asset's 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 ten (10) years or lease term
Office furniture and equipment	Five (5) years
Information systems	Three (3) years
Right to use assets	Lesser of five (5) years or lease term
Vehicles	Five (5) years

(l) Goodwill

Goodwill is being amortized on a straight-line basis over five years.

(m) Compensated Absences

The employees of the Authority earn fifteen (15) days of vacation and eighteen (18) days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of sixty (60) and ninety (90) days, respectively. In the event of an employee resignation, an employee is paid for accumulated vacation days up to the maximum allowed. The Proprietary Fund financial statements and the government-wide financial statements present the cost of accumulated vacation as a liability. In governmental funds, such liability is recorded only for the current portion.

(n) Unearned revenue

Unearned revenue consists of cash received from grants that has not been earned under the terms of the agreement.

(o) Liability for Losses on Mortgage Loans 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, the fair value of the related property, and other pertinent factors.

Such an amount is, in the opinion of management, adequate to cover estimated future probable mortgage loan insurance losses. Actual losses for mortgage loan insurance are charged, and recoveries, if any, are credited to the estimated liability for losses on mortgage loan insurance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the outstanding loans guarantees portfolio, and the related liability may change in the near future.

(p) Due to Commonwealth

Due to Commonwealth is the result of PayGo pension benefits payments made by the Commonwealth on behalf of the Authority.

(q) Lease Liability

At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

(r) Loan Origination Costs and Commitment Fees

Loan origination and commitment fees are recognized as revenues in the period received. Direct origination costs are recognized as an expense in the period incurred.

(s) Transfers of Receivables

Transfers of receivables are accounted for 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 services. No servicing asset is recognized since fees are considered adequate compensation.

(t) Mortgage Loans Insurance Premiums

Premiums on insured mortgage loans are recognized as earned.

(u) Risk Financing

To minimize its risk of loss, the Authority purchases insurance coverage for public liability, hazard, automobile, crime, and bonding, as well as medical and workmen's insurance for employees. The selection of the insurer must 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 (3) years, insurance settlements have not exceeded the amount of coverage.

(v) Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position (deficit) and/or balance sheet will sometime report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. On the business-type activities of the government-wide financial statements and Proprietary Fund's statement of net position, there are four major captions that qualify for reporting in this category: (i) the unamortized balance of losses on bond refunding, (ii) several items related to pensions, (iii) an OPEB related item and (iv) goodwill. A loss on refunding of debt results from the difference between the reacquisition price and the net carrying amount of the old debt. This amount is capitalized and amortized over the shorter life of the refunded or refunded debt. Of the pension-related items, changes in the proportional share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments are deferred and recognized over a five-year period. Pension contributions made after the measurement date will be recognized as a reduction of the net pension liability after the next measurement date. Of the OPEB-related items, only OPEB payments made after the measurement date are presented as a deferred outflow item, which will be recognized as a reduction of total OPEB liability after the next measurement date. Goodwill is the result of the consideration provided in excess of the net position acquired. Goodwill will be amortized on a straight-line basis over five years. There were no deferred outflows of resources at the governmental funds level.

In addition to liabilities, the statement of net position (deficit) and/or balance sheet will sometime report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. On the business-type activities of the government-wide financial statements and the Proprietary Fund's statement of net position, there is one major caption that qualifies for reporting in this category, which consists of several items related to pensions. Concerning the pension-related items, changes in the proportional share of contributions and differences between expected and actual experience are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants.

Net differences between projected and actual earnings on pension plan investments are deferred and recognized over a five-year period. A deferred inflow of resources has also been recorded in the governmental funds representing intergovernmental grant revenue that does not meet the "available" criteria for revenue recognition in the current period under the modified accrual basis of accounting. In subsequent periods, when the applicable resources become available, the deferred inflow of resources is removed from the balance sheet and the revenue is recognized.

(w) Accounting for Pension Costs

The Authority is a participant in the Commonwealth of Puerto Rico Employees Retirement System (the Pension Plan), a multi-employer retirement plan. Until June 30, 2018, the Authority accounted for its participation in the Pension Plan in accordance with the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*, however, because of the implementation of the pay-as-you-go (PayGo) system, as provided by Act No. 106 of 2017 (Act 106), the Pension Plan no longer met the criteria to be considered a plan that is administered through a trust or equivalent arrangement under GASB 68 and, therefore, it was required to apply the guidance in GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective July 1, 2018.

Under the provisions of GASB 73, the Authority recognizes a pension liability for its proportionate share of the collective pension liability under the Pension Plan, as well as its proportionate share of the collective deferred outflows of resources, collective deferred inflows of resources, and collective pension expense. The Authority's allocation percentage is based on the ratio of the Authority's benefit payments to total benefit payments under the Pension Plan. Changes in the total pension liability during the period are recorded as pension expense, as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in the total pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees, in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they arose.

(x) Accounting for Postemployment Benefits Other than Pensions

Other post-employment benefits (OPEB) expense is recognized and disclosed using the accrual basis of accounting. The Authority recognizes the total OPEB liability since the Authority's OPEB program is funded on a pay-as-you-go basis, measured as of the Authority's prior year-end. Changes in the total OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred.

Those changes in total OPEB liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees and recorded as a component of OPEB expense beginning with the period in which they arose. Employer's contributions made after the measurement date of the total OPEB liability are recorded as a deferred outflow of resources.

(y) New Accounting Standard Adopted

Effective July 1, 2021, the Authority changed its method of accounting for Leases with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. GASB Statement No 87 establishes a uniform approach for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Examples of non-financial assets including buildings, land, and equipment. Lessees are required to recognize a lease liability and an intangible right- to-use asset, and lessors are required to recognize a lease receivable and a deferred inflow of resources. The new standard also requires enhanced disclosure which include a general description of the leasing arrangement, the aggregated amount of resource inflows and outflows recognized from lease contracts, including those not included in the measurement of the lease liability and receivable, and the disclosure of the long-term effect of lease arrangements on a government's resources.

(z) Future Adoption of Accounting Pronouncements

The following new accounting standards have been issued by the GASB, but are not yet effective:

- GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations and improving required note disclosures.

  This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- GASB Statement No. 92, *Omnibus 2020.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during the implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

    - The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2020-3, *Leases*, for interim financial reports.
    - Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other post-employment benefits (OPEB) plan.
    - The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for post-employment benefits.*
    - The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to post-employment benefits arrangements.
    - Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition.
    - Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.
    - Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and
    - Terminology is used to refer to derivative instruments.

  The provisions of this statement are effective, for most of the topics, for reporting periods beginning after June 15, 2022, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- GASB Statement No. 93, *Replacement of Interbank Offered Rates.* The objective of this Statement is to address the accounting and financial reporting implications that result from the replacement of an IBOR, most notably the London Interbank Offered Rate (LIBOR).

As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments to replace LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2022, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements.* The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or another capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

  Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or can modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to a significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements.* This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end-users (governments). This Statement (1) defines an SBITA; (2) establishes that SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of an SBITA; and (4) requires note disclosures regarding an SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged, but not required.

- GASB Statement No. 98, *The Annual Comprehensive Financial Report (Issued 10/21).* This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of the comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

  This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness. The requirements of this Statement are effective for fiscal years beginning after December 15, 2021, and all reporting periods thereafter. Earlier application is encouraged, but not required. Management is evaluating the impact that these Statements will have on the Authority's basic financial statements.

- GASB Statement No. 99, *Omnibus 2022*, This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

  - Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument;

  - Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition, and measurement of a lease liability and a lease asset, and identification of lease incentives;
  - Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset;
  - Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of an SBITA as a short-term SBITA, and recognition and measurement of a subscription liability;
  - Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt;

- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP);
- Disclosures related to nonmonetary transactions;
- Pledges of future revenues when resources are not received by the pledging government;
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements;
- Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position; and
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this Statement are effective as follows:

- The requirements related to the extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Earlier application is encouraged and is permitted by topic.

- GASB Statement No. 100, *Accounting Changes and Errors Corrections – an Amendment of GASB N0. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 101, Compensated Absences. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

  The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

3. CASH AND DEPOSITS PLACED WITH BANKS

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. Custodial credit risk is the risk that in the event of a financial institution's failure, the Authority's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance.

