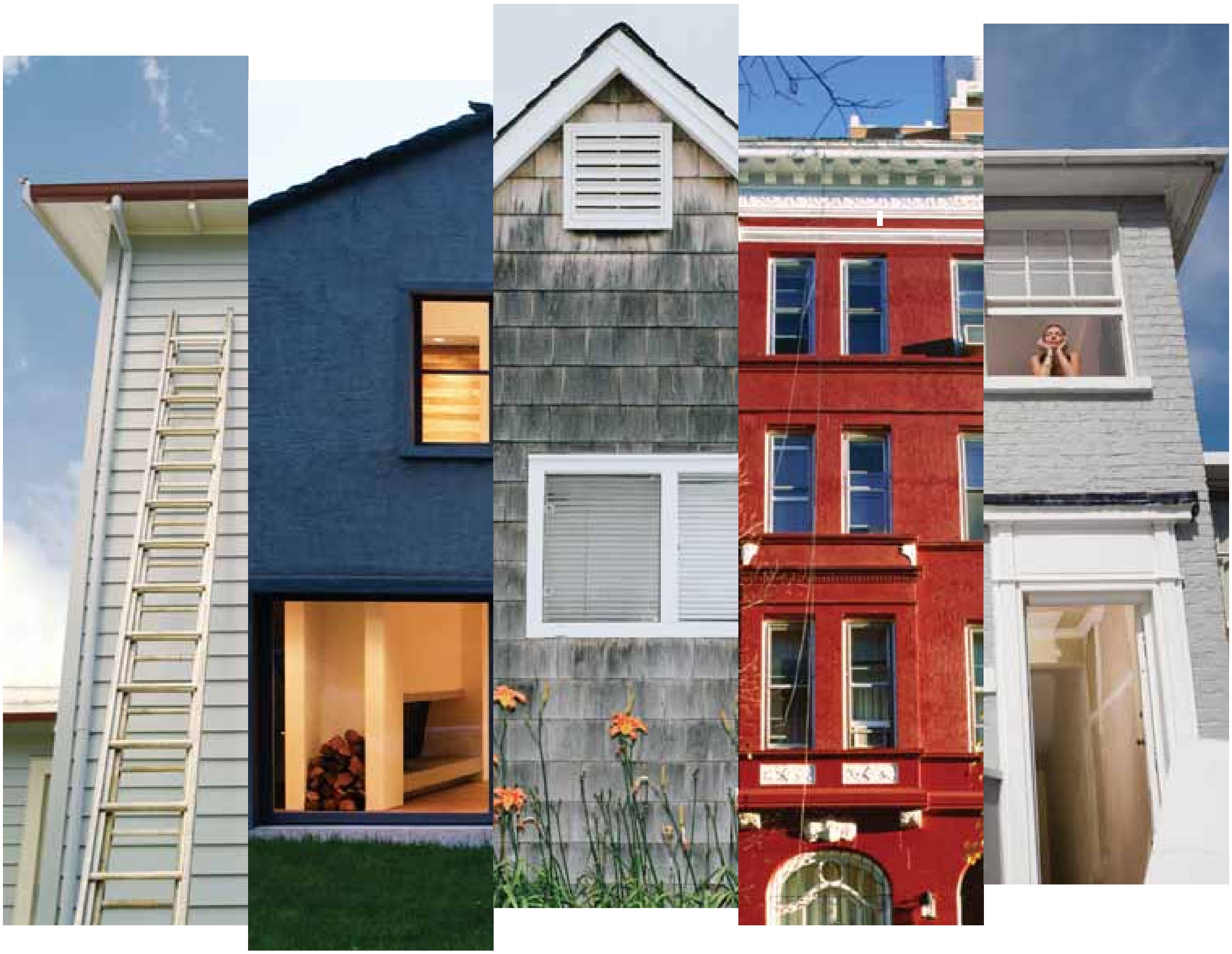
expanding opportunities



PENNSYLVANIA HOUSING FINANCING AGENCY

2006 Annual Report

PENNSYLVANIA HOUSING
FINANCE AGENCY

2006 Annual Report

Better homes mean better lives — it's that simple.

Governor Edward G. Rendell

Homeownership, the "keystone" of the American dream, bestows a sense of accomplishment, pride and self-worth for homeowners and also fosters hope and motivates them to work harder to improve the financial, health and general welfare of their families. For this reason, I consider the money provided by PHFA to be an investment in housing and people. PHFA programs, such as Homeowners' Emergency Mortgage Assistance, Homeownership Choice, and PennHOMES, benefit all Pennsylvanians by helping to create more upstanding, law-abiding citizens; cleaner, safer and more stable neighborhoods; and a stronger and more diversified tax base. I congratulate PHFA for the unwavering hard work and invaluable public service it performs to make decent, safe and affordable housing a reality for thousands of Pennsylvanians. This important role served by PHFA in improving the lives and well-being of our citizens will only become more essential as time passes and the costs and expenses associated with housing construction, acquisition and maintenance continue to escalate.

We are the

Pennsylvania Housing Finance Agency.

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

But what we do goes far beyond putting a roof over someone's head. A combination of rental and homeownership programs is what builds communities. The bulk of the wealth and financial security in this country is created through homeownership. PHFA helps families start building this kind of equity not only with our below-market interest rate loans, but also by bridging the more problematic "affordability gap"—that is, coming up with ways to help buyers with their closing costs and downpayments. Of course, there will always be cases where renting is the better, or only, option, and PHFA continues to work for better multifamily housing. Last year, despite finite resources and cutbacks in federal programs, we were able to preserve over 1,100 units, while providing the financial resources that will help produce new apartments. Nevertheless, with over 80,000 units in danger of being lost, there is much that needs to be done. That is why PHFA continues to advocate for increased housing funding and more flexible legislation.

the Landis family

Steven and Michele Landis moved into their first home with their daughter Rhianwen—and a little help from the Keystone Home Loan PLUS Program for first-time buyers.

"Everyone we worked with all the way through was great," says Michele. "And it's nice to own our home. We've already made a lot of friends. It's just a different mindset being a homeowner."

the Fisher family

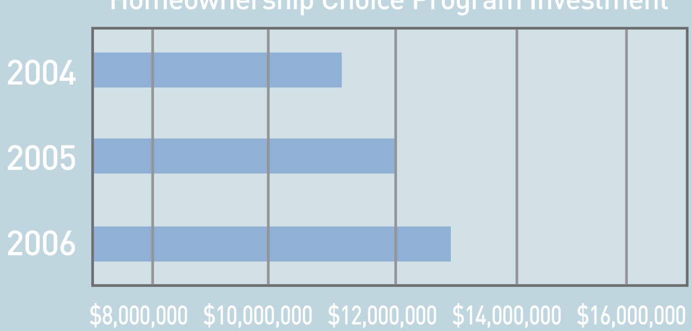
Gavin Fisher is the kind of guy who more than deserves our help. A member of the Pennsylvania Air National Guard, he's also a fireman in training. Shortly after he returned from Iraq in the summer of '05, his wife, Amanda, became pregnant with their second child, and the couple started looking for their first home. They obtained a Keystone Home Loan guaranteed by the US Veterans' Administration, thereby capitalizing on the benefits offered by both the VA and PHFA.

"Prices were really high then," recalls Amanda, "but PHFA worked with us to get a big enough place at a reasonable price. PHFA saved us a lot of money."

Leveraging Resources

One thing we've learned through experience is the power of leveraging resources. For instance, in multifamily housing, $294 million of soft mortgage financing through the PennHOMES Program in conjunction with the Low Income Housing Tax Credit Program have leveraged over $1.4 billion in funding for multifamily production. Or consider our Homeownership Choice Programs, which revitalize and rehabilitate rundown urban areas: Since 2000, $64 million in Homeownership Choice Programs funds have resulted in the investment of $400 million from other sources. Finally, leverage is working for us — and even more so, for the citizens of the Commonwealth — in making more effective use of the mortgage revenue bond dollars we sell. Last year, approximately $630 million tax-advantaged securities produced over $770 million of funding for affordable home mortgage loans. Although the Agency's tax-exempt bond authority is limited, we are able to blend these funds with other dollars to achieve a greater impact.

But PHFA doesn't just use leverage in the strictest financial sense. There's the leverage we get by partnering with various local organizations like housing authorities, nonprofits, and community action agencies to provide information on homeownership, home maintenance and financial literacy, as this also promotes a layering of assistance from various sources. Then there's the leverage we get when joining forces with various state and federal agencies, such as the Department of Community and Economic Development, the Department of Public Welfare, the Department of Banking, the Treasury Department, the Federal Home Loan Bank of Pittsburgh, and Fannie Mae, as well as private non-profit groups such as the William Penn Foundation and the Pew Charitable Trust. PHFA programs and partnerships demonstrate how several organizations together maximize each other's effectiveness.



