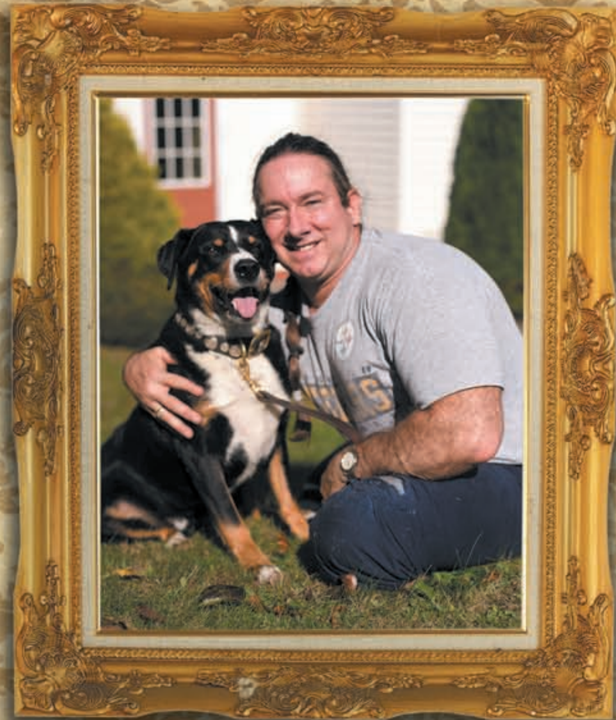
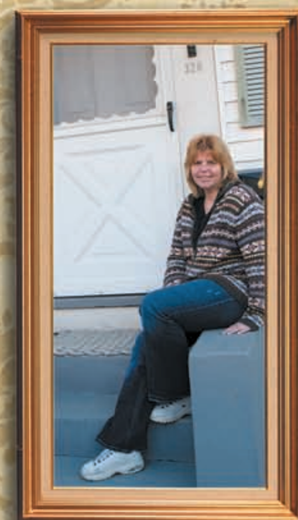
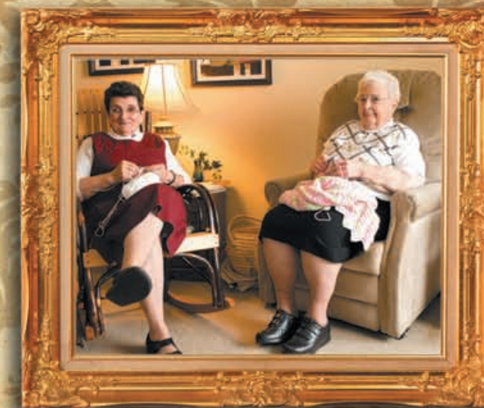






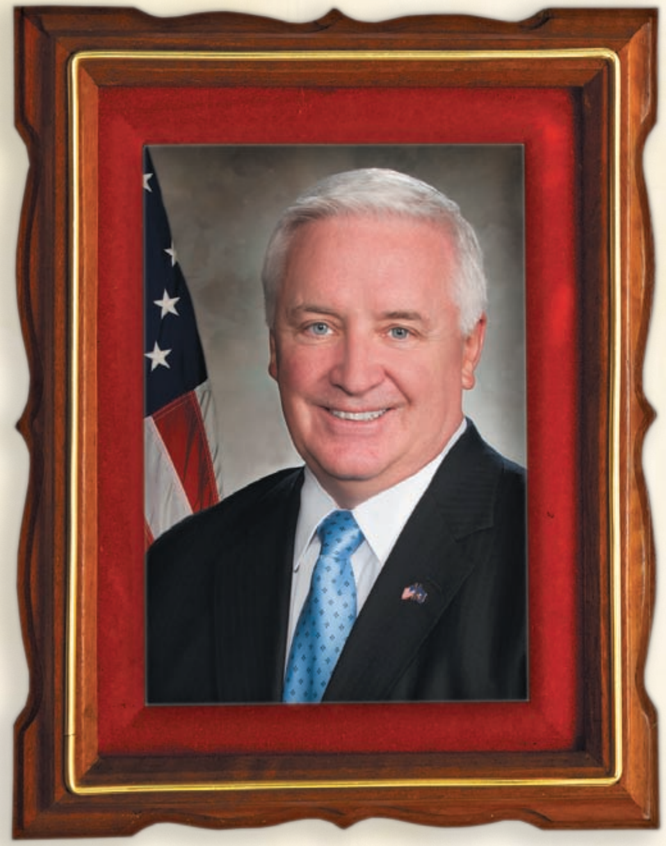
The *lives* We Touch

Pennsylvania Housing Finance Agency * 2011 Annual Report

Table of Contents

our mission

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



A message from the Governor

Tom Corbett

Pennsylvania has long been a great place to live, demonstrated by the fact that people have been moving here for centuries. Today, it's easier than ever for consumers to find the help they need when making decisions about housing. The Pennsylvania Housing Finance Agency is dedicated to providing residents with the information and resources they need to make educated housing choices.

Whether buying a home or renting an apartment, choosing the housing that best fits your needs impacts your budget, well-being and quality of life. PHFA recognizes this and provides such services as no-cost homeownership counseling and an Internet-based housing locator resource that makes these critical decisions easier. The agency's website makes many housing research tools available whenever it's convenient for consumers to use.

Pennsylvanians can make better decisions when they have access to accurate information and useful research tools. PHFA resources help to meet that need, and I invite you to contact the agency in person, or through its website, to learn how its many helpful housing programs may be of assistance to you.

Tom Corbett

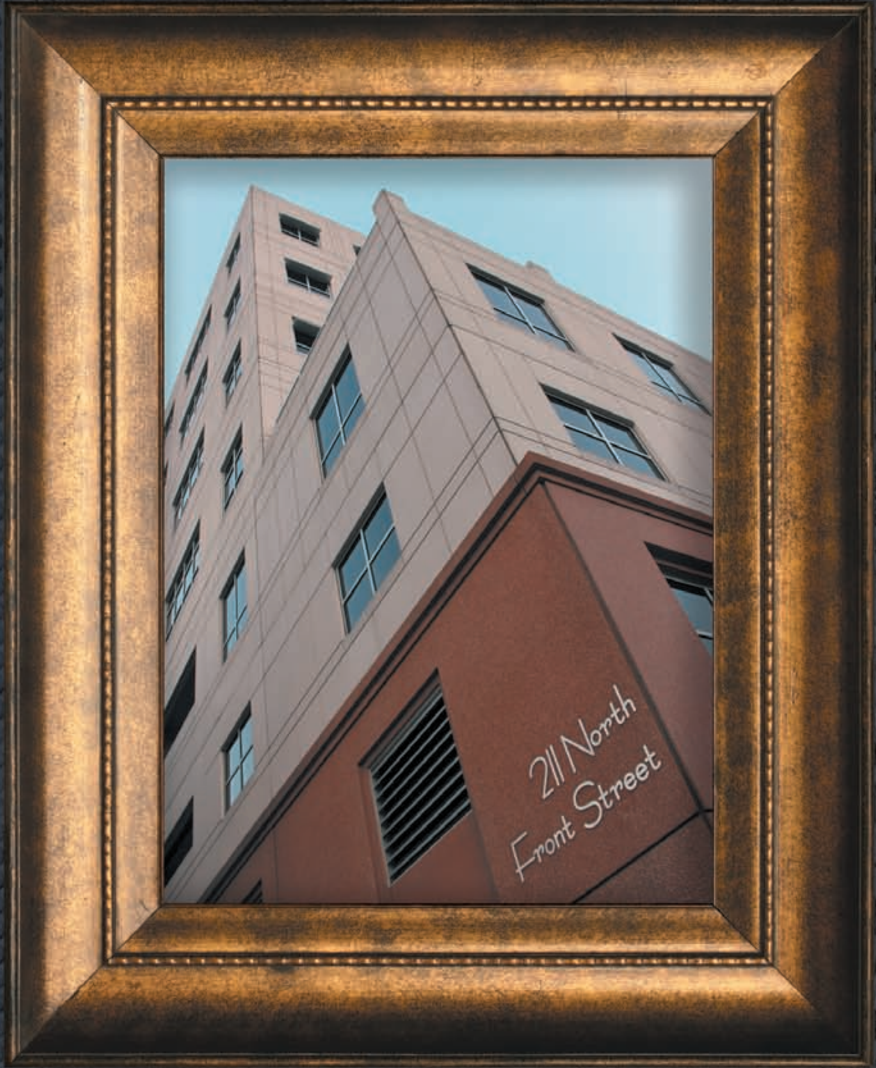
PHFA's main office, located on Front Street in downtown Harrisburg, houses 270 employees. An additional 27 employees work out of satellite offices in Norristown and Pittsburgh.

The Pennsylvania Housing Finance Agency

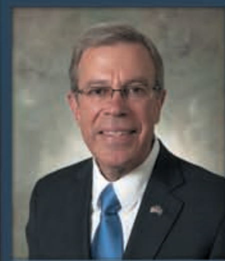
who we are and what we do

The Pennsylvania Housing Finance Agency works to provide affordable homeownership and rental apartment options for older adults, low- and moderate-income families, and people with special housing needs. Through its carefully managed mortgage programs and investments in multifamily housing developments, PHFA also promotes economic development across the state.

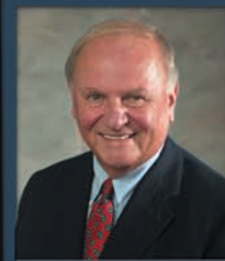
Since its creation by the legislature in 1972, it has generated $10.3 billion of funding for more than 145,400 single-family home mortgage loans and 83,000 rental units, while saving the homes of more than 46,000 families from foreclosure. PHFA programs and operations are funded primarily by the sale of securities, not by public tax dollars. PHFA is governed by a 14-member board.


211 North
Front Street

The *Board of Directors* of the Pennsylvania Housing Finance Agency

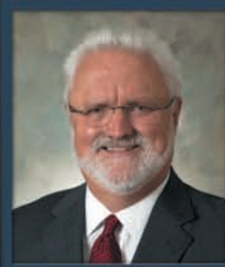


The Honorable Glenn Moyer
Chairman

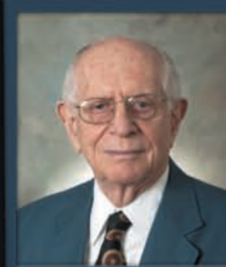


Thomas B. Hagen
Vice Chairman

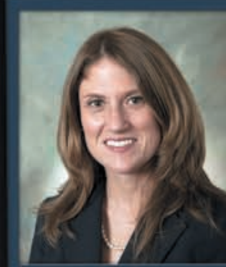
The Honorable
Gary D. Alexander



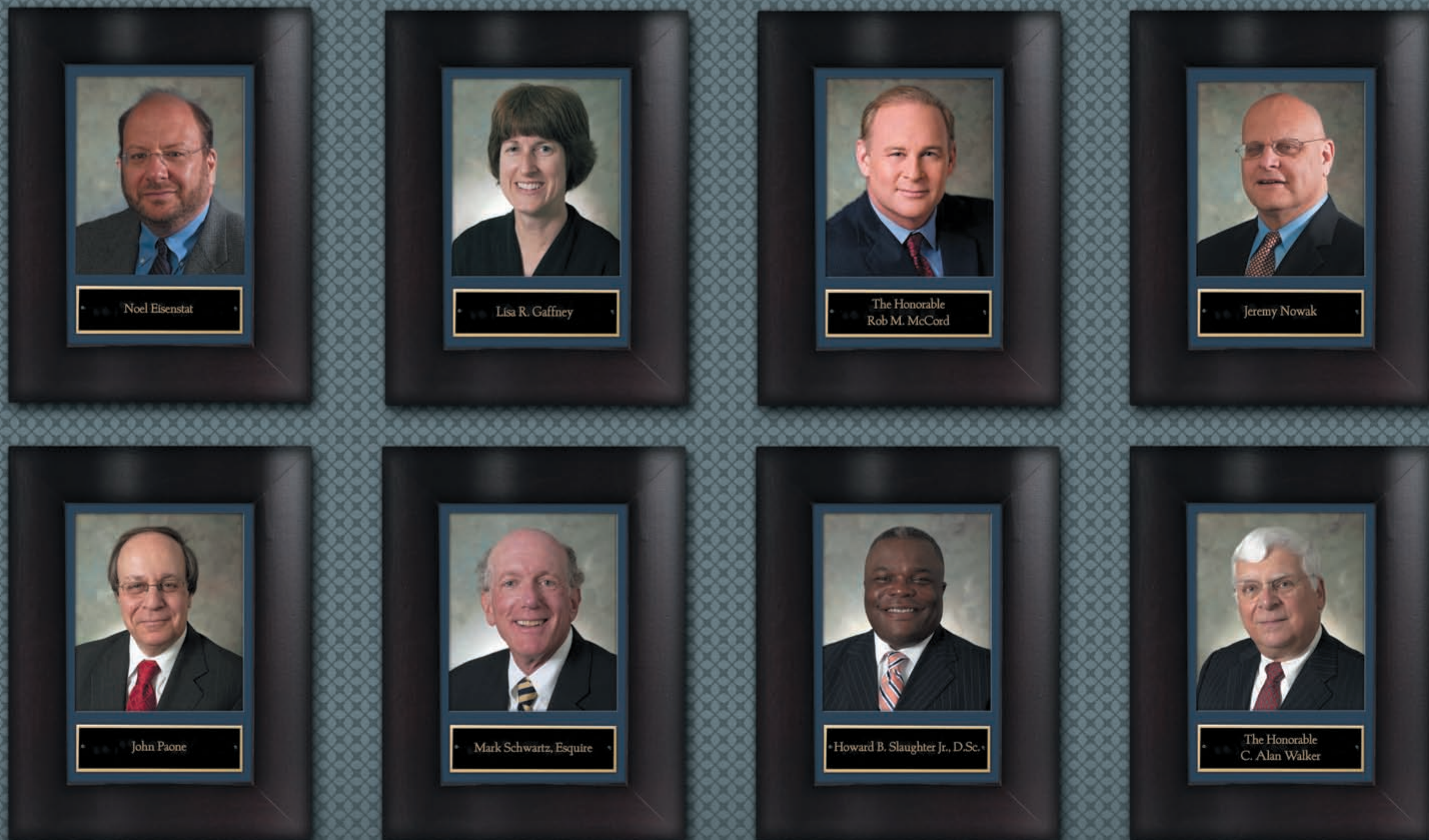
Ronald F. Croushore



Morris J. Dean, Esquire



Colleen M. DeFrank

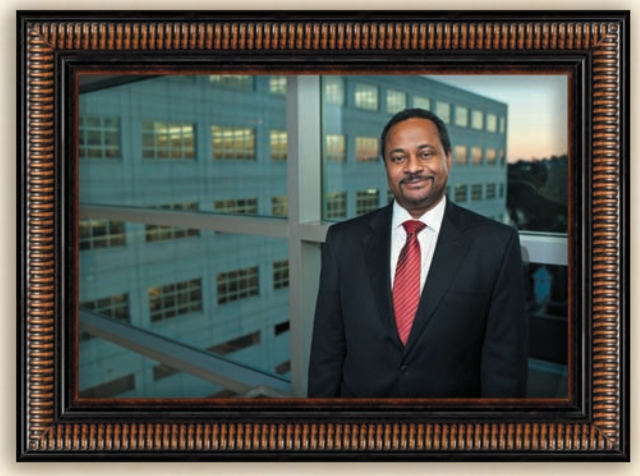


Noel Eisenstat
Lisa R. Gaffney
The Honorable
Rob M. McCord
Jeremy Nowak
John Paone
Mark Schwartz, Esquire
Howard B. Slaughter Jr., D.Sc.
The Honorable
C. Alan Walker

the lives we touch

A message from the executive director

On the pages that follow, you'll meet some people whose lives have been improved by the agency's housing programs, and others who help us achieve our mission. Their stories aptly describe the powerful impact affordable housing can have on a person's quality of life.



There isn't a week that goes by when I don't hear from someone we've helped with a housing issue.

Maybe it's an elderly woman on a limited income. Or it's the single mother working hard to make a better life for her children. Or it could be the man with special mobility requirements who needed to make his home more accessible so that he could stay independent. I cherish every one of these letters and e-mails because it reminds me why I work at PHFA. I know my staff feels the same way.

Yes, it can be stimulating to find just the right financial formula and mortgage products to get a family into their first home. And, to be honest, I always feel proud when the ribbon is cut on a new apartment building we helped finance that is so bright and polished, just waiting for residents to move in and make it home.

But the real reason we're all in this business is not because of the impressive buildings we help construct or the intellectual challenges we enjoy. It's because we want to help people. It's all about the lives we touch.

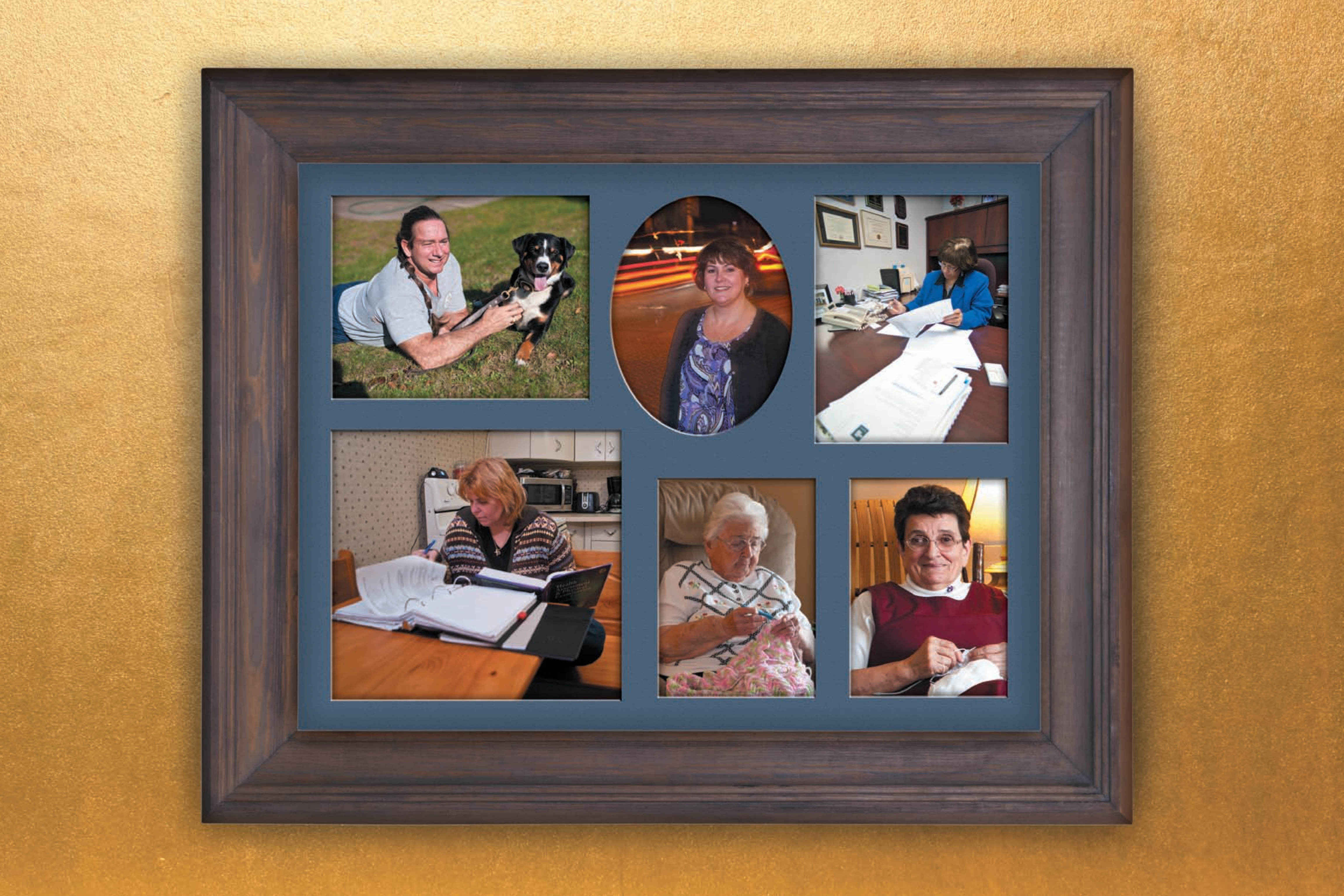
Housing plays a vital role in every person's life. We take it for granted sometimes. But remove safe and dependable housing from someone's life, and you've just turned their world upside down. Quality housing is a key foundational element that people need to support their efforts to improve themselves. When housing is no longer a worry, families come together and individuals have a better opportunity to reach their full potential.