All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Funds deposited in EDB, a component unit of the Commonwealth, are not covered by this Commonwealth requirement.

The amount deposited in EDB has been fully reserved as custodial credit risk due to the economic deterioration affecting the Commonwealth, including downgrades in credit ratings of the Commonwealth's bonds led the private sector to retire deposits from EDB.
Also, the GDB financial and liquidity crisis made public governmental agencies and corporations move their deposits from EDB to GDB, reducing EDB's capacity to issue commercial loans or make investments in financial instruments.

The following table includes a presentation of the custodial credit risk losses that have been recognized by the Authority on its cash and time deposits held at EDB:

	Cash				
	Deposit balance	Custodial credit risk loss	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Commercial banks	$ 158,132,851	$ -	$ 158,132,851	$ 158,132,851	$ -
	$ 158,132,851	$ -	$ 158,132,851	$ 158,132,851	$ -

	Deposits placed with banks				
	Deposit balance	Custodial credit risk loss	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Deposit in commercial banks	$ 18,509,419	$ -	$ 18,509,419	$ 18,509,419	$ -
Deposits in EDB	67,476,722	(67,476,722)	-	67,476,722	67,476,722
	$ 85,986,141	$ (67,476,722)	$ 18,509,419	$ 85,986,141	$ 67,476,722

All deposits placed with banks on June 30, 2022, will mature in the fiscal year 2023.

Claim in the Public Entity Trust

On March 23, 2018, GDB ceased its operations. On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Under the Qualifying Modification, holders of certain bond and deposit claims exchanged their claims for bonds issued by a newly created public instrumentality, the GDB Debt Recovery Authority, and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate assets, and its unencumbered and its unencumbered cash.

In addition, pursuant to Act No. 109 of 2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-municipal Government Entity held by GDB as of such date.

Those Non-Municipal Government Entities having net claims against GDB after giving effect to the foregoing adjustment, including the Authority, received their pro rata share of interests in a newly formed trust created by the GDB Restructuring Act, the Public Entity Trust (the PET). The interests a Non-Municipal Government Entity received against the PET were deemed to be in full satisfaction of all claims such Non-Municipal Government Entity may have against GDB.
As a result of the Qualifying Modification transaction and pursuant to the terms of the GDB Restructuring Act, the Authority's deposits at GDB were fully extinguished and the Authority obtained interests in the PET totaling $56,704,777, with a carrying amount of zero. As of the date of issuance of the financial statements, there has been no recovery on the claim in the PET.

The assets of the PET (the PET Assets) consist of, among other items, an unsecured claim of $578 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth's Title III case (the PET Claim). Non-Municipal Government Entities' recoveries on account of their interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets. As of the date hereof, the Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution.

4. INVESTMENTS AND INVESTMENTS CONTRACTS

During fiscal year 2022, the Authority followed AAFAF'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. These investment policies also provide that purchases and sales of investment securities shall be made using the "delivery versus payment" method.

Investments by type in any one issuer representing 5% or more of the 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.

The following table summarizes the type and maturities of investments held by the Authority as of June 30, 2022:

Type of securities	Within one year	After one to five years	After five to ten years	After ten years	Total
Mortgage-backed securities:					
GNMA	$ —	$ 16,097,179	$ 14,867,732	$ 6,786,421	$ 37,751,332
FNMA	—	605,336	647,447	—	1,252,783
Other	—	—	—	85,370	85,370
Fixed-income external investment pool - Federated Government Obligations	—	—	12,285,967	—	12,285,967
U.S. Treasury Obligations	55,507,649	—	—	—	55,507,649
Nonparticipating investment contracts:					-
Trinity Funding Co.	—	—	13,073,251	—	13,073,251
Banco Popular de Puerto Rico	—	—	5,039,757	—	5,039,757
Banco Santander de Puerto Rico	—	—	4,933,352	—	4,933,352
Total investments	$ 55,507,649	$ 16,702,515	$ 50,847,506	$ 6,871,791	129,929,461
Equity interest in Puerto Rico Community Development Fund					4,500
Total					$ 129,933,961

As of June 30, 2022, substantially all of the Authority's investments in mortgage-backed securities were held by trustees in connection with bonds issued by the Authority, the terms of which provide for early redemption of the bonds if the securities are repaid early.

(a) Interest Rate Risk

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

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's general investment policy is to apply the prudent-person rule, which establishes that investments are made, as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

The Authority can purchase and sell notes, bonds, securities, and other debt instruments guaranteed by the Commonwealth in the short and long term with a yield rate similar to those securities with the same risk profile.

These investments need to be rated by the top two rating agencies, and counterparties shall be rated BBB+/A-1. The Investment Grade requires ratings to be at least Baa in the long-term and B in the short-term securities.

All the Authority's investments in mortgage-backed securities are guaranteed by GNMA. U.S. Treasury Obligations carry the explicit full faith and credit guarantee of the U.S. government. The credit quality ratings for investments in debt securities and nonparticipating investment contracts, excluding mortgage-backed securities guaranteed by GNMA and U.S. Treasury Obligations, as of June 30, 2022, are as follows:

	Credit risk rating			
Securities type	**AAA**	**AA**	**A**	**B**
Mortgage-backed securities:				
FNMA	$ —	$ 1,252,783	$ —	$ -
Other	—	85,370	—	—
Fixed income external investment pool - Federated Government Obligations	12,285,967	—		—
Nonparticipating investment contracts:				
Trinity Funding Co.	—	—	13,073,251	—
Banco Popular de Puerto Rico	—	—	—	5,039,757
Banco Santander de Puerto Rico	—	—	4,933,352	—
				—
Total	$ 12,285,967	$ 1,338,153	$ 18,006,603	$ 5,039,757

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

On June 30, 2022, the fair value of investments based on the hierarchy of inputs is determined as follows:

	Level 1	Level 2	Level 3	Total
Mortgage Backed Securities	$ -	$ 39,089,485	$ -	$ 39,089,485
Federated Government Obligations	-	12,285,697	-	12,285,697
	$ -	$ 51,375,182	$ -	$ 51,375,182

Investments in nonparticipating investment contracts of approximately $23.1 million are measured using a cost-based measure. Also, investment in nonparticipant investment contracts and money markets, which includes the $55.5 million in US Treasury Obligations, that have a remaining maturity of one year or less and are held by the Authority, other than external investment pools, are measured at amortized costs as provided by GASB Statement No. 72, "*Fair Value Measurement and Application*".

5. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable, net as of June 30, 2022, consist of the following:

Real estate loans – all types of residential property, bearing interest at various rates ranging from 5% to 18%	$ 188,714,004
Less allowance for loan losses	(32,115,282)
	$ 156,598,722

The summary of the activity in the allowance for loan losses for the year ended June 30, 2022, is as follows:

Balance - beginning of year	$ 37,358,211
Release of allowance for loan losses	(3,416,201)
Write-offs	(1,826,728)
	$ 32,115,282

Real estate loans receivable represents single-family unit mortgage secured loans with a first lien on the related residential real estate and subordinated second mortgage loans with a second lien on the related residential real estate, granted to low and moderate-income families for the acquisition of single-family units and construction loans granted to developers of multifamily housing units in Puerto Rico.

Prior to providing mortgage financing to developers, the Authority obtains representations and approvals from appropriate Commonwealth and U.S. government agencies as to the qualifications of the prospective sponsors, as well as the financial feasibility of each project. Real estate loans are generally collectible monthly at various dates through the year 2057. The review to developers is dependent on the ability of each housing project to generate sufficient funds to service its debt, which, for other than certain federally assisted housing projects, is predicated on the ability to obtain rent increases to offset increases in operating costs.