Avoiding Foreclosure

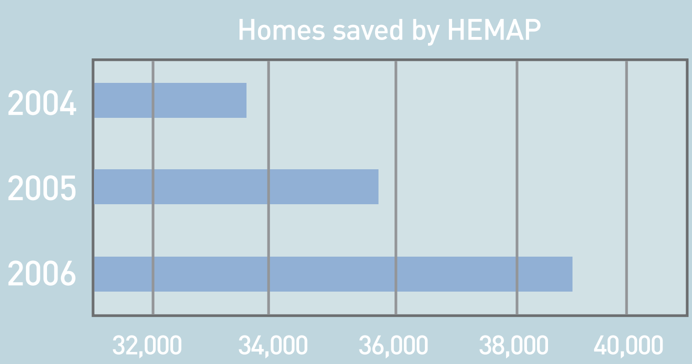
PHFA fights foreclosure in two ways, with consumer education and with the Homeowner's Emergency Mortgage Assistance Program (HEMAP). Through over 100 counseling organizations participating in our Comprehensive Housing Counseling Initiative, we offer prospective homebuyers education in the process of buying a home as well as basic financial literacy. We believe that one of the best ways to avoid losing a home is to be fully aware of what it takes to buy and maintain a home, before making that commitment.

For those homeowners facing foreclosure, the Homeowner's Emergency Mortgage Assistance Program helps prevent widespread mortgage foreclosures and distress sales of homes which result from default caused by circumstances beyond a homeowner's control.

Since its inception in 1983, HEMAP has disbursed over $384.1 million in homeowner mortgage payments and real estate taxes to 37,400 families, comprising nearly 145,000 individuals. During that time the Program has received $195.45 million in state appropriations, the balance of disbursements coming from homeowner loan repayments. Loan repayments have exceeded $216 million with approximately 17,700 loans paid in full.

By providing mortgage loan assistance to these homeowners, we have not only helped reduce Pennsylvania's foreclosure statistics but also preserved taxable properties for municipalities, supported the underlying structure in neighborhoods, saved families and lives. HEMAP is truly a unique program that prevents foreclosure and homelessness. It has been effective in allowing homeowners time to get back on their feet and become productive taxpaying citizens again.

Just imagine, a homelessness prevention program helping to keep homeowners in their own homes and, while helping thousands, has returned over $18.5 million more than the state funding appropriated! Simply put, HEMAP works.



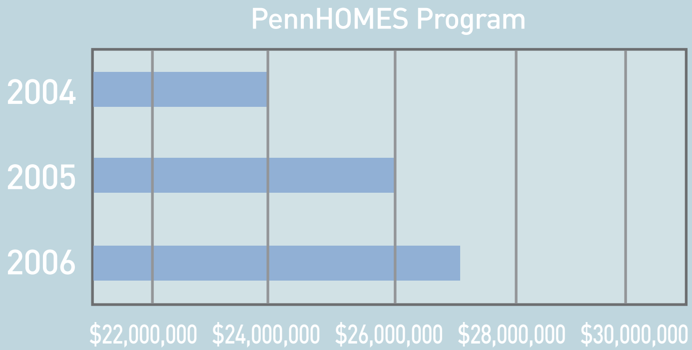
Developing Communities

Under the PennHOMES Program we've committed $197 million of Agency reserves and $97 million of federal HOME dollars in providing affordable multifamily housing. However, sometimes just making physical improvements to a development is not enough to change a neighborhood's character. This was the case at Second East Hills, a 326-unit multifamily, very low-income housing development located in an area of Pittsburgh that had fallen into disrepair. It looked better, but crime continued: Gang members threatened the lives of site staff and vandalized the property, and in the summer of 2005, midway through the first phase of renovations, a gang-related murder was committed on the children's playground. It seemed a never-ending cycle. With fear keeping residents from utilizing the outdoor spaces, there was no sense of community, a situation that fostered more crime. And because the crime continued, retailers avoided the area, so it lacked for both services and jobs.

The neighborhood was fortunate in that PHFA's partner, The Telesis Corporation of Washington, D.C., had experience in just such problems. Indeed, Telesis believes physical and community development go hand in hand. It took a two-pronged approach, implementing targeted measures to enhance security and reduce violence while embarking on other programs to create a community.

These led to benefits far beyond an infusion of brick and mortar. For instance, federal and Allegheny County probation officers now use furnished office space that Telesis provided as a base for instant observation and meeting with clients, while organizations such as the FBI, ATF, and Pittsburgh Police use it to coordinate law enforcement activities. A coalition that Telesis organized is pursuing ownership of the former East Hills Elementary School to offer a one-stop shop for social services, recreation, and job training. And finally, Wal-Mart was convinced to bring a 150,000 sq. ft. Super Center to the vacant lot above the property, which had once housed a thriving shopping mall.

In short, things are falling into place so that, for the first time in 30 years, residents of East Hills can have not only the safety, services, and jobs they need, but pride in their neighborhood as well.



Recognizing Achievements

The Homeowners' Emergency Mortgage Assistance Program (HEMAP) was selected by the Ash Institute of Harvard University's John F. Kennedy School of Government as one of America's top 50 most innovative government initiatives. Created by the legislature in 1983, HEMAP is the only program of its kind in the nation, and is turning out to be one of the most effective and least expensive ways to prevent homelessness.

The National Council of State Housing Agencies awarded PHFA its Impact Award for sending volunteer staff to help the Louisiana Housing Finance Agency provide financing for hundreds of new apartments for Gulf Coast hurricane victims. We also worked with the Pennsylvania Emergency Management Agency and the Department of Community and Economic Development to develop the Pennsylvania Interim Sheltering/Housing Program, which assisted families displaced by Hurricanes Katrina and Rita in relocating to Pennsylvania.

PHFA also received NCSHA's recognition for the innovative Pennsylvania Affordable Apartment Locator, a free on-line service that links those with modest incomes or disabilities with property managers and developers who have affordable vacant units. Featuring more than 1100 developments with over 61,000 units, this too received top honors—not to mention over 100,000 hits.

New Markets Tax Credits in the amount of $60 million were awarded to The Commonwealth Cornerstone Group, a nonprofit corporation created by PHFA to help low income communities across the state. The Commonwealth Cornerstone Group was one of five recipients in Pennsylvania to be selected in this highly competitive federal program. New Markets Tax Credits are a huge asset in neighborhood revitalization and community economic development.

PHFA's Harrisburg headquarters building was awarded a Leadership in Energy and Environmental Design (LEED) Gold rating by the United States Green Building Council. It is one of only 14 structures in Pennsylvania and 105 in the nation to have received this designation. The LEED Gold rating means that the building meets the highest standards for energy efficiency and environmental friendliness.

Last year's Annual Report, A Brand New Day, was selected as the nation's best in the National Council of State Housing Agencies' Annual Awards for Program Excellence competition.

the Brown family

Margaret Brown, shown here with Shartece, Malika, Markita and Tanisha, purchased her family's first ever home at age 61, thanks to the Section 8 Home Ownership Voucher and PHFA's Keystone Home Loan PLUS Program which provided her first mortgage and $2,000 in closing cost assistance.

She had used Section 8 rental vouchers for years. But somehow, every time Margaret got a place fixed up the way she liked it, the landlord would decide to sell. This happened four times in a row, and she was tired of it. And just about then, her Section 8 advisor told her she was eligible for the homeownership program. "I'm really blessed to have been a candidate," she says. "I've always wanted my own home, and a mortgage payment is so much better than rent."

Doing More

While we have achieved successes with our current programs, we're always working on new ideas. We are developing a tenant-based rental assistance program which we will undertake in concert with the Department of Community and Economic Development. We are also implementing a locally administered home repair program as well as a mortgage refinance product, both of which will help to address the subprime and predatory lending crises.

In addition to new programs, there is a need to expand on the ones we have. Our HOMEstead Program was created to deal with the fact that many people could afford the monthly mortgage, if only they had some help with the downpayment and closing costs. Last year, HOMEstead helped numerous families bridge this "affordability gap," with non-interest bearing second mortgages. But the program relies on limited federal resources with a myriad of programmatic regulations. PHFA invests its own dollars in programs such as the Keystone Home Loan PLUS and the Access Home Modification Loan.