It's my hope this annual report helps convey the central role that quality, affordable, and sustainable housing plays in people's lives. We understand that at PHFA. It's why we come in the front door of our office every week, because helping Pennsylvanians with housing is the way we help them become their best.

As we prepare to begin our 40th year, we remain committed to our vital mission of expanding affordable housing options for the state's residents. We're PHFA. Welcome home!

Brian A. Hudson

Brian A. Hudson Sr.
Executive Director and CEO



Helping keep *dear friends* close

$11.2 million in funding and approximately $30 million in tax credits awarded by PHFA were critical this year to the construction of 33 multifamily housing developments across Pennsylvania, providing affordable housing and stimulating economic development statewide. Every year, we help thousands of Pennsylvanians like Jane Monn (wearing red on the facing page) and Betty Oldham to find safe, comfortable apartments that won't stress their budgets.

Jane Monn and Betty Oldham have a friendship that's lasted more than 41 years. And in its own way, PHFA has played an important role to help keep them together.

In 1970, the two met while working at the Messiah Home in Harrisburg, which housed older people. Jane was the head nurse, and Betty worked in the kitchen. Both ladies were single. Seeing that the head nurse had to watch the dietary requirements of the residents, Jane interacted frequently with Betty. Pretty soon, the two became friends.

Over the years, Jane and Betty have grown as close as family. They bought a home and lived together. They attended the same church. They traveled the country together. So when the time came for them to retire, it seemed only natural for them to share an apartment. Plus, it was a smart way for them to stretch their incomes. PHFA was there with multifamily housing that met their needs and was affordable.

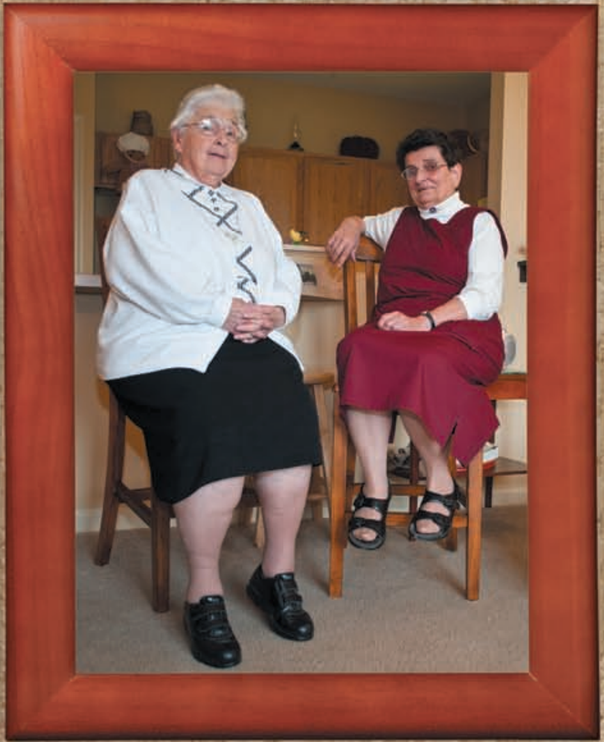
First in Presbyterian Apartments in Harrisburg, and now at Shartner House at Carroll Village in Dillsburg, the two women have stayed together, like family should. Both of these facilities have received financial assistance from PHFA, which helps keep rents reasonable and ensures the availability of helpful senior services.

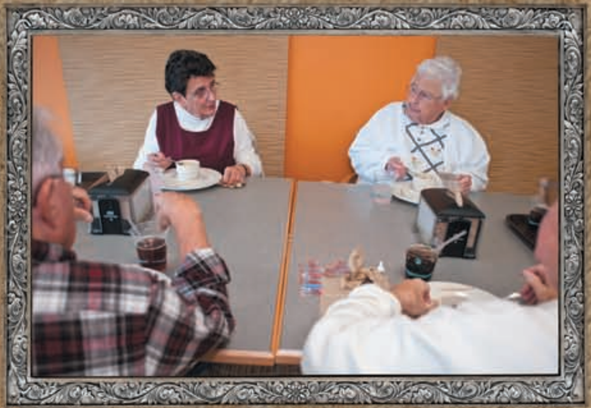
Today, the two women still maintain a busy schedule. One day, they'll attend a potluck dinner. On another, they'll exercise in the fitness center. Or they'll celebrate the birthday of someone in their building. There's always something happening, and these two stay involved, enjoying every minute.

"Really, we're like one big family here," Betty says of their neighbors at Shartner House. "There's just lots of fellowship."

Regarding their current apartment, the two couldn't be happier. Betty ticks down the list of amenities they appreciate, like the double sink in the kitchen and heating and cooling that is simple to control. Plus, don't forget the very large oven in which Betty can now bake four pies at a time.

Yes, Betty is still cooking and baking. And the two still share a car to drive to church in Harrisburg every Sunday. Their friendship started long before PHFA got involved. But we're happy we could help keep them close.





As a leading provider of affordable mortgages in the state, PHFA issued 7,483 home-purchase loans with a value of $815 million during this fiscal year, one of its busiest ever. Additionally, 4,119 closing-cost and down-payment assistance loans, with a value of $4.5 million, helped homebuyers who had demonstrated they were ready for the responsibilities of homeownership. Linda VanVliet is one of the new homeowners we are proud to have helped in 2011.

Homeownership *opens doors* for personal growth

Homeownership can change lives. We see it every day at PHFA.

At the start of 2011, single mom Linda VanVliet was living in a second-floor apartment with her 13-year-old son, Devan, and 11-year-old daughter, Shelby. Life in Hellertown had its pluses. The school was supportive of her children's needs. It was close to DeSales University, where Linda is working on her nursing degree. But their apartment had its shortcomings.

Linda's daughter Shelby has muscular dystrophy and uses a wheelchair for mobility. Their second-floor apartment made life complicated. Her wheelchair was always kept at the ground level, so her independence was extremely limited.

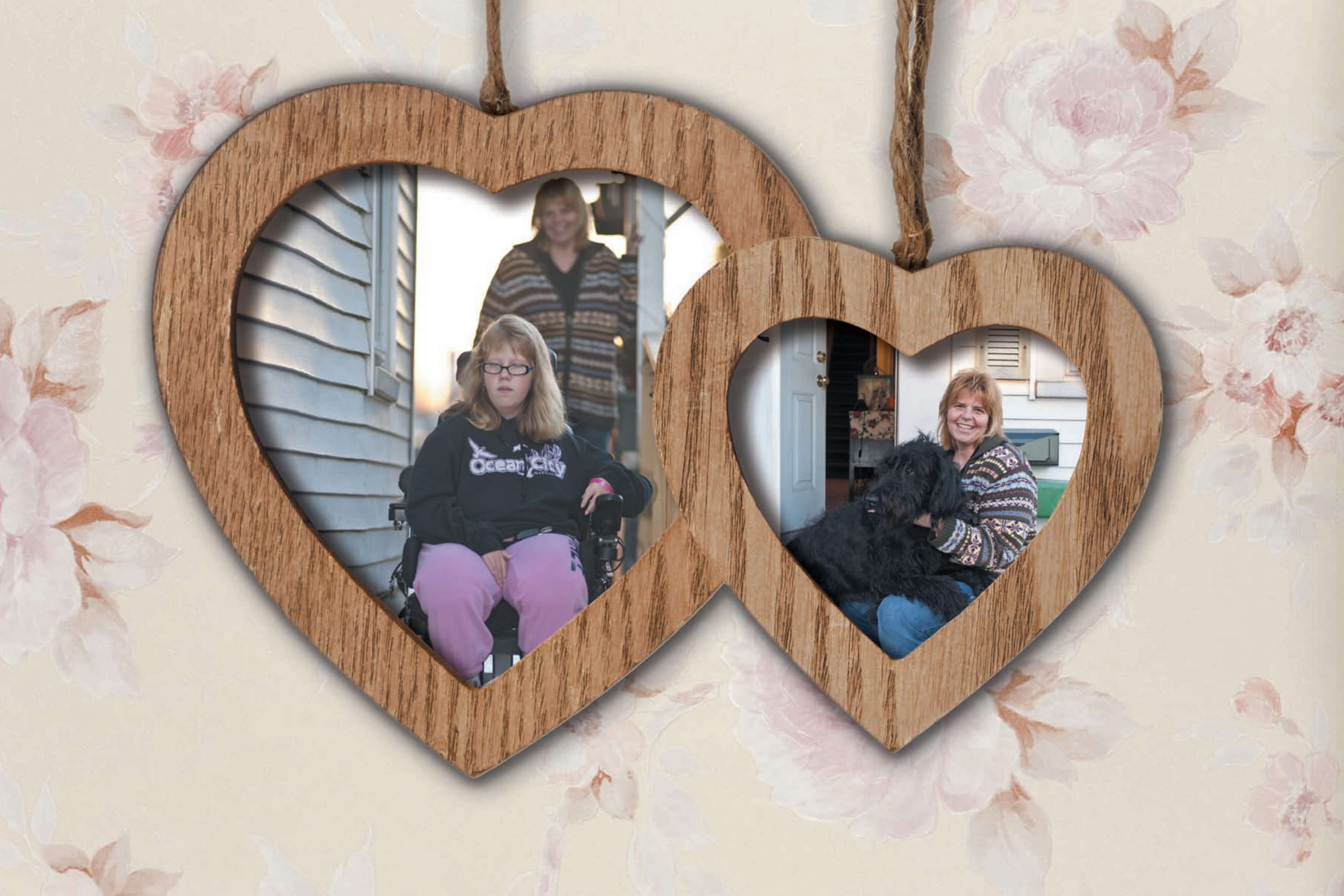
Linda had been looking for a home for at least a year when, with the caring help of realtor Don Longacre, she found a place she thought could work. It was just down the street from her apartment, so her children could stay in the same school. The home also had a bedroom and bathroom on the first floor, which would be perfect for Shelby.

Fortunately, Brian Stine at American Bank was helping Linda with her mortgage, and Brian appreciated her determination to make a better life for her kids and herself. Where others saw challenges, Brian saw potential. As Linda says, "Brian and Don both went above and beyond."

As a PHFA-participating lender, Brian helped Linda obtain a 30-year, fixed-rate PHFA Keystone Home Loan at a below-market interest rate. Linda also took advantage of another PHFA program designed just for families like hers — the Access Modification Program. That program provided a no-interest subordinate loan to pay for $10,000 in modifications to make their new home more accessible for Shelby. Doorways were made wider so Shelby's wheelchair could easily pass through, and a ramp on the ground level gave her independence she'd never experience before.

After they closed on the house in April, Linda wrote Brian, Don and PHFA a heartfelt e-mail that read: "Thank you, again, for all your help with making this dream possible. I smile every minute when my daughter says, 'Mom, I'm going for a walk,' and just goes without any help."

Now, Linda has taken in her elderly parents, too. It's another advantage that homeownership has made possible. "To be able to take care of my parents is great," Linda says. "Words can't describe it."


Ocean City

PHFA's statewide network of approved housing counselors advise people, at no cost, to properly prepare them for their first home purchase. Foreclosure counseling also was provided for families struggling to meet their mortgage obligations. Nikki Holcroft is a PHFA-approved counselor who was honored this year with a prestigious Best Counselor award.

A *passion* FOR HOMEOWNERSHIP COUNSELING

"I'm basically your local Suze Orman." That's how Nikki Holcroft describes herself.

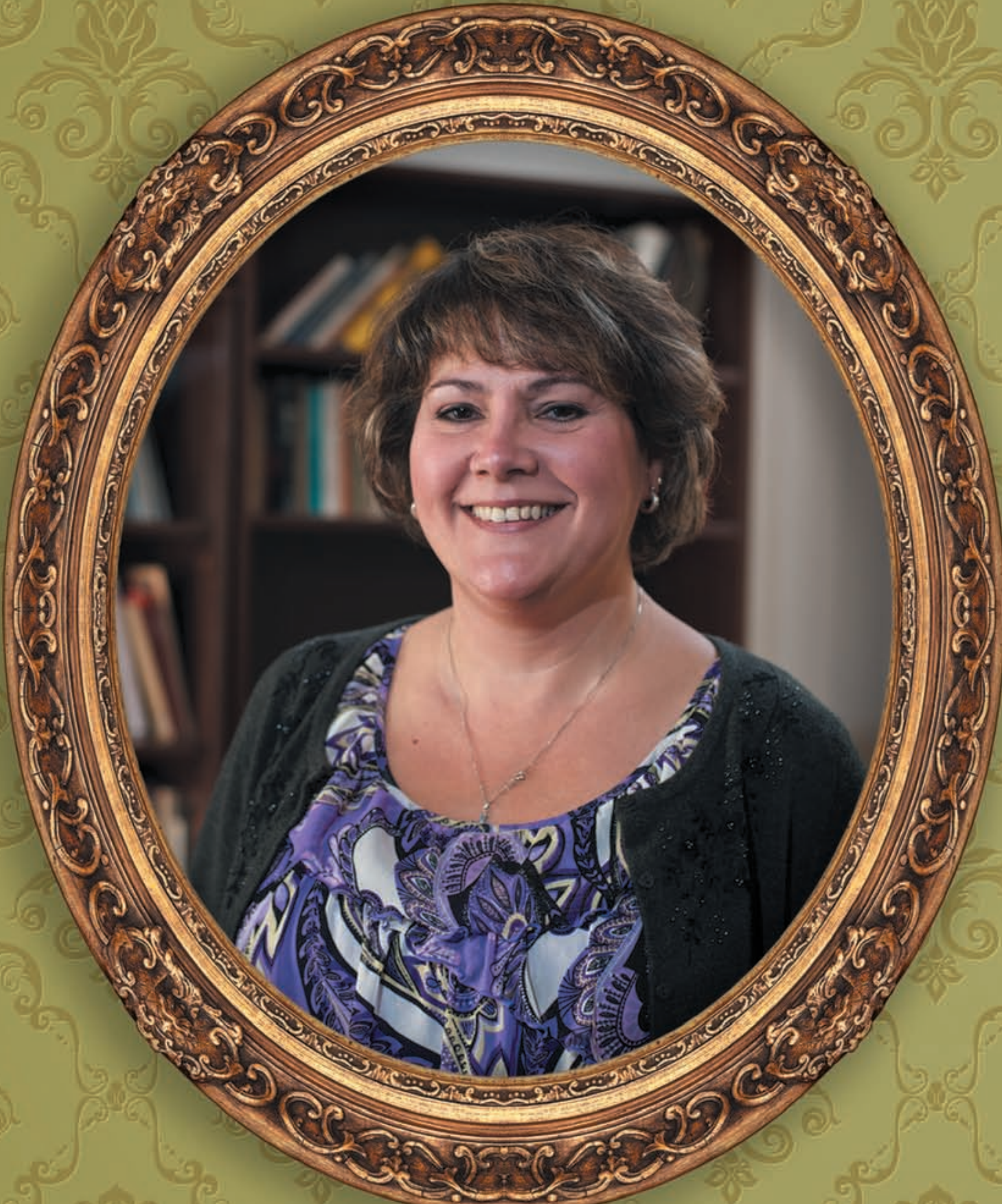
Her career as a housing counselor began during the mid-1990s, in connection with her church, when she started advising people about budgeting and their credit worthiness. Working in the local banking industry in community development certainly helped. It gave her the experience to understand how banks approach their mortgage decisions. That, in turn, helped her to educate people interested in homeownership but new to the homebuying process.

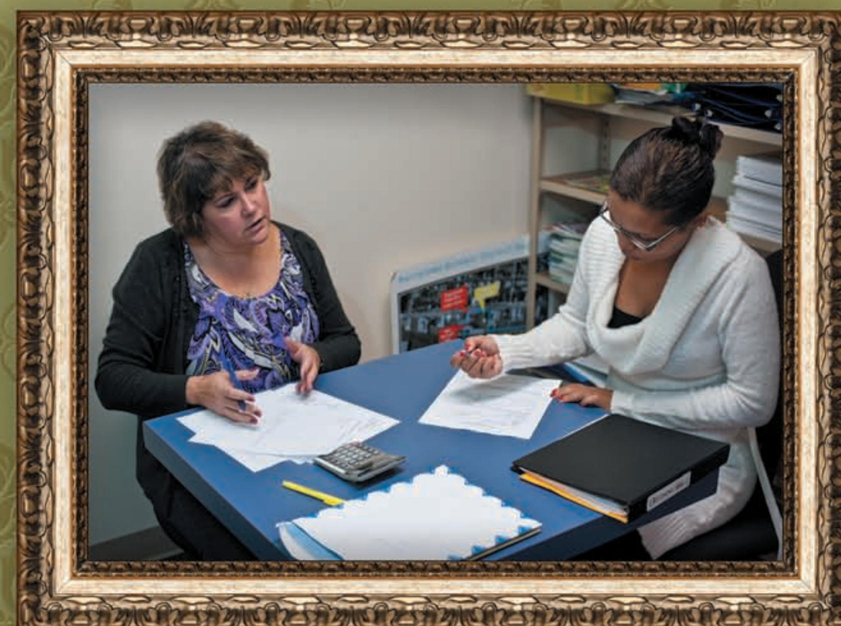
After 25 years in banking, Nikki made consumer and homeownership counseling her new career path in 2001 when she signed on with Genesis Housing Corporation in Norristown. It was a smart move because Nikki and Genesis share a commitment to properly educating consumers about their housing decisions. Her counseling sessions usually revolve around credit classes, money management, and homebuying basics, which Nikki describes as the three spokes of the personal finance wheel. All three are critical for homebuyers to properly prepare for homeownership and to ensure a solid financial foundation.

