COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A Fund of the Commonwealth of Puerto Rico)

SINGLE AUDIT REPORT
YEARS ENDED JUNE 30, 2020

BAKER TILLY PUERTO RICO, CPAs, PSC
Certified Public Accountants

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
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SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2020

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

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the **Puerto Rico Public Housing Administration** (the Administration), a fund of the Commonwealth of Puerto Rico, and a component unit of the Puerto Rico Department of Housing, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise a portion of the Commonwealth of Puerto Rico basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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

(Continues)

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Qualified Opinion for the year ended June 30, 2020

The Administration was unable to obtain from the Retirement System Administration the financial and technical information necessary for the proper recognition of its total pension liability as of June 30, 2020. As a result, management has not recognized the effect of the accounting and financial reporting requirements for pensions as set forth in the GASB Statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68*. for the year then ended. Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 68. Also, the Administration's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statements No. 73. for the year ended June 30, 2020. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

In addition, the Administration was unable to obtain from the pension administrator the information about the employment allocations and other postemployment benefit amounts necessary to comply with the requirements of GASB No. 75 "*Accounting and Financial Reporting for Postretirement Benefits Other than Pensions"*, as of June 30, 2020 and therefore the amounts to be reported as deferred outflow/inflow of resources and net liability related to the postretirement benefit other than pensions, applicable disclosures and required supplementary information have been omitted for the year then ended.

We were unable to obtain sufficient appropriate audit evidence about the amount by which these departures would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration's financial statements

Qualified Opinion for the year ended June 30, 2020

In our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" paragraph, as of and for the year ended June 30, 2020 the financial statements referred to in the first paragraph of this report present fairly, in all material respects, the financial position of the Administration as of June 30, 2020 and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continues)

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Unmodified Opinion for the year ended June 30, 2019

In our opinion, the financial statements referred to in the first paragraph of this report present fairly, in all material respects, the financial position of the Administration as of June 30, 2019 and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Change in Accounting Principle

The Administration adopted the provisions of GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", and GASB Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets that Are Not whithin the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68",* because the Administration has been provided with actuarial information, for the implementation of such statements. Therefore, the Administration record its proportionate share of total pension liability, total post-ermployment benefits liability, deferred inflows, of resources, deferred outflows of resources, pension expense, and other post-employment expense as of June 30, 2019. However, the Administration has not recognized the effect of current year changes in the total pension liability, post-employment benefits obligation as it related to, deferred outflows of resources, deferred inflows resources, pension expense, and other post-employment expense. The Administration's net position at the beginning of year has been adjusted for this change.

(Continues)

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters

Restatement of prior year financial statements

In our report dated September 30, 2020, we expressed a qualified opinion on the 2019 financial statements because the non-adoption of the accounting and financial reporting requirements for pensions as set forth in the GASB statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets that Are Not whithin the Scope of GASB Statement 68"* and the requirements of GASB No. 75 "*Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions*". As described in note 18 to the financial statements, the Administration adopted for the year ended June 30, 2019 the provisions of the GASB Statement No. 73 and 75 and has restated its June 30, 2019 financial statements to conform with accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the June 30, 2019 financial statements, as presented herein is different from that expressed in our previous report.

Grant Programs

The Administration receives financial assistance from the federal government in the form of grants and receipt of grants is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal laws and regulations including the expenditure of resources for eligible purposes. Substantially, all grants are subject to audit under the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and compliance audits by the grantor agencies. Disallowance as a result of these audits may become liabilities of the Administration. Nevertheless, the Administration's management believes that disallowed expenditures, if any, will not have a material effect on its financial position and are uncertain at this time. Accordingly, no provision for any liability that may result has been made in the financial statements.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 2020 management's discussion and analysis information on pages 7 through 28 and employees' retirement system information as of and for the year ended June 30, 2019 related to the GASB Statement No. 73 and 75, on pages 69 through 71 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the managements' discussion and analysis required 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. We were unable to apply certain limited procedures to the 2019 required supplementary information related to employees 'retirement system information applicable to the Administration, in accordance with auditing standards generally accepted in the United States of America. We do not express an opinion or provide any assurance on the information.

Management has omitted for the year ended June 30, 2019 historical pension information and the applicable disclosures, as stated in GASB Statements No.73 and 75, that accounting principles generally accepted to the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standard Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

(Continues)

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), and is not a required part of the financial statements.

The schedule expenditures of federal awards are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2021 on our consideration of the Puerto Rico Public Housing Administration internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Puerto Rico Public Housing Administration internal control over financial reporting and compliance.

Baker Tilly Puerto Rico, CPAs, PSC

Guaynabo, Puerto Rico
September 30, 2021
The stamp number E463569 was
affixed to the original of this report.

BAKER TILLY PUERTO RICO CPAs, PSC
License No. 218
Expires December 1, 2023

Our discussion and analysis of Puerto Rico Public Housing Administration ("PRPHA") financial performance provides an overview of PRPHA's financial activities for the fiscal years ended on June 30, 2020 and 2019. Please read it in conjunction with the financial statements, which begin on page 26.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

Management's Discussion and Analysis serves as an introduction to the PRPHA's basic financial statements, which include: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to the Basic Financial Statements. These statements and information represent the actual financial position of PRPHA. Below, you will find a brief explanation of the statements and notes.

1) The **Statement of Net Position** presents PRPHA's total assets plus deferred outflows of resources, equals liabilities plus deferred inflows of resources plus net position, at the end of the fiscal year. The difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as net position.

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

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

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

FINANCIAL HIGHLIGHTS

The financial statements for fiscal years ended on June 30, 2020 and 2019 are presented in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position";* and the Statement No. 34 "*Basic Financial Statements and Management's Discussion Analysis for State and Local Government".*

FINANCIAL HIGHLIGHTS (CONTINUED)

Statement of Net Position

- As of June 30, 2020, PRPHA's total assets and deferred outflows are approximately $1,948 million representing a net decrease of $69 million or 3% when compared with the prior fiscal year. This decrease includes the following variances between the current and prior fiscal year balances:
  <u>Increases:</u>
  - Cash increased by approximately $22 million or 6%.
  - Materials and supplies increased by approximately $1.3 million or 9%
  - Rent and other accounts receivable increased by approximately $17 million or 28%.

  <u>Decreases:</u>
  - Capital assets, net decreased by approximately $88 million or 6%.
  - Restricted assets decreased by approximately $22 million.

  Total liabilities amounted to approximately $189.7 million representing a decrease of approximately $6 million or 3% when compared to prior year balance. The main driver of this decrease is the net effect on bonds payable balances, which decreased by approximately $14 million.

- As of June 30, 2019, PRPHA's total assets and deferred outflows are approximately $2,016 million representing a net decrease of $77 million or 4% when compared with the prior fiscal year. This decrease includes the following variances between the current and prior fiscal year balances:
  <u>Increases:</u>
  - Restricted assets increased by approximately $22 million.
  - Materials and supplies increased by approximately $1.3 million or 9%.
  - Rent and other accounts receivable increased by approximately $14.5 million or 32%.

  <u>Decreases:</u>
  - Capital assets, net decreased by approximately $130 million or 9%.
  - Cash decreased by approximately $21 million or 6%.

  Total liabilities amounted to approximately $195.8 million representing a decrease of approximately $8 million or 4% when compared to prior year balance. The main driver of this decrease is the net effect on bonds payable balances, which decreased by approximately $14 million.

FINANCIAL HIGHLIGHTS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Fund Net Position

- The current fiscal year's financial statements reflect a net operating loss before non-operating revenues (expenses) and grants amounting to approximately $355 million, representing an increase in the loss of 5% from the prior fiscal year. The net operating loss is due to the nature of PRPHA's financial presentation as a series of non-operating revenues and contributions from HUD whom are received annually which help subsidize those operating expenses.

  The net operating loss balance includes approximately $35 million in revenues and approximately $389 million in expenses. Operating revenues increased by approximately $9 million and expenses increased by approximately $25 million.

  Non-operating revenues (expenses) and grants amounted to approximately $214 million, $12 million less when compared with the prior fiscal year. Non-operating revenues decrease is largely due to a decrease of approximately $10 million in Federal Grants.

  Considering all operating and non-operating revenues and expenses, PRPHA ends up with a loss before HUD contributions of approximately $140 million, an increase of approximately $27 million in comparison with the prior fiscal year. This loss is reduced with the capital contributions from HUD, which amounted to $64 million during the current fiscal year.

  The balance of net position at the end of the year amounted to approximately $1,752 billion, representing a decrease of approximately $64 million compared to prior year.

- The prior fiscal year's financial statements reflect a net operating loss before non-operating revenues (expenses) and grants amounting to approximately $338 million, representing an increase in the loss of 8% from the prior fiscal year. The net operating loss is due to the nature of PRPHA's financial presentation as a series of non-operating revenues and contributions from HUD are received annually which help subsidize those operating expenses.
  The 2019 net operating loss balance includes approximately $26 million in revenues and approximately $364 million in expenses. Operating revenues increased by approximately $8 million, and expenses increased by approximately $33 million.

  Non-operating revenues (expenses) and grants amounted to approximately $226 million, $29 million more when compared with the prior fiscal year.

REPORTING THE ADMINISTRATION AS A WHOLE

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

As shown in Table 1, PRPHA's Net Position amounted to approximately $1,752 million with a net decrease of 4% from 2019 to 2020.

Approximately $131 million and $92 million of the total net position is restricted for specific purposes for the years ended June 30, 2020 and 2019, respectively. This includes the homeownership initiative, capital improvements of certain public housing projects and the modernization of PRPHA's projects. Unrestricted amounts are the funds that can be used to finance day-to-day operations (for example, to cover management fees, management cost, utilities, negative rent, professional services, and others). These assets come from debt covenants, enabling legislation, or other legal requirements that amounted to approximately $385 and $389 million at the end of fiscal years 2020 and 2019, respectively.

PRPHA's Net Position includes approximately $1,235 and $1,335 million of investments in capital assets, net of related debt for the years ended June 30, 2020 and 2019, respectively.

Table 1: Summary of Statement of Net Position

	June 30,	
	2020	**2019**
Assets		
Current assets	$ 520,342,010	$ 499,206,074
Capital assets (net)	1,307,682,852	1,395,558,581
Other non-current assets	115,341,647	117,179,306
Total assets	1,943,366,509	2,011,943,961
Deferred Outflows of Resources	4,399,223	4,399,223
Total assets and deferred outflows	1,947,765,732	2,016,343,184
Liabilities		
Current liabilities	74,024,581	65,829,861
Noncurrent liabilities	115,644,723	129,960,183
Total liabilities	189,669,304	195,790,044
Deferred Inflows of Resources	6,565,538	4,538,790
Net position	1,751,530,890	1,816,014,350

The change in net position amounted to $64 million for the fiscal year ended June 30, 2020.

RESULT OF OPERATIONS

Tables 2 and 3 detail the amounts received by each fund, the Non-Operating Federal Grants and the Capital Contribution received from HUD in order to operate PRPHA. As of 2020 and 2019, the Public Housing Fund received 79% and 90%, respectively, of the total Non-Operating Federal Grants. The amount received for the Capital Fund Program of the total Non-Operating Federal Grants was approximately 6% and 10% for 2020 and 2019, respectively. These costs are for soft costs expenditures that include relocation costs, administrative expenses, among other related costs.

During 2020, PRPHA received under the federal program Housing Choice Voucher #14.871 approximately $40 million and in 2019 PRPHA received under the federal program HOPE 14.866 approximately $692 thousand.

Table 2

FY 2020

Program Title	CFDA Number	Non-Operating Federal Grants	%	Capital Contributions	%	Non-Operating Revenues
Capital Fund Program	14.872	$ 17,145,699	6%	$ 75,210,517	99%	$ 92,356,216
Public Housing	14.850	220,537,271	79%	482,461	1%	221,019,732
Housing Choice Voucher	14.871	40,087,719	14%			40,087,719
Project Safe Neighborhoods	16.609	50,925	0%			50,925
Section 8 SRO	14.249	297,224	0%			297,224
Lower Income Housing Assistance Program	14.856	663,307	0%			663,307
		960,531				
Central Office Cost Center CARE	14.CCC	11,555	0%			11,555
Total		$ 278,793,700	100%	$ 75,692,978	100%	$ 354,486,678

RESULT OF OPERATIONS (CONTINUED)

Table 3

FY 2019

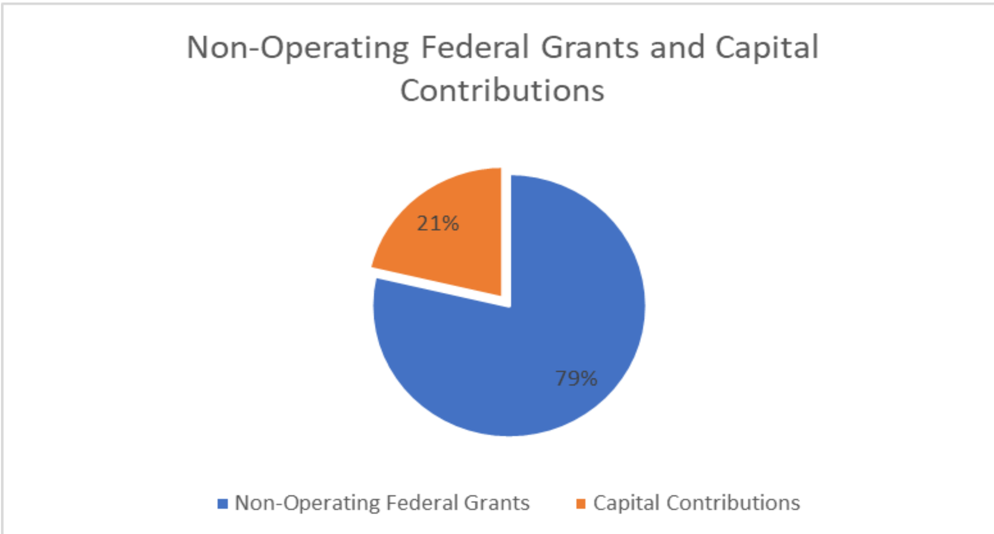
Program Title	CFDA Number	Non-Operating Federal Grants	%	Capital Contributions	%	Non-Operating Revenues
Capital Fund Program	14.872	$ 27,644,501	10%	$ 76,414,031	99%	$ 104,058,532
Public Housing	14.850	261,463,732	90%	-		261,463,732
HOPE VI	14.866	-	-	692,096	1%	692,096
Total		$ 289,108,233	100%	$ 77,106,127	100%	$ 366,214,360

Graph 1 and 2 presents the distribution of non-operating Federal Grants and Capital Contributions of the Capital Fund Program (CFP) when compared to non-operating Revenues received from HUD in 2020 and 2019, respectively.
For fiscal year 2020, the Capital Fund received $92 million, detailed as follows: $17 million for Non-Operating Federal Grants and $75 million for Capital Contribution. The Non-Operating Revenues of CFP for 2020 include soft costs of $2.1 million and $0 million from the account 1406 (transfer for operations). Other soft costs include relocation costs, administrative expenses among other related costs.