Extra dollars would have an equal impact on programs designed to construct, rehabilitate, or improve and preserve the Commonwealth's stock of affordable rental units.

Additional funding could be obtained through increased federal allocations of bond and tax credit authority, as well as new incentives, trust funds, intergovernmental cooperation, private investment, and innovative development techniques. We must continue to be as creative and dynamic in financing our programs as we are in implementing them.

In short, we have the blueprints to improve housing across the Commonwealth. We have the people who have proven more than able to carry them out. We will continue to search for additional resources to help us do more and expand opportunities for citizens of the Commonwealth.

Board Members


The Honorable Victoria Reider, Chairperson and Gary E. Lenker, Vice-Chairperson


Thomas B. Hagen


John Paone and Lisa R. Gaffney


The Honorable Estelle Richman, The Honorable Dennis Yablonsky, and Stuart E. Price


James J. Mellow and Noel Eisenstat


Morris J. Dean, Esq., Mark Schwartz, Esq., and Howard B. Slaughter, Jr., D.Sc.

PENNSYLVANIA HOUSING FINANCE AGENCY

2006 Financial Statements

and Required Supplemental Information
June 30, 2006 and 2005

INDEX

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prepared by Brian Hudson, CPA, Executive Director

(in thousands of dollars)

JUNE 30, 2006

This discussion and analysis of the financial performance of Pennsylvania Housing Finance Agency ("Agency") is required supplementary information. It introduces the financial statements for the year ended June 30, 2006 with selected comparative information for the year ended June 30, 2005. It provides the financial highlights and assessments that, in management's view, significantly affected the Agency's overall financial position. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow this section.

FINANCIAL STATEMENTS

The financial statements provide different views of the Agency. The Statement of Net Assets provides information about the liquidity and solvency of the Agency by indicating the nature and the amounts of investments in resources (assets), the obligations to Agency creditors (liabilities) and net assets. Net assets represent the amount of total assets less liabilities. The organization of the statement separates assets and liabilities into current and non-current. The Statement of Revenues, Expenses and Change in Net Assets accounts for all the current year's revenue and expenses in order to measure the success of the Agency's operations over the past year. It can be used to determine how the Agency has funded its costs. By presenting the financial performance of the Agency, the change in net assets is similar to net profit or loss for a business. This statement is organized by separating operating revenues and expenses from non-operating revenue and expenses. Operating revenue and expenses are those defined as those relating to our primary business of funding homes and apartments throughout the Commonwealth. Non-operating revenue and expenses are those that do not contribute directly to our primary business. The Statement of Cash Flows is presented in the direct method of reporting. It provides information about the Agency's cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities. Cash collections and payments are presented in this statement to arrive at the net increases or decreases in cash and cash equivalents for each year.

Those statements are accompanied by a complete set of footnotes and required supplemental information. Those present information that is essential in understanding the financial statements, such as the Agency's accounting methods and policies providing information about the content of the financial statements. Additionally, details of contractual obligations, future commitments, contingencies and developing events that could materially affect the Agency's financial position are disclosed.

(in thousands of dollars)

FINANCIAL ANALYSIS

The financial analysis presented below, based on the combined programs of the Agency for the fiscal year ended June 30, 2006, should be read in conjunction with the audited financial statements that follow this section.

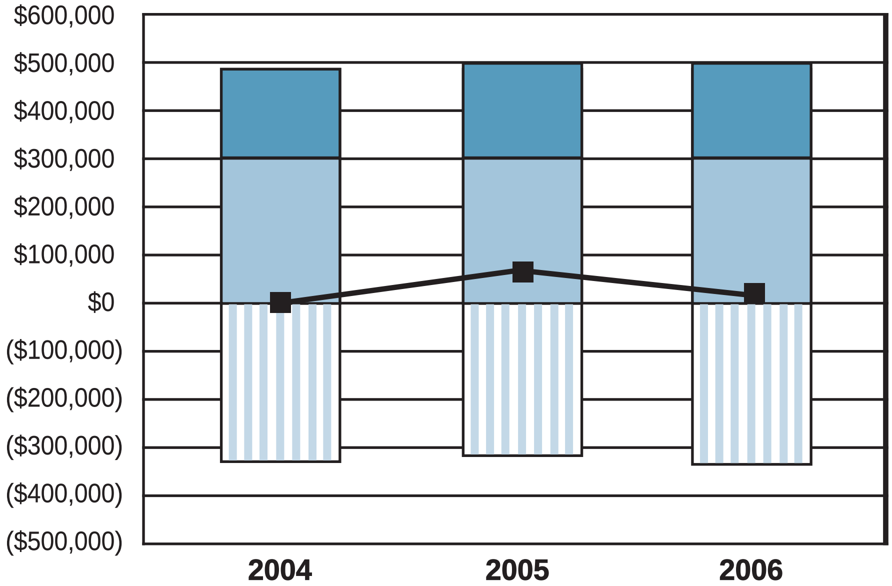
Financial Position

The following tables represent the condensed changes in combined net assets and the condensed changes in combined net income between fiscal years 2006 and 2005:

	2006	2005	Change	Percentage
Assets				
Deposits and investments	$ 994,479	$ 1,157,411	$ (162,932)	(14.1)%
Mortgage loan receivables	3,323,641	2,954,440	369,201	12.5%
Other assets	113,502	116,968	(3,466)	(3.0)%
Total assets	$ 4,431,622	$ 4,228,819	$ 202,803	4.8%
Liabilities				
Long-term debt	$ 3,411,128	$ 3,245,988	$ 165,140	5.1%
Other liabilities	352,745	332,706	20,039	6.0%
Total liabilities	$ 3,763,873	$ 3,578,694	$ 185,179	5.2%
Net assets				
Restricted	$ 94,635	$ 87,867	$ 6,768	7.7%
Unrestricted	573,114	562,258	10,856	1.9%
Total net assets	$ 667,749	$ 650,125	$ 17,624	2.7%
Income				
Operating income	$ 31,479	$ 30,141	$ 1,338	4.4%
Noninterest income	313,163	326,297	(13,134)	(4.0)%
Total income	$ 344,642	356,438	(11,796)	(3.3)%
Expense				
Noninterest expense	$ 326,674	$ 311,927	$ 14,747	4.7%
Net income before special items	$ 17,968	$ 44,511	$ (26,543)	(59.6)%

RESULTS OF OPERATIONS

The following chart represents condensed financial performance data of the Agency for the last three fiscal years:



The Agency's income before special items for the fiscal year ended June 30, 2006, was $17,968, as compared with $44,511 in the prior year. The decrease is the result of several major factors that negatively or positively affected net income as follows:

- During the year the Agency corrected significant deficiencies which resulted in errors in the calculation of interest income on certain zero coupon investments and fair market value calculations. The Agency accreted the difference between the original costs of the zero-coupon bonds and the par or maturity amount of the bonds on a straight line basis over the remaining maturity of the investments, on an individual security basis. The calculation should have been performed using the effective interest method, which is required by Generally Accepted Accounting Principles ("GAAP"). The correction resulted in a reduction to net interest income and net income of $5,725 for the fiscal year 2006.
- The Agency based its mark-to-market calculation as required by the Governmental Accounting Standards Board statement No. 31 ("GASB 31") on the original cost of the zero-coupon Tennessee Valley Authority ("TVA") bonds, discussed above, without consideration of the accreted interest. Because those investments have a zero coupon, any accreted interest must be included in the cost basis when calculating the unrealized gain or loss. Consideration of this accreted interest in the calculation resulted in a reduction of net interest income and net income of $2,820 for the fiscal year 2006. An additional error made in calculating the GASB 31 mark-to-market calculation resulted in a reduction to net income of $244 for the fiscal year 2006.

LOAN PORTFOLIOS

Construction and purchased mortgage loan portfolios are the Agency's primary performing assets. The total loan portfolio of the Agency increased 12.5% to $3,323,641 at June 30, 2006 from $2,954,440 at June 30, 2005, after adjustments for loan loss. Increases in the mortgage loan portfolios resulted from construction advances, originations and the purchases of mortgage loans exceeding loan repayments and loan payoffs. Loan portfolio increases were primarily driven by positive economic conditions escalating the demand for housing in Pennsylvania. For the fiscal year ended June 30, 2006, the following are key highlights of loan related activities:

- During the year, the Multi-Family Program funded approximately $13,149 of PennHOMES loans that provide construction and permanent loan financing for rental housing development. The Multi-Family portfolio increased to $502,084 as of June 30, 2006, from $489,027 as of June 30, 2005 after adjustments for normal principal amortization payments.
- The Single Family Program purchased approximately $606,802 of new mortgage loans increasing the Single Family portfolio to $2,773,889 as of June 30, 2006, from $2,419,696 as of June 30, 2005 after adjustments for normal principal payments and mortgage payoffs.
- HEMAP disbursed approximately $22,448 of assistance loans during the year, increasing the portfolio to $47,668 as of June 30, 2006, from $45,717 as of June 30, 2005.