Most of her days include two or three counseling sessions, each two hours long. While some counselors might insist that an hour is long enough to gather the information needed, Nikki disagrees. The extra time allows her to dig a little deeper and really get to understand her clients' personal financial challenges. Working into the evening is common, too, so that Nikki can provide classes at a time that works for her Genesis customers. It's this sort of commitment to doing the job right that earned Nikki one of PHFA's Best Counselor awards in the fall of 2010.

Recognition from PHFA was a nice surprise, she says. But it's not why Nikki is committed to her counseling clients. The real payoff comes when they tell her that they've been to others for advice, but no one else took the time to truly help them understand the credit rating process and the ins and outs of homebuying. With Nikki's help, they tell her, they understand it now.

"I want to help people find solutions," she says. And she does.





Pennsylvania was a pioneer when it established the Homeowners' Emergency Mortgage Assistance Program (HEMAP) in 1983 to help families in danger of losing their homes during hard times. HEMAP, which has been a model for other states and the nation, not only keeps families in their homes, but it also helps neighborhoods by stabilizing home values. This year, a total of 2,800 applicants were approved for HEMAP loans with a total value of $28.9 million. Ed Shurman Jr. is one of the homeowners who was helped.

Saving Ed's house is giving him *time to heal*

Someone's life can change in the blink of an eye. One day you can be a successful executive in the prime of your career, seemingly on top of the world. And the next, an unexpected, terrible mishap can take away everything for which you've worked so hard.

That's what happened to Ed Shurman Jr. six years ago following a tragic motorcycle accident. Ed survived, but his life would be changed forever. The Marine veteran, once so physically strong, was now as weak as a child. Much of his memory was gone. The knowledge gained from two master's degrees couldn't be remembered.

Six years later, he's continuing to recover, due in large part to his positive attitude and his undeniable persistence. His diet is aimed at helping him recover both muscle strength and brain power. He bicycles more than four miles every day — with his dog Spirit — to regain his balance and coordination. And he reads continually to regain the knowledge he's forgotten. The prognosis is for continuing improvement.

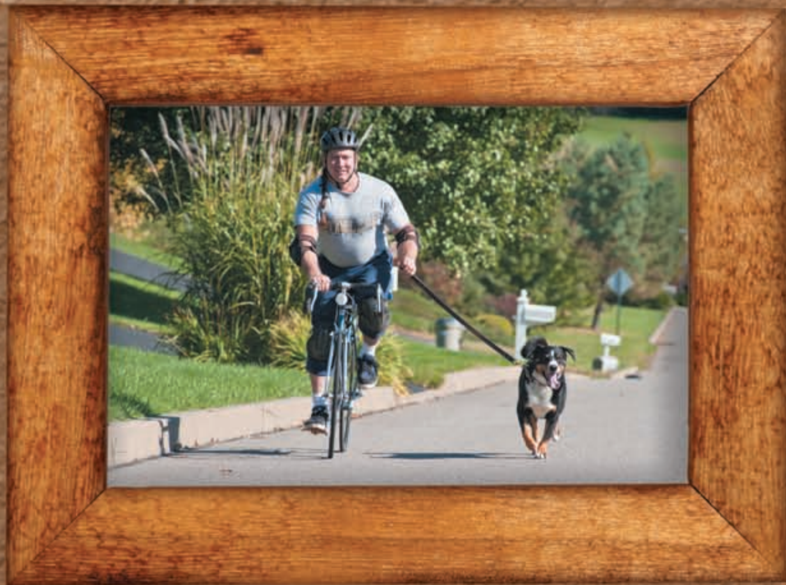
While Ed never gave up on himself, he still faces challenges. One was the mortgage on his home in Bloomsburg. Ed was falling behind on his monthly payments. His savings were exhausted and his disability income just wasn't enough to make ends meet. As he says, he felt doomed.

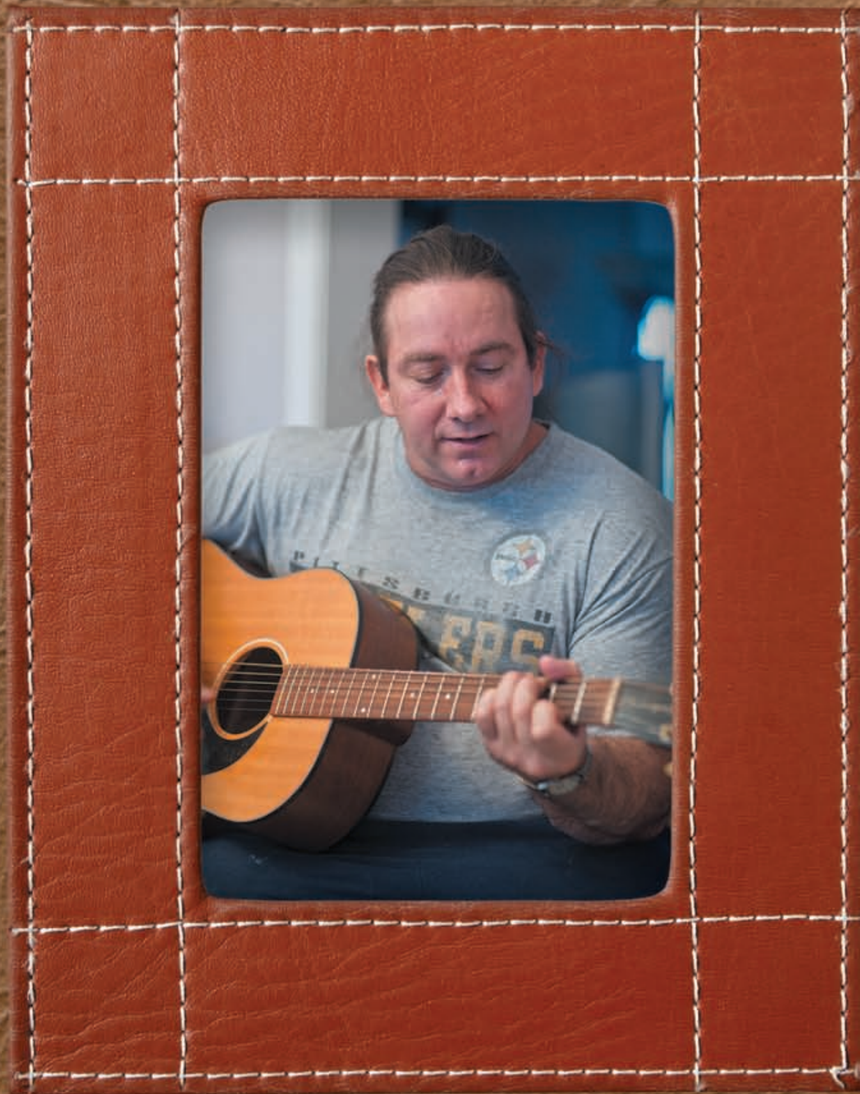
"I was extremely worried and wasn't sleeping well. You can't imagine what it was like," Ed recalls.

Today, Ed has been given more time to continue his ongoing recovery. PHFA's Homeowners' Emergency Mortgage Assistance Program (HEMAP) has brought his mortgage current and is helping with his monthly payments. Now he can focus on his exercise, his reading, and his other activities to help him get stronger in mind and body. And he can stay in his home while he recuperates, eliminating that debilitating worry.

When Ed was running out of options, PHFA's HEMAP gave him continued hope, which he very much appreciates.

"You folks at PHFA are a blessing. I thank you."






STEELERS

Commonwealth Cornerstone Group (CCG) was established by PHFA in 2004 to make loans for the development or rehabilitation of real estate that can stimulate economic revitalization and help business development in underserved communities. During its first six years, CCG has received $148 million in New Markets Tax Credit allocations and, as of June 30, 2011, has invested more than $100 million to support strategic development in distressed areas. Hamilton Health Center in Harrisburg, led by CEO Jeannine Peterson, is a worthy recipient of assistance from CCG.

A mission that goes *beyond housing*

In residential real estate, they say it's all about location. As it turns out, that's also true for commercial real estate. You need to be where your customers are.

Hamilton Health Center in Harrisburg understands that well. But being where its customers are has been no easy feat. The center started in 1972 and initially worked out of a trailer. Today, it provides healthcare services out of five separate locations — certainly an improvement, but not the optimal situation. Services include medical and dental care; women's healthcare; services for the women, infants and children (WIC) program; and more.

Its clients include underinsured, uninsured, and insured adults and children, meaning it has to keep a close eye on its finances. Consolidating its operations was expected to cost a sizable $21.5 million. Nevertheless, with a 29 percent increase in its number of patients during the past three years, customer demand was pushing the search for a solution.

Commonwealth Cornerstone Group (CCG), created by PHFA to be a nonprofit community development entity, is proud to be playing a role in the center's consolidation and expansion plans. CCG committed an $8.1 million New Markets Tax Credit allocation that provides a portion of the financing necessary for the center to move forward with the first phase of its construction plans. An existing building in the city's rough-and-tumble Allison Hill neighborhood provides the right location and a sound structure to rehab into its much-needed new facility. Construction is now underway.

"It's been great working with Commonwealth Cornerstone Group to make this happen," says the center's CEO Jeannine Peterson. "We know the healthcare business, but construction is a new area for us. Commonwealth Cornerstone Group has certainly been helpful with that part of this project. Without them, we would not have been able to accomplish this."

Just what will the expanded and upgraded health center mean to residents in southcentral Pennsylvania? It will certainly mean improved medical care, including discounted pharmacy and laboratory services. But Peterson is quick to point out that the expanded facility will add healthcare and construction jobs to the local economy, too. Plus, its need for a wide range of supplies will bring more business to area firms. The positive ripple effect will benefit the entire capital region.

The staff members shown here work on just a few of the many housing programs managed by PHFA, or they fulfill critical support functions.

Service to others creates a circle of sharing

Spend a little time at PHFA and something becomes apparent pretty quickly. People come here to work and they don't leave. That tells you there's something special happening at the agency.

The numbers partly tell the story: 57 percent of PHFA's employees have been here for more than 10 years, and a quarter of the personnel — 74 employees — have worked for the agency for 20 years or longer.

The rest of the story is revealed when you start talking with the staff. Many of them will tell you that a paycheck is not the main reason they work at PHFA. They came here initially because they wanted to make a positive difference in people's lives. They stayed because they found the work to be engaging and fulfilling. In many instances, they know the agency's customers by first name. They stay in touch over the years and personally see how affordable housing brings families together, helps individuals grow, and strengthens communities.

In the end, the experience shapes our staff as much as the people we serve. The circle of sharing that springs up touches their lives and ours.

Naomi Garcia, *Accounting and Loan Servicing*
All PHFA home loans are 30-year, fixed-rate loans, helping to keep loan payments affordable and consistent. Plus, all home loans are serviced by staff in Harrisburg for the life of the loan, which our customers appreciate. Mortgage customers with Web access can review their account at any time via the Internet to check their account status. Naomi Garcia is a PHFA senior servicing officer who helps customers with their account questions.

Frank Bobak, *Multifamily Housing*
Anyone who has ever used the classified ads to search for an apartment knows how limiting that can be. New this year is a Web-based housing locator resource called PAHousingSearch.com, which lets people easily search for affordable housing by targeting the features of most interest to them. Frank Bobak is a senior systems analyst at PHFA who is part of the team managing the housing locator.

Steve Moses, *Technical Services*
PHFA encourages energy efficiency and sustainability in the multifamily buildings we help finance. So it was only fitting when PHFA built its new headquarters in Harrisburg in 2004 that it constructed a LEED-certified green building, providing a healthy environment for its employees. Steve Moses is the facilities engineer who closely monitors the building's infrastructure.

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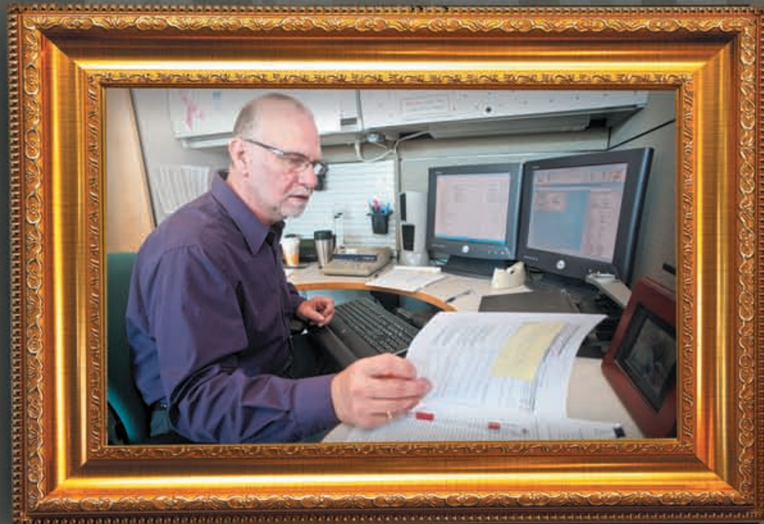
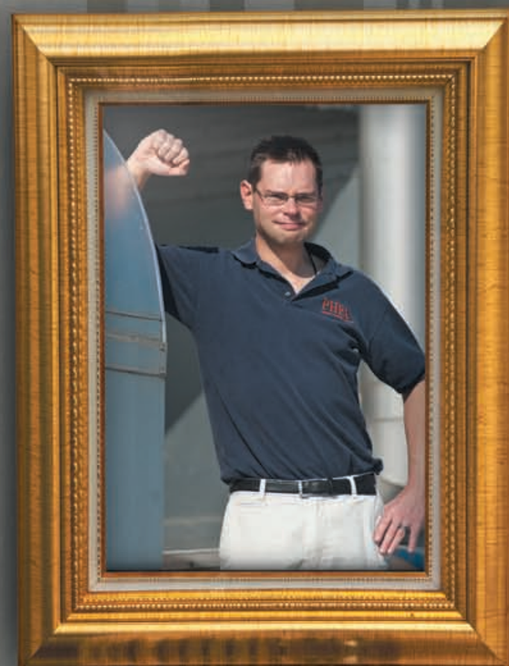
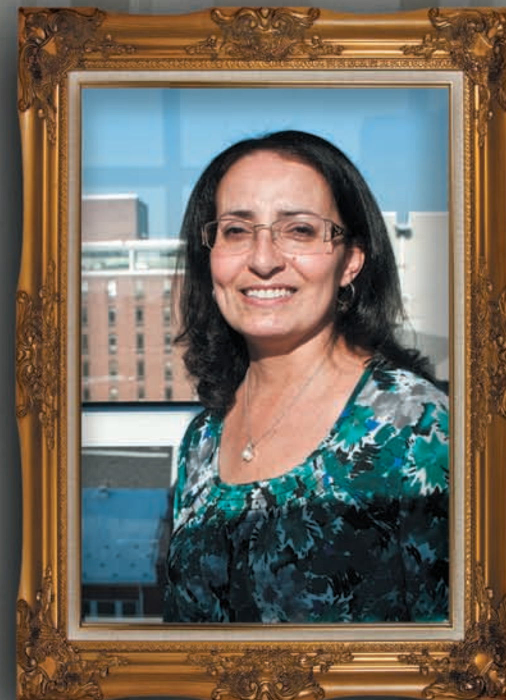


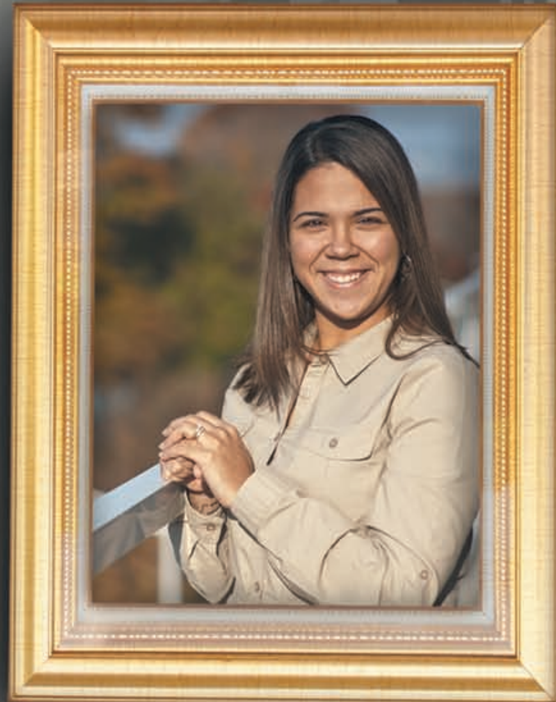
Frank Bobak



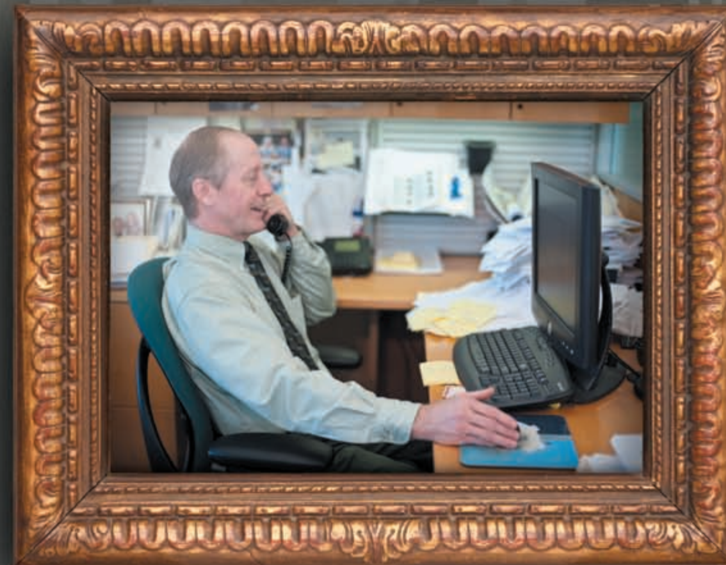
Steve Moses



Naomi Garcia



Denise Shearer



Daryl Rotz

Gelene Nason

a circle of sharing

(continued)

Gelene Nason, *Housing Services*

Making housing work for the residents in our multifamily buildings involves more than providing safe and clean apartments. Many need support services to help them live independently. A good example is transportation services so that senior residents have easy access to their family doctor. PHFA's housing services staff works with the management at agency-funded multifamily buildings to fill in this critical part of the housing puzzle. Gelene Nason is a PHFA supportive housing officer with expertise in housing for people with physical or mental disabilities.

Daryl Rotz, *Homeowners' Emergency Mortgage Assistance Program (HEMAP)*

HEMAP was started by the legislature in 1983 during an economic recession. It was intended to assist families that had fallen on hard times, helping them keep their homes and gain time for finding new work. It's been successful in that mission, serving as a national model for how to do foreclosure prevention right. It's also helped to stabilize communities that otherwise might have been crippled by empty homes and falling property values. Daryl Rotz has worked on the HEMAP staff for 28 years. Starting as a loan officer, he's risen to become the program's director.

Denise Shearer, *Homeownership Programs*

The purchase of a home typically is the single largest investment people will make in their life. But it's not a purchase that most people make frequently. As a result, for many of us, the home purchasing process is an intimidating and challenging experience. By providing pre-purchase counseling through our statewide counseling network, and with assistance from our helpful loan officers, PHFA works to make homebuying less stressful. As part of its customer outreach, PHFA staffs a homeownership phone hotline. Denise Shearer is a customer service coordinator who frequently helps to answer questions when people call.