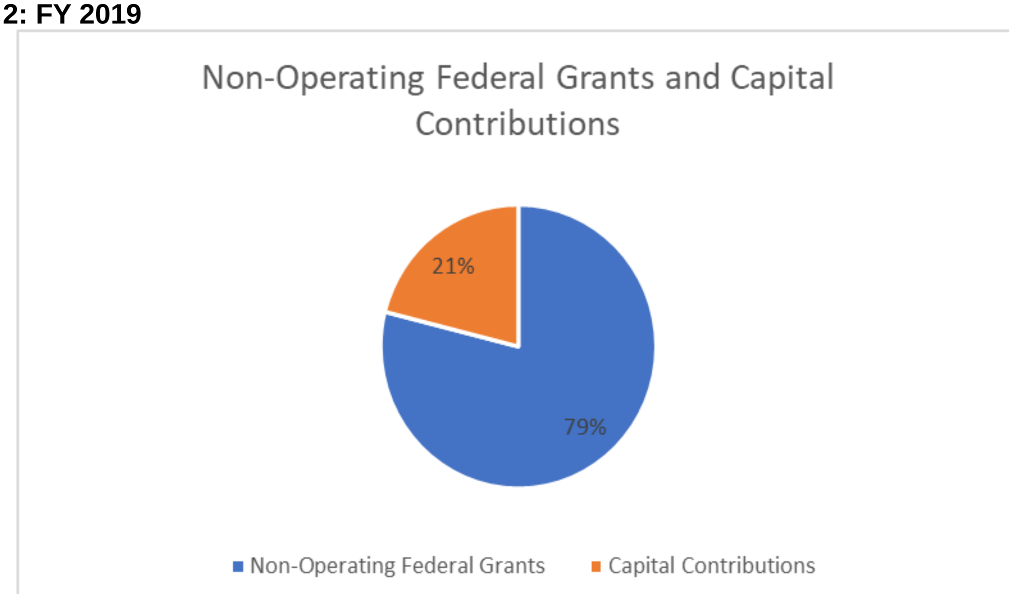
For fiscal year 2019, the Capital Fund received $104 million, detailed as follows: $28 million for Non-Operating Federal Grants and $76 million for Capital Contribution. The Non-Operating Revenues of CFP for 2019 include soft costs of $1 million and $11 million from the account 1406 (transfer for operations). Other soft costs include relocation costs, administrative expenses among other related costs.

RESULT OF OPERATIONS (CONTINUED)

GRAPH 1: FY 2020



GRAPH 2: FY 2019



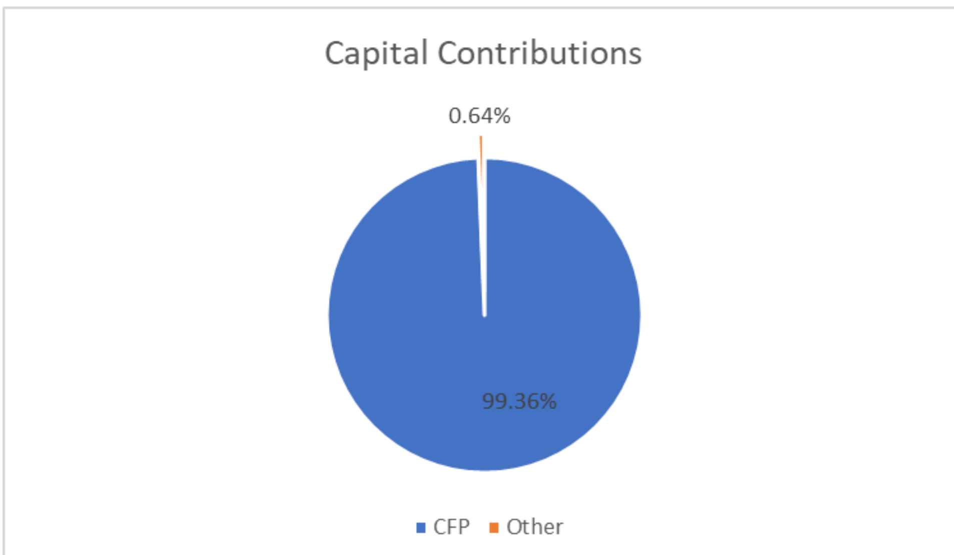
RESULT OF OPERATIONS (CONTINUED)

Graphs 3 and 4 show the capital contributions.

For fiscal year 2020, the total capital contributions amounted to approximately $76 million. From this amount, a total of $75 million was received from Capital Fund Program representing 99% of total capital investment, 482 thousand or less than 1% were received from Public Housing HOTMA program. From the amount received from HUD under Capital Fund Program, $46 million were used to pay Bond Debt Service related to the 2003 and 2008 Bond Issues.

For fiscal year 2019, the total capital contributions amounted to approximately $77 million. From this amount, a total of $76 million was received from Capital Fund Program representing 99% of total capital investment, $692 thousand or 1% were received from HOPE VI. From the amount received from HUD under Capital Fund Program, $46 million were used to pay Bond Debt Service related to the 2003 and 2008 Bond Issues.

GRAPH 3: FY 2020



RESULT OF OPERATIONS (CONTINUED)

GRAPH 4: FY 2019

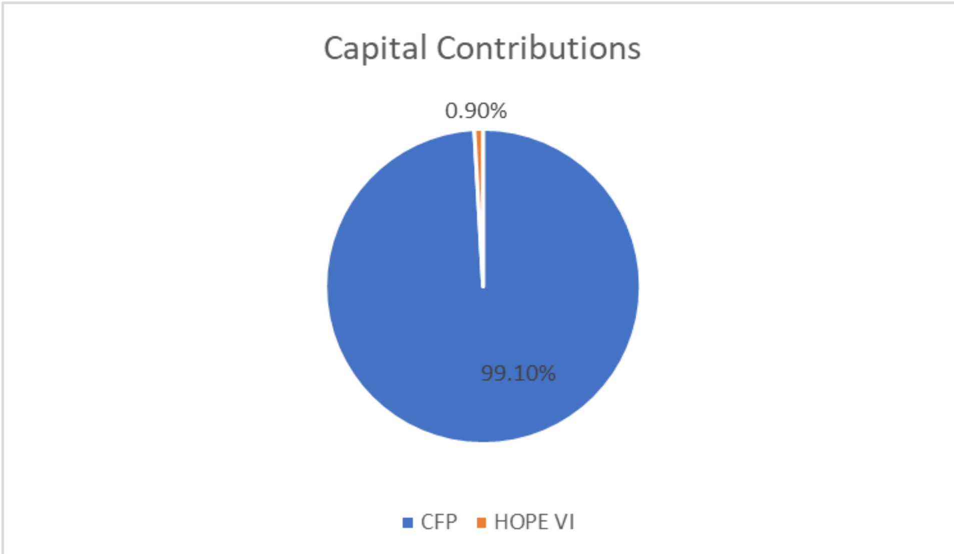


Table 4 presents the detail of operating expenses. Total operating expenses are approximately $389 million for the fiscal year ended June 30, 2020 and $364 million for the fiscal year ended June 30, 2019, representing an increase of 7%.

Table 4: **Total Operating Expenses**

	2020	2019
Administrative salaries	$ 64,399,205	$ 66,309,716
Tenant service salaries and other tenant services	71,825,102	43,930,583
Repairs, maintenance and utilities	92,378,360	90,466,574
Depreciation	95,953,161	97,642,803
Insurance	14,451,808	12,821,999
Other general and administrative	50,229,636	53,093,235
Total	$ 389,237,272	$ 364,264,910

RESULT OF OPERATIONS (CONTINUED)

Total operating expenses increased by $25 million during 2020, mostly driven by the increase Tenant service salaries and other tenant services.

Table 5 presents a Summary of Revenues, Expenses, and Changes in Net Position during fiscal years 2020 and 2019.

	June 30,	
	2020	**2019**
Program revenues:		
Operating revenues	$34,577,953	$25,731,934
Operating expenses	389,237,272	364,264,910
Net operating loss before non-operating revenues and grants	(354,659,319)	(338,532,976)
Non-operating revenues (expenses) and grants	214,482,881	225,593,987
Loss before contributions from HUD	(140,176,438)	(112,938,989)
Capital contributions from HUD	75,692,978	77,106,127
Change in net position	(64,483,460)	(35,832,862)
Net position at beginning of the year, as restated	1,816,014,350	1,851,847,212
Net position at end of year	$1,751,530,890	$1,816,014,350

- The net operating loss before non-operating revenues (expenses) and grants of PRPHA for the fiscal year 2020 amounted to approximately $355 million, representing a net increase in the loss of 5% when compared to prior fiscal year. The main drivers of this increase are the increases in other tenant services and other general, insurance and repair and maintenance (as shown in Table 4).

- Net non-operating revenues (expenses) and grants decreased by approximately $10 million in comparison with the prior fiscal year, mainly due to the decrease in Federal Grants.

- Capital Contributions decreased by approximately $1.3 million due to a decrease in capital expenditures during the modernization process of PRPHA buildings.

Table 6, Graphs 5 and 6 present the expenditures for each of PRPHA's federal programs for the fiscal years ended 2020 and 2019. From the Public and Indian Housing Program (PIHP), PRPHA expended $221 million, which represents 62% of total federal expenditures for fiscal year 2020. Approximately $92 million were expended from the Public Housing Capital Fund during the current year, representing a decrease of approximately $12 million from prior fiscal year.

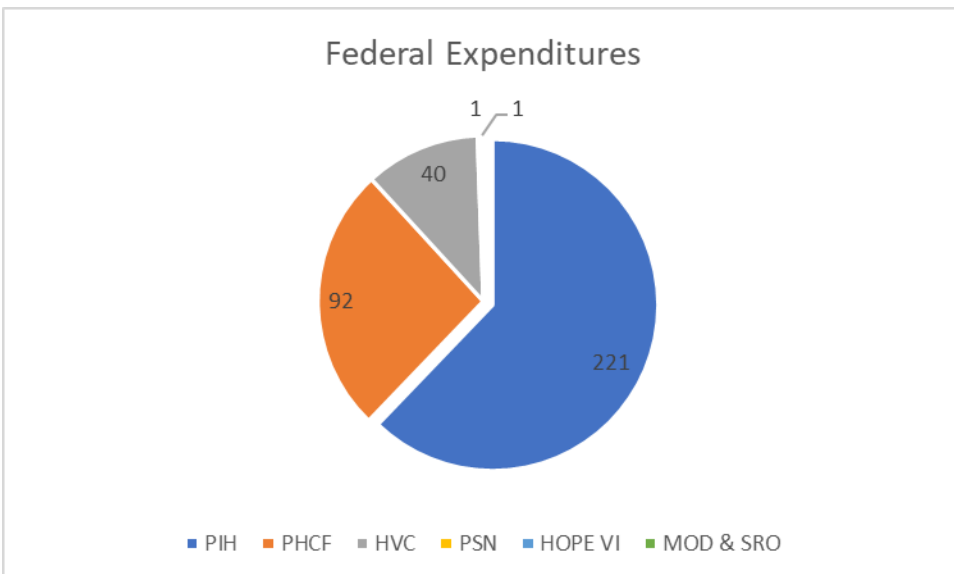
RESULT OF OPERATIONS (CONTINUED)

During the fiscal year ended June 30, 2019, approximately $104 million were expended from the Public Housing Capital Fund, representing a decrease of approximately $2 million from fiscal year 2018.