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

The following table presents the aging of the recorded investments in real estate single-family unit mortgage loans and their allowance for loan losses, excluding the mortgage loans balance and its related allowance managed by an unrelated entity under a Third-Party Origination (TPO) servicing agreement, as of June 30, 2022:

Loan aged category	Total loan balance	Allowance for loan losses
Current	$ 46,649,688	$ 895,945
7 - 30 months	2,035,881	541,892
31 - 60 months	2,650,315	2,165,788
Subtotal	51,335,884	3,603,625
Other nonaged loans	5,681,328	5,681,328
Total	$ 57,017,212	$ 9,284,953

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

The following table presents the risk category of construction loans for multifamily housing unit loans subject to risk rating and their allowance for loan losses as of June 30, 2022:

Loan Risk Category	Amount	Allowance for Loan Losses
Good	$ 35,401,283	$ 354,013
Doubtful	7,964,465	1,973,000
Loss	12,677,447	11,037,670
	$ 56,043,195	$ 13,364,683

Real estate loans receivable, under the home purchase stimulus program, represents subordinated second mortgage loans originated by private banking institutions under the requirements of Act No. 9 *"Puerto Rico Economic Stimulus Plan Act". These mortgage loans are* subsequently purchased by the Authority. Real estate loans originated under this program become due and start accruing interest after the first 10 years of the term of the loan.

The allowance for loan losses on subordinated second mortgage loans is determined considering the delinquency levels of the first mortgage loans, as reported by the Puerto Rico Office of the Commissioner of Financial Institutions. As of June 30, 2022, the outstanding balance of the second mortgage loan was approximately $59.3 million and the allowance for loan losses was $9.1 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 the underlying real estate collateral, for which impairment is measured based upon the fair value of such collateral less estimated selling and disposal costs. The present value of a loan's expected future cash flow is calculated using the loan's effective interest rate, based on the original contractual terms.

The loans considered impaired as of June 30, 2022, and the related interest income for the year then ended, are as follows:

Recorded investment in impaired loans:		
Not requiring an allowance for loan losses	$	9,609,777
Requiring an allowance for loan losses		21,399,660
Total recorded investment in impaired loans	$	31,009,437
Related allowance for loan losses	$	22,649,636
Average recorded investment in impaired loans	$	32,711,626
Interest income recognized on impaired loans	$	-
Interest income that would have been recognized had these loans not been impaired	$	2,015,613

6. DUE FROM FEDERAL GOVERNMENT

The Authority, as a public housing authority, is authorized to administer the U.S. Housing Act Section 8 Programs in Puerto Rico. The revenues and expenditures of such federal financial assistance are accounted for as a major governmental fund under the HUD Programs fund. Revenues and expenditures related to the administration of the U.S. Housing Act Section 8 Programs amounted to approximately $135.3 million during the year ended June 30, 2022. This amount includes approximately $3.0 million of administrative fees for services performed as contract administrator, which are reimbursed by HUD. As of June 30, 2022, the amounts due from the federal government under the HUD Programs fund amounted to approximately $836 thousand.

During the year ended June 30, 2022, the Authority expended approximately $5.2 million of HOME Program funds. The Authority has approximately $3 million due from the federal government as of June 30, 2022, related to the HOME Program.

During the year ended June 30, 2022, the Authority expended approximately $107.2 million of CDBG Program funds. The Authority has approximately $17.4 million due from the federal government as of June 30, 2022, related to the CDBG Program.

7. REAL ESTATE AVAILABLE FOR SALE

Real estate available for sale on June 30, 2022, consisted of the following:

Residential (1–4 units)	$	12,552,771
Valuation allowance		(9,377,862)
Total real estate available for sale	$	3,174,909

The following is a summary of the activity in the valuation allowance for the year ended June 30, 2022:

Balance – beginning of year	$	11,457,137
Release of allowance for losses on other real estate owned		(788,082)
Write-offs		(1,291,193)
Balance – end of year	$	9,377,862

8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2022, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets being depreciated:				
Information systems	$ 75,129	$ -	$ -	$ 75,129
Office furniture and equipment	37,633	-	-	37,633
Vehicles	97,286	-	-	97,286
Total	210,048	-	-	210,048
Less accumulated depreciation				
Information systems	(68,920)	(2,931)	-	(71,851)
Office furniture and equipment	(37,633)	-	-	(37,633)
Vehicles	(85,133)	(6,230)	-	(91,363)
Total	(191,686)	(9,161)	-	(200,847)
Capital assets, net	$ 18,362	$ (9,161)	$ -	$ 9,201

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land and land improvements	$ 7,752,711	$ -	$ -	$ 7,752,711
Capital assets being depreciated:				
Leasehold improvements	4,279,478	-	-	4,279,478
Information systems	5,771,962	153,975	-	5,925,937
Office furniture and equipment	2,325,419	29,750	-	2,355,169
Right-to-use asset: equipment	-	555,019		555,019
Vehicles	251,807	-	-	251,807
Total	12,628,666	738,744	-	13,367,410
Less accumulated depreciation				
Leasehold improvements	(4,146,845)	(27,653)	-	(4,174,498)
Information systems	(5,328,383)	(332,037)	-	(5,660,420)
Office furniture and equipment	(2,287,727)	(19,219)	-	(2,306,946)
Right-to-use asset: equipment	-	(153,921)	-	(153,921)
Vehicles	(234,658)	(11,911)	-	(246,569)
Total	(11,997,613)	(544,741)	-	(12,542,354)
Capital assets, net	$ 8,383,764	$ 194,003	$ -	$ 8,577,767

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9. LEASES

The Authority has entered into various lease agreements for office equipment. Leases with terms of twelve months or less are not recorded on the balance sheet. Leases with terms greater than twelve months are recognized as a right-to-use asset and a lease liability on the balance sheet. The right-to-use asset represents the right to use the underlying asset for the lease term and the lease liability represents the obligation to make lease payments.

The Authority has adopted GASB Statement No. 87, *"Leases"*. Under this standard, the Authority recognizes lease assets and lease liabilities for substantially all leases, including operating leases, at the inception of the lease. The adoption of this standard did not have a material impact on the financial position or results of operations of the Authority.

As of June 30, 2022, the Authority had minimum principal and interest payments requirements in its lessee activity as follows:

	Principal	Interest
Year ending June 30:		
2023	$ 150,871	$ 17,033
2024	81,847	11,057
2025	86,034	8,870
2026	90,436	2,468
Total	$ 409,188	$ 39,428

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10. NOTES AND MORTGAGE-BACKED CERTIFICATES PAYABLES

The activity of mortgage-backed certificates, and notes payable for the year ended June 30, 2022, is as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Commonwealth appropriation note payable	$ 3,397,686	$	$ -	$ 3,397,686	$ 653,140
Less unaccreted discount	(51,079)	2,704	-	(48,375)	-
Subtotal	3,346,607	2,704	-	3,349,311	653,140
Note payable to DRA	19,909,611	-	-	19,909,611	19,909,611
Total governmental activities	$ 23,256,218	$ 2,704	$ -	$ 23,258,922	$ 20,562,751
Business-type activities:					
Mortgage-Backed Certificates - 2006 Series A	$ 37,002,386	$ —	$ (6,426,107)	$ 30,576,279	$ 9,762,004
Subtotal	37,002,386	-	(6,426,107)	30,576,279	9,762,004
Notes payable:					
Special obligation notes (Home Purchase Stimulus Program)	65,691,710	—	(5,570,904)	60,120,806	1,821,110
Plus unamortized premium	132,168	—	(27,148)	105,020	—
Less unaccreted discount	(5,021,241)	—	2,333,958	(2,687,283)	—
Total business-type activities	$ 97,805,023	$ —	$ (9,690,201)	$ 88,114,822	$ 11,583,114

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The annual debt service requirements to maturity, including principal and interest, for long-term debt, other than amounts due to DRA, as of June 30, 2022, are as follows:

	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
Year(s) ending June 30:				
2023	$ 653,140	$ 165,800	$ 11,583,114	$ 5,347,041
2024	31,541	163,621	6,193,402	4,900,303
2025	130,875	159,426	6,485,057	4,563,200
2026	130,875	151,574	5,929,207	4,227,498
2027	77,478	145,323	5,465,108	3,917,074
2028 - 2032	2,325,402	213,360	16,023,225	16,149,590
2033 - 2037	-	-	17,246,470	10,844,468
2038 - 2042	-	-	19,638,444	3,922,780
2043 - 2042	-	-	2,133,058	94,658
TOTAL	$ 3,349,311	$ 999,104	$ 90,697,085	$ 53,966,612

Note Payable to Puerto Rico Public Finance Corporation – On December 27, 2001, the Authority entered into a loan agreement (the Note) with the GDB to refinance the AHMSP Stage 7 note payable of the Puerto Rico Housing Bank, as authorized by Act No. 164 of December 17, 2001. The Puerto Rico Public Finance Corporation (PFC), a component unit of GDB, acquired and restructured the Note through the issuance of its Commonwealth Appropriations Bonds (the PFC Bonds).