FINANCING ACTIVITY

During the current fiscal year, total liabilities increased by $185,179 as a result of the issuance of long-term bonds in order to provide funds needed to make new mortgage loans. The Single Family Program issued four separate single family mortgage revenue bonds totaling approximately $529,815. Approximately one-half of the proceeds were made available to purchase new mortgages loans. The remaining portion was used for the refunding of certain outstanding bonds series to reduce total debt service in future years. Total long-term debt outstanding, net of redemptions and scheduled maturities, increased by $165,140 during the fiscal year ended June 30, 2006. See Note H for further discussion.

INTEREST RATE SWAP AGREEMENTS

The Agency has entered into various interest rate swap agreements to lower its effective financing costs to hedge against exposure of homeowners re-financing mortgages during periods of falling interest rates. Those agreements allow the Agency to pay a synthetic fixed rate on variable rate debt. Fair values of the pay fixed, receive variable rate interest agreements change with varying interest rates. See Note M for further discussion.

CHANGE IN NET ASSETS

The Agency reports financial activity financed with debt that is secured solely by the pledge of net revenues from that activity as well as activity that is not supported by taxes or similar revenue. The term net asset defines the surplus or deficit of that activity. In the governmental environment, net assets consist of both restricted and unrestricted. 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.

Unrestricted net assets consist of net assets that do not meet the definition of restricted net assets. Members may choose to allocate unrestricted net assets for specific purposes or activities. Those are presented as "designated" net assets within the unrestricted balances. Equally, Members may remove or modify such designations. See Note J for further discussion.

- Net Assets of the General Fund decreased by $13,339, or 7.8%, to $157,741 at June 30, 2006 from $171,080 at June 30, 2005. The entire net asset balance represents unrestricted assets and has been designated to be used to finance various homebuyer initiatives.
- Net assets of the Multi-Family Program increased by $16,765, or 7.5%, to $240,424 at June 30, 2006 from $223,659 at June 30, 2005. The unrestricted portion of net assets that may be used to finance operations increased to $233,955 at June 30, 2006 from $216,223 at June 30, 2005.
- Net assets of the Single Family Program decreased by $12,201 or about 7.1%, to $183,645 at June 30, 2006 from $171,444 at June 30, 2005. The unrestricted portion of net assets that may be used to finance operations increased to $95,479 at June 30, 2006 from $91,013 at June 30, 2005.
- Net assets of HEMAP increased by $3,588 or about 8.8%, to $44,402 at June 30, 2006 from $40,814 at June 30, 2005. The entire net asset balance has been designated to provide mortgage assistance to prevent homelessness among Pennsylvanians.

REPORT OF INDEPENDENT AUDITORS

Pricewaterhouse Coopers LLP
Suite 900 • 1800 Tysons Blvd. • McLean, VA 22102-4261
Telephone (703) 918-3000 • Facsimile (703) 918-3100

PRICEWATERHOUSECOOPERS

To the Members of the

Pennsylvania Housing Finance Agency

In our opinion, based on our audit and the report of other auditors, 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, Multi-Family Program, Single Family Program, Insurance Fund and Homeowners Emergency Mortgage Assistance Program ("HEMAP") at June 30, 2006 and 2005, 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 1.07% and .54% of the total assets and interest income, respectively, of the related totals for the year ended June 30, 2006 and 1.04% and .52% of the total assets and interest income, respectively, of the related totals for the year ended June 30, 2005. The HEMAP financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for HEMAP, are 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 22, and 47 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 financial position of 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 November 15, 2006 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, 2006. 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.

Pricewaterhouse Coopers LLP

November 15, 2006

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Net Assets

(in thousands of dollars)

JUNE 30, 2006 AND 2005

	2006				
	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP
Assets					
Deposits and investments (Note E)	$ 97,893	$ 311,515	$ 447,748	$ 42,148	$ 540
Current portion of loans receivable (Note F)	—	23,266	40,610	—	6,286
Interfund accounts receivable (payable)	43,831	(2,611)	(40,566)	—	(654)
Total current assets	141,724	332,170	447,792	42,148	6,172
Noncurrent assets					
Restricted deposits and investments	—	6,469	88,166	—	—
Loans receivable, net of current portion (Note F)	—	478,818	2,733,279	—	41,382
Construction advances (Note F)	—	44,766	—	—	—
Interest receivable	1,112	3,414	10,328	104	—
Deferred and other assets	39,051	10,174	4,519	—	34
Total noncurrent assets	40,163	543,641	2,836,292	104	41,416
Total assets	$ 181,887	$ 875,811	$ 3,284,084	$ 42,252	$ 47,588
Liabilities and Net Assets					
Current liabilities					
Current portion of long-term debt (Note H)	$ —	$ 26,368	$ 144,665	$ —	$ —
Accrued interest payable (Note H)	390	6,927	29,599	—	—
Accounts payable and accrued expenses	3,534	11	873	—	472
Accrued mortgage claims (Note F)	—	—	—	709	—
Total current liabilities	3,924	33,306	175,137	709	472
Noncurrent liabilities					
Long-term debt, net of current portion (Note H)	19,918	349,043	2,871,134	—	—
Escrow and other liabilities	304	253,038	54,168	6	2,714
Total noncurrent liabilities	20,222	602,081	2,925,302	6	2,714
Total liabilities	24,146	635,387	3,100,439	715	3,186
Net assets					
Restricted (Note J)	—	6,469	88,166	—	—
Unrestricted (Note J)	157,741	233,955	95,479	41,537	44,402
Total net assets	157,741	240,424	183,645	41,537	44,402
Total liabilities and net assets	$ 181,887	$ 875,811	$ 3,284,084	$ 42,252	$ 47,588

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

		2005					
Totals (Memorandum Only)		General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)
$ 899,844		$ 123,895	$ 311,752	$ 590,548	$ 43,349	$ —	$ 1,069,544
70,162		—	21,878	35,659	—	5,968	63,505
—		28,375	(1,921)	(24,563)	—	(1,891)	—
970,006		152,270	331,709	601,644	43,349	4,077	1,133,049
94,635		—	7,436	80,431	—	—	87,867
3,253,479		—	467,149	2,384,037	—	39,749	2,890,935
44,766		—	44,702	—	—	—	44,702
14,958		1,905	4,333	13,227	223	—	19,688
53,778		39,483	9,422	3,627	—	46	52,578
3,461,616		41,388	533,042	2,481,322	223	39,795	3,095,770
$ 4,431,622		$ 193,658	$ 864,751	$ 3,082,966	$ 43,572	$ 43,872	$ 4,228,819
$ 171,033		$ —	$ 22,269	$ 146,620	$ —	$ —	$ 168,889
36,916		389	7,337	27,446	—	—	35,172
4,890		1,954	11	558	—	435	2,958
709		—	—	—	439	—	439
213,548		2,343	29,617	174,624	439	435	207,458
3,240,095		19,915	369,130	2,688,054	—	—	3,077,099
310,230		320	242,345	48,844	5	2,623	294,137
3,550,325		20,235	611,475	2,736,898	5	2,623	3,371,236
3,763,873		22,578	641,092	2,911,522	444	3,058	3,578,694
94,635		—	7,436	80,431	—	—	87,867
573,114		171,080	216,223	91,013	43,128	40,814	562,258
667,749		171,080	223,659	171,444	43,128	40,814	650,125
$ 4,431,622		$ 193,658	$ 864,751	$ 3,082,966	$ 43,572	$ 43,872	$ 4,228,819

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Revenues, Expenses and Changes in Net Assets

(in thousands of dollars)

