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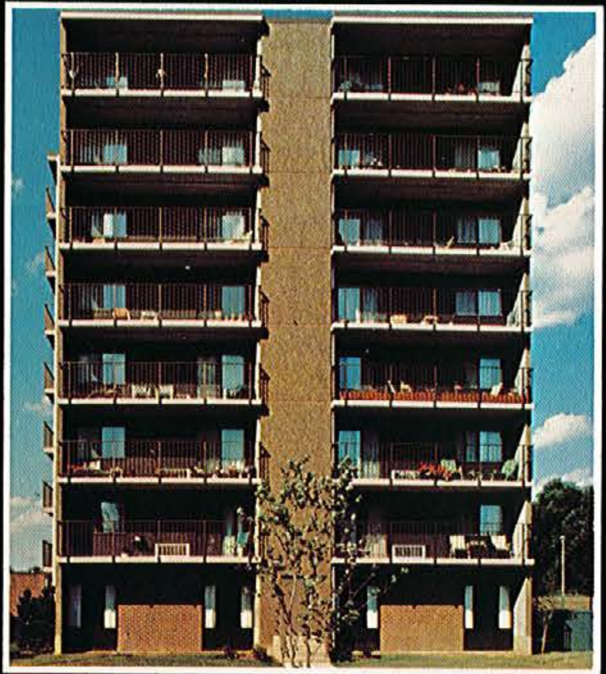

Pennsylvania Housing Finance Agency
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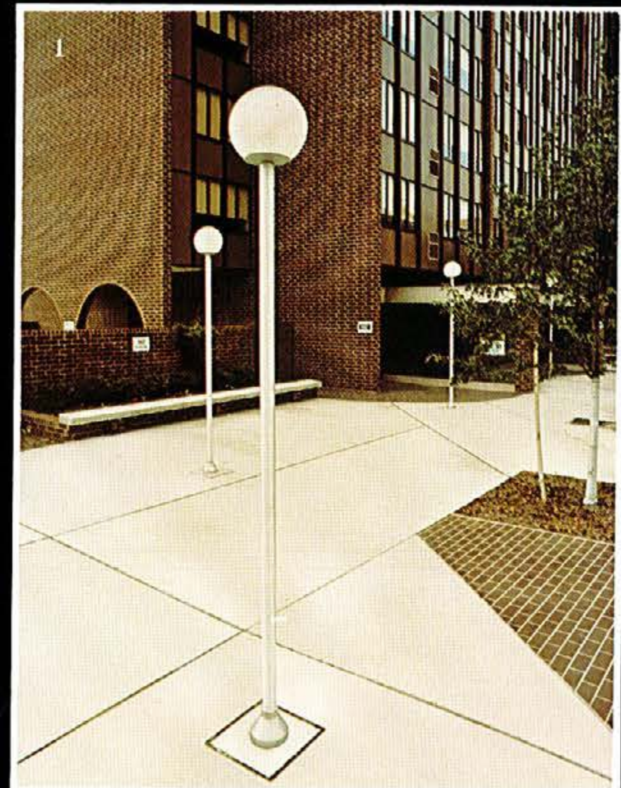
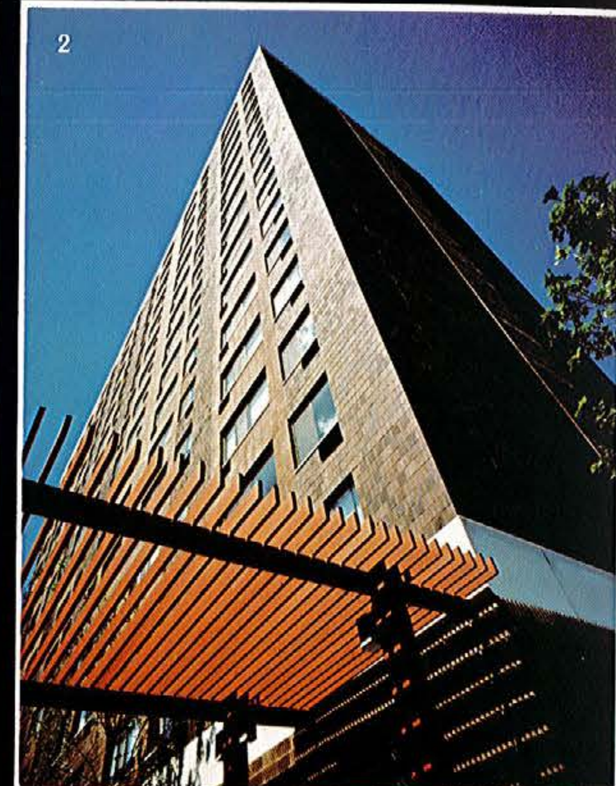
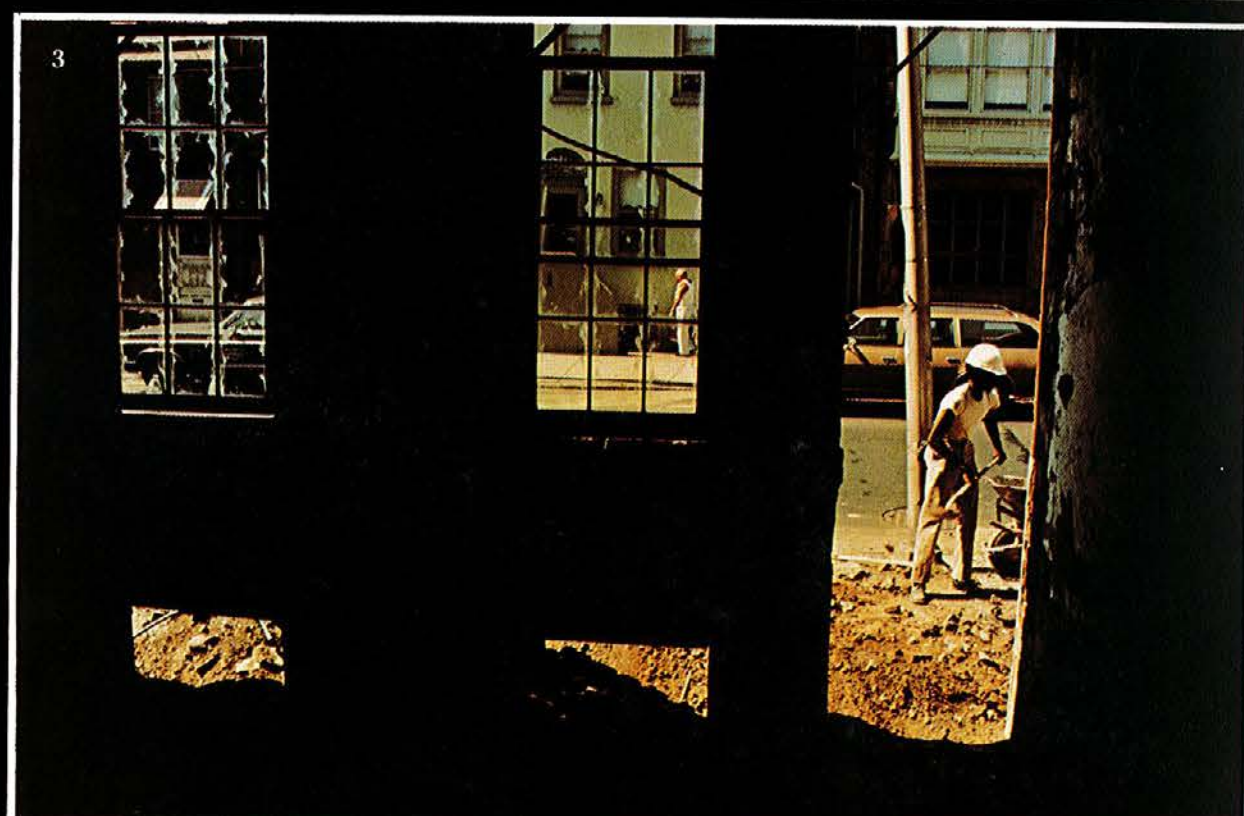
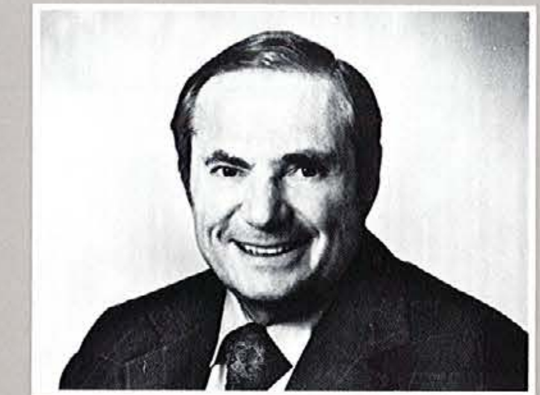






(1) COURT STREET development in Reading, Berks County, provides 90 units of elderly housing in a high-rise setting. The development is one of two located in a redevelopment section of the city that PHFA has financed. (2) DANIEL J. FLOOD AND T. NEWELL WOOD PLAZA, located in central Kingston, Luzerne County, has provided 211 apartments in an attractive high-rise building for the elderly. Rental subsidy through HUD's Section 8 Housing Assistance Payments Program, makes paying rent on a fixed income easier for the tenants. (3) Construction Crew works on QUEEN VILLAGE II, a rehabilitation development in the rapidly reviving Queen Village section of Philadelphia. When completed, 51 units will be available in scattered sites.