Contents

2010-2011 Basic Financial Statements & Required Supplementary Information

Report of *independent auditors*

Ernst & Young

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Tel: + 1 215 448 5000 ▪ Fax: + 1 215 448 4069 ▪ www.ey.com

MEMBERS OF THE BOARD OF DIRECTORS
PENNSYLVANIA HOUSING FINANCE AGENCY

We have audited the accompanying financial statements of the General Fund, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund and Homeowners' Emergency Mortgage Assistance Program ("HEMAP") as of and for the years ended June 30, 2011 and 2010, which collectively comprise the basic financial statements, as listed in the table of contents, of the Pennsylvania Housing Finance Agency ("PHFA"), a component unit of the Commonwealth of Pennsylvania. These financial statements are the responsibility of PHFA's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of PHFA's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PHFA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, 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 HEMAP of PHFA as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2011 on our consideration of PHFA'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* and should be considered in assessing the results of our audit.

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 28 through 33, and 68, respectively, are not a required part of the basic financial statements but are supplementary information required by the *Government Auditing Standards* Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

October 25, 2011

Report of *independent auditors*

on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

MEMBERS OF THE BOARD OF DIRECTORS
PENNSYLVANIA HOUSING FINANCE AGENCY

We have audited the financial statements of the General Fund, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund and Homeowners' Emergency Mortgage Assistance Program (HEMAP) as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the Pennsylvania Housing Finance Agency (PHFA), a component unit of the Commonwealth of Pennsylvania, and have issued our report thereon dated October 25, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

In planning and performing our audit, we considered PHFA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of PHFA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PHFA's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

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

This report is intended solely for the information and use of the Members of the Board of Directors, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

October 25, 2011

Management's discussion and analysis

(Amounts rounded to facilitate easy reading)

Introduction

This discussion and analysis of the financial performance of the Pennsylvania Housing Finance Agency ("Agency") is required supplementary information. It introduces the financial statements for the year ended June 30, 2011 with selected comparative information for the years ended June 30, 2010 and June 30, 2009. It provides the financial highlights and assessments that, in management's view, significantly affected the Agency's overall financial position. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow this section.

Basic Financial Statements

The Agency's basic financial statements include the Balance Sheet, the Statement of Revenues, Expenses and Change in Fund Net Assets, the Statement of Cash Flows and the Notes to Financial Statements.

The Balance Sheet provides information about the liquidity and solvency of the Agency by indicating the nature and the amounts of investments in resources (assets), the obligations to creditors (liabilities) and net assets. Net assets represent the amount of total assets, less liabilities. The organization of the statement separates assets and liabilities into current and noncurrent categories.

The Statement of Revenues, Expenses and Change in Fund Net Assets accounts for all of the current year's revenue and expenses in order to measure the success of the Agency's operations over the past year. It is used to determine how the Agency has funded its costs. By presenting the financial performance of the Agency, the change in net assets is similar to net profit or loss for a business.

The Statement of Cash Flows is presented using the direct method of reporting. It provides information about the Agency's cash receipts, cash payments and net changes in cash resulting from operating, investing and financing activities. Cash receipts and payments are presented in this statement to arrive at the net increase or decrease in cash and cash equivalents for each year.

The financial statements are accompanied by a complete set of notes and required supplementary information. They present information that is essential in understanding the financial statements, such as accounting methods and policies providing information about the content of the financial statements.

Condensed Balance Sheets

The following table presents summarized information about the financial position of the Agency as of June 30, 2011, 2010 and 2009 (in thousands):

	June 30, 2011	June 30, 2010	June 30, 2009	Percentage Change 2011/2010	Percentage Change 2010/2009
Assets:					
Capital assets	$ 32,439	$ 33,353	$ 34,142	(3) %	(2) %
Other assets	6,018,828	6,232,043	5,399,678	(3)	15
Total assets	6,051,267	6,265,396	5,433,820	(3)	15
Liabilities:					
Current liabilities	417,297	782,236	304,188	(47)	157
Long-term liabilities	4,823,520	4,712,074	4,383,159	2	8
Total liabilities	5,240,817	5,494,310	4,687,347	(5)	17
Net assets:					
Invested in capital assets, net of related debt	12,506	13,423	14,215	(7)	(6)
Restricted	179,589	239,098	252,277	(25)	(5)
Unrestricted	618,355	518,565	479,981	19	8
Total net assets	$ 810,450	$ 771,086	$ 746,473	5 %	3 %

DISCUSSION AND ANALYSIS OF THE SIGNIFICANT CHANGES IN THE BALANCE SHEETS

Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments equaled 16% of the total assets at June 30, 2011 and equaled 24% and 16% of the total assets at June 30, 2010 and 2009, respectively. Balances of cash, cash equivalents and investments fluctuate relative to the timing of the receipt of bond proceeds and the disbursement of those proceeds intended for mortgage loans.

Cash and cash equivalents balances decreased to $640 million at June 30, 2011 from $1.2 billion at June 30, 2010, compared to an increase to $1.2 billion at June 30, 2010 from $800 million at June 30, 2009. Investments increased to $340 million at June 30, 2011 from $242 million at June 30, 2010. This can be compared to an increase to $242 million at June 30, 2010 from $89 million at June 30, 2009.

Mortgage Loans Receivable, Net

Loan portfolios of the Multifamily Housing Program, Single Family Mortgage Loan Program and the Homeowners' Emergency Mortgage Assistance Program ("HEMAP") are the Agency's primary performing assets that equaled 79% of the Agency's total assets at June 30, 2011 and 72% at June 30, 2010. Total loan portfolios increased 7% or $300 million to $4.8 billion at June 30, 2011 from $4.5 billion at June 30, 2010. The increase in loans outstanding is due to homebuyers taking advantage of favorable interest rates and closing cost assistance incentives on single-family mortgage loans. This is compared with an increase of 7% or $300 million to $4.5 billion at June 30, 2010 from $4.2 billion at June 30, 2009, after adjustments for principal payments and loan losses.

Multifamily Housing Program Loan Activity

The Multifamily Housing Program funded approximately $200 million of mortgage loans by providing financing for affordable housing developments compared with $109 million in the prior year. The Multifamily loan portfolio decreased by 6% to $468 million at June 30, 2011 from $498 million at June 30, 3010, after adjustments of the provision for loan loss, prepayments and scheduled principal payments. This is compared to a decrease of 8% to $498 million at June 30, 2010 from $542 million at June 30, 2009.

Multifamily mortgage loans are reported net of allowances for potential loan loss. The total allowance for loan loss equaled 27% of Multifamily receivables at June 30, 2011. This is compared to 25% and 22% of the total Multifamily portfolio at June 30, 2010 and 2009, respectively. At June 30, 2011, the expense for the provision for loan loss increased by 41% to $3.1 million from $2.3 million at June 30, 2010 based on management's estimate of future portfolio performance.

Single Family Mortgage Loan Program Activity

The Single Family Mortgage Loan Program purchased approximately $816 million of new single-family mortgage loans compared with $802 million in the prior year. The Single Family loan portfolio increased 8% to $4.2 billion at June 30, 2011 from $3.9 billion at June 30, 2010, after adjustments of the provision for loan loss, prepayments and scheduled principal payments. This is compared to an increase of 8% to $3.9 billion at June 30, 2010 from $3.6 billion at June 30, 2009.

Single Family mortgage loans are reported net of allowances for potential loan loss. The total allowance for loan loss equaled less than 1% of the total loan receivables for years ended June 30, 2011, 2010 and 2009. The allowance remains very low since government and private mortgage insurance companies insure a majority of the loan portfolio. For the year ended June 30, 2011, the expense for the provision for loan loss increased 178% to $5.0 million from $1.8 million for the year ended June 30, 2010 based on management's estimate of future portfolio performance.

Homeowners' Emergency Mortgage Assistance Loan Activity

For the year ended June 30, 2011, HEMAP disbursed approximately $29 million of emergency mortgage assistance loans compared with $21 million in the prior year. The total portfolio of HEMAP increased 18% to $65 million at June 30, 2011 from $55 million at June 30, 2010, after adjustments for the provision for loan loss, prepayments, and scheduled principal payments. This is compared to an increase of 10% to $55 million at June 30, 2010 from $50 million at June 30, 2009.

HEMAP loans are reported net of allowances for potential loan loss. The total allowance for loan loss equaled 41% of the total loan portfolio at June 30, 2011. This can be compared to 45% of the total loan portfolio at June 30, 2010 and 2009, respectively. Management believes the provision properly represents potential loan losses based on historical trends and the quality of the properties collateralized by the mortgage loan agreements. At June 30, 2011, the expense for the provision for loan loss increased 22% to $11 million from $9 million at June 30, 2010.

Bonds and Notes Payable, Net

Bonds and notes payable equaled 87% of the total liabilities at June 30, 2011, 87% and 90% of the total liabilities at June 30, 2010 and June 30, 2009, respectively. The Multifamily Housing Program finances various housing developments throughout the Commonwealth of Pennsylvania with multifamily development bonds proceeds relating to the construction or rehabilitation of multifamily rental housing developments generally designed for persons or families of low and moderate income or the elderly. The Single Family Mortgage Loan Program provides residential mortgage financing programs that serve low- to middle-income qualified homebuyers with mortgage revenue bond proceeds.

Long-Term Debt Activity of the Multifamily Housing Program

During the year, the Multifamily Housing Program did not issue any bonds. As a result, the total outstanding bonds balance at June 30, 2011 decreased by 23% to $169 million because of scheduled debt payments and redemptions. The Multifamily Housing Program did not issue any bonds during the years ended June 30, 2010 and 2009.

Long-Term Debt Activity of the Single Family Mortgage Loan Program

During the year, the Agency issued approximately $596 million of Single Family Mortgage Revenue Bonds Series 2010-109 through Series 2011-112. Total debt outstanding of the Single Family Mortgage Loan Program decreased by 4% to $4.4 billion because of the issuance of the aforementioned debt adjusted by scheduled debt payments and redemptions. During the years ended June 30, 2010 and 2009, the Agency issued Mortgage Revenue Bonds totaling $1.2 billion and $350 million, respectively.

Fund Net Assets

Net assets invested in capital assets, net of related debt decreased to $12.5 million or 7% at June 30, 2011 from $13.4 million at June 30, 2010. This is compared to a decrease of $800 thousand or 6% to $13.4 million at June 30, 2010 from $14.2 million at June 30, 2009. The Agency issued Variable Rate Building Development Bonds, Series 2004 to fund the construction of its headquarters in Harrisburg. This net asset changes with additions of equipment or improvements to the headquarters, less depreciation expenses and retirement of the related bond issue debt. Restricted net assets decreased to $180 million or 25% at June 30, 2011 from $239 million at June 30, 2010. Compared to a decrease to $239 million or 5% at June 30, 2010 from $252 million at June 30, 2009. Restricted net assets represent assets with constraints placed on their use by external groups, such as creditors and by law through enabling legislation.

Unrestricted net assets increased to $616 million or 19% at June 30, 2011 from $519 million at June 30, 2010. Compared to an increase to $519 million or 8% at June 30, 2010 from $480 million at June 30, 2009. Unrestricted net assets do not meet the definition of invested in capital assets, net of related debt or restricted net assets. This component includes net assets designated for specific purposes by the Members of the Board.

Condensed Statements of Revenues, Expenses and Changes in Fund Net Assets

The following table presents summarized information about the revenues, expenses and changes in fund net assets for the years ended June 30, 2011, 2010 and 2009 (in thousands):

	June 30, 2011	June 30, 2010	June 30, 2009	Percentage Change 2011/2010	Percentage Change 2010/2009
Operating revenues:					
Mortgage loan interest	$ 206,728	$ 197,947	$ 207,990	4 %	(5)%
Investment income	23,696	25,422	14,640	(7)	74
Program income and fees	521,885	684,169	524,672	(24)	30
Total operating revenues	752,309	907,538	747,302	(17)	21
Operating expenses:					
Interest on bonds	181,672	191,066	213,790	(5)	(11)
Program expenses	531,273	691,859	530,872	(23)	30
Total operating expenses	712,945	882,925	744,662	(19)	19
Change in net assets	$ 39,364	$ 24,613	$ 2,640	60 %	832 %

DISCUSSION AND ANALYSIS OF THE SIGNIFICANT CHANGES IN THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

Discussion of the Change in Net Assets

The Agency's change in net assets at June 30, 2011 was $39 million of income, compared with $25 million of income for June 30, 2010 and $3 million of income at June 30, 2009. The most significant items related to these changes are discussed here:

Interest Income on Mortgage Loans

Total mortgage loan interest revenue increased 4% to $207 million at June 30, 2011 from $198 million at June 30, 2010. Total mortgage loan interest revenue decreased 5% to $198 million at June 30, 2010 from $208 million at June 30, 2009. Contrary to economic conditions, the Agency enjoys healthy single-family loan originations by families or individuals who are taking advantage of low interest rates and closing cost assistance incentives. Increased interest earnings are the result of increased amount of loans in the Agency's portfolio.

Investment Income and Net Increases (Decreases) in Fair Value of Investments and Swaps

Investment income, netted against the changes in the fair value of investments and swaps, decreased 7% to $24 million of revenue at June 30, 2011 from $25 million of revenue at June 30, 2010. Investment income increased over the prior year in proportion to the amounts invested during the year; however, the change in fair values of investments was inversely lower due to reductions in demand for U.S. Government Agency Mortgage-Backed Securities that makes up a majority of the Agency's investment portfolio held at the year-end.

Federal Program Awards and Expenses

Federal awards represented 61% of the total revenue as compared to 69% of the total revenue in the prior year. The Agency receives federal program awards of federal financial assistance to transfer to various secondary recipients, predominately from the Department of Housing and Urban Development ("HUD") and the U.S. Department of Treasury. The most significant pass-through awards are summarized as follows:

- As a designated State Housing Finance Agency for HUD Section 8 Programs, the Agency requisitions and passes through Section 8 Program funds and makes disbursements to eligible multifamily housing developments. For the years ended June 30, 2011 and 2010, the Agency received and disbursed $371 million, and $377 million, respectively.

- As a State Credit Agency, the Agency received funding that is part of the American Recovery and Reinvestment Act of 2009 that created two programs that relate to low-income housing tax credits. The Tax Credit Assistance Program ("TCAP") provides funding for capital investments in Low Income Housing Tax Credit projects. The Section 1602 Program (Exchange Program) permits the Agency to "exchange" eligible low income housing tax credits for cash to finance construction or acquisition and rehabilitation of a qualified low-income housing building. During the year ended June 30, 2011, the Agency passed-through $54 million of TCAP funds. The Agency passed-through $34 million of TCAP funding during the prior year.

- The Agency is designated as a participating entity under grant agreements with the Department of Community and Economic Development for HUD's HOME Program. The HOME Program provides funding for developing affordable housing for persons of low and very low income. Funding passed through the Agency for the year ended June 30, 2011 and 2010, was $18 million and $4 million, respectively.

- As a participating entity under a grant agreement with the U.S. Department of Treasury, the Agency passes through NeighborWorks funding for the National Foreclosure Mitigation Counseling Program. The program provides counseling to homeowners who may be in danger of foreclosure. For the year ended June 30, 2011 and 2010, the Agency passed through $6 million and $7 million, respectively.

The Agency earned approximately $16 million for administering federal programs for the year ended June 30, 2011. Of those fees, approximately $7 million was paid to Pennsylvania Multifamily Asset Managers for Section 8 Contract Administration work, which is reported as a general and administrative expense.

Interest Expense on Bonds and Notes

Interest on bonds and notes outstanding decreased 5% to $182 million for the year ended June 30, 2011 from $191 million for the year ended June 30, 2010. This is due to the cumulative effect of the Agency refunding long-term debt with lower interest rate long-term debt during prior years and the current year. For the years ended June 30, 2011 and 2010, the Agency refunded approximately $378 million and $215 million, respectively, of debt contributing to the reduction of bond interest payments.

Salaries, Benefits and Other Postemployment Benefit Expense

Salaries, related benefits and other postemployment benefit increased 3% to $30 million at June 30, 2011 from $29 million at June 30, 2010. The increase is predominately due to modest cost of living increases, increases in healthcare costs and pension expenses. The Agency paid $4.5 million for June 30, 2011, compared to $3.7 million for June 30, 2010 and $3.1 million for June 30, 2009 for pension contributions and other postemployment obligation liabilities based upon actuarial analysis.