YEARS ENDED JUNE 30, 2006 AND 2005

2006

	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP
Operating income					
Interest income					
Interest on loans (Note F)	$ —	$ 37,120	$ 120,120	$ —	$ 941
Interest on investments (Note E)	1,920	5,576	23,405	1,294	85
Total interest income	1,920	42,696	143,525	1,294	1,026
Interest expense					
Interest on notes and bonds (Note H)	—	18,037	132,881	—	—
Total interest expense	—	18,037	132,881	—	—
Net interest income before provision for potential loan losses	1,920	24,659	10,644	1,294	1,026
Provision for potential loan losses (Note F)	—	1,000	2,000	—	5,064
Net operating income (loss)	1,920	23,659	8,644	1,294	(4,038)
Noninterest income					
Fee income (Note F)	22,574	—	2,564	616	388
Construction advances	—	451	—	—	—
Pass-through grants income (Note L)	—	289,228	—	—	—
Gain on sale of investments	—	—	—	—	—
Net increase (decrease) in fair value of investments (Note E)	(4,829)	(6,162)	(2,064)	(2,901)	—
Amortization of deferred gain (Note C)	—	946	—	—	—
Residual receipts	—	762	—	—	—
Other income	—	—	—	—	11,590
Total noninterest income	17,745	285,225	500	(2,285)	11,978
Noninterest expense					
Pass-through grants expense (Note L)	—	289,228	—	—	—
Salaries and related benefits	18,162	—	—	—	2,342
General and administrative	7,096	2,796	4,440	—	2,010
Mortgage claims	—	—	—	600	—
Total noninterest expense	25,258	292,024	4,440	600	4,352
Income (loss) before special item	(5,593)	16,860	4,704	(1,591)	3,588
Special item — loss on early retirement of debt	—	(124)	(220)	—	—
Net income (loss)	(5,593)	16,736	4,484	(1,591)	3,588
Changes in net assets					
Interfund transfers (Note D)	(7,746)	29	7,717	—	—
Net assets at beginning of the year	171,080	223,659	171,444	43,128	40,814
Net assets at end of the year	$ 157,741	$ 240,424	$ 183,645	$ 41,537	$ 44,402

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

		2005					
Totals (Memorandum Only)		General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)
$ 158,181		$ —	$ 39,875	$ 110,277	$ —	$ 878	$ 151,030
32,280		3,711	6,197	15,079	2,127	48	27,162
190,461		3,711	46,072	125,356	2,127	926	178,192
150,918		—	19,767	119,342	—	—	139,109
150,918		—	19,767	119,342	—	—	139,109
39,543		3,711	26,305	6,014	2,127	926	39,083
8,064		—	4,000	1,000	—	3,942	8,942
31,479		3,711	22,305	5,014	2,127	(3,016)	30,141
26,142		22,156	—	1,998	800	365	25,319
451		—	181	—	—	—	181
289,228		—	280,033	—	—	—	280,033
—		7	—	—	—	—	7
(15,956)		3,215	3,502	11	2,432	—	9,160
946		—	769	—	—	—	769
762		—	4,399	—	—	—	4,399
11,590		—	—	—	—	6,429	6,429
313,163		25,378	288,884	2,009	3,232	6,794	326,297
289,228		—	280,033	—	—	—	280,033
20,504		15,877	—	—	—	2,112	17,989
16,342		7,073	2,434	1,865	—	1,933	13,305
600		—	—	—	600	—	600
326,674		22,950	282,467	1,865	600	4,045	311,927
17,968		6,139	28,722	5,158	4,759	(267)	44,511
(344)		—	1,217	(425)	—	—	792
17,624		6,139	29,939	4,733	4,759	(267)	45,303
—		(9,146)	1,011	8,135	—	—	—
650,125		174,087	192,709	158,576	38,369	41,081	604,822
$ 667,749		$ 171,080	$ 223,659	$ 171,444	$ 43,128	$ 40,814	$ 650,125

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Cash Flows

(in thousands of dollars)

YEARS ENDED JUNE 30, 2006 AND 2005

	2006				
	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP
Cash flows from operating activities					
Principal received (disbursed) on loans, net	$ —	$ (14,121)	$ (363,282)	$ —	$ (6,930)
Cash received for interest on mortgages	—	40,630	131,175	—	868
Fees, charges, and other	25,020	—	—	616	388
Cash paid for operating expenses	(23,678)	(3,130)	(315)	(210)	(4,315)
Cash received (remitted) for escrow, net and other liabilities	—	11,640	5,324	—	91
Cash received from federal funding sources	—	—	—	—	11,590
Net cash provided by (used in) operating activities	1,342	35,019	(227,098)	406	1,692
Cash flows from noncapital financing activities					
Due (from) to other funds	(16,693)	690	16,003	—	(1,237)
Fund balance transfers from (to) other funds and other changes	(7,746)	29	7,717	—	—
Proceeds from sale of bonds and notes	—	22,010	529,815	—	—
Maturities of bonds and notes	—	(39,261)	(347,768)	—	—
Interest paid on bonds and notes	—	(18,447)	(130,728)	—	—
Net cash provided by (used in) noncapital financing activities	(24,439)	(34,979)	75,039	—	(1,237)
Cash flows from investing activities					
Purchase of investments	(14,591)	(3,563)	(6,392)	—	—
Interest received on investments	1,920	5,576	23,405	1,175	85
Proceeds from sales and maturities of investments	8,861	17,600	7,074	—	—
Net cash provided by (used in) investing activities	(3,810)	19,613	24,087	1,175	85
Net increase (decrease) in cash and cash equivalents	(26,907)	19,653	(127,972)	1,581	540
Cash and cash equivalents					
Beginning of year	58,635	166,927	562,960	28,043	—
End of year	$ 31,728	$ 186,580	$ 434,988	$ 29,624	$ 540

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

Totals (Memorandum Only)	2005 General Fund	2005 Multi-Family Program	2005 Single Family Program	2005 Insurance Fund	2005 HEMAP	2005 Totals (Memorandum Only)
$ (384,333)	$ —	$ (18,556)	$ (386,585)	$ —	$ (5,944)	$ (411,085)
172,673	—	45,408	115,009	—	600	161,017
26,024	22,839	—	—	800	365	24,004
(31,648)	(24,463)	(2,768)	(407)	(1,087)	(3,902)	(32,627)
17,055	—	7,130	1,669	—	(5)	8,794
11,590	—	—	—	—	6,430	6,430
(188,639)	(1,624)	31,214	(270,314)	(287)	(2,456)	(243,467)
(1,237)	(11,432)	(733)	12,165	—	1,194	1,194
—	(9,146)	1,011	8,135	—	—	—
551,825	—	27,500	752,510	—	—	780,010
(387,029)	—	(49,356)	(416,046)	—	—	(465,402)
(149,175)	—	(20,610)	(116,779)	—	—	(137,389)
14,384	(20,578)	(42,188)	239,985	—	1,194	178,413
(24,546)	(10,871)	(24,560)	(10,740)	—	—	(46,171)
32,161	3,711	6,197	15,079	2,517	48	27,552
33,535	45,771	19,285	15,133	—	1,214	81,403
41,150	38,611	922	19,472	2,517	1,262	62,784
(133,105)	16,409	(10,052)	(10,857)	2,230	—	(2,270)
816,565	42,226	176,979	573,817	25,813	—	818,835
$ 683,460	$ 58,635	$ 166,927	$ 562,960	$ 28,043	$ —	$ 816,565

Statements of Cash Flows (continued)

(in thousands of dollars)

YEARS ENDED JUNE 30, 2006 AND 2005

	2006				
	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP
Reconciliation of net income to net cash provided by operating activities					
Net income (loss)	$ (5,593)	$ 16,736	$ 4,484	$ (1,591)	$ 3,588
Depreciation, amortization and accretion	(1)	176	10,075	—	11
Loss on early retirement of debt	—	124	220	—	—
Loan loss provision	—	1,000	2,000	—	5,064
Interest expense on notes and bonds, excluding amortization and accretion	—	18,037	132,881	—	—
Interest income on investments	(1,920)	(5,576)	(23,405)	(1,294)	(85)
Net (increase) decrease in fair value of investments	4,829	6,162	2,064	2,901	—
Amortization of deferred gain	—	946	—	—	—
Gain on sale of investments	—	—	—	—	—
Increase (decrease) due to changes in operating assets and liabilities					
Mortgage loans receivable	—	(14,057)	(363,282)	—	(7,015)
Construction advances	—	(64)	—	—	—
Interest receivable	793	919	2,899	119	—
Deferred and other assets	1,670	(1,024)	(673)	—	1
Escrow and other liabilities	(16)	11,640	5,324	1	91
Accounts payable and accrued expenses	1,580	—	315	—	37
Accrued mortgage claims	—	—	—	270	—
Net cash provided by (used in) operating activities	$ 1,342	$ 35,019	$ (227,098)	$ 406	$ 1,692
Reconciliation of cash and cash equivalents to the balance sheets					
Total deposits and investments per the balance sheets	97,893	317,984	535,914	42,148	540
Less: Investments not meeting the definition of cash and cash equivalents	66,165	131,404	100,926	12,524	—
Cash and cash equivalents at end of the year	$ 31,728	$ 186,580	$ 434,988	$ 29,624	$ 540
Supplemental schedule of noncash activities					
Mortgage loan receivable (charge-offs), net of recoveries	$ —	$ —	$ —	$ —	$ (7,619)