The PFC Bonds were issued under a trust indenture whereby the PFC pledged and sold the Note, along with other notes under Act No. 164, to certain trustees and created the first lien on the revenues of the notes sold. The notes payable to the PFC were originally composed of a loan granted by GDB, which, pursuant to Act No. 164 of December 17, 2001, the PFC acquired and restructured through the issuance of Commonwealth appropriation bonds. These bonds were issued under trust indenture agreements whereby the PFC pledged the notes to certain trustees and created the first lien on the pledged revenue (consisting of annual Commonwealth appropriations earmarked to repay these notes) for the benefit of the bondholders.

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

During the fiscal year ended June 30, 2012, the PFC issued PFC 2011 Series A and B and PFC 2012 Series A bonds and refunded a portion of certain of its outstanding Commonwealth Appropriation Bonds issued in 2004 under Act No. 164 of December 17, 2001, including $3.1 million of the Note. The Authority recognized a mirror effect of these current refunding by the PFC in its notes payable in proportion to the portion of the Authority's note payable included in the PFC refunding.

The Note's outstanding principal balance on June 30, 2022, was approximately $3.3 million and matures on August 1, 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds. The applicable percentage is the percentage representing the proportion of the amount paid by the PFC on the PFC Bonds serviced by the Note to the aggregate amount paid by the PFC on all the PFC Bonds issued by the PFC under Act No. 164, which was 6% on June 30, 2022.

Puerto Rico Finance Corporation's Qualifying Modification for PFC Bonds - On January 20, 2022, AAFAF, on behalf of the PFC, entered into a Restructuring Support Agreement (the PFC RSA) with holders of a majority of those certain Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (the PFC Bonds). The PFC RSA provides for the restructuring and discharge of the PFC Bonds under a Title VI Qualifying Modification (the PFC Qualifying Modification). The PFC Qualifying Modification further provides that those promissory notes (the Notes) that were issued to the order of PFC by certain Commonwealth instrumentalities for the repayment of the PFC Bonds will be canceled and extinguished and such entities will be discharged from any liability arising from or related to such promissory notes. Refer to Note 20 to the basic financial statements for additional information on subsequent events regarding the PFC Bonds.

Note Payable to DRA – The DRA was created by the GDB Restructuring Act to facilitate the restructuring of certain of GDBs indebtedness pursuant to a Qualifying Modification under Title VI of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA) (such Qualifying Modification as so certified by the Financial Oversight and Management Board (the "Oversight Board) under Section 601(g)(2)(A) of PROMESA, the "Qualifying Modification"). The Qualifying Modification was certified by the United States District Court for the District of Puerto Rico on November 7, 2018, as required under PROMESA.

Under the Qualifying Modification, explained in more detail in Note 3, the GDB Debt Recovery Authority (DRA) received certain assets from GDB (including this Note) under the Master Transfer Agreement, becoming the new creditor of the Authority.

As of June 30, 2022, the outstanding balance of this note amounted to $19,909,611 and has accrued interest of $2,009,212.

The DRA had filed a lawsuit against the Authority regarding this Note Payable. Refer to Note 16 of the accompanying financial statements for more information about this case.

Business-Type Activities

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

Description and Maturity date	Interest rate	Amount outstanding
Mortgage-Backed Certificates, 2006 Series A - principal and interest payable monthly from September 29, 2006 to August 29, 2030	2.955% - 6.56%	28,245,205
Special Obligation Notes, 2010 series A and B - Principal and interest payable monthly from July 1, 2019 to May 1, 2040	6.95% - 6.974%	21,527,895
Special Obligation Notes, 2011 Series A - Principal and interest payable monthly from September 1, 2021 to September 1, 2041	7.00%	13,823,073
Special Obligation Notes, 2012 Series A - Principal and interest payable monthly from June 18, 2012 to September 1, 2041	7.00%	24,518,649
Total, net of unamortized premiums and discounts		$ 88,114,822

Accounts Payable and Accrued Liabilities – The activity within accounts payable and accrued liabilities is mainly due to amounts owed to the Authority's suppliers for goods or services and payroll and payroll-related expenses, as well as accrued vacation and sick leave. Also, the balance of these two accounts in the amount of approximately $9 million as of June 30, 2022, includes the accrued payments for benefits related to its housing programs, among other expenses.

Compensated Absences – The activity for compensated absences, included within accounts payable and accrued liabilities of the operational and administrative fund, during the year ended June 30, 2022, is as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Vacation	$ 628,223	$ 680,760	$ (386,396)	$ 922,587	$ 922,587

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

11. MORTGAGE LOANS INSURANCE PROGRAM

The mortgage loans insurance program was created by Act No. 87 of June 25, 1965, as amended, to provide mortgage credit insurance to low and moderate-income families on loans originated by the Authority and other financial institutions. This activity can be increased through legislative appropriations, if and when needed, and derives its revenue from premiums charged to the borrowers, interest on investments, and sales of properties acquired through foreclosure.

The Authority manages the risk of loss of its mortgage loans insurance activities by providing its insurance program only to financial institutions that (1) maintain certain defined minimum capital, (2) are qualified based on experience and resources, (3) perform certain collection efforts, and (4) comply with established procedures and requirements. In addition, the Authority requires certain loan-to-value ratios on loans insured and inscription of the collateral in the property registry of the Commonwealth. The activities of this program are included in the Proprietary Fund.

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

The Commonwealth guarantees up to $75 million of the principal insured by the Program. As of June 30, 2022, the Program covered loans aggregating approximately $418 million. A liability of $1.2 million was recorded under this program as of June 30, 2022, as an estimate of the losses inherent in the portfolio.

The mortgage loan insurance premiums amounted to $2,529,963 for the year ended on June 30, 2022.

The regulations adopted by the Authority require the establishment of adequate reserves to guarantee the solvency of the mortgage loans insurance program; as of June 30, 2022, the Authority was not in compliance with the regulations. On June 30, 2022, the Authority had a restricted net position of approximately $7.2 million in the mortgage loans insurance program.

12. RELATED-PARTY TRANSACTIONS

A summary of the most significant related-party balances and transactions as of and for the year ended June 30, 2022, is as follows:

(a) Commonwealth

Legislative appropriations of approximately $7.9 million were received by the government funds during the fiscal year ended June 30, 2022. These appropriations are restricted for the payment of operating expenses and to support affordable housing programs.

The Authority has an amount due to the Commonwealth of $18,643,295. Such liability is the result of PayGo pension benefits payments made by the Commonwealth on behalf of the Authority.

(b) Puerto Rico Department of Housing

As of June 30, 2022, the Authority has an amount due from the PRDOH in the total amount of $581,687 which has been fully reserved.

(c) Investment in Puerto Rico Community Development Fund, LLC* and *in PRHFA RLF Investment Fund, LLC

Puerto Rico Community Development Fund, LLC (PRCDF), an entity organized under the laws of Delaware, is a Community Development Entity (CDE). PRCDF has two members, the Authority (50%) and the PRDOH (50%). On November 30, 2009, PRCDF was allocated $45,000,000 of New Markets Tax Credits for investments in, or loans to, Qualified Active Low-Income Community Businesses (QALICB's) whose principal activities involve the development or rehabilitation of real estate. In October 2011 and in February 2012, PRCDF transferred $13,500,000 and $31,500,000, respectively, of its allocation to PRCDF I, LLC (PRCDF I). PRCDF I, an entity organized under the laws of Delaware, is also a CDE. PRCDF I has one managing member, PRCDF (0.01%), and one investor member, PRHFA RLF Investment Fund, LLC (99.99%), which was wholly owned by Citi Community Capital (Citi). The managing member and the investor member have made capital contributions of $4,500 and $45,000,000, respectively. The capital contributions have been used to establish a loan revolving fund for loans to QALICB's.