PENNSYLVANIA HOUSING FINANCE AGENCY balance sheets

June 30, 2011 and 2010

2011

	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
ASSETS							
Current Assets:							
Cash and cash equivalents	$ 67,399	$ 29,885	$ 320,336	$ 33,144	$ 450,764	$ 358	$ 451,122
Restricted cash and cash equivalents	223	129,128	59,795	-	189,146	-	189,146
Investments	8,223	6,183	-	-	14,406	-	14,406
Restricted investments	516	41	140,871	-	141,428	-	141,428
Accrued interest receivable on investments	127	204	1,062	305	1,698	-	1,698
Mortgage loans receivable, net	-	30,914	82,098	-	113,012	8,472	121,484
Deferred financing costs and other assets	4,120	42	731	-	4,893	186	5,079
Due from other funds	31,653	54,685	-	-	86,338	-	86,338
Total current assets	112,261	251,082	604,893	33,449	1,001,685	9,016	1,010,701
Noncurrent assets:							
Investments	28,989	5,785	136,845	7,085	178,704	-	178,704
Restricted investments	-	5,102	-	-	5,102	-	5,102
Mortgage loans receivable, net	-	436,646	4,190,821	-	4,627,467	56,659	4,684,126
Capital assets, net	32,437	-	-	-	32,437	2	32,439
Deferred financing costs and other assets	21,411	2,565	14,608	-	38,584	4	38,588
Deferred outflow of resources	1,358	13,560	86,689	-	101,607	-	101,607
Total noncurrent assets	84,195	463,658	4,428,963	7,085	4,983,901	56,665	5,040,566
Total assets	$ 196,456	$ 714,740	$ 5,033,856	$ 40,534	$ 5,985,586	$ 65,681	$ 6,051,267
LIABILITIES							
Current liabilities:							
Bonds and notes payable, net	$ -	$ 23,926	$ 163,500	$ -	$ 187,426	$ -	$ 187,426
Accrued interest payable	384	3,367	40,842	-	44,593	-	44,593
Accounts payable and accrued expenses	2,778	86	2,053	2	4,919	814	5,733
Escrow deposits and other liabilities	1,852	36,936	54,119	300	93,207	-	93,207
Due to other funds	-	-	86,338	-	86,338	-	86,338
Total current liabilities	5,014	64,315	346,852	302	416,483	814	417,297
Noncurrent liabilities:							
Bonds and notes payable, net	19,933	144,786	4,226,032	-	4,390,751	-	4,390,751
Derivative instrument - Interest rate swaps	1,358	14,138	91,257	-	106,753	-	106,753
Escrow deposits and other liabilities	14,432	254,227	31,526	2,211	302,396	23,620	326,016
Total noncurrent liabilities	35,723	413,151	4,348,815	2,211	4,799,900	23,620	4,823,520
Total liabilities	40,737	477,466	4,695,667	2,513	5,216,383	24,434	5,240,817
NET ASSETS							
Invested in capital assets, net of related debt	12,504	-	-	-	12,504	2	12,506
Restricted	-	5,102	133,242	-	138,344	41,245	179,589
Unrestricted	143,215	232,172	204,947	38,021	618,355	-	618,355
Total net assets	155,719	237,274	338,189	38,021	769,203	41,247	810,450
Total liabilities and net assets	$ 196,456	$ 714,740	$ 5,033,856	$ 40,534	$ 5,985,586	$ 65,681	$ 6,051,267

(In thousands of dollars)

2010

	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
ASSETS							
Current Assets:							
Cash and cash equivalents	$ 20,782	$ 74,159	$ 872,373	$ 35,624	$ 1,002,938	$ 457	$ 1,003,395
Restricted cash and cash equivalents	30	135,986	91,608	-	227,624	-	227,624
Investments	7,421	2,254	1,021	-	10,696	-	10,696
Restricted investments	2,071	1,153	2,629	-	5,853	-	5,853
Accrued interest receivable on investments	71	211	1,204	38	1,524	-	1,524
Mortgage loans receivable, net	-	32,714	69,592	-	102,306	7,156	109,462
Deferred financing costs and other assets	4,151	255	795	-	5,201	208	5,409
Due from other funds	66,234	39,407	-	-	105,641	-	105,641
Total current assets	100,760	286,139	1,039,222	35,662	1,461,783	7,821	1,469,604
Noncurrent assets:							
Investments	41,947	10,353	65,883	3,531	121,714	-	121,714
Restricted investments	-	-	103,659	-	103,659	-	103,659
Mortgage loans receivable, net	-	465,118	3,868,661	-	4,333,779	47,586	4,381,365
Capital assets, net	33,349	-	-	-	33,349	4	33,353
Deferred financing costs and other assets	1,461	2,896	7,151	-	11,508	6	11,514
Deferred outflow of resources	1,628	16,161	126,398	-	144,187	-	144,187
Total noncurrent assets	78,385	494,528	4,171,752	3,531	4,748,196	47,596	4,795,792
Total assets	$ 179,145	$ 780,667	$ 5,210,974	$ 39,193	$ 6,209,979	$ 55,417	$ 6,265,396
LIABILITIES							
Current liabilities:							
Bonds and notes payable, net	$ -	$ 27,064	$ 494,725	$ -	$ 521,789	$ -	$ 521,789
Accrued interest payable	384	4,301	41,547	-	46,232	-	46,232
Accounts payable and accrued expenses	3,629	109	1,472	3	5,213	715	5,928
Escrow deposits and other liabilities	121	47,407	54,818	300	102,646	-	102,646
Due to other funds	-	-	100,302	-	100,302	5,339	105,641
Total current liabilities	4,134	78,881	692,864	303	776,182	6,054	782,236
Noncurrent liabilities:							
Bonds and notes payable, net	19,930	192,762	4,065,659	-	4,278,351	-	4,278,351
Derivative instrument - Interest rate swaps	1,628	17,179	127,613	-	146,420	-	146,420
Escrow deposits and other liabilities	14,193	245,072	22,132	1,829	283,226	4,077	287,303
Total noncurrent liabilities	35,751	455,013	4,215,404	1,829	4,707,997	4,077	4,712,074
Total liabilities	39,885	533,894	4,908,268	2,132	5,484,179	10,131	5,494,310
NET ASSETS							
Invested in capital assets, net of related debt	13,419	-	-	-	13,419	4	13,423
Restricted	-	5,564	188,252	-	193,816	45,282	239,098
Unrestricted	125,841	241,209	114,454	37,061	518,565	-	518,565
Total net assets	139,260	246,773	302,706	37,061	725,800	45,286	771,086
Total liabilities and net assets	$ 179,145	$ 780,667	$ 5,210,974	$ 39,193	$ 6,209,979	$ 55,417	$ 6,265,396

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

statements of revenues, expenses and changes in fund net assets

Years Ended June 30, 2011 and 2010

2011

	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Operating revenues:							
Interest income on mortgage loans	$ -	$ 25,388	$ 180,653	$ -	$ 206,041	$ 687	$ 206,728
Program income and fees	36,357	11,072	3,664	1,501	52,594	10,958	63,552
Investment income	5,798	(99)	10,998	504	17,201	4	17,205
Net increase (decrease) in fair value of investments	(1,152)	495	2,498	(445)	1,396	-	1,396
Net increase (decrease) in fair value of swaps	-	440	4,655	-	5,095	-	5,095
Federal program awards	-	450,225	7,619	-	457,844	489	458,333
Total operating revenues	41,003	487,521	210,087	1,560	740,171	12,138	752,309
Operating expenses:							
Interest expense on bonds and notes	762	8,709	172,201	-	181,672	-	181,672
Salaries and related benefits	23,396	-	-	-	23,396	3,051	26,447
OPEB liability expense	3,170	-	-	-	3,170	432	3,602
General and administrative	5,339	3,130	10,754	600	19,823	953	20,776
Provision for loan loss	-	3,100	5,000	-	8,100	11,252	19,352
Early extinguishment of debt	-	29	2,734	-	2,763	-	2,763
Federal program expense	-	450,225	7,619	-	457,844	489	458,333
Total operating expenses	32,667	465,193	198,308	600	696,768	16,177	712,945
Operating income (loss) before transfers	8,336	22,328	11,779	960	43,403	(4,039)	39,364
Interfund transfers	8,123	(31,827)	23,704	-	-	-	-
Change in Net Assets	16,459	(9,499)	35,483	960	43,403	(4,039)	39,364
Total net assets - beginning of year	139,260	246,773	302,706	37,061	725,800	45,286	771,086
Total net assets - end of year	$ 155,719	$ 237,274	$ 338,189	$ 38,021	$ 769,203	$ 41,247	$ 810,450

(In thousands of dollars)

2010

	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Operating revenues:							
Interest income on mortgage loans	$ -	$ 27,665	$ 169,466	$ -	$ 197,131	$ 816	$ 197,947
Program income and fees	33,213	1,980	4,006	646	39,845	13,976	53,821
Investment income	1,855	50	7,027	569	9,501	3	9,504
Net increase (decrease) in fair value of investments	9,137	409	7,490	1,115	18,151	-	18,151
Net increase (decrease) in fair value of swaps	-	(1,018)	(1,215)	-	(2,233)	-	(2,233)
Federal program awards	-	608,232	22,116	-	630,348	-	630,348
Total operating revenues	44,205	637,318	208,890	2,330	892,743	14,795	907,538
Operating expenses:							
Interest expense on bonds and notes	760	11,180	179,126	-	191,066	-	191,066
Salaries and related benefits	22,656	-	-	-	22,656	2,641	25,297
OPEB liability expense	3,289	-	-	-	3,289	448	3,737
General and administrative	4,459	2,958	9,077	600	17,094	1,396	18,490
Provision for loan loss	-	2,330	1,800	-	4,130	8,956	13,086
Early extinguishment of debt	-	36	865	-	901	-	901
Federal program expense	-	608,232	22,116	-	630,348	-	630,348
Total operating expenses	31,164	624,736	212,984	600	869,484	13,441	882,925
Operating income (loss) before transfers	13,041	12,582	(4,094)	1,730	23,259	1,354	24,613
Interfund transfers	3,186	2,826	(5,938)	(74)	-	-	-
Change in Net Assets	16,227	15,408	(10,032)	1,656	23,259	1,354	24,613
Total net assets - beginning of year	123,033	231,365	312,738	35,405	702,541	43,932	746,473
Total net assets - end of year	$ 139,260	$ 246,773	$ 302,706	$ 37,061	$ 725,800	$ 45,286	$ 771,086

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

statements of cash flows 2011

Years Ended June 30, 2011 and 2010

	2011						
	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Cash Flows From Operating Activities							
Receipts of mortgage loan payments	$ -	$ 230,368	$ 481,018	$ -	$ 711,386	$ 7,117	$ 718,503
Receipts from fees and other income	36,301	11,079	3,806	1,234	52,420	10,980	63,400
Receipts from interest on mortgages	-	25,388	180,653	-	206,041	1,271	207,312
Receipt of escrow deposits	1,970	(1,316)	8,695	-	9,349	-	9,349
Qualified tender bonds	-	-	-	-	-	-	-
Payments for mortgages and purchases	-	(200,096)	(815,684)	-	(1,015,780)	(28,758)	(1,044,538)
Payments to employees and suppliers	(51,390)	(5,709)	(22,566)	(219)	(79,884)	(4,333)	(84,217)
Net cash provided by (used in) operating activities	(13,119)	59,714	(164,078)	1,015	(116,468)	(13,723)	(130,191)
Cash Flows From Noncapital Financing Activities							
Proceeds from the sale of bonds	-	-	595,590	-	595,590	-	595,590
Payments for retirement of bonds and notes	-	(51,143)	(769,176)	-	(820,319)	-	(820,319)
Payments of bonds and notes interest	-	(9,643)	(172,906)	-	(182,549)	-	(182,549)
Transfers from (to) other funds	42,704	(47,105)	9,740	-	5,339	13,620	18,959
Net cash provided by (used in) noncapital financing activities	42,704	(107,891)	(336,752)	-	(401,939)	13,620	(388,319)
Cash Flows From Capital Financing Activities							
Purchases of capital assets	(373)	-	-	-	(373)	-	(373)
Interest paid on capital debt	(759)	-	-	-	(759)	-	(759)
Net cash used in capital financing activities	(1,132)	-	-	-	(1,132)	-	(1,132)
Cash Flows From Investing Activities							
Proceeds from sales of and maturities of investments	15,874	13,147	104,561	-	133,582	-	133,582
Interest and dividends	5,798	(99)	10,998	504	17,201	4	17,205
Purchases of investments	(3,315)	(16,003)	(198,579)	(3,999)	(221,896)	-	(221,896)

(In thousands of dollars)

2011 *(continued)*

	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Net cash provided by (used in) investing activities	18,357	(2,955)	(83,020)	(3,495)	(71,113)	4	(71,109)
Net increase (decrease) in cash and cash equivalents	46,810	(51,132)	(583,850)	(2,480)	(590,652)	(99)	(590,751)
Cash and cash equivalents, beginning of year	20,812	210,145	963,981	35,624	1,230,562	457	1,231,019
Cash and cash equivalents, end of year	$ 67,622	$ 159,013	$ 380,131	$ 33,144	$ 639,910	$ 358	$ 640,268
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	$ 8,336	$ 22,328	$ 11,779	$ 960	$ 43,403	$ (4,039)	$ 39,364
Net change in fair value of investments	(4,646)	(396)	(13,496)	(59)	(18,597)	-	(18,597)
Net change in fair value of swaps	-	(440)	(4,655)	-	(5,095)	-	(5,095)
Interest expense on bonds	762	8,709	172,201	-	181,672	-	181,672
Provision for loan loss	-	3,100	5,000	-	8,100	11,252	19,352
Depreciation	1,285	-	-	-	1,285	2	1,287
Early extinguishment of debt	-	29	2,734	-	2,763	-	2,763
Changes in assets and liabilities:							
Mortgage loans receivable, net	-	27,172	(339,666)	-	(312,494)	(21,645)	(334,139)
Accrued interest receivable	(56)	7	142	(267)	(174)	-	(174)
Deferred and other assets	(19,919)	544	(7,393)	-	(26,768)	24	(26,744)
Accounts payable and accrued expenses	(851)	(23)	581	-	(293)	99	(194)
Escrow deposits and other liabilities	1,970	(1,316)	8,695	381	9,730	584	10,314
Net cash provided by (used in) operating activities	$ (13,119)	$ 59,714	$ (164,078)	$ 1,015	$ (116,468)	$ (13,723)	$ (130,191)

statements of cash flows 2010

Years Ended June 30, 2011 and 2010

2010

	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Cash Flows From Operating Activities							
Receipts of mortgage loan payments	$ -	$ 152,583	$ 423,089	$ -	$ 575,672	$ 7,145	$ 582,817
Receipts from fees and other income	33,188	2,027	4,398	674	40,287	13,976	54,263
Receipts from interest on mortgages	-	27,665	169,466	-	197,131	1,423	198,554
Receipt of escrow deposits	4,088	10,815	2,321	-	17,224	-	17,224
Qualified tender bonds	-	-	302,575	-	302,575	-	302,575
Payments for mortgages and purchases	-	(108,618)	(802,487)	-	(911,105)	(20,696)	(931,801)
Payments to employees and suppliers	(28,071)	(4,327)	(11,617)	(214)	(44,229)	(2,409)	(46,638)
Net cash provided by (used in) operating activities	9,205	80,145	87,745	460	177,555	(561)	176,994
Cash Flows From Noncapital Financing Activities							
Proceeds from the sale of bonds	-	-	1,190,640	-	1,190,640	-	1,190,640
Payments for retirement of bonds and notes	-	(50,605)	(565,586)	-	(616,191)	-	(616,191)
Payments of bonds and notes interest	-	(12,046)	(182,457)	-	(194,503)	-	(194,503)
Transfers from (to) other funds	(27,203)	(36,975)	63,265	(74)	(987)	987	-
Net cash provided by (used in) noncapital financing activities	(27,203)	(99,626)	505,862	(74)	378,959	987	379,946
Cash Flows From Capital Financing Activities							
Purchases of capital assets	(526)	-	-	-	(526)	-	(526)
Interest paid on capital debt	(763)	-	-	-	(763)	-	(763)
Net cash used in capital financing activities	(1,289)	-	-	-	(1,289)	-	(1,289)
Cash Flows From Investing Activities							
Proceeds from sales of and maturities of investments	6,027	-	172,992	9,361	188,380	-	188,380
Interest and dividends	1,855	50	7,027	569	9,501	3	9,504
Purchases of investments	(4,037)	(11,378)	(307,370)	-	(322,785)	-	(322,785)

(In thousands of dollars)

2010 *(continued)*

	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Net cash provided by (used in) investing activities	3,845	(11,328)	(127,351)	9,930	(124,904)	3	(124,901)
Net increase (decrease) in cash and cash equivalents	(15,442)	(30,809)	466,256	10,316	430,321	429	430,750
Cash and cash equivalents, beginning of year	36,254	240,954	497,725	25,308	800,241	28	800,269
Cash and cash equivalents, end of year	$ 20,812	$ 210,145	$ 963,981	$ 35,624	$ 1,230,562	$ 457	$ 1,231,019
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	$ 13,041	$ 12,582	$ (4,094)	$ 1 ,730	$ 23,259	$ 1,354	$ 24,613
Net change in fair value of investments	(10,992)	(459)	(14,517)	(1,684)	(27,652)	(3)	(27,655)
Net change in fair value of swaps	-	1,018	1,215	-	2,233	-	2,233
Interest expense on bonds	760	11,180	179,126	-	191,066	-	191,066
Provision for loan loss	-	2,330	1,800	-	4,130	8,956	13,086
Depreciation	1,306	-	-	-	1,306	9	1,315
Early extinguishment of debt	-	36	865	-	901	-	901
Changes in assets and liabilities:							
Mortgage loans receivable, net	-	41,635	(381,198)	-	(339,563)	(13,551)	(353,114)
Accrued interest receivable	(25)	47	392	28	442	-	442
Deferred and other assets	(298)	(14,239)	301,551	-	287,014	2,274	289,288
Accounts payable and accrued expenses	1,325	(22)	284	386	1,973	(207)	1,766
Escrow deposits and other liabilities	4,088	26,037	2,321	-	32,446	607	33,053
Net cash provided by (used in) operating activities	$ 9,205	$ 80,145	$ 87,745	$ 460	$ 177,555	$ (561)	$ 176,994

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

notes to financial statements

years ended June 30, 2011 and 2010

1. Reporting Entity

The Pennsylvania Housing Finance Agency ("Agency") is a component unit of the Commonwealth of Pennsylvania as described in Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining whether Certain Organizations are Component Units*. The Agency's financial information is included in the Commonwealth's financial statements, but the Agency is not considered part of the Commonwealth's primary government.

The Agency was created by the General Assembly in 1972 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 December 3, 1959, P. L. 1688 ("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 subsidies or assistance from federal government programs.

The Act was amended to authorize the Agency to make or purchase mortgage loans to finance the purchase, construction, improvement or rehabilitation of owner-occupied single-family residences and to finance the construction and rehabilitation of housing units without requiring the housing units to be subsidized or assisted by a federal government program. The initial legislation and subsequent amendments grant the Agency the power to issue debt to finance its programs and operations. Debt obligations issued under the provisions of the Act are not a debt or liability of the Commonwealth of Pennsylvania or any of its political subdivisions or a pledge of the faith and credit of the Commonwealth of Pennsylvania or of any of its political subdivisions.

A fourteen member Board governs the Agency. The Secretary of Banking, the Secretary of Community and Economic Development, the Secretary of Public Welfare and the State Treasurer serve by virtue of their offices. The majority and minority leaders of the State Senate and House of Representatives name four members to the Board. Six private citizen members are appointed by the Governor and confirmed by the State Senate.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Agency are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, regardless of when the cash flow takes place. Expenses are charged as incurred, except those directly related to mortgage loan or program originations, which are deferred, netted against fee income for mortgage loans originated and amortized over the contractual life of the related mortgage loan or program.

The Agency complies with GASB pronouncements in conformity with GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, which was issued to give guidance in determining generally, accepted accounting principles for governmental proprietary funds. It provides that all proprietary funds follow all

Financial Accounting Standards Board ("FASB") pronouncements issued prior to November 30, 1989, unless they conflict with GASB pronouncements. It also provides that the governmental unit may elect whether to follow FASB pronouncements after that date. The Agency has elected not to follow FASB pronouncements issued after November 30, 1989.

Description of Funds

The accounts of the Agency are organized based on separate enterprise funds. Each fund represents a separate accounting entity. The Agency's resources are allocated to these funds based on legal responsibility, accountability and management designation, summarized as follows:

General Fund — The General Fund consists of a group of accounts used to record the receipt of income not directly pledged to the repayment of specific bonds and notes and the payment of expenses related to the Agency's administrative functions, including salary and related benefits.

Multifamily Housing Program — Multifamily Housing Program records the activity related to financing of 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 Mortgage Loan Program records the transactions 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 single-family borrowers that are unable to obtain insurance from other sources.

Homeowners' Emergency Mortgage Assistance Program ("HEMAP") — HEMAP was created by Act 91 of the General Assembly to provide emergency mortgage assistance loans to mortgagors facing foreclosure because of circumstances beyond their control.

Adopted Accounting Standards

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, became effective this fiscal year, but is not applicable to the Agency's financial statements. The Agency adopted GASB Statement No. 59, *Financial Instruments Omnibus.* The Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools and had no effect on the financial statements.

Accounting Standards Issued But Not Yet Adopted

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer postemployment benefit plans. This Statement will not affect the Agency's financial statements when adopted for the fiscal year ending June 2012.

During November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements.* The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. This Statement will not affect the Agency's financial statements when adopted for the fiscal year ending June 2013.

During November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34.* The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity,* and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The Agency is required to adopt this Statement for the fiscal year ending June 2013. Management is currently evaluating the impact of this Statement on the financial statements.

