KPMG

THE PENNSYLVANIA HOUSING FINANCE AGENCY

Basic Financial Statements and Required Supplementary Information

June 30, 2014

(With Independent Auditors' Report Thereon)

CONTENTS

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Independent Auditors' Report

Management and Members of the Board of Directors
Pennsylvania Housing Finance Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the General Fund, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund, and the Homeowners' Emergency Mortgage Assistance Program (HEMAP) of the Pennsylvania Housing Finance Agency (the Agency), a component unit of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Homeowners' Emergency Mortgage Assistance Program. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for HEMAP, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund, and Homeowners' Emergency

Mortgage Assistance Program of the Pennsylvania Housing Finance Agency as of June 30, 2014, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 3 to the financial statements, in 2014, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Restatement of Net Position

As part of our audit of the 2014 financial statements, we also audited the adjustments described in Note 3 that were applied to restate net position of the General Fund, Multifamily Housing Program, and Single Family Mortgage Loan Program as of July 1, 2013. The Agency's previously issued financial statements were audited by other auditors. In our opinion, such adjustments are appropriate and have been properly applied.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, the Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Employees' Retirement Plan and Government Excess Benefit Plan, and the Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Postemployment Benefits Plan on pages 3–8, 54, and 55, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we also have issued our report dated November 19, 2014 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Agency's internal control over financial reporting and compliance.

KPMG LLP

Harrisburg, Pennsylvania
November 19, 2014

Management's Discussion and Analysis

Introduction

The discussion and analysis provided herein are designed to furnish an objective and easily understandable review of the financial activities of the Pennsylvania Housing Finance Agency ("Agency"). Readers are encouraged to consider the information presented in conjunction with the basic financial statements as a whole, which follow this section.

Understanding the Basic Financial Statements

The basic financial statements are designed to provide a broad overview of the Agency's finances, and include three required statements: The Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows.

The Balance Sheet presents financial information respective of all of the Agency's assets, liabilities and deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position reflects revenue and expenses within a given period in order to measure the success of the Agency's operations during that period and to illustrate how the Agency has funded its costs of operations.

The Statement of Cash Flows is presented using the direct method, which reports cash receipts and cash payments in three major classes of activities: Operating, Investing and Financing. Cash receipts and disbursements are presented within these statements in order to illustrate the net increase or decrease in cash and cash equivalents within a given period.

The basic financial statements are accompanied by a set of notes. The notes to the basic financial statements provide additional information necessary to acquire a full understanding of the data presented in the basic financial statements and a means to obtain a more comprehensive assessment of factors affecting the Agency's financial condition.

Condensed Summary Balance Sheet *(In thousands)*

	2014	2013* (as restated)	Increase/(Decrease)	
Assets:				
Mortgage loans receivable	$ 3,694,888	$ 3,972,663	$ (277,775)	(7.0%)
Capital assets	31,216	30,879	337	1.1%
Other assets	909,419	940,044	(30,625)	(3.3%)
Total Assets	4,635,523	4,943,586	(308,063)	(6.2%)
Deferred Outflow of Resources	42,108	63,033	(20,925)	(33.2%)
Total Assets and Deferred Outflow of Resources	$ 4,677,631	$ 5,006,619	$ (328,988)	(6.6%)
Liabilities:				
Current liabilities	204,148	241,332	(37,184)	(15.4%)
Noncurrent liabilities	3,723,210	4,052,826	(329,616)	(8.1%)
Total Liabilities	3,927,358	4,294,158	(366,800)	(8.5%)
Net Position				
Net Investment in Capital Assets	11,216	10,879	337	3.1%
Restricted	165,564	178,906	(13,342)	(7.5%)
Unrestricted	573,493	522,676	50,817	9.7%
Total Net Position	750,273	712,461	37,812	5.3%
Total Liabilities and Net Position	$ 4,677,631	$ 5,006,619	$ (328,988)	(6.6%)

Condensed Summary of Revenues, Expenses and Changes in Net Position *(In thousands)*

	2014	2013* (as restated)	Increase/(Decrease)	
Revenues:				
Mortgage loan interest	$ 158,203	$ 175,240	$ (17,037)	(9.7%)
Other Operating Revenues	90,968	76,190	14,778	19.4%
Federal program awards	405,638	405,153	485	0.1%
Total Revenues	654,809	656,583	(1,774)	(0.3%)
Expenses:				
Interest and financing expenses	144,007	156,124	(12,117)	(7.8%)
Other Operating Expenses	67,352	65,306	2,046	3.1%
Federal program expenses	405,638	405,153	485	0.1%
Total Expenses	616,997	626,583	(9,586)	(1.5%)
Change in Net Position	37,812	30,000	7,812	26.0%
Net Position - Beginning of Year, restated*	712,461	682,461	30,000	4.4%
Net Position - End of Year	$ 750,273	$ 712,461	$ 37,812	5.3%

*** -** See Note 3 to the financial statements for details of restatement of Net Position.

Analysis of Overall Financial Position and Results of Operations

The following reclassifications have been made to the June 30, 2013 Condensed Summary Balance Sheet in order to conform to the June 30, 2014 presentation:

- $12.6 million attributable to unamortized losses on bond refundings was previously reported within Current and Noncurrent Liabilities. This amount is now reported within Deferred Outflows of Resources. This reclassification comes as a result of the adoption of Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities ("GASB 65") during the 2014 fiscal year.
- $20 million attributable to a general obligation note payable was previously reported within Current and Noncurrent Liabilities in the General Fund. This amount is now reported in the Single Family Program.

Overall, net position of the Agency experienced an increase of $37.8 million. Despite a decrease in mortgage loan interest revenue, caused primarily by the decrease in balances of existing Single Family Mortgage Loan Program ("Single Family Program") and Multifamily Housing Program ("Multifamily Program") mortgage loans receivable over time, the increase in overall net position was enabled by a notable increase in other operating revenues and a decrease in interest and financing expenses. The increase in other operating revenues is primarily attributable to an increase in the fair values of the Agency's investments equaling approximately $2.4 million at year end, compared to an overall decrease experienced in the prior year equaling approximately $20 million. The decrease in interest and financing expenses was enabled by the Agency's ongoing practice of redeeming bonds payable using prepayments received from borrowers and available cash.

Analysis of Significant Activity of Individual Funds

General Fund

The Agency's General Fund experienced an increase in total assets equaling $21.1 million, attributed primarily to an increase in amounts owed to the General Fund by the Single Family Program totaling $13.2 million and an increase in the fair value of its investments equaling $5 million. The $13.2 million increase in amounts owed by the Single Family Program was brought on by the ongoing need for liquidity necessary to purchase single family mortgage loans for purposes of pooling and selling mortgage backed securities (MBSs); the $5 million increase in the fair value of investments is attributed to favorable market conditions experienced at year end.

While total liabilities of the General Fund also increased by $3.4 million, net position of the General Fund reflected the greater corresponding increase totaling $17.7 million. The increase in net position of the General Fund is primarily attributable to the $5 million increase in the fair value of its investments, mentioned previously, and a $12.2 million growth in program income and fees deriving from increases in Multifamily Program fees and charges, an increase in contract administration fees and a greater volume of Single Family Mortgage Loan Program service fees and charges.

Multifamily Housing Program

The Agency's Multifamily Program experienced a decrease in total assets equaling $13.6 million. This was attributed primarily to a decrease in mortgage loans receivable equaling $40.8 million offset by an increase in cash and investments equaling $30 million. The decrease in balances of mortgage loans receivable was caused by the inherent reduction of mortgage loan balances over the course of time as a result of regularly scheduled payments, prepayments and loan forgiveness, coupled with the stalled production of new Multifamily Program loans; the increase in balances of cash and investments was the direct result of receipts of mortgage loan payments and prepayments.

Multifamily Program liabilities decreased by $22.4 million, which can be credited primarily to a decrease in Multifamily Program bonds payable equaling $19.4 million resulting from required debt service payments for the year and the Agency's ongoing practice of redeeming bonds payable using prepayments received from borrowers and available cash. Multifamily Program net position increased by $8.1 million. When compared to the prior year increase in net position equaling $3.2 million, the $4.9 million growth in the change in net position may be attributed to no additions to the provision for loan loss being deemed necessary for the year, while the prior year provision for loan loss equaled $4.4 million.

Single Family Mortgage Loan Program

The Agency's Single Family Program experienced a decrease in total assets equaling $312.2 million. $240 million of this decrease is attributable to the reduction in balances of mortgage loans receivable, brought by virtue of regularly scheduled payments and prepayments. Single Family Program assets also experienced an $87.9 million reduction in cash and investments, the primary cause of which was due to the Single Family Program's use of liquidity necessary to purchase new mortgage loan production and for the redemption of bonds. Offsetting the $240 million decrease in balances of mortgage loans receivable and the $87.9 million decrease in cash and investments was a $12.2 million increase in the balance of real estate owned, bringing the prior year balance of real estate owned from $25.1 million at June 30, 2013 to $37.3 million at June 30, 2014.

Single Family Program liabilities decreased by a total of $342.8 million. This reduction was enabled by the Agency reducing its bonds and notes payable balances by $356 million during the year through regularly scheduled debt service payments and by redeeming bonds payable in advance of their scheduled payment dates using prepayments received from borrowers and available cash. The most notable offset to the $356 million decrease in bonds and notes payable was an increase in Single Family Program accounts payable and accrued expenses balances, which increased from $1.9 million at June 30, 2013 to $14.3 million at June 30, 2014. This increase was caused by the timing of amounts payable to the entities responsible for securitizing MBSs; amounts attributable to the month of June 2014 were disbursed in July 2014.

Single Family Program net position experienced a $10.8 million increase, $6.5 million of which was attributable to the net effect of interfund transfers from the Agency's General Fund used to supplement the Single Family Program's liquidity needs and $4.3 million of which was attributable to net operating income. Operating income increased by $5 million from the prior year, when the year-ended June 30, 2013 experienced an operating loss of $0.7 million. The increase in operating income is primarily attributable to Single Family Program investments experiencing less of a reduction in fair value at year end than the prior year, where decreases in fair value equaled $1.3 million at June 30, 2014 compared to $12.8 million at June 30, 2013.

Insurance Fund

The results of the Agency's Insurance Fund remained consistent with those of the prior year. Net position increased by approximately 4% for both the years ended June 30, 2014 and 2013, which was attributable primarily to the receipt of insurance fees exceeding the costs of insurance claims.

Homeowners Emergency Mortgage Assistance Program

Total assets of the Homeowners Emergency Mortgage Assistance Program ("HEMAP") decreased $1.8 million and total liabilities decreased $1.5 million. This reduction was due to HEMAP using available resources to reduce advances it owed to the Agency, thus reducing both its available assets and its liabilities. HEMAP also experienced a net operating loss for the year equal to $0.3 million, due primarily to reduced levels of funding received from the Commonwealth of Pennsylvania compared to those of the previous year.

Analysis of Capital Asset Activity *(In thousands)*

	Balances at June 30		Increase/
	2014	**2013**	**(Decrease)**
Nondepreciable Capital Assets:			
Land	$ 2,454	$ 2,454	$ -
Depreciable Capital Assets:			
Building	31,185	30,096	1,089
Furniture, fixtures and equipment	10,226	10,412	(186)
Less accumulated depreciation:			
Building	(6,582)	(6,004)	(578)
Furniture, fixtures and equipment	(6,067)	(6,079)	12
Total depreciable capital assets, net	28,762	28,425	337
Total Capital Assets, net	$ 31,216	$ 30,879	$ 337

While the balances of most of the Agency's capital assets remained consistent with those of the prior year, the increase is attributable to amounts associated with the Agency's building. The Agency is currently undergoing plans and preliminary renovations in order to expand its headquarters to include the property adjacent to its headquarters; the costs of preliminary renovations have been capitalized. The adjacent property is owned by the Agency.

Analysis of Long-Term Debt Activity *(In thousands)*

	Long-Term Debt at June 30		
Agency Fund/Program	**2014**	**2013**	**Decrease**
General Fund	$ 20,000	$ 20,000	$ -
Multifamily Program	53,245	72,629	(19,384)
Single Family Program	3,266,768	3,622,732	(355,964)
Total Long-Term Debt	$ 3,340,013	$ 3,715,361	$(375,348)

Due to continued adverse bond market conditions, the Agency issued no new debt during the year ended June 30, 2014. The Agency, instead, continued its practice of securitizing its single family loan production into MBSs and selling those securities. Required principal payments on bonds and notes payable for the year ended June 30, 2014 equaled $81.7 million, but the Agency also redeemed additional principal amounts of certain bonds totaling $290.5 million during the same period prior to their scheduled maturity through the use of mortgage prepayments and favorable cash flows. The redemptions of additional principal produced net gains on early extinguishment of debt totaling $1.2 million for the year, which resulted from the recognition of bond premiums that would have otherwise been recognized over the life of the associated debt.