At the creation of PRCDF, Citi and the Authority entered into a Fund Option Agreement pursuant to which (1) the Authority granted Citi the option to require that the Authority purchased Citi's fund interest for $587,000 and (2) Citi granted the Authority the option, exercisable if Citi did not exercise its option to sell within six months following the end of the New Markets Tax Credits compliance period, to require Citi to sell its fund interest to the Authority for a purchase price equal to the fair market value of the fund interest. In August 2019, Citi informed the Authority of its intention to exercise its option for the Authority to purchase its fund interest.

Accordingly, in September 2019, the Authority issued a payment to Citi for $587,000 and thus became the sole owner of PRHFA RLF Investment Fund, LLC and accordingly the investor member of PRCDF I.

Investment in RLF during the fiscal year ended June 30, 2022, was as follows:

Investment in RLF as of June 30, 2021	$	34,488,234
Equity pickup on earnings of PRHFA RLF Investment Fund, LLC		1,032,921
Investment in RLF as of June 30, 2022	$	35,521,155

13. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Authority is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers and to reduce its exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and 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. On June 30, 2022, commitments to extend credit amounted to approximately $25 million.

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14. RETIREMENT PLAN

The Defined Benefit Pension Plan for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Plan) was created pursuant to Act No. 447 on May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations, and municipalities. Effective July 1, 2017, Act No. 106 of August 23, 2017 (Act No. 106-2017) implemented a substantial pension reform for all of the Commonwealth's retirement systems, including the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). This reform modified most of ERS's activities, eliminated the employer contributions, created the legal framework to implement a pay-as-you-go (PayGo) system, and required the Commonwealth's retirement systems to liquidate substantially all of their assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. Under the PayGo system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the participating employers.

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single-employer defined benefit pension plan. Therefore, the accompanying schedule of employer allocations and the schedule of pension amounts by the employer (collectively, the Schedules) present the pension amounts attributable to the Commonwealth reporting entity (i.e., the Commonwealth and its component units).

Pension benefits

Before July 1, 2017, ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program), and a contributory hybrid program. Benefit provisions vary depending on the member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the System) are covered by ERS, including the Authority. Effective July 1, 2017, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the applicable employers (including the Authority). As of July 1, 2017, ERS stopped making pension payments to retirees. However, all government employers (including the Authority) are required to reimburse the Commonwealth for benefits paid on account of their employees through the PayGo fee. Since July 1, 2017, ERS continues to help manage the administrative matters of the pension benefits that are being paid by the Commonwealth. The aforementioned defined benefits had been paid by ERS until June 30, 2017.

Before August 23, 2017, membership was mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment in ERS's prior programs. After that date, membership continues to be mandatory in the New Defined Contribution Program created by Act 106-2017.

The benefits provided to members of ERS are established by Commonwealth law and may be amended only by law. Act No. 3, in conjunction with other recent funding and design changes, provided for a comprehensive reform of ERS.

This summary of ERS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. Please note that all eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable law and regulations, these benefits were not changed or amended with the enactment of Act 106-2017. In addition, all accrued pension benefits under ERS's pension plans for active and retired public employees were preserved under the Commonwealth Plan of Adjustment, which was confirmed on January 18, 2022, and became effective on March 15, 2022. For further information on the Commonwealth Plan of Adjustment, refer to the discussion in Note 19.

Certain benefit provisions are different for the three groups of members who entered ERS prior to July 1, 2013, as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990.

- Members of Act No. 1 are generally those members hired on or after April 1, 1990, and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program)

- Members of Act No. 305 (or System 2000) are generally those members hired on or after January 1, 2000, and on or before June 30, 2013 (the System 2000 Program).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who on June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

Before July 1, 2017, the assets of the Defined Benefit Program, the System 2000 Program, and the Contributory Hybrid Program were pooled and invested by ERS. Each member has a nonforfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

After July 1, 2017, future benefit payments will be made by the Commonwealth and the New Defined Contribution Program is being administered by a private third party.

(a) Service Retirement Eligibility Requirements

(1) *Eligibility for Act No. 447 Members* – Act No. 447 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High-Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013, are eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013, and did not attain 30 years of credited service by December 31, 2013, are eligible to retire with 10 years of credited service upon attainment of the retirement eligibility age shown in the table below.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements of the table above, Act No. 447 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013, and did not attain 30 years of credited service by December 31, 2013, are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(2) *Eligibility for Act No. 1 Members* – Act No. 1 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High-Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013, are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(3) *Eligibility for System 2000 Members* – System 2000 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High-Risk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 55 for Public Officers in High-Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

(4) *Eligibility for Members Hired after June 30, 2013* – Attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

(b) Compulsory Retirement

All Act No. 447 and Act No. 1 Public Officers in High-Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

(c) Service Retirement Annuity Benefits

An annuity is payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the Defined Contribution Hybrid Contribution Account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

(1) *Accrued Benefit as of June 30, 2013, for Act No. 447 Members* – The accrued benefit as of June 30, 2013, shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of the average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if the member was at least age 55 as of June 30, 2013), of average compensation in excess of $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of the average compensation if the member was under age 55 as of June 30, 2013, or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if the member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013, and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. The maximum benefit is 75% of the average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to $6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of the highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. The maximum benefit is 90% of the highest compensation as a Mayor.

(2) *Accrued Benefit as of June 30, 2013, for Act No. 1 Members* – The accrued benefit as of June 30, 2013, shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of the average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1, for Mayors with at least 8 years of credited service as a Mayor, the accrued benefit will not be less than 5% of the highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. The maximum benefit is 90% of the highest compensation as a Mayor.

(d) Special Benefits

(1) Minimum Benefits

– Past Ad hoc Increases

The legislature, from time to time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973, and Act No. 23 approved on September 23, 1983.

– Minimum Benefits for Members who Retired before July 1, 2013 (Act No. 156 of 2004, Act No. 35 of 2007, and Act No. 3 of 2013).

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007, and $300 per month up to June 30, 2007).

– Coordination Plan Minimum Benefit

A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

(2) Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007, and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35 of 2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004, less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act No. 35 of 2007).

On January 18, 2022, the Title III Court entered an order confirming the Title III Plan of Adjustment (the Commonwealth Plan of Adjustment) for the Commonwealth, the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), and the Puerto Rico Public Buildings Authority (PBA). On March 15, 2022 (the Effective Date), the Commonwealth Plan of Adjustment became effective. The Commonwealth Plan of Adjustment preserves all accrued pension benefits for current retirees and employees at ERS. However, upon the Effective Date, certain cost-of-living adjustments (COLAs) and other features of the ERS pension plans were eliminated or modified consistent with the terms of the Commonwealth Plan of Adjustment.

(3) Special "Bonus" Benefits

– Christmas Bonus (Act No. 144, as Amended by Act No. 3)
An annual bonus of $200 for each retiree, beneficiary, and disabled member was paid in December provided the member retired prior to July 1, 2013.

– Medication Bonus (Act No. 155, as Amended by Act No. 3)
An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

The Authority's proportion of the total pension liability of the Retirement Plan and Actuarial Information

The Authority's proportionate share of the total pension liability of the Retirement Plan and the proportion percentage of the aggregate total pension liability of the Retirement Plan allocated to the Authority as of June 30, 2022, amounted to $74,430,452 and 0.2738%, respectively. The Commonwealth's total pension liability, from which an allocation was made to the Authority's financial statements as of June 30, 2022, as of June 30, 2021, was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021 (measurement date as of June 30, 2021).

(e) Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Discount Rate
The discount rate for June 30, 2021, was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality
The mortality tables used on June 30, 2021, actuarial valuation were as follows:

— *Pre-retirement Mortality*
For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act 127-1958.

— *Post-retirement Retiree Mortality*
Rates that vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, are projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

— *Post-retirement Disabled Mortality*
Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

— *Post-retirement Disabled Mortality*
Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, are projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

— *Other Assumptions as of June 30, 2021*

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021, as a result of Act No. 3-2017, a four-year extension of Act No.66-2014, and the current general economy.