During December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Agency is required to adopt this Statement for the fiscal year ending June 2013. Management is currently evaluating the impact of this Statement on the financial statements.

During June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. The Agency is required to adopt this Statement for the fiscal year ending June 2013. Management is currently evaluating the impact of this Statement on the financial statements.

During June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53.* The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Agency is required to adopt this Statement for the fiscal year ending June 2012. Management is currently evaluating the impact of this Statement on the financial statements.

Cash and Cash Equivalents

Cash includes cash on hand, cash deposits and checking account balances. Cash equivalents include short-term investments with original maturities of three months or less that are readily convertible to known amounts of cash, which includes money market investments.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are reported at fair value on the Balance Sheets. Changes in the fair values are recognized separately in the Statement of Revenues, Expenses and Changes in Fund Net Assets. Fair value is determined by reference to published market prices and quotations, where available, at the closing of each reporting period.

Restricted Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments classified as restricted on the Balance Sheet are restricted primarily by escrow agreements, bond resolutions and debt servicing agreements. The Agency holds tax and insurance escrows of various mortgagors, owner's equity on behalf of multifamily developers for construction costs and mortgage payments collected on behalf of mortgagees for whom the fund acts as a servicer. Assets derived from the Agency's bond programs are subject to the reserve provisions of the bond resolutions and are not available for other purposes.

Mortgage Loans Receivable, Net of Allowance for Potential Loan Loss

Mortgage loans receivable are carried at amounts disbursed plus accrued interest, unamortized loan amortization cost and premiums, less repayments and allowance for loan losses, if any. The current portion of mortgage loans receivable represents the contractual amount due within the next year. The allowance for loan losses is determined based upon management's evaluation of mortgage loans receivable and construction advances. Factors considered by management include the estimated fair values of the properties that represent collateral, mortgage insurance coverage on the collateral, the financial condition of the borrower and the economy as a whole. While management uses available information to recognize losses on mortgage loans, future additions to the allowance may be necessary based on changes in economic conditions.

Real Estate Owned

During the normal course of business, the Agency acquires and holds for sale single-family real estate because of foreclosure, acceptance of a deed in lieu of foreclosure or other defaults of nonperforming mortgage loans. The outstanding mortgage balances attributable to these properties, stated at cost, are included as mortgage loans receivable on the Balance Sheets of the Single Family Mortgage Loan Program. In addition to the potential recovery from the sale of real estate owned, are recoveries from the U.S. Department of Housing and Urban Development, other federal government programs or private mortgage insurance.

Capital Assets

The Agency capitalizes capital assets with an initial cost of $1 or more. Depreciation is calculated using the straight-line method over the estimated useful lives, which ranges from 5 to 45 years. When capital assets are disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded as a revenue or expense.

Due To and Due From Other Funds and Interfund Transfers

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 required to meet the Agency's debt obligations and if such transfers are not in violation of the terms of bond resolutions or indentures.

Bonds and Notes Payable, Net of Discounts and Loss on Refunding

The Agency issues bonds and notes to provide capital for its mortgage programs and other uses consistent with its mission. Outstanding bonds and notes are stated at their unpaid balance less any unamortized discounts and unamortized deferred loss of refunding. The current portion of bonds and notes payable represents the amounts payable within the next year.

Derivative Financial Instruments - Interest Rate Swap Agreements

The Agency enters into interest rate swap agreements with various counterparties to hedge the interest rate exposure associated with variable-rate debt and reduce overall borrowing costs. The interest rate swap agreements are structured whereby the Agency pays the counterparty a fixed interest rate in exchange for a variable interest rate payment from the counterparty. In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, interest rate swap agreements are stated at fair value on the Balance Sheets. The change in the fair value of the interest rate swap agreements is recorded as deferred inflows or deferred outflows on the Balance Sheets or as adjustments to revenue or expense.

Net Assets

Net assets are classified in the following three components:

Invested in Capital Assets, Net of Related Debt — This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to the acquisition, construction or improvement of those assets.

Restricted — Consists of net assets with constraints placed on their use by (1) external groups, such as creditors, grantors and laws or regulations of other governments or (2) law through enabling legislation in accordance with GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of GASB Statement No. 34.

Unrestricted — Consists of net assets that do not meet the definition of invested in capital assets or restricted. This component includes net 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 spend restricted resources to the extent allowed and only spend unrestricted resources when needed.

Operating Revenues and Expenses

The Agency's primary revenue is derived from the investment of bond proceeds in the loan programs and investment securities. The primary expense is interest expense on bond outstanding. Net interest income is an important measure of performance for the Agency. Interest income on mortgage loans and investment income are shown as revenues in the statement of Revenue, Expenses and Changes in Fund Net Assets.

Federal Program Awards and Expenses

The Agency follows GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance.* GASB Statement No. 24 requires that all cash pass-through grants received by a governmental entity be reported in its financial statements. The Agency receives program grants and other federal financial assistance to transfer to various secondary recipients in the Commonwealth of Pennsylvania. These amounts are considered expensed and are reported in the financial statements as revenue and expense when funds are disbursed to the secondary subrecipients. The Agency receives administrative fees for the oversight of award distribution, monitoring of subrecipients, reporting to federal agencies and costs for required independent annual audits of the federal awards, which are recorded to program income and fees.

These amounts are considered expensed and are reported in the financial statements as revenue and expense when funds are disbursed to the secondary subrecipients.

Interest Income and Arbitrage Liability

Interest recorded for mortgage loans receivable and construction advances is based upon the constant yield method. Multifamily Housing and Single Family Mortgage Loan Program mortgage 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.

Investment interest income is recognized over the remaining time to maturity of investment securities. Federal income tax rules limit the investment and loan yields that the Agency may retain for its own use from investing the proceeds from certain of its tax-exempt bond issues. Investment earnings above the arbitrage bond yield are payable to the U.S. Treasury and are recorded as other liabilities on the Balance Sheets.

Pension Plan and Other Postemployment Benefits Expense

GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as amended by GASB Statement No. 50, *Pension Disclosures*, requires the Agency to measure and disclose amounts for annual pension cost and net pension obligations. The funding policy is to pay actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. Pension expenses are recorded as salaries and related benefits on the Statement of Revenues, Expenses and Changes in Fund Net Assets.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, requires the Agency to establish standards for the measurement, recognition and disclosure of other postemployment benefits ("OPEB") expenses and related liabilities (assets) and note disclosures in the financial reports. The Agency does not fund its OPEB liability; rather, the Agency maintains health insurance for its retirees on a pay-as-you-go basis. The Agency records OPEB liability expense in accordance with GASB 45 on the Statement of Revenues, Expenses and Changes in Fund Net Assets.

Compensated Absences

Employees earn vacation and illness leave benefits. Upon separation of service, employees will be compensated for accumulated leave balances, limited by Agency policy. Compensated absence leave is recorded as an accrued expense in the period earned as required by GASB Statement No. 16, *Accounting for Compensated Absences.*

Debt Issuance Costs, Discounts and Other Related Costs

The Agency capitalizes costs related to bond issuance to deferred assets and amortizes those costs to interest expense over the contractual life of the bond using the effective interest method. Bond discounts and premiums are amortized over the lives of the bonds using the effective interest method. Pursuant to GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*, gains and losses on debt refunding are deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. Net swap agreement payments are recorded as a component of bond interest expense.

(In thousands of dollars)

Reclassifications
Certain reclassifications have been made in the June 30, 2010 financial statements to conform to the June 30, 2011 presentation.

3. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents
The Agency has a policy that cash and cash equivalents must be held in insured depositories satisfactory to the Agency and must be fully collateralized. Cash and cash equivalents consist of demand deposit checking accounts, cash held in trust and Money Market Funds. As of June 30, 2011 and 2010, the Agency had the following cash and cash equivalents:

	June 30, 2011	June 30, 2010
Unrestricted cash and cash equivalents	$ 451,122	$ 1,003,395
Restricted cash and cash equivalents	189,146	227,624
Carrying amount of cash and cash equivalents	$ 640,268	$ 1,231,019
Bank balance of cash and cash equivalents	$ 627,801	$ 1,224,170

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, 2011, the carrying value of the Agency's cash deposits equaled $57,917 and the bank balance equaled $48,653, of which $47,653 was uninsured and collateralized in accordance with Act 72 of the Commonwealth of Pennsylvania, with securities held by the pledging financial institution, its trust department or agent, but not in the Agency's name.

The difference between total cash and cash equivalents and total deposits represents Money Market Funds equaling $582,351, with a bank balance of $579,148 that does not expose the Agency to custodial credit risk.

Investments
Commonwealth of Pennsylvania statutes and contractual provisions contained in the 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 to further the purposes of the Agency.

Securities shall mean and 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 hereafter 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: Government National Mortgage Association, Federal Land Bank, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Farm Credit Administration, Export-Import Bank and Federal National Mortgage Association;
- 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 clauses (1) through (6) above;
- Repurchase agreement with Primary Government Securities Dealers fully collateralized by Investment Securities of the types described in clauses (1) through (3) 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 clauses (1) through (3) above and with total assets (deposited funds) of five hundred million dollars or greater;
- Commercial paper (except that of the Issuer or an affiliate) or finance company paper rated "P-1" by Moody's Investors Service and "A-1+" by Standard & Poor's Corporation;
- 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 clauses (1) through (3) 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 the deposit and investment policies, diversifying the investment portfolio and prequalifying firms with which the Agency administers its investment activities.

The credit quality ratings of the Agency's investments as of June 30, 2011, as determined by nationally recognized statistical rating organizations, are shown below. $36,043 of U.S. Government Agency Securities, $61,890 of U.S. Treasury securities and $221,060 of U.S. Government Agency Mortgage-Backed 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.

	Credit Ratings				
Investment Type	Fair Value	AAA[1]	Aaa[2]	Ba[2]	Unrated
U.S. Government Agency Mortgage-backed Securities	$ 16,064	$ 1,999	$ 14,065	$ -	$ -
Corporate Bonds	4,583	-	-	3,572	1,011
Total	$ 20,647	$ 1,999	$ 14,065	$ 3,572	$ 1,011

1 = Standard and Poor's Rating Services
2 = Moody's Investor Service

Of the $582,351 fair value in Money Market Funds, reported as cash equivalents, $574,425 is rated Aaa by Moody's Investors Service and $7,926 is not rated.

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.

(In thousands of dollars)

All of the Agency's $339,640 investment balance at June 30, 2011 is held by bank trust departments, acting as the counterparty, in book entry only form in the Agency's name and accordingly is subject to custodial credit risk. The total investment in Money Market Funds equaling $582,380, reported as cash equivalents, does not expose the Agency to custodial credit risk.

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. Concentration limits are not established in the bond indentures and governing agreements for trust investments. Agency policy is that the proportion of investments, which go into government securities, shall not exceed 70% of the portfolio and the portion going into certificates of deposit shall not exceed 30% of the portfolio. At June 30, 2011, concentrations in government securities, which represented nearly 100% of the portfolio, exceed the policy. The departure from policy has written approval from the Executive Director, as permitted by the Agency Investment Policy and Guidelines. The majority of Agency funds invested in government securities is due to the stability of those securities in the current market.

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. As of June 30, 2011, 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	$ 237,124	$ 6,063	$ 10,001	$ -	$ 221,060
U.S. Government Agency Securities	36,043	291	562	116	35,074
U.S. Treasury Securities	61,890	7,041	51,980	2,869	-
Corporate Bonds	4,583	1,011	3,572	-	-
	$ 339,640	$ 14,406	$ 66,115	$ 2,985	$ 256,134

Investments in Mortgage-Backed Securities are sensitive to interest rate changes because, for example, borrowers have the option to prepay their mortgages. In addition to the amounts listed above, the Agency held investments in Money Market Funds with a fair value of $582,380, reported as cash equivalents, $574,454 have maturities of less than 90 days and $7,926 has an unstated maturity.

4. Mortgage Loans Receivable

Mortgage loans receivable at June 30, 2011 and 2010 consisted of the following:

	June 30, 2011	June 30, 2010
Multifamily Housing Program	$ 639,337	$ 667,582
Single Family Mortgage Loan Program	4,243,947	3,911,032
HEMAP	111,087	98,844
	4,994,371	4,677,458
Add:		
Loan premiums, net	34,141	29,747
Less:		
Allowance for potential loan losses	222,902	216,378
Mortgage loans receivable, net	4,805,610	4,490,827
Less current portion	121,484	109,462
Long-term portion	$ 4,684,126	$ 4,381,365

Multifamily Housing Program mortgage loans receivable are collateralized by first mortgages on the related developments. The federal government provides insurance to certain developments included in the Multifamily Housing Program and subsidizes certain developments through the Section 8 Program.

Single Family Mortgage Loan Program mortgage loans receivable are secured by first liens on the related real property. Private mortgage insurance for the single-family mortgage loans is provided by commercial companies, certain federal programs or the Agency's Insurance Fund. Private mortgage insurance is 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.

HEMAP loans are generally unsecured being in a second or third lien position as those loans are provided to mortgagors facing foreclosure because of circumstances beyond their control.

Real Estate Owned by the Agency

Included in the Single Family loan program balances are 252 properties with a value of $15,896 for the year ended June 30, 2010 and 293 properties with a value of $18,218 for the year ended June 30, 2011 that the Agency has acquired and is holding for sale because of foreclosure, acceptance of a deed in lieu of foreclosure or other defaults of nonperforming mortgage loans.

Insurance Fund

The Agency provides private mortgage insurance coverage of certain Single Family Mortgage Loan Program loans through the Insurance Fund, which ranges from 20% to 35% (depending on the loan-to-value ratio at origination) of the unpaid principal balance. At June 30, 2011 and 2010, the mortgage loans under this program totaled $338,056 and $196,839, respectively.

GASB requires that the basis for estimating the liability for unpaid claims 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 include 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, if any.

Changes in the Insurance Fund's claim liability consist of the following:

	June 30, 2011	June 30, 2010
Beginning balance	$ 2,129	$ 1,746
Current year estimated claims payable	600	600
Claim payments	(218)	(217)
Total claim liability	2,511	2,129
Less current portion	300	300
Long-term portion	$ 2,211	$ 1,829

Allowance for Potential Loan Loss

The allowances for potential loan losses for the Multifamily Housing Program, Single Family Mortgage Loan Program and HEMAP consisted of the following at June 30, 2011 and 2010:

	Multifamily Housing Program		Single Family Mortgage Loan Program		HEMAP		Totals	
	2011	2010	2011	2010	2011	2010	2011	2010
Beginning balance	$ 166,973	$ 167,419	$ 5,304	$ 5,327	$ 44,101	$ 41,348	$ 216,378	$ 214,094
Loss provision	3,100	2,330	5,000	1,800	11,252	8,956	19,352	13,086
Net charge-offs	(1,073)	(2,776)	(2,358)	(1,823)	(9,397)	(6,203)	(12,828)	(10,802)
Ending balance	$ 169,000	$ 166,973	$ 7,946	$ 5,304	$ 45,956	$ 44,101	$ 222,902	$ 216,378

(In thousands of dollars)

Securitizations

During the year ended June 30, 2011, the Agency pooled mortgage loans with a principal balance of $141,584 into Ginnie Mae Mortgage-Backed Securities. The securities were then purchased by the Agency or private investors. The Agency earns revenue for servicing those loans, which is included as program income and fees on the Statement of Revenues, Expenses and Changes in Fund Net Assets.

5. Capital Assets

Capital assets activity and balances for the year ended June 30, 2011 are shown below:

	July 01, 2010	Additions	Deletions	June 30, 2011
Nondepreciable Capital Assets:				
Land	$ 2,454	$ -	$ -	$ 2,454
Depreciable Capital Assets:				
Building and improvements	29,927	28	(73)	29,882
Machinery and equipment	6,175	380	(763)	5,792
Furniture and fixtures	4,478	36	(77)	4,437
Less accumulated depreciation:				
Building and improvements	(4,317)	(572)	-	(4,889)
Machinery and equipment	(3,891)	(478)	763	(3,606)
Furniture and fixtures	(1,473)	(235)	77	(1,631)
Total depreciable capital assets, net	30,899	(841)	(73)	29,985
Total Capital Assets, net	$ 33,353	$ (841)	$ (73)	$ 32,439

Capital assets activity and balances for the year ended June 30, 2010 are shown below:

	July 01, 2009	Additions	Deletions	June 30, 2010
Nondepreciable Capital Assets:				
Land	$ 2,454	$ -	$ -	$ 2,454
Depreciable Capital Assets:				
Building and improvements	29,935	4	(12)	29,927
Machinery and equipment	5,651	524	-	6,175
Furniture and fixtures	4,501	10	(33)	4,478
Less accumulated depreciation:				
Building and improvements	(3,732)	(585)	-	(4,317)
Machinery and equipment	(3,421)	(470)	-	(3,891)
Furniture and fixtures	(1,246)	(260)	33	(1,473)
Total depreciable capital assets, net	31,688	(777)	(12)	30,899
Total Capital Assets, net	$ 34,142	$ (777)	$ (12)	$ 33,353

Depreciation expense for the years ended June 30, 2011 and 2010 totaled $1,285 and $1,315, respectively.