Message from the Governor

In three years of operation the Pennsylvania Housing Finance Agency has loaned a total of $262,345,740 for the construction of 9,670 apartment units in Pennsylvania. Along the way the PHFA experienced crippling financial problems because of the crisis of the municipal finance markets last winter, but the agency overcame these difficulties swiftly and became one of the most productive state housing finance agencies in the nation.

The fiscal problems of New York City and the default of a New York State development agency so disrupted the municipal finance markets that the PHFA was unable to re-finance short-term debt last February. Quick action by the Pennsylvania General Assembly resolved this problem and enabled the agency to rebound fully. The legislature appropriated $61.6 million to cover the PHFA's short-term debt, and the agency pledged to repay any portion of the appropriation actually used along with 6% interest. PHFA has now repaid or released all but $3.45 million of this sum and has paid $501,344 in interest as well.

Since receiving the appropriation the PHFA has sold two issues of long term bonds, both at very good rates, and has become one of the national leaders in housing production. These two sales are responsible for permanently financing the construction of 39 apartment developments throughout the state.

Although some tax exempt financing agencies are still experiencing high rates and other difficulties on the municipal finance markets, the outlook for the PHFA is indeed good. This means that it will be able to continue providing sorely-needed housing for elderly citizens and families in Pennsylvania.

Milton J. Shapp

Milton J. Shapp
Governor

1984

Message from the Board Chairman

Despite the serious problems it faced and overcame last February, the Pennsylvania Housing Finance Agency is in better condition today than ever before in its history to lend funds for the construction of apartments in Pennsylvania.

During the Agency's fiscal problems, I assured the leadership of both branches of the State Legislature that PHFA's difficulties were the fault of a nervous bond market, and did not reflect any basic flaws in the Agency's operation and structure.

The cause, I explained, was the "investor uncertainty" stemming from the serious fiscal problems then being experienced by New York City, New York State, and the Massachusetts Housing Finance Agency. Those problems were not confined to investor fear of New York State and City and Massachusetts HFA bonds and notes; the marketability of municipal bonds all over the east coast was being damaged. I vowed that PHFA would survive the short-term crisis and recover when the bond market was more receptive.

While some people expressed doubts, I believed that proof would surface in good time. Happily, events bear out everything that I said back in February.

But the speed and drama with which PHFA recovered was surprising. Within three months of receiving the appropriation, the Agency sold $58,260,000 in bonds. Five months later it sold $84,905,000 in bonds. Both issues were sold at interest rates that compare favorably with other housing finance agencies.

The $84.9 million sale was the largest bond sale dedicated solely to developments subsidized by the Section 8 Housing Assistance Payments Program, which is administered by the U.S. Department of Housing and Urban Development (HUD). That sale put PHFA at the forefront of the Section 8 Program and made it the national leader in new Section 8 or substantial rehabilitation housing starts.

The fact that the PHFA bonds sold so swiftly and in such great amounts is conclusive proof of their acceptability in the market place.

In his message, Governor Shapp has already discussed the apartments produced by PHFA financing thus far.

But I would like to talk about what PHFA-financed housing brings to a community. It brings tax revenues to the municipality, and jobs for construction workers and those in construction-related industries. It helps to replenish Pennsylvania's housing stock, which is the second-oldest in the nation.

At a time when unemployment in the construction industry in Pennsylvania is running at an unbelievable 40%, PHFA construction activity has created approximately 10,500 jobs. Approximately $815,100 in municipal taxes have been generated thus far in the municipalities where the developments are located. And above all else, housing of very high quality has been made available at affordable rents to Pennsylvanians who need it. This last accomplishment, of course, is the reason the Agency exists. I believe that PHFA has accomplished its prime mission quite successfully, and that it will continue to do so.

I forecast last February that the Agency would repay or release its debt to the State Treasury in a timely fashion. But I was gratified by the speed of the repayment. The Agency has reduced its balance of the legislative appropriation to $3.45 million.

Finally, I can still remember last February, when many people expressed fears that the taxpayers would lose money on the appropriation. I pledged that the Agency would pay interest on any portion of the appropriation that was actually used. To date, the Treasury of the Commonwealth of Pennsylvania has received $501,344 in interest on the appropriation. Consequently, in retrospect, no one lost on this transaction, and the citizens of Pennsylvania will continue to benefit from the existence of a working Housing Finance Agency.

Despite this impressive record, it must be noted: the long-term indebtedness of the Agency, while not "full faith and credit" obligations, are moral obligations of the Commonwealth and there is always a possibility, however remote, that at some future time further advances from the General Assembly might be requested. Act 33 of 1976 reduces even further the possibility of needing such aid but that possibility, nevertheless, remains.

In closing, I would like to thank the Board members who have given unselfishly of their time and energy during this exciting period.

The Agency is also indebted to the Governor and members of the General Assembly who came through with the appropriation that has made this a successful year for the Agency. The Agency is back in business. And I believe that it is on the right track.

William H. Wilcox

William H. Wilcox
Board Chairman

Message from the Executive Director

Fortunately, the fiscal problems which the Pennsylvania Housing Finance Agency encountered in early 1976 are history. With the timely aid of the Pennsylvania Legislature and Governor Shapp, the Agency has been able to resolve its problems and has managed to show growth during 1976. While I shall never forget the crisis of February, 1976, I can confidently state that the Agency is back in business.

To date, from the proceeds of two successful bond sales, the Agency has repaid or released to the State Treasury $58.15 million of the total $61.6 million appropriation which was needed to pay off Bond Anticipation Notes coming due last February 2.

Despite the fact that the Agency was practically inoperative for six months, it has financed the construction of more than 3,200 units of new and rehabilitated housing since publication of our last annual report.

Studies indicate that more than 40% of the housing stock in Pennsylvania is 40 years old or older. Therefore, the construction of new housing units to replace or supplement these units is urgent. I am happy to report that Pennsylvanians in need of quality housing are beginning to benefit directly from the Agency's efforts. To date, 2,644 apartment units are occupied.

Since PHFA became operative in September, 1973, it has provided financing for a total of 9,670 apartment units in 71 municipalities located in 28 counties in Pennsylvania.

The financial statements in this report indicate the Agency is financially solvent. However, because many projects were closed after July 1, the financial statements do not reflect the significant additional revenue which has been generated, primarily from fees charged by the Agency on the new developments.

These financial statements do, however, accurately reflect the important fact that the Agency has no "note overhang," or outstanding BANs. This is an achievement which has not yet been matched by any active state housing finance agency in the nation.

PHFA also has become one of the leaders, if not the leader, in the financing of housing starts under the Federal Section 8 Housing Assistance Payments Program. This accomplishment could not have been made possible without the excellent cooperation of the Pennsylvania Area Offices of the U.S. Department of Housing and Urban Development (HUD). The speed with which HUD staff members processed the mountains of required "paper work" is unprecedented.

The competent and willing PHFA staff also worked many, many hours of overtime and weekends to make this achievement possible.

Our managing underwriters contributed significantly to our success by structuring and successfully marketing bonds at competitive prices.

For the future, the Agency pledges to continue to conduct itself in a responsible and prudent manner to insure its success in alleviating the housing problems of Pennsylvanians.