Table 6: ($ in millions)

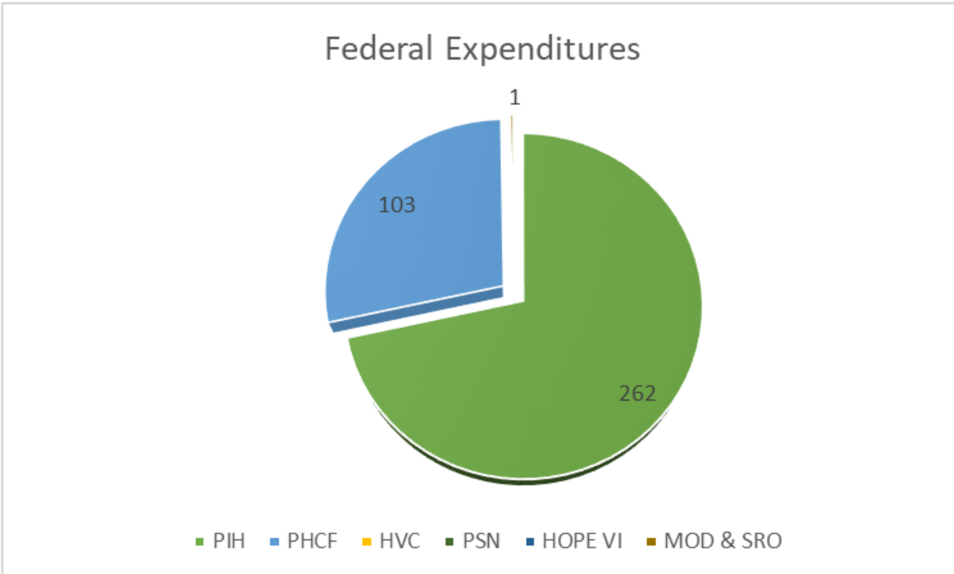
		2020	2019
Public and Indian Housing	PIH	$ 221	$ 261
Public Housing Capital Fund	PHCF	92	104
Housing Choice Voucher	HVC	40	-
Project Safe Neighborhoods	PSN	1	
HOPE VI	HOPE VI		
MOD REHAB Y SRO	MOD & SRO	1	1
Total		$ 355	$ 366

GRAPH 5: FY 2020



RESULT OF OPERATIONS (CONTINUED)

GRAPH 6: FY 2019



BUDGETARY HIGHLIGHTS

Summary

Table seven details a comparison of the final budget for the Public and Indian Housing Program (PIHP) and the Central Office Cost Center (COCC) Fund. PIHP operated in FY2020 with a revised final budget of $419 million while the fiscal year 2019 final budget was $351 million. For 2020 there is an increase of $45.9 million when compared to 2019.

Table 7: Budget Summary ($ in thousands)

Description	Final Budget Approved 2020-2019	Final Budget Approved 2019-2018	Final Budget Approved 2018-2017
Public and Indian Housing, including fees	$ 394,536,080	$ 335,750,743	$ 295,063,994
Capital Fund Program Fee	15,100,000	15,100,000	10,238,991
Fema (Adm agent fees and shelter expense)	-	-	3,164,704
Use of Reserve and Other Income	9,147,441	377,814	15,007,854
Total	$ 418,783,521	$ 351,228,557	$ 323,475,543

BUDGETARY HIGHLIGHTS (CONTINUED)

Table eight details a comparison of the final Public and Indian Housing Program (PIHP) and Central Office Cost Center (COCC) expenditures budgets for fiscal years ending 2020, 2019 and 2018. PIHP operated in FY 2020 and 2019 with a revised final budget of $419 and $351 million, respectively. These funds are used by PRPHA mostly in the ordinary and extraordinary maintenance of PRPHA's federal public housing projects throughout the island.

Description	Approved 2020-2019	Approved 2019-2018	Approved 2018-2017
Administrative Expense	$ 101,554,699	$ 97,924,634	$ 94,062,632
Tenant Services Expense	72,601,272	61,208,769	67,572,551
Utilities	16,937,102	17,009,210	17,009,210
Maintenance/Oper. Exp	92,744,091	83,879,840	77,223,305
Protective Service Expense	4,743,955	4,454,121	3,979,897
General Expense	42,465,808	38,377,702	38,358,159
CFP Act (notice 2018-03)	54,076,563		
Emergency protection measure	-	36,361,312	-
Additional payments to Bonds	-	-	10,000,000
Total Operating Expense	385,123,490	339,215,588	308,205,754
Non-Routine Expenses	33,660,031	12,012,969	15,269,789
	$ 418,783,521	$ 351,228,557	$ 323,475,543

The final operating budget for fiscal year ended 2020 included a subsidy from HUD of approximately $216 million compared to $242 million for 2019. The budget also combines an estimated dwelling rental income of $17 and $17 million for 2020 and 2019 respectively. The total Financial Resources for 2020 show a net increase of $61.8 million mainly due to estimated subsidy, estimated central income, and use of the operating reserve.

BUDGETARY HIGHLIGHTS (CONTINUED)

Table 9

Description	2020-2019	2019-2018	2018-2017
Estimated Subsidy (includes Add On and Uses)	$ 216,000,212	$ 242,399,044	$ 247,396,151
Estimated Rental Income	17,029,113	17,029,113	19,554,703
OP FOR cfp Act (Notice 2018-03) HOTMA	54,076,563	-	-
Capital Fund Program %	11,259,556	-	3,420,727
Transfer from COSS to Projects	-	-	-
Use of excess reserve	96,170,636	36,961,274	24,692,414
Emergency protection measure	-	36,361,312	-
Total Financial Resources	394,536,080	332,750,743	295,063,995
Reasonable Fees to be Charged to Low Income Housing Program[1]	48,522,800	48,522,800	47,258,111
Projects Operating Expenditues (Does not include Non Routine)	191,580,624	176,408,660	163,092,314
Projects Insurance and Telephone	15,501,252	12,588,592	12,716,592
Resident service Prorams, Security and Non Routine Exp.	69,568,991	43,583,529	46,711,128
General Expense	15,285,850	15,285,850	15,285,850
OP for CFP Act (Notice 2018-03) HOTMA	54,076,563	-	-
Credit to principal of bond payable	-	-	10,000,000
Emergency protection measure	-	36,361,312	-
Preoject Expenditures	394,536,080	332,750,743	295,063,995
Net Operating Income/Reserve	$ -	$ -	$ -

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

Table 10 shows the breakdown of the total budget for FYE 2020, including the Central Office Cost Center (COCC).

BUDGETARY HIGHLIGHTS (CONTINUED)

Table 10

Description	COCC	Projects	Total Budget FY 2018-2019
Administrative Expense	$ 55,101,122	$ 46,453,577	$ 101,554,699
Tenant Services Expense	3,900,000	68,701,272	72,601,272
Utilities	150,000	16,787,102	16,937,102
Ord. Maintenance/Operational Expense	6,731,641	86,012,450	92,744,091
Protective Services Expense	752,580	3,991,375	4,743,955
General Expense	5,294,117	37,171,691	42,465,808
OP for CFP Act (notice 2018-03) HOTMA	-	54,076,563	54,076,563
Total Operating Expense	71,929,460	313,194,030	385,123,490
NON-ROUTINE EXPENDITURES			
Extraordinary Maintenance	-	25,700,619	25,700,619
Property Betterments and Additions	840,781	7,118,631	7,959,412
Total Non-Routine Expenditures	840,781	32,819,250	33,660,031
Total Budget	$ 72,770,241	$ 346,013,280	$ 418,783,521

Central Office Cost Center (COCC) charges fees in lieu of cost allocations and record all financial transactions as a different fund (see *Table 11*). COCC reports these fees charged as revenue. In turn, projects will report the fees levied as expenses. *Table 11* details the Central Office Cost Center Budget Summary, which includes Fees, charged to Low Rent Program for $48 million, $15 million from Capital Fund Program as Program Fee and $9.1 million from reserve funds.

Table 11 : Central Office Cost Center Budget Summary

Description	Amount
Fees Charged to AMP's Low Rent Program	$ 48,522,800
Capital Fund Program Management Fee	15,100,000
Fema (Adm agent fees and shelter expense)	-
Use of Reserve	9,147,441
Total Financial Resources for COCC	$ 72,770,241
Total Expenditures for COCC (Includes salaries, indirect cost, management fees).	$ 72,770,241

ASSETS AND LIABILITIES

At the end of fiscal year 2020, PRPHA had approximately $1.948 million in total assets and deferred revenue. For fiscal year 2019, this amount was approximately $2,016 million as detailed below (Table 12).

Table 12 **(in millions)**

	June 30,			
Assets	**2020**		**2019**	
Cash (unrestricted and restricted)	$	359	$	218
Certificates of deposits		52		170
Rent and other accounts receivable, net		77		60
Materials and supplies		17		15
Restricted assets		2		22
Fiscal agent funds, restricted		14		14
Capital assets, net		1,308		1,396
Other noncurrent assets		115		117
Deferred revenue		4		4
	$	1,948	$	2,016

Cash (unrestricted and restricted)

As shown in the table above, cash increased by approximately $22 million when compared with the prior fiscal year.

Rent and Other Accounts Receivable, net

Rent and other accounts receivable had a net increase of approximately $17 million when compared with prior fiscal year mainly due to an increase of $5 million in other accounts receivable and an increase of $2 million in advances to the management agents.

For 2019, rent and other receivable had a net increase of approximately $15 million when compared with prior fiscal year mainly due to an increase of $5 million in accounts receivable from tenants and an increase of $2 million in advances to the management agents.

ASSETS AND LIABILITIES (CONTINUED)

Capital Assets, net

At the end of the fiscal year 2020, capital assets decreased by approximately $88 million when compared with prior fiscal year. The main driver of this decrease is the net effect of an increase of retirement of land, furniture, fixtures and equipment, building and structures and the increase in the accumulated depreciation (See Table 13, Graphs 7 and 8 below). Of the total of $3,468 billion, $3,163 billion were invested in Buildings and Buildings Improvements during the current fiscal year, representing decrease of approximately $4 million in comparison with prior fiscal year. Construction in progress (CIP) for the current fiscal year amounted to approximately $50 million representing a increase of $ 5 million with prior year.

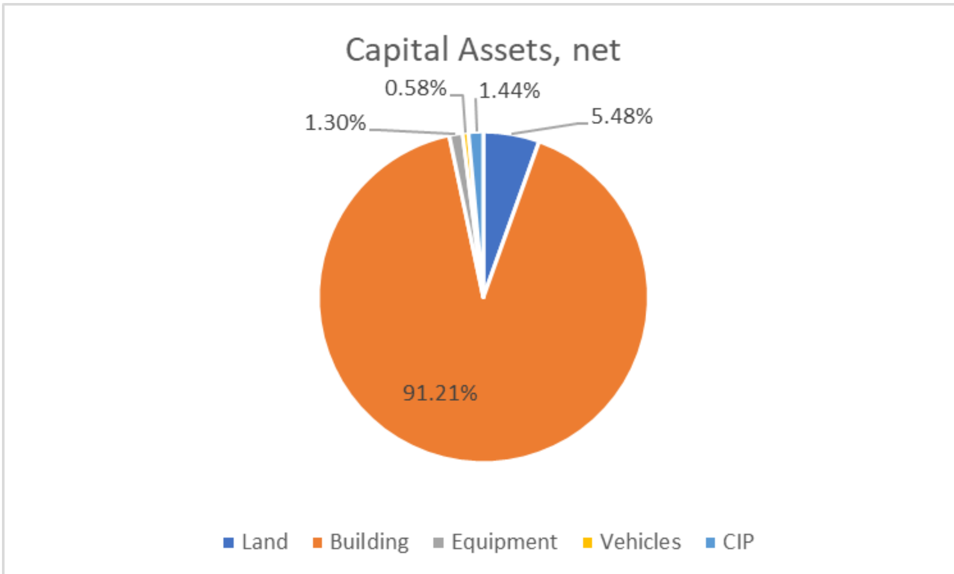
At the end of the fiscal year 2019, capital assets decreased by approximately $130 million when compared with prior fiscal year. The main driver of this decrease is the net effect of an increase of retirement of land, building and structures and the increase in the accumulated depreciation (See Table 13, Graphs 7 and 8 below). Of the total of $3,463 billion, $3,167 billion were invested in Buildings and Buildings Improvements during the current fiscal year, representing increase of approximately $260 million in comparison with prior fiscal year. Construction in progress (CIP) for the current fiscal year amounted to approximately $40 million representing a decrease of $262 million with prior year.

Table 13:

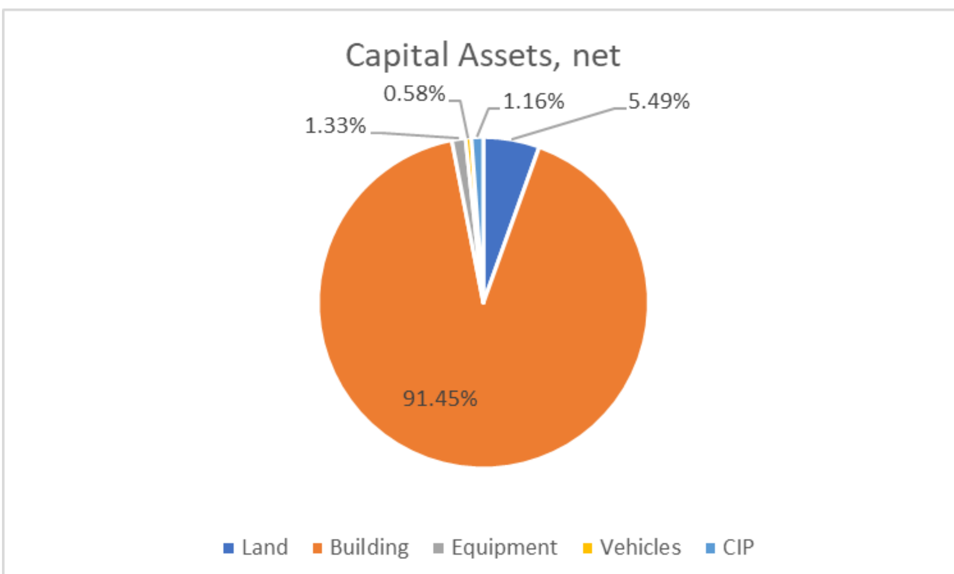
Capital Assets (Net of Accumulated Depreciation, in millions)	**2020**	**2019**
Land	$ 190	$ 190
Building and building improvements	3,163	3,167
Furniture, fixtures, and equipment	45	46
Vehicles	20	20
Construction in progress (CIP)	50	40
Subtotal	3,468	3,463
Less accumulated depreciation	(2,160)	(2,067)
Capital Assets, net	$ 1,308	$ 1,396

ASSETS AND LIABILITIES (CONTINUED)

GRAPH 7: FY 2020



GRAPH 8: FY 2019



ASSETS AND LIABILITIES (CONTINUED)

Non-current Assets

Non-current assets decreased by approximately $90 million in the current year, mainly due to the decrease in capital assets. For the fiscal year ended June 30, 2019, non-current assets decreased by approximately $130 million, mainly due to the decrease in capital assets.

