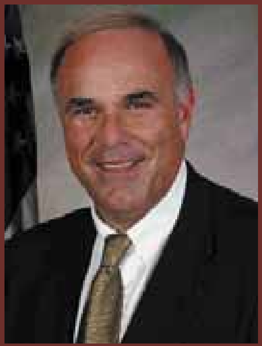

A BRAND NEW DAY.
PENNSYLVANIA HOUSING FINANCE AGENCY
ANNUAL REPORT | 2005

In order to make the Commonwealth a better place to live while fostering community and economic development, the Pennsylvania Housing Finance Agency provides the capital for decent, safe, and affordable homes and apartments for older adults, persons of modest means, and those with special housing needs.



In the past three years, we've used our resources to invest in the future of our people and our communities. We are working to create new opportunities so that our families can enjoy a home of their own and share an improved quality of life. We continue to work so our residents can achieve the dream of owning a home. That means making sure there is decent, safe, and affordable housing within the reach of all Pennsylvanians. I support and encourage PHFA's efforts to make that dream a reality throughout the Commonwealth.

Edward G. Rendell
Governor of Pennsylvania

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PHFA
PENNSYLVANIA HOUSING FINANCE AGENCY

2005 | Highlights

In 2005, the Pennsylvania Housing Finance Agency:

1. Under the PennHOMES Program, earmarked $24,833,000 to develop 861 units in 18 rental complexes.
2. Allocated approximately $25,000,000 of rental housing tax credits that will generate an estimated $216,000,000 of investment in affordable multifamily apartments.
3. Helped support 12,899 seniors and families residing in PHFA developments maintain their independence and improve their self-sufficiency through service-enriched housing measures.
4. Reserved $12,000,000 in funding for the Homeownership Choice Programs for initiatives that help older blighted neighborhoods. These production-centered programs are popular and successful throughout the Commonwealth.
5. Financed the purchase of houses for 6,638 families with $626,656,445 of funding provided by PHFA-issued mortgage securities. At the end of the year, the Agency's home loan financing totaled $6,389,691,221 for 108,022 homebuyers.
6. Provided $22,500,000 of Homeowners' Emergency Mortgage Assistance loans to 2,100 families to help keep them from losing their homes to foreclosure. To date, this unique program has made $366,000,000 of loans to 35,200 families who have repaid $199,500,000 which is turned around to help their fellow citizens.
7. Promoted understanding of affordable housing among homebuyers, builders, developers, elected officials, real estate professionals, and the general public at more than 80 workshops, seminars, and public meetings.
8. Added lenders and counseling agencies to help deliver the promise of good housing to thousands more Pennsylvanians.
9. Administered 700 HUD Section 8 contracts to assist lower income families, senior citizens, and persons with disabilities living at 56,200 subsidized apartments in 685 Pennsylvania developments.
10. Contributed $46,870 to the Commonwealth's United Way Campaign, an average of $181 for each Agency donor.

PHFA. A Brand New Day.

How does an agency that deals in somewhat abstract areas like bonds and tax credits become a place where the needs, expectations, and dreams of people come first? PHFA has done it by re-aligning its approach to problem solving, by re-dedicating itself to the fulfillment of its mission, and by re-establishing productivity and practicality as the essential criteria for its programs and initiatives. In short, it's a brand new day here on Front Street.

We've found that when you assemble an energized team of seasoned and superbly skilled professionals (all of whom keep a sharp eye on quality control), the result is an array of innovative products and services—the kind you can use to build a community... or a Commonwealth.

Of course, there are always opportunities to fine-tune the process; ensuring the availability and viability of decent, safe, and affordable housing remains a work in progress. What *doesn't* change is the spirit of commitment exemplified by the professionals who are the heart and soul of the entity known as PHFA. They are the people who help make every new day a brighter day for our constituents, and their observations on the new PHFA are featured on the following pages.

Brian A. Hudson, Sr.
Executive Director and Chief Executive Officer

It's not only good common sense, it's good business sense; people who own homes in a community have a vested interest in that community. It's where they spend their money, where their children go to school, and where they can watch their investment grow over the years. Last year, 6,638 families financed their dream of homeownership with over $626,000,000 of funding via PHFA-issued mortgage securities.

Perceptive

It almost goes without saying—recognizing a problem is the first step toward finding solutions. In the course of the past year, PHFA has seized opportunities to sharpen and clarify our perceptions of the current and emerging needs for affordable housing in both rural and urban areas.

For instance, our analysis of housing in Northeastern Pennsylvania is already paying benefits. We are now developing an objective, comprehensive statewide housing study to determine where the challenges are greatest…and where the opportunities for positive change are brightest.

There has been a shift in perception as to how our partners and constituents view PHFA as well. REALTORS®, lenders, and developers are responding enthusiastically to what they see as a "revved up" spirit of cooperation and partnership throughout the Agency—setting the stage for a new vision of what the state of affordable housing can and should become.

"I've seen a shift in attitude recently. There's a lot more energy. It translates into a renewed emphasis on service—on being in tune with our customers' needs and expectations."

Accessible

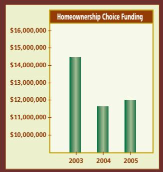
Even the most well-thought-out programs and initiatives are ineffective if nobody knows about them. That's why one of the "new" PHFA goals for 2005 was to raise awareness of the Agency's programs among its constituents – and to make those programs easier to access, easier to use.

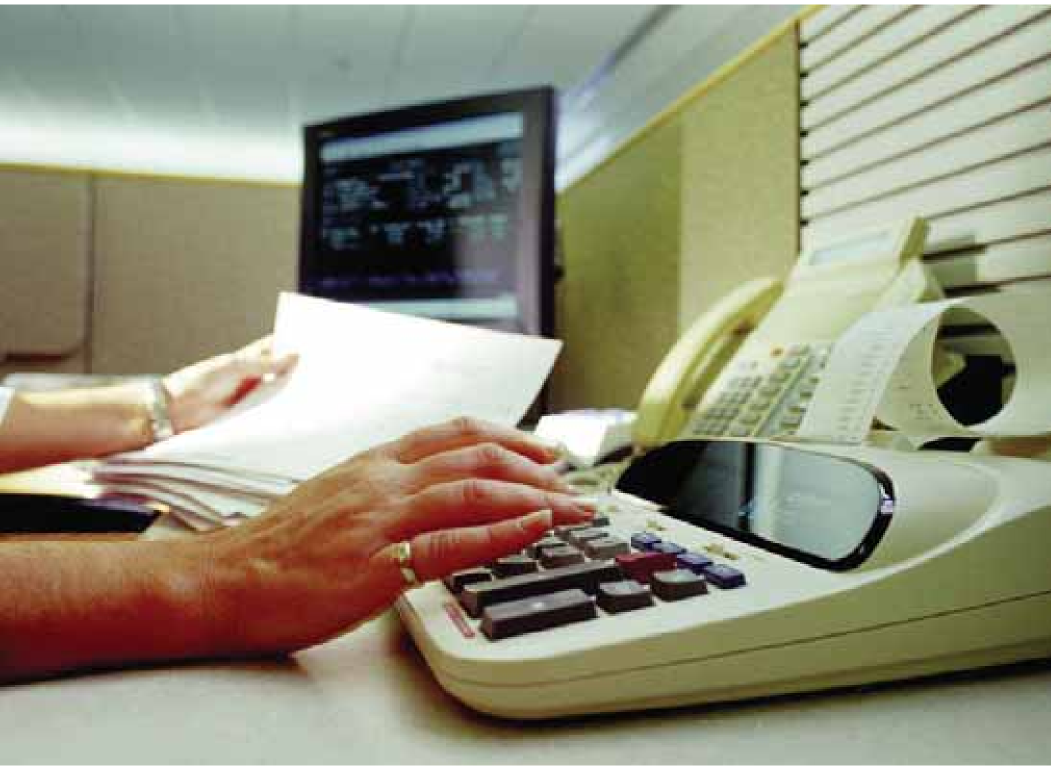
PHFA has reached out to homeowners and potential homebuyers through a wide variety of media on subjects ranging from budgeting to the dangers of predatory lending. REALTORS®, lenders, and other parties concerned with helping families find good homes in the Commonwealth have attended PHFA training sessions and workshops in record numbers.

Finally, more than ever before, PHFA professionals are teaming up with their colleagues in State and community agencies in order to maximize each other's effectiveness.

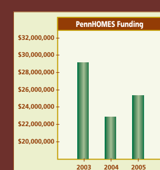
"We want to help make the homeownership process work out for our customers, even if they wind up working with someone else."

Blighted, disinvested neighborhoods throughout the Commonwealth are being rediscovered as renewable housing resources. In 2005, $12,000,000 in Homeownership Choice Program funding helped spark initiatives that are bringing new life to older communities ... and thousands of Pennsylvanians closer to home.





Obviously, there's nothing that says a home has to be a house. PHFA tries to provide decent, safe, and affordable housing for people when apartment living is the most viable option. During 2005, $24,833,000 of PennHOMES financing was awarded to create more than 861 apartments in 18 rental complexes.



INSET, left to right:
PHFA's Brian J. Good,
Angela M. Harris-Reider,
Roberta A. Sheaffer, John B. Senich

INNOVATIVE

It's a common observation in our society: large organizations (especially in finance) tend to be conservative. That's not necessarily a bad trait, but it can foster a corporate culture that discounts new ideas – or that prizes the notion of doing things the way they've always been done.

That's just not PHFA's style.

We've streamlined our own internal policies and procedures. We've rediscovered the importance of face-to-face interaction with lenders, realtors, brokers, state agencies, and community leaders. And we've created programs and initiatives – like the Affordable Apartment Locator and an in-house, non-profit community development group (the Commonwealth Cornerstone Group) that are having a direct, tangible, positive impact.

So much for business as usual.

"I CAN TRUTHFULLY SAY THAT, AROUND HERE, INNOVATIVE IDEAS ARE GENUINELY PRIZED."

DYNAMIC

One way to assess the vitality of an organization involves measuring its capacity to manage change: how well can it adapt to shifting circumstances in the financial marketplace and in society at large?

In 2005, PHFA enhanced the breadth and scope of its services, as well as the manner in which they are delivered. For example, in the wake of the destruction to the Gulf Coast caused by Hurricanes Katrina and Rita, the Agency quickly established itself as the clearinghouse for information on emergency housing throughout the Commonwealth.

On other fronts, PHFA has sponsored incentives for developers to create more accessible and affordable apartment units for persons with disabilities. Plus, the Pennsylvania Affordable Apartment Locator system is also now in place to assist both rental housing seekers and property owners who want to announce the availability of units for rent.

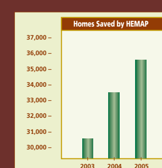
Finally, by initiating the asset building strategies outlined in the Governor's Task Force on Working Families, PHFA professionals are actively helping to create stronger families and more vital communities.

"THERE ARE NEARLY 25 PERCENT MORE LENDERS PARTICIPATING IN OUR HOMEOWNERSHIP PROGRAMS THAN THERE WERE LAST YEAR. THAT'S AN IMPORTANT CHANGE BECAUSE IT MEANS WE'RE NOW AVAILABLE TO MORE HOMEBUYERS THAN EVER BEFORE."

Families having lower incomes, older citizens, and persons with disabilities benefit from PHFA's Section 8 contract administration for 56,200 apartments at 685 developments in the state. This is a substantial part of Pennsylvania's affordable housing inventory.

INSET, left to right:
PHFA's Robert F. Bobincheck, Brenda B. Wells

As professionals, PHFA people understand that building new houses isn't always the answer to every need in society. Sometimes, saving someone's dwelling is the most important thing, and that's where the Homeowners' Emergency Mortgage Assistance Program helps. By the end of the year, HEMAP loans had prevented foreclosure on nearly 36,000 family homes.



INSET, left to right:
PHFA's Kimberly J. Boyer,
Kevin L. Kanoff, Adam M. Kitchen

FLEXIBLE

Not many years ago, prospective homeowners had two choices when it came to getting a mortgage: fixed rate or adjustable. Today there are nearly as many ways to finance the purchase of a home as there are architectural styles from which to choose.