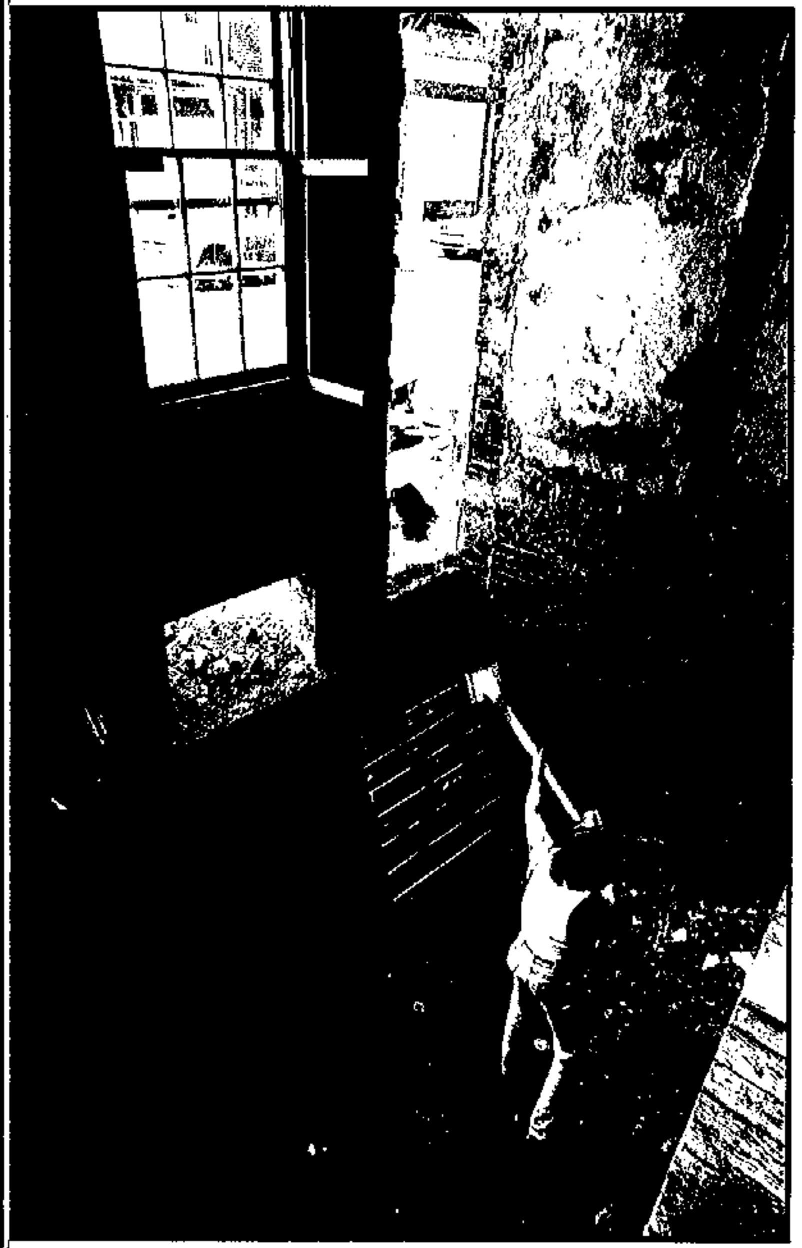
We hope to explore with the State Legislature the possibilities of amending existing legislation to include provisions for a single-family-home ownership program.

It is our hope that the incoming national Administration will formulate, adopt and implement housing programs which will benefit low-and-moderate-income Pennsylvanians.

And finally, we hope to indicate in the next annual report that the benefits of added construction employment and additional quality housing will have accrued to the residents of Pennsylvania through the efforts of PHFA.

Carl Payne

Carl Payne
Executive Director



Introduction

Since its last annual report, the Pennsylvania Housing Finance Agency suffered the setbacks of a poor municipal bond market and recovered dramatically. The Agency sold a total of $143,165,000 in bonds to permanently finance 39 apartment developments in 27 Pennsylvania counties.

Before the Agency demonstrated its strength on the bond market, twice within five months, the future of many housing developments and the Agency itself was in question. But the developments financed by the bond sales account for 4,119 apartments for Pennsylvanians. A majority of these units were designed specifically for the elderly. Many of the developments were subsidized by the U.S. Government through the U.S. Department of Housing and Urban Development (HUD) and the U.S. Department of Agriculture.

While we intend to explain fully why the PHFA story in this annual report is different from that anticipated a year ago, we should begin by saying emphatically that the Agency is back in business, despite troubles experienced early in 1976.

PHFA is now performing the job intended for it when the Agency was created by Governor Milton J. Shapp and the State Legislature in December, 1972. The Agency will continue to operate at no cost to Pennsylvania taxpayers because of fees levied in connection with the mortgage loans it makes. These fees, which are paid to the Agency by the borrower, generate revenue sufficient for the Agency to pay its operating expenses.

An active PHFA does much more than provide decent housing for those who need it. It uses housing assistance funds from HUD and the U.S. Department of Agriculture. It helps to assure that in Pennsylvania, housing programs sponsored by those agencies work. It generates productive activity for builders and jobs for construction workers and economic activity for those who produce building supplies. It adds funds to municipal tax rolls from developments it finances, both during the construction phase and after the development is completed.

The PHFA Story, 1976

The following is an abbreviated version of what PHFA experienced in the past year.

On June 5, 1975, the Agency sold $23,775,000 in bonds in its first bond issue during an unstable period in the municipal bond market. While the tax-exempt municipal bonds sold by PHFA and other similar agencies are normally an attractive investment, the climate for the successful sale in June, 1975 was a test of Agency strength because of the "psychological fallout" caused primarily by the fiscal problems then being experienced by New York City and the default of notes issued by an agency of New York State.

The Agency intended to follow the June sale with a bond issue in December, 1975. A portion of the proceeds anticipated from that sale was to be used by the Agency to refinance $32.5 million in Bond Anticipation Notes (BANs) coming due on February 2, 1976.

Early in December, the Agency was forced to withdraw from the market. Investors everywhere were looking with caution at all tax-exempt municipal notes and bonds. The greatest single factor for this attitude was fear generated by the questionable fiscal stability of New York City and its municipal securities.

It became clear that the Agency would have to find another means of refinancing the $32.5 million in BANs coming due on February 2, 1976.

Finally, with the help of Governor Shapp and members of his staff, meetings with legislative leaders were arranged. The fact that $32.5 million in BANs were coming due on February 2, 1976, was discussed. The Agency at this point needed support from the State Legislature because all efforts to refinance the BANs had failed. Many members of the State Legislature maintained that they had not been kept properly informed of the Agency's existence or its pending fiscal problem. Nevertheless, the State Legislature came through.

On February 2, 1976, the State Legislature passed House Bill 216 (Act 2A of 1976). This legislation appropriated $61.6 million of state funds to the Agency. That amount covered all Agency BANs, including the provision of funds for mortgage loans that had only been partially funded.

Only $32.5 million of that money was actually used to solve the immediate note rollover problem. By appropriating the funds, the State Legislature proved to the national financial community that Pennsylvania backs its moral obligation in a timely and prudent manner.

Once the $61.6 million was appropriated, Board Chairman William H. Wilcox vowed that the funds would be repaid or released to the State Treasury from the proceeds of subsequent successful bond sales.

The Agency made good on that promise in subsequent months.

Act 33 of 1976

A prime element in our story is the enactment of legislation which altered the composition and powers of the Agency. The passage of this amended form of legislation, called Act 33 of 1976, was the result of the short term debt problem experienced by the Agency early in 1976. Act 33 of 1976 was passed by the House of Representatives on April 6, 1976 and was signed by Governor Shapp the following day.

Act 33 expanded and strengthened the Board by adding several cabinet members as ex officio members and by making the Secretary of Community Affairs the Chairperson:

"The members of the agency shall be the Secretary of Community Affairs, the State Treasurer, the Secretary of Commerce and the Secretary of Banking, and the respective successors in office of each of them and six additional members whom the Governor shall appoint. The Secretary of Community Affairs shall serve as chairperson. The members initially appointed shall serve for terms of one, two, three, four, five and six years, respectively, the particular term of each to be designated by the Governor at the time of appointment . . ."

The new legislation also prohibited the Agency from financing non-subsidized housing except as stipulated in the following quote from Act 33:

"The agency shall not make any mortgage loan pursuant to the provisions of this Article IV, unless such mortgage loan is made in conjunction with a Federal Housing Assistance Program; provided, however, that any mortgage loan for which the agency had issued a written commitment and/or projects for which the agency had issued a written feasibility approval on or before January 1, 1976, shall be excluded from the limitations of this sentence."

Under Act 33, "Federal Housing Assistance Program" means:

". . . a housing assistance program under which a mortgage loan or project receives assistance from a Federal Agency, department or other Federally-related entity in the form of a Federal guarantee, insurance, co insurance, interest reduction payments, rental subsidies, commitment for permanent financing of a project upon completion of construction, or other assistance, pursuant to Section 8 of the United States Housing Act of 1937, as amended by the Housing and Community Development Act of 1974; section 236 of the National Housing Act of 1934; section 802 of the Housing and Community Development Act of 1974; section 244 of the National Housing Act of 1934, as amended by the Housing and Community Development Act of 1974; section 101 of the Housing and Urban Development Act of 1965; section 23 of the United States Housing Act of 1937; section 515 of Title V of the Housing Act of 1949; and any similar or other program or programs which amend, supplement, replace or succeed such a program."

The new legislation also requires written permission from the Governor for the issuance of bonds:

"The agency shall have the power and is hereby authorized from time to time by resolution of the members and subject to the written approval by the Governor to issue its negotiable bonds, either as serial bonds maturing in annual installments or as term bonds, or any combination thereof, and notes in such principal amount as, in the opinion of the agency, shall be necessary to provide sufficient funds for achieving its corporate purposes . . ."