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

Totals (Memorandum Only)	2005 General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)
$ 17,624	$ 6,139	$ 29,939	$ 4,733	$ 4,759	$ (267)	$ 45,303
10,261	739	(75)	3,530	—	10	4,204
344	—	(1,217)	425	—	—	(792)
8,064	—	4,000	1,000	—	3,942	8,942
150,918	—	19,767	119,342	—	—	139,109
(32,280)	(3,711)	(6,197)	(15,079)	(2,127)	(48)	(27,162)
15,956	(3,215)	(3,502)	(11)	(2,432)	—	(9,160)
946	—	769	—	—	—	769
—	(7)	—	—	—	—	(7)
(384,354)	—	15,613	(386,585)	—	(6,229)	(377,201)
(64)	—	(34,169)	—	—	—	(34,169)
4,730	464	568	1,476	120	—	2,628
(26)	(604)	(1,412)	(1,221)	(5)	(2)	(3,244)
17,040	85	7,130	1,669	2	(5)	8,881
1,932	(1,514)	—	407	—	143	(964)
270	—	—	—	(604)	—	(604)
$ (188,639)	$ (1,624)	$ 31,214	$ (270,314)	$ (287)	$ (2,456)	$ (243,467)
994,479	123,895	319,188	670,979	43,349	—	1,157,411
311,019	65,260	152,261	108,019	15,306	—	340,846
$ 683,460	$ 58,635	$ 166,927	$ 562,960	$ 28,043	$ —	$ 816,565
$ (7,619)	$ —	$ (691)	$ (1,394)	$ —	$ (7,293)	$ (9,378)

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, 2006 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.

MULTI-FAMILY PROGRAM

The Multi-Family 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 Multi-Family 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 24 months. After assistance has ended, mortgagors are obligated to begin immediate repayment at a minimum of $25 per month per mortgage assisted or at an amount based on their ability to pay. 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 and appropriations are estimated to continue to be sufficient to meet continuing loan program obligations and administrative costs.

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.

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* ("GASB No. 31"), which requires the investments to be carried in the Statement of Net Assets at their fair value and net changes in fair values be recorded as a component of noninterest income, increase (decrease) in fair value of investments, in the Statement of Revenues, Expenses and Changes in Net Assets.

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

During the year ended June 30, 2006, the Agency recorded a negative adjustment to the GASB No. 31 change in fair value of investments in the Statement of Revenues, Expenses and Changes in Net Assets of $244. The adjustment was required by identification of an error made in calculating the carrying value of investments required by GASB No. 31.

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. The properties are recorded at fair value, less cost to sell, at the time of foreclosure and at lower of cost or market at subsequent dates. 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.

INTEREST INCOME

Interest income is recognized over the remaining time to maturity of investment securities, mortgage loans receivable and construction advances based upon the constant yield method. Multi-family 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.

During the year ended June 30, 2006, the Agency recorded a negative adjustment to interest income from investments of $5,725. The Agency was accreting the difference between the original costs of the zero-coupon bonds and the par or maturity amount of the bonds on a straight line basis over the remaining time to maturity of the investments, on an individual security basis. In accordance with the Agency's policies and procedures the accretion should have been recorded using the constant yield method. This adjustment to the carrying value of the zero-coupon bond portfolio, resulted in an additional negative adjustment to net change in fair value of investments, required by GASB Statement No. 31, of $2,820 for the year ended June 30, 2006.

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 Multi-Family 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, 2006 and 2005, the Agency deferred losses of $2,038 and $1,792, respectively, on the refunding of Single Family Mortgage Revenue Bonds. As of June 30, 2006 and 2005, the unamortized Single Family deferred costs of refunding are $21,044 and $21,435, respectively. As of June 30, 2006 and 2005, the unamortized Multi-Family deferred costs of refunding are $5,750 and $6,884, respectively.

PASS-THROUGH GRANTS

The Agency follows 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 $289,228 and $280,033 for the years ended June 30, 2006 and 2005, respectively.

(in thousands of dollars)

PENSION PLAN

The Agency follows GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* which requires the Agency to measure and disclose an amount for annual pension cost and net pension obligation.

DERIVATIVE FINANCIAL INSTRUMENTS

The Agency follows GASB Statement No. 20, which 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.

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

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, 2006, the Agency's deposits had a carrying amount of $7,457 and a bank balance of $13,719. 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, 2006, 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	$ 52,006	$ 1,999	$ 15,830	$ 8,883	$ 25,294
U.S. Government treasuries	30,962	—	49	28,234	2,679
U.S. Government agencies	247,414	185,537	56,594	620	4,663
Investment agreements	142,206	140,751	—	—	1,455
Money markets	442,382	442,382	—	—	—
Mutual funds	72,052	72,052	—	—	—
	$ 987,022	$ 842,721	$ 72,473	$ 37,737	$ 34,091

(in thousands of dollars)

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, 2006:

Fixed Income Securities Exposed to Credit Risk

Rating*	Fair Value
Aaa	$ 602,288
Aa	6,815
A	16,466
NA**	59,280
Total fixed income	$ 684,849

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 $302,173 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, 2006, 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 Multi-Family 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, 2006 and 2005 is as follows:

	Mortgage Loans Receivable	Construction Advances
June 30, 2006		
Insured and subsidized	$ 884	$ —
Insured and nonsubsidized	58,117	44,766
Uninsured and subsidized	315,606	—
Uninsured and nonsubsidized	283,456	—
	658,063	44,766
Allowance for potential loan losses	155,979	—
	$ 502,084	$ 44,766

(in thousands of dollars)

	Mortgage Loans Receivable	Construction Advances
June 30, 2005		
Insured and subsidized	$ 12,607	$ —
Insured and nonsubsidized	55,938	44,702
Uninsured and subsidized	314,950	—
Uninsured and nonsubsidized	261,755	—
	645,250	44,702
Allowance for potential loan losses	156,223	—
	$ 489,027	$ 44,702

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 September1993.

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, 2006 and 2005, the total loans covered under this program were $84,953 and $109,333, respectively, and the coverage provided is estimated to be approximately $24,771 and $31,811, 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, $19,934 are covered under this shared risk contract at June 30, 2006, and the Agency's maximum potential exposure is $584.

The claims liability of $709 and $439 reported in the Insurance Fund as of June 30, 2006 and 2005, 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:

	2006	2005
Balance, July 1	$ 439	$ 538
Current year claims and changes in estimates	600	600
Claim payments	(330)	(699)
Balance, June 30	$ 709	$ 439

(in thousands of dollars)

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 $2,678,099 and $2,334,707 at June 30, 2006 and 2005, respectively. As of June 30, 2005, cumulative pool losses since inception of the self-insurance program are $13,423.

Changes in the allowance for potential loan losses for the Multi-Family, Single Family and HEMAP Programs are as follows at June 30, 2006 and 2005:

	Multi-Family		Single Family		HEMAP	
	2006	2005	2006	2005	2006	2005
Balance, July 1	$ 156,223	$ 152,914	$ 2,510	$ 2,904	$ 40,079	$ 43,372
Provision charged to income	1,000	4,000	2,000	1,000	5,064	3,942
Charge-offs, net of recoveries	(1,244)	(691)	(1,077)	(1,394)	(7,618)	(7,235)
Balance, June 30	$ 155,979	$ 156,223	$ 3,433	$ 2,510	$ 37,525	$ 40,079

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 under sub-servicing agreements is $124,951 and $153,160 at June 30, 2006 and 2005, 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 Multi-Family 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 Multi-Family and Single Family Programs. The capital reserve fund has been established by the Agency to meet these requirements.

The capital reserve requirement for certain Multi-Family bonds requires that a one-year debt service minimum balance be maintained at all times. The capital reserve fund at June 30, 2006 and 2005, amounts to $10,930 and $11,396, respectively, including amounts funded by bond proceeds. Such amounts are $4,461 and $3,960, 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, 2006 and 2005 amounts to $88,166 and $88,431, respectively, including amounts funded by bond proceeds. Such amounts are $273 and $8,000, respectively, in excess of the requirement.