LIABILITIES

Bonds Payable

As of June 30, 2020, the total liability related to the financial agreement entered during December 2003, between the Puerto Rico Housing Finance Administration (the bond issuer) and US Bank Trust National Association (the trustee), that was executed through a bond issue of $663,060,000 had decreased to $78,797,660. These bonds were refinanced during fiscal year 2008. Simultaneously with the issuance of the Series 2008 Capital Fund Bonds, $391,185,000 of the 2003 Bonds was defeased. The defeasance reduced the outstanding principal amount of 2003 Bonds to approximately $219 million and decreased the resultant annual gross debt service requirements from approximately $51.3 million to approximately $18.6 million. During 2018, the debt service for the defeased portion of the 2003 Bonds was paid from the defeasance escrow. The debt service for the remaining balance of the 2003 Bonds will continue to be paid from capital funds of PRPHA, together with debt service on the 2008 Bonds pursuant to the schedule submitted as part of the CFFP submission and the final debt service schedule as submitted to HUD.

Balance of the CFP Bonds Payable consists of the following:

Description	2020	2019
Current portion	$ 14,305,000	$ 13,610,000
Long-term portion	64,492,660	78,807,075
Bonds Payable, net	$ 78,797,660	$ 92,417,075

Current Liabilities

As of June 30, 2020, PRPHA had a total of approximately $74 million in current liabilities. Of this amount, $14.3 million represents the current portion of bonds payable, $58 million is accounts payable and accrued liabilities and other current liabilities amounted to approximately $2 million.

ASSETS AND LIABILITIES (CONTINUED)

As of June 30, 2019, PRPHA had a total of approximately $66 million in current liabilities. Of this amount, $13.6 million represented the current portion of bonds payable, $50 million were accounts payable and accrued liabilities and other current liabilities amounted to approximately $2 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND PROJECTIONS

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

In the following fiscal year, we have been very conservative establishing an amount of $365.3 million as the budget for fiscal year 2021, where $365.3 million will be assigned for operations and the ordinary maintenance of PRPHA projects including the Central Office Cost Center.

The following table shows the budget petition to the Governing Board of PRPHA for the fiscal year 2021 for the federal projects administered by PRPHA and its Central Office Cost Center:

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND PROJECTIONS

Description	2020-2021
Estimated Subsidy (Inc Add On and Uses)	266,887,354
Estimated Rental Income	17,448,862
Capital Fund Program % 1406	-
Capital Fund Program % 1410	15,100,000
Use of operating reserve (projects)	57,138,056
Management Fee Section 8	1,817,210
Use of reserve (COCC)	6,985,821
Total Financial Resources	$ 365,377,303
Reasonable fees to be charge to low income housing	48,522,800
Projects Oper. Exp. (Does Not Include Non Routine)/COCC	234,317,660
Projects Insurance and Telephone	15,501,252
Resident Services Program, Security and Nonroutine Expenses	51,749,741
Utilities Expense	15,285,850
Projects Expenditures	365,377,303
Net Operating Income/Reserve	$ -

The following table shows the budget projections for fiscal years 2018 to 2020 for the federal projects administered by PRPHA:

Description	2017-2018	2018-2019	2019-2020
Estimated Subsidy (Inc Add On and Uses)	$ 247,396,151	$ 242,399,044	$ 266,887,354
Estimated Rental Icome	19,554,703	17,029,113	17,448,862
Capital Fund Program % 1406	3,420,727	-	-
Reserve for HOTMA	-	-	-
Use of operating reserve	24,692,414	36,961,274	57,138,056
Total Fiancial Resources	**$ 295,063,995**	**$ 296,389,431**	**$ 341,474,272**

REQUEST FOR INFORMATION

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

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A Fund of the Commonwealth of Puerto Rico)
STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019

	2020	2019 As Restated
ASSETS		
Cash and cash equivalents **(Notes 1 and 2)**	$ 282,689,168	$ 149,741,798
Cash and cash equivalents, restricted **(Notes 1, 2 and 5)**	75,798,496	68,481,575
Certificates of deposits **(Notes 1 and 2)**	52,267,270	170,091,076
Rent and other accounts receivable, net **(Note 3)**	76,734,779	60,154,462
Materials and supplies	16,857,920	15,469,140
Restricted assets **(Note 5)**	1,689,377	21,658,023
Fiscal agent funds, restricted **(Notes 4 and 5)**	14,305,000	13,610,000
Total current assets	520,342,010	499,206,074
Restricted assets **(Note 5)**	15,341,647	17,179,306
Capital assets, net **(Note 6)**	1,307,682,852	1,395,558,581
Note Receivable **(Note 16)**	100,000,000	100,000,000
Total non-current assets	1,423,024,499	1,512,737,887
DEFERRED OUTFLOWS OF RESOURCES		
Contributions to employee's retirement plan	4,281,286	4,281,286
Contributions to other employee's benefit	117,937	117,937
Total deferred outflows of resouces	4,399,223	4,399,223
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,947,765,732	$ 2,016,343,184
LIABILITIES		
Current portion of bonds payable, restricted **(Note 7)**	$ 14,305,000	$ 13,610,000
Current portion of accrued compensated absences and termination benefits **(Note 8)**	1,642,912	1,657,959
Accounts payable and accrued liabilities **(Note 8)**	57,768,576	50,198,146
Accrued bond interest payable	307,048	363,756
Total current liabilities	74,023,536	65,829,861
Long-term portion of accrued compensated absences and termination benefits **(Note 8)**	706,368	706,368
Other post-employments benefits **(Note12)**	1,391,679	1,391,679
Net pension liability	49,055,061	49,055,061
Long term portion of bonds payable, net **(Note 7)**	64,492,660	78,807,075
Total non-current liabilities	115,645,768	129,960,183
Total liabilities	189,669,304	195,790,044
DEFERRED INFLOWS OF RESOURCES		
Deferred revenues	3,473,241	1,446,493
Unamortized investment in employee's retirement plan	3,092,297	3,092,297
Total deferred inflows of resources	6,565,538	4,538,790
NET POSITION		
Net investment in capital assets	1,234,868,763	1,335,147,233
Restricted	131,276,299	91,660,754
Unrestricted	385,385,828	389,206,363
Total net position	1,751,530,890	1,816,014,350
TOTAL LIABILITES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 1,947,765,732	$ 2,016,343,184

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A Fund of the Commonwealth of Puerto Rico)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019 As Restated
OPERATING REVENUES		
Rent, fees, and other	$ 30,614,700	$ 21,846,432
Fees earned asset management, net	3,963,253	3,885,502
	34,577,953	25,731,934
OPERATING EXPENSES		
Administrative salaries	64,399,205	66,309,716
Tenant service salaries	22,735,748	23,889,915
Other tenant services	49,089,354	20,040,668
Repairs and maintenance	82,182,368	82,038,710
Utilities	10,195,991	8,427,864
Depreciation	95,953,161	97,642,803
Insurance	14,451,808	12,821,999
Impairment in capital assets	8,673,455	6,606,965
Other general and administrative	41,556,182	46,486,270
	389,237,272	364,264,910
Net operating loss before non-operating revenues (expenses)	(354,659,319)	(338,532,976)
Non-operating revenues (expenses) and grants		
Loss on disposition of dwelling properties and equipment, net	(856,074)	(4,097,379)
Legislative appropriation	-	324,000
Interest earned	1,495,943	3,069,401
Interest expense	(3,958,699)	(4,625,345)
Mixed-finance tax credit	(48,850,275)	(48,812,342)
Mixed-finance developments	(12,141,714)	(9,372,581)
Federal grants	278,793,700	289,108,233
	214,482,881	225,593,987
Loss before contributions from the U.S. Department of Housing and Urban Development (HUD)	(140,176,438)	(112,938,989)
Capital contributions from the U.S. Department of Housing and Urban Development (HUD) (Note 9)	75,692,978	77,106,127
CHANGE IN NET POSITION	(64,483,460)	(35,832,862)
NET POSITION AT BEGINNING OF YEAR , as restated (Note 18)	1,816,014,350	1,851,847,212
NET POSITION AT END OF YEAR	$1,751,530,890	$1,816,014,350

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A Fund of the Commonwealth of Puerto Rico)
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019 As Restated
Cash flows from operating activities		
Cash received from tenants and federal grants	$ 20,024,384	$ 11,188,757
Cash payments to employees	(136,239,354)	(110,100,470)
Cash payments to suppliers and management agents	(142,261,407)	(148,148,568)
Net cash used in operating activities	(258,476,377)	(247,060,281)
Cash flows provided by investing activities		
Cash outlays in certificates of deposits, net	139,288,395	(84,982,789)
Net cash provided by (used in) investing activities	139,288,395	(84,982,789)
Cash flows from capital and related financing activities		
Interest paid in capital funds	(3,958,699)	(4,625,345)
Proceeds from capital contributions	75,692,978	77,106,127
Principal payments of bonds payable	(13,619,415)	(12,954,415)
Cash outlays to sub-grantee	(48,850,275)	(48,812,342)
Cash outlays in capital assets	(29,748,675)	(14,435,352)
Net cash used in in capital and related financing activities	(20,484,086)	(3,721,327)
Cash flows provided by non-capital financing activities		
Legislative and federal grants contributions received	278,793,700	289,432,233
Net cash provided by noncapital financing activities	278,793,700	289,432,233
Net increase (decrease) in cash and cash equivalents	139,121,632	(46,332,164)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	249,012,679	295,344,843
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 388,134,311	$ 249,012,679
Cash and cash equivalents		
Unrestricted	$ 282,689,168	$ 149,741,798
Restricted		
Cash and cash equivalents, restricted	75,798,496	68,481,575
Fiscal agent funds	14,305,000	13,610,000
Restricted assets	15,341,647	17,179,306
	$ 388,134,311	$ 249,012,679

PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A Fund of the Commonwealth of Puerto Rico)
STATEMENTS OF CASH FLOWS
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019 As Restated
Reconciliation of net operating loss before non-operating revenues (expenses) and grants to net cash used in operating activities:		
Net operating loss before non-operating revenues (expenses) and grants.	$ (354,659,319)	$ (338,532,976)
Adjustments to reconcile net operating loss before non-operating revenues (expenses) and grants to net cash used in operating activities:		
Depreciation	95,953,161	97,642,803
Loss on impairment of capital assets	8,673,455	6,606,965
Bad debt expense	-	818,891
Increase in rent and other accounts receivable, net	(16,580,317)	(15,391,008)
Increase in materials and supplies	(1,388,780)	(1,320,245)
Increase in deferred revenues	2,026,748	28,940
Increase in accounts payable, accrued liabilities, and accrued compensated absences and benefits	7,498,675	3,086,349
Total adjustments	96,182,942	91,472,695
Net cash used in operating activities	$ (258,476,377)	$ (247,060,281)

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A Fund of the Commonwealth of Puerto Rico)
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Puerto Rico Public Housing Administration of the Commonwealth of Puerto Rico (PRPHA or Administration) is a governmental entity created by Act No. 66 from August 17, 1989 ascribed to the Puerto Rico Department of Housing (the Department) by Act No. 58 of August 9, 1991. On August 9, 1991, it assumed certain assets, liabilities and operations of the Puerto Rico Urban Renewal and Housing Administration (PRURHC), which is currently under liquidation by the Office for the Administration of the Assets of CRUV (OAAC) attached to the Puerto Rico Department of Housing. PRPHA is engaged in the implementation of the governmental policy related to the public housing projects and its administration. During August 1992, the administrator subcontracted the administration of the public housing projects to the private sector. The primary source of funds to carry out the management, maintenance and improvement of public housing are Federal Government subsidies and grants. PRPHA operates approximately 54,000 public housing units, located in 365 (332 federally subsidized and 33 states subsidized) residential complexes throughout the island.

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

Reporting Entity

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

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

Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting and Financial Statements Presentation

The basic financial statements of PRPHA have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities PRPHA's reporting entity applies all relevant Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless they conflict with Governmental Accounting Standards Board (GASB) pronouncements.

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

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

Fair Value of Financial Instruments

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

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

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

Investments: The Administration measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

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

Summary of Significant Accounting Policies (Continued)

- *Level 1*: Valuations based on quoted prices in active markets for identical assets or liabilities that the Administration has the ability to access.

- *Level 2*: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

- *Level 3*: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

Bonds payable: As of June 30, 2020, the fair value of the PRPHA's bonds payable ranged from 100% to 111% of their carrying amount. However, this value may change in the near term.

Statement of Cash Flows

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

Receivables

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

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

Summary of Significant Accounting Policies (Continued)

Materials and Supplies

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

Restricted Assets

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

Capital Assets

PRPHA defines capital assets as assets, which has an initial individual cost of $500 or more at the date of acquisition. Capital assets, consisting mostly of land and structures, the majority of which are used as public housing rental dwellings, are stated at cost, as determined from original Actual Development Cost Certificates (ADCC) submitted to HUD.

Major modernizations and betterments are capitalized while replacements, maintenance and repairs which do not improve or extend the life of the respective assets are expensed currently. When assets are sold, retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and charged against contributed capital.

PRPHA evaluates the recoverability of its capital assets, if circumstances indicate impairment may have occurred pursuant to GASB 42, *Accounting for Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This analysis is performed by using the service units' approach. For the fiscal years ended June 30, 2020 and 2019, PRPHA recognized a loss on impairment of capital assets of $8,673,455 and $6,606,965, respectively, because of certain dwelling units identified for demolition and/or units, which are not in use for an extended period.

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

Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

Major classifications and related estimated useful lives are as follow:

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

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

Deferred Inflows of Resources

Deferred revenue arises from rent received in advance from tenants.

Accounting for Compensated Absences

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

Pension Benefits

The Administration adopted the provisions of GASB Statement No. 73 *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB No. 68"*. Accordingly, pension costs are reported based on the employer total pension liability, pension expense and deferred outflows/inflows of resources reported by the ERS.