Act 33 prohibits the Agency from issuing BANs except as stipulated in the following quote from the Act:

"The agency shall not have the power to issue bond anticipation notes, provided, however, that renewal bond anticipation notes may be issued for the sole purpose of redeeming any issue or portion of any issue of bond anticipation notes heretofore issued by the agency which have not been retired through the sale of bonds."

Act 33 was intended to avoid fiscal problems like the note-rollover situation of February 2, 1976.

The Past to the Present

PHFA was established by the State Legislature in December, 1972. The constitutionality of the Agency was affirmed by the Pennsylvania Supreme Court and the Agency became operative in September, 1973. In January, 1973, however, the President had impounded virtually all Federal housing assistance funds.

Additionally, at the time of its inception, PHFA was operating in what was becoming a tight money market (this condition developed in late 1973 and grew worse) without the benefit of virtually any Federal housing assistance money. Hence, the Agency's alternatives were either to do nothing or to finance non-subsidized housing developments. The Agency Board responded by acting affirmatively. The non-subsidized developments, the Board contended, would create additional rental housing in the Commonwealth, would generate badly needed jobs and taxes at a time when economic activity and employment opportunities were limited.

Consequently, during the Agency's first year of operation, PHFA financed several non-subsidized apartment developments.

In August, 1974, Congress passed the Housing and Community Development Act of 1974. That legislation created the Section 8 Housing Assistance Payments Program.

The Section 8 Program, administered by HUD, became operative in 1975. During that first year of operation, HUD allocated approximately $60 million in Section 8 funds for the Commonwealth. Of that $60 million, approximately $20 million was allocated to PHFA to administer. The $40 million balance was made available by HUD directly to developers and local public housing agencies.

Under the Section 8 Program, the qualifying tenant pays a maximum of 25% of his annual adjusted income for rent and HUD subsidizes the balance.

As defined by HUD, a "qualified tenant" earns a maximum of 80% of the area median income.

The Section 8 Program gives PHFA the ability to better serve the low-and-moderate-income citizens in Pennsylvania in a broader manner than was possible before its inception.

PHFA Repays Appropriation

The Agency promised from the moment that the $61.6 million appropriation was made by the State Legislature that the funds would be released or repaid to the State Treasury from the proceeds of successful subsequent bond sales. As of October 13, 1976, all of that appropriation but $3.45 million has been repaid or released as promised.

Of the total $61.6 million appropriation, only $32.5 million was actually used. The balance remained "on hold" in the State Treasury. The Agency had agreed to repay any funds actually used at 6% interest. The Agency has thus far paid the taxpayers of Pennsylvania a total of $501,344 in interest on the $32.5 million of the appropriation actually used. Additional interest will be paid until the final $3.45 million is repaid to the Commonwealth from the proceeds of future bond sales.

How We Did It

PHFA sold a total of $143,165,000 in bonds in two separate issues. The sales came within five months of each other.

On April 20, 1976, the Agency sold $58,260,000 in bonds at a net interest cost of 7.9%. The sale came less than three months after the appropriation had been made. On September 20, 1976, the Agency sold an additional $84,905,000 in bonds at a net interest cost of 7.55%.

Following is a list of developments permanently financed by the April 20 sale.

DESCRIPTION OF PROJECTS PERMANENTLY FINANCED FROM PROCEEDS OF 1975 SERIES A BONDS

Project	Mortgagor	Location	Type of Occupancy	Dwelling Units	% of Mortgage Loan Disbursed	Contractor	Estimated or Actual Completion Date	Estimated Cost of Project	Mortgage Loan Amount	Estimated or Actual Date of Complete Occupancy
SECTION 236 PROJECTS										
Cumberland Court Apartments	Cumberland Court Associates	6th & Capital Streets, Harrisburg Dauphin County	Family	108	100%	H. B. Alexander & Son, Inc.	October, 1975	$2,627,778	$2,365,000	April, 1976
Hilltop Apartments	Hilltop Associates	Commonwealth & Harden Avenues Duquesne Allegheny County	Family	152	100%	H & F Construction Co.	December, 1975	$3,272,222	$2,945,000	June, 1976
Daniel J. Flood Tower	First Valley Associates	Wyoming Ave. & Market St., Kingston Luzerne County	Elderly	211	100%	Grosck & Sons, Inc.	May, 1976	$7,222,222	$6,500,000	June, 1976
NON-SUBSIDIZED PROJECTS										
Meadowick Village	Whitpain Associates	Jolly Road Whitpain Township Montgomery County	Family	273	100%	Andrichyn & Schnabel	December, 1975	$8,035,000	$7,050,000	November, 1976
Plaza Apartments	BID Associates	Summit Avenue North Cornwall Township Lebanon County	Family	128	100%	Ambler Construction Company	January, 1976	$2,529,850	$2,250,000	June, 1976

DESCRIPTION OF PROJECTS TO BE PERMANENTLY FINANCED FROM PROCEEDS OF 1976 SERIES A BONDS

NON-SUBSIDIZED PROJECTS

Project	Mortgagor	Location	Type of Occupancy	Dwelling Units	% of Mortgage Loan Disbursed	Contractor	Estimated or Actual Completion Date	Estimated Cost of Project	Mortgage Loan Amount	Estimated or Actual Date of Complete Occupancy
Marlboro Place	Humford Equities, Inc.	S. Washington & E. South Sts. Wilkes-Barre Luzerne County	Family	76	100%	Boyd H. Kline Assoc., Inc.	July, 1975	$1,577,589	$1,345,000	April, 1976
Squires Manor	Squires Manor Associates	Wallace Road South Park Township Allegheny County	Family	132	100%	Amore Construction Co.	October, 1975	$2,680,064	$2,412,058	February, 1976
Williamsburg Estates	Williamsburg Estates Associates	Crums Mill Road Lower Paxton Township Dauphin County	Family	312	100%	S & A Building Corp.	November, 1975	$7,805,715	$7,025,000	July, 1976
One Buttonwood Square	FTK Partnership	21st & Hamilton Sts., Philadelphia Philadelphia County	Family	304	100%	Daniel J. Keating Co.	January, 1976	$11,355,556	$10,220,000	March, 1977
Pocono Creek Apartments	Pocono Creek Associates	West Main Street Stroudsburg Monroe County	Family	100	45%	Construction Services & Management, Inc.	May, 1977	$2,589,961	$2,265,000	September, 1978
Ten East South	The Ten East South Street Company	E. South & S. Main Sts., Wilkes-Barre Luzerne County	Family and Elderly	130	34%	Grosek & Sons, Inc.	November, 1977	$4,855,555	$4,370,000	August 1, 1979
Wimmerton	Summit Associates	Shenandoah Dr. & Yellowstone Dr. Unity Twp., Latrobe Westmoreland Co.	Family	100	100%	Cranshaw Construction, Inc.	March, 1976	$2,022,184	$1,819,966	March, 1977
777 Court Street	777 Court Street Associates	Court Street Reading Berks County	Family	90	100%	NADCO Construction, Inc.	July, 1976	$2,736,839	$2,463,152	March, 1977
Queen Village II	Southwark Corporation	Queen St., S. 3rd St. & Christian St. Philadelphia Philadelphia County	Family	51	73%	Penncrest Construction Company	December, 1976	$1,311,000	$1,180,000	November, 1976
Markvue Apartments	Ackerman Associates	Pines Road, North Huntington Township Westmoreland Co.	Family	35	100%	Richmark Construction Co.	April, 1978	$651,882	$563,000	November, 1978
Riverview Park Apartments	Riverview Park Associates	Rankin & Center Rds., White Oak Allegheny County	Family	168	92%	Alpine Construction Company	December, 1976	$3,810,801	$3,250,000	December, 1976
Delaire Landing	Delaire Associates	9300 State Road Philadelphia Philadelphia County	Family	180	84%	Orleans Corporation	December, 1976	$4,455,586	$3,845,000	December, 1976
Fairfax Apartments	Fairfax Associates	4614 Fifth Avenue Pittsburgh Allegheny County	Elderly	243	52%	NADCO Construction, Inc.	March, 1977	$4,405,555	$3,965,000	March, 1977

SECTION 101 RENT SUPPLEMENT PROJECT

Project	Mortgagor	Location	Type of Occupancy	Dwelling Units	% of Mortgage Loan Disbursed	Contractor	Estimated or Actual Completion Date	Estimated Cost of Project	Mortgage Loan Amount	Estimated or Actual Date of Complete Occupancy
Edwardsville Village	Edwardsville Associates	Roosevelt & Grove Sts., Edwardsville Luzerne County	Family	252	100%	Archbuild Corporation	January, 1976	$5,500,000	$4,950,000	May, 1976

The April 20 bond sale permanently financed 19 apartment developments. These developments account for a total of 3,105 apartment units. Of the 19 developments, 15 were non-subsidized. The non-subsidized majority represents permanent financing for the early PHFA developments that were started before the Section 8 Program became operative.