(f) Sensitivity of the Total Pension Liability to Changes in the Discount Rate

The following presents the total pension liability calculated using the discount rate of 2.16%, as well as what it would be if it were calculated using the discount rate of 1 percentage point lower (1.16%) or 1-percentage-point higher (3.16%) than the current rate (dollars in thousands):

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
The Authority's proportionate share of total pension liability	$ 85,039,783	$ 74,430,452	$ 65,833,358

Pension expense and Deferred Outflows of Resources and Deferred Inflows of Resources

Pension expense recognized by the Authority for the year ended June 30, 2022, related to the ERS amounts to $3,216,787. The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources (excluding employer-specific amounts) for the year ended June 30, 2022:

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$ 118,893	$ 2,217,441
Changes in assumptions	7,619,282	879,512
Changes in employer proportion	793,115	1,307,706
Employer pension payments made subsequent to the measurement date	3,530,830	-
	$ 12,062,120	$ 4,404,659

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer-specific amounts) related to pensions on June 30, 2021, will be recognized in pension expense (benefit) in future years as follows:

Years ending June 30,	Amount
2022	$ (1,392,378)
2023	(1,392,378)
2024	(1,856,466)
	$ (4,641,222)

The previous amounts do not include employer-specific deferred outflows and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 6 years for 2018 and 5 years for 2019 and 2020, and 4 years for 2021.

15. OTHER POST-EMPLOYMENT BENEFITS

The Authority participates in the OPEB plan of the Commonwealth of Puerto Rico for retired participants of the ERS, also known as MIPC. The Plan is administered on a pay-as-you-go basis.

ERS MIPC is an unfunded cost-sharing, multiple employers defined benefit OPEB sponsored by the Commonwealth. This OPEB Plan was created under Act No. 95-1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full-time employees of the Commonwealth, certain municipalities, and component units of the Commonwealth, such as the Authority, not having their own post-employment benefit plans. For ERS MIPC, Commonwealth and Authority employees became plan members upon their date of employment. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age.

The MIPC covers payment of up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The MIPC is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursements from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. The legislative appropriations are considered estimates of the payments to be made by the ERS MIPC. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

Actuarial methods and assumptions

The total OPEB liability as of June 30, 2022, was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period:

Discount Rate

The discount rate for June 30, 2021, was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

Pre-retirement Mortality
For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act 127.

Post-retirement Mortality
Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, are projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality
Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates were adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

The Authority's Proportion of Total OPEB Liability of ERS MIPC

The Authority's proportionate share of the total OPEB liability of the ERS MIPC and the proportion percentage of the aggregate total OPEB liability of the ERS allocated to the Authority as of June 30, 2021, was approximately $1.4 million and 0.17378%, respectively.

As the ERS MIPC is a multiple-employer plan and the benefits are not funded by an OPEB trust, GASB Statement No. 75 applies to the OPEB provided to each participating employer's own employees. The Central Government and its component units are considered to be one employer. Other employers also participate in the ERS OPEB Plan. Because certain employers that are component units of the Commonwealth, such as the Authority, prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers. GASB Statement No. 75 requires that such a proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

Sensitivity of total OPEB liability to changes in the discount rate

The following table presents the Company's proportionate share of the OPEB liability on June 30, 2022 (measurement date June 30, 2021), for ERS calculated using the discount rate of 2.16%, as well as what the Company's proportionate share of the OPEB liability would be if it were calculated using a discount rate of one percentage point lower (1.16%) or one percentage point higher (3.16%) than the current rate:

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
The Authority's proportionate share of OPEB liability	$ 1,522,410	$ 1,386,940	$ 1,271,582

Deferred outflows of resources and deferred inflows of resources

OPEB benefit recognized by the Authority for the year ended June 30, 2022, related to ERS MIPC amounted to approximately $39,000.

Because all participants are inactive, there are no deferred outflows or inflows of resources as any changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year.

Additional information on the OPEB Plan of the Commonwealth of Puerto Rico for Retired Participants of ERS is provided on its standalone Schedules of Employer Allocations and Schedules of OPEB Amounts by Employer for the years ended June 30, 2018, to 2021, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

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16. COMMITMENTS AND CONTINGENCIES

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

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 an FNMA certificate. The Authority agreed to repurchase, at a price of par plus accrued interest, every mortgage loan backing up such security certificate that became delinquent for 120 days or more. As of June 30, 2022, the aggregate outstanding principal balance of the loans pooled into the FNMA certificate amounted to $218,830.

Mortgage Loan Servicing Activities – The Authority acts as a servicer for several mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2022, the principal balance of the mortgage loans serviced for others is as follows:

Investor		Amount
PRCDF I	$	23,025,000
CRUV or its successor without guaranteed mortgage loan payments		6,546
Total	$	23,031,546

Debt to GDB Debt Recovery Authority (DRA) - On November 2021, the GDB Debt Recovery Authority filed a lawsuit against the Authority alleging breach of contract and seeking immediate repayment of principal amounting to $19,909,611 and accrued interest of $2,009,212. The legal Counsel of the Authority advised that, due to the circumstances of this case and its early stage, an outcome cannot be determined.

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 the operations of the Authority.

A liability to cover litigation claims and contingencies amounting to $15,000 has been included as part of accounts payable and accrued liabilities in the accompanying statement of net position.

Contingencies – Federal programs are subject to audits which could result in claims against the resources of the Authority. No provision has been made for any liabilities that may arise from such audits since the amount, if any, cannot be determined on this date.

17. CONDUIT DEBT AND PROGRAMS SPONSORED BY THE AUTHORITY

The Authority issues conduit debt obligations that provide capital financing for third-party obligors. Conduit debt obligations are defined as certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity to provide capital financing for a specific third party that is primarily liable for repaying the issued debt instrument. The Authority has no obligation for repayment of the conduit debt obligations beyond the resources provided by related leases or loans. Accordingly, the conduit debt obligations are not reported as liabilities in the accompanying financial statements.

In October 2020, the Authority issued $249,155,000 Capital Fund Modernization Program Refunding Bonds Series 2020 (Series 2020). The proceeds from the issuance were lent to PHA, which used it to redeem previous bond issuances and pay certain costs of the Series 2020 issuance. The Series 2020 are limited obligations of the Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by HUD to PHA. The Series 2020 has an outstanding balance of approximately $191,020,000 on June 30, 2022.

18. INTERFUND BALANCES AND TRANSFERS

Interfund balances represent amounts owed between the Authority's funds as a result of loans, advances, or expenses incurred on behalf of another fund. The summary of the inter-fund balances as of June 30, 2022, between the government funds and the Proprietary Fund, is as follows:

Receivable by	Payable by	Purpose	Amount
Proprietary fund:	Governmental funds:		
Operating and Administrative	HUD Programs	Advance of funds	$ 836,212
Operating and Administrative	HOME Programs	Advance of funds	527,616
Operating and Administrative	CDBG Program	Advance of funds	10,095,996
Operating and Administrative	ARPA Program	Advance of funds	402,535
Operating and Administrative	AHS Programs	Advance of funds	9,912,037
Total			$ 21,774,396

The summary of the interfund transfers for the year ended June 30, 2022, is as follows:

Transfer in	Transfer out	Purpose	Amount
Proprietary fund:	Governmental funds:		
AHS Programs	Operating and Administrative	Repayment of debt	$ 2,163,460
			$ 2,163,460

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19. PLAN OF ADJUSTMENT FOR THE COMMONWEALTH

Prior to March 15, 2022, the Commonwealth and many of its component units suffered a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession that persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's general fund budget consisted of health care and pension-related costs and debt service requirements through fiscal year 2019, resulting in reduced funding for other essential services. The Commonwealth's historical liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interests rates.

On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title VI of PROMESA. Thereafter, the Commonwealth and other governmental entities including, the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under Title III, and the Government Development Bank for Puerto Rico (GDB), the Puerto Rico Infrastructure Financing Authority (PRIFA), and the Puerto Rico Convention Center District Authority (PRCCDA) initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its *Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the United States District Court for the District of Puerto Rico (the Title III Court).