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

Summary of Significant Accounting Policies (Continued)

Pension Benefits (Continued)

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the ESR plan and additions to/reductions from the ESR plan's fiduciary net position have been determined on the same basis as they are reported by the ESR. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Accounting for Other Postemployment Benefits ("OPEB")

GASB Statement No. 75 *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"* is effective for the Administration starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan.

Deferred Inflows and Outflows of Resources

In addition to assets and liabilitites, the statement of net position reports separate sections dor deferred outflows of resources and deferred inflows of resources. These separate financial statement elements, deferred outflows of resources and deferred inflows of resources, represent a consumption or acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) or inflow of resources (revenue) until that time.

The Administration have deferred outflows and inflows that relate to the net pension liability, which include the Administration's contributions subsequent to the measurement date, which is recognized as a reduction of the net pension liability in the subsequent year.

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

Summary of Significant Accounting Policies (Continued)

Deferred Inflows and Outflows of Resources (Continued)

They also include changes in assumptions, differences between expected and actual experience, and changes in proportion and differences between the Administration contributions and proportionate share of contributions, which are deferred and amortized over the average expected remaining service lives of active and inactive members in the plan.

Annual Contributions

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

Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net position is presented in three components as follows:

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

- Restricted net position - Consist of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

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

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

Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Risk Management

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

Recently Issued Accounting Pronouncements

The GASB has issued the following accounting standards, which were adopted when applicable, by PRPHA or are being evaluated for the impact that these standards will have in the financial statements:

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2019. Earlier application is permitted.

GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is permitted.

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

Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements (Continued)

GASB Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2019.

GASB Statement No. 89, *Accounting for interest cost incurred before the end of a construction period*. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and to simplify accounting for interest cost incurred before the end of a construction period.

This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 90, *Majority equity interests – an amendment of GASB Statements No. 14 and No. 61.* The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations.* This Statement requires a single method be used for the reporting of conduit debt obligations. The focus of the Statement is

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

Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements (Continued)to improve financial reporting by eliminating diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*. This Statement, issued in January 2020, clarifies implementation of GASB Statements No. 73, 74, 84 and 87, generally effective for fiscal years beginning after June 15, 2021.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. This Statement, issued in March 2020, addresses the accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR) - most notably, the London Interbank Offered Rate (LIBOR), which is expected to cease to exist in its current form at the end of 2021. The requirements of this Statement are effective for reporting periods after December 31, 2021.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement, issued in March 2020, addresses issues related to public-private and public-public partnerships (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement, issued in May 2020, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.* This Statement, issued in June 2020, sets requirements for a primary government's determination of component units which do not have governing boards; amends the financial burden criterion in paragraph 7 of Statement No. 84; sets required classifications for Section 457 plans and applies Statement No. 84, as amended, to IRC Section 457 arrangements; and supersedes remaining provisions of Statement No. 32, as amended, regarding investment valuation requirements for Section 457 plans. The requirements of this Statement in (1) paragraph 4 of this Statement as it applies to defined

contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately. All other requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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

Summary of Significant Accounting Policies (Continued)

Subsequent Events

In May 2009, the Financial Accounting Standards Board (FASB) established standards related to accounting for, and disclosure of, events that occur after the statement of position date, but before financial statements are issued or are available to be issued. Management has evaluated subsequent events through September 30, 2021 the date the financial statements were available to be issued.

2. DEPOSITS AND CUSTODIAL CREDIT RISK

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

Custodial credit risk is the risk that in the event of bank failure, government’s deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of Federal Depository Insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. The Administration had the following amounts deposited in commercial banks at:

2. DEPOSITS AND CUSTODIAL CREDIT RISK (CONTINUED)

Bank (s) balance in	June 30, 2020	June 30, 2019
Insured depository accounts	$ 250,000	$ 250,000
Collaterized depository accounts-held under the Administration's name	410,754,934	388,382,622
	$ 411,004,934	$ 388,632,622

3. RENT AND OTHER ACCOUNTS RECEIVABLE, NET

Rent and other accounts receivable, net of the allowance for doubtful accounts, consist of the following at June 30:

Description	2020	2019
Rent and other receivables:		
Accounts receivable from tenants	$ 26,585,712	$ 25,277,317
Others	27,945,655	19,247,424
	54,531,367	44,524,741
Less: allowance for doubtful accounts, including an allowance for enterprise income verification (EIV) of $3,098,931 in 2020 and $3,011,972 in 2019	(24,345,693)	(20,665,541)
Total rent and other accounts receivable, net	30,185,674	23,859,200
HUD grant receivable	5,828,938	4,600,066
Interest receivable	341,772	1,905,651
Accounts receivable from Department of Housing of the Commonwealth of Puerto Rico	10,485,281	10,117,642
Advances to management agents	29,893,114	19,671,903
Total accounts receivable	**$ 76,734,779**	**$ 60,154,462**

The HUD grant receivable represents the amount pending to be received by PRPHA as of June 30, 2020 and 2019 under the Capital Fund's expenditure driven agreement for allowable costs already incurred at June 30, 2020 and 2019, but for which HUD had not made the drawdown of funds on behalf of PRPHA. These costs are mainly for capital assets additions and other expenses related with the modernization of dwelling units.

4. FISCAL AGENT FUNDS, RESTRICTED

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

The current portion amount deposited by the Administration with this fiscal agent for the years ended June 30, 2020 and 2019 amounted to $14,305,000 and $13,610,000, respectively.

This reclassification is solely to comply with financial statement presentation required by Real Estate Assessment Center (REAC). The Administration will use this amount for the repayment of principal of the outstanding debt incurred for the modernization of housing projects under the Capital Revenue Bond agreement.

5. RESTRICTED ASSETS

Restricted assets at June 30 consist of the following:

Description	Classification	2020
Certificate of deposit at .45% due on August 2020	Short-term	$ 1,689,377
Fiscal Agent Funds	Short-term	14,305,000
Cash and cash equivalents in Banco Popular de Puerto Rico	Short-term	75,798,496
Total restricted assets, current		91,792,873
Certificates of deposit	Long-term	52,267,270
Deposits with HUD	Long-term	1,521,156
Cash restricted for operating expenses of dwelling units	Long-term	13,820,491
Total restricted assets, non-current		67,608,917
		$ 159,401,790

5. RESTRICTED ASSETS (CONTINUED)

Description	Classification	2019
Certificate of deposit at 1.20% due on August 2019	Short-term	$ 21,658,023
Fiscal Agent Funds	Short-term	13,610,000
Cash and cash equivalents in Banco Popular de Puerto Rico	Short-term	68,481,575
Total restricted assets, current		103,749,598
Deposits with HUD	Long-term	1,521,156
Cash restricted for operating expenses of dwelling units	Long-term	15,658,150
Total restricted assets, non-current		17,179,306
		$ 120,928,904

At June 30, the funds received from and/or held by HUD earmarked for certain specific purposes include:

Description	2020	2019
Homebuyers earned home payment	$ 337,875	$ 331,605
Proceeds from units sold under Turnkey III projects remited to HUD	1,521,156	1,521,156
Amount to be used for the repair and/or improvement of the electric and plumbing systems, kitchen cabinets, and other non-routine maintenance of the Turnkey III projects	1,351,502	1,326,418
Fiscal Agent Fund	14,305,000	13,610,000
Proceeds from the Capital Fund Program Bonds to be used for the modernization of approximately 40 properties containing approximately 8,000 units	13,820,491	15,658,150
Investments with financial institutions	128,065,766	88,481,575
Total restricted assets-earmarked for specific purposes	$ 159,401,790	$ 120,928,904

5. RESTRICTED ASSETS (CONTINUED)

PRPHA operates the Turnkey III projects in accordance with requirements for the Homeownership Opportunity Program for Low Income Families. The amount deposited with HUD for the years ended June 30, 2020 and 2019 amounted to $1,521,156 and represents amounts remitted to HUD related to the proceeds of the units sold under Turnkey III projects. During 1986, Congressional Legislation was approved to return the funds to PRPHA in order to establish a loan fund oriented towards improving the dwelling units. These loans, which are exclusively for the Turnkey III owners, will allow them to repair and/or improve the electrical equipment and other systems.

6. CAPITAL ASSETS, NET

Capital assets net of accumulated depreciation consist of the following:

	Balance at June 30, 2019	Additions	Retirements	Transfers	Balance at June 30, 2020
Capital assets not being depreciated:					
Land	$ 190,182,597	$ -	$ (770,669)	$ -	$ 189,411,928
Intangible Asset	266,757	-	-	-	266,757
Construction in progress	39,887,355	29,832,443	(13,659,062)	(6,244,074)	49,816,662
Total capital assets not being depreciated	230,336,709	29,832,443	(14,429,731)	(6,244,074)	239,495,347
Capital assets being depreciated:					
Buildings and building improvements	3,166,555,431	-	(10,000,025)	6,244,074	3,162,799,480
Furnitures, fixtures and equipments	46,287,847	1,291,353	(2,905,345)	-	44,673,855
Vehicles	19,907,259	762,927	(186,895)	-	20,483,291
	3,232,750,537	2,054,280	(13,092,265)	6,244,074	3,227,956,626
Less: accumulated depreciation	(2,067,528,665)	(95,953,161)	3,712,705	-	(2,159,769,121)
Total capital assets being depreciated, net	1,165,221,872	(93,898,881)	(9,379,560)	6,244,074	1,068,187,505
Total capital assets, net	$ 1,395,558,581	$ (64,066,438)	$ (23,809,291)	$ -	$ 1,307,682,852

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A Fund of the Commonwealth of Puerto Rico)
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

6. CAPITAL ASSETS, NET (CONTINUED)

	Balance at June 30, 2018	Additions	Retirements	Transfers	Balance at June 30, 2019	Restatement	Balance at June 30, 2019, as restated
Capital assets not being depreciated:							
Land	$ 191,705,355	$ -	$ (1,522,758)	$ -	$ 190,182,597		$ 190,182,597
Intangible Asset	266,757	-	-	-	266,757		266,757
Construction in progress	302,358,048	31,500,067	(10,617,717)	(151,482,008)	171,758,390	(131,871,035)	39,887,355
Total capital assets not being depreciated	494,330,160	31,500,067	(12,140,475)	(151,482,008)	362,207,744	(131,871,035)	230,336,709
Capital assets being depreciated:							
Buildings and building improvements	2,906,962,070	-	(24,909,367)	152,631,693	3,034,684,396	131,871,035	3,166,555,431
Furnitures, fixtures and equipments	45,014,238	1,278,085	(2,016,878)		44,275,445	2,012,402	46,287,847
Vehicles	19,314,202	737,409	(144,352)		19,907,259		19,907,259
	2,971,290,510	2,015,494	(27,070,597)	152,631,693	3,098,867,100	133,883,437	3,232,750,537
Less: accumulated depreciation	(1,939,618,334)	(97,642,803)	15,255,006	(1,149,685)	(2,038,410,822)	(29,117,843)	(2,067,528,665)
Total capital assets being depreciated, net	1,031,672,176	(95,627,309)	(11,815,591)	151,482,008	1,060,456,278	104,765,594	1,165,221,872
Total capital assets, net	$ 1,526,002,336	$ (64,127,242)	$ (23,956,066)	$ -	$ 1,422,664,022	$ (27,105,441)	$ 1,395,558,581

7. BONDS PAYABLE, NET

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

HUD has authorized the pledge and assignment of revenues and of CFP monies payable to the Trustee under the loan agreement and to the GDB under the GDB project loan agreement for the purpose of securing the payment of principal and interest on the loan and principal and interest owing to the GDB. These bonds were refinanced during fiscal year 2009. With the issuance of the Series 2008 Capital Fund Bonds, $391,185,000 of the 2003 Bonds was defeased. The defeasance reduced the outstanding principal amount of 2003 Bonds to approximately $219 million and decreased the resultant annual gross debt service requirements from approximately $51.3 million to approximately $18.6 million. The debt service for the defeased portion of the 2003 Bonds was paid from a defeasance escrow and the debt service for the undefeased 2003 Bonds will continue to be paid from capital funds of PRPHA together with debt service on the 2008 Bonds pursuant to the schedule submitted as part of the CFP submission and the final debt service schedule as submitted to HUD.

7. BONDS PAYABLE, NET (CONTINUED)

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

2020	Balance at June 30, 2019	Increases and new issuances	Decreases and payments	Balance at June 30, 2020
Capital Fund Program Bonds, maturing in various dates through the year 2025, bearig interest rates between 2% to 5% annually.	$ 92,370,000	$ -	$ (13,610,000)	$ 78,760,000
Unamortized net premium	47,075	-	(9,415)	37,660
	$ 92,417,075	$ -	$ (13,619,415)	$ 78,797,660
Less: current portion of bonds payable				(14,305,000)
				$ 64,492,660

2019	Balance at June 30, 2018	Increases and new issuances	Decreases and payments	Balance at June 30, 2019
Capital Fund Program Bonds, maturing in various dates through the year 2025, bearig interest rates between 2% to 5% annually.	$ 105,315,000	$ -	$ (12,945,000)	$ 92,370,000
Unamortized net premium	56,490	-	(9,415)	47,075
	$ 105,371,490	$ -	$ (12,954,415)	$ 92,417,075
Less: current portion of bonds payable				(13,610,000)
				$ 78,807,075

7. BONDS PAYABLE, NET (CONTINUED)

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

Year Ending June 30,	Principal	Interest	Total
2021	$ 14,305,000	$ 3,326,947	$ 17,631,947
2022	15,015,000	2,620,224	17,635,224
2023	15,730,000	1,905,403	17,635,403
2024	16,470,000	1,166,360	17,636,360
2025	17,240,000	396,520	17,636,520
	$ 78,760,000	$ 9,415,454	$ 88,175,454

8. ACCOUNTS PAYABLE, ACCRUED LIABILITIES, COMPENSATED ABSENCES, AND TERMINATION BENEFITS

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

	2020	2019
Contractors and others	$ 13,949,088	$ 9,654,954
Reserve for contingencies **(Note 13)**	6,000,000	6,000,000
Fee retention to contractors	116,971	117,603
Others	37,702,517	34,425,589
	$ 57,768,576	$ 50,198,146

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

Year	Beginning Balance	Additions	Deductions	Ending Balance	Due within one year	Long-term portion
2020	$ 2,364,327	$ -	$ (15,047)	$ 2,349,280	$ 1,642,912	$ 706,368
2019	$ 2,224,498	$ 1,644,262	$ (1,504,433)	$ 2,364,327	$ 1,657,959	$ 706,368

9. CAPITAL CONTRIBUTIONS

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

	2020	2019
Contributed capital for the development and modernization of Public Housing Capital Fund Program (CFP)	$ 75,692,978	$ 77,106,127

10. OTHER FEDERAL GRANTS

The Omnibus Consolidated Rescissions and Appropriations Act (OCRAA) enacted on April 24, 1996, permits the PRPHA to transfer funds from the Public Housing Capital Fund Program (CFP) approved annual grants to operational activities in amounts ranging from 10% to 20%. For the fiscal years ended June 30, 2020 and 2019, these transfers amounted to $0 and $ 11,259,556 respectively, in accordance to the approved fiscal year budgets.