Additional Information

This discussion and analysis is intended to provide additional information regarding the activities of the Agency. Additional current or historical audited or unaudited financial information may be found at the Agency's website at www.phfa.org.

PENNSYLVANIA HOUSING FINANCE AGENCY
Balance Sheet
June 30, 2014 (in thousands)

ASSETS	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	HEMAP	Total
Current assets:						
Cash and cash equivalents	$ 6,688	$ 107,873	$ 220,759	$ 43,995	$ 7,742	$ 387,057
Restricted cash and cash equivalents	2,555	26,784	64,562	-	-	93,901
Investments	125	-	3,369	-	-	3,494
Restricted investments	105	2,378	1,554	-	-	4,037
Accrued investment interest receivable	128	291	844	84	-	1,347
Mortgage loans receivable, net	-	17,938	75,833	-	6,622	100,393
Accrued mortgage loan interest receivable	-	4,767	29,778	-	-	34,545
Other current assets	472	-	16	-	-	488
Total Current Assets	10,073	160,031	396,715	44,079	14,364	625,262
Noncurrent Assets:						
Investments	59,390	350	3,087	1,571	-	64,398
Restricted investments	910	20,420	148,257	-	-	169,587
Mortgage loans receivable, net	2,335	350,452	3,193,646	-	48,062	3,594,495
Real estate owned	-	-	37,303	-	-	37,303
Capital assets, net	31,216	-	-	-	-	31,216
Due from other funds	60,055	22,035	-	-	-	82,090
Other noncurrent assets	24,018	1,542	5,612	-	-	31,172
Total Noncurrent Assets	177,924	394,799	3,387,905	1,571	48,062	4,010,261
TOTAL ASSETS	187,997	554,830	3,784,620	45,650	62,426	4,635,523
DEFFERED OUTFLOWS OF RESOURCES						
Unamortized losses on bond refundings	-	981	9,592	-	-	10,573
Accumulated decrease in fair value of hedging derivatives	-	4,893	26,642	-	-	31,535
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-	5,874	36,234	-	-	42,108
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 187,997	$ 560,704	$ 3,820,854	$ 45,650	$ 62,426	$ 4,677,631
LIABILITIES						
Current Liabilities:						
Bonds and notes payable, net	$ 350	$ 14,260	$ 96,730	$ -	$ -	$ 111,340
Accrued interest payable	1	1,708	28,746	-	-	30,455
Accounts payable and accrued expenses	2,178	-	14,264	-	165	16,607
Escrow deposits and development reserves	599	17,542	45,721	-	-	63,862
Other current liabilities	58	544	5,679	300	-	6,581
Total Current Liabilities	3,186	34,054	191,140	300	165	228,845
Noncurrent Liabilities:						
Bonds and notes payable, net	19,650	38,985	3,170,038	-	-	3,228,673
Derivative instrument - interest rate swaps	-	9,541	47,981	-	-	57,522
Development reserves	-	77,721	-	-	-	77,721
Due to other funds	-	-	82,090	-	-	82,090
Other noncurrent liabilities	30,279	178,321	21,929	2,010	19,968	252,507
Total Noncurrent Liabilities	49,929	304,568	3,322,038	2,010	19,968	3,698,513
TOTAL LIABILITIES	53,115	338,622	3,513,178	2,310	20,133	3,927,358
NET POSITION						
Net investment in capital assets	11,216	-	-	-	-	11,216
Restricted	-	619	122,652	-	42,293	165,564
Unrestricted	123,666	221,463	185,024	43,340	-	573,493
TOTAL NET POSITION	134,882	222,082	307,676	43,340	42,293	750,273
TOTAL LIABILITIES AND NET POSITION	$ 187,997	$ 560,704	$ 3,820,854	$ 45,650	$ 62,426	$ 4,677,631

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2014 (in thousands)

	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	HEMAP	Total
Operating Revenues:						
Interest income on mortgage loans	-	12,358	145,270	-	575	158,203
Program income and fees	43,961	3,551	3,323	1,879	11,359	64,073
Gain on sales of mortgage-backed securities	12,470	-	-	-	-	12,470
Investment income	662	336	8,004	417	7	9,426
Net increase (decrease) in fair value of investments	5,009	(275)	(1,282)	(1,084)	-	2,368
Net increase in fair value of swaps	-	1,314	76	-	-	1,390
Gain on early extinguishment of debt	-	1	1,240	-	-	1,241
Total Operating Revenues	62,102	17,285	156,631	1,212	11,941	249,171
Operating Expenses:						
Interest expense on bonds and notes	374	4,065	126,150	-	-	130,589
Salaries and related benefits	26,023	-	-	-	2,541	28,564
OPEB liability expense	3,726	-	-	-	558	4,284
Financing and program expenses	-	188	13,230	-	-	13,418
General and administrative	10,303	2,121	889	-	720	14,033
Provision for loan loss and real estate owned	-	-	12,041	-	8,430	20,471
Total Operating Expenses	40,426	6,374	152,310	-	12,249	211,359
Operating Income (Loss)	21,676	10,911	4,321	1,212	(308)	37,812
Nonoperating Revenue						
Federal program awards	-	397,241	4,642	-	3,755	405,638
Nonoperating Expense						
Federal program expense	-	397,241	4,642	-	3,755	405,638
Income (Loss) Before Transfers	21,676	10,911	4,321	1,212	(308)	37,812
Interfund transfers	(3,948)	(2,833)	6,509	272	-	-
Change in Net Position	17,728	8,078	10,830	1,484	(308)	37,812
Net Position - beginning of year, as restated (see note 3)	117,154	214,004	296,846	41,856	42,601	712,461
Net Position - end of year	$ 134,882	$ 222,082	$ 307,676	$ 43,340	$ 42,293	$ 750,273

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Statement of Cash Flows

Year Ended June 30, 2014 (in thousands)

	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	HEMAP	Total
Cash Flows From Operating Activities						
Receipts of mortgage loan payments	$ -	$ 53,083	$ 665,213	$ -	$ 7,612	$ 725,908
Receipts of mortgage-backed security premiums	12,470	-	-	-	-	12,470
Receipts from fees and other income	43,961	3,551	3,323	1,879	11,359	64,073
Receipts from interest on mortgages	-	12,531	143,133	-	575	156,239
Receipts (payments) of escrow and development reserves	4,637	(764)	21,253	-	-	25,126
Payments for mortgages and purchases	-	(12,320)	(451,445)	-	(18,995)	(482,760)
Payments for salaries and related benefits	(29,749)	-	-	-	(1,070)	(30,819)
Payments for goods and services	(9,426)	(2,121)	(354)	(953)	(720)	(13,574)
Net Cash Provided By (Used In) Operating Activities	21,893	53,960	381,123	926	(1,239)	456,663
Cash Flows From Noncapital Financing Activities						
Payments for retirement of bonds and notes	-	(19,384)	(353,860)	-	-	(373,244)
Payments of bonds and notes interest	-	(4,397)	(131,035)	-	-	(135,432)
Payments of financing costs	-	(188)	(13,230)	-	-	(13,418)
Repayments of program advances	-	-	-	-	(1,664)	(1,664)
Receipts of federal program awards	-	397,241	4,642	-	3,755	405,638
Payments of federal program awards	-	(397,241)	(4,642)	-	(3,755)	(405,638)
Transfers from (to) other funds	(37,118)	(3,060)	39,906	272	-	-
Net Cash Provided By (Used In) Noncapital Financing Activities	(37,118)	(27,029)	(458,219)	272	(1,664)	(523,758)
Cash Flows From Capital Financing Activities						
Purchases of capital assets	(1,484)	-	-	-	-	(1,484)
Interest paid on capital debt	(836)	-	-	-	-	(836)
Net Cash Used In Capital Financing Activities	(2,320)	-	-	-	-	(2,320)
Cash Flows From Investing Activities						
Proceeds from the sale or maturity of investments	680	34,089	44,232	-	-	79,001
Investment interest receipts	630	251	7,993	404	7	9,285
Purchases of investments	(79)	(44,988)	(3,997)	(405)	-	(49,469)
Net Cash Provided By (Used In) Investing Activities	1,231	(10,648)	48,228	(1)	7	38,817
Net Increase (Decrease) In Cash and Cash Equivalents	(16,314)	16,283	(28,868)	1,197	(2,896)	(30,598)
Cash and cash equivalents, beginning of year	25,557	118,374	314,189	42,798	10,638	511,556
Cash and cash equivalents, end of year	$ 9,243	$ 134,657	$ 285,321	$ 43,995	$ 7,742	$ 480,958

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Statement of Cash Flows (continued)

Year Ended June 30, 2014 (in thousands)

	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	HEMAP	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:						
Operating Income (Loss)	$ 21,676	$ 10,911	$ 4,321	$ 1,212	$ (308)	$ 37,812
Investment income recognized	(630)	(251)	(7,993)	(404)	(7)	(9,285)
Net change in fair value of investments	(5,009)	275	1,282	1,084	-	(2,368)
Net change in fair value of swaps	-	(1,314)	(76)	-	-	(1,390)
Interest expense on bonds and notes	374	4,065	126,150	-	-	130,589
Financing expenses	-	188	13,230	-	-	13,418
Provision for loan loss	-	-	12,041	-	8,430	20,471
Depreciation	1,147	-	-	-	-	1,147
Early extinguishment of debt	-	(1)	(1,240)	-	-	(1,241)
Changes in Assets and Liabilities:						
Mortgage loans receivable, net	-	40,763	213,768	-	(11,383)	243,148
Mortgage loans interest receivable	-	173	(2,137)	-	-	(1,964)
Accrued interest receivable on investments	(32)	(85)	(11)	(13)	-	(141)
Other assets	(9)	-	599	-	1,827	2,417
Accounts payable and accrued expenses	(261)	-	12,318	-	(304)	11,753
Escrow deposits and development reserves	52	(4,842)	2,154	(953)	-	(3,589)
Other liabilities	4,585	4,078	6,717	-	506	15,886
Net Cash Provided By (Used In) Operating Activities	$ 21,893	$ 53,960	$ 381,123	$ 926	$ (1,239)	$ 456,663

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

1. Organization

The Pennsylvania Housing Finance Agency ("Agency") was created by the General Assembly of the Commonwealth of Pennsylvania ("Commonwealth") in 1972 as a means to provide affordable housing for older adults, persons and families of modest means and persons with disabilities. Pursuant to the Housing Finance Agency Law, Act of 1959, P. L. 1688, No. 620 ("Act"), as amended, 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, persons with special needs or the elderly who receive assistance from federal government programs.

The Act was amended to authorize the Agency to make or purchase mortgage loans used 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 initial legislation and subsequent amendments grant the Agency the power to issue debt in order to finance its programs and operations. Debt obligations issued under the provisions of the Act are not a debt or liability of the Commonwealth or any of its political subdivisions or a pledge of the faith and credit of the Commonwealth or of any of its political subdivisions.

The Board of the Agency sets policy and oversees the organization's operations. The Board has 14 members. The Secretary of Banking, (chair), the Secretary of Community and Economic Development, the Secretary of Public Welfare and the State Treasurer serve by virtue of their offices. Four members of the Board serve at the pleasure of the majority and minority leaders of the State Senate and House of Representatives. Six private citizen members are appointed by the Governor, confirmed by the State Senate, and serve for staggered six-year terms.

The Agency is a component unit of the Commonwealth, as defined by the Governmental Accounting Standards Board ("GASB") – the source of generally accepted accounting principles used by State and Local governments in the United States. The Agency's financial information is discretely presented in the Commonwealth's financial statements, but the Agency is not considered part of the Commonwealth's primary government.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Agency presents its financial statements in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), as established by GASB. For financial reporting purposes, the Agency is considered a special-purpose government engaged in business-type activities. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred.

Description of Funds

The accounts of the Agency are structured within separate enterprise funds, each representing a separate accounting entity. The Agency's resources are allocated to these funds based upon legal responsibility, accountability and management designation, summarized as follows:

General Fund – Consists of a group of accounts used to record income and expenses that are not directly pledged to or associated with the funds described below, and includes activity related to varying Agency programs and initiatives, including loan servicing, and the payment of expenses related to the Agency's administrative functions.

Multifamily Housing Program ("Multifamily Program") – Records the activity related to financing the construction, rehabilitation or operational expenses of multifamily rental housing developments generally designed for persons or families of low and moderate income or the elderly.

Single Family Mortgage Loan Program ("Single Family Program") – Records the activity related to providing capital for the purchase and servicing of mortgage loans for owner-occupied single-family residences for persons or families of low and moderate income.