Of the $32.5 million from the Commonwealth appropriation that was actually used, $23,553,152 was repaid at 6% interest from the proceeds of the April 20 bond sale. The gain in interest to Pennsylvania taxpayers was $391,046. The interest repaid by the Agency to the Commonwealth from the September 20 bond issue brought the total amount of interest paid on the appropriation to $501,344.

In addition, $19,590,058 of funds appropriated but not used was released to the State Treasury by the Agency. Thus, the April 20 bond sale resulted in repayment or release to the State Treasury a total of $43,143,210 plus interest . . . within three months of receiving the appropriation.

Board Chairman Wilcox at that time vowed that PHFA would eliminate the balance of its debt from the proceeds of a future bond sale as soon as possible.

More Success on the Bond Market

On September 20, 1976 exactly five months after the first successful bond sale for 1976—PHFA sold $84,905,000 in bonds at a net interest cost of 7.55%. While reducing the Agency's debt to the State Treasury to $3.45 million, this sale is also significant as it applies to the Agency's Section 8 production performance. Agency officials were notified by HUD officials and others in the housing community that this was the largest single bond sale involving the financing of both Section 8 Elderly and Section 8 Family developments. This sale placed PHFA at the forefront of performance in the program in terms of Section 8 new or substantial rehabilitation starts in the nation. Following is a list of developments permanently financed by that sale.

DESCRIPTION OF DEVELOPMENTS PERMANENTLY FINANCED FROM PROCEEDS OF RESIDENTIAL DEVELOPMENT BONDS, ISSUE A

Development	Mortgagor	Location	Type of Occupancy	Dwelling Units	% of Mortgage Loan Disbursed	Contractor	Estimated or Actual Completion Date	Estimated Cost of Development	Mortgage Loan Amount
Shields Building	Shields Building Associates	322 Wood Street Wilkinsburg Allegheny County	Elderly	30	100%	Reicher Building Co., Inc.	September, 1975	$837,556	$625,000
Rolling Hills	Rolling Hills Associates	Buchert Road Lower Pottsgrove Township Montgomery County	Family	232	100%	Barness Construction Co.	August, 1976	$6,944,445	$6,250,000
Beaver Falls Plaza	Beaver Falls Plaza Limited Partnership	7th Ave. & 10th St. Beaver Falls Beaver County	Elderly	121	62%	Douglas Plaza Construction Co.	May, 1977	$4,222,222	$3,800,000
Towne House Apartments	Allentown Ventures	Walnut Street Allentown Lehigh County	Elderly	160	32%	Walker & Eby	January, 1977	$4,661,111	$4,195,000
Mahoning Towers	Mahoning Towers Associates	East Mahoning & Front Streets Borough of Punxsutawney Jefferson County	Elderly	101	1%	Hallstrom Development Company	December, 1977	$2,722,222	$2,450,000
B'nai B'rith House of Reading	B'nai B'rith House of Reading Inc.	Franklin & Maple Streets, Reading, Berks County	Elderly	175	1%	Ritter Brothers, Inc. of Harrisburg	March, 1978	$4,910,000	$4,910,000
Delphia House	York Housing Development Corporation of York, Pennsylvania	300 East Philadelphia Street City of York, York County	Elderly	104	1%	R. S. Noonan, Inc.	February, 1978	$3,050,000	$3,050,000
Scranton Townhouses	Scranton Associates	Potomac Street Scranton Lackawanna County	Family	160	None	Scranton Building Associates	March, 1978	$6,283,333	$5,655,000
Butler Arbors	Butler Arbors Equities	Lincoln Avenue Butler, Butler County	Elderly	120	1%	McAnallen Brothers, Inc.	February, 1978	$3,388,888	$3,050,000
Hazlewood	Hazelton Associates	27th Street, Hazel Township, Luzerne County	Elderly	100	None	Hazelwood Building Associates	February, 1978	$2,800,000	$2,520,000

Continued

DESCRIPTION OF DEVELOPMENTS PERMANENTLY FINANCED FROM PROCEEDS OF RESIDENTIAL DEVELOPMENT BONDS, ISSUE A (Continued)

Development	Mortgagor	Location	Type of Occupancy	Dwelling Units	% of Mortgage Loan Disbursed	Contractor	Estimated or Actual Completion Date	Estimated Cost of Development	Mortgage Loan Amount
Barclay Village	Barclay Village, Ltd.	Heintzleman Avenue, Hamilton Township, Franklin County	Family	86	None	H. B. Alexander & Son, Inc.	December, 1977	$2,594,444	$2,335,000
Galilee Village	Galilee Village, Inc.	21 Penn Valley Rd. Falls Township, Bucks County	Elderly	120	1%	Abram Singer & Sons, Inc.	November, 1977	$2,785,000	$2,785,000
Simpson Manor	Simpson Associates	Simpson Road Redstone Township Fayette County	Family	126	None	Simpson Building Associates	December, 1977	$3,900,000	$3,510,000
Canonsburg Housing for the Elderly	The Non-Profit Housing Corporation of Washington County	Central Avenue and Pike Streets Canonsburg Washington County	Elderly	104	None	Mellon-Stuart Company	January, 1978	$3,165,000	$3,165,000
The Pennsylvanian	National Development Corp.	21 West Ninth St. Erie Erie County	Elderly	112	1%	NADCO Construction, Inc.	February, 1978	$2,950,000	$2,655,000
Tyrone Elderly Housing	Tyrone Associates	Pennsylvania Ave. Tyrone Blair County	Elderly	100	1%	Maurice A. Lawruk Builders, Inc.	November, 1977	$2,772,222	$2,495,000
Millersville Manor	Millersville Manor Associates	74 W. Fredrick St. Millersville Lancaster County	Elderly	121	1%	Grosek & Sons, Inc.	November, 1977	$3,194,444	$2,875,000
Hershey Plaza	Hershey Plaza Associates	Chocolate Ave. & Mill Road Hershey, Dauphin County	Elderly	216	None	Grosek & Sons, Inc.	May, 1978	$8,050,000	$7,245,000
Sencit Townehouse	Sencit-Cumru Company	S. Summit & Harding Avenues Cumru Township, Berks County	Elderly	201	1%	H. B. Alexander & Son, Inc.	May, 1978	$5,705, 555	$5,135,000
Bellefield Dwellings	Bellefield Dwellings, Inc.	440 Center Avenue, Pittsburgh Allegheny County	Family/Elderly	158	90%	Allegheny Housing Rehabilitation Corp.	December, 1976	$4,330,000	$4,330,000

The September 20 bond sale enabled the Agency to release $15,006,790 to the State Treasury. Of that amount, $5,045,000 was repaid from the unpaid balance of the $32.5 million appropriated and actually used. Interest totalling $110,298 was paid.

The bond sales also resulted in the virtual elimination of the Agency's "note overhang" secured by the Commonwealth appropriation and clearly demonstrated the financial strength and acceptability of PHFA in the securities market. At this time, PHFA has no BANs outstanding, but the Agency is pledged to sell bonds as soon as possible to retire the $3.45 million in notes issued to the State Treasurer by the Agency.