6. Bonds and Notes Payable

Bonds outstanding for the General Fund consist of the following:

	Final	Amounts Outstanding	
Description of Bonds as Issued	Maturity Date	June 30, 2011	June 30, 2010
Variable Rate Building Development Bonds	2034	$ 20,000	$ 20,000
Unamortized bond discount		(67)	(70)
Total bonds payable		19,933	19,930
Less current portion		-	-
Long-term portion		$ 19,933	$ 19,930

Bonds outstanding for the Multifamily Housing Program consist of the following:

Description of Bonds as Issued	Final Maturity Date	Amounts Outstanding June 30, 2011	June 30, 2010
Multifamily Development Bonds			
Issue 1993F, 6.53%	2019	$ -	$ 3,025
Issue 1997G, 7.36%	2027	-	8,865
Issue 1998H, 6.3%	2028	11,180	14,555
Issue 2005K, variable rate	2036	24,555	25,185
Multifamily Development Refunding Bonds			
Issue 1993A, 5.38%	2022	7,525	8,095
Issue 2003, 3.25-4.80%	2019	8,050	10,070
Rental Housing Refunding Bonds			
Series 2008A/B, variable rate	2021	35,800	47,675
Series 2008C/D, variable rate	2020	63,825	81,370
Residential Development Refunding Bonds			
2002 Issue A, 1.80%-5.25%	2024	18,420	22,270
Subordinate Limited Obligation Bonds			
Issue 1995, 5.50-6.15%	2021	1,929	2,083
		171,284	223,193
Unamortized deferred loss of refundings		(2,430)	(3,195)
Unamortized bond discount		(142)	(172)
Total bonds payable		168,712	219,826
Less current portion		23,926	27,064
Long-term portion		$ 144,786	$ 192,762

Bonds and notes outstanding for the Single Family Mortgage Loan Program consist of the following:

Description of Bonds and Notes as Issued	Final Maturity Date	Amounts Outstanding June 30, 2011	June 30, 2010
Single Family Mortgage Revenue Bonds			
Series 1996 - 47, 4.20-6.75%	2027	$ -	$ 1,455
Series 1997 - 61, 4.00-6.80%	2029	-	34,940
Series 1998 - 62, 4.25-6.40%	2029	-	37,170
Series 1998 - 63, 3.95-5.50%	2030	-	38,913
Series 1998 - 64, 3.65-5.25%	2030	-	38,905
Series 1999 - 65, 3.25-5.25%	2030	22,275	26,195
Series 1999 - 66, 4.05-6.95%	2031	-	15,930
Series 1999 - 67, 4.05-7.51%	2030	16,795	18,115
Series 1999 - 68, 4.30-7.02%	2031	415	16,085
Series 2000 - 69, 4.35-6.25%	2031	20,805	33,890
Series 2000 - 70, 4.30-5.90%	2032	16,065	29,435
Series 2001 - 72, 3.25-5.35%	2032	42,940	121,620
Series 2002 - 73, 1.75-5.45%	2033	52,595	81,935
Series 2002 - 74, variable rate	2032	93,950	94,530
Series 2002 - 75, variable rate	2033	79,300	81,490
Series 2003 - 77, variable rate	2033	61,510	68,820
Series 2003 - 78, variable rate	2025	51,920	54,740
Series 2003 - 79, variable rate	2034	67,050	71,885
Series 2004 - 81, variable rate	2034	70,490	82,080
Series 2004 - 82, variable rate	2034	69,185	74,800

(In thousands of dollars)

Description of Bonds and Notes as Issued	Final Maturity Date	Amounts Outstanding June 30, 2011	June 30, 2010
Series 2004 - 83, variable rate	2035	73,410	78,605
Series 2004 - 84, variable rate	2034	76,260	80,345
Series 2004 - 85, variable rate	2035	83,025	85,030
Series 2004 - 86, variable rate	2035	91,290	93,075
Series 2005 - 87, variable rate	2035	89,400	90,770
Series 2005 - 88, variable rate	2037	74,585	81,010
Series 2005 - 89, variable rate	2035	63,485	63,485
Series 2005 - 90, variable rate	2036	102,145	105,790
Series 2005 - 91, variable rate	2036	105,895	110,595
Series 2006 - 92, variable rate	2036	116,195	119,185
Series 2006 - 93, variable rate	2037	80,940	91,535
Series 2006 - 94, variable rate	2037	88,380	96,550
Series 2006 - 95, variable rate	2037	140,905	154,700
Series 2006 - 96, 3.60-5.72%	2037	145,720	160,180
Series 2007 - 97, 3.50-5.50%	2037	136,580	142,840
Series 2007 - 98, variable rate	2037	147,810	167,185
Series 2007 - 99, 3.70-5.30%	2038	101,580	106,500
Series 2007 - 100, 3.40-5.35%	2038	111,205	113,890
Series 2007 - 101, variable rate	2038	24,360	26,200
Series 2007 - 102, variable rate	2038	69,510	103,040
Series 2008 - 103, 2.00-5.70%	2038	56,630	159,750

Description of Bonds and Notes as Issued	Final Maturity Date	Amounts Outstanding June 30, 2011	June 30, 2010
Series 2008 - 104, variable rate	2038	-	144,620
Series 2009 - 105, .80-5.00%	2039	189,610	192,455
Series 2009 - 106, .50-4.80%	2040	243,915	249,455
Series 2009 - 107, 3.96%	2041	602,950	604,260
Series 2010 - 108, .375-4.75%	2028	136,590	140,210
Series 2010 - 109, .45-4.50%	2028	102,640	-
Series 2010 - 110, .45-4.75%	2039	246,155	-
Series 2010 - 111, .45%	2011	82,750	-
Series 2011 - 112, .375-5.00%	2028	158,840	-
2007 Note Purchase Agreement - 2.5%	2017	2,500	2,500
2009 Note Purchase Agreement - 2.5%	2019	1,000	1,000
2009 Note Purchase Agreement - 2.5%	2024	2,500	2,500
		4,414,055	4,590,193
Unamortized deferred loss of refundings		(15,014)	(16,097)
Unamortized bond discount		(9,509)	(13,712)
Total bonds and notes payable		4,389,532	4,560,384
Less current portion		163,500	494,725
Long-term portion		$ 4,226,032	$ 4,065,659

Interest paid on variable-rate tax-exempt bonds is closely correlated with the Securities Industry and Financial Markets Association Municipal Swap ("SIFMA") rate. Generally, note resets occur quarterly, monthly or weekly.

Debt Service Requirements

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

Fiscal Year	General Fund		Multifamily Housing Program		Single Family Mortgage Loan Program		
Ending	Principal	Interest	Principal	Interest	Principal	Interest	Total
2012	$ -	$ 18	$ 23,926	$ 2,232	$ 163,500	$ 131,199	$320,875
2013	-	18	22,639	1,967	85,570	130,012	240,206
2014	-	18	18,172	1,613	78,525	127,700	226,028
2015	350	18	15,202	1,409	92,705	125,689	235,373
2016	365	18	14,438	1,289	124,960	122,787	263,857
2017-2021	2,080	83	51,742	4,533	732,110	554,078	1,344,626
2022-2026	2,565	73	10,325	1,899	786,405	435,334	1,236,601
2027-2031	3,170	60	8,315	449	934,610	302,510	1,249,114
2032-2036	11,470	29	6,525	72	917,395	164,202	1,099,693
2037-2041	-	-	-	-	494,455	39,885	534,340
2042-2046	-	-	-	-	3,820	71	3,891
	$ 20,000	$ 335	$ 171,284	$ 15,463	$ 4,414,055	$ 2,133,467	$ 6,754,604

Early Extinguishment of Debt

During the years ended June 30, 2011 and 2010, using mortgage prepayments, the Agency repurchased or redeemed, prior to their scheduled maturity, the principal amount of certain bonds, totaling approximately $554,840 and $89,755, respectively. Net losses of $2,763 and $901 on early extinguishments have been recorded as an expense for the years ended June 30, 2011 and 2010, respectively. Losses arise because of immediate recognition of deferred bond issuance costs and discounts that would have been amortized over the life of the applicable bond issues had they not been retired.

Current Refunding

During the year ended June 30, 2011, using new debt proceeds, the Agency refunded the principal amount of certain Single Family Mortgage Loan Program bonds, totaling approximately $378,473. The Agency realized an economic gain (difference between the present value of the old debt and new debt service payments) of $11,315. The Agency also recognized a deferred loss on refunding of $870. The Agency decreased its aggregate debt service payments by $34,041 over the next 30 years by the current year's refunding activity.

During the year ended June 30, 2010, using new debt proceeds, the Agency refunded the principal amount of certain Single Family Mortgage Loan Program bonds, totaling approximately $215,420. The Agency realized an economic loss (difference between the present value of the old debt and new debt service payments) of $8,950. The Agency recognized a deferred loss of $1,039. The Agency increased its aggregate debt service payments by $19,473 over the next 30 years by the current year's refunding activity.

Advance Refunding

In prior years, the Agency effected an advanced refunding where the proceeds of issued bonds were used to defease outstanding debt of the Agency. The Agency defeased Multifamily Residential Development Bonds, Issue H in prior years. The result is 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 was $2,725 as of June 30, 2011 and 2010.

Hedging Derivative Instrument Payments and Hedged Debt

As of June 30, 2011, debt service requirements of the Agency's outstanding variable-rate debt and net swap payments on the associated hedging derivative instruments, assuming current interest rates remain the same, for their terms are displayed in the following schedule. The net swap payment is the difference between the fixed rate interest paid to the counterparty and the variable-rate interest received by the Agency. See Note 7 for information on derivative instruments.

(In thousands of dollars)

Fiscal Year Ending June 30	Variable Rate Bond Principal	Variable Rate Bond Interest	Net Swap Payments	Total
2012	$ 22,180	$ 9,175	$ 48,522	$ 79,877
2013	19,640	9,146	45,754	74,540
2014	18,830	9,120	43,422	71,372
2015	26,605	9,072	41,491	77,168
2016	38,340	9,007	39,818	87,165
2017-2021	244,135	42,654	173,074	459,863
2022-2026	285,575	33,664	130,118	449,357
2027-2031	349,210	21,280	80,842	451,332
2032-2036	337,965	13,316	28,197	379,478
2037-2041	56,545	1,361	821	58,727
	$ 1,399,025	$ 157,795	$ 632,059	$ 2,188,879

Conduit Debt Obligations

During prior years, the Agency issued series 2003J, 2008M, 2008O and 2010Q Special Limited Obligation Bonds to provide for the financing of new construction or preservation of affordable housing stock in the Commonwealth of Pennsylvania. The bonds are secured solely by the properties and revenues generated by the property.

Also in prior years, the Agency issued series 2005A Capital Fund Securitization Revenue Bonds to provide for financial assistance to local public housing authorities. The bonds are secured solely by the properties financed, revenues generated by the property or appropriations to be paid by the United States Department of Housing and Urban Development.

These bonds, which are considered conduit debt obligations under GASB rules, do not constitute a debt or pledge of the faith and credit of the Agency and, accordingly, have not been reported in the accompanying financial statements. At June 30, 2011 and 2010, conduit debt outstanding aggregated $90,156 and $105,943, respectively.

Short Term Debt

During December 2010, the Agency issued $82,750 of Single Family Mortgage Revenue Bonds, Series 2011-111. These bonds are obligations of the Agency that bear interest at fixed rates payable on April 01, 2011 and on final maturity of September 22, 2011. The bonds will be primarily secured by program obligations consisting of qualifying single-family mortgage loans purchased with bond proceeds. The bonds had a balance of $82,750 at June 30, 2011.

Short Term debt activity for the year ended June 30, 2011, was as follows:

	Beginning Balance July 01, 2010	Issued	Redeemed	Ending Balance June 30, 2011
Series 2011-111	$ -	$ 82,750	$ -	$ 82,750

Bond Covenants

Minimum capital reserves have been established by the Agency to meet the requirements of bond covenants. The capital reserve requirement of certain Multifamily Housing Program bonds requires that a one-year debt service minimum balance be maintained at all times. The capital reserve requirement for Single Family Mortgage Loan Program bonds must be equal to at least 3% of the aggregate principal amount of all Single Family Mortgage Loan Program bonds outstanding plus one million dollars. Bond covenant requirements regarding restricted cash and net assets were met at year-end.

7. 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 swap agreements is to hedge against changes in the cash flows on the related variable rate bonds series.

Interest rate swap agreements are recorded and reported as either a hedging derivative instrument or investment derivative instrument based upon 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 interest rate swap agreements are an effective hedge or not. The fair value of hedging derivative instruments is presented on the Balance Sheets as a derivative instrument liability (negative fair values amount.) Changes in fair values are recorded as a deferred outflow of a resource (negative fair values change.) If the interest rate swap agreements change from being an effective hedge to an ineffective hedge, they are recorded and reported as investment derivative instruments. The fair values of investment derivative instruments are presented as derivative instruments liabilities or assets; however, the changes in fair values are no longer deferred, but recognized as investment revenue or expense.

Fair value amounts were obtained from mark to market statements from a third party analyst and represent mid-market valuations that approximate the current economic value using market averages, reference rates and/or mathematical models. The fair value represents the current price to settle interest rate swap agreements assets or liabilities in the marketplace if interest rate swap agreements were to be terminated.

Because interest rates have generally decreased since the interest rate swap agreements became effective, all of the Agency's interest rate swap agreements have a negative fair value as of June 30, 2011. 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 interest rate swap agreements 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, 2011, the Agency was not required to post collateral for any of its outstanding swaps.

Hedging Derivative Instruments

The fair value balances and notional amounts of hedging derivative instruments outstanding at June 30, 2011, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2011 basic financial statements are as follows:

Bond	Notional	Changes in Fair Value		Fair Value at June 30, 2011	
Series	Amount	Classification	Amount	Classification	Amount
1999-67B	$ 16,795	Deferred outflow	$ 611	Hedging derivative	$ (3,662)
2001-72C	9,830	Deferred outflow	432	Hedging derivative	(1,694)
2002-74A	30,000	Deferred outflow	866	Hedging derivative	(1,423)
2002-75A	30,000	Deferred outflow	576	Hedging derivative	(1,425)
2003-77B	59,900	Deferred outflow	1,176	Hedging derivative	(1,390)
2003-79B	57,350	Deferred outflow	1,462	Hedging derivative	(6,911)
2004-81C	43,465	Deferred outflow	(2,414)	Hedging derivative	(2,606)
2004-82B	33,965	Deferred outflow	(1,051)	Hedging derivative	(4,081)
2004-82C	35,220	Deferred outflow	4,836	Hedging derivative	(2,001)
2004-83B	17,345	Deferred outflow	121	Hedging derivative	(1,109)
2004-83C	42,905	Deferred outflow	1,306	Hedging derivative	(3,835)
2004-84C	9,470	Deferred outflow	134	Hedging derivative	(560)
2004-84D	58,335	Deferred outflow	969	Hedging derivative	(2,330)

(In thousands of dollars)

Bond Series	Notional Amount	Changes in Fair Value Classification	Changes in Fair Value Amount	Fair Value at June 30, 2011 Classification	Fair Value at June 30, 2011 Amount
2004-85B	16,845	Deferred outflow	230	Hedging derivative	(956)
2004-85C	44,645	Deferred outflow	5,274	Hedging derivative	(3,290)
2004-86B	52,835	Deferred outflow	852	Hedging derivative	(3,636)
VRBD2004	20,000	Deferred outflow	270	Hedging derivative	(1,358)
2005-87B	29,305	Deferred outflow	398	Hedging derivative	(2,024)
2005-87C	47,300	Deferred outflow	5,623	Hedging derivative	(3,537)
2005-88B	44,690	Deferred outflow	547	Hedging derivative	(3,080)
2005-88C	31,930	Deferred outflow	566	Hedging derivative	(1,443)
2005-89	64,485	Deferred outflow	133	Hedging derivative	(3,871)
2005-90C	60,820	Deferred outflow	1,356	Hedging derivative	(3,607)
2005-91B	70,000	Deferred outflow	1,170	Hedging derivative	(5,721)
MF2005-K	24,555	Deferred outflow	552	Hedging derivative	(5,224)
2006-92B	42,870	Deferred outflow	818	Hedging derivative	(3,528)
2006-93B	37,185	Deferred outflow	642	Hedging derivative	(3,566)
2006-94B	35,165	Deferred outflow	568	Hedging derivative	(4,558)
2006-95C	39,180	Deferred outflow	767	Hedging derivative	(3,349)
2007-98C	41,955	Deferred outflow	785	Hedging derivative	(1,664)
2007-99C	15,000	Deferred outflow	273	Hedging derivative	(2,048)
2007-100C	40,000	Deferred outflow	964	Hedging derivative	(3,784)
RH2008A&B	35,800	Deferred outflow	879	Hedging derivative	(2,750)
RH2008C	36,180	Deferred outflow	616	Hedging derivative	(3,326)
RH2008D	27,645	Deferred outflow	554	Hedging derivative	(2,260)
			Total $ 32,861		Total $ (101,607)

The objective of the hedging derivative instruments is to hedge against changes in the cash flows on the related variable rate bonds series. The terms of the Agency's hedging derivative instruments for June 30, 2011 are as follows:

Bond Series	Notional Amount	Effective Date	Maturity Date	Terms: Fixed Rate Paid	Terms: Variable Rate Received
1999-67B	$ 16,795	8/2002	4/2029	5.950 %	USD LIBOR + 50bps
2001-72C	9,830	9/2001	10/2023	5.695	USD LIBOR
2002-74A	30,000	8/2002	10/2032	4.285	67bps of USD LIBOR
2002-75A	30,000	12/2002	10/2032	3.957	70bps of USD LIBOR
2003-77B[1]	59,900	9/2003	10/2033	3.493	Enhanced LIBOR
2003-79B[1]	57,350	12/2003	10/2033	3.992	65bps of USD LIBOR+25bps
2004-81C[1]	43,465	4/2004	10/2034	3.533	Enhanced LIBOR
2004-82B	33,965	5/2004	10/2030	3.643	61bps of USD LIBOR+39bps
2004-82C[1]	35,220	5/2004	10/2034	3.773	61bps of USD LIBOR+39bps
2004-83B	17,345	8/2004	10/2019	3.410	65bps of USD LIBOR+25bps
2004-83C[1]	42,905	8/2004	10/2035	3.920	65bps of USD LIBOR+25bps
2004-84C	9,470	9/2004	4/2018	3.115	Enhanced LIBOR
2004-84D[1]	58,335	9/2004	10/2034	3.501	Enhanced LIBOR
2004-85B	16,845	11/2004	4/2019	3.168	65bps of USD LIBOR+25bps
2004-85C[1]	44,645	11/2004	10/2035	3.730	65bps of USD LIBOR+25bps
2004-86B[1]	52,835	12/2004	10/2033	3.397	Enhanced LIBOR
VRBD2004	20,000	2/2004	1/2034	3.945	65bps of USD LIBOR+25bps
2005-87B	29,305	3/2005	10/2023	3.460	65bps of USD LIBOR+25bps
2005-87C[1]	47,300	3/2005	10/2035	3.744	65bps of USD LIBOR+25bps

Bond Series	Notional Amount	Effective Date	Maturity Date	Terms: Fixed Rate Paid	Terms: Variable Rate Received
2005-88B	$ 14,690	5/2005	10/2035	3.500 %	61bps of USD LIBOR+39bps
2005-88C[1]	31,930	5/2005	10/2035	3.520	61bps of USD LIBOR+39bps
2005-89[1]	64,485	6/2005	10/2035	3.605	Enhanced LIBOR
2005-90C[1]	60,820	9/2005	4/2036	3.692	65bps of USD LIBOR
2005-91B	70,000	12/2005	10/2036	3.953	Enhanced LIBOR
MF2005-K[1]	24,555	3/2005	1/2036	5.183	USD LIBOR
2006-92B	42,870	3/2006	10/2036	3.996	65bps of USD LIBOR+25bps
2006-93B	37,185	5/2006	4/2037	4.266	61bps of USD LIBOR+39bps
2006-94B	35,165	7/2006	4/2027	4.152	69bps of USD LIBOR
2006-95C[1]	39,180	9/2006	4/2026	4.055	67bps of USD LIBOR
2007-98C[1]	41,955	5/2007	10/2037	4.105	61bps of USD LIBOR+39bps
2007-99C	15,000	9/2007	10/2023	3.885	69bps of USD LIBOR
2007-100C	40,000	12/2007	4/2038	4.131	65bps of USD LIBOR+25bps
RH2008A&B[1]	35,800	7/2002	1/2021	3.506	67bps of 1Week USD LIBOR
RH2008C[1]	36,180	6/2003	7/2020	3.457	70bps of USD LIBOR
RH2008D[1]	27,645	6/2003	7/2020	3.440	70bps of USD LIBOR

1 = Indicates an embedded option to reduce the notional amount without a payment to the counterparty
LIBOR = 1-month London Interbank Offered Rate.
Enhanced LIBOR = 67bps of 1-month LIBOR
bps = Basis Points

Credit Risk
At June 30, 2011, the Agency was not exposed to credit risk on the outstanding interest rate swap agreements since all agreements have negative fair values. The Agency's entire collection of interest rate swap agreements rely upon the performance of the third parties who serve as interest rate swap agreements counterparties. If interest rates rise and the fair value of the swaps become positive, the Agency may be exposed to credit risk on those agreements — i.e., 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 index rates associated with the Agency's variable-rate bonds do not exactly offset the changes in the index rates associated with the corresponding interest rate swap agreements. The Agency is exposed to interest rate risk on all of its interest rate swap agreements. As the LIBOR index decreases, the Agency's net payment on the swaps increases.