11. EMPLOYEES' RETIREMENT PLAN

Plan description

The PRPHA is a participating employer in a retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a trust created by the Commonwealth's Legislature. ERS covers all regular full-time public employees working for the executive and legislative branches of the Commonwealth and the municipalities of Puerto Rico (including

11. EMPLOYEES' RETIREMENT PLAN (CONTINUED)

mayors); the firefighters and police of Puerto Rico and employees of certain public corporations not having their own retirement systems. Prior to July 1, 2013, the system operated under the following benefits structures:

- Act No. 447 of May 15, 1951 ("Act 447") effective on January 1, 1952 for members hired up to March 31, 1990,
- Act No. 1 of February 16, 1990 ("Act 1") for members hired on or after April 1, 1990 and ending on or before December 31, 1999,
- Act No. 305 of September 24, 1999 (which amended Act 447 and Act 1) for members hired from January 1, 2000 up to June 3, 2013.

Employees under Act 447 and Act 1 are participants of a cost-sharing multiple employer defined benefit plan. Act 305 members are participants under a pension program known as System 2000, a hybrid defined contribution plan. Under System 2000, there was a pool of pension assets invested by the System, together with those of the current defined benefit plan. Benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account.

Effective on July 1, 2013, Act No. 3 of 2013 ("Act 3") amends the provisions of the different benefits structures under the ERS. Act 3 moves all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a new defined contribution hybrid plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include: (1) retirement benefits accrued and savings account balances under the provisions of Act 447, Act 1 and System 2000 as of June 30, 2013; (2) contributions made by all members of ERS after June 30, 2013; and, (3) the investment yield for each semester of the fiscal year. The assets of the defined benefit program, System 2000 and the defined contribution hybrid plan were pooled and invested by ERS.

The Commonwealth has already taken critical steps towards a comprehensive reform of the ERS. On September 30, 2016 the ERS was designated by the Oversight Board as a "covered instrumentality "pursuant to the provision of PROMESA. The Act requires covered instrumentalities to develop fiscal plans and accordingly, a pension fiscal reform was included as part of the Commonwealth's fiscal plan which was proposed and approved by the Oversight Board on March 13, 2017. As result of the ERS's severe fiscal and liquidity crisis, on May 21, 2017 the Oversight Board filed a voluntary petition under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the "District Court").

11. EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Benefits provided

Eligibility for retirement: Act 3 establishes the following retirement eligibility requirements: (1) Act 447 regular employees upon attaining a range between 59 to 61 years (depending of date of birth) and 10 years of creditable service, (2) Act 1 employees upon attaining 55 years with 30 years of creditable service, (3) System 2000 regular employees upon attaining a range between 61 to 65 years (depending of date of birth) and, (4) Act 3 employees hired after July 1, 2013 upon reaching 67 years. High risk employees (state and municipal police, firefighters and custody officials) under Act 447 and Act 1 will be eligible at 55 years with 30 years of creditable service, for System 2000 employees at 55 years of service and for Act 1 employees hired after July 1, 2013 upon reaching 58 years.

Accrued benefits: All members are entitled to a lifetime annuity based on the balance of the deferred contribution individual account at the time of the retirement calculated based on a factor that will incorporate the individual's life expectancy and a rate of return. For Act 447 and Act 1 active participants, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrue under Act 3 plan.

These participants will receive a pension at retirement age equivalent to what they have accrued under Act 447 and Act 1 up to June 30, 2013 plus the lifetime annuity corresponding to contributions made to the individual account after July 1, 2013 as described above. Act 447 participants, except police and mayors, may elect to coordinate coverage with Social Security benefits ("Coordinated Plan"). Under this option, participants are subject to a benefit recalculation upon attainment of the Social Security Retirement Age.

For all members, if the balance of the defined contribution individual account is less than $10,000 the amount shall be paid as a lump sum instead of an annuity. Effective July 1, 2013, the minimum monthly pension amount for members who retired or disabled before July 1, 2013 is $500.

Termination benefit: Members are eligible to a lump sum payment of the defined contribution individual account as of the date of the permanent separation of service upon termination of service prior to 5 years of service or if the balance of the defined contribution individual account is less than $10,000.

11. EMPLOYEES' RETIREMENT PLAN (CONTINUED

Deferred retirement: Members are eligible, at the applicable retirement eligibility age, to a lifetime annuity based on the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) upon
termination of service with 5 or more years of service (10 years of creditable service for Act 447 and Act1 members) but prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal from the defined contribution individual account.

Death benefits: For non-retired members, their designated beneficiaries will receive a refund of the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members). For pensioned members retired prior to June 30, 2013, the annual income to a widow or widower or dependent children is equal to 60% of the retirement benefit payable for life for a surviving spouse or disabled children and payable until age 18 or age 25 if pursuing studies for non-disabled children. For pensioned members retired after June 30, 2013, payments to beneficiaries will be the excess, if any, of the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) over the total annuity payments paid to the member and any beneficiaries.
Disability benefits: Members who are permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be entitled to the balance of the deferred contribution individual account in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant, plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) at the applicable retirement eligibility age. Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447. A disability benefits program is established which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Office of the Commissioner of Insurance of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled shall be made by the insurance company that issues the insurance policy covering the participant.

11. EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Special laws and pensioner additional benefits: The PRPHA is required to cover other retirement benefits of its retired employees (if retired prior to July 1, 2013) as required by Commonwealth's laws, including: (1) various special laws – ad-hoc cost of living allowance adjustments (COLA) provided in prior years; (2) various special laws –additional minimum pension benefits and, (3) Act 3 retired pensioners "Additional Benefits Program". All of these other retirement benefits are applicable only to employees who retired prior to July 1, 2013 under Act 447 and Act 1. The "Additional Benefits Program" includes: (1) a medication bonus of $100 per member which shall be paid no later than July 15 of each year; (2) a Christmas bonus of $200 per member which shall be paid no later than December 20 of each year and, (3) a matching share of $1,200 for healthcare insurance plan. These healthcare benefits are provided through insurance companies whose premiums are paid by the retired employees with the matching share financed by the PRPHA. These costs are billed by ERS and paid by the PRPHA through the "PayGo" system.

Retirement system reform

Act No. 106 of August 23, 2017 ("Act 106") was enacted to reform the Commonwealth retirement systems and, among other dispositions, provide the necessary legal and operational structure of the determination and payment of accrued pension benefits as of June 30, 2017, the creation and transition to a new defined contribution plan and the reform of ERS's governance and administration, effective on July 1, 2017. Those dispositions are summarized as follows:

Determination of accrued pension benefits as of June 30, 2017 and payments

Effective July 1, 2017 participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. The ERS created and will maintain, for each participant or actual beneficiary, an individual record as of June 30, 2017 which includes the accrued pension benefits, employment history and accumulated contributions made. All benefits including retirement, disability, death, and other pensioner additional benefits were determined in accordance to the specific benefit structures under Act 447, Act 1, Act 305 and Act 3 and will be paid based on the information provided in the individual record. The accrued pension benefits will be funded through:

11. EMPLOYEES' RETIREMENT PLAN (CONTINUED)

- The net proceeds of the sale of ERS's assets,
- A pay-as-you-go ("PayGo") charge to the participant employers determined by ERS and billed by the PRDT,
- Commonwealth's legislative expenditure appropriations,
- Donations by any public or private entity,
- 25% of first or periodic payments on public-private partnership contracts,
- Other funds determined by the Commonwealth's Legislature.

On June 27, 2017, the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Commonwealth, the Municipalities and other participants of the ERS the conversion procedures to a new PayGo model, effective on July 1, 2017. Under the PayGo funding, the participant employers directly pay the pension benefits (including other special laws and additional pensioner benefits) as they are due rather than attempt to build up assets to pre-fund future benefits. This funding method allows the retirement systems to continue to pay benefits even after the plans' assets have been exhausted. In addition, as result of the implementation of PayGo funding, employers 'contribution related to additional uniform contributions were eliminated. Payments are made by the employers (the PRPHA) through a government treasury single account (TSA) maintained on a separate trust under the custody of PRDT. TSA funds are deposited and maintained in a private commercial bank. It is expected that, as the ERS's assets become depleted, the Pay Go charge will increase. On July 20, 2017, ERS sold investments for approximately $297 million.

Act 106 includes penalties and specific procedures for collection of unpaid PayGo charges. Each beneficiary, participant or pensioned will have personal collection rights against every incumbent, head of agency, director of budget or finance or any officer with responsibility at government, public enterprise or municipality to claim unpaid contributions starting on the effective date of the Act and demand that they be paid as required.

Creation and transition to a new defined contribution plan

General - Effective July 1, 2017, a new defined contribution plan ("DC Plan") is created and maintained in a separate trust. It covers all active participants of the ERS as of that date and participants enrolled in the public service after that date. The Retirement

11. EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Board (as discussed later) is responsible for oversight of the DC Plan; the PRDT currently serves as the trustee and custodian of the DC Plan's assets, which are deposited in a private bank account. The transition to the new DC Plan is currently in process. In accordance with Act 106 requirements, the Retirement Board is evaluating proposals to appoint a plan administrator which will perform recordkeeping and management functions for the DC Plan, including the development and adoption of a plan document, effective July 1, 2019. The transition includes the creation of a separate trust and the transfer of participant accounts.

Participant accounts and contributions - Funds are maintained in individual accounts for each participant which are credited with participant's pre-tax contributions and investment earnings. Participants are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 ("2011 PR Code"). After July 1, 2019, participants may direct the investment of their contributions into various investment options offered by the DC Plan.

Payment of benefits - Upon termination of service a participant or the participant beneficiaries may elect to receive an amount equal to the value of the participant's interest in his or her account in a lump-sum amount, maintain his or her account in the DC Plan, or roll-over their account to a qualified plan under the 2011 PR Code. Upon participant's death the account balance will be distributed to its designated beneficiaries. Distributions are subject to income tax in accordance with the provisions of the 2011 PR Code. For participants of the DC Plan with accrued pension benefits as of June 30, 2017, benefits will include amounts of participant's interest in his or her account plus accrued pension benefits funded through the PayGo system.

Reform of ERS's governance and administration

Act 106 creates a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors) which replaces the Board of Trustees and perform overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems. ERS's employees that are not retained under the new administrative structure will be transferred to public agencies in conformity to Act No. 8 of 2017.

11. EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions; other required disclosures under GASB Statement 73

As discussed above, pursuant to Act 106, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. In addition, benefit payments are made through a PayGo funding system, a TSA account under the custody of PRDT and maintained in a separate trust fund. Plans operated under various benefit structures prior to July 1, 2017 are administered by the new Retirement Board through a trust fund that do not meet the requirements of GASB Statement No. 68 as of July 1, 2017. Instead, the employers are subject to the requirements of GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68".

The Administration has implemented the requirements of Statement No. 75 of the Governmental Accounting Standard Board, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions".* and Statement No. 73, *"Accounting and Financial Reporting for Pensions and Related Assets that are not whitin the Scope of GASB 68, and Amendments to certain provision of GASB Statement 67 and 68"* in the fiscal year June 30, 2019, because the Administration has been provided with the actuarial information required for the implementation of such statements. Therefore, the Administration has recorded the total net pension liability, post-employment benefits liability, deferred inflows of resources, deferred outflows of resources, pension expenses, and other post-employment expense for that period.

12. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The OPEB liabilities as presented in the accompanying financial statements amounted to $1,391,679 represents the amount reported by the pension plan as of June 30, 2019.

13. COMMITMENTS AND CONTINGENCIES

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

Law 104 from June 29, 1955, as amended, of the Commonwealth of Puerto Rico, known as Claims and Lawsuits against the State, provides that lawsuits and claims initiated by an agency or instrumentality of the Commonwealth of Puerto Rico may be represented by the Commonwealth of Puerto Rico's Department of Justice. Any adverse claims to the defendants are to be paid by the Commonwealth of Puerto Rico's General Fund within the limitations provided by the law. However, the Secretary of the Treasury has the right of requesting the reimbursement of the funds expended for these purposes from the defendants. For the years ended June 30, 2020 and 2019, the accounts payable and accrued liabilities include litigation contingencies accrual for $6,000,000.

The Administration has certain claims of payables from two utilities public corporations in dispute, because of continuos adjustments related to instances of over invoicing of the utility's services. The Administration management has estimated the amount to be accrued based on the information available and maintains a reserve for the amount of $7,767,739 as of June 30, 2020 and 2019. A final outcome and financial impact of the disputed payables is uncertain at this time and cannot be determined at the date of the financial statements.