Accordingly, staying on top of changing mortgage trends has become a high-priority challenge for PHFA professionals (and for our customers).

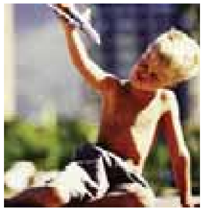
The result has been a new emphasis on flexibility in the working relationships between PHFA, lenders, builders, developers, community leaders, and a range of local, state, and federal agencies.

Together, PHFA and its partners in affordable housing are finding more and better ways to turn conventional, FHA, VA, and USDA Rural Development options into below-market interest loans.

"THE COST OF EVERYTHING, INCLUDING MORTGAGES, KEEPS GOING UP. THAT'S WHY WE NEED TO GO THE EXTRA MILE WITH OUR CUSTOMERS—SO THAT THEY WIND UP WITH A FINANCING OPTION THAT WILL WORK FOR THEM YEARS DOWN THE ROAD."

FUNCTIONAL

Flexible ... Accessible ... Innovative ... Dynamic ... These are some of the words our constituents have used to describe the "new" PHFA. But "functional" may be the most telling of all. The Agency works.



PHFA works to educate prospective homeowners on the fine points of budgeting—and on the dangers of predatory lending.

PHFA works with the developers of multi-family properties to ensure that quality-of-life services are part of the master plan.

PHFA works with builders and investors to enhance home-ownership opportunities in underserved urban areas—and in the Commonwealth's poorer rural areas.

Finally, PHFA works—in new, perceptive, and dynamic ways—to fulfill the promise of its mission and help bring decent, safe, and affordable housing within the reach of every Pennsylvanian.

"THE BOTTOM LINE IS, WE KNOW WE'RE DOING SOMETHING GOOD. IT'S WHY WE COME TO WORK EVERY DAY."

More than 3,100 families who were displaced by the Gulf Coast storms of 2005 found themselves in Pennsylvania with little more than the clothes on their back. PHFA spear-headed a coalition of Commonwealth agencies and organizations to help implement an Interim Shelter Program. Perhaps even more impressive, 46 PHFA staff members volunteered their time to operate the program's emergency hotlines.

ISP

PHFA's Interim Shelter Program

Board Members

From Left to Right: Thomas B. Hagen ■ Morris J. Dean, Esq. ■ Melvyn Kaplan ■ Mark Schwartz, Esq.
The Honorable Estelle Richman ■ Stuart E. Price ■ Noel Eisenstat

Board Members

From Left to Right: The Honorable A. William Schenck III ■ The Honorable Robert P. Casey, Jr. ■ Gary E. Lenker
The Honorable Dennis Yablonsky ■ Raymond S. Angeli ■ John Paone

"*Time* is the most valuable commodity there is. If you have it, there's nothing you can't accomplish. Run out of it, and there's nothing you can even start. That's what makes each brand new day unique, even though there's been so many of them."

— Anonymous

PENNSYLVANIA HOUSING FINANCE AGENCY

2005 Financial Statements

AND REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2005 AND 2004

INDEX:

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prepared by Brian Hudson, CPA, Executive Director

(in thousands of dollars)

June 30, 2005 and 2004

Summary of Organization and Business

The Pennsylvania Housing Finance Agency ("Agency") was created by the General Assembly in 1972 to provide more affordable housing for older adults, families of modest means and persons with disabilities. Since inception, the Agency has financed more than 115,000 homes and 67,000 apartment units while saving 35,000 homes from foreclosure. The Agency funding comes from a variety of sources; including sales of its own securities to private investors throughout the United States; grants from State and Federal governments; program fees; investment interest earnings and interest earned on loan portfolios. Investment earnings and program fees are used to pay Agency expenses and subsidize housing programs.

The Members of the Board of the Agency set policy and oversee the organization's operation. The Board of Directors is comprised of 14 Members. The Secretary of Banking, the Secretary of Community and Economic Development, the Secretary of Public Welfare and the State Treasurer serve by virtue of their offices. Four Members are named to the Board of Directors by the majority and minority leaders of the State Senate and House of Representatives. Six private citizen Members are appointed by the Governor and confirmed by the tate Senate.

The Homeowners' Emergency Mortgage Assistance Program ("HEMAP") is included as a component unit of the Agency and is reported as a separate fund in the financial statements. A separately published audit report of HEMAP is available for public inspection in the Agency's HEMAP Division.

This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position of the Agency. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow this section.

BASIC FINANCIAL STATEMENTS

The basic financial statements include three required statements, which provide different views of the Agency. They are the statement of net assets, the statement of revenues, expenses and change in net assets and the statement of cash flows. These statements provide current and long-term information about the Agency and its activities. These financial statements report information using accounting methods similar (although not identical) to those used by private sector companies. The statement of net assets includes all assets, liabilities and net assets as of the fiscal year-end date. The statement of revenues, expenses and changes in net assets presents all the current fiscal year's revenues and expenses; this statement measures net income and the resulting change in net assets. If revenues exceed expenses, the result is income which, when added to the net assets at the beginning of the year, increases the net assets. If expenses exceed revenues, the result is a loss and when subtracted from the beginning net assets would result in a decrease of net assets. The final required statement is the statement of cash flows. This statement reports cash receipts, disbursements and the net change in cash resulting from the principal types of activities; operating activities, financing activities and investing activities. These categories provide answers to such questions as: where did cash come from, what was cash used for, and what was the change in the cash balance during the fiscal year?

In order for the basic financial statements to be complete, they must be accompanied by a complete set of footnotes and required supplemental information ("RSI"). The footnotes (or notes) provide disclosures, which are required to conform with generally accepted accounting principles ("GAAP"). The Agency has adopted accounting standards promulgated by the Government Accounting Standards Board ("GASB"). The driving force behind this expanded Management's Discussion and Analysis is GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The Agency also adopted GASB Statements No. 37 and 38, which together define RSI to include this discussion section as well as the Schedule of Funding Progress and Contributions from the Employer and Other Contributing Entities.

FINANCIAL HIGHLIGHTS

The financial analysis presented to the right, based on the programs of the Agency for the fiscal year ended June 30, 2005, should be read in conjunction with the financial statements that begin after this section. The amounts have been rounded to facilitate reading of this analysis.

During the fiscal year ended June 30, 2005, the Agency's combined total assets, consisting primarily of mortgage loans and investments increased by approximately 9.6%, to $4,228,819 from $3,857,317, a $371,502 increase. During the prior fiscal year ended June 30, 2004, combined total assets lessened by $134,649, approximately a 3.4% decrease. The reported total combined net income increased total net assets by approximately $45,303 to $650,125 at June 30, 2005 from $604,822 at June 30, 2004 or approximately 7.5 %.

The Agency's combined income before extraordinary items for the fiscal year ended June 30, 2005, was $44,512 as compared with $4,598 in the prior year. The $39,914 increase in income before extraordinary items resulted primarily from increases in investment earnings, an increase in the unrealized fair value of those investments and a decrease in interest expenses of Agency debt due to favorable bond rates and refinancing of certain debt during the fiscal year ended June 30, 2005 compared to the fiscal year ended June 30, 2004.

Loan Portfolios

Multifamily construction and mortgage loans and the Single Family and HEMAP mortgage loan portfolios are the Agency's primary assets. These include $491,360 of Multifamily Program and $2,427,537 of Single Family Program loans and $45,689 of HEMAP mortgage loans. An increase in the mortgage loan portfolios resulted from construction and mortgage loan advances and the purchases of loans exceeding mortgage repayments and payoffs. For the fiscal year ended June 30, 2005 the following are key highlights of loan related activities:

- The Agency funded approximately $9,986 of Multifamily Program loans. However, the Multifamily portfolio decreased to $491,360 as of June 30, 2005, from $510,973 as of June 30, 2004 after adjustments for normal principal amortization payments and the prepayments of several mortgage loans.
- The Single Family Program purchased approximately $621,212 of new mortgage loans increasing the Single Family portfolio to $2,427,537 as of June 30, 2005, from $2,044,375 as of June 30, 2004 after adjustments for normal principal payments and mortgage payoffs.
- HEMAP disbursed approximately $21,956 of assistance loans during the year, increasing the portfolio to $45,689 as of June 30, 2005, from $42,820 as of June 30, 2004. The

Financial Analysis

(in thousands of dollars)

The following table represents the changes in combined net assets between June 30, 2005 and 2004:

	2005	2004	Change	Percentage
Assets				
Deposits and investments	$ 1,079,058	$ 1,111,436	$ (32,378)	(2.9)%
Restricted investments	87,867	85,713	2,154	2.5 %
Mortgage loan receivables	2,964,614	2,598,190	366,424	14.1 %
Other assets	97,280	61,978	35,302	57.0 %
Total assets	$ 4,228,819	$ 3,857,317	$ 371,502	9.6%
Liabilities				
Current liabilities	$ 207,458	$ 202,034	$ 5,424	2.7 %
Long-term bonds payable	3,077,099	2,764,350	312,749	11.3 %
Other payable	294,137	286,111	8,026	2.8 %
Total liabilities	$ 3,578,694	$ 3,252,495	$ 326,199	10.0 %
Net assets				
Restricted	$ 87,867	$ 85,713	$ 2,154	2.5 %
Unrestricted	562,258	519,109	43,149	8.3 %
Total net assets	$ 650,125	$ 604,822	$ 45,303	7.5 %

The following table summarizes the changes in combined net income between fiscal years 2005 and 2004:

	2005	2004	Change	Percentage
Revenues				
Interest on loans	$ 151,965	$ 150,694	$ 1,271	0.8 %
Interest on investments	27,162	20,725	6,437	31.1 %
Program revenues	24,384	23,523	861	3.7 %
Grant revenue	280,033	295,923	(15,890)	(5.4)%
Other revenues	20,946	953	19,993	2,097.9 %
Total revenues	$ 504,490	$ 491,818	$ 12,672	2.6 %
Expenses				
Interest expense	$ 139,109	$ 145,371	$ (6,262)	(4.3)%
Operating expenses	31,894	33,095	(1,201)	(3.6)%
Grant expenses	280,033	295,923	(15,890)	(5.4)%
Loan loss allowance	8,942	12,831	(3,889)	(30.3)%
Total expenses	$ 459,978	$ 487,220	$ (27,242)	(5.6)%
Net income before extraordinary items	$ 44,512	$ 4,598	$ 39,914	868.1 %

increase is also driven by a significant reduction in the provision for potential loan losses as a result of management evaluation.

Financing Activity

During the current fiscal year, total combined liabilities increased by $326,199 as a result of net issuance of long-term bonds in order to provide funding required for originating and purchasing mortgages. Total combined long-term debt outstanding increased by $312,749 during the fiscal year ended June 30, 2005.

New Debt Issues

- The Agency's Multifamily Program issued one bond issue totaling approximately $27,500. The proceeds from the bond issuance will provide permanent taxable financing to developments which have received commitment approval.
- The Agency's Single Family Program issued seven separate bond issues totaling approximately $752,510. The proceeds from these issuances were used to purchase qualifying mortgages and to redeem certain outstanding debt issuances.

Debt Redemptions

- $23,900 of Multifamily Program bonds were redeemed prior to maturity as a result of loan prepayments and bond issuance proceeds received in the current and prior fiscal years.
- $362,091 of Single Family Mortgage Revenue Bonds was redeemed as a result of mortgage loan prepayments and bond issuance proceeds received in the current and prior fiscal years.

Refunding

The Members of the Board adopted resolutions to issue bond series 2004-83, 2004-84, 2004-86, 2004-87 and 2004-88 during the 2005 fiscal year for $527,510. Of which, $163,795 was used to refund portions of higher rate debt of 34 outstanding Single Family Mortgage Revenue Bonds and $363,715 was made available for the purchase of new mortgage loans.