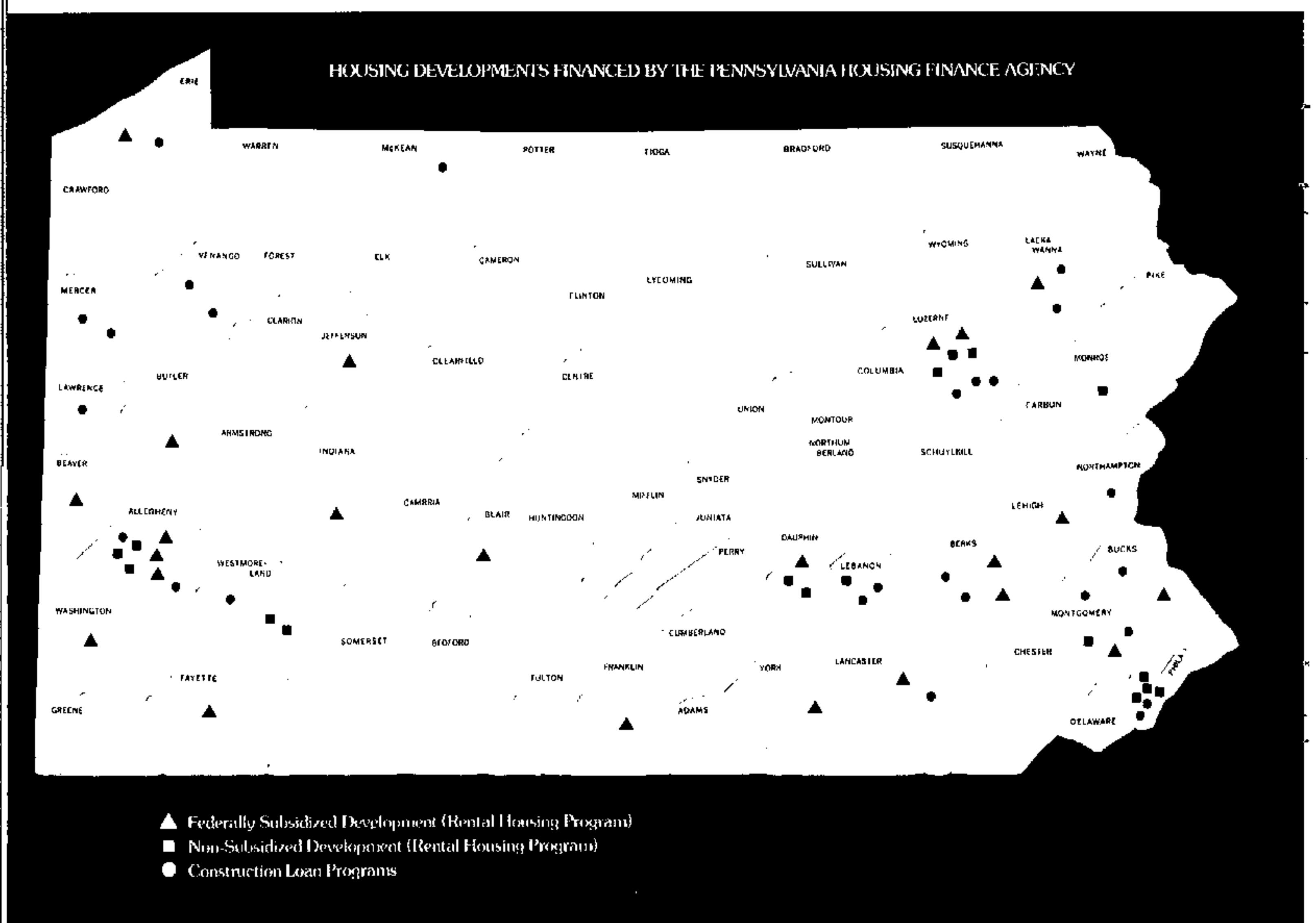
Of the 20 Section 8 apartment developments permanently financed by the September 20 bond sale, 15 will be new housing or substantial rehabilitation starts accounting for 1,946 units. The remaining five developments account for 701 units either occupied or already under construction. These 20 developments are distributed throughout 18 Pennsylvania counties. The majority of the total, or 1,885 units, are designed for the elderly with 762 for families.

The Agency estimates that construction activity generated from this single bond issue will create approximately 2,300 on-site or construction-related jobs. And this in itself is important at a time when unemployment in the Pennsylvania construction industry is running at 40%.

The Agency

We shall describe here the internal operations of PHFA, its programs and why they are important to Pennsylvania.

PHFA is a housing mortgage lender currently offering two basic lending programs: the Rental Housing Program and the Construction Loan Programs. The map below illustrates the distribution of all PHFA developments either completed or already under construction.



Rental Housing Program

The Rental Housing Program involves the lending of mortgage funds at tax-exempt interest rates for both construction and permanent financing, providing that an existing or future Federal Housing Assistance Program is involved as stipulated in Act 33.

To date, the Agency's Rental Housing Program has been responsible for the Agency lending $170,390,000 for the construction of 41 apartment developments that account for 5,861 units. The mortgage amounts are not inclusive of costs associated with the issuance of bonds.

Agency estimates indicate that this finance activity has generated approximately 6,000 on-site or construction-related jobs. Developments financed under the Rental Housing Program are distributed over 35 Pennsylvania counties and have added approximately $815,100 to municipal tax rolls in their respective locations.

Of course, the Rental Housing Program was in existence before the Agency ceased financing non-subsidized housing. At this time, however, the Rental Housing Program and the Section 8 Program are synonymous.

Since the inception of the Section 8 Program, PHFA is providing permanent financing for the construction of 21 Section 8 developments in 19 counties throughout Pennsylvania. These developments account for a total of 2,858 Section 8 units.

Additionally, the Agency is providing construction financing for four Section 8 developments accounting for 838 apartment units under its Construction Loan Programs.

Because of its performance in the past year, PHFA hopes for an increase in its allocation of Section 8 units or other subsidies from HUD for the coming year.

As stated previously, the Agency is a mortgage lender. The Agency makes loans to limited-profit developers. The Agency limits these developers to a maximum profit of 8%-per-annum on equity. Loans are also made to non-profit groups. Part of the attraction of the Agency to developers is that its tax-exempt bonds, which provide the funds for the mortgage loans, allow it to lend the money at interest rates below those available from the private sector.

The purpose of the below-market mortgage loans is to provide financing for the construction of high-quality rental housing for qualified Pennsylvanians. Both construction and permanent financing are available. The Agency loans up to 90% of the total cost of the development to a limited-profit developer. A non-profit developer may receive a 100% mortgage loan.

The interest cost to the Agency for a given development receiving permanent financing is approximately the same rate that the developer will pay on his mortgage loan. Since the Agency charges a service fee on its mortgage loans to cover operating expenses, the developer will ultimately pay slightly more than the cost of the bonds to the Agency.

For example, if a developer receives a $2 million mortgage loan and PHFA sells bonds at a net interest cost of 8% to permanently finance that development, the developer's payments on his mortgage loan will be based upon the service fee and the Agency's cost of borrowing.

If mortgage loan funds are available from the private sector at 9.5%, the advantage of dealing with the Agency is obvious.

For the foreseeable future, PHFA will restrict itself to the rental sector of the housing market. The Agency at this time does not operate a program for making mortgage loans for single-family home ownership. In the coming year, however, the Agency will consider requesting the Governor and the State Legislature to amend existing PHFA legislation to permit and facilitate such loans.

Construction activity data available to the Agency indicates that few rental apartment starts have been financed in Pennsylvania in the past two years because of prohibitively high interest rates in the private sector. Thus, PHFA's Rental Housing Program has been responsible for many of the apartment starts in Pennsylvania during troubled times in the construction industry.

Construction Loan Programs

The Agency's various Construction Loan Programs constitute a significant portion of PHFA's portfolio. These programs provide rental housing under programs administered by the U.S. Government. They include the Federal Housing Administration's (FHA) 236, 231 and 221(d)4 insured programs; the Farmer's Home Program and the Public Housing "Turnkey" Programs.

Under these programs, permanent financing is provided by a mortgage lender other than PHFA. A U.S. Government agency provides a "takeout" guarantee or some other form of commitment to the mortgage lender to provide the permanent financing for developments financed under the Construction Loan Programs.

The Agency provides the mortgagor with construction financing during the construction period by issuing tax-exempt, short-term notes. These notes are usually the type that mature in one or two years. The notes are paid off by the Federal Agency which provides the permanent financing upon completion of construction.

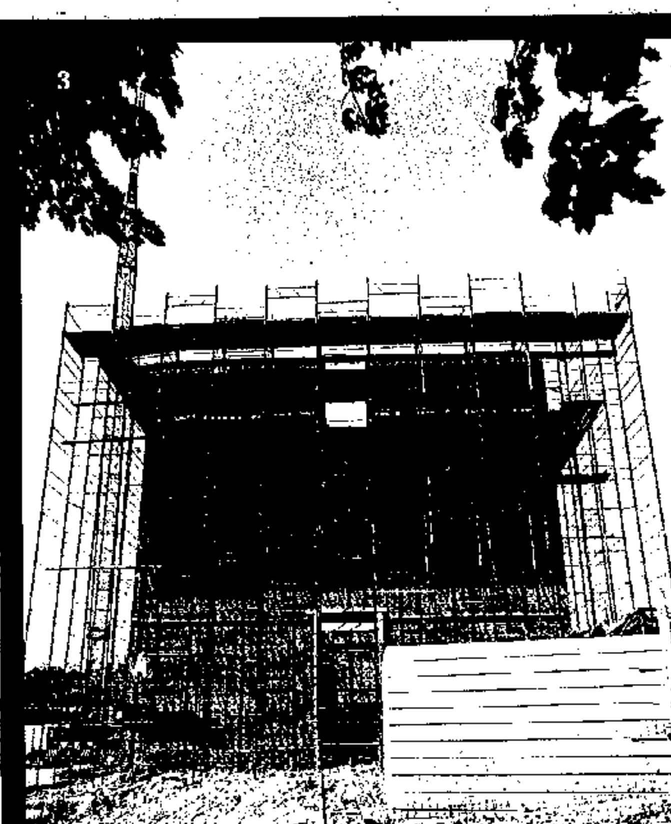
To date, the Agency has provided $91,955,740 under the Construction Loan Programs to finance the construction of 25 developments in 16 Pennsylvania counties. The 25 developments account for 3,809 units with 2,734 units designated for the elderly and 1,075 for families. Following is a list of developments that have received construction financing from PHFA through the various Construction Loan Programs. The mortgage amounts are not inclusive of costs associated with the issuance of notes.