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

(in thousands of dollars)

Issue	Interest Rate Range at Issuance	Final Maturity Date	Amounts Outstanding June 30, 2006	2005
Variable Rate Building Development Bonds	variable	2034	$ 20,000	$ 20,000
Unamortized bond discount			(82)	(85)
			$ 19,918	$ 19,915

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

Issue	Interest Rate Range at Issuance	Final Maturity Date	Amounts Outstanding June 30, 2006	2005
Rental Housing Refunding Bonds				
Series 2002 (refunding)	3.58%	2021	$ 89,760	$101,965
Series 2003	3.4%—3.55%	2020	125,790	133,660
Residential Development Bonds				
Issue 2002 (refunding)	1.80–4.40%	2024	36,315	39,555
Multi-Family Housing Bonds				
Issue FHA-1992	7.75–8.20%	2024	10,200	19,260
Moderate Rehabilitation Bonds				
Issue 1985B	5.25–9.00%	2017	—	680
Multi-Family Development Bonds				
Issue 1989B	8.25%	2015	405	425
Issue 1993A (refunding)	5.38%	2022	11,655	12,155
Issue 1993F	6.53%	2019	5,615	7,535
Issue 1997G	7.63%	2027	9,750	9,935
Issue 1998H	6.30%	2028	16,040	16,355
Issue 2003 (refunding)	3.25–4.80%	2019	21,140	24,030
Issue 2005K	variable	2036	27,375	27,500
Issue 2005A	4.00–5.00%	2025	22,010	—
Federal National Mortgage Association				
Issue 1990A	7.50%	2023	1,680	1,718
Subordinate Limited Obligation Bonds				
Issue 1995	5.50–6.15%	2021	3,555	3,699
			381,290	398,472
Unamortized bond discount			(129)	(189)
Unamortized deferred costs of refundings			(5,750)	(6,884)
			$375,411	$391,399

During the year ended June 30, 2006, the Agency redeemed prior to maturity, $650 of Moderate Rehabilitation Bonds, issue 1985B, $8,505 of Multi-Family Housing Bonds, issue FHA-1992, $2,940 of Multi-Family Development Bonds issue 1993F and 2003 using mortgage prepayments. Special loss of $124 resulted from redemptions while unamortized bond discounts and the related costs of issuance for the bonds were expensed as redeemed.

(in thousands of dollars)

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. Special 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.

The Agency defeased Multi-Family 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 $4,640 and $5,515 at June 30, 2006 and 2005, 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, 2006	Amounts Outstanding June 30, 2005
Single Family Mortgage Revenue Bonds				
Series 1995 - 46	6.30–8.400%	2027	$ —	$ 1,215
Series 1996 - 47	4.20–6.750%	2027	6,410	39,450
Series 1996 - 48	4.00–6.150%	2028	1,345	2,740
Series 1996 - 50	3.64–6.350%	2027	—	1,015
Series 1996 - 52	4.40–7.000%	2027	3,325	6,000
Series 1996 - 53	4.20–6.150%	2027	3,330	4,660
Series 1997 - 54	5.375–7.22%	2028	3,855	5,030
Series 1997 - 55	3.70–5.750%	2013	4,185	12,880
Series 1997 - 56	4.00–6.150%	2028	2,945	3,830
Series 1997 - 57	4.30–6.150%	2029	2,750	5,535
Series 1997 - 58	4.30–5.450%	2009	3,195	30,020
Series 1997 - 59	4.00–5.150%	2029	12,425	39,290
Series 1997 - 60	4.00–5.100%	2009	2,975	35,280
Series 1997 - 61	4.00–4.900%	2008	49,260	50,595
Series 1997 - 62	4.25–5.200%	2011	52,290	54,075
Series 1998 - 63	3.95–5.150%	2030	55,229	56,460
Series 1998 - 64	3.65–5.250%	2030	54,871	57,370
Series 1999 - 65	3.25–5.250%	2030	60,330	66,060
Series 1999 - 66	4.05–6.95%	2030	89,110	105,075
Series 1999 - 67	4.05–7.51%	2030	49,250	72,390
Series 1999 - 68	4.30–7.02%	2030	28,650	33,665
Series 2000 - 69	4.35–6.25%	2031	38,615	40,425
Series 2000 - 70	4.30–6.791%	2028	38,425	60,160
Series 2001 - 72	3.25–5.35%	2032	175,985	183,910
Series 2002 - 73	2.10–5.45%	2033	167,740	179,915
Series 2002 - 74	4.750–6.100%	2033	99,360	99,670
Series 2002 - 75	4.750–6.100%	2033	94,465	96,350
Series 2003 - 77	Variable	2033	93,415	97,670
Series 2003 - 78	Variable	2025	69,575	71,685
Draw Down Series	Variable	2008	140,000	220,000
Series 2003 - 79	Variable	2034	93,340	97,600
Series 2003 - 80	Variable	2024	90,000	90,000
Series 2004 - 81	Variable	2034	95,360	98,480
Series 2004 - 82	Variable	2034	95,530	98,745
Series 2004 - 83	Variable	2035	123,435	126,780
Series 2004 - 84	Variable	2034	96,680	99,035
Series 2004 - 85	Variable	2035	97,015	99,730
Series 2004 - 86	Variable	2035	99,415	99,925
Series 2005 - 87	Variable	2035	99,190	100,000
Series 2005 - 88	Variable	2037	99,115	100,000
Series 2005 - 89	Variable	2035	123,645	125,000
Series 2005 - 90	Variable	2036	124,795	—
Series 2005 - 91	Variable	2036	154,715	—
Series 2005 - 92	Variable	2036	125,000	—
Series 2005 - 93	Variable	2037	125,000	—
			3,045,545	2,867,715
Unamortized bond discount			(8,702)	(11,606)
Unamortized deferred costs of refundings			(21,044)	(21,435)
			$ 3,015,799	$ 2,834,674

(in thousands of dollars)

During the year ended June 30, 2006, the Agency redeemed prior to maturity $44,329 of Single Family Mortgage Revenue Bonds, Series 1995-46, 1996-47, 1996-48, 1996-52, 1996-53, 1997-54, 1997-57, 1997-58, 1997-59, 1997-60, 1997-61, 1997-62, 1998-64, 1999-65, 1999-66, 1999-67, 1999-68, 2000-69, 2000-70, 2001-72, 2002-73, 2002-74, 2003-79, 2004-81, 2004-82, 2004-83, 2004-85, 2004-86, 2004-87, 2005-88, 2005-89, 2005-90, using mortgage prepayments. Special losses of $220 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, 2006, the Agency redeemed prior to maturity, $252,320 of Single Family Mortgage Revenue Bonds, Series 1996-47, 1996-48, 1996-52, 1997-55, 1997-57, 1997-58, 1997-59, 1997-60, 1999-66, 1999-67, 1999-68, 2000-69, 2000-70, 2004-82, 2004-85, 2004-87, 2005-89. Although a deferred loss of $2,038 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 $21,750 and were able to reduce its aggregate debt service payments as a result of these transactions by a total of $11,397 over the succeeding 30 years from the 2006 refundings.

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. Special 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.

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, 2006:

	General Fund		Multi-Family Program		Single Family Program		Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Maturities
Year Ending June 30,							
2007	$ —	$ 789	$ 26,368	$ 16,077	$ 144,665	$ 131,874	$ 319,773
2008	—	789	27,633	15,064	129,740	127,553	300,779
2009	—	789	28,830	13,992	71,240	123,011	237,862
2010	—	789	30,107	12,863	70,925	120,074	234,758
2011	—	789	30,096	11,683	75,700	116,883	235,151
2012–2016	715	1,564	119,922	42,279	416,265	529,209	1,109,954
2017–2021	2,080	3,647	74,594	20,848	528,735	417,168	1,047,072
2022–2026	2,565	3,200	27,379	8,782	558,036	294,186	894,148
2027–2031	3,170	2,649	9,835	2,910	598,108	160,813	777,485
2032–2036	11,470	1,271	6,526	848	419,811	46,476	486,402
2037–2041	—	—	—	—	32,320	966	33,286
	$ 20,000	$ 16,276	$ 381,290	$ 145,346	$ 3,045,545	$ 2,068,213	$ 5,676,670

(in thousands of dollars)

I. OPERATING LEASES

The Agency is obligated under noncancelable operating leases for its buildings. Future minimum payments under these leases at June 30, 2006 are:

2007	$ 137
2008	85
2009	58
Thereafter	—
	$ 280

Total rental expense is $135 and $371 for the years ended June 30, 2006 and 2005, 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:

	2006	2005
Single Family Self-Insurance Fund	$ 16,500	$ 16,500
Multi-Family Self-Insurance Fund	10,000	10,000
PennHOMES Program	15,000	15,000
Housing initiatives	11,850	11,850
Home buyer counseling	5,500	5,500
Home Choice Program	43,150	43,150
Homeless Auxiliary initiative	1,593	1,593
	$ 103,593	$ 103,593

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 Multi-Family 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.