Change in Net Assets

Under GASB 34 the term net assets is used (instead of fund balance) for entities like the Agency, which is considered an "enterprise fund" in accounting terminology. An enterprise fund reports activity that is financed with debt that is secured solely by a pledge of net revenues from the activity. In the governmental environment, net assets are either restricted or unrestricted. Unrestricted net assets consist of net assets that do not meet the definition of restricted. GASB 34 defines restricted net assets as those subject to constraints that are either externally imposed by creditors, grantors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation; these are presented as restricted net assets. Votes by the Members of the Board for specific purposes may be presented as "designated" net assets within the unrestricted balance in the accompanying footnotes. Such designated assets mean the Agency's Members of the Board have considered these to be directed to certain activities. Members of the Board may choose to act to remove or modify such designations.

- Net assets of the Multifamily Program increased by $30,950, or 16.1%, to $223,659 at June 30, 2005 from $192,709 at June 30, 2004. The unrestricted portion of net assets that may be used to finance day-to-day operations increased to $216,223 at June 30, 2005 from $183,905 at June 30, 2004. The net increase is the result of investment interest income and the increase in the fair values of investments due to strong market performance.
- Net assets of the Single Family Program increased by $12,868 or about 8.1%, to $171,444 at June 30, 2005 from $158,576 at June 30, 2004. The unrestricted portion of net assets that may be used to finance day-to-day operations increased to $91,013 at June 30, 2005 from $81,667 at June 30, 2004. The net increase in unrestricted net assets in the Single Family Program is primarily the result of increase of net interest income realized by bond refunding. Bond refunding allows the Agency to achieve debt service savings associated with the financing of the Agency's Single Family Programs.
- Net assets of HEMAP decreased by $267 or about .7%, to $40,814 at June 30, 2005 from $41,081 at June 30, 2004. Decreases resulted from costs as a result of processing an increased number of applications and increased costs of collection efforts on slow performing loans.

Financial Condition

Management believes the Agency's financial condition is strong. The Agency is operating well within financial policies and guidelines set by the Members of the Board. Adequate liquid asset levels, good mortgage portfolio performance and an increase in the combined level of unrestricted net assets at June 30, 2005 exhibit the Agency's financial strength. Total net assets as of June 30, 2005 increased 7.5% to $650,125 from $604,822 during the fiscal year. Combined unrestricted net assets increased $43,416 from the prior year to $562,258, comprising 13.3 % of total assets and 86.5 % of total net assets at June 30, 2005.

Debt Administration

At year-end, the Agency had total debt outstanding of $3,245,988 a decrease of $317,362 or 10.8% during the fiscal year. Detailed information about the Agency's debt is presented in Note H to the financial statements.

During the fiscal year ended June 30, 2004, the Agency's combined total assets, consisting primarily of mortgage loans and investments decreased by approximately 3.4%, to $3,857,317 from $3,991,966, a $134,649 decrease. During the prior fiscal year ended June 30, 2003, combined total assets grew by $136,890, approximately a 3.6% increase. The reported total combined net income increased total net assets by approximately $2,592 to $604,822 at June 30, 2004 from $602,230 at June 30, 2003 or approximately 0.4 %. The Agency's combined income before extraordinary items for the fiscal year ended June 30, 2004, was $4,598, as compared with $24,668 in the prior year.

The Agency's combined income before extraordinary items for the fiscal year ended June 30, 2004, was $4,598, as compared with $24,668 in the prior year. The $20,070 decrease in income before extraordinary items resulted primarily from a decline in the unrealized fair value of investments by $11,872, an increase in the provision for loan loss allowance of $3,953, and an increase in general and administrative expenses of $3,014 in the fiscal year ended June 30, 2004 compared to the fiscal year ended June 30, 2003.

General Trends and Significant Events

The Agency continues to receive a positive outlook from both Standard and Poor's and Moody's Investors Service. The changes in private activity bond authority have allowed Housing Finance Agencies to increase their activity over the previous year. Management expects strong bond issue activity for the fiscal year ending June 30, 2006.

Contacting the Agency's Financial Management

This financial report is designed to provide the citizens of Pennsylvania, our constituents and investors with a general overview of the Agency's finances and to demonstrate the Agency's financial accountability over its resources. If you have questions about the report or need additional financial information, contact the Executive Director at Pennsylvania Housing Finance Agency, 211 North Front Street, Harrisburg, PA 17101, or visit our website at www.phfa.org.

Comparison of Fiscal Year 2004 with Fiscal Year 2003 Results

The following table summarizes the change in combined net assets between June 30, 2004 and 2003:

(in thousands of dollars)

	2004	2003	Change	Percentage
Assets				
Deposits and investments	$ 1,111,436	$ 1,292,092	$ (180,656)	(14.0)%
Restricted investments	85,713	82,938	2,775	3.3 %
Mortgage loan receivables	2,598,190	2,572,144	26,046	1.0 %
Other assets	61,978	44,792	17,186	38.4 %
Total assets	$ 3,857,317	$ 3,991,966	$ (134,649)	(3.4)%
Liabilities				
Current liabilities	$ 202,034	$ 126,135	$ 75,899	60.2 %
Long-term bonds payable	2,764,350	2,960,089	(195,739)	(6.6)%
Other payable	286,111	303,512	(17,401)	(5.7)%
Total liabilities	$3,252,495	$ 3,389,736	$ (137,241)	(4.0)%
Net assets				
Restricted	$ 85,713	$ 82,938	$ 2,775	3.3 %
Unrestricted	519,109	519,292	(183)	0.0 %
Total net assets	$ 604,822	$ 602,230	$ 2,592	0.4 %

The following table summarizes the changes in combined net income between fiscal years 2004 and 2003:

(in thousands of dollars)

	2004	2003	Change	Percentage
Revenues				
Interest on loans	$ 150,694	$ 173,828	$ (23,134)	(13.3)%
Interest on investments	20,725	18,852	1,873	9.9 %
Program revenues	23,523	25,659	(2,136)	(8.3)%
Grant revenue	295,923	266,493	29,430	11.0 %
Other revenues	953	11,135	(10,182)	(91.4)%
Total revenues	$ 491,818	$ 495,967	$ (4,149)	(0.8)%
Expenses				
Interest expense	$ 145,371	$ 170,520	$ (25,149)	(14.7)%
Operating expenses	33,095	25,408	7,687	30.3 %
Grant expenses	295,923	266,493	29,430	11.0 %
Loan loss allowance	12,831	8,878	3,953	44.5 %
Total expenses	$ 487,220	$ 471,299	$ 15,921	3.4 %
Net income before extraordinary items	$ 4,598	$ 24,668	$ (20,070)	(81.4)%

REPORT OF INDEPENDENT AUDITORS

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To the Members of the Pennsylvania Housing Finance Agency

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses and changes in net assets and cash flows present fairly, in all material respects, the financial position of the Pennsylvania Housing Finance Agency ("Agency") General Fund, Multifamily Program, Single Family Program, Insurance Fund and Homeowners Emergency Mortgage Assistance Program ("HEMAP") at June 30, 2005 and 2004, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the HEMAP, which statements reflect 1.04% and 0.52% of the total assets and interest income, respectively, of the related totals for the year ended June 30, 2005 and 1.26% and .55% of the total assets and interest income, respectively, of the related totals for the year ended June 30, 2004. We did not audit the financial statements of the Agency's pension plan, reported in Note K. The HEMAP and pension plan financial statements were audited by other auditors whose reports have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for HEMAP and Note K, is based solely on the reports of the other auditors. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America and *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

The Management's Discussion and Analysis ("MD&A") and Required Supplementary Information ("RSI"), on pages 20 through 23 and 42 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and RSI. However, we did not audit the information and express no opinion on it.

As discussed in Note A, the financial statements present only the Pennsylvania Housing Finance Agency and are not intended to present fairly the financial position of the Commonwealth of Pennsylvania, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 30, 2005 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended June 30, 2005. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

PricewaterhouseCoopers LLP

September 30, 2005

STATEMENTS OF NET ASSETS

(in thousands of dollars)

June 30, 2005 and 2004

	2005						2004					
	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)
Assets												
Deposits and investments (Note E)	$125,800	$ 313,752	$ 595,934	$ 43,572	$ –	$ 1,079,058	$ 140,973	$ 312,979	$ 616,772	$ 38,910	$ 1,802	$ 1,111,436
Current portion of loans receivable (Note F)	–	24,211	43,500	–	5,968	73,679	–	19,995	36,458	–	5,717	62,170
Interfund accounts receivable (payable)	28,375	(1,921)	(24,563)	–	(1,891)	–	15,749	(2,654)	(12,398)	–	(697)	–
Total current assets	154,175	336,042	614,871	43,572	4,077	1,152,737	156,722	330,320	640,832	38,910	6,822	1,173,606
Noncurrent assets												
Restricted deposits and investments	–	7,436	80,431	–	–	87,867	–	8,804	76,909	–	–	85,713
Loans receivable, net of current portion (Note F)	–	467,149	2,384,037	–	39,749	2,890,935	–	490,978	2,007,917	–	37,125	2,536,020
Construction advances (Note F)	–	44,702	–	–	–	44,702	–	10,533	–	–	–	10,533
Deferred and other assets	39,483	9,422	3,627	–	46	52,578	41,301	7,895	2,195	–	54	51,445
Total noncurrent assets	39,483	528,709	2,468,095	–	39,795	3,076,082	41,301	518,210	2,087,021	–	37,179	2,683,711
Total assets	$193,658	$ 864,751	$ 3,082,966	$ 43,572	$ 43,872	$ 4,228,819	$ 198,023	$ 848,530	$ 2,727,853	$ 38,910	$44,001	$ 3,857,317
Liabilities and Net Assets												
Current liabilities												
Current portion of long-term debt (Note H)	$ –	$ 22,269	$ 146,620	$ –	$ –	$ 168,889	$ –	$ 27,856	$ 136,420	$ –	$ –	$ 164,276
Accrued interest payable (Note H)	389	7,337	27,446	–	–	35,172	321	8,180	24,883	–	–	33,384
Accounts payable and accrued expenses	1,954	11	558	–	435	2,958	3,468	11	151	–	206	3,836
Accrued mortgage claims (Note F)	–	–	–	439	–	439	–	–	–	538	–	538
Total current liabilities	2,343	29,617	174,624	439	435	207,458	3,789	36,047	161,454	538	206	202,034
Noncurrent liabilities												
Long-term debt, net of current portion (Note H)	19,915	369,130	2,688,054	–	–	3,077,099	19,912	383,790	2,360,648	–	–	2,764,350
Escrow and other liabilities	320	242,345	48,844	5	2,623	294,137	235	235,984	47,175	3	2,714	286,111
Total noncurrent liabilities	20,235	611,475	2,736,898	5	2,623	3,371,236	20,147	619,774	2,407,823	3	2,714	3,050,461
Total liabilities	22,578	641,092	2,911,522	444	3,058	3,578,694	23,936	655,821	2,569,277	541	2,920	3,252,495
Net assets												
Restricted (Note J)	–	7,436	80,431	–	–	87,867	–	8,804	76,909	–	–	85,713
Unrestricted (Note J)	171,080	216,223	91,013	43,128	40,814	562,258	174,087	183,905	81,667	38,369	41,081	519,109
Total net assets	171,080	223,659	171,444	43,128	40,814	650,125	174,087	192,709	158,576	38,369	41,081	604,822
Total liabilities and net assets	$193,658	$ 864,751	$ 3,082,966	$ 43,572	$ 43,872	$ 4,228,819	$ 198,023	$ 848,530	$ 2,727,853	$ 38,910	$44,001	$ 3,857,317

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(in thousands of dollars)