As of June 30, 2020 and 2019, the Administration had pending construction projects contracts in progress for the development and modernization of public housing projects. Total commitments related to these construction contracts amounted to $90,085,034 and $93,131,972, respectively.

14. FEDERAL FINANCIAL ASSISTANCE

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

15. RESTRICTED NET POSITION

Restricted net position at June 30 consists of the following:

	2020	2019
Restricted assets	$ 159,401,790	$ 120,928,904
Restricted for capital fund program bonds	(13,820,491)	(15,658,150)
Current portion of bonds payable	(14,305,000)	(13,610,000)
	$ 131,276,299	$ 91,660,754

16. RELATED PARTY TRANSACTIONS

General

The Administrator of the PRPHA is appointed by the Governor of Puerto Rico and, by law, the appointee is the Secretary of the Department of Housing of the Commonwealth of Puerto Rico ("DOH").

The PRPHA has a joint agreement with the DOH to share a series of resources, especially considering that both entities share the same central office building. Services that are shared include general maintenance, office space, utilities, human resources and payroll, other general and administrative services.

During the fiscal years ended on June 30, 2020 and 2019, the PHA has paid approximately $5 million to the DOH for these services.

Mixed Finance

On August 1, 2008, the Department of Housing of the Commonwealth of Puerto Rico ("DOH"), entered into an agreement of partnership in its capacity of general partner (the General Partner) with Hudson SLP XL LLC, a Delaware limited liability company, as the Special Limited Partner (the Special Limited Partner) and Hudson Housing Tax Credit Fund XL LP (a Delaware limited partnership), who will act as the Investment

16. RELATED PARTY TRANSACTIONS (CONTINUED)

Partnership (the “Investment Partnership”; collectively with the Special Limited Partner, the “Limited Partners”) to form Vivienda Modernization Holding 1, S.E. (the Partnership) pursuant to the Puerto Rico Civil Code.

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

The Project Company was organized exclusively to acquire 99-year term surface right with respect to the land and to acquire, develop, finance, rehabilitate, maintain, operate, lease and sell or otherwise dispose of each apartment complex in order to obtain for the company and its member statutory compliance, long term appreciation, cash income, tax benefits consisting of Tax Credits and Tax Losses over the term hereof. On August 7, 2008, the Administration and the Project Company entered into a Regulatory and Operating Agreement (the Agreement). The Administration and the Project Company determined that it would be deliverable for the public housing rental developments to undergo comprehensive modernization (e.g. new floors, electrical wiring, plumbing, windows, doors, roofs and accessibility features) or development, which modernization or development will be undertaken and operated by the Project Company. The developments are collectively known as “Vivienda Modernization 1, LLC”.

Mixed Finance (Continued)

The Project Company entered into a Purchase and Sales Agreement dated August 7, 2008 with the Department of Housing of the Commonwealth of Puerto Rico (DOH). Under this agreement, the Project Company acquired the surface rights of a property (the Property) and the improvements erected on such Property from the DOH under those certain deeds of Constitution of Surface Rights and Transfer of Improvements

dated August 7, 2008, which will require the Project Company to rehabilitate or construct on the Property four thousand one hundred thirty-two (4,132) residential rental units (the Units or collectively the Development) all of which will receive the benefit of operating subsidy and the benefit of low income housing tax credits under Section 42 of the Internal Revenue Code of 1986, as amended.

The title to the eligible public housing projects was transferred by the Administration to the DOH, who in turn sold the buildings and improvements of the project to Vivienda

16. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

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

<u>Mixed Finance (Continued)</u>

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

On August 14, 2014, the Administration (as Assignee) signed an Assignment and Assumption of Permanent Loan Agreement (the Agreement) with the Puerto Rico.

Housing Finance Authority, as Assignor. The Assignor and the Assignee are parties to a certain Intercreditor and Subordinator Agreement (the Intercreditor) dated August 7, 2008, executed in connection with the mixed finance low income housing development known as Vivienda Modernization. The Intercreditor is an integral part of conduit debt issued for Vivienda Modernization. The Assignor is the conduit debt issuer on this

16. RELATED PARTY TRANSACTIONS (CONTINUED)

transaction, given that, the permanent loan was not intended to constitute an asset or liability for the Assignor.

The Intercreditor provides that upon the payment in full of certain Short Term Bonds, which were paid prior to June 30, 2014, Assignor shall cancel the Short Term Bond Loan Note and assign the Permanent Loan and all of its rights under the documents related thereto to the Administration. Therefore, the agreement is executed to implement the assignment contemplated in the Intercreditor.

As a result, the original $100,000,000 note, where Vivienda Modernization 1, LLC is the Obligator was assigned to the Administration and recorded in the statement of net position, representing the indebtness under the Permanent Loan. The note bears no interest unless there is an event of default. In such case, interest will be 8%, compounded annually.

Prior to an event of default, no payment shall be due on this note, until the $382,345,829 loan of August 7, 2008 had been paid in full. Once said loan has been paid in full, the Obligator is required to make quarterly payments equal to 100% of Obligator's net cash flows for the immediately preceding calendar quarter, subject to the terms of the Intercreditor and other agreement. In the event of default by the Obligator, the note becomes due, and in the event of a sale or refinancing of a material portion of property, 100% of the net cash flows of the capital transaction shall be applied to the note; otherwise, the note is due on September 1, 2053. The final payment of the note shall include interest, if any, plus any additional amount required to pay off a certain Purchase Price Note.

<u>Mixed Finance - development</u>

During the year ended June 30, 2018 the U.S. Department of Housing executed certain mixed-finance amendments to the consolidated annual contribution contract (Mixed-Finance ACC Amendment) with the Puerto Rico Housing Administration to provide grant assistance for the development of certain projects arising a mixed-finance strategy. The projects' names are Puerta de Tierra and Las Gladiolas. The projects will be developed using several financing sources including the before mentioned public housing funds to be provided by the Administration. The Administration entered into a memorandum of understanding with PRDH which has the authority to execute

the necessary contract and/or agreements whether with governmental agencies or with private entities to share resources, assistance and asset management responsibilities to execute the redevelopment/ reposition strategy for the before mentioned projects.

16. RELATED PARTY TRANSACTIONS (CONTINUED)

The Administration transferred to the Puerto Rico Department of Housing (PRDH) the projects' plot of lands to be developed. In turn, PRDH then leased the sites to the limited liability companies designed as owner entities for each projects. For purposes

of coordination of the development of the Mixed-Finance projects, PRDH serves as representative for both PRDH and the Administration and has a lead on the Mixed-Finance redevelopment activity working closely with the Administration. PRDH will lend public housing funds to the development owner entities to be made available through the Administration as construction loan facilities that will initially operate as non-revolving line of credits and will eventually be converted into term loans upon expiration of the construction period bearing interest at 0% over 55 years. For the years ended June 30, 2020 and 2019, the Administration released $12,141,714 and $9,372,581 in public housing funds from the capital funds program to fund the before mentioned credit facilities respectively.

The Administration, PRDH and the owners of the projects entered into a Regulatory and Operating Agreement that govern the rights and responsibilities of the parties with respect to the operations and operating subsidy associated with the public housing units planned as part of the project's redevelopment. PRDH and the Administration entered into and recorded a Deed of Release and Restrictive Covenants and New Constitution of Restrictive Covenants with the owners of the projects in favor of HUD containing a covenant that will assure to the satisfaction of HUD that the public housing units will be subject to a covenant obligating the parties to develop, maintain and operate the public housing apartments for the period required by law in accordance with the Mixed-Finance ACC Amendment and applicable housing requirements.

<u>Mixed Finance – development (Continued)</u>

The Administration competitively selected McCormack Baron Salazar, Inc., a corporation duly organized and existing under the laws of the State of Missouri and duly authorized to conduct business in the Commonwealth of Puerto Rico as a developer in connection with the Developments, and related off-site developments, and as the development's "partner", as described in 24 CFR 905.604, for the mixed-finance development of replacement public housing units in accordance with an implementation Plan.

17. TERMINATION BENEFITS

On July 2, 2010, the Commonwealth Enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Puerto Rico

17. TERMINATION BENEFITS (CONTINUED)

Public Housing Administration (PRPHA). Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee' salary, as defined. In this early

retirement benefit program, PRPHA will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of PRPHA.

18. RESTATEMENT OF NET POSITION

Net position as presented in the 2019 statement of net position has been restated to adjust pension plan accounts due to the adoption of GASB 73 and 75 and to record the correction of the capital assets balance.

Net position as reported in prior year financial statements	$ 1,855,838,700
Net pension liability (GASB 73)	1,227,386
Deferred inflows of resources (GASB 73)	27,491,852
Deferred outflow of resources (GASB 73)	(4,331,543)
OPEB liability (GASB75)	(1,273,742)
Decrease in capital assets by correction balance	(27,105,441)
	1,851,847,212
Change in net position 2019	(35,832,862)
Net position as restated	$ 1,816,014,350

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A Fund of the Commonwealth of Puerto Rico)
SCHEDULE OF PROPORTIONED SHARE OF TOTAL PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)
YEARS ENDED JUNE 30, 2020, 2019 AND 2018

Description	2020	2019	2018
Proportion of Total Pension Liability	0.20031%	0.20031%	19.31100%
Proportionate Share of Total Pension Liability	$ 49,055,061	$ 49,055,061	$ 54,465,231
Covered - Employee Payroll	-	-	-
Proportionate Share of Total Pension Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A

*The amounts presented have a measurement date of the previous fiscal year end.
*Currently there are no active participants in this plan. Therefore, the covera
payroll disclosure is omitted.

Fiscal year 2019 was the first year that the PRPHA transitioned from GASB No. 68 to No. GASB 73, as resulted of the PayGo implementation. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary

See notes to required supplemetary information and accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A Fund of the Commonwealth of Puerto Rico)
SCHEDULE OF PROPORTIONED SHARE OF TOTAL PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)
YEARS ENDED JUNE 30, 2020, 2019, 2018 AND 2017

Description	2020	2019	2018	2017
Proportion of Total Other Post Employment Benefit Liability	0.16525%	0.16525%	0.1611%	0.14690%
Proportionate Share of Total Other Post Employment Benefit Liability	$ 1,391,679	$ 1,391,679	$ 1,483,062	$ 1,740,893
Covered - Employee Payroll	-	-	-	-
Proportionate Share of Total Other Post Employment Benefit Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A

*The amounts presented have a measurement date of the previous fiscal year end.
*Currently there are no active participants in this plan. Therefore, the coverage payroll disclosure is omitted.

Fiscal year 2019 was the first year that the new requirements of GASB 75 were implemented at the PRPHA. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A Fund of the Commonwealth of Puerto Rico)
NOTES OF SCHEDULE OF PROPORTIONED SHARE OF TOTAL PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)
YEARS ENDED JUNE 30, 2020 AND 2019

1) Criteria in paragraph 4

Act No. 106-2017 provided that the Plan would be funded on a PayGo basis and no assets would be accumulated in a pension trust the discount rate does not reflect any expected return on plan assets, and is based solely on the Bond Buyer General Obligation 20-Bond Municipal Bond Index rate of 3.87% as of June 30, 2018.

As a result of the enactment of Act No. 106-2017, 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 No. 68 and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*.

2) Factors that significantly affect trends in the amounts reported

Factors that significantly affect trends in the amounts reported were identified as follows:

Determination of proportionate share

Under GASB Statement No. 73 the collective pension liability, pension expense and deferred outflows and inflows should be determined for the plan as a whole. According to GASB Statement No. 73 “the basis for the government’s proportion should be consistent with the manner in which the amounts that are paid as benefits come due are determined”. Actuarial’ s approach to determine the proportionate share as the ratio of each entity’s benefit payments to the total benefit payments during the year ending on the measurement date complies with GASB Statement No. 73. Previously under GASB Statement No. 68 each employer’s proportionate share of the collective amounts was consistent with the manner in which contributions were determined and reflected that employer’s projected long-term contribution effort relative to that of all employers in the plan. The change in the determination of the proportionate share is the principal difference in the calculation and allocation of pension costs in the application of GASB Statement No. 73.

Actuarial assumptions

There was a change in the actuarial assumptions or inputs in the determination of the total pension liability as a result of the increase in the discount rate from 3.58% as of June 30, 2017 to 3.87% as of June 30, 2018.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A Fund of The Commonwealth of Puerto Rico)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development/ Direct Programs:		
Public and Indian Housing	14.850	$ 221,019,732
Central Office Cost Center CARES Act Funding	14.CCC	11,555
Public Housing Capital Fund	14.872	92,356,216
Housing Choice Voucher	14.871	40,087,719
		353,475,222
Section 8 SRO	14.249	297,224
Lower Income Housing Assistance Program Section 8	14.856	663,307
		960,531
Total U.S Department of Housing and Urban Development		354,435,753
U.S. Department of Justice Direct Programs:		
Project Safe Neighborhoods	16.609	50,925
Total U.S Department of Justice		50,925
Total expenditures of federal awards		$354,486,678

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

1. Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Puerto Rico Public Housing Administration under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Puerto Rico Public Housing Administration, it is not intended to and does not present the financial position, changes in net assets or cash flows of Puerto Rico Public Housing Administration.

2. Summary of significant accounting policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Administrative costs

The Administration does not have a federally negotiated indirect cost rate applicable to the programs and therefore there is no election to the 10 percent de minimis cost rate as defined in 2 CFR 200.414.