MULTI-FAMILY PROGRAM

Restrictions on the Multi-Family Program net assets are as follows:

	2006	2005
Net assets restricted by debt covenants	$ 6,469	$ 7,436

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

(in thousands of dollars)

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

	2006	2005
PennHOMES Program	$ 179,290	$ 179,290
Senior housing with supportive services	4,000	4,000
Supportive services	2,100	2,100
Preservation	2,000	2,000
	$ 187,390	$187,390

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:

	2006	2005
Net assets restricted by debt covenants	$ 88,166	$ 80,431

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:

	2006	2005
Closing Cost Subsidy Program	$ 14,750	$ 14,750
Additional Single Family Insurance Program	2,455	2,455
	$ 17,205	$ 17,205

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:

	2006	2005
Risk retention	$ 41,537	$ 43,128

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

(in thousands of dollars)

HEMAP

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

	2006	2005
Emergency Mortgage Assistance Program	$ 44,402	$ 40,814

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

PLAN DESCRIPTIONS AND FUNDING POLICY

Membership of the plan consists of the following at December 31, 2005 and 2004:

	2005	2004
Retirees and beneficiaries receiving benefits	75	62
Terminated plan members entitled to but not yet receiving benefits	66	68
Active plan members	245	245
	386	375
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, 2006 and 2005, 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:

	2005	2004
Annual required contribution	$ 1,482	$ 1,501
Employer contributions made	(1,450)	(1,600)
Change in net pension obligation	32	(99)
Net pension (asset) obligation		
Beginning of year	(866)	(767)
End of year	$ (834)	$ (866)

(in thousands of dollars)

The annual required contribution for the current year was determined as part of the January 1, 2006 actuarial valuation using the aggregate actuarial cost method, which does not identify or separately amortize unfunded actuarial liabilities. 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

Calendar Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2003	$ 1,486	100.9%	$ (767)
December 31, 2004	1,501	106.6%	(866)
December 31, 2005	1,482	97.8%	(834)

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, 2006 and 2005.

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, 2006 and 2005 amounts to $289,228 and $280,033, 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 multi-family mortgages aggregate approximately $18,977 and $29,233, respectively, at June 30, 2006.

(in thousands of dollars)

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. The swaps have the effect of fixing the variable rate portion of the debt issue at the current risk adjusted interest rates. As of June 30, 2006, 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	Notional Amount	Effective Date	Termination Date	Fair Value of Contract at June 30, 2006	Options Embedded	Notional of Embedded Options
Goldman Sachs Mitsui Marine	SF MRB 1999-67	5.950%	26,880	22,120	8/2002	4/2029	17		
Derivative Product, L.P.	SF MRB 2000-69B	7.305%	25,000	5,620	3/2000	4/2008	(102)		
(AA+/Aa2)	SF MRB 2001-72	5.695%	50,000	28,825	9/2001	10/2023	149		
	SF MRB 2002-74	4.285%	30,000	30,000	8/2002	10/2032	393		
	SF MRB 2003-77B	4.060%	59,900	59,900	9/2003	4/2033	1,438	Swaption	8,465
	SF MRB 2003-77C	2.690%	25,100	21,275	9/2003	4/2012	590		
	SF MRB 2004-81B	2.365%	14,285	12,750	4/2004	4/2013	469		
	SF MRB 2004-81C	3.557%	62,740	62,740	4/2004	10/2034	2,901	Swaption	10,300
	Rental Housing Refunding, 2002 A & B	3.575%	124,120	94,715	7/2002	1/2021	(343)		
	SF MRB 2004-84C	3.115%	19,750	19,350	9/2004	4/2018	601		
	SF MRB 2004-84D	3.879%	58,335	58,335	9/2004	10/2034	1,787	Swaption	12,290
	SF MRB 2004-86B	3.417%	71,565	71,565	12/2004	10/2033	2,000	Swaption	3,225
	SF MRB 2004-86C	4.125%	19,790	19,790	12/2004	10/2035	518	Swaption	4,050
	SF MRB 2004-89	3.605%	125,000	123,645	6/2005	10/2035	4,073	Swaption	7,940
	SF MRB 2005-91	3.953%	70,000	70,000	12/2005	10/2036	1,547		
				700,630			16,038		46,270
UBS AG	SF MRB 2002-70	6.927%	25,000	11,230	4/2001	4/2011	(305)		
(AA+/Aa2)	SF MRB 2002-73	5.017%	25,000	11,750	3/2002	4/2010	115		
	SF MRB 2002-75	3.957%	30,000	30,000	12/2002	10/2032	1,382		
	SF MRB 2003-79	3.997%	57,350	57,350	12/2003	10/2033	667	Swaption	18,450
	SF MRB 2003-83B	3.410%	36,000	33,605	8/2004	4/2019	758		
	SF MRB 2003-83C	4.060%	42,905	42,905	8/2004	10/2035	455	Swaption	2,090
	SF MRB 2003-85B	3.168%	35,000	32,895	11/2004	4/2019	1,071		
	SF MRB 2003-85C	3.879%	44,645	44,645	11/2004	10/2035	1,230	Swaption	2,125
	SF MRB 2003-87B	3.460%	47,300	46,655	3/2005	10/2023	1,227		
	SF MRB 2003-87C	3.882%	47,300	47,300	3/2005	10/2035	1,271	Swaption	1,285
	SF MRB 2005-90C	3.692%	60,820	60,820	9/2005	4/2036	3,202	Swaption	1,645
	SF MRB 2005-92B	3.996%	42,870	42,870	3/2006	10/2036	1,151	Swaption	875
				462,025			12,224		26,470
Bear Sterns Financial Products, Inc.	Rental Housing Refunding, 2003A	3.547%	72,510	62,895	6/2003	7/2020	415	Swaption	20,890
(AAA/Aaa)	Rental Housing Refunding, 2003B	3.457%	72,510	62,895	6/2003	7/2020	774		
				125,790			1,189		20,890
Lehman Brothers Derivative Products, Inc. (AAA/Aaa)	MFDevelopment Refunding, 2003	3.860%	27,240	22,375	6/2003	4/2019	2,080		
PNC Bank, National Association (A+/A1)	Variable Rate Building Development Bonds, Series 2004	3.945%	20,000	20,000	2/2004	1/2034	738		
Merrill Lynch Capital Services, Inc.	SF MRB-82B	3.643%	52,210	50,475	5/2004	10/2030	1,139		
(A+/Aa3)	SF MRB-82C	4.164%	35,220	35,220	5/2004	10/2034	275	Swaption	1,479
	SF MRB-88B	3.500%	55,265	55,075	5/2005	10/2035	1,671		
	SF MRB-88C	3.975%	31,930	31,930	5/2005	10/2035	890	Swaption	1,852
	SF MRB-93B	4.266%	37,185	37,185	5/2006	4/2037	(263)		
				209,885			3,712		3,331
Royal Bank of Canada (AA/Aa2)	MF Development Bonds, Issue 2005-K	5.183%	27,500	27,375	3/2005	1/2036	1,300	Swaption	4,260
				1,568,080			37,281		101,221

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

(in thousands of dollars)

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, 2006 are shown in the proceeding table. 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.

The fair value of derivatives is based on the present value of forecasted payments based on spot rate values on the forward yield curve.

N. SUBSEQUENT EVENTS

On July 20, 2006, the Agency issued $124,395 Single Family Mortgage Revenue Bonds, Series 2006-94. The proceeds from these bond issuances were used to finance new loan purchases.

On September 7, 2006, the Agency issued $198,885 Single Family Mortgage Revenue Bonds, Series 2006-95. The proceeds from these bond issuances were used to finance new loan purchases.

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)
1/1/1996	$ 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%
1/1/2006	26,864,408	37,409,870	10,545,462	71.8%	11,367,214	92.8%

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES SCHEDULE II

Calendar Year Ended	Annual Required Contribution	Contributions From Employer	Percentage Contributed
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%
2005	1,482,239	1,450,000	97.8%

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

NOTES TO SUPPLEMENTAL SCHEDULES

Additional information as of the latest actuarial valuation follows:

	2006	2005
Valuation date	January 1, 2006	January 1, 2005
Actuarial cost method	Aggregate actuarial cost method	Aggregate actuarial cost method
Amortization method	Level dollar	Level dollar
Assest 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 adjustment	Moderate, based on long-term historical average rates	Moderate, based on long-term historical average rates

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