CONSTRUCTION LOANS

Development Name	# Units	Location	Mortgagor	Builder	Loan Amount
Brinton Towers	190	Braddock Hills Allegheny County	Brinton Tower Associates Philadelphia, PA	H&F Construction Co. Philadelphia, PA	$ 4,272,200
Pin Oak Village	100	Oil City Venango County	Pin Oak Village Associates Pittsburgh, PA	NADCO Construction, Inc. Pittsburgh, PA	$ 1,752,700
Westview Terrace	106	New Castle Lawrence County	UHURU New Castle, PA	Robert Pesa Youngstown, Ohio	$ 2,086,700
Eastside Moderate Income Housing	76	Nanticoke Luzerne County	Nanticoke UAW Housing Corp. Nanticoke, PA	Kyle Construction Company Ramsey, New Jersey	$ 1,476,400
Easton Senior Citizens Housing	100	Easton Northampton Co.	Easton UAW Housing Corp. Easton, PA	Kyle Construction Company Ramsey, New Jersey	$ 1,323,300
Mid-City Towers	132	Erie Erie County	National Development Corp. Pittsburgh, PA	NADCO Construction, Inc. Pittsburgh, PA	$ 3,318,400
Sherman Terrace Apartments	344	Wilkes-Barre Luzerne County	Transcontinental Realty Corporation Pittsburgh, PA	NADCO Construction, Inc. Pittsburgh, PA	$ 7,094,600
Center Square Towers	352	Doylestown Bucks County	Center Square Associates Warrington, PA	Forest City Dillon, Inc. Akron, Ohio	$ 7,691,400
Webster Towers	98	Scranton Lackawanna Co.	Jewish Home of Eastern PA Pittsburgh, PA	NADCO Construction, Inc. Pittsburgh, PA	$ 1,981,500
Wilson Townhouses	200	Spring Township Berks County	Avon Development Corporation Moorestown, NJ	Ambler Construction Company Glenside, PA	$ 4,526,200
Derry Area Senior Housing	18	Derry Township Westmoreland County	Derry Area Senior Housing Corporation Derry, PA	Derry Area Senior Housing Corporation Derry, PA	$ 342,000
Oak Hill Apartments	120	Franklin Twp. Venango County	Oak Hill Apartments, Ltd. Cleveland, Ohio	Orlean Company Cleveland, Ohio	$ 2,240,100

CONSTRUCTION LOANS (Continued)

Development Name	# Units	Location	Mortgagor	Builder	Loan Amount
Roosevelt Arms	191	Pittsburgh Allegheny County	Crossgates, Inc. McMurray, PA	A.C. Schwotzer, Inc. McMurray, PA	$ 5,290,100
McKean County Turnkey (Scattered Sites)	100	Scattered Sites McKean County	U.S. Mortgage, Inc. Cleveland, Ohio	Orlean Company Cleveland, Ohio	$ 2,473,400
Hillside Apartments	200	Edwardsville Luzerne County	Hillside Associates Pleasantville, NJ	Archbuild Corp. Philadelphia, PA	$ 4,099,900
Riverview Manor	123	Sharon Mercer County	Gumina & Associates Cleveland, Ohio	Alpine Construction Company North Versailles, PA	$ 2,586,500
Shenango Village	100	Sharon Mercer County	Shenango Village Ltd. Cleveland, Ohio	Gumina Construction Co. Cleveland, Ohio	$ 2,085,100
Moreland Towers	138	Hatboro Montgomery County	Moreland Associates Warrington, PA	Barness Construction Co. Warrington, PA	$ 2,929,500
Oak Hollow	56	West Hempfield Twp. Lancaster County	Rivercrest, Inc. Harrisburg, PA	Penncrest Construction Corporation Lancaster, PA	$ 947,900
University Plaza Apartments	440	Philadelphia Philadelphia Co.	University Plaza Associates Philadelphia, PA	University Plaza Construction Co. Philadelphia, PA	$15,500,800
Valley Vista Senior Citizens Housing	99	Souderton Montgomery County	Valley Vista Associates Souderton, PA	Senior-Abreen Company Needham, Mass.	$ 2,189,340
Lutheran Elderly Housing	208	Philadelphia Philadelphia Co.	Lutheran Associates Gladwyne, PA	Frank H. Wilson Co. Ardmore, PA	$ 7,065,500
The Plaza Phase II	127	North Cornwall Township Lebanon County	ABE Associates Glenside, PA	Ambler Construction Company Glenside, PA	$ 2,521,100
Brookside Apartments	100	Lebanon Lebanon County	Leon N. Weiner & Associates, Inc. Wilmington, Delaware	Leon N. Weiner & Associates, Inc. Wilmington, Delaware	$ 2,098,500
United House	91	Scranton Lackawanna County	Elm Park Corporation Scranton, PA	S. G. Mastriani Co. Dunmore, PA	$ 2,460,600



(1) MARKVUE APARTMENTS, located in North Huntingdon, Westmoreland County, offer 35 apartments for those who want to put half an hour between home and their jobs in Pittsburgh. (2) BEAVER FALLS PLAZA, located in Beaver, Beaver County, will provide 121 units of Section 8 high-rise housing for the elderly. (3) TOWNE HOUSE APARTMENTS, in Allentown, will provide 160 units of Section 8 housing for the elderly.

(4) RIVERVIEW PARK APARTMENTS, in White Oak Borough, Allegheny County, provides commuters from Pittsburgh with a quiet place to live in 168 apartment units. (5) Courtyard shows fruits of rehabilitation project at TEMPLE UNIVERSITY STUDENT HOUSING, located in scattered sites on Broad Street, in North Philadelphia on the college campus.

The Agency is composed of six basic Divisions: Development, Technical Services, Management, Finance, Legal and Mortgage Servicing.

The Development Division is primarily responsible for reviewing the site, location and housing demand. Development staff are also responsible for analyzing the financial feasibility and evaluating the development team proposed by the loan applicant.

The purpose of the detailed evaluation of all aspects of a loan application conducted by the Development staff is to see that PHFA finances the best housing possible in locations where it is most appropriate from a sound loan underwriting point of view.

The Technical Services Division works with sponsors, mortgagors, architects, and contractors concerning architectural requirements, construction cost estimates and other engineering-related functions. Technical Services' architects, engineers and other construction experts are primarily responsible for thorough design review, construction supervision and inspection.

The Management Division is responsible for monitoring the mortgagor's success in the rental of apartment developments, proper maintenance of the developments and assuring compliance with Agency requirements and tenant selection policies. The Division regularly audits the records of each PHFA development to determine that it is operating on a sound fiscal basis and within Agency rules and regulations.

The Management Division monitors the selection of tenants to insure that the equal opportunity goals of the Agency are being met and that applicants are treated fairly. The Management staff reviews the operating budget and financial statements of each development to spot problems before they become serious. Rent schedules are controlled by the Agency. Requests for rent increases are reviewed by Management staff and are granted only when needed to support increased operating costs.

The Finance Division maintains the financial records of the Agency. The Finance staff also supervises the custody, investment and disbursement of Agency funds and the escrows for its developments. The Finance Division has the general responsibility for the servicing and payment of the Agency's bonds and notes.

The Legal Division is primarily responsible for providing legal services to the Agency relative to all PHFA programs and operations, including opinions relating to the issuance of bonds and notes.

The Legal Division is responsible for coordinating PHFA underwriting activities and work performed by the Agency's outside Counsel, Bond Counsel and Underwriter's Counsel.

The Mortgage Servicing Division's responsibilities include the overall supervision of the construction loan programs and disbursements of loan proceeds under the Agency's other programs. The Mortgage Servicing staff prepares escrow analysis' and schedules of advances in connection with FHA-insured construction loan developments.

The Division is also responsible for approving payouts and change orders on Agency developments that are permanently financed and on construction loans. A review and analysis of the certification of actual development costs prepared by an independent certified public accounting firm is required from developers and contractors.

Future Goals

The Agency's primary goal for the coming year is to see its new developments completed and rented. The Agency also intends to make more mortgage loans to start still more rental housing developments. While the amount of housing units provided thus far by PHFA is far below the actual need, it is the hope of the Agency to aid in filling the void throughout the Commonwealth.

The Agency hopes to be allocated more Section 8 Funds or other subsidies which may be made available from HUD in the coming year, especially in consideration of its performance with the program thus far. And it is the hope of PHFA in the coming year to provide a meaningful program to supply assistance for Pennsylvania families desiring to own their own homes.

As developments under construction are completed and rented, others will be receiving mortgage loans to perpetuate the financing of quality housing affordable to a broad segment of Pennsylvanians.