Insurance Fund – The Agency provides primary mortgage insurance coverage through this fund for certain single-family borrowers.

Homeowners' Emergency Mortgage Assistance Program ("HEMAP") – Created by Act 91 of 1982 by the Pennsylvania General Assembly to provide emergency mortgage assistance loans to mortgagors facing foreclosure due to circumstances beyond their control. HEMAP's primary operating revenues derive from funding received from the Commonwealth of Pennsylvania, and are reported as a component of Program Income and Fees within the Agency's financial statements.

Cash and Cash Equivalents

Cash includes currency on hand and currency equivalents that may be accessed immediately or near-immediately. Cash equivalents are defined as short-term investments with maturities of three months or less that are readily convertible to known amounts of cash. Agency cash and cash equivalents consist of demand deposit checking and savings accounts, cash held in trust and money market funds.

Investments

Investments are reported at fair value. Fair value is determined by reference to published market prices and quotations, where available, at the closing of each reporting period. Changes in fair values are recognized separately within the Statement of Revenues, Expenses and Changes in Net Position.

Restricted Cash, Cash Equivalents and Investments

Restricted cash, cash equivalents and investments are restricted primarily by escrow agreements, bond resolutions, debt servicing agreements or other contractual agreements. The Agency collects mortgage payments on behalf of mortgagees for whom the Agency acts as a servicer. The Agency holds monies from multifamily property owners and single-family homeowners for payments of real estate taxes, property insurance and operating reserves, and has recorded a corresponding liability related to these balances. The Agency maintains funds, restricted as to their use, in order to comply with bond debt capital reserve fund and self-insurance fund requirements and certain investor or creditor covenants.

Mortgage Loans Receivable, Net

Mortgage loans receivable are reported as the sum of mortgage amounts disbursed, plus unamortized mortgage servicing rights/servicing release premiums, less repayments and an allowance for loan losses. The current portion of mortgage loans receivable represents the contractual amount due within the forthcoming year.

Mortgage servicing rights/servicing release premiums are amortized over the life of the related loans using the effective interest method, and include servicing rights associated with both mortgages owned by the Agency and mortgages sold by the Agency for which servicing rights were retained. Mortgage servicing rights respective of the servicing rights retained for loans sold by the Agency are reported at the lower of amortized cost or fair value.

The allowance for loan losses represents an adjustment applied to the balances of mortgage loans receivable in order to reflect amounts deemed collectible, based upon management's evaluation of the underlying loans. Factors considered by management include the estimated fair values of the properties representing collateral, mortgage insurance coverage on the collateral, the financial condition of the borrower, government guarantees and the economy as a whole.

Real Estate Owned

Real estate owned represents single-family real estate acquired as a result of foreclosure, acceptance of a deed in lieu of foreclosure or other defaults of nonperforming mortgage loans. The outstanding balances attributable to these properties approximate the lower of cost or net realizable value, less costs to sell.

Capital Assets
The Agency capitalizes assets with an initial cost of $1 (one-thousand dollars) or more. Depreciation is calculated using the straight-line method over the estimated useful lives, which are 5 years for furniture, fixtures and equipment and 45 years for the Agency's building. When capital assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded.

Due From and Due To Other Funds and Interfund Transfers
In order to meet liquidity requirements of individual funds, the Agency transfers funds to and from the separate enterprise funds. The Agency makes interfund transfers to the extent that such transfers are not otherwise required to meet the Agency's debt obligations and if such transfers are not in violation of the terms of bond resolutions or indentures. Transactions that have not been settled at the year-end are recorded as due to or due from other funds.

Other Assets
Other assets include net pension assets, federal funding receivable, prepaid expenses and advances from the Agency to HEMAP.

Deferred Outflow of Resources
Deferred Outflows of Resources include Unamortized Losses on Bond Refundings, which are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt, and amounts reported as Accumulated Decrease in Fair Value of Hedging Derivatives, which represent the anticipated future utilization of the net position of interest rate swap agreements deemed to be effective hedging derivatives.

Bonds and Notes Payable, Net
The Agency issues bonds and notes to provide capital for its mortgage programs and other uses consistent with its mission. The resultant debt is secured by mortgage loans, investments, general credit pledges, other assets and revenues within the respective program or accounts established by the associated security agreements. Outstanding bonds and notes are stated at their unpaid balance less any unamortized discounts or premiums. The current portion of bonds and notes payable represents the scheduled principal payable within the forthcoming year.

Escrow Deposits and Development Reserves
Escrow deposits represent balances of receipts from Single Family Program homeowners and Multifamily Program developments for anticipated payments of real estate taxes, property insurance and mortgage insurance. Development reserves represent operating reserves for repairs and replacement, property improvements, supportive services and potential operating deficits experienced by Multifamily Program developments.

Other Liabilities
Other liabilities consist mainly of unearned revenues, other postemployment benefit ("OPEB") obligations, unearned federal funding, accrued expenses and advances to HEMAP from the Agency. Advances from the Agency to HEMAP are repaid on an as-able basis and are contingent upon funding allocations from the Commonwealth to HEMAP.

Derivative Instruments – Interest Rate Swaps
The Agency enters into interest rate swap agreements ("swaps") with various counterparties to hedge the interest rate exposure associated with variable-rate debt and to reduce overall borrowing costs. Swaps are structured whereby the Agency pays a fixed interest rate to a counterparty in exchange for the same counterparty paying a variable interest rate, which is established based upon a common market index, to the Agency.

Swaps are stated at fair value, and are classified as either hedging derivatives, amended hedging derivatives or investment derivatives. Hedging derivatives include swaps with critical terms that have not changed since their inception; amended hedging derivatives include swaps with critical terms that have since been amended. The changes in fair values of hedging derivatives and amended hedging derivatives are reported as accumulated decreases in fair values of hedging derivatives on the Balance Sheet, which equal the values of the corresponding swaps. Investment derivatives include swaps that are not considered to be effective hedges; the changes in fair values of investment derivatives are reported as a net increase or decrease in the fair value of swaps and recognized as a revenue or expense.

Net Position
Net position is classified in the following three components:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt attributable to the acquisition, construction or improvement of those assets.

Restricted – Consists of assets with constraints placed on their use by laws, regulations, Agency bond resolutions or external groups, such as creditors or grantors.

Unrestricted – Consists of assets that do not meet the definition of Net Investment in Capital Assets or Restricted. This component includes assets designated for specific purposes by the members of the Board.

When both restricted and unrestricted resources are available in a fund, it is the Agency's policy to use restricted resources to the extent allowed and only use unrestricted resources when needed.

Classification of Revenues and Expenses

Operating revenues include all revenue from mortgage and loan activity, mortgage servicing, investment income and gains on the sale of pooled loans via the Government National Mortgage Association ("GNMA") and the Federal National Mortgage Association ("FNMA"). Operating revenues also include amounts received for the administration of grant programs, which includes administrative fees for the oversight of award distribution, monitoring of subrecipients and reporting to federal agencies and allocations for the costs of required independent annual audits of federal awards expended. The costs of mortgage loan servicing, investment and grant administration activity are reported as operating expenses.

Nonoperating revenues and expenses include federal program awards and the corresponding direct program costs for which those awards are received and recognized, and consist primarily of pass-through amounts related to the Agency's role as contract administrator of the U.S Department of Housing and Urban Development's ("HUD") Section 8 subsidy program.

The General Fund records revenue and expenses for salaries, benefits, and other operational revenues and expenses that are not directly related to the Agency's Multifamily and Single Family Programs.

Interest Income on Mortgage Loans

Interest received for mortgage loans is based upon the constant yield method. Multifamily Program and Single Family Program loans more than 180 days delinquent in scheduled payments are considered nonperforming mortgage loans, which result in the cessation of recognition of additional interest on such mortgage loans.

Gain on Sales of Mortgage-Backed Securities

The Agency participates in the GNMA and FNMA Mortgage Backed Securities ("MBS") programs, whereby GNMA or FNMA guarantees securities that are issued by the Agency and backed by pools of mortgage loans. Gains on sales of MBSs are recorded at the time of settlement and represent the difference between the sale price of the MBSs and the carrying value of the underlying pool of mortgages backing them.

Investment Income

Investment Income includes net receipts and payments associated with swaps deemed to be investment derivatives, gains or losses on sales of investment securities and investment interest income.

Pension Plan and Other Postemployment Benefits Expense

The Agency is required to measure and disclose amounts for annual pension cost and net pension obligations. Actuarially determined periodic contributions are made by the Agency in order to maintain sufficient assets to pay benefits when due. Pension expenses are recorded as salaries and related benefits.

The Agency is required to measure, recognize and disclose OPEB expenses, related liabilities and note disclosures. The Agency does not fund its OPEB liability; rather, the Agency provides health insurance for its retirees on a pay-as-you-go basis.

Compensated Absences
Employees earn vacation and illness leave benefits. Upon separation of service, employees are compensated for accumulated leave balances, limited by Agency policy. Compensated absence leave is recorded as an accrued expense in the period earned.

Debt Issuance Costs, Discounts and Other Related Costs
Costs related to bond and note issuance are expensed when incurred. Bond discounts and premiums are amortized over the lives of the corresponding bonds using the effective interest method. Net swap agreement payments are recorded as a component of interest expense on bonds and notes.

Adopted Accounting Standards
GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"), establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The financial reporting effects of the implementation of this Statement, effective for the Agency's fiscal year ended June 30, 2014 and applied retroactively, are discussed in detail within Note 3.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62,* improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two previous GASB pronouncements. The implementation of this Statement, effective for the Agency's fiscal year ended June 30, 2014, had no impact on the Agency's basic financial statements.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The implementation of this Statement, effective for the Agency's fiscal year ended June 30, 2014, had no impact on the Agency's basic financial statements.

Accounting Standards Issued But Not Yet Adopted
GASB issued the following Statements that will become effective in future reporting periods. Management is currently evaluating the potential impact on the Agency's financial statements.

- GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25,* issued June 2012. This Statement is effective for periods beginning after June 15, 2013; but, because the financial statements of the Agency's pension plan report on a calendar year basis, the most recent financial statements attributable to the Agency's pension plan are respective of the year ended December 31, 2013 and do not reflect the implementation of this Statement. As a result, the implementation of this Statement will be reflected in the Agency's financial statements for the fiscal year ending June 30, 2015.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, issued June 2012. This statement is effective for the Agency's fiscal year ending June 30, 2015.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013. This statement is effective for the Agency's fiscal year ending June 30, 2015.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, issued November 2013. This statement is effective for the Agency's fiscal year ending June 30, 2015.

3. Restatement of Net Position

The implementation of GASB 65 requires the costs of issuance of bonds and notes and the costs associated with the purchase of mortgages to be expensed when incurred. Prior to the adoption of GASB 65, bond and note issuance costs were capitalized and amortized over the lives of the corresponding bonds and notes; costs associated with the purchase of mortgages were capitalized and amortized over the lives of the corresponding mortgages.

In prior years, the Agency's Neighborhood Revitalization Initiative ("NRI"), Homeownership Choice Program ("HCP") and Mixed Use Facility Financing Initiative ("MUFFI") were incorrectly reported as mortgage loans receivable and included within the financial statements of the Single Family Program. As of July 1, 2013, these amounts have been classified to the General Fund, which financed the programs.

$75 million of NRI, HCP and MUFFI disbursements previously reported as mortgage loans receivable met the criteria of a nonexchange transaction, as defined in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, because upon substantial completion of construction of the associated projects, the loans were forgiven and should have been expensed at that time.

June 30, 2014 (in thousands)

At the time of origination of the HCP mortgage loans, 10% of the proceeds were disbursed to the Agency and used to purchase zero-coupon bonds having maturity dates synchronous with the maturity dates of the corresponding mortgage loans. In prior years, unrealized gains resulting from changes in market values of these zero-coupon bonds were incorrectly deferred, with the intent of recognizing the revenue at the time of the zero-coupon bonds' maturities. Generally Accepted Accounting Principles requires unrealized gains in investments to be recognized during the period in which they occur.

Accumulated decreases in the fair values of certain interest rate swaps deemed investment derivatives were incorrectly reported as Deferred Outflows of Resources in the prior year; GAAP requires the changes in the fair values of investment derivatives to be reported as a net increase or decrease in the fair value of swaps and recognized as a revenue or expense.

Allowances for potential losses on MUFFI mortgage loans receivable were not calculated and reflected in prior years. These allowances should have previously been recorded in order to properly report the net realizable value of MUFFI mortgage loans receivable.

Prior year allowances for potential losses on supplemental notes receivable and accrued interest receivable associated with certain Multifamily Program mortgage loans should have been increased at that time in order to properly report the net realizable value of the supplemental notes and accrued interest receivable.