Years Ended June 30, 2005 and 2004

	2005						2004					
	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)
Operating Income												
Interest income												
Interest on loans (Note F)	$ –	$ 39,875	$ 111,212	$ –	$ 878	$ 151,965	$ –	$ 43,117	$ 106,678	$ –	$ 899	$ 150,694
Interest on investments (Note E)	3,711	6,197	15,079	2,127	48	27,162	3,580	4,215	11,324	1,564	42	20,725
Total interest income	3,711	46,072	126,291	2,127	926	179,127	3,580	47,332	118,002	1,564	941	171,419
Interest expense												
Interest on notes and bonds (Note H)	–	19,767	119,342	–	–	139,109	–	21,425	123,946	–	–	145,371
Total interest expense	–	19,767	119,342	–	–	139,109	–	21,425	123,946	–	–	145,371
Net interest income before provision for potential loan losses	3,711	26,305	6,949	2,127	926	40,018	3,580	25,907	(5,944)	1,564	941	26,048
Provision for potential loan losses (Note F)	–	4,000	1,000	–	3,942	8,942	–	2,000	800	–	10,031	12,831
Net operating income (loss)	3,711	22,305	5,949	2,127	(3,016)	31,076	3,580	23,907	(6,744)	1,564	(9,090)	13,217
Noninterest income												
Fee income (Note F)	22,156	–	1,063	800	365	24,384	20,187	–	1,913	1,094	329	23,523
Construction advances	–	181	–	–	–	181	–	4	–	–	–	4
Pass-through grants income (Note L)	–	280,033	–	–	–	280,033	–	295,923	–	–	–	295,923
Gain on sale of investments	7	–	–	–	–	7	–	–	–	–	–	–
Net increase (decrease) in fair value of investments (Note E)	3,215	3,502	11	2,432	–	9,160	(2,729)	(4,812)	(3,192)	(1,139)	–	(11,872)
Amortization of deferred gain (Note C)	–	769	–	–	–	769	–	666	–	–	–	666
Residual receipts	–	4,399	–	–	–	4,399	–	5,444	–	–	–	5,444
Other income	–	–	–	–	6,429	6,429	–	–	–	–	6,711	6,711
Total noninterest income	25,378	288,884	1,074	3,232	6,794	325,362	17,458	297,225	(1,279)	(45)	7,040	320,399
Noninterest expense												
Pass-through grants expense (Note L)	–	280,033	–	–	–	280,033	–	295,923	–	–	–	295,923
Salaries and related benefits	15,877	–	–	–	2,112	17,989	15,173	–	–	–	1,979	17,152
General and administrative	7,073	2,434	1,865	–	1,933	13,305	6,557	3,527	747	–	1,899	12,730
Mortgage claims	–	–	–	600	–	600	–	–	–	600	–	600
Nonrecurring expense	–	–	–	–	–	–	2,613	–	–	–	–	2,613
Total noninterest expense	22,950	282,467	1,865	600	4,045	311,927	24,343	299,450	747	600	3,878	329,018
Income (loss) before extraordinary item	6,139	28,722	5,158	4,759	(267)	44,511	(3,305)	21,682	(8,770)	919	(5,928)	4,598
Extraordinary item – loss on early retirement of debt	–	1,217	(425)	–	–	792	–	(35)	(1,971)	–	–	(2,006)
Net income (loss)	6,139	29,939	4,733	4,759	(267)	45,303	(3,305)	21,647	(10,741)	919	(5,928)	2,592
Changes in net assets												
Interfund transfers (Note D)	(9,146)	1,011	8,135	–	–	–	(2,472)	(866)	3,338	–	–	–
Net assets at beginning of the year	174,087	192,709	158,576	38,369	41,081	604,822	179,864	171,928	165,979	37,450	47,009	602,230
Net assets at end of the year	$ 171,080	$ 223,659	$ 171,444	$ 43,128	$ 40,814	$ 650,125	$ 174,087	$ 192,709	$ 158,576	$ 38,369	$ 41,081	$ 604,822

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

(in thousands of dollars)

Years Ended June 30, 2005 and 2004

	2005						2004					
	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum) Only)
Cash flows from operating activities												
Principal received (disbursed) on loans, net	$ –	$ (18,556)	$ (386,927)	$ –	$ (5,944)	$ (411,427)	$ –	$ 6,812	$ (35,628)	$ –	$ (4,803)	$ (33,619)
Cash received for interest on mortgages	–	44,506	113,533	–	600	158,639	–	48,338	112,369	–	934	161,641
Fees, charges, and other	22,375	–	–	800	365	23,540	17,514	–	–	1,195	542	19,251
Cash paid for operating expenses	(24,463)	(2,768)	(407)	(1,207)	(3,902)	(32,747)	(15,913)	(3,533)	(42)	(349)	(3,805)	(23,642)
Cash received (remitted) for escrow, net and other liabilities	–	7,130	1,669	–	(5)	8,794	(13)	(3,594)	(12,876)	–	(255)	(16,738)
Cash received from federal funding sources	–	–	–	–	6,430	6,430	–	–	–	–	6,711	6,711
Net cash provided by (used in) operating activities	(2,088)	30,312	(272,132)	(407)	(2,456)	(246,771)	1,588	48,023	63,823	846	(676)	113,604
Cash flows from noncapital financing activities												
Due (from) to other funds	(11,432)	(733)	12,165	–	1,194	1,194	(3,959)	(54)	3,316	–	179	(518)
Fund balance transfers from (to) other funds and other changes	(9,146)	1,011	8,135	–	–	–	(2,472)	(866)	3,338	–	–	–
Proceeds from sale of bonds and notes	–	27,500	752,510	–	–	780,010	20,000	–	945,285	–	–	965,285
Maturities of bonds and notes	–	(49,356)	(416,046)	–	–	(465,402)	–	(170,405)	(901,631)	–	–	(1,072,036)
Interest paid on bonds and notes	–	(20,610)	(116,779)	–	–	(137,389)	(321)	(23,481)	(132,804)	–	–	(156,606)
Net cash provided by (used in) noncapital financing activities	(20,578)	(42,188)	239,985	–	1,194	178,413	13,248	(194,806)	(82,496)	–	179	(263,875)
Cash flows from investing activities												
Purchase of investments	(10,407)	(23,658)	(8,922)	–	–	(42,987)	(127,670)	(151,497)	(88,655)	(698)	(6,676)	(375,196)
Interest received on investments	3,711	6,197	15,079	2,637	48	27,672	3,580	4,215	11,324	1,564	42	20,725
Proceeds from sales and maturities of investments	45,771	19,285	15,133	–	2,131	82,320	115,976	67,364	68,840	–	7,066	259,246
Cash paid for new corporate offices	–	–	–	–	–	–	(33,941)	–	–	–	–	(33,941)
Net cash provided by (used in) investing activities	39,075	1,824	21,290	2,637	2,179	67,005	(42,055)	(79,918)	(8,491)	866	432	(129,166)
Net increase (decrease) in cash and cash equivalents	16,409	(10,052)	(10,857)	2,230	917	(1,353)	(27,219)	(226,701)	(27,164)	1,712	(65)	(279,437)
Cash and cash equivalents												
Beginning of year	42,226	176,979	573,817	25,813	(917)	817,918	69,445	403,680	600,981	24,101	(852)	1,097,355
End of year	$ 58,635	$ 166,927	$ 562,960	$ 28,043	$ –	$ 816,565	$ 42,226	$ 176,979	$ 573,817	$ 25,813	$ (917)	$ 817,918

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

(in thousands of dollars)

Years Ended June 30, 2005 and 2004

2005

	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)
Reconciliation of net income to net cash provided by operating activities						
Net income (loss)	$ 6,139	$ 29,939	$ 4,733	$ 4,759	$ (267)	$ 45,303
Depreciation, amortization and accretion	739	(75)	3,530	–	10	4,204
Loss on early retirement of debt	–	(1,217)	425	–	–	(792)
Loan loss provision	–	4,000	1,000	–	3,942	8,942
Interest expense on notes and bonds, excluding amortization and accretion	–	19,767	119,342	–	–	139,109
Interest income on investments	(3,711)	(6,197)	(15,079)	(2,127)	(48)	(27,162)
Net (increase) decrease in fair value of investments	(3,215)	(3,502)	(11)	(2,432)	–	(9,160)
Amortization of deferred gain	–	769	–	–	–	769
Gain on sale of investments	(7)	–	–	–	–	(7)
Increase (decrease) due to changes in operating assets and liabilities						
Mortgage loans receivable	–	15,613	(386,927)	–	(6,229)	(377,543)
Construction advances	–	(34,169)	–	–	–	(34,169)
Deferred and other assets	(604)	(1,746)	(1,221)	(5)	(2)	(3,578)
Escrow and other liabilities	85	7,130	1,669	2	(5)	8,881
Accounts payable and accrued expenses	(1,514)	–	407	–	143	(964)
Accrued mortgage claims	–	–	–	(604)	–	(604)
Net cash provided by (used in) operating activities	$ (2,088)	$ 30,312	$ (272,132)	$ (407)	$ (2,456)	$ (246,771)
Reconciliation of cash and cash equivalents to the balance sheets						
Total deposits and investments per the balance sheets	125,800	321,188	676,365	43,572	–	1,166,925
Less: Investments not meeting the definition of cash and cash equivalents	67,165	154,261	113,405	15,529	–	350,360
Cash and cash equivalents at end of the year	$ 58,635	$ 166,927	$ 562,960	$ 28,043	$ –	$ 816,565
Supplemental schedule of noncash activities						
Mortgage loan receivable (charge–offs), net of recoveries	$ –	$ (691)	$ (1,394)	$ –	$ (7,293)	$ (9,378)

2004

	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum) Only)
Reconciliation of net income to net cash provided by operating activities						
Net income (loss)	$ (3,305)	$ 21,647	$ (10,741)	$ 919	$ (5,928)	$ 2,592
Depreciation, amortization and accretion	(1,224)	(196)	2,473	–	53	1,106
Loss on early retirement of debt	–	35	1,971	–	–	2,006
Loan loss provision	–	2,000	800	–	10,031	12,831
Interest expense on notes and bonds, excluding amortization and accretion	–	21,425	123,946	–	–	145,371
Interest income on investments	(3,580)	(4,215)	(11,324)	(1,564)	(42)	(20,725)
Net (increase) decrease in fair value of investments	2,729	4,683	3,192	1,139	–	11,743
Amortization of deferred gain	–	666	–	–	–	666
Gain on sale of investments	–	–	–	–	–	–
Increase (decrease) due to changes in operating assets and liabilities						
Mortgage loans receivable	–	(2,964)	(35,628)	–	(4,492)	(43,084)
Construction advances	–	9,776	–	–	–	9,776
Deferred and other assets	5,165	(1,240)	1,968	–	(26)	5,867
Escrow and other liabilities	(13)	(3,594)	(12,876)	3	(255)	(16,735)
Accounts payable and accrued expenses	1,119	–	42	–	(17)	1,144
Accrued mortgage claims	–	–	–	349	–	349
Net cash provided by (used in) operating activities	$ 891	$ 48,023	$ 63,823	$ 846	$ (676)	$ 112,907
Reconciliation of cash and cash equivalents to the balance sheets						
Total deposits and investments per the balance sheets	$ 140,973	321,783	693,681	38,910	1,802	1,197,149
Less: Investments not meeting the definition of cash and cash equivalents	98,747	144,804	119,864	13,097	2,719	379,231
Cash and cash equivalents at end of the year	$ 42,226	$ 176,979	$ 573,817	$ 25,813	$ (917)	$ 817,918
Supplemental schedule of noncash activities						
Mortgage loan receivable (charge–offs), net of recoveries	$ –	$ (1,656)	$ (1,948)	$ –	$ (11,254)	$ (14,858)

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

(in thousands of dollars)

June 30, 2005 and 2004

A. Authorizing Legislation

The Pennsylvania Housing Finance Agency ("Agency") is a corporate and political body created by the Housing Finance Agency Law, Act of December 3, 1959, P.L. 1688 ("Act"), as amended. Pursuant to the Act, the Agency is authorized and empowered, among other things, to finance the construction and rehabilitation of housing units for persons and families of low and moderate income or the elderly. Bonds and notes issued under the provisions of the Act are not a debt or liability of the Commonwealth of Pennsylvania or any of its political subdivisions or a pledge of the faith and credit of the Commonwealth of Pennsylvania or of any of its political subdivisions.