Termination Risk
The Agency or the counterparty may terminate an interest rate swap agreement if either party fails to perform under the terms of the agreement. Furthermore, the Agency maintains the option to terminate interest rate swap agreements anytime. If the interest rate swap agreements have 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.

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

(In thousands of dollars)

Associated Bond Issue	Debt Maturity Dates	Swap Termination Dates
2001-72C	10/2032	10/2023
2004-82B	04/2034	10/2030
2004-83B	04/2035	10/2019
2004-85B	04/2035	04/2019
2004-86B	10/2035	10/2033
2005-87B	04/2035	10/2023
2005-88B	10/2036	10/2035
2005-88C	04/2037	10/2035

Investment Derivative Instruments

Interest rate swap agreements for bond series 2003-77C and bond series 2004-81B were determined to be an ineffective hedge per the provisions of GASB 53; therefore, the interest rate swaps are no longer a hedging derivative and are accounted for as an investment derivative instrument.

Bond Series 2008-104#1, #2, #3 and #4 are previous bond issues that have been refunded with fixed rate debt from variable rate debt. The interest rate swap agreements no longer hedge against variable interest rates and is accounted for as an investment derivative instrument.

Interest rate swap agreements 2004-82B, 2005-89, RHR2008 A, B, C and D have outstanding notional amounts that exceed the related hedged variable rate bond amounts due to redemption and refunding. That portion of the swap agreements that exceeds the outstanding variable rate debt is not considered a hedging derivative instrument on the associated variable rate bond debt; rather that amount is accounted for as an investment derivative instrument.

The fair value balances and notional amounts of investment derivatives outstanding at June 30, 2011 and the changes in fair value presented as the net increase (decrease) in fair value of swaps in the Statement of Revenues, Expenses and Changes in Net Assets, are as follows:

Bond	Notional	Changes in Fair Value		Fair Value at June 30, 2011	
Series	Amount	Classification	Amount	Classification	Amount
2003-77C	$ 2,515	Investment revenue	$ (45)	Investment derivative	$ (45)
2004-81B	2,560	Investment revenue	(58)	Investment derivative	(58)
2004-82B	4,545	Investment revenue	1,606	Investment derivative	1,527
2005-89	180	Investment revenue	989	Investment derivative	(147)
2008-104#1	28,885	Investment revenue	705	Investment derivative	(1,576)
2008-104#2	12,600	Investment revenue	332	Investment derivative	(926)
2008-104#3	2,080	Investment revenue	89	Investment derivative	(54)
2008-104#4	37,610	Investment revenue	1,038	Investment derivative	(3,289)
RH2008 A, B	1,305	Investment revenue	169	Investment derivative	(100)
RH2008C	4,060	Investment revenue	59	Investment derivative	(378)
RH2008D	4,475	Investment revenue	211	Investment derivative	(100)
		Total	$ 5,095	Total	$ (5,146)

The terms of the Agency's investment derivative instruments at June 30, 2011 are as follows:

Bond Series	Notional Amount	Effective Date	Maturity Date	Terms: Fixed Rate Paid	Terms: Variable Rate Received
2003-77C	$ 2,515	9/2003	4/2012	2.690 %	Enhanced LIBOR
2004-81B	2,560	4/2004	4/2013	2.370	Enhanced LIBOR
2004-82B	4,545	5/2004	10/2030	3.643	61% of USD LIBOR+39bps
2005-89[1]	180	6/2005	10/2035	3.605	Enhanced LIBOR
2008-104#1	28,885	12/2007	10/2013	4.471	USD LIBOR
2008-104#2	12,600	3/2007	10/2014	4.922	USD LIBOR
2008-104#3	2,080	3/2007	4/2012	4.862	USD LIBOR
2008-104#4	37,610	9/2007	4/2015	5.149	USD LIBOR
RH2008A&B[1]	1,305	7/2002	1/2021	3.506	67% of 1Week USD LIBOR
RH2008C[1]	4,060	6/2003	7/2020	3.457	70% of USD LIBOR
RH2008D[1]	4,475	6/2003	7/2020	3.440	70% of USD LIBOR

1 = Indicates an embedded option to reduce the notional amount without a payment to the counterparty
LIBOR = 1-month London Interbank Offered Rate.
Enhanced LIBOR = 67bps of 1-month LIBOR
bps = Basis Points

Credit Risk

At June 30, 2011, the Agency was not exposed to credit risk because overall, all of the interest rate swap agreements have a negative fair value.

Interest Rate Risk

The Agency is exposed to interest rate risk on all of its interest rate swap agreements. As the LIBOR index decreases, the Agency's net payment on the swaps increases.

8. Long-Term Liabilities

The changes in long-term liabilities for the year ended June 30, 2011 consist of the following:

	July 1, 2010	Additions	Reductions	June 30, 2011	Due Within One Year
Bonds and notes payable, net	$ 4,800,140	$ 595,436	$ 817,399	$ 4,578,177	$187,426
Other liabilities	220,363	279,359	254,665	245,057	11,575
Escrow deposits	169,586	43,479	38,899	174,166	81,632
Total net long-term liabilities	$ 5,190,089	$ 918,274	$1,110,963	$4,997,400	$280,633

The changes in long-term liabilities for the year ended June 30, 2010 consist of the following:

	July 1, 2009	Additions	Reductions	June 30, 2010	Due Within One Year
Bonds and notes payable, net	$ 4,224,787	$1,768,530	$ 1,193,177	$4,800,140	$ 521,789
Other liabilities	206,238	391,686	377,561	220,363	29,482
Escrow deposits	165,497	232,930	228,841	169,586	73,164
Total net long-term liabilities	$ 4,596,522	$2,393,146	$1,799,579	$5,190,089	$624,435

(In thousands of dollars)

9. Restricted Net Assets

The Multifamily Housing and the Single Family Mortgage Loan Program's June 30, 2011 net assets of $5,102 and $133,242, respectively, are restricted by bond resolutions included within certain bond indentures whose proceeds are to be used to fund loan programs.

HEMAP's June 30, 2011 net assets of $41,245 have been restricted in accordance with GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34.* Net assets are restricted by Commonwealth statute, which requires that net assets shall be used in providing mortgage assistance loans to mortgagors facing foreclosure because of circumstances beyond their control.

10. Designated Net Assets

The Members of the Board have designated unrestricted net assets for the following purposes at June 30, 2011 and 2010:

General Fund:	June 30, 2011	June 30, 2010
Homeownership Choice to fund housing opportunity in urban areas	$ 15,000	$ 47,150
Special Initiatives provide below market rate financing	11,850	11,850
Single Family Insurance to fund special hazard losses by homeowners	16,500	16,500
Homebuyer Counseling for education of first time homebuyers	1,500	7,500
Multifamily Insurance for Agency insured or coinsured developments	10,000	10,000
Homeless Auxiliary Initiative provides assistance to homeless shelters	-	1,593
Total	$ 54,850	$ 94,593

Multifamily Housing Program:	June 30, 2011	June 30, 2010
Penn HOMES Program to lower development costs for apartments	$ 71,000	$139,000
Preservation manages physical deterioration, financial or social distress	3,000	3,000
Senior Housing Supportive Services to fund elderly resident services	-	4,000
Supportive Services to fund multifamily resident services	-	2,300
Total	$ 74,000	$ 148,300

Single Family Mortgage Loan Program:		
Closing Cost Assistance	$ 18,500	$ 15,750
Additional Single Family Insurance to reduce the risk of default on loans	2,455	2,455
Total	$ 20,955	$ 18,205

Insurance Fund:		
Risk Retention to provide single family mortgage insurance	$ 38,021	$ 35,530

11. Interfund Transfers, Due To and Due From Other Funds

Transfers are used by the Agency for mortgage related activities, debt service payments and to reimburse the General Fund for shared service expenses. Due to or from other funds result mainly from the time between when services are provided and reimbursements are made.

Transfers and due to and due from other funds are summarized below for the year ended June 30, 2011:

Interfund transfers in:	
General Fund	$ 8,123
Single Family Mortgage Loan Program	23,704
	$ 31,827
Interfund transfers out:	
Multifamily Housing Program	$ 31,827
Due from other funds:	
General Fund	$ 31,653
Multifamily Housing Program	54,685
	$ 86,338
Due to other funds:	
Single Family Mortgage Loan Program	$ 86,338

Transfers due to and due from other funds are summarized below for the year ended June 30, 2010:

Interfund transfers in:	
General Fund	$ 3,186
Multifamily Housing Program	2,826
	$ 6,012
Interfund transfers out:	
Single Family Mortgage Loan Program	$ 5,938
Insurance Fund	74
	$ 6,012
Due from other funds:	
General Fund	$ 66,234
Multifamily Housing Program	39,407
	$ 105,641
Due to other funds:	
Single Family Mortgage Loan Program	$ 100,302
HEMAP	5,339
	$ 105,641

12. Pension Plans

Plan Description

As of June 30, 2011, 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. Pension plan assets and liabilities are not included in the basic financial statements of the Agency. The Plan and Excess Plan do not issue stand-alone statements.

(In thousands of dollars)

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.

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. Pension payments under the Excess Plan are paid in the same form as the pension benefits payable under the Plan.

Funding Policy

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. Contribution requirements and benefit provisions of the Plan and Excess Plan are established and may be amended by the Members of the Board.

Members of the Board amended the contribution requirements to the Plan during the year ended June 30, 2010, whereas, employees hired on or after January 01, 2009 contribute 3% of compensation to the Plan.

Annual Pension Cost and Net Pension Asset

The Agency's annual pension costs and net pension assets of the Plan and Excess Plan consist of the following:

	June 30, 2011	June 30, 2010
Annual required contribution (ARC)	$ 2,829	$ 3,037
Interest on net pension asset	(100)	(92)
Adjustment to ARC	151	139
Annual pension cost	2,880	3,084
Contributions made	(3,982)	(3,200)
Increase in net pension asset	(1,102)	(116)
Net pension asset beginning of year	(1,568)	(1,452)
Net pension asset end of year	$ (2,670)	$ (1,568)

The net pension asset is included as Deferred financing costs and other assets on the Balance Sheets of the General Fund.

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, 2010	$ 2,880	138 %	$ (2,670)
December 31, 2009	3,084	104	(1,568)
December 31, 2008	2,383	113	(1,452)

Funding Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the Plan and Excess Plan was 72.8% funded. The actuarial accrued liability for benefits was $61,750, and the actuarial value of assets was $44,969, resulting in an unfunded actuarial accrued liability ("UAAL") of $16,781. The covered payroll (annual payroll of active employees covered by the Plan and Excess Plan) was $15,566 and the ratio of the UAAL to the covered payroll was 107.8%. Additional information as of the latest actuarial valuation is presented below:

Valuation date	January 1, 2011
Actuarial cost method	Aggregate
Amortization method	1
Remaining amortization period	1
Amortization period open or closed	1
Asset valuation method	Market Value for 1/1/2009, Five-Year Smoothed Market Value for 1/1/2010 and 1/1/2011.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%
Includes inflation at:	Moderate rate based on historical averages
Post-retirement benefit increases	None

1 = Because the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial accrued liabilities, information about the Plan and Excess Plan's funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose. The information presented is intended to serve as a surrogate for the funded status and funding progress of the Plan and Excess Plan.

The Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Employees' Retirement Plan and Government Excess Benefit Plan, 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.

13. 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 ("Plan") to provide certain other postemployment 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 drug coverage. The Agency is under no statutory or contractual obligation to provide these postretirement healthcare benefits. Plan assets and liabilities are included in the basic financial statements of the Agency. 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 Plan.

Funding Policy

Premiums under the Plan for post-employment healthcare benefits are partially funded by retirees desiring such coverage via co-pays paid to the Agency in accordance with rates established by the Agency.

For the year ended June 30, 2011, contribution rates for Plan members equaled 5% of the insurance premium per participant per month. For the year ended June 30, 2011, Plan members receiving benefits paid $28, which was used to offset the Agency's total outlays to insurance carriers for premiums equaling $564. As a result, the Agency's net outlay for premiums due equaled $536 for the years ended June 30, 2011.

(In thousands of dollars)

For the year ended June 30, 2010, contribution rates for Plan members equaled 2.5% of the insurance premium per participant per month. For the year ended June 30, 2010, Plan members receiving benefits paid $12, which was used to offset the Agency's total outlays to insurance carriers for premiums equaling $488. As a result, the Agency's net outlay for premiums due equaled $476 for the year ended June 30, 2010.

The Agency currently funds postemployment health care benefits on a pay-as-you-go basis. The Agency is studying the establishment of trusts that would be used to accumulate and invest assets necessary to pay for the accumulated liability; however, these financial statements assume that pay-as-you-go funding will continue.

Contribution requirements and benefit provisions of the Plan are established and may be amended by the Members of the Board.

Annual OPEB Cost and Net OPEB Obligation

The Agency's annual OPEB cost is calculated based on the annual required contribution ("ARC") of the Agency, an amount actuarially determined in accordance with the parameters of GASB Statement 45. 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 following table presents the components of the Agency's annual OPEB costs, the amount actually contributed to the Plan and changes in the Agency's net OPEB obligation:

	June 30, 2011	June 30, 2010
Annual required contribution (ARC)	$ 4,318	$ 4,318
Interest on net OPEB obligation	417	255
Adjustment to ARC	(569)	(348)
Annual OPEB expense	4,166	4,225
Contributions made	(564)	(488)
Increase in net OPEB obligation	3,602	3,737
Net OPEB obligation beginning of year	9,686	5,949
Net OPEB obligation end of year	$ 13,288	$ 9,686

The OPEB obligation is included as Escrow deposits and other liabilities on the Balance Sheets of the General Fund and HEMAP in the amount of $11,694 and $1,594, respectively.

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	$ 4,166	14 %	$ 13,288
June 30, 2010	4,225	12	9,686
June 30, 2009	3,316	12	5,949

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the Plan was not funded. This resulted in an actuarial accrued liability for benefits and unfunded actuarial accrued liability ("UAAL") of $36,652. The covered payroll (annual payroll of active employees covered by the Plan) equaled $15,320, and the ratio of the UAAL to the covered payroll equaled 239.2%.

Amounts determined regarding the funded status of the 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 for the Pennsylvania Housing Finance Agency Postemployment Benefits Plan, presented as Required Supplementary Information following the notes to the financial statements presents multiyear trend information, when available, about 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 plan as understood by the Agency and 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 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, 2009, the entry age normal cost method was used. Because the Agency funds its OPEB on a pay-as-you-go basis, the 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 8% in 2009, decreasing by 0.5% per year to 5.5% in 2015 and thereafter. The UAAL is being amortized as a level dollar amount over thirty years on an open basis.

14. Significant Contingencies and Commitments

Federally Assisted Programs

The Agency participates in numerous federally assisted programs. Those programs are subject to compliance audits and adjustments by the grantor agencies or their representatives. Any disallowed claims, including amounts already collected, would become a liability of the Agency. In management's opinion, disallowance, if any, will be immaterial.

Risk Management

The Agency is subject to normal risks associated with its operations including property damage, personal injury and employee dishonesty. All risks are managed through the purchase of commercial insurance. There have been no losses or decreases in insurance coverage over the last three years.

Litigation

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

Commitments

Outstanding commitments by the Agency to make or acquire Multifamily Housing, Single Family Mortgage and HEMAP Loans were approximately $1,154, $13,759 and $9,804, respectively, at June 30, 2011.

15. Significant Effects of Subsequent Events

HEMAP

HEMAP received an appropriation of $2 million in the State Budget for the fiscal year ending June 30, 2012. The Pennsylvania Housing Finance Agency ("Agency") has determined that this is insufficient for continued full operation of HEMAP. A "Notice of Unavailability of Funds" was published in The Pennsylvania Bulletin. As set forth in the Notice, and in accordance with Act 91, the Agency announced that it would be unable to approve any more loans under the HEMAP Program effective July 1, 2011.

HEMAP will continue to process continuing loan assistance to approved homeowners and review annual recertifications to establish repayment schedules as required. Cash flows from Commonwealth appropriations, repayment and prepayments of emergency assistance loans and other government grants are expected to fund HEMAP operations into the foreseeable future.

HEMAP will also partially administer the Emergency Homeowners Loan Program ("EHLP"). This federal program, which was developed using HEMAP as the model, began operations late in the fiscal year ended June 30, 2011 and will continue through the fiscal year ending June 30, 2013.

Similar to HEMAP operations, EHLP will offer a declining balance, deferred payment "bridge loan" for up to $50 thousand to assist eligible homeowners with payments of arrearages, including delinquent taxes and insurance plus up to 24 months of monthly payments on their mortgage principal, interest, mortgage insurance premiums, taxes, and hazard insurance. HEMAP was awarded approximately $105 million of EHLP funding that must be committed to assist homeowners of the Commonwealth by September 30, 2011.

On September 30, 2011, HEMAP has been awarded an additional $5,000 in EHLP funding, in addition to the $105,000 originally awarded. HUD awarded this additional grant when it learned public application for EHLP assistance exceeded the original award amount.

The Agency provided operating advances to HEMAP in anticipation of its 2011/12 fiscal year state appropriation. HEMAP will reimburse the Agency's General Fund over a period of time by using a portion of future HEMAP loan repayments and Commonwealth appropriations as they become available.

The General Fund has advanced funding to HEMAP prior to the year ended June 30, 2011 to fund continued loan assistance, administrative and other costs for $18,959. This advance, which does not bear interest, is included as non-current deferred financing costs and other assets and non-current escrow deposits and other liabilities on the Balance Sheets of the General Fund and HEMAP, respectively.

Bond Issue Series 2011-113

During September 2011, the Agency issued $81,705 of Single Family Mortgage Revenue Bonds, Series 2011-113, to refund Series 2011-111. These bonds are obligations of the Agency that bear interest at fixed rates payable on each April 1 and October 1, with a final maturity date of October 1, 2041. The bonds will be primarily secured by program obligations consisting of qualifying single-family mortgage loans purchased with bond proceeds.

information

Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Employees' Retirement Plan and Government Excess Benefit Plan

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)
01/01/2011	$ 44,969	$ 61,750	$ 16,781	72.8%	$ 15,566	107.8%
01/01/2010	40,521	57,218	16,697	70.8	14,489	115.2
01/01/2009	35,042	52,204	17,162	67.1	13,447	127.6

Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Postemployment Benefits Plan

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)
07/01/2009	$ -	$ 36,652	$ 36,652	0.0 %	$ 15,320	239.2%
07/01/2007	-	28,072	28,072	0.0	13,382	209.8

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That's why this annual report has been printed using recycled paper and inks.
It also is being posted on our website to minimize the number of printed paper copies.

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