As a result of the adoption of GASB 65 and the aforementioned corrections, Net Position of the General Fund, Multifamily Program and Single Family Program has been restated as follows:

	General Fund	Multifamily Program	Single Family Program
July 1, 2013 Net Position, previously stated	$ 174,087	$ 237,881	$ 354,578
Implementation of GASB 65			
Bond and Note Issuance Costs	(151)	(466)	(21,438)
Mortgage Purchase Costs	-	-	(36,292)
Corrections of Errors			
NRI, HCP and MUFFI Disbursements	(75,080)	-	-
Deferred Unrealized Investment Gains	20,879	-	-
Interest Rate Swap Deferred Outflow	-	(6,119)	(2)
Allowance for MUFFI Loans Receivable	(2,581)	-	-
Allowance for Supplemental Notes	-	(2,991)	-
Allowance for Accrued Interest	-	(14,301)	-
July 1, 2013 Net Position, restated	$ 117,154	$ 214,004	$ 296,846

June 30, 2014 (in thousands)

4. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

The Agency maintains a policy whereby cash and cash equivalents must be held in insured depositories satisfactory to the Agency. Cash and cash equivalents balances for the year ended June 30, 2014 were as follows:

Cash	$ 48,712
Money market accounts	432,246
Total carrying amount of cash and cash equivalents	$ 480,958
Bank balance of cash and cash equivalents	$ 483,161

Custodial Credit Risk

The Agency assumes levels of custodial credit risk for its cash and cash equivalents with financial institutions. Custodial credit risk is the risk that, in the event of a bank failure, the Agency's cash and cash equivalents may not be returned. The Agency has not established a formal custodial credit risk policy for its cash and cash equivalents.

At June 30, 2014, the carrying value of the Agency's cash deposits equaled $48,712 with a bank balance of $56,127, of which $55,127 was uninsured but collateralized in accordance with Act 72 of the Commonwealth of Pennsylvania by securities held by the pledging financial institution, its trust department or agent, but not in the Agency's name.

At June 30, 2014, the carrying value of the Agency's money market accounts, reported as cash equivalents, equaled $432,246 with a bank balance of $427,034. These do not expose the Agency to custodial credit risk because they represent investments in open-end mutual funds and their existence is not evidenced by securities that exist in physical or book-entry form.

Investments

Commonwealth of Pennsylvania statutes and contractual provisions contained within the Agency's bond trust indentures govern the investment policies of the Agency. The Housing Finance Agency Law, Act of December 3, 1959, P. L. 1688 ("Act") and bond indentures provide the authority to invest all Agency funds. In compliance with the Act and bond indentures, it is the policy of the Agency to invest in securities that provide suitable returns, preserve principal, meet liquidity needs and which further the mission of the Agency.

Securities include any of the following obligations, to the extent the same are, at the time, legal for investment of funds of the Agency under the Act, including amendments thereto made, or under other applicable law:

- Direct obligations of or obligations guaranteed by the United States of America;
- Any bond, debenture, note, participation certificate or other similar obligation issued by any of the following agencies: GNMA, Federal Land Bank, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Farm Credit Administration, Export-Import Bank and FNMA;
- Any other obligation of the United States of America or any federal agencies which may then be purchased with Agency funds or which are legal investments for savings banks, savings associations, or savings and loan associations in the Commonwealth;
- Public Housing Bonds issued by public agencies or municipalities and fully secured by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary loans notes or project notes issued by public agencies or municipalities, in such case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
- Direct and general obligations of or obligations guaranteed by the Commonwealth, to the payment of the principal of the interest on which the full faith and credit of the Commonwealth is pledged;
- Direct and general obligations of any state of the United States, to the payment of which the full faith and credit of such state are pledged, but only if such obligations are rated not less than "AA" by Standard & Poor's and "Aa" by Moody's Rating Service or, upon the discontinuance of either or both of such services, another nationally recognized rating service;
- Deposits in interest-bearing time or demand deposits, or certificates of deposit, fully secured as provided under the laws of the Commonwealth or by obligations described in the six bullet points above;
- Repurchase agreements with Primary Government Securities Dealers fully collateralized by Investment Securities of the types described in the first three bullet points above provided that such collateral is valued at least monthly and that such collateral as applicable is held by the trustee or a third party;
- Deposits in mutual or money market funds which invest solely in Investment Securities of the types described in the first three bullet points above and with total assets (deposited funds) of five hundred million dollars or greater;
- Commercial paper (except that of the Agency or an affiliate) or finance company paper rated "P-1" by Moody's Investors Service and "A-1+" by Standard & Poor's Corporation;

June 30, 2014 (in thousands)

- Non-collateralized certificates of deposit with institutions rated not less than "Aa" by Moody's Investors Service and "AA" by Standard & Poor's Corporation;
- Investment agreements with an entity whose obligations are rated not less than "AA" by Standard & Poor's Corporation and "Aa" by Moody's Investor's Service, or which fully secure such agreements with securities described in the first three bullet points above; and
- Reverse repurchase agreements as applicable to Agency funds.

Credit Risk
The Agency mitigates its credit risk by limiting investments to those permitted in its deposit and investment policies, diversifying the investment portfolio and prequalifying firms with which the Agency conducts its investment activities.

The credit quality ratings of the Agency’s investments for the year ended June 30, 2014, as determined by Moody’s Investors Service, are shown below. $171,727 of U.S. Government Agency Mortgage-Backed Securities, U.S. Government Agency Securities and U.S. Treasury securities, which are explicitly guaranteed by the U.S. Government, are not considered to have credit risk and, therefore, are not included in the summary.

	Fair	**Credit Ratings**	
Investment Type	**Value**	**Aaa**	**Not Rated**
U.S. Government Agency Securities*	$ 51,809	$ -	$ 51,809
U.S. Government Agency Mortgage-Backed Securities	17,980	17,980	-
	$ 69,789	$ 17,980	$ 51,809

* - Amounts are comprised of Tennessee Valley Authority bonds, which are implicitly guaranteed U.S. Government Securities.

Money market accounts with a book value of $432,246 at June 30, 2014 that were held by the Agency and reported as cash equivalents were rated Aaa by Moody’s Investors Service.

Custodial Credit Risk
Custodial credit risk is the risk that, in the event of failure of the custodian or counterparty holding the investment, the Agency will not be able to recover the value of the investment. The Agency has not established a formal custodial credit risk policy for its investments. All of the Agency’s investment balances are in book-entry form in the Agency’s name and are held by bank trust departments, acting as the counterparty; accordingly, these investments are not subject to custodial credit risk.

June 30, 2014 (in thousands)

Concentration of Credit Risk

Concentration risk is the risk of loss attributed to the magnitude of the Agency's investment in a single investment issuer. At June 30, 2014, the Agency had a concentration of credit risk with the Tennessee Valley Authority; the value of investments with this issuer equaled $51,809, which exceeded 5% of the total value of the investment portfolio.

Agency policy indicates that the proportion of investments in government securities shall not exceed 70% of the portfolio and the proration of investments in certificates of deposit shall not exceed 30% of the portfolio. At June 30, 2014, concentrations in government securities, which represented 100% of the portfolio, exceed the policy. This departure from policy was approved by the Executive Director, as permitted by the Agency Investment Policy and Guidelines. Concentration limits are not established in the bond indentures and governing agreements for trust investments.

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 changing interest rates. For the year ended June 30, 2014, the Agency had investments with the following maturities:

		Investment Maturities (in Years)			
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
U.S. Government Agency Mortgage-backed Securities	$ 179,130	$ -	$ 29,960	$ -	$ 149,170
U.S. Government Agency Securities	52,132	85	198	40	51,809
U.S. Treasury Securities	10,254	6,479	3,775	-	-
	$ 241,516	$ 6,564	$ 33,933	$ 40	$ 200,979

Investments in mortgage-backed securities are sensitive to interest rate changes because, for example, borrowers will have the option to refinance or prepay their mortgages in a declining interest rate environment, thereby leaving the Agency with those funds to invest at a lower rate. In addition to the amounts listed above, the Agency held money market accounts with a fair value of $432,246 at June 30, 2014, reported as cash equivalents that have maturities of less than one year.

June 30, 2014 (in thousands)

5. Mortgage Loans

Amounts reported as mortgage loans receivable at June 30, 2014 consisted of the following:

	General Fund	Multifamily Program	Single Family Program	HEMAP	Total
Mortgage loans	$ 4,916	$ 509,022	$ 3,280,127	$ 101,950	$ 3,896,015
Add:					
Loan premiums	-	-	298	-	298
Less:					
Loan discounts	-	2,777	-	-	2,777
Allowance for loan losses	2,581	137,855	10,946	47,266	198,648
Mortgage loans receivable	2,335	368,390	3,269,479	54,684	3,694,888
Current portion	-	17,938	75,833	6,622	100,393
Noncurrent portion	$ 2,335	$ 350,452	$ 3,193,646	$ 48,062	$ 3,594,495

Mortgages Held for Sale
Mortgages held for sale totaling $23,432 were included within the reported balance of Single Family Program mortgage loans receivable at June 30, 2014.

Securitizations and Gains on the Sale of Mortgage-Backed Securities
During the year ended June 30, 2014, the Agency securitized mortgage loans with a principal balance of $404,910 into MBSs through GNMA and FNMA. MBSs are either sold to private investors or purchased by the Agency. Ongoing General Fund revenue for the Agency is generated from servicing the loans pooled into MBSs, which is reported as program income and fees, and by gains derived from the sale price less the value of the underlying mortgages of the MBSs at the time of settlement. Total gains on the sale of MBSs for the year ended June 30, 2014 equaled $12,470.

Mortgage Loan Collateral and Insurance Coverage
General Fund mortgage loans receivable represent amounts disbursed to mixed-use properties through the Agency’s MUFFI program. The loans are not insured, but they are secured by promissory notes and mortgages on the associated properties.

Multifamily Program mortgage loans receivable are not insured, but are collateralized by mortgages on the related projects. The federal government subsidizes certain projects included in the Multifamily Program mortgage loan portfolio.

June 30, 2014 (in thousands)

At June 30, 2014, the Agency's Single Family Program mortgage loan servicing portfolio equaled $4.4 billion; this included the balances of mortgage loans reported as assets by the Agency and insured loans that have been sold through MBSs, which are not reported as Agency assets but represent loans for which the Agency purchased and retained servicing rights. Single Family Program mortgage loans are secured by liens on the related real property, and private mortgage insurance is generally required on all mortgage loans where the loan principal amount exceeds 80% of the lesser of the purchase price or the initial appraised value of the property. Private mortgage insurance for Single Family Program mortgage loans is provided by commercial companies, the Agency's Insurance Fund, certain federal programs through the Federal Housing Administration ("FHA"), United States Department of Veterans Affairs ("VA") and United States Department of Agriculture – Rural Development ("RD"), FNMA and varying other sources. At June 30, 2014, insurance coverage associated with Single Family Program mortgage loans included the following:

Commercial Insurance	$ 159,872	3.59%
PHFA Insurance Fund	285,659	6.42%
FHA	2,025,181	45.53%
VA	129,339	2.91%
RD	314,514	7.07%
FNMA	367,053	8.25%
Other	480	0.01%
Uninsured	1,166,014	26.21%
Total Single Family Program Servicing Portfolio:	$ 4,448,112	100.00%

HEMAP loans are not insured and are unsecured, being in a second or third lien position; those loans are emergency loans provided to mortgagors facing foreclosure.

Loan Delinquency and Foreclosure

At June 30, 2014, no mortgage loans reported within the General Fund were either delinquent or in pending foreclosure actions.

At June 30, 2014, the principal balance of Multifamily Program primary mortgage loans delinquent 91 days or greater for which the Agency was exposed to some level of loss equaled $429, and no Multifamily Program mortgage loans were in pending foreclosure actions.

At June 30, 2014, the principal balance of Single Family Program mortgage loans delinquent 91 days or greater for which the Agency was exposed to some level of loss equaled $296,737, and loans with pending foreclosure actions had an aggregate principal balance of approximately $97,495.

June 30, 2014 (in thousands)

At June 30, 2014, the principal balance of HEMAP mortgage loans delinquent 91 days or greater equaled $27,769.

Troubled Debt Restructuring
A troubled debt restructuring occurs when a creditor, for economic or legal reasons related to a debtor's financial difficulties, grants a concession to a debtor experiencing financial difficulties that the creditor would not otherwise consider. Regardless of the form of concession granted by the creditor to the debtor in a troubled debt restructuring, the creditor's objective is to assist the debtor in a difficult situation – the creditor expects to receive a return on investment or increase the probability of receipt of payment by granting the concessions than by not granting them. When conducted in a prudent manner, modifications of problem loans are generally in the best interest of both the creditor and the debtor and can lead to improved loan performance and reduced credit risk.