The Act was amended to authorize the Agency to make or purchase loans to finance the purchase, construction, improvement or rehabilitation of owner-occupied single family residences, and to finance the construction and rehabilitation of housing units without requiring the housing units to be subsidized or assisted by a federal government program.

The Agency has been determined to be a component unit of the Commonwealth of Pennsylvania for financial reporting purposes and thus, the financial results of the Agency will be included in the Commonwealth's June 30, 2005 financial statements.

B. Fund Accounting

The accounts of the Agency are organized on the basis of separate enterprise funds, each of which is considered to be a separate accounting entity with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, and revenues and expenses. The funds used by the Agency are described below.

General Fund

The General Fund is utilized to record certain loan origination fees, service fees and revenue from investments not specifically pledged for the repayment of notes or bonds in the other funds. All Agency expenses are recorded in this fund except provisions for potential loan losses, and specific program expenses which are charged to the loan-related funds.

Multifamily Program

The Multifamily Program transactions relate to the construction, rehabilitation and permanent financing of multi-family rental housing developments generally designed for persons and families of low and moderate income or the elderly. The Multifamily Program also provides funds for the bridge loan program. This program provides funds to multi-family construction projects, to be used as owner's equity. These funds assist the construction project to finance pre-construction costs.

Single Family Program

The Single Family Program transactions relate to the purchase of mortgage loans for owner-occupied single family residences for persons and families of low and moderate income.

Insurance Fund

Through the Insurance Fund, the Agency provides primary mortgage insurance coverage for single family mortgage loan participants that are unable to obtain insurance from other sources.

HEMAP

The Homeowners Emergency Mortgage Assistance Program ("HEMAP") was created by Act 91 of the General Assembly as a separate fund within the Agency. Transactions relate to the furnishing of emergency mortgage assistance to mortgagors facing foreclosure because of circumstances beyond their control, through the form of loans, in an amount sufficient to bring the mortgage current, and, if necessary, to provide continuing assistance for a period of up to 36 months. The mortgagor's obligation to repay the loan does not commence until there is the financial ability to do so. As stated in Act 91, no Agency funds are being expended on HEMAP; however, it does rely on the Agency for various administrative services, for which it pays a support services fee.

The Agency follows Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Reporting Entity.* As a result, HEMAP has been determined to be part of the reporting entity. Accordingly, HEMAP has been included as a separate fund in the financial statements. A separately published audit report of HEMAP is available for public inspection in the Agency's HEMAP Division.

Funding from repayments are estimated to continue to be sufficient to meet continuing loan program obligations and administrative costs. HEMAP is currently reviewing restructuring options, including legislative changes, that would make it self-sustaining or allow for a reduction of the appropriation.

C. Summary of Significant Accounting Policies

The Agency follows Generally Accepted Accounting Principles ("GAAP"). GAAP allows specialized accounting for government entities, which is governed by pronouncements set by the Government Accounting Standards Board ("GASB"). Pronouncements set by the GASB may differ from pronouncements set by the Financial Accounting Standards Board ("FASB"). The Agency has disclosed any differences in the following notes.

The financial statements have been prepared on the accrual basis. On this basis, revenues are recognized in the year in which they are earned and become measurable, and expenses are recognized in the year they are incurred.

The Agency follows GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis* ("Statement No. 34").

Operating income and expenses are defined as those activities directly related to the Agency's primary business objective of providing housing opportunities throughout the Commonwealth of Pennsylvania. PHFA has no nonoperating activities, however changes were made to highlight interest income and expense to facilitate financial statement analysis.

The Agency follows GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting* for reporting and disclosure purposes ("Statement No. 20"). As permitted by Statement No. 20, the Agency has elected to not apply Financial Accounting Standards Board pronouncements issued after November 30, 1989 unless the GASB specifically adopts the FASB Statement or Interpretation.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Agency considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

PHFA has presented the statement of cash flows using the direct method as required by Statement No. 34. A reconciliation of net income to net cash provided from operating activities is also shown.

Investment Securities

The Agency values its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires the investments to be carried in the Statement of Net Assets at their fair value.

The fair value of the Agency's investment securities are based upon values provided by external investment managers and quoted market prices.

Mortgage Loans Receivable and Construction Advances

Mortgage loans receivable and construction advances are carried at amounts disbursed plus accrued interest and fees, less collections, mortgage loan discounts and allowance for loan losses, if any. The current portion of loans receivable represents the contractual amount due within the next year.

Allowance for Potential Loan Losses

The allowance for loan losses is determined based upon management's evaluation of mortgage loans receivable and construction advances. Factors considered by management include the estimated fair market values of the properties that represent collateral, the amount of mortgage insurance to be received, if any, the past experience and financial condition of the borrowers, and the economy. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. Additions to the allowance are provided by charges to expense.

Real Estate Owned

During the normal course of business, the Agency purchases single family properties at foreclosure proceedings to avoid or minimize losses on mortgage loans. These properties are recorded at the lower of cost or market value. Costs incurred subsequent to foreclosure which are directly related to the sale or improvement of the real estate are capitalized to the extent they enhance the value of the property. At the time of foreclosure, losses are charged to the allowance for loan losses. Subsequent losses are charged to other expense as incurred. Real estate owned is included in other assets on the statement of net assets.

Interfund Accounts Receivable (Payable)

To meet liquidity requirements of individual funds, the Agency transfers funds to and from the separate enterprise funds.

Deferred and Other Assets

Deferred assets relate to bond issuance costs, loan origination costs, and other assets. The Agency capitalizes expenses related to bond issuances and amortizes these expenses over the contractual life of the bonds using the constant yield method. The Agency capitalizes the costs of originating multifamily housing projects, net of fees realized, and amortizes these fees over 25 years, the average life of multifamily loans. Other assets relate primarily to furniture and fixtures owned by the Agency which are amortized over their useful life.

Restricted Net Assets

Investments classified as restricted are those investments which may only be expended by the Agency within the guidelines of the outstanding bond indentures.

Unrestricted Net Assets

Unrestricted net assets are those assets not restricted by bond indentures. The Board of Directors of the Agency internally designates these assets for specific loan programs and to meet the recurring business needs of the Agency.

Mortgage Loan Interest

Interest income is recognized over the life of construction advances and mortgage loans receivable based upon the constant yield method. Multifamily and Single Family Program loans more than 180 days delinquent in scheduled payments are considered nonperforming loans which result in the cessation of recognition of additional interests on such loans.

Mortgage Loan Origination Fees and Costs

The Agency follows FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, which requires that loan origination fees and direct loan origination costs be recognized over the life of the loan as an adjustment to the loan's yield or interest income.

Loan origination fees range from 1% to 2.5% of the loan commitment for the Multifamily Program and from 0% to 1% of the mortgage amount for the Single Family Program. The Single Family loan origination fees are retained by the financial institutions which originate Agency loans.

Loan origination costs relate to investigations, surveys, appraisals and direct salaries pertaining to the evaluation of mortgage loan proposals and construction advances.

Amortization of Notes and Bonds Payable Discounts

Underwriter discounts relating to notes and bonds payable, including original issue discounts, are amortized over the estimated lives of the related debt using the effective interest method.

Deferred Gain

In prior years, in an effort to maintain the low-income status of various multi-family projects, the Agency acquired these projects, at below market value, from the original owners. The Agency in turn sold these properties, at market price, to the current owners with the condition that they would retain their low-income status.

The deferred gain (the excess of the selling price over the Agency's acquisition price) is included in escrow and other liabilities and is being amortized over the lives of the current owners' mortgage loans using the installment method.

Deferred Costs of Refunding

The Agency follows GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, which requires that the difference between the reacquisition price and the net carrying amount of defeased debt be deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the balance sheet, the amount of the unamortized deferred costs of refunding is reported as a deduction from or addition to the new debt. During the years ended June 30, 2005 and 2004, the Agency deferred losses of $1,792 and $8,631, respectively, on the refunding of Single Family Mortgage Revenue Bonds. As of June 30, 2005 and 2004, the unamortized Single Family deferred costs of refunding are $21,436 and $22,275, respectively. Additionally, during the years ended June 30, 2005 and 2004, the Agency deferred losses of $0 and $4,509, respectively, on refunding Multifamily Mortgage Revenue Bonds. As of June 30, 2005 and 2004, the unamortized Multifamily deferred costs of refunding are $6,884 and $8,192, respectively.

Pass-through Grants

The Agency has implemented GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance.* Statement No. 24 requires that all cash pass-through grants received by a governmental entity be reported in its financial statements. The effect of applying these provisions is to increase both noninterest income and expense by $280,033 and $295,923 for the years ended June 30, 2005 and 2004, respectively.

Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Such data is not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates also effect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses reported during the period. Actual results could differ from management's estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation. The reclassifications had no impact on total assets, liabilities, net assets, net income, or cash flows.

D. Net Asset Transfers and Other Changes

The Agency is permitted to make net asset transfers to the extent that such assets are not required to meet the Agency's debt obligations and provided that such transfers are not in violation of the terms of bond resolutions or indentures.

E. Deposits and Investments

The Agency has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures, for the year ended June 30, 2005*. This statement establishes and modifies disclosure requirements related to deposit and investment risks; accordingly, the note disclosure on deposits and investments has been revised to conform to the provisions of the GASB statement.

Deposits

The Agency has a policy that deposits must be held in insured depositories satisfactory to the Agency and must be fully collateralized. At June 30, 2005, the Agency's deposits had a carrying amount of $16,322 and a bank balance of $16,864. Of the bank balance, a maximum of $200 was covered by federal depository insurance and the remainder was covered by collateral in accordance with Act 72 of the Commonwealth of Pennsylvania.

Investments

As of June 30, 2005, the Agency's investments mature as follows:

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Corporate bonds	$ 31,292	$ 7,992	$ 12,291	$ 9,509	$ 1,500
U.S. Government treasuries	34,388	54	–	29,727	4,607
U.S. Government agencies	284,843	22,239	228,391	823	33,390
Investment agreements	229,204	225,804	–	–	3,400
Money markets	476,335	476,335	–	–	–
Mutual funds	94,541	94,541	–	–	–
Total	$ 1,150,603	$ 826,965	$ 240,682	$ 40,059	$ 42,897

Interest Rate Risk

The Agency's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Agency has elected to use the segmented time distribution method of disclosure for its interest rate risk.

Credit Risk

The investment policies of the Agency are governed by statutes and contractual provisions contained in the bond trust indentures. For securities exposed to credit risk in the fixed income portfolio, the following table discloses aggregate fair value, by Moody's credit quality rating category at June 30, 2005:

Fixed Income Securities Exposed to Credit Risk

Rating*	**Fair Value**
Aaa	$ 750,257
Aa	9,463
A	18,751
NA**	52,901
Total fixed income	$ 831,372

Notes:

* Ratings represents all the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of A1 is shown as a rating of A in this table.

** NA represents securities that were not rated by rating agencies that includes certain money markets and mutual funds.

Investments in U.S. government securities with a fair value of $319,231 were not included in the above table because they are not subject to credit quality risk.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial risk for investment is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party.

As of June 30, 2005, none of the Agency's deposits or investments were exposed to custodial credit risk.