On October 26, 2021, the Governor signed into law Act No. 53 of 2021 (Act 53), known as the "Law to End the Bankruptcy of Puerto Rico," which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

On November 3, 2021, the Oversight Board filed its *Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Eighth Amended Plan [ECF No. 19812] (the Findings of Fact) and an order confirming the Eighth Amended Plan [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. On March 8, 2022, the First Circuit entered an order dismissing the appeal by the Judge's Association [Case No. 22-1098] following a motion to voluntarily dismiss. By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. On April 26, 2022, the First Circuit affirmed the Commonwealth Plan of Adjustment with respect to the appeal filed by the teachers' associations. *See* Case No. 22-1080. The teachers' associations filed a petition for a writ of certiorari, which the U.S. Supreme Court denied on November 21, 2022. On July 18, 2022, the First Circuit affirmed the Title III Court's finding that the Commonwealth Plan of Adjustment could not discharge otherwise valid Fifth Amendment takings claims without payment of just compensation. *See* Case No. 22-1119. Thereafter, on February 21, 2023, he United States Supreme Court in Case No. 22-367, denied a petition for writ of certiorari of the matter. On October 27, 2022, the First Circuit denied another retiree group's appeal of the Confirmation Order's preemption of Acts 80, 81, and 82 for lack of appellate jurisdiction. *See* Case No. 22-1120. On November 23, 2022, the First Circuit dismissed the credit unions' appeal as moot after dismissing their underlying adversary proceeding claims. *See* Case No. 22-1079. Oral argument on the merits of the remaining appeal [Case No. 22-1092] was held on April 28, 2022, but a final determination on that appeal remains pending.

On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately $34.3 billion of prepetition debt to only approximately $7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately $4.2 billion to $1.15 billion, representing a total debt service reduction of 73%. Also as of the Effective Date, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged. In addition, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. Importantly, effectuating the Commonwealth Plan of Adjustment provides a path for Puerto Rico to access the credit markets and develop balanced annual budgets.

A critical component of the Commonwealth Plan of Adjustment is the post-Effective Date issuance of new general obligation bonds (the New GO Bonds) and contingent value instruments (CVIs) that provides recoveries to GO and PBA bondholders, as well as holders of clawback claims against the Commonwealth and certain of its component units and instrumentalities.

Municipal governments typically issue amortizing debt—i.e., debt with principal maturities due on a regularly scheduled basis over a duration that varies generally between 20 and 40 years. The Commonwealth's New GO Bonds will mature over 25 years and will include both Capital Appreciation Bonds (CABs) and Current Interest Bonds (CIBs). All of the CABs and CIBs will have term bonds with mandatory sinking fund payments. This is intended to optimize cash available to pay debt service since the municipal market has a yield curve, and bonds are not priced to the average life as is the case in other markets, because specific investors may purchase bonds in differing parts of the maturity curve, including individual investors, corporations and mutual funds.

The New GO Bonds were issued with an aggregate original principal amount of approximately \$7.4 billion, consisting of approximately (i) \$6.6 billion of New GO CIBs, (ii) \$442.5 million of New GO CABs with a 5.375% interest rate, and (iii) \$288.2 million of New GO CABs with a 5.0% interest rate. They have 11 different maturity dates and will be secured by (a) a statutory first lien, (b) a pledge of the amounts on deposit in the Debt Service Fund, and (c) a pledge of the Commonwealth's full faith, credit and taxing power in accordance with Article VI, Section 2 of the Commonwealth Constitution and applicable Puerto Rico law. The New GO Bonds are dated as of, and will accrue or accrete interest from, July 1, 2021.

The Commonwealth Plan of Adjustment also provides for the issuance of CVIs, an instrument that gives a holder the right to receive payments in the event that certain triggers are met. The Commonwealth Plan of Adjustment establishes revenue-based performance benchmarks and permits the holders of CVIs to receive payments on account of the CVIs only if the benchmarks are exceeded. The CVIs issued under the Commonwealth Plan of Adjustment are based on over-performance collections of the Commonwealth's 5.5% sales and use tax (SUT), with some CVIs also being subject to over-performance collections of rum tax. The CVIs represent a conditional promise by the Commonwealth to pay CVI holders only if the SUT or rum tax baselines are exceeded in a given fiscal year. The outperformance metric will be measured as of the end of each fiscal year (i.e., June 30) beginning in fiscal year 2022 and is based on a SUT and rum tax collections baselines for fiscal years 2022 to 2043 as established in the Board-certified fiscal plan for the Commonwealth, dated May 27, 2020. As with the New GO Bonds, the Commonwealth pledged its full faith, credit and taxing power under the Puerto Rico Constitution and applicable Puerto Rico law for payment of the CVIs. The CVIs will be deemed issued on July 1, 2021.

The CVIs are also divided into two categories: (i) general obligation debt CVIs (GO CVIs), which will be allocated to various holders of GO bondholder claims; and (ii) clawback debt CVIs (the Clawback CVIs), which will be allocated to claims related to HTA, PRCCDA, PRIFA, and MBA bonds. The GO CVIs have a 22-year term. The Clawback CVIs have a 30-year term. The GO CVIs are subject to a lifetime cap of \$3.5 billion, with maximum annual payments of \$200 million plus any unused amounts from previous years subject to cumulative annual payments not exceeding \$400 million.

Similarly, the Clawback CVIs are subject to a $5.2 billion aggregate lifetime cap, allocated across the different types of bond claims, with maximum annual payments of (i) $175 million plus any unused amounts from previous years, not to exceed cumulative annual payments of $350 million, for fiscal years 1-22 of the 30-year term; and (ii) $375 million plus any unused amounts from previous years, not to exceed cumulative annual payments of $750 million, for fiscal years 23-30 of the 30-year term. The CVIs also apply an annual payment waterfall in which the first $100 million will be paid to GO CVIs and the next $11,111,111 will be paid to Clawback CVIs.

The Commonwealth Plan of Adjustment classifies claims into 69 classes, with each receiving the following aggregate recoveries:

- Various categories of Commonwealth bond claims (Classes 15-50): 73% recovery consisting of cash, New GO Bonds, and GO CVIs.

- Various categories of PBA bond claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders receive on account of their guarantee claims against the Commonwealth.

- Various categories of clawback creditor claims (Classes 59-63): 23% recovery consisting of the Clawback CVIs.

- ERS bond claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio (as defined in and established under the Commonwealth Plan of Adjustment).

- Various categories of general unsecured claims (Classes 13, 58, and 66): 21% recovery in cash.

- Other miscellaneous claims (Classes 52-57, 64, 67-69): 26% recovery in cash.

For general unsecured claims, the Commonwealth Plan of Adjustment provides for separate levels of creditor cash recoveries at each debtor, as applicable. All general unsecured claims against the Commonwealth, ERS, and PBA are discharged, except certain Eminent Domain/Inverse Condemnation Claims (as defined in the Commonwealth Plan of Adjustment) that are not discharged until they receive payment in full, subject to an appeal of the Title III Court's ruling on such claims. If that ruling is reversed, then the Eminent Domain/Inverse Condemnation Claims will be dischargeable and impaired. All other general unsecured creditors at the Commonwealth will receive up a pro-rata share of the general unsecured creditor reserve fund (the GUC Reserve), plus amounts received by the Avoidance Actions Trust (as defined in and established under the Commonwealth Plan of Adjustment) up to 40% of the value of their claim. The GUC Reserve was funded with $200 million on the Effective Date and will be replenished with an additional aggregate total amount of $375 million funded in incremental amounts annually through December 31, 2025.

Depending on the outcome of the appeal regarding Eminent Domain/Inverse Condemnation Claims, the GUC Reserve amount could be reduced by up to $30 million. ERS's general unsecured creditors will receive pro rata cash distributions from a fund established for ERS general unsecured creditors, which consists of $500,000 plus any net recoveries by the Avoidance Actions Trust allocable to ERS. PBA's general unsecured creditors will be entitled to a cash payment equal to 10% of their claim upon allowance.

Importantly, the Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, participants of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) and Teachers Retirement System of Puerto Rico (TRS) will be subject to a benefits freeze and the elimination of any cost of living adjustments previously authorized under the JRS and TRS pension plans.