The Agency engages in troubled debt restructuring activities by virtue of affording modifications to the terms and interest rates of its Single Family Program mortgage loans. Such modifications are granted in order to assist qualified and distressed mortgagors facing foreclosure and to reduce the number of mortgage insurance claims the Agency would otherwise file with the Federal Housing Administration ("FHA") Mutual Mortgage Insurance Fund.

Details associated with Single Family Program loan modifications as of June 30, 2014 were as follows:

Aggregate recorded loan balance	$ 151,638
Number of loans	1,993
Gross interest revenue, if the mortage loan had been current	$ 8,824
Actual amount of interest received and included in net position	$ 6,209

Allowance for Loan Loss
The allowances for loan losses at June 30, 2014 consisted of the following:

	General Fund	Multifamily Program	Single Family Program	HEMAP
Beginning balance	$ 2,581	$ 147,385	$ 9,676	$ 48,103
Loss provision	-	-	7,550	8,430
Net losses	-	(9,530)	(6,280)	(9,267)
Ending balance	$ 2,581	$ 137,855	$ 10,946	$ 47,266

June 30, 2014 (in thousands)

Mortgage-Backed Security Repurchase Reserve

Mortgage loans securitized into MBSs through either GNMA or FNMA ("securitized loans") are not included in the Agency's financial statements. If a borrower fails to make a timely payment on a mortgage loan, the Agency must use its own funds to ensure that holders of Agency-issued MBSs receive timely payment. In circumstances of significant borrower delinquency, the Agency will repurchase a securitized loan from its respective MBS. Repurchased mortgage loans are included in the Agency's financial statements; as a result, the risk of loss, net of mortgage insurance, associated with these loans is considered in management's routine evaluation of the allowances for loan losses and the Agency has, therefore, established a loan loss reserve for these securitized loans. Securitized loans repurchased by the Agency totaled $35,793 for the year ended June 30, 2014, and the Agency's repurchase reserve for securitized loans equaled $3,062 at June 30, 2014. Repurchase reserve amounts are included within the Agency's allowances for loan loss for those respective years in the Single Family Program.

Insurance Fund

The Agency provides primary mortgage insurance to certain Single Family Program borrowers who are unable to obtain insurance from other sources. The coverage of this insurance ranges from 20% to 35% of the unpaid principal balance, depending on the loan-to-value ratio at origination. At June 30, 2014, the outstanding principal balance of mortgage loans insured by the Insurance Fund equaled $285,659.

Insurance Fund Claims Liability

GAAP requires the basis for estimating the liability for unpaid claims to include the effects of specific incremental claim adjustment expenses and estimated recoveries. In addition, it requires disclosure of whether other allocated or unallocated claim adjustment expenses are included. The Agency establishes the estimated claims payable liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related loss adjustment expenses, based on the Agency's past claim experience. Claims are not discounted and are net of estimated recoveries.

Changes in the Insurance Fund's claim liability consisted of the following for the year ended June 30, 2014:

Beginning balance	$ 3,263
Loss provision	-
Net claim payments	(953)
Total claim liability	2,310
Current portion	300
Noncurrent portion	$ 2,010

6. Real Estate Owned by the Agency

Real estate owned by the Agency included 587 properties with a total balance equaling $37,303 at June 30, 2014. These amounts represent the lower of cost or net realizable value, less costs to sell.

7. Mortgage Servicing Rights/Service Release Premiums

The Agency pays a fee to its participating lenders for the release of mortgage servicing rights associated with each mortgage loan it purchases for its Single Family Mortgage Loan Program. During the year ended June 30, 2014, the Agency capitalized mortgage servicing rights/service release premiums totaling $5,948. Mortgage servicing rights/servicing release premiums are recorded within mortgage loans receivable in the Single Family Program and amortized over the life of the related loans using the effective interest method, and include servicing rights associated with both mortgages owned by the Agency and mortgages sold by the Agency by means of MBS securitization. Amortization of mortgage servicing rights/servicing release premiums equaled $5,001 for the year ended June 30, 2014, and unamortized mortgage servicing rights/service release premiums totaling $35,081 were outstanding at June 30, 2014. Included in unamortized mortgage servicing rights/service release premium balances were mortgage servicing rights totaling $6,496 relating to loans sold by the Agency for which the Agency retained the servicing rights.

Mortgage servicing rights retained by the Agency upon the sale of the underlying loan are reported at the lower of amortized cost or fair value, where amortized cost equals the remaining unamortized balance of the service release premium paid and fair value equals the present value of the net estimated future servicing income. For the year ended June 30, 2014, no adjustments to the balances of mortgage servicing rights/service release premiums were warranted, as the unamortized balances of the servicing rights were less than the fair values.

June 30, 2014 (in thousands)

8. Capital Assets

Capital assets activity for the year ended June 30, 2014 and a summary of balances were as follows:

	July 01, 2013	Additions	Disposals	June 30, 2014
Nondepreciable Capital Assets:				
Land	$ 2,454	$ -	$ -	$ 2,454
Depreciable Capital Assets:				
Building	30,096	1,089	-	31,185
Furniture, fixtures and equipment	10,412	402	(588)	10,226
Less accumulated depreciation:				
Building	(6,004)	(578)	-	(6,582)
Furniture, fixtures and equipment	(6,079)	(569)	581	(6,067)
Total depreciable capital assets, net	28,425	344	(7)	28,762
Total Capital Assets, net	$ 30,879	$ 344	$ (7)	$ 31,216

Depreciation expense for the year ended June 30, 2014 totaled $1,147.

9. Bonds and Notes Payable

General Fund bonds outstanding for the year ended June 30, 2014 consisted of the following:

	Interest rates at June 30, 2014		Maturity	Amounts
Bond Series	**Variable**	**Fixed**	**Date**	**Outstanding**
Building Development Bonds	5 bps	-	2034	$ 20,000
Current portion				350
Noncurrent portion				$ 19,650

bps = basis points

June 30, 2014 (in thousands)

Multifamily Program bonds outstanding for the year ended June 30, 2014 consisted of the following:

Bond Series	Interest rates at June 30, 2014 Variable	Fixed	Maturity Date	Amounts Outstanding
Rental Housing				
Refunding, Series 2012	-	1.00-1.57%	2016	$ 26,705
Multifamily Development,				
Issue 2005K	40 bps	-	2036	22,450
Multifamily Development				
Refunding, Issue 2003	30 bps	-	2019	4,090
Total outstanding				53,245
Current portion				14,260
Noncurrent portion				$ 38,985

Single Family Program bonds and notes outstanding for the year ended June 30, 2014 consisted of the following:

Bond Series	Interest rates at June 30, 2014 Variable	Fixed	Maturity Date	Amounts Outstanding
Mortgage Revenue Bonds				
Series 1999 - 67	66 bps	-	2029	$ 14,000
Series 2000 - 69	39 bps	4.35-6.25%	2031	19,235
Series 2000 - 70	32 bps	-	2028	14,145
Series 2001 - 72	32 bps	-	2032	39,645
Series 2002 - 73	30 bps	-	2032	19,425
Series 2002 - 75	7 bps	-	2032	30,000
Series 2003 - 77	7 bps	-	2023	21,260
Series 2003 - 78	30 bps	-	2024	42,645
Series 2003 - 79	7 bps	-	2033	57,350
Series 2004 - 81	7 bps	-	2024	25,385
Series 2004 - 82	7 bps	-	2030	51,205
Series 2004 - 83	8 bps	-	2027	27,235
Series 2004 - 84	8 bps	-	2023	19,440
Series 2004 - 85	6 bps	4.05-4.10%	2035	73,400
Series 2004 - 86	8 bps	-	2035	31,560
Series 2005 - 87	56 bps	-	2035	78,815
Series 2005 - 88	6 bps	-	2037	54,810
Series 2005 - 89	8 bps	-	2035	56,385
Series 2005 - 90	56 bps	3.95-4.70%	2036	90,200

June 30, 2014 (in thousands)

Bond Series	Interest rates at June 30, 2014 Variable	Fixed	Maturity Date	Amounts Outstanding
Mortgage Revenue Bonds				
Series 2005 - 91	8 bps	4.50-5.00%	2036	80,630
Series 2006 - 92	56 bps	4.20-5.25%	2036	106,640
Series 2006 - 93	5 bps	5.75-5.84%	2037	41,500
Series 2006 - 94	6 bps	5.75%	2033	31,730
Series 2006 - 95	5 bps	3.90-5.75%	2037	19,415
Series 2006 - 96	-	3.85-4.70%	2037	117,485
Series 2007 - 97	-	3.85-5.50%	2037	109,885
Series 2007 - 98	5 bps	3.85-5.75%	2037	66,335
Series 2007 - 99	5 bps	4.35-5.15%	2038	37,595
Series 2007 - 100	5 bps	3.90-4.05%	2036	29,125
Series 2007 - 101	124 bps	-	2038	18,675
Series 2007 - 102	8 bps	3.625-3.95%	2038	45,685
Series 2008 - 103	-	3.80-4.375%	2018	13,245
Series 2009 - 105	-	2.30-4.625%	2029	84,870
Series 2009 - 106	-	2.35-4.80%	2040	211,850
Series 2009 - 107	-	3.16-3.96%	2041	546,070
Series 2010 - 108	-	1.95-4.75%	2028	120,535
Series 2010 - 109	-	1.70-4.50%	2028	81,955
Series 2010 - 110	-	1.70-4.75%	2039	208,615
Series 2011 - 112	-	2.00-5.00%	2028	97,730
Series 2011 - 113	-	1.25-4.85%	2041	52,775
Series 2012 - 114	-	0.90-3.70%	2042	215,545
Series 2013 - 115	-	0.65-4.35%	2043	132,190
Notes Payable				
General Obligation Note	-	4.5%	2023	18,000
2007 Purchase Agreement	-	2.5%	2017	2,500
2009 Purchase Agreement	-	2.5%	2019	1,000
2009 Purchase Agreement	-	2.5%	2024	2,500
				3,260,220
Unamortized bond premium				6,548
Total bonds and notes payable				3,266,768
Current portion				96,730
Noncurrent portion				$ 3,170,038

June 30, 2014 (in thousands)

Interest paid on indexed floating-rate tax-exempt bonds is closely correlated with either the Securities Industry and Financial Markets Association Municipal Swap ("SIFMA") rate or the London Interbank Offered Rate ("LIBOR"). Rate resets occur quarterly, monthly or weekly.

Variable Rate Demand Obligations

The balances of certain General Fund and Single Family Program bonds payable include variable rate demand obligations ("VRDO's"). Interest rates on these VRDO's change on a weekly basis, and VRDO's may be redeemed at the holder's option when the rate changes. Standby purchase agreements are utilized in the event these VRDO's are unable to be successfully remarketed and/or become Bank Bonds. Details of certain Agency VRDO standby purchase agreements are as follows:

Issue	Liquidity Provider	Effective Date	Expiration Date	June 30, 2014 Balance
2004 Bldg. Bond	PNC Bank	12/19/2013	2/3/2015*	$ 20,000,000
2002-75A	RBC	4/8/2014	4/8/2019	30,000,000
2003-77B	RBC	4/8/2014	4/8/2019	21,260,000
2003-79B	RBC	4/8/2014	4/8/2019	57,350,000
2004-81C	RBC	4/8/2014	4/8/2019	25,385,000
2004-82B	RBC	4/8/2014	4/8/2019	26,865,000
2004-82C	RBC	4/8/2014	4/8/2019	24,340,000
2004-83B	Bank of Tokyo	5/13/2014	5/13/2019	8,995,000
2004-83C	Bank of Tokyo	5/13/2014	5/13/2019	18,240,000
2004-84D	Bank of Tokyo	5/13/2014	5/13/2019	19,440,000
2004-85B	TD Bank	5/20/2014	5/20/2019	25,225,000
2004-85C	TD Bank	5/20/2014	5/20/2019	44,645,000
2004-86B	Bank of Tokyo	5/13/2014	5/13/2019	31,560,000
2005-88B	TD Bank	5/20/2014	5/20/2019	35,365,000
2005-88C	TD Bank	5/20/2014	5/20/2019	19,445,000
2005-89	Bank of Tokyo	5/13/2014	5/13/2019	56,385,000
2005-91B	Bank of Tokyo	5/13/2014	5/13/2019	70,000,000
2006-93B	JPMorgan	8/8/2011	8/8/2014*	37,185,000
2006-94B	TD Bank	5/20/2014	5/20/2019	31,580,000
2006-95C	JPMorgan	8/8/2011	8/8/2014*	6,850,000
2007-98C	JPMorgan	8/8/2011	8/8/2014*	17,905,000
2007-99C	JPMorgan	8/8/2011	8/8/2014*	15,000,000
2007-100C	JPMorgan	8/8/2011	8/8/2014*	22,935,000
2007-102C	Bank of Tokyo	5/13/2014	5/13/2019	38,775,000
			Total	$ 704,730,000

* - Standby purchase agreement was in the process of extension or renegotiation as of June 30, 2014. See **Note 17** for additional details.