F. Mortgage Loans Receivable and Construction Advances

The mortgage loans receivable and construction advances are collateralized by first mortgages on the related properties. The federal government provides insurance for certain projects included in the Multifamily Program, as well as subsidizes certain projects through its Section 8 Program. Insurance for the Single Family Program is provided by commercial companies and self-insurance through the Agency's Insurance Fund. In addition, the Agency has internally designated a portion of the net assets for self-insurance for certain multi-family and single family loans (see Note J). A summary of multi-family mortgage loans receivable and construction advances at June 30, 2005 and 2004 is as follows:

	Mortgage Loans Receivable	**Construction Advances**
June 30, 2005		
Insured and subsidized	$ 12,607	$ –
Insured and nonsubsidized	55,938	44,702
Uninsured and subsidized	317,283	–
Uninsured and nonsubsidized	261,755	–
	647,583	44,702
Allowance for potential loan losses	156,223	–
	$ 491,360	$ 44,702

	Mortgage Loans Receivable	**Construction Advances**
June 30, 2004		
Insured and subsidized	$ 33,227	$ –
Insured and nonsubsidized	41,741	10,533
Uninsured and subsidized	342,496	–
Uninsured and nonsubsidized	246,423	–
	663,887	10,533
Allowance for potential loan losses	152,914	–
	$ 510,973	$ 10,533

Substantially all single family mortgage loans are subject to two levels of insurance, primary insurance and pool insurance. Primary insurance is required on all single family mortgage loans where the loan principal amount exceeds 80% of the lesser of the purchase price or the initial appraised value of the property. The amount of primary insurance coverage required, as defined in the bond resolutions, is the amount by which the loan exceeds 66.5% – 72.0% (depending on single family bond issue) of the lesser of the appraised value or sales price of the residence. It is the eligible borrowers' responsibility to bear the cost of primary insurance.

The Agency has reimbursement agreements covering up to $24,868 in mortgage loans with various commercial mortgage insurers in order to provide mortgagors with lower premiums for primary mortgage insurance. Under these agreements, the mortgage insurers are primarily responsible to the holders of the mortgage insurance policies, and the Agency will assume a portion of the mortgage default risk. Although the Agency has internally designated a portion of its net assets in connection with this potential exposure, no losses have ever resulted under these agreements. The Agency discontinued originating mortgage loans under these agreements in September 1993.

The Agency provides primary mortgage insurance coverage for single family mortgage loans through the Insurance Fund, which ranges from 20% to 30% (depending on the loan-to-value ratio at origination) of the unpaid principal balance. At June 30, 2005 and 2004, the total loans covered under this program were $109,333 and $148,095, respectively, and the coverage provided is estimated to be approximately $31,811 and $42,887, respectively. The participants in this program are charged an annual premium for this coverage.

In order to increase the Insurance Fund's capacity to provide primary mortgage insurance for single family mortgage loans, the Agency purchased shared risk coverage through a commercial mortgage insurer during fiscal year 1996. This coverage extends to all loans that were outstanding as of August 31, 1995 and provides that the Agency shall remain solely liable for 10% of the product of multiplying the Insurance Fund coverage percentage (20% to 30%) times the aggregate outstanding principal balance for each loan. After exhaustion of the Agency's retention reserve, the commercial insurer is liable on a per loan basis for losses up to the limit of the Insurance Fund's coverage in each loan-to-value ratio category. Of the total loans covered under the Insurance Fund, $26,946 are covered under this shared risk contract at June 30, 2005, and the Agency's maximum potential exposure is $789.

The claims liability of $439 and $538 reported in the Insurance Fund as of June 30, 2005 and 2004, respectively, is based on the requirements of GASB Statement No. 30, *Risk Financing Omnibus*, which amends GASB 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* ("GASB Statement No. 30"). GASB Statement No. 30 requires that the basis for estimating the liability for unpaid claims, including the effects of specific incremental claim adjustment expenditures/expenses, salvage, and subrogation, and whether other allocated or unallocated claim adjustment expenditures/expenses are included. Changes in the Insurance Fund's claim liability amounts are as follows:

	2004	**2003**
Balance, July 1	$ 538	$ 887
Current year claims and changes in estimates	600	600
Claim payments	(699)	(949)
Balance, June 30	$ 439	$ 538

The Agency has elected to self-insure certain losses sustained by reason of default in payments by eligible borrowers in excess of primary insurance for single family mortgage loans originating from proceeds obtained from single family bond issues Series C through 2005-89. The total principal outstanding of mortgage loans self-insured by the Agency is $2,334,707 and $1,967,406 at June 30, 2005 and 2004, respectively. As of June 30, 2004, cumulative pool losses since inception of the self-insurance program are $12,346.

Changes in the allowance for potential loan losses for the Multifamily, Single Family and HEMAP Programs are as follows at June 30, 2005 and 2004:

	Multifamily		Single Family		HEMAP	
	2005	2004	2005	2004	2005	2004
Balance, July 1	$ 152,914	$ 152,570	$ 2,904	$ 4,052	$ 43,372	$ 43,842
Provision charged to income	4,000	2,000	1,000	800	3,942	10,031
Charge-offs, net of recoveries	(691)	(1,656)	(1,394)	(1,948)	(7,235)	(10,501)
Balance, June 30	$ 156,223	$ 152,914	$ 2,510	$ 2,904	$ 40,079	$ 43,372

The Agency has internally designated a portion of the net assets in both the General Fund and Single Family Program for self-insurance (see Note J).

G. Servicing Portfolio

Included in the Single Family Program are mortgage loans serviced for investors which are not included within the Agency's Statement of Net Assets. The total amount of loans serviced for others is $153,160 and $196,584 at June 30, 2005 and 2004, respectively. The Agency has no exposure for losses within this serviced portfolio.

H. Bonds Payable

Bonds have been issued to provide financing of mortgage loans under the Multifamily and Single Family Programs and to finance a portion of the costs related to the development and acquisition of an office building for the Agency's corporate offices and operations under the general fund. The full faith and credit of the Agency are pledged for repayment of the bonds issued. The bonds are collateralized by:

(1) The mortgage loans made on the related properties;

(2) Most revenues, mortgage advance amortization payments and recovery payments received by the Agency from mortgage loans; and

(3) Certain funds and accounts established pursuant to the bond indentures including investment of the bond proceeds.

The security covenants, together with covenants in the notes payable agreements in effect, make available all assets of all funds for debt-related purposes.

The most restrictive covenants require minimum capital reserve requirements for the Multifamily and Single Family Programs. The capital reserve fund has been established by the Agency to meet these requirements.

The capital reserve requirement for certain Multifamily bonds requires that a one-year debt service minimum balance be maintained at all times. The capital reserve fund at June 30, 2005 and 2004, amounts to $11,396 and $10,726, respectively, including amounts funded by bond proceeds. Such amounts are $3,960 and $1,922, respectively, in excess of the requirement.

The capital reserve requirement for Single Family bonds must be equal to at least 3% of the aggregate principal amount of all Single Family bonds outstanding plus one million dollars. The capital reserve fund at June 30, 2005 and 2004 amounts to $88,431 and $87,639, respectively, including amounts funded by bond proceeds. Such amounts are $8,000 and $10,730, respectively, in excess of the requirement.

Bonds issued and outstanding for the general fund are as follows:

Issue	Interest Rate Range at Issuance	Final Maturity Date	Amounts Outstanding June 30, 2005	2004
Variable Rate Building Development Bonds	variable	2034	$ 20,000	$ 20,000
Unamortized bond discount			(85)	(88)
			$ 19,915	$ 19,912

Bonds issued and outstanding for the Multifamily Program are as follows:

Issue	Interest Rate Range at Issuance	Final Maturity Date	Amounts Outstanding June 30, 2005	2004
Rental Housing Refunding Bonds				
Series 2002 (refunding)	3.58%	2021	$ 101,965	$ 109,030
Series 2003	3.46-3.55%	2020	133,660	141,280
Residential Development Bonds				
Issue 1993 (refunding)	3.50-5.80%	2022	–	3,600
Issue 2002 (refunding)	1.80-4.40%	2024	39,555	42,725
Multifamily Housing Bonds				
Issue 1982B	9.50-10.88%	2024	–	4,875
Issue FHA-1992	7.75-8.20%	2024	19,260	32,855
Moderate Rehabilitation Bonds				
Issue 1985B	5.25-9.00%	2017	680	705
Multifamily Development Bonds				
Issue 1989B	8.25%	2015	425	445
Issue 1993A (refunding)	5.38%	2022	12,155	18,155
Issue 1993F	6.53%	2019	7,535	8,645
Issue 1997G	7.63%	2027	9,935	10,105
Issue 1998H	6.30%	2028	16,355	16,650
Issue 2003 (refunding)	3.25-4.80%	2019	24,030	25,670
Issue 2005K	variable	2036	27,500	–
Federal National Mortgage Association				
Issue 1990A	7.50%	2023	1,718	1,753
Subordinate Limited Obligation Bonds				
Issue 1995	5.50-6.15%	2021	3,699	3,836
			398,472	420,329
Unamortized bond discount			(189)	(491)
Unamortized deferred costs of refundings			(6,884)	(8,192)
			$ 391,399	$ 411,646

During the year ended June 30, 2005, the Agency redeemed prior to maturity, $17,820 of Multifamily Housing Bonds, issue 1982B and FHA-1992, $750 of Multifamily Development Bonds Series 1993-F, and $5,420 of Multifamily Development Refunding Bonds issue 1993A, using mortgage prepayments. Extraordinary gain of $1,217 resulted from the redemptions while unamortized bond discounts and the related costs of issuance for the bonds were expensed as redeemed.

During the year ended June 30, 2004, the Agency redeemed prior to maturity, $2,011 of Multifamily Housing Bonds, issue 1985A, and $715 of Residential Development Bonds 1993, using mortgage prepayments. Extraordinary losses of $35 resulted from the redemptions as unamortized bond discounts and the related costs of issuance for the bonds redeemed were expensed. Additionally, during the year ended June 30, 2004, the Agency redeemed prior to maturity, $141,610 of Residential Development Bonds issue 1993, using bond issuance proceeds. Although a deferred loss of $4,509 resulted from the refundings, the Agency in effect obtained an economic gain (difference between the present value of the old and new debt service payments) of $21,357 and was able to reduce its aggregate debt service payments as a result of these transactions by a total of $28,357 over the succeeding 30 years from the 2004 refundings.

The Agency defeased Multifamily Residential Development Bonds, Issues H and M in prior years, by depositing sufficient funds in an irrevocable trust with an escrow agency to provide for all future debt service payments. The funds were invested in U.S. Treasury strips. The defeased principal outstanding on these bonds is $5,515 and $6,670 at June 30, 2005 and 2004, respectively.

Bonds issued and outstanding for the Single Family Program are as follows:

Issue	Interest Rate Range at Issuance	Final Maturity Date	Amounts Outstanding June 30, 2005	2004
Single Family Mortgage Revenue Bonds				
Series 1993 - 36	3.40-5.450%	2014	$ -	$ 18,410
Series 1994 - 38	3.50-6.125%	2024	-	8,410
Series 1994 - 41	4.00-6.650%	2025	-	6,180
Series 1994 - 42	5.50-6.850%	2025	-	2,030
Series 1995 - 45	5.00-7.550%	2026	-	3,920
Series 1995 - 46	3.95-6.300%	2027	1,215	3,885
Series 1996 - 47	4.20-6.750%	2027	39,450	41,130
Series 1996 - 48	4.00-6.150%	2028	2,740	3,955
Series 1996 - 49	4.60-6.450%	2027	-	5,965
Series 1996 - 50	3.64-6.350%	2027	1,015	18,250
Series 1996 - 51	4.55-6.375%	2028	-	3,415
Series 1996 - 52	4.40-7.000%	2027	6,000	10,055
Series 1996 - 53	4.20-6.150%	2027	4,660	23,070
Series 1997 - 54	5.375-7.22%	2028	5,030	18,655
Series 1997 - 55	3.70-5.750%	2013	12,880	23,560
Series 1997 - 56	4.00-6.150%	2028	3,830	22,400
Series 1997 - 57	4.30-6.150%	2029	5,535	20,755
Series 1997 - 58	4.30-5.450%	2009	30,020	42,275
Series 1997 - 59	4.00-5.150%	2029	39,290	40,915
Series 1997 - 60	4.00-5.100%	2009	35,280	45,370
Series 1997 - 61	4.00-4.900%	2008	50,595	52,495
Series 1998 - 62	4.25-5.200%	2011	54,075	56,920
Series 1998 - 63	3.95-5.150%	2030	56,460	57,769
Series 1998 - 64	3.65-5.250%	2030	57,370	62,576
Series 1999 - 65	3.25-5.250%	2030	66,060	74,545
Series 1999 - 66	4.05-6.95%	2030	105,075	113,045
Series 1999 - 67	4.05-7.51%	2030	72,390	112,865
Series 1999 - 68	4.30-7.02%	2030	33,665	61,940
Series 2000 - 69	4.35-6.25%	2031	40,425	54,235
Series 2000 - 70	4.30-6.791%	2028	60,160	72,430
Series 2001 - 72	3.25-5.35%	2032	183,910	194,940
Series 2002 - 73	2.10-5.45%	2033	179,915	192,210