During the pendency of the PROMESA cases, a variety of legal issues were raised related to creditor claims. As a result of the recoveries provided under the Commonwealth Plan of Adjustment, the COFINA plan of adjustment, and the Title VI qualified modifications for GDB, PRIFA, and PRCCDA, substantially all of those litigation proceedings have been resolved and dismissed. Certain claims, however, were not discharged under the Commonwealth Plan of Adjustment, including (i) the Eminent Domain/Inverse Condemnation Claims (Class 54); (ii) the Tax Credit Claims (Class 57); (iii) the resolution of certain claims subject to the ACR process (see Commonwealth Plan of Adjustment § 82.7); and (iv) certain Underwriter Actions related to indebtedness issued by the Commonwealth or any of its agencies or instrumentalities against any non-debtors (see Commonwealth Plan of Adjustment § 92.2(f)). Additional litigation proceedings also will be dismissed upon the effective date of the HTA plan of adjustment, which is currently expected to be proposed in April 2022.

For further information, refer to the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

20. SUBSEQUENT EVENTS

The Authority evaluated subsequent events through June 7, 2023, the date the financial statements were available to be issued.

Debt Transactions Approved by FOMB

On August 4, 2022, the Financial Oversight and Management Board for Puerto Rico (FOMB) approved a debt transaction consisting of a request for authorization for the Authority to enter into a credit agreement with Banco Popular de Puerto Rico (BPPR) to issue a Tax-Exempt Note (the "Note) in an amount up to $23,800,000 for a term of 34 months accruing interest at a fixed rate of 6.50% in order to finance an affordable elderly housing project in the Municipality of Arecibo.

The Debt Transaction is being issued pursuant to the U.S. Department of Housing and Urban Development, the Puerto Rico Department of Housing, and the Authority under the Qualified Allocation Plan 2020 in order to: (1) lend the net proceeds of the Note to Sagrado Corazon Affordable LLC to finance the proposed $40,848,035 affordable elderly housing project to construct 120 housing units in the Municipality of Arecibo and (2) to cover the financing and legal costs associating with issuing the Note.

The Note is not guaranteed by the Authority, or by any agency, public corporation or instrumentality of the Commonwealth of Puerto Rico. Proceeds from the Note will only be used to finance the construction of the Project and is to be gradually repaid with funds from the U.S. Federal Low Income Housing Tax Credits and funds from the Community Development Block Grant – Disaster Relief during the construction phase of the Project.

On December 21, 2022, the FOMB approved a debt transaction consisting of requesting authorization for the Authority to enter into a conduit financing transaction in an amount up to $33,000,000 to assist in the financing of an affordable rental housing project to be located in the Municipality of San Juan. The Debt Transaction is being issued to lend the proceeds to TFS Housing LLC as HFA's borrower to partially cover the total construction and development costs of 89 single story housing units.

On March 16, 2023, the FOMB had approved a debt transaction consisting of requesting authorization for the Authority to enter into a credit agreement with BPPR in an amount up to $24,000,000 to assist in the financing of an affordable public housing project to be located in the Municipality of Cataño. The Debt Transaction is being issued to lend the proceeds to Bahía Apartments LLC as the Authority's borrower to partially cover the total construction costs of a 104-unit affordable public housing complex and to cover the financing and legal costs of the Tax-Exempt Debt.

On June 5, 2023, the FOMB approved additional debt transactions consisting of requesting authorization for the Authority to enter into three (3) credit agreements with BPPR to assist in the financing of an affordable public housing project in the amounts of approximately $55.75 million (300 units), and $21 million (80 units) in the Municipality of San Juan, and $40.5 million (149 units) in the Municipality of Yabucoa. Also, in that same date, the FOMB approved the Authority to enter into a conduit financing transaction in an amount up to $12 million (25 units) to assist in the financing of an affordable public housing project to be located in the Municipality of San Juan.

The proposed debt transactions mentioned above are a non-recourse obligation to HFA issued in order to access tax-exempt financing pursuant to the U.S. Housing and Urban Development and HFA 2020 qualified affordable housing program and will not be guaranteed by the Authority, the Government of Puerto Rico, or any of its agencies, public corporations, and instrumentalities. The proceeds of each transaction will be repaid through disbursements of Federal Funds, specifically Community Disaster Block Grant – Disaster Relief funds and Low-Income Hon. Repayment is not contingent on cash flows from the project and will be repaid by the end of construction. All fees of the transaction including any fees imposed by AAFAF will be funded by the Authority.

Puerto Rico Finance Corporation's Qualifying Modification for PFC Bonds

On October 25, 2022, AAFAF, on behalf of PFC, and the Oversight Board launched solicitation of the Qualifying Modification. On October 28, 2022, the Oversight Board, as the Title VI Administrative Supervisor, commenced a Title VI proceeding in the U.S. District Court for the District of Puerto Rico. The District Court approved the Qualifying Modification on December 14, 2022. As a result of the Qualifying Modification being effective as of January 12, 2023, the PFC Bonds and the Notes have been canceled and discharged.

Accordingly, the outstanding debt of the Authority previously described has been canceled and it is considered extinguished and will be removed from the Authority's financial statements in fiscal year 2023.

Multifamily Housing Collateralized Revenues Bonds

In February 2023, the Authority issued $52,939,000 Multifamily Housing Collateralized Revenue Bonds. The proceeds from the issuance will be used to provide financing to a private company for the acquisition, improvement, rehabilitation, construction, and development of a 294-unit multifamily housing facility. These bonds are limited obligations of the Authority, payable primarily from a trust established as part of the financing.

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Required Supplementary Information
(Unaudited)

PUERTO RICO HOUSING FINANCE AUTHORITY

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF THE COLLECTIVE TOTAL PENSION LIABILITY

For the year ended June 30, 2022

	GASB 73				GASB 68				
	2021	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Proportion (percentage) of the net colllective total pension liability	0.27380%	0.27639%	0.28168%	0.27460%	0.15977%	0.15693%	0.16041%	0.16041%	0.16145%
Proportionate (amount) of the net collective total pension liability	$74,430,452	$77,583,302	$69,998,393	$67,248,992	$54,671,304	$59,160,168	$53,475,928	$48,658,344	$42,252,542
Covered - Employee Payroll	$ 6,700,822	$ 5,309,451	$ 6,235,282	$ 6,235,282	$ 6,051,520	$ 6,200,000	$ 7,300,000	$ 6,600,000	$ 6,500,000
Proportionate Share of total pension liability as percentage of covered-employee payroll	1110.77%	1461.23%	1122.62%	1078.52%	903.43%	954.20%	732.55%	737.25%	650.04%

Notes to Required Supplementary Information

1. As a result of the implementation of the PayGo system, as provided by Act No. 106 of 2017 (Act 106), the Pension Plan no longer met the criteria to be considered a plan that is administered through a trust or equivalent arrangement under GASB 68 and, therefore, was required to apply the guidance in GASB 73 effective July 1, 2018. Act 106 eliminated all employer contributions and required ERS to liquidate its assets and to transfer the proceeds to the Commonwealth for the payment of pension benefits. Therefore, there are no assets accumulated in Trust to pay related benefits.

2. The Authority's proportion of the total pension liability was actuarially determined based on the ratio of the Authority's benefit payments to the total benefit payments made by all participating employers under the Pension Plan for the year ending on the measurement date.

3. The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

4. The amounts presented were determined by an actuarial valuation as of July 1, 2019 that was rolled forward to June 30, 2020, the measurement date.

PUERTO RICO HOUSING FINANCE AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF TOTAL POSTEMPLOYMENT BENEFIT LIABILITY

For the year ended June 30, 2022

	2021	2020	2019	2018	2017	2016
Proportion of the total OPEB liability	0.17378%	0.17601%	0.17758%	0.17007%	0.15947%	0.14574%
Proportionate Share of the total OPEB liability	$ 1,386,940	$ 1,539,436	$ 1,477,874	$ 1,432,241	$ 1,467,905	$ 1,727,200
Covered - Employee Payroll	-	-	-	-	-	-
Proportionate share of the total OPEB Liability as a percentage of its covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Required Supplementary Information

1. The Authority's total OPEB liability as of June 30, 2022, was measured on June 30, 2020 (measurement date), by an actuarial valuation as of that date for the reporting period June 30, 2022.

2. The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.