June 30, 2014 (in thousands)

There were no failed remarketings or resultant liquidity draws as of June 30, 2014. Upon the occurrence of a failed remarketing, the liquidity providers would be afforded the opportunity to exercise term-out provisions embedded within the standby purchase agreements, which call for payment of debt service on an accelerated basis at a rate of interest higher than the existing weekly mode. The provisions of each term-out agreement and potential debt service requirements at June 30, 2014, if the term-out agreements were to be exercised and assuming a term-out commencement date of July 1, 2014, were as follows:

Liquidity Provider	Term-Out Provisions	Payment Date	Interest Rate	Principal	Interest	Total Payment
PNC	PNC's prime rate,	1/1/2015	3.25%	$ 350	$ 325	$ 675
	not to exceed 15%.	2/3/2015	3.25%	19,650	53	19,703
			Total	$ 20,000	$ 378	$ 20,378
RBC	Day 1 through 90: a	4/1/2015	8% & 10%	$ 18,520	$ 12,964	$ 31,484
	"base rate" equaling	10/1/2015	10%	18,520	8,334	26,854
	the greater of (A)	4/1/2016	10%	18,520	7,408	25,928
	RBC's prime rate +	10/1/2016	10%	18,520	6,482	25,002
	2.5%, (B) Federal	4/1/2017	10%	18,520	5,556	24,076
	Funds Rate + 3.5%,	10/1/2017	10%	18,520	4,630	23,150
	or (C) 8%.	4/1/2018	10%	18,520	3,704	22,224
	Day 91 and	10/1/2018	10%	18,520	2,778	21,298
	thereafter: base rate	4/1/2019	10%	18,520	1,852	20,372
	+ 2%	10/1/2019	10%	18,520	926	19,446
			Total	$ 185,200	$ 54,634	$ 239,834
Bank of Tokyo	Day 1 through 30: a	1/1/2015	8% & 9%	$ 24,340	$ 10,603	$ 34,943
	"bank rate" equaling	7/1/2015	9%	24,339	9,857	34,196
	the greater of (A)	1/1/2016	9%	24,340	8,762	33,102
	Bank of Tokyo's	7/1/2016	9%	24,339	7,667	32,006
	prime rate + 2%, (B)	1/1/2017	9%	24,340	6,572	30,912
	Federal Funds Rate +	7/1/2017	9%	24,339	5,476	29,815
	4%, or (C) 8%.	1/1/2018	9%	24,340	4,381	28,721
	Day 31 and	7/1/2018	9%	24,339	3,286	27,625
	thereafter: bank rate	1/1/2019	9%	24,340	2,191	26,531
	+ 1%	7/1/2019	9%	24,339	1,095	25,434
			Total	$ 243,395	$ 59,890	$ 303,285

June 30, 2014 (in thousands)

Liquidity Provider	Term-Out Provisions	Payment Date	Interest Rate	Principal	Interest	Total Payment
TD Bank	Libor + 3%	4/1/2015	3.53%	$ 15,626	$ 4,137	$ 19,763
		10/1/2015	3.53%	15,626	2,482	18,108
		4/1/2016	3.53%	15,626	2,206	17,832
		10/1/2016	3.53%	15,626	1,931	17,557
		4/1/2017	3.53%	15,626	1,655	17,281
		10/1/2017	3.53%	15,626	1,379	17,005
		4/1/2018	3.53%	15,626	1,103	16,729
		10/1/2018	3.53%	15,626	827	16,453
		4/1/2019	3.53%	15,626	552	16,178
		10/1/2019	3.53%	15,626	276	15,902
			Total	$ 156,260	$ 16,548	$ 172,808
JP Morgan	Day 1 through 90: a "base rate" equaling the greater of (A) JP Morgan's prime rate + 1.5%, (B) Federal Funds Rate + 2%, or (C) 7.5%. Day 91 and thereafter: base rate + 1%	10/1/2014	7.50%	$ 9,987	$ 1,873	$ 11,860
		4/1/2015	8.50%	9,988	4,032	14,020
		10/1/2015	8.50%	9,987	3,608	13,595
		4/1/2016	8.50%	9,988	3,184	13,172
		10/1/2016	8.50%	9,987	2,759	12,746
		4/1/2017	8.50%	9,988	2,335	12,323
		10/1/2017	8.50%	9,987	1,910	11,897
		4/1/2018	8.50%	9,988	1,486	11,474
		10/1/2018	8.50%	9,987	1,061	11,048
		7/1/2019	8.50%	9,988	637	10,625
			Total	$ 99,875	$ 22,885	$ 122,760

The balances of certain Single Family Program bonds payable include VRDO's directly purchased and owned by Wells Fargo Bank. The VRDO's bear interest at a weekly indexed rate mode. These VRDO's are subject to mandatory tender upon the expiration of the Agency's agreement with Wells Fargo Bank. Details of these VRDO agreements are as follows:

Issue	Registered Owner	Effective Date	Expiration Date	6/30/2014 Balance
2005-87B	Wells Fargo	4/1/2014	4/1/2019	31,515,000
2005-87C	Wells Fargo	4/1/2014	4/1/2019	47,300,000
2005-90C	Wells Fargo	4/1/2014	4/1/2019	59,740,000
2006-92B	Wells Fargo	4/1/2014	4/1/2019	42,870,000
				$ 181,425,000

June 30, 2014 (in thousands)

Debt Service Requirements

The approximate principal and interest payments required on all outstanding bonds and notes over the next five years and thereafter are as follows:

Fiscal	General Fund		Multifamily Program		Single Family Program		
Year	Principal	Interest	Principal	Interest	Principal	Interest	Total
2015	$ 350	$ 10	$ 14,260	$ 403	$ 96,730	$ 88,926	$ 200,679
2016	365	10	13,975	259	115,670	86,562	216,841
2017	380	10	3,960	107	120,565	83,829	208,851
2018	400	9	1,175	83	128,170	80,916	210,753
2019	415	9	1,005	78	133,485	77,780	212,772
2020-2024	2,355	43	4,375	341	699,585	333,483	1,040,182
2025-2029	2,915	36	5,425	243	654,990	245,443	909,052
2030-2034	12,820	29	6,905	123	594,105	156,931	770,913
2035-2039	-	-	2,165	8	579,365	73,929	655,467
2040-2044	-	-	-	-	137,555	6,507	144,062
	$ 20,000	$ 156	$ 53,245	$ 1,645	$ 3,260,220	$ 1,234,306	$ 4,569,572

Early Extinguishment of Debt

During the year ended June 30, 2014, the Agency redeemed principal amounts of certain bonds totaling $290,460 prior to their scheduled maturity through the use of mortgage prepayments and favorable cash flows, resulting in net gains on early extinguishment of debt totaling $1,241. Gains or losses on early extinguishments of debt arise because of the immediate recognition of original issuance discounts or premiums that would have otherwise been amortized over the life of the related bond issues had they not been retired prior to scheduled maturity.

Advance Refunding

In prior years, the Agency effected an advance refunding of Multifamily Residential Development Bonds, Issue H, where the proceeds of refunding bonds issued were used to defease the outstanding bonds attributable to Issue H. The result was an in-substance defeasance, whereby the Agency purchased securities, which were deposited into an irrevocable trust with an escrow agent, to provide for future debt service payments on the refunded bonds. The defeased principal outstanding attributable to Issue H equaled $2,725 at June 30, 2014; no defeased principal is scheduled to be retired until May, 2023, at which time all defeased principal outstanding will be retired.

June 30, 2014 (in thousands)

Hedging Derivative Instrument Payments and Hedged Debt

Debt service requirements of the Agency's outstanding variable-rate debt and net swap payments of the associated derivative instruments at June 30, 2014 are displayed in the following schedule. The following incorporates variable rate values at June 30, 2014, which are subject to change in future periods. The net swap payment equals the difference between the fixed rate of interest paid to the counterparties and the variable rate of interest received by the Agency. See Note 10 for further information relative to derivative instruments.

Fiscal Year Ending June 30	Hedged Variable Rate Bond Principal	Hedged Variable Rate Bond Interest	Net Swap Payments	Total
2015	$ 19,350	$ 1,738	$ 26,651	$ 47,739
2016	25,970	1,714	25,736	53,420
2017	30,195	1,672	24,632	56,499
2018	33,330	1,625	23,488	58,443
2019	36,870	1,575	22,336	60,781
2020-2024	199,235	6,983	92,965	299,183
2025-2029	181,550	5,230	61,626	248,406
2030-2034	173,390	2,904	28,033	204,327
2035-2039	79,655	386	2,740	82,781
	$ 779,545	$ 23,827	$ 308,207	$ 1,111,579

Conduit Debt Obligations

The Agency did not issue any conduit debt obligations during the year ended June 30, 2014. In prior years, the Agency issued:

- Series 2003J, 2008M and 2008O Special Limited Obligation Bonds in order to provide financing to local public housing authorities for construction or preservation of affordable housing within the Commonwealth of Pennsylvania. The bonds are secured by the properties financed and are payable solely from income generated by the local public housing authorities.
- Series 2005A Capital Fund Securitization Revenue Bonds in order to provide for financial assistance to various local public housing authorities. The bonds are secured by the properties financed and are payable solely from appropriations to be paid by the United States Department of Housing and Urban Development.

These conduit debt obligations do not constitute a debt, guarantee or pledge of the faith and credit of the Agency and, accordingly, have not been reported in the accompanying basic financial statements. At June 30, 2014, conduit debt outstanding aggregated $74,403.

June 30, 2014 (in thousands)

Bond Covenants

Noteworthy bond covenants of the Agency include a capital reserve requirement and a self-insurance requirement for the Single Family Program bonds. The capital reserve requirement for the Single Family Program bonds obliges the Agency to maintain a balance of funds equal to at least 3% of the aggregate principal amount of all Single Family Program bonds outstanding plus one million dollars, which is required to be invested in securities having a maturity of a year or less. The self-insurance requirement for the Single Family Program bonds obliges the Agency to maintain a balance of funds equal to the following percentages of outstanding principal amounts of mortgage loans funded from the following respective series:

Series I and J:	2.00%
Series K:	1.10%
Series L through Series 2006-96:	2.00%

The Agency is not expected to fund or maintain the self-insurance requirement under the Single Family Program bond indenture in any amount with respect to any series of bonds issued after November 2006.

The Agency was in compliance with its bond covenant requirements at June 30, 2014.

Bonds Authorized But Not Yet Issued

On April 11, 2013, the Agency Board authorized the issuance of Single Family Mortgage Revenue Bonds Series 2013-116 (“Series 2013-116”) in an amount not to exceed $250,000. On May 9, 2013, the Agency Board authorized the issuance of Single Family Mortgage Revenue Bonds Series 2013-117 (“Series 2013-117”) in an amount not to exceed $300,000. On June 13, 2013, the Series 2013-116 authorization was amended by the Agency Board to reflect an issuance amount not to exceed $300,000. Neither Series 2013-116 nor Series 2013-117 had been issued as of the date of issuance of these basic financial statements.

June 30, 2014 (in thousands)

10. Derivatives

In order to both reduce the Agency's overall cost of borrowing long-term capital and protect against the potential of rising interest rates, the Agency entered into pay-fixed, receive-variable interest rate swap agreements. The objective of the swaps is to hedge against changes in the cash flows of the associated variable-rate bonds series.

Swaps are deemed either hedging derivative instruments or investment derivative instruments based upon the effectiveness of the agreements to hedge against interest rate exposure associated with variable-rate debt. The regression analysis method is used to determine whether the swaps are an effective hedge.

The fair values of both hedging derivative instruments and investment derivative instruments are reported as Derivative Instruments – Interest Rate Swaps. The changes in fair values of hedging derivative instruments are reported within Deferred Outflow of Resources; the changes in fair values of investment derivative instruments are reported as either an investment revenue or expense. Fair values are obtained from mark-to-market calculations prepared by a valuation provider and approximate the current economic value using market averages, reference rates and/or mathematical models. The fair value represents the current price to settle the swaps in the marketplace if the swap agreements were to end.

Because interest rates have generally decreased since the swaps became effective, all of the Agency's swaps had a negative fair value as of June 30, 2014. Changes in fair values are countered by reductions or increases in total interest payments required under variable-rate bonds. Given that payments on the Agency's variable-rate bonds adjust to changing interest rates, the associated debt does not have corresponding increases in fair value.