Issue	Interest Rate Range at Issuance	Final Maturity Date	Amounts Outstanding June 30, 2005	2004
Single Family Mortgage Revenue Bonds				
Series 2002 - 74	4.750-6.100%	2033	$ 99,670	$ 99,880
Series 2002 - 75	4.750-6.100%	2033	96,350	98,195
Series 2003 - 77	Variable	2033	97,670	99,985
Series 2003 - 78	Variable	2025	71,685	73,680
Draw Down Series	Variable	2008	220,000	300,000
Series 2003 - 79	Variable	2034	97,600	100,000
Series 2003 - 80	Variable	2024	90,000	90,000
Series 2004 - 81	Variable	2034	98,480	100,000
Series 2004 - 82	Variable	2034	98,745	100,000
Series 2004 - 83	Variable	2035	126,780	–
Series 2004 - 84	Variable	2034	99,035	–
Series 2004 - 85	Variable	2035	99,730	–
Series 2004 - 86	Variable	2035	99,925	–
Series 2004 - 87	Variable	2035	100,000	–
Series 2005 - 88	Variable	2037	100,000	–
Series 2005 - 89	Variable	2035	125,000	–
			2,867,715	2,530,315
Unamortized bond discount			(11,606)	(10,972)
Unamortized deferred costs of refundings			(21,435)	(22,275)
			$2,834,674	$ 2,497,068

During the year ended June 30, 2005, the Agency redeemed prior to maturity $141,971 of Single Family Mortgage Revenue Bonds Series 1993-36, 1994-38, 1994-41, 1995-45, 1995-46, 1996-47, 1996-48, 1996-50, 1996-51, 1996-52, 1996-53, 1997-54, 1997-55, 1997-56, 1997-57, 1997-58, 1997-59, 1997-60, 1997-61, 1998-62, 1998-63, 1998-64, 1999-65, 1999-66, 1999-67, 1999-68, 2000-69, 2000-70, 2001-72, 2002-73, 2002-74, 2003-77, 2003-79, 2004-81, 2004-82, 2004-83, 2004-85 and Draw-Down Series, using mortgage prepayments. Extraordinary losses of $425 resulted from the redemptions while unamortized bond discounts and the related costs of issuance for the bonds were expensed as redeemed. Additionally, during the year ended June 30, 2005, the Agency redeemed prior to maturity, $220,120 of Single Family Mortgage Revenue Bonds, Series 1993-36, 1994-38, 1994-41, 1994-42, 1995-45, 1996-49, 1996-50, 1996-51, 1996-52, 1996-53, 1997-54, 1997-55, 1997-56, 1997-57, 1997-58, 1997-60, 1999-67, 1999-68, 2000-69 and 2000-70. Although a deferred loss of $1,792 resulted from the refundings, the Agency in effect obtained an economic gain (difference between the present value of the old and new debt service payments) of $47,168 and were able to reduce its aggregate debt service payments as a result of these transactions by a total of $11,365 over the succeeding 30 years from the 2005 refundings.

During the year ended June 30, 2004, the Agency redeemed prior to maturity $178,550 of Single Family Mortgage Revenue Bonds Series 1992-35, 1993-36, 1993-37, 1994-38, 1994-39, 1994-41, 1994-42, 1995-44, 1995-45, 1995-46, 1996-47, 1996-48, 1996-50, 1996-51, 1996-52, 1996-53, 1997-54, 1997-56, 1997-57, 1997-58, 1997-59, 1997-60, 1997-61, 1998-62, 1998-64, 1999-65, 1999-66, 1999-67, 1999-68, 2000-70, 2001-72 and 2002-73, using mortgage prepayments. Extraordinary losses of $1,971 resulted from the redemptions as unamortized bond discount and the related costs of issuance for the bonds redeemed were expensed. Additionally, during the year ended June 30, 2004, the Agency redeemed prior to maturity, $584,540 of Single Family Mortgage Revenue Bonds, Series 1992-35, 1993-36, 1993-37, 1994-38, 1994-39, 1994-40, 1994-41, 1994-42, 1994-43, 1994-44, 1994-45, 1995-46, 1996-48, 1996-49, 1996-50, 1996-51, 1996-52, 1996-53, 1997-54, 1997-56, 1997-57 and 2000-69, using bond issuance proceeds. Although a deferred loss of $8,631 resulted from the refundings, the Agency in effect obtained an economic gain (difference between the present value of the old and new debt service payments) of $324,538 and were able to reduce its aggregate debt service payments as a result of these transactions by a total of $380,993 over the succeeding 30 years from the 2004 refundings.

Bonds maturing ten years and thereafter from the date of issuance are redeemable at the option of the Agency at prescribed redemption prices ranging from 100% to 104% of the principal amount. Bonds may also be redeemed at par prior to the ten-year period if mortgage loan prepayments exceed prescribed levels and if they are from undisbursed bond proceeds. A provision of the bonds includes mandatory annual sinking fund payments to provide for redemption of the term bonds.

Required principal and interest payments related to bonds payable are as follows at June 30, 2005:

Year Ending June 30,	General Fund Principal	General Fund Interest	Multi-family Program Principal	Multi-family Program Interest	Single Family Program Principal	Single Family Program Interest	Total Principal and Interest Maturities
2006	$ –	$ 789	$ 22,269	$ 16,863	$ 146,620	$ 122,966	$ 309,507
2007	–	789	25,938	16,184	142,945	118,160	304,016
2008	–	789	27,128	15,177	116,075	113,280	272,449
2009	–	789	28,325	14,111	69,985	109,136	222,346
2010	–	789	29,582	12,987	71,315	106,229	220,902
2011-2015	350	3,945	131,762	47,557	384,820	480,719	1,049,153
2016-2020	1,995	3,726	85,104	24,527	484,440	383,256	983,048
2021-2025	2,455	3,297	29,025	10,213	500,883	266,859	812,732
2026-2030	3,040	2,768	11,510	3,565	567,187	142,585	730,655
2031-2035	12,160	1,751	7,275	1,221	346,625	38,925	407,957
2036-2040	–	–	555	16	36,820	2,198	39,589
	$ 20,000	$ 19,432	$ 398,473	$ 162,421	$ 2,867,715	$ 1,884,313	$ 5,352,354

I. Operating Leases

The Agency is obligated under noncancelable operating leases for its buildings. Future minimum payments under these leases at June 30, 2005 are:

2006	$161,982
2007	38,097
	$ 200,079

Total rental expense is $371 and $849 for the years ended June 30, 2005 and 2004, respectively.

J. Reserved and Internally Designated Net Assets

General Fund

The net assets of the General Fund are not restricted under the terms of the various bond resolutions and can be used by the Agency for any purpose authorized by the

Act. The Agency has internally designated a portion of the General Fund net assets as follows:

	2005	2004
Single Family Self-Insurance Fund	$ 16,500	$ 16,500
Multifamily Self-Insurance Fund	10,000	10,000
PennHOMES Program	15,000	15,000
Housing initiatives	11,850	12,100
Home buyer counseling	5,500	3,000
Home Choice Program	43,150	24,650
Homeless Auxiliary initiative	1,593	1,593
	$ 103,593	$ 82,843

The designation for the Single Family Self-Insurance Fund has been established for any special hazard losses on single family mortgages not covered by other insurance, and losses arising out of default on mortgage loans funded with the proceeds of the Series C and subsequent issues.

The designation for the Multifamily Self-Insurance Fund has been established in the event a loss occurs on any of the multi-family projects for which the Agency acts as an insurer or coinsurer.

The designation for the PennHOMES Program has been established to provide below market and deferred interest financing to lower development costs for apartment projects financed by the Agency.

The designation for housing initiatives has been established to provide below market financing for multi-family and single family special projects financed by the Agency.

The designation for home buyer counseling has been established to provide funding for home buying education to first time home buyers.

The designation for the Home Choice Program has been established to provide funding for the development of single family homes in urban communities.

The designation for the Homeless Auxiliary initiative has been established to provide funding to homeless shelters and those organizations which support shelters.

Multifamily Program

Restrictions on the Multifamily Program net assets are as follows:

	2005	2004
Net assets restricted by debt covenants	$ 7,436	$ 8,804

Net assets restricted by debt covenants are required under certain bond indentures, whose proceeds were used to fund the Agency's Multifamily Program.

The Agency has internally designated a portion of the Multifamily Program net assets as follows:

	2005	2004
PennHOMES Program	$ 179,290	$ 148,865
Senior housing with supportive services	4,000	4,000
Supportive services	2,100	1,975
Preservation	2,000	500
	$ 187,390	$ 155,340

The designation for the PennHOMES Program, which is funded from unrestricted multi-family proceeds, has been established to lower development costs for apartment projects financed by the Agency.

The designation for senior housing with supportive services has been established to provide funding for rental housing and specialized resident services for elderly residents.

The designation for supportive services has been established to provide multi-family projects with funds for resident services.

The designation for preservation has been established as a joint venture with the National Housing Trust to preserve and improve affordable multi-family homes for low and moderate-income use. The program saves multi-family properties which are at risk of conversion to market rate housing and resolves the problems of "troubled" properties that suffer from physical deterioration and financial and social distress.

Single Family Program

Restrictions on the Single Family Program net assets are as follows:

	2005	2004
Net assets restricted by debt covenants	$ 80,431	$ 76,909

Net assets restricted by debt covenants are required under certain bond indentures, whose proceeds were used to fund the Agency's Single Family loan program, including the Single Family Self-Insurance Fund which has been established at not less than 1% of anticipated mortgages to be originated on Issues I and subsequent issues, and held by a trustee.

The Agency has internally designated a portion of the Single Family Program net assets as follows:

	2005	2004
Closing Cost Subsidy Program	$ 14,750	$ 13,750
Additional Single Family Insurance Program	2,455	2,455
	$ 17,205	$ 16,205

The Closing Cost Subsidy is a program established to assist qualified single family home buyers with the initial costs incurred at the inception of a mortgage.

The designation for the Additional Single Family Insurance Program has been established to cover risk sharing agreement primary mortgage insurance losses in the event of default on single family mortgage loans.

Insurance Fund

The Agency has internally designated the net assets of the Insurance Fund as follows:

	2005	2004
Risk retention	$ 33,128	$ 38,369

The designation for the additional risk retention reserve has been established to provide private single family mortgage insurance.

HEMAP

The Agency has internally designated the net assets of the HEMAP Fund as follows:

	2005	2004
Emergency Mortgage Assistance Program	$ 40,814	$ 41,081

The designation for the emergency mortgage assistance program has been established to provide assistance to mortgagees facing foreclosure because of circumstances beyond their control, through the form of loans.