4. Catalog of Federal Domestic Assistance (CFDA) Number

The CFDA numbers included in this schedule are determined based on the program name, review of grant contract information and the U.S. Office of Management and Budget's Catalogue of Federal Domestic Assistance.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2020

5. Relationship to the statement

A reconciliation of the expenses reported in the statement of revenues, expense and changes in net position with the schedule of expenditures of federal awards is detailed as follows:

Description	Amount
Total expenses per statement of revenues, including interest expense and loss on disposition of assets	$394,052,044
Less amounts not included in the Schedule of expenditures of federal awards:	
Depreciation	(95,953,161)
Local and legislative grants	(1,290,653)
Other non-federal grants	(114,973)
Interest expense on bonds	(3,958,699)
Use of sales proceeds	(4,668)
	292,729,890
Loss on disposition of dweling properties and equipment	(856,074)
Soft cost adjustment	(2,091,946)
Impairment	(8,673,485)
Reserve operational	(28,532,212)
Reserve cost center	5,521,987
Mixed finance subsidy	20,633,060
Capital contributions from federal funds	75,755,458
Total expenses per Schedule of expenditures of federal awards	$354,486,678

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Puerto Rico Public Housing Administration of the Commonwealth of Puerto Rico (the Administration) which comprise the statement of net position as of June 30, 2020 and 2019 and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements and have issued our report thereon dated September 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Puerto Rico Public Housing Administration internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Puerto Rico Public Housing Administration internal control. Accordingly, we do not express an opinion on the effectiveness of Puerto Rico Public Housing Administration internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continues)

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Puerto Rico Public Housing Administration financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Puerto Rico Public Housing Administration internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Puerto Rico Public Housing Administration internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Puerto Rico, CPAs, PSC

Guaynabo, Puerto Rico

BAKER TILLY PUERTO RICO, CPAs, PSC

September 30, 2021
The stamp number E463570 was affixed to the original of the report.

License No. 218
Expires December 1, 2023.

President of the Governing Board
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San Juan, Puerto Rico

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

We have audited Puerto Rico Public Housing Administration of the Commonwealth of Puerto Rico (the Administration) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Puerto Rico Public Housing Administration major federal programs for the year ended June 30, 2020. Puerto Rico Public Housing Administration major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Puerto Rico Public Housing Administration major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Puerto Rico Public Housing Administration compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Puerto Rico Public Housing Administration compliance.

Opinion on Each Major Federal Program

In our opinion, Puerto Rico Public Housing Administration complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results of the accompanying schedule of findings and questioned costs for the year ended June 30, 2020.

(Continues)

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-001. Our opinion on each major federal program is not modified with respect to this matter.

Puerto Rico Public Housing Administration's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Puerto Rico Public Housing Administration's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Puerto Rico Public Housing Administration is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to in the first paragraph of this report. In planning and performing our audit of compliance, we considered the Puerto Rico Public Housing Administration internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Puerto Rico Public Housing Administration internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

(Continues)

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

Report on Internal Control Over Compliance (Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2020-001, 2020-002 and 2020-003 to be significant deficiencies.

Puerto Rico Public Housing Administration's response to the findings identified in our audit is described in the accompynig schedule of findings and questioned cost. Puerto Rico Public Housing Administration response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Puerto Rico, CPAs, PSC

Guaynabo, Puerto Rico

September 30, 2021
The stamp number E463571 was
affixed to the original of this report.

BAKER TILLY PUERTO RICO, CPAs, PSC

License No. 218
Expires December 1, 2023.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020

SECTION I - SUMMARY OF AUDITORS' RESULTS

A. FINANCIAL STATEMENTS

		Yes	No
1.	Type of auditors' report issued	Unqualified	
2.	Internal control over financial reporting:		
	▫ Material weakness(es) identified		X
	▫ Significant deficiencies identified that are not considered to be material weaknesses		X
3.	Noncompliance material to financial statements noted		X

B. FEDERAL AWARDS

		Yes	No
1.	Internal control over major programs:		
	▫ Material weakness(es) identified		X
	▫ Significant deficiencies identified that are not considered to be material weaknesses	X	
2.	Type of auditors' report issued	Unmodified	
3.	Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a).	X	
4.	Identification of major programs		

CFDA number	Name of Federal Program or Cluster
14.850	Public and Indian Housing Program
14.872	Capital Fund Program
14.871	Housing Choice Voucher
14.249	Section 8 SRO
14.856	Lower Income Housing Assistance Program Section 8

Dollar threshold used to distinguish between Type A and Type B programs: $3,000,000

Auditee qualified as low-risk auditee ____ YES _X_ NO

SECTION II – FINANCIAL STATEMENTS FINDINGS

None.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Our audit disclosed a finding that is required to be a reported herein in accordance with 2 CFR 200.516(a).

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding number: 2020-001

Federal Program: Housing Voucher Cluster - 14.871 Section 8 Housing Choice Vouchers

Category:

Compliance and Internal Control – Eligibility

Criteria or specific requirement:

24 CFR part 5, subpart F sections 5.601, 982.201, 982.515 and 982.516 determine whether income eligibility and calculate the tenant's rent payment were made using the documentation from third-party verification.

Condition:

In testing compliance with the eligibility requirements related to income-eligibility and tenant's rent payment, we noticed the following from the sample selected of 40 files:

- The participant income presented in one of the files examined does not agreed with the supporting evidence.
- One of the files examined did not have the document named "Comparable Rent Income" which is used to compare the rent of unassisted units to determine if the rent payment to the owner is a reasonable rent.

Questioned cost:

No questioned cost.

Perspective information:

We selected (40) forty files of new tenants during 2019-2020 fiscal year from the Section 8 waiting lists.

Cause:

The Administration review process of the eligibility documentation in the files was not effective in these cases.

Effect:

The rent amount calculated for one of the participants was overstated and therefore a refund of $145 to her was determined. Any error in the consideration of the evidence presented by the participants could lead to wrong eligibility determination.

Recommendation:

We recommend the Administration to reinforce the internal control procedures in the review of the eligibility determinations to avoid similar situations in the future.

Views of responsible officials and planned corrective action:

See Administration's corrective action plan.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding number: 2020-002

Clusters:

Housing Voucher Federal Programs: 14.871 Section 8 Housing Choice Vouchers

Section 8 Project based (Federal programs: 14.249 Moderate Rehabilitation Single Room Occupancy and 14.856 Lower Income Housing Assistance Program)

Category:

Internal control – control activities – Eligibility

Criteria or specific requirement:

Title 2 2 CFR Part 200 Uniform Guidance section 200.303 indicates that the internal controls required to be established by a non-federal entity receiving federal funds should be in compliance with guidance in "Standards for Internal Control in the Federal Government," issued by the Comptroller General of the United States (the Green Book) or the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations for the Treadway Commission (COSO).

Condition:

There were no formal written procedures outlining processes and control activities specific to the eligibility compliance requirement.

Questioned cost:

No questions costs were identified.

Cause:

Management of these programs were recently assigned to the Administration and formal procedures has not been implemented yet.

Effect:

There were no internal control measures documented that allow the Administration to timely prevent and/or detect a noncompliance with the eligibility compliance requirement and avoid possible sanctions or restrictions in the use of funds by the federal awarding entity.

Recommendation:

We recommend that the Administration design and implement control activities procedures to achieve the objectives and respond to the risks associated with the eligibility requirement.

Views of responsible officials and planned corrective action:

See Administration's corrective action plan.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding number: 2020-003

Housing Voucher Federal Programs: 14.871 Section 8 Housing Choice Vouchers

Section 8 Project based (Federal programs: 14.249 Moderate Rehabilitation Single Room Occupancy and 14.856 Lower Income Housing Assistance Program)

Category:

Internal control – control activities – Special tests and provisions

14871 and 14.879 (Waiting list, reasonable rent, housing quality standards inspection, HQS enforcement and housing assistance payment)

14.249 and 14.856 (Control rent adjustment, tenant utility allowance, housing quality standards and vacant units)

Criteria or specific requirement:

Title 2 2 CFR Part 200 Uniform Guidance section 200.303 indicates that the internal controls required to be established by a non-federal entity receiving federal funds should be in compliance with guidance in “Standards for Internal Control in the Federal Government,” issued by the Comptroller General of the United States (the Green Book) or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations for the Treadway Commission (COSO).

Condition:

There were no formal written procedures outlining processes and control activities specific to the special tests and provisions applicable to the programs under the above mentioned clusters.

Questioned cost:

No questions costs were identified.

Cause:

Management of these programs were recently assigned to the Administration and formal procedures has not been implemented yet.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding number: 2020-003 (Continued)

Effect:

There were no internal control measures documented that guide the manager of the federal program to timely prevent and/or detect a noncompliance with the special tests and provisions applicable to the programs under the Housing voucher and Project based clusters and avoid possible sanctions or restrictions in the use of funds by the federal awarding entity.

Recommendation:

We recommend that the Administration document the control activities procedures to achieve the objectives and respond to the risks associated with the areas involved in the special tests and provisions of the programs included in the Housing voucher and Project based clusters.

Views of responsible officials and planned corrective action:

See Administration’s corrective action plan.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2020

Finding Number: 2019-01

Condition: In testing compliance with the eligibility requirements to determine whether required eligibility determinations were made in accordance with program requirements we notice that one (1) out of sixty (60) files tenants selected (2%) do not contained evidence of the certification signed by the tenant in which certifies that the information provided by the family was true and complete as part of the procedures established by the Administration to comply with before mentioned requirement.

Status: This situation was not present in the 2020 audit.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2020

GOBIERNO DE PUERTO RICO
ADMINISTRACIÓN DE VIVIENDA PÚBLICA

PUERTO RICO PUBLIC HOUSING ADMINISTRATION
CORRECTIVE ACTION SINGLE AUDIT 2019-2020

FINDING NO.	AUDITOR'S RECOMMENDATION	CORRECTIVE ACTION	Name Contact person responsible for corrective action Plan	Corrective Action Expected Completion Date	Comments
2020-01 Compliance/Internal Control – Eligibility					
Federal Program: Housing Voucher Cluster - 14.871 Section 8 Housing Choice Vouchers					
24 CFR part 5, subpart F sections 5.601, 982.201, 982.515 and 982.516 determine whether income eligibility and calculate the tenant's rent payment were made using the documentation from third-party verification. In testing compliance with the eligibility requirements related to income-eligibility and tenant's rent payment, we noticed the following from the sample selected of 40 files: • The participant income presented in one of the files examined does not agreed with the supporting evidence. • One of the files examined did not have the document named "Comparable Rent Income" which is used to compare the rent of unassisted units to determine if the rent payment to the owner is a reasonable rent.	We recommend the Administration to reinforce the internal control procedures in the review of the eligibility determinations to avoid similar situations in the future.	Reinforcement of the required documentation is being done frequently with the occupancy officers to request all the required documents in the kit provided to them as part of the procedures. The agency is providing continous training to the employees in order to streamline the processes, avoid missing documents and ensure rent calculations are accurate. New procedures were revised as of 2020 when PRPHA started as new Section 8 receiving agency .	Mrs. Nesherlee Soldevila	Jun-22	
2020-02 Internal control – control activities – Eligibility					
Housing Voucher (Federal Programs: 14.871 Section 8 Housing Choice Vouchers and 14.879 Mainstream Vouchers) **Section 8 Project based (Federal programs: 14.249 Moderate Rehabilitation Single Room Occupancy and 14.856 Lower Income Housing Assistance Program**					
Title 2 2 CFR Part 200 Uniform Guidance section 200.303 indicates that the internal controls required to be established by a non-federal entity receiving federal funds should be in compliance with guidance in "Standards for Internal Control in the Federal Government," issued by the Comptroller General of the United States (the Green Book) or the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations for the Treadway Commission (COSO). There were no formal written procedures outlining processes and control activities specific to the eligibility compliance requirement.	We recommend that the Administration design and implement control activities procedures to achieve the objectives and respond to the risks associated with the eligibility requirement.	Management of these programs were recently assigned to the Administration and procedures are being revised to ensure that certain process and eligibility activities are incorporated in the current written guidelines.	Mrs. Nesherlee Soldevila	Jun-22	

COMMONWEALTH OF PUERTO RICO
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
(A FUND OF THE COMMONWEALTH OF PUERTO RICO)
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2020

PUERTO RICO PUBLIC HOUSING ADMINISTRATION
CORRECTIVE ACTION SINGLE AUDIT 2019-2020

GOBIERNO DE PUERTO RICO
ADMINISTRACIÓN DE VIVIENDA PÚBLICA

FINDING NO.	AUDITOR'S RECOMMENDATION	CORRECTIVE ACTION	Name Contact person responsible for corrective action Plan	Corrective Action Expected Completion Date	Comments
2020-03 Internal control – control activities – Special tests and provisions					
Housing Voucher (Federal Programs: 14.871 Section 8 Housing Choice Vouchers and 14.879 Mainstream Vouchers) Section 8 Project based (Federal programs: 14.249 Moderate Rehabilitation Single Room Occupancy and 14.856 Lower Income Housing Assistance Program					
14871 and 14.879 (Waiting list, reasonable rent, housing quality standards inspection, HQS enforcement and housing assistance payment) 14.249 and 14.856 (Control rent adjustment, tenant utility allowance, housing quality standards and vacant units) Title 2 2 CFR Part 200 Uniform Guidance section 200.303 indicates that the internal controls required to be established by a non-federal entity receiving federal funds should be in compliance with guidance in "Standards for Internal Control in the Federal Government," issued by the Comptroller General of the United States (the Green Book) or the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations for the Treadway Commission (COSO). There were no formal written procedures outlining processes and control activities specific to the special tests and provisions applicable to the programs under the above mentioned clusters. There were no internal control measures documented that guide the manager of the federal program to timely prevent and/or detect a noncompliance with the special tests and provisions applicable to the programs under the Housing voucher and Project based clusters and avoid possible sanctions or restrictions in the use of funds by the federal awarding entity.	We recommend that the Administration document the control activities procedures to achieve the objectives and respond to the risks associated with the areas involved in the special tests and provisions of the programs included in the Housing voucher and Project based clusters.	Management of these programs were recently assigned to the Administration and procedures are being revised to ensure that certain process and eligibility activities are incorporated in the current written guidelines. Knowledge of Non compliance issues will be reinforced with adequate additional training to the employees.	Mrs. Nesherlee Soldevila	Jun-22	