Each of the Agency's swaps requires the Agency to post collateral in the event the fair value of the swap falls below specific thresholds of negative worth. As of June 30, 2014, the Agency was not required to post collateral for any of its swaps.

Balances of the Agency's interest rate swaps at June 30, 2014 were as follows:

Interest Rate Swap Type	Multifamily Program	Single Family Program	Total
Hedging Derivatives	$ (4,893)	$ (26,642)	$ (31,535)
Hedging Derivatives - Amended	-	(19,980)	(19,980)
Investment Derivatives	(4,648)	(1,359)	(6,007)
Total Interest Rate Swaps	$ (9,541)	$ (47,981)	$ (57,522)

June 30, 2014 (in thousands)

Hedging Derivative Instruments

The change in fair value of the Agency's hedging derivative instruments for the year ended June 30, 2014 equaled $18,462, and is presented within Deferred Outflows on the Balance Sheet. The terms and other information respective of the Agency's hedging derivative instruments outstanding at June 30, 2014 were as follows:

Bond Series	Current Notional Amount	Fair Value	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
1999-67B	$ 13,580	$ (3,131)	7/2002	4/2029	5.950%	100% of USD-LIBOR + 50 bps
2001-72C	6,310	(1,154)	9/2001	10/2023	5.695	100% of USD-LIBOR
2003-77B[1]	21,260	(273)	4/2013	10/2033	2.470	Enhanced LIBOR
2003-79B[1]	57,350	(6,206)	4/2014	10/2033	3.892	65% of USD-LIBOR + 0.25 bps
2004-81C[1]	25,385	(1,697)	4/2013	10/2034	3.346	Enhanced LIBOR
2004-82B	26,865	(318)	5/2004	10/2030	3.643	61% of USD-LIBOR + 0.39 bps
2004-82C[1]	24,340	(140)	4/2014	10/2034	3.420	61% of USD-LIBOR + 0.39 bps
2004-83B	8,995	(130)	8/2004	10/2019	3.410	65% of USD-LIBOR + 0.25 bps
2004-83C[1]	18,240	(1,785)	4/2014	10/2027	3.830	65% of USD-LIBOR + 0.25 bps
2004-84D[1]	19,440	(1,544)	4/2012	10/2034	3.320	Enhanced LIBOR
2004-85B	9,775	(133)	11/2004	4/2019	3.168	65% of USD-LIBOR + 0.25 bps
2004-85C[1]	44,645	(2,273)	4/2014	10/2035	3.136	65% of USD-LIBOR + 0.25 bps
2004-86B[1]	30,240	(2,696)	4/2013	10/2033	3.397	Enhanced LIBOR
2005-87B	20,215	(583)	3/2005	10/2023	3.460	65% of USD-LIBOR + 0.25 bps
2005-87C[1]	47,300	(2,448)	4/2014	10/2035	3.130	65% of USD-LIBOR + 0.25 bps
2005-88B	35,365	(1,296)	5/2005	10/2035	3.500	61% of USD-LIBOR + 0.39 bps
2005-88C[1]	18,995	(171)	10/2013	10/2035	2.726	61% of USD-LIBOR + 0.39 bps
2005-89[1]	46,320	(1,228)	4/2013	10/2035	3.605	Enhanced LIBOR
2005-90C[1]	48,690	(1,992)	4/2014	10/2032	3.692	65% of USD-LIBOR + 0.25 bps
2005-91B	70,000	(4,133)	12/2005	10/2036	3.953	Enhanced LIBOR
2006-92B	42,870	(2,624)	3/2006	10/2036	3.996	65% of USD-LIBOR + 0.25 bps
2006-93B	37,185	(2,104)	5/2006	4/2037	4.266	61% of USD-LIBOR + 0.39 bps
2006-94B	31,580	(2,922)	7/2006	4/2027	4.152	69% of USD-LIBOR
2006-95C[1]	6,850	(166)	4/2014	4/2026	2.719	65% of USD-LIBOR + 0.25 bps
2007-98C[1]	13,320	(1,657)	4/2013	10/2037	4.105	61% of USD-LIBOR + 0.39 bps
2007-99C	15,000	(1,878)	9/2007	10/2023	3.885	69% of USD-LIBOR
2007-100C	16,980	(1,940)	4/2014	4/2034	4.131	65% of USD-LIBOR + 0.25 bps
MF2005-K[1]	22,450	(4,893)	3/2005	1/2036	5.183	100% of USD-LIBOR
Total:	$ 779,545	$ (51,515)				

1 = Indicates embedded options exercisable without payment to the counterparty

USD LIBOR = 1-month London Interbank Offered Rate in American Dollars

Enhanced LIBOR = 67% of 1-month USD LIBOR

June 30, 2014 (in thousands)

Credit Risk
The Agency was not exposed to credit risk on its swaps because all swaps had negative fair values at June 30, 2014. The Agency's swaps rely upon the performance of counterparties. If interest rates rise and the fair values of the swaps become positive, the Agency may be exposed to credit risk on those agreements – the risk that the counterparty fails to perform according to contractual obligations.

Basis Risk and Interest Rate Risks
The Agency is exposed to basis risk to the extent the changes in the rates associated with the Agency's variable-rate bonds do not exactly offset the changes in the index rates associated with the corresponding swaps. The Agency is exposed to interest rate risk on all of its swaps. As the LIBOR index decreases, the Agency's net payments on the swaps increase.

Rollover Risk
Rollover risk is the risk that a swap associated with a bond issue does not extend to the maturity of that debt, thereby creating unhedged variable-rate debt. The following swaps expose the Agency to rollover risk:

Associated Bond Issue	Debt Maturity Dates	Swap Termination Dates
2001-72C	10/2032	10/2023
2004-83B	10/2023	10/2019
2004-85B	10/2031	04/2019
2005-87B	10/2030	10/2023
2005-88C	04/2037	10/2035
2005-90C	04/2036	10/2032
2007-100C	10/2036	04/2034

Termination Risk
The Agency maintains the option to terminate its swaps at anytime, while the Agency or the counterparty may terminate a swap if either party fails to perform under the terms of the agreement. If a swap has a negative fair value at the time of termination, the Agency would be liable to the counterparty for an amount equal to that negative fair value. In certain instances, the Agency has embedded par termination rights within its swaps; these termination rights enable the Agency to trigger partial or whole termination of the associated swaps without liability for negative fair value.

Investment Derivative Instruments
The balances of the variable rate bonds associated with swaps 2004-84C, 2008-104#2, 2008-104#4, RH2008A&B, RH2008C and RH2008D were either redeemed in total or refunded by fixed-

June 30, 2014 (in thousands)

rate bonds; therefore, the associated swaps are no longer a hedge against variable rate debt. As a result, these swaps are deemed investment derivative instruments. The terms and other relevant information respective of the aforementioned investment derivative instruments outstanding at June 30, 2014 were as follows:

Bond Series	Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
2004-84C	5,180	9/2004	4/2018	3.115	Enhanced LIBOR
2008-104#2	590	3/2007	10/2014	4.922	100% of USD-LIBOR
2008-104#4	6,875	9/2007	4/2015	5.149	100% of USD-LIBOR
RH2008A&B	18,890	12/2011	1/2021	3.407	67% of 1Week USD-LIBOR
RH2008C	24,935	6/2003	7/2020	3.457	70% of USD-LIBOR
RH2008D	14,960	6/2011	7/2020	3.440	70% of USD-LIBOR

Because of early redemptions of the variable-rate debt associated with swaps 2003-77B, 2004-81C, 2004-82B, 2004-82C, 2004-83B, 2004-83C, 2004-84D, 2005-88B and 2006-94B, these swaps had outstanding notional amounts in excess of the related hedged variable-rate bond balances at June 30, 2014. The portion of the swaps' notional amount in excess of the outstanding variable-rate debt is deemed an investment derivative instrument for financial reporting purposes.

The terms and other information of hedging derivative instruments that have notional amounts exceeding their related outstanding debt at June 30, 2014 were as follows:

Bond Series	Excess Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
2003-77B	1,155	4/2013	10/2033	2.470	Enhanced LIBOR
2004-81C	705	4/2013	10/2034	3.346	Enhanced LIBOR
2004-82B	920	5/2004	10/2030	3.643	61% of USD-LIBOR + 39 bps
2004-82C	2,560	4/2014	10/2034	3.420	61% of USD-LIBOR + 39 bps
2004-83B	1,515	8/2004	10/2019	3.410	65% of USD-LIBOR + 25 bps
2004-83C	3,640	4/2014	10/2027	3.830	65% of USD-LIBOR + 25 bps
2004-84D	3,275	4/2012	10/2034	3.320	Enhanced LIBOR
2005-88B	85	5/2005	10/2035	3.500	61% of USD-LIBOR + 39 bps
2006-94B	3,150	7/2006	4/2027	4.152	69% of USD-LIBOR

June 30, 2014 (in thousands)

The fair values of the investment derivatives for the year ended June 30, 2014 are shown below and the change in fair value of $1,390 is presented as a net increase in fair value of swaps on the Statement of Revenues, Expenses and Changes in Net Position.

Bond Series	Notional Amount	Fair Value
2003-77B	$ 1,155	$ (15)
2004-81C	705	(47)
2004-82B	920	(11)
2004-82C	2,560	(15)
2004-83B	1,515	(22)
2004-83C	3,640	(356)
2004-84C	5,180	(76)
2004-84D	3,275	(260)
2005-88B	85	(3)
2006-94B	3,150	(291)
2008-104#2	590	(14)
2008-104#4	6,875	(249)
RH2008A,B	18,890	(1,562)
RH2008C	24,935	(1,933)
RH2008D	14,960	(1,153)
	Total:	$ (6,007)

Credit Risk
At June 30, 2014, the Agency was not exposed to credit risk because all of its swaps had negative fair values.

Interest rate risk
The Agency is exposed to interest rate risk on all of its swaps. As the LIBOR index decreases, the Agency's net payments on the swaps increase.

Termination Events
At various times during the year ended June 30, 2014 the Agency exchanged exercisable options, which had been embedded within effective hedging derivative instruments, in efforts to take advantage of the economic benefits associated with reducing the semiannual fixed payments to counterparties for 4 (four) of its swaps. Swaps 2003-79B, 2004-85C, 2005-87C, and 2006-95C were amended during the year ended June 30, 2014.

The aforementioned options were embedded within the respective swaps at the time the swap agreements were initiated, and there existed a cost to the Agency and a resultant value to have these rights embedded. Exchanging the exercisable options amended the respective swap agreements by reducing the fixed rate paid to the counterparty, which changed the critical terms of the associated swaps. GAAP dictates that such changes trigger a termination of hedge accounting. In the instance of a termination event, amounts representing the accumulated decrease in the fair value of hedging derivatives and reported as a deferred outflow are to be recognized immediately as an item of income or expense, depending on the fair value of the swap at the time of termination. The balances recognized as an item of income or expense, respective of the amended swaps, are then amortized and recognized as a component of interest expense over the lives of the underlying hedgable items in order to recoup the effects of termination events over time. Amortization of the effects of termination events for the year ended June 30, 2014 equaled $706.

June 30, 2014 (in thousands)

Amended hedging derivative activity for the year ended June 30, 2014 reflected the following:

	Single Family Program
Amended hedging derivative balance at July 1, 2013	$ (19,583)
Loss on 2013/2014 swap terminations	(1,103)
Amortization	706
Amended heding derivative balance at June 30, 2014	$ (19,980)

The effects of the termination events described above and the ultimate effects on the Agency's net position represent non-cash transactions. At no time did the Agency either receive, relinquish or exchange cash or any other monetary assets as a result of termination events.