K. Pension Plan

The Agency follows GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans*, and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.*

The statements of plan net assets as of December 31, 2004 and 2003 are as follows:

Pennsylvania Housing Finance Agency – Employees' Retirement Plan
Statement of Plan Net Assets – December 31, 2004 and 2003

	2004	2003
Assets		
Short-term investments		
Money markets	$ 2,446	$ 1,445
Mutual funds	10,814	9,753
Total short-term investments	13,260	11,198
Interest and dividends receivable	13	31
Investments, at fair value		
U.S. Government obligations	–	1,032
Domestic stocks	11,047	9,525
Total investments	11,047	10,557
Total assets	$ 24,320	$ 21,786
Contributions Receivable		
Employer contributions receivable	$ 400	$ –
Employee contributions receivable	2	–
Total contributions receivable	402	–
Total assets	$ 24,722	$ 21,786
Liabilities		
Benefits payable	$ 18	$ 5
Total liabilities	$ 18	$ 5
Net Assets		
Net assets held in trust for pension benefits (a schedule of funding progress for each plan is presented on page 42)	$ 24,704	$ 21,781

Pennsylvania Housing Finance Agency – Employees' Retirement Plan
Statement of Changes in Plan Net Assets – Years Ended December 31, 2004 and 2003

	2004	2003
Additions		
Contributions		
Employer	$ 1,600	$ 1,500
Plan members	5	5
Total contributions	1,605	1,505
Investment income		
Interest and dividends	468	518
Net (depreciation) appreciation in fair value of investments	1,454	2,777
Total additions	3,527	4,800
Deductions		
Benefits	604	564
Net (decrease) increase	2,923	4,236
Net assets held in trust for pension benefits		
Beginning of year	21,781	17,545
End of year	$ 24,704	$ 21,781

Summary of Significant Accounting Policies

Basis of Accounting

Pennsylvania Housing Finance Agency Employees' Retirement Plan financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and are payable in accordance with the terms of each plan.

Method Used to Value Investments

Investments are reported at market value which approximates fair value as determined by the investment trustee. Short-term money market investments are reported at cost, which approximates fair value. Short-term mutual funds are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated market value, which approximates fair value.

Plan Descriptions and Funding Policy

Membership of the plan consists of the following at December 31, 2004 and 2003:

	2004	2003
Retirees and beneficiaries receiving benefits	62	60
Terminated plan members entitled to but not yet receiving benefits	68	69
Active plan members	245	241
	375	370
Number of participating employers	1	1

Plan Description

Eligible full-time employees participate in either the Pennsylvania Housing Finance Agency Employees' Retirement Plan ("Plan"), a noncontributory defined benefit, single employer plan, or the Pennsylvania State Employees' Retirement System ("PSERS"). Participation in PSERS is limited to those employees who were active members of PSERS at the time of their employment by the Agency. As of June 30, 2005 and 2004, substantially all eligible full-time employees are participants in the Plan.

Full-time employees become eligible for participation in the Plan after completion of one year of service. A participant's benefits vest upon the completion of five years of service. Under the provisions of the Plan, participants with prior military experience may receive credit for their time of service in the military providing they contribute funds equivalent to the cost of their pension benefits accumulated during their military service.

The Plan was previously amended to convert it from a contributory to a noncontributory pension plan. At the time of the amendment, participants had the option to receive a refund in the amount of their contributions, with interest, or increase their pension benefits. Substantially all employees elected to withdraw their contributions from the Plan at that time.

A participant is eligible for normal retirement after attainment of age 65, or age 55 and completion of 30 years of service, or at any age after completion of 35 years of service. The Plan also provides early and late retirement provisions and death and disability benefits. The normal retirement pension is payable monthly during the participant's lifetime with payments ceasing upon the participant's death.

Funding Policy

The contribution requirements of Plan members are established and may be amended by the Board of the Agency. The Plan's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due.

Annual Pension Cost and Net Pension Obligation

The Agency's annual pension cost and net pension obligation to the Plan are as follows:

	2004	2003
Annual required contribution	$1,501	$ 1,486
Employer contributions made	(1,600)	(1,500)
Change in net pension obligation	(99)	(14)
Net pension obligation		
Beginning of year	(767)	(753)
End of year	$ (866)	$ (767)

The annual required contribution for the current year was determined as part of the January 1, 2004 actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions include (a) a 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5% per year. Both (a) and (b) include an inflation component based on long-term historical average rates. The assumptions do not include postretirement benefit increases, which are funded by State appropriation when granted. The actuarial value of assets is determined using market values determined by the trustee.

Three-Year Trend Information

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Calendar Year Ending			
December 31, 2002	$ 988	$ 121.4%	$ (753)
December 31, 2003	1,486	100.9%	(767)
December 31, 2004	1,501	106.6%	(866)

L. Commitments and Contingencies

Litigation

In the normal course of business there are various claims and suits pending against the Agency. In the opinion of the Agency's management and counsel, the amount of such losses that might result from these claims and suits, if any, would not materially affect the Agency's financial position as of June 30, 2005 and 2004.

Grants

The Agency administers significant financial assistance payments from the federal government in the form of low income mortgage subsidies, interest reduction payments, and rental housing rehabilitation assistance. Such federal financial assistance received during the years ended June 30, 2005 and 2004 amounts to $280,033 and $295,923, respectively. All federal financial assistance administered by the Agency is subject to audit and as such, any disallowances resulting from noncompliance or questioned costs may become liabilities of the Agency. The Agency's management believes disallowances, if any, would not materially affect the Agency's financial position.

Commitments

Outstanding commitments by the Agency to make or acquire single family and multifamily mortgages aggregate approximately $73,370 and $28,102, respectively, at June 30, 2005.

M. Derivative Financial Instruments

The Agency uses interest rate swaps to hedge against changes in the fair value of variable rate liabilities due to increases in interest rates. As permitted by GASB Statement No. 20, the Agency does not recognize the fair value of derivative instruments in the statement of net assets or changes in the value of derivatives in the statements of revenues, expenses and changes in net assets. As of June 30, 2005, the Agency has entered into interest rate swaps with various counter-parties on or about the date of the issuance of the following bond series:

Counterparty and current rating	*Related Bond Series	Fixed Interest Rate	Original Notional Amounts	Fair Value of Contract at June 30, 2005	Effective Date	Termination Date
Goldman Sachs Mitsui Marine	SF MRB 1999-67	5.950%	26,880	(52)	8/2002	4/2029
Derivative Product, L.P. (AA+/Aa2)	SF MRB 2000-69B	7.305%	25,000	(106)	3/2000	4/2008
	SF MRB 2001-72	5.695%	50,000	(393)	9/2001	10/2023
	SF MRB 2002-74	4.285%	30,000	(269)	8/2002	10/2032
	SF MRB 2003-77B	4.060%	59,900	(791)	9/2003	4/2033
	SF MRB 2003-77C	2.690%	25,100	(118)	9/2003	4/2012
	SF MRB 2004-81B	2.367%	14,285	(57)	4/2004	4/2013
	SF MRB 2004-81C	3.557%	62,740	(444)	3/2004	10/2034
	Rental Housing Refunding, 2002 A & B	3.575%	124,120	(1,653)	7/2002	1/2021
	SF MRB 2004-84C	3.115%	19,750	(103)	9/2004	4/2018
	SF MRB 2004-84D	3.879%	58,335	(461)	9/2004	10/2034
	SF MRB 2004-86B	3.401%	71,565	(1,152)	12/2004	10/2033
	SF MRB 2004-86C	4.125%	19,790	(97)	12/2004	10/2035
	SF MRB 2004-89	3.605%	125,000	(140)	6/2005	10/2035
UBS AG (AA+/Aa2)	SF MRB 2002-70	6.927%	25,000	(46)	4/2001	4/2011
	SF MRB 2002-73	5.017%	25,000	(26)	3/2002	4/2010
	SF MRB 2002-75	3.957%	30,000	(138)	12/2002	10/2032
	SF MRB 2003-79	3.997%	57,350	(607)	12/2003	10/2033
	SF MRB 2003-83B	3.410%	36,000	(103)	8/2004	4/2019
	SF MRB 2003-83C	4.060%	42,905	(194)	8/2004	10/2035
	SF MRB 2003-85B	3.168%	35,000	(80)	11/2004	4/2019
	SF MRB 2003-85C	3.879%	44,645	(182)	11/2004	10/2035
	SF MRB 2003-87B	3.460%	47,300	(145)	3/2005	10/2023
	SF MRB 2003-87C	3.882%	47,300	(196)	3/2005	10/2035
Bear Sterns Financial Products, Inc. (A/A2)	Rental Housing Refunding, 2003A	3.547%	72,510	(1,132)	6/2003	7/2020
	Rental Housing Refunding, 2003B	3.457%	72,510	(1,121)	6/2003	7/2020
Lehman Brothers Derivative Products, Inc. (AAA/Aaa)	MFDevelopment Refunding, 2003	3.860%	27,240	(12)	6/2003	4/2019
PNC Bank, National Association (A/A1)	Variable Rate Building Development Bonds, Series 2004	3.945%	20,000	(349)	2/2004	1/2034
Merrill Lynch Capital Services, Inc. (A+/Aa3)	SF MRB-82B	3.643%	52,210	(192)	5/2004	10/2030
	SF MRB-82C	4.164%	35,220	(176)	5/2004	10/2034
	SF MRB-88B	3.500%	55,265	(68)	5/2005	10/2035
	SF MRB-88C	3.975%	31,930	(55)	5/2005	10/2035
Royal Bank of Canada (AA/Aa)	MF Development Bonds, Issue 2005-K	5.183%	27,500	(372)	3/2005	1/2036
			1,497,350	(11,030)		

* Ratings supplied by Moody's and Standard and Poor's

The swaps have the effect of fixing the variable rate portion of the debt issue at the current risk adjusted interest rates. The swap agreements subject the Agency to counterparty risk, which is the risk that the counterparty will fail to execute their contractual payment to the Agency. The Agency selects counterparties with strong financial histories and good credit ratings to mitigate this risk. All counterparties with their respective ratings as of June 30, 2005 are shown in the table above. The net settlements paid to or received from the counterparties are reflected as adjustments to interest expense within the Statement of Revenues and Expenses and Changes in Net Assets.

N. Subsequent Events

On September 13, 2005, the Agency issued $125,000 of Single Family Mortgage Revenue Bonds, Series 2005-90. The proceeds from these bond issuances were used to finance new loan purchases and refund existing bonds.

Required Supplemental Information (unaudited)

Schedule of Funding Progress, Schedule I

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/1995	$ 9,090,611	$ 9,206,150	$115,539	98.7%	5,542,521	2.1%
1/1/1996	11,670,289	10,483,711	(1,186,578)	111.3%	5,940,643	(20.0)%
1/1/1997	13,747,019	12,172,812	(1,574,207)	112.9%	6,207,591	(25.4)%
1/1/1998	16,964,790	13,519,709	(3,445,081)	125.5%	6,260,962	(55.0)%
1/1/1999	20,141,983	15,248,566	(4,893,417)	132.1%	6,620,237	(73.9)%
1/1/2000	23,276,799	17,220,429	(6,056,370)	135.2%	7,264,117	(83.4)%
1/1/2001	22,054,056	19,250,828	(2,803,228)	114.6%	8,254,152	(34.0)%
1/1/2002	19,817,523	21,685,184	1,867,661	91.4%	8,807,505	21.2%
1/1/2003	17,544,690	24,123,020	6,578,330	72.7%	9,757,609	67.4%
1/1/2004	21,780,220	27,350,780	5,570,510	79.6%	10,605,889	52.5%
1/1/2005	24,704,073	29,604,132	4,900,059	83.4%	10,901,221	44.9%

Schedule of Contributions from the Employer and Other Contributing Entities, Schedule II

Calendar Year Ended	Annual Required Contribution	Contributions From Employer	Percentage Contributed
1995	$ 402,720	$402,720	100.0%
1996	319,844	319,844	100.0%
1997	367,179	368,000	100.2%
1998	208,114	333,590	160.3%
1999	135,384	167,000	123.4%
2000	87,968	375,000	426.3%
2001	455,464	550,000	120.8%
2002	988,466	1,200,000	121.4%
2003	1,485,791	1,500,000	100.9%
2004	1,500,945	1,600,000	106.6%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

Additional information as of the latest actuarial valuation follows:

	2005	2004
Valuation date	January 1, 2005	January 1, 2004
Actuarial cost method	Aggregate actuarial cost method	Aggregate actuarial cost method
Amortization method	Level dollar	Level dollar
Asset valuation method	Market value as determined by the trustee	Market value as determined by the trustee
Actuarial assumptions		
Investment rate of return	7.5%	7.5%
Projected salary increases	4.5%	4.5%
Includes inflation at cost-of-living adjustments	Moderate, based on long-term historical average rates	Moderate, based on long-term historical average rates

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