11. Long-Term Liabilities

General Fund long-term liability activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable, net	$ 20,000	$ -	$ -	$ 20,000	$ 350
Escrow deposits	547	77	25	599	599
Other liabilities					
Accrued vacation and sick leave	2,962	301	-	3,263	58
OPEB obligation	18,979	3,726	-	22,705	-
Grant funding	3,811	10,006	9,448	4,369	-
Total Other liabilities	25,752	14,033	9,448	30,337	58
Total	$ 46,299	$ 14,110	$ 9,473	$ 50,936	$ 1,007

June 30, 2014 (in thousands)

Multifamily Program long-term liability activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable, net	$ 72,629	$ -	$ 19,384	$ 53,245	$ 14,260
Escrow deposits and development reserves	100,105	38,366	43,208	95,263	17,542
Other Liabilities					
Project receipts	6,579	3,218	6,101	3,696	511
Unearned revenue	6,880	-	858	6,022	-
Federal grants	144,087	413,662	405,321	152,428	2
Commonwealth grants	6,635	2,261	1,872	7,024	31
Other	10,604	170	1,079	9,695	-
Total Other Liabilities	174,785	419,311	415,231	178,865	544
Total	$ 347,519	$ 457,677	$ 477,823	$ 327,373	$ 32,346

Single Family Program long-term liability activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable, net	$3,596,732	$ -	$ 353,964	$3,242,768	$ 94,730
Notes payable	26,000	-	2,000	24,000	2,000
Escrow deposits and development reserves	43,567	225,834	223,680	45,721	45,721
Other liabilities					
Bond rebate	280	-	-	280	-
Federal grants	7,787	986	1,143	7,630	(155)
Commonwealth grants	4,290	587	1,121	3,756	-
Other grants	365	4,856	4,300	921	352
Borrower suspense accounts	3,792	56,680	54,990	5,482	5,482
GNMA/FNMA payables	4,378	9,539	4,378	9,539	-
Total Other liabilities	20,892	72,648	65,932	27,608	5,679
Total	$3,687,191	$ 298,482	$ 645,576	$3,340,097	$148,130

The balance of Other Liabilities within the Insurance Fund represents the Insurance Fund claims liability. Insurance Fund long-term liability activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Other liabilities	$ 3,263	$ 1,878	$ 2,831	$ 2,310	$ 300

June 30, 2014 (in thousands)

The balance of Other Liabilities within HEMAP represents advances owed to the Agency. HEMAP long-term liability activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Other liabilities	$ 23,750	$ -	$ 3,782	$ 19,968	$ -

12. Interfund Balances and Interfund Transfers

To meet liquidity requirements of the individual funds and programs, the Agency transfers monies among its funds and programs for mortgage related activities, debt service payments or to reimburse the General Fund for payments of shared services. Amounts due to or from other funds result mainly from the timing difference between when services are provided and when reimbursements are made. Interfund balances and transfers are summarized below as of and for the year ended June 30, 2014.

Receivable Fund	Payable Fund	Amount
General Fund	Single Family Program	$60,055
Multifamily Program	Single Family Program	22,035
	Total	$82,090

	Transfer In		
Transfer Out	Single Family Program	Insurance Fund	Total
General Fund	$ 3,676	$ 272	$ 3,948
Multifamily Fund	2,833	-	2,833
Total	$ 6,509	$ 272	$ 6,781

13. Restricted and Designated Net Position

The Multifamily and Single Family Programs' June 30, 2014 net position restrictions equaling $619 and $122,652, respectively, are restricted pursuant to the Agency's obligations to HUD and its bondholders; provisions are present within certain Multifamily Program agreements with HUD and the Single Family Program bond indenture. Net position restrictions within HEMAP totaling $42,293 at June 30, 2014 represent amounts restricted for the purpose of making mortgage assistance loans.

June 30, 2014 (in thousands)

The Agency has designated certain amounts of the unrestricted net position of the Agency's various programs for purposes indicated in the following table. These designations of net position are not binding and may be changed by the Agency.

General Fund:	
Homeownership Choice to fund housing opportunity in urban areas	$ 5,000
Single Family Insurance to fund special hazard losses by homeowners	16,500
Homebuyer Counseling for education of first-time homebuyers	1,500
Multifamily Insurance for Agency insured or coinsured developments	10,000
Total	$ 33,000
Multifamily Housing Program:	
Penn HOMES Program to lower development costs for apartments	$ 30,000
Preservation from physical deterioration, financial or social distress	1,500
Energy Efficiency Improvements - energy usage reduction initiatives	250
Total	$ 31,750
Single Family Mortgage Loan Program:	
Closing Cost Assistance	$ 1,000
Utility Company Initiative to provide energy efficiency improvements	500
Additional Single Family Insurance to reduce the risk of default on loans	2,455
Total	$ 3,955
Insurance Fund:	
Risk Retention to provide single family mortgage insurance	$ 43,340

14. Pension Plans

Plan Description

Substantially all eligible full-time employees are participants in the Pennsylvania Housing Finance Agency Employees' Retirement Plan ("Plan") or Government Excess Benefit Plan ("Excess Plan"), which are both defined benefit single employer plans with financial reporting years ending December 31. The Plan and Excess Plan do not issue stand-alone statements.

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 service may receive credit for their time of service providing they contribute funds equivalent to the cost of their pension benefits accumulated during their military service. 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.

June 30, 2014 (in thousands)

All participants in the Plan who will receive retirement benefits in an amount that is less than the benefits otherwise payable under the terms of the Plan due to limitations on benefits imposed by Internal Revenue Code ("IRC") Section 415 shall automatically participate in the Excess Plan. Participation in the Excess Plan will cease for any year in which the retirement benefits from the Plan do not exceed the limitation imposed by IRC Section 415, provided such funding has been transferred to the Plan. Pension payments under the Excess Plan are paid in the same form as the pension benefits payable under the Plan.

Funding Policy

Employees hired on or after January 01, 2009 contribute 3% of compensation to the Plan. Employees hired on or before December 31, 2008 do not contribute to the Plan or Excess Plan. Contribution requirements and benefit provisions of the Plan and Excess Plan are established and may be amended by the Members of the Board.

Annual Pension Cost and Net Pension Asset

The Plan and Excess 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.

The Agency's annual pension costs and net pension assets of the Plan and Excess Plan for the years ended June 30 were as follows:

Annual required contribution (ARC)	$ 3,267
Interest on net pension asset	(358)
Adjustment to ARC	541
Annual pension cost	3,450
Contributions made	(4,084)
Increase in net pension asset	(634)
Net pension asset beginning of year	(5,008)
Net pension asset end of year	$ (5,642)

The net pension asset is included as part of noncurrent Other Assets in the General Fund.

June 30, 2014 (in thousands)

Three-Year Trend Information for the Plan and Excess Plan

Calendar Year Ended	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension (Asset)
December 31, 2013	$3,450	118%	$(5,642)
December 31, 2012	3,226	132	(5,008)
December 31, 2011	3,054	143	(3,981)

Funded Status and Funding Progress
As of January 1, 2014, the most recent actuarial valuation date, the Plan and Excess Plan were 78.6% funded. The actuarial accrued liability for benefits equaled $77,757 and the actuarial value of assets totaled $61,118, resulting in an unfunded actuarial accrued liabilities ("UAAL") of $16,639. The covered payroll (annual payroll of active employees covered by the Plan and Excess Plan) totaled $15,771 and the ratio of the UAAL to the covered payroll equaled 105.5%.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of Plan and Excess Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions
The aggregate actuarial cost method is used in the actuarial valuation as of January 01, 2014. The actuarial assumptions include a 7.5% investment rate of return, projected salary increases of 4.5% per year and no post-retirement benefit increases. Both the rate of return of investments and projected salary increases include a moderate rate of inflation component based on historical averages. The actuarial value of assets is determined using techniques that spread the effects of short-term volatility in the market value of investments smoothed over a five-year period. Because the aggregate actuarial cost method does not identify or separately amortize the UAAL, information about the Plan and Excess Plan's funded status and funding progress has been prepared using the entry age actuarial cost method.

15. Postemployment Benefits Other than Pensions

Plan Description
The Agency sponsors a single-employer defined benefit plan, which includes the Pennsylvania Housing Finance Agency Postemployment Benefits Plan ("OPEB Plan") to provide certain other postemployment health care benefits ("OPEB") to all former employees who are members of the Employees' Retirement Plan currently receiving retirement income. Such benefits are available to members' spouses during the life of the retiree. Specific details of the Plan include the provision of limited hospitalization, major medical insurance, physician services and prescription

June 30, 2014 (in thousands)

drug coverage. The Agency is under no statutory or contractual obligation to provide these postretirement healthcare benefits. Because the Plan consists solely of the Agency's commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated for the OPEB Plan.

Funding Policy
The Agency currently funds OPEB on a pay-as-you-go basis by purchasing commercial health insurance. Premiums paid for the OPEB Plan are partially funded by retirees desiring such coverage in accordance with rates established by the Agency. Contribution requirements and benefit provisions of the OPEB Plan are established by and may be amended by the Board.

For the year ended June 30, 2014, contribution rates for OPEB Plan members equaled 5% of the insurance premium per participant per month. OPEB Plan members receiving benefits paid $44, which was used to offset the Agency's outlays to insurance carriers for premiums totaling $888. As a result, the Agency's net outlay for OPEB insurance premiums equaled $844.

Annual OPEB Cost and Net OPEB Obligation
The calculation of the Agency's annual OPEB cost is based upon the actuarially determined annual required contribution ("ARC") of the Agency. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years.

The Agency's annual OPEB costs and net OPEB obligation for the years ended June 30 were as follows:

Annual required contribution (ARC)	$ 5,526
Interest on net OPEB obligation	970
Adjustment to ARC	(1,324)
Annual OPEB expense	5,172
Contributions made	(888)
Increase in net OPEB obligation	4,284
Net OPEB obligation beginning of year	21,567
Net OPEB obligation end of year	$ 25,851

OPEB obligations are included as Other Noncurrent Liabilities of the General Fund and HEMAP.

June 30, 2014 (in thousands)

Three-Year Trend Information for OPEB

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	$ 5,172	17%	$ 25,851
June 30, 2013	4,783	15	21,567
June 30, 2012	4,850	13	17,501

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the OPEB Plan was not funded. This resulted in an actuarial accrued liability for benefits and unfunded actuarial accrued liability of $49,455. The covered payroll (annual payroll of active employees covered by the OPEB Plan) equaled $16,175, and the ratio of the unfunded actuarial accrued liability to the covered payroll equaled 305.75%. Amounts determined with respect to the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared to past expectations and new estimates are made about the future.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information illustrating whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purpose are based on the substantive OPEB Plan as understood by the Agency and OPEB Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Agency and OPEB Plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

For the actuarial valuation dated July 1, 2013, the entry age normal cost method was used. Because the Agency funds its OPEB on a pay-as-you-go basis, the OPEB Plan has no assets (investments) used specifically for paying the post-retirement medical benefits; therefore, the actuarial assumptions included a 4.5% discount rate, which approximates the expected rate of return on non-pension investments held by the Agency, a moderate inflation rate based on historical averages and an annual healthcare cost trend rate of 7% in 2013, decreasing by 0.5% per year to 5.5% in 2016 and to 5.3% in 2017 and thereafter. The unfunded actuarial accrued liability is amortized as a level dollar amount over thirty years on an open basis.

16. Significant Contingencies and Commitments

Federally Assisted Programs

In the normal course of operations, the Agency receives funding from various federal government agencies. These funds are to be used solely for designated purposes. If a grantor determines that funds have not been used for their intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the Agency for its related disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Agency's grant programs is predicated upon the grantors' historical satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

Risk Management

The Agency is exposed to various risks of loss from theft of, damage to or the destruction of assets; injuries to staff or visitors; loss related to torts, errors and omissions and employee dishonesty. All risks are managed through the purchase of various commercial insurance policies. The Agency bears a $1 (one-thousand dollars) deductible per claim for commercial property coverage and a $100 deductible per claim for fidelity bond coverage. There have been no settlements, actual losses in excess of coverage or decrease in insurance coverage within the last three years.

Litigation

In the normal course of business, the Agency may be involved in various claims or suits. In the opinion of the Agency's management, the amount of such losses that might result from claims or suits, if any, would not materially affect the Agency's financial position.

Commitments

Outstanding commitments by the Agency to make or acquire Single Family Mortgage Program and HEMAP loans were approximately $24,897 and $13,634, respectively, at June 30, 2014.

17. Significant Effects of Subsequent Events

Subsequent events have been evaluated through November 19, 2014, the date these basic financial statements were issued.

On July 8, 2014, Sumitomo Mitsui Banking Corporation ("Sumitomo") replaced JP Morgan as the liquidity provider for all Single Family Program VRDO's for which JP Morgan had been the liquidity provider. This includes series 2006-93B, 2006-95C, 2007-98C, 2007-99C and 2007-100C, as listed in the **Variable Rate Demand Obligations** section of Note 9. The agreements with Sumitomo are scheduled to expire on July 8, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

PENNSYLVANIA HOUSING FINANCE AGENCY

Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Employees' Retirement Plan and Government Excess Benefit Plan (in thousands) (unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a)/(c)
01/01/2014	$ 61,118	$ 77,757	$ 16,639	78.6%	$ 15,771	105.5%
01/01/2013	53,212	72,630	19,418	73.3	16,588	117.1
01/01/2012	49,073	67,072	17,999	73.2	15,697	114.7

PENNSYLVANIA HOUSING FINANCE AGENCY

Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Postemployment Benefits Plan (in thousands) (unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a)/(c)
07/01/2013	$ -	$ 49,455	$ 49,455	- %	$ 16,175	305.7%
07/01/2011	-	43,472	43,472	-	15,900	273.4
07/01/2009	-	36,652	36,652	-	15,320	239.2