And this means that more housing will be available to Pennsylvanians a year from now.

Members of the Board


Honorable William H. Wilcox


Walter G. Arader


Dr. John Conley


James A. Lineberger


Nancy Neuman


John O'Brien


Honorable William E. Whitesell


Honorable Nancy B. Mawby

Agency Members, Counsel and Underwriters

Senior Managing Underwriter
Goldman, Sachs & Company

Co-Managing Underwriters
E. F. Hutton & Co., Inc.
L. F. Rothschild & Company

Independent Certified Public Accountants
Peat, Marwick, Mitchell & Co.

Bond Counsels
Mudge Rose Guthrie & Alexander
Schnader, Harrison, Segal & Lewis

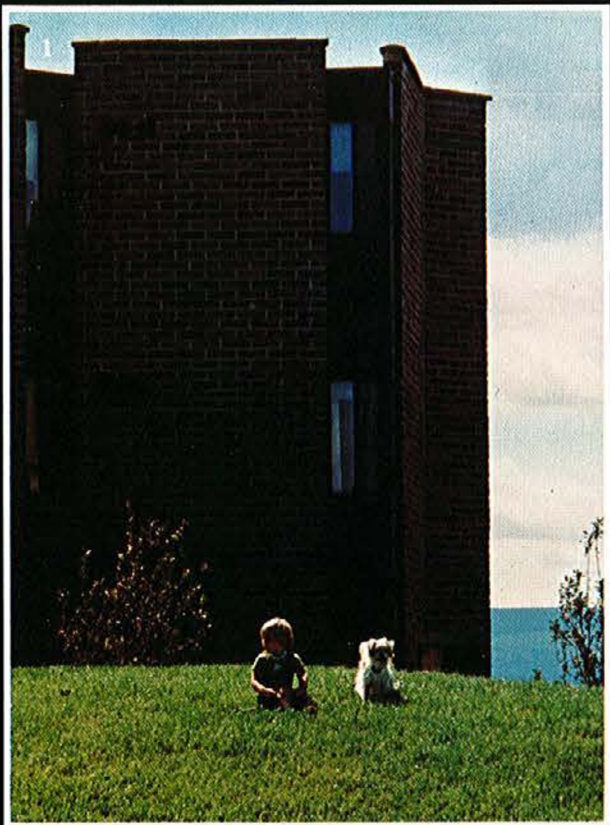
Outside Counsel
McNees, Wallace & Nurick

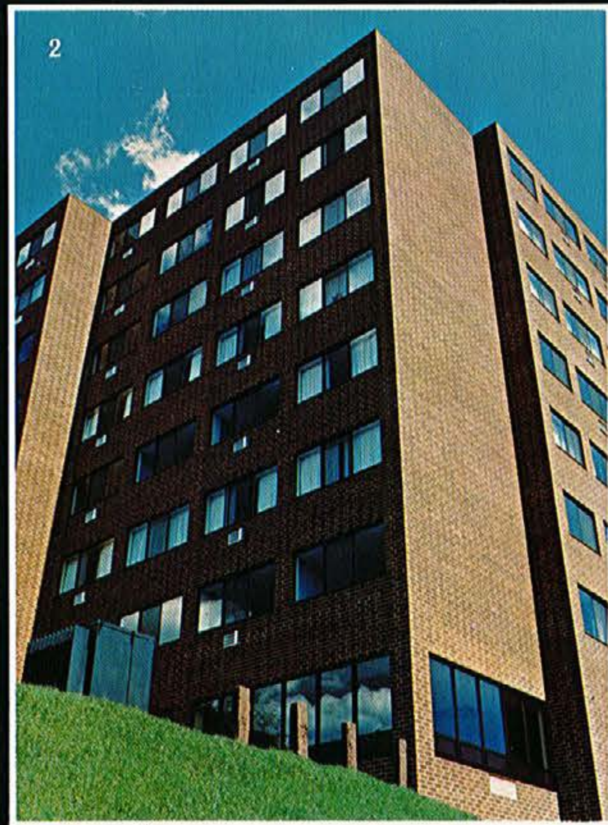
Depositories and Paying Agents
National Central Bank
Industrial Valley Bank and Trust Company
First Pennsylvania Bank, N.A.
Citibank, N.A.
Continental Illinois National Bank
and Trust Company of Chicago
Mellon Bank
Central Penn National Bank
Continental Bank
Lincoln Bank
The Philadelphia National Bank
New World National Bank
Fidelity Bank
First Valley Bank and Trust Company
Northampton National Bank
Home Unity Savings and Loan Association
United Penn Bank
First National Bank of Eastern Pennsylvania
Pittsburgh National Bank

Bond Trustees
Industrial Valley Bank and Trust Company
National Central Bank

Secretary
Mrs. Florence Unger

Treasurer
Eugene R. Eisman





(1) WIMMERTON, in Unity Township, Westmoreland County, is the first development in a "new town" financed by PHFA. Its 100 units of apartment housing are surrounded by plenty of open space for children and dogs and pleasant, semi-rural living. (2) WEBSTER TOWERS, located in Scranton, is a spacious 98-unit high-rise for the elderly and received construction financing from PHFA. (3) CENTER SQUARE TOWERS, located in Doylestown, Bucks County, is a completed Section 236 development for which PHFA provided the construction financing through its Construction Loan Programs.

← **Financial Information Inside**

Financial Information

Accountants' Report

To the Members of the
Pennsylvania Housing Finance Agency:

We have examined the statements of assets, liabilities and fund balances of Pennsylvania Housing Finance Agency as of June 30, 1976 and 1975, and the related statements of revenues and operating expenses and changes in fund balances for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the assets, liabilities and fund balances of Pennsylvania Housing Finance Agency at June 30, 1976 and 1975, and the revenues and operating expenses and changes in fund balances for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Supplementary data included in Schedule 1 have been subjected to the same auditing procedures and, in our opinion, are stated fairly in all material respects when considered in conjunction with the financial statements taken as a whole.

PEAT, MARWICK, MITCHELL & CO.

Harrisburg, Pennsylvania
August 23, 1976

CREDITS:
Editing: Michael L. Wolk
Design: Kramer, Miller, Lomden, Glassman
Photography: Howard Brunner

Statements of Assets, Liabilities and Fund Balances

June 30, 1976 and 1975

	June 30, 1976						June 30, 1975					
	General Fund	Construction Loan Fund	Rental Housing Program Group	Rural Construction Program Mortgage Loan Fund	Turnkey Construction Loan Fund	Combined total—memorandum only	General Fund	Construction Loan Fund	Rental Housing Program Group	Rural Construction Program Mortgage Loan Fund	Turnkey Construction Loan Fund	Combined total—memorandum only
Assets												
Cash (note 2)	$ 79,971	1,728,218	4,030,041	405	2,383	5,841,018	78,675	13,463	44,559	92	—	136,789
Short-term investments (note 2)	1,898,930	14,367,624	30,583,531	3,303,872	1,427,179	51,581,136	1,894,825	30,694,704	41,649,360	361,000	2,437,400	77,037,289
Long-term investments (note 2)	—	—	7,619,852	—	—	7,619,852	—	—	—	—	—	—
Accrued interest receivable on investments	53,126	699,204	764,784	105,800	57,735	1,680,649	67,678	1,271,786	1,786,766	652	13,455	3,140,337
Mortgage loans receivable held as investments (note 1)	82,563	—	1,183,196	—	—	1,265,759	—	—	1,249,192	—	—	1,249,192
Mortgage loans receivable (note 3)	—	—	5,234,561	—	—	5,234,561	—	—	1,484,547	—	—	1,484,547
Construction advances, net of valuation reserve (note 3)	—	47,867,363	67,586,667	90,446	1,916,758	117,461,234	—	23,906,709	38,529,653	—	—	62,436,362
Other receivables	55,879	113,732	14,470	—	—	184,081	53,730	26,316	2,876	—	—	82,922
Furnishings, fixtures and equipment, at cost	105,579	—	—	—	—	105,579	98,333	—	—	—	—	98,333
Other assets	9,220	—	—	—	—	9,220	1,706	—	—	—	—	1,706
Due from (to) other funds	378,884	(194,867)	(135,879)	(39,969)	(8,169)	—	320,487	(134,233)	(185,127)	(186)	(941)	—
	$2,664,152	64,581,274	116,881,223	3,460,554	3,395,886	190,983,089	2,515,434	55,778,745	84,561,826	361,558	2,449,914	145,667,477
Liabilities and Fund Balances												
Notes payable including unamortized premiums and less unamortized discounts (note 4)	$ —	58,094,527	26,770,644	3,431,818	3,061,473	91,358,462	—	50,437,419	75,809,116	342,000	2,437,400	129,025,935
Accrued interest on notes	—	1,762,879	556,185	25,326	181,818	2,526,208	—	2,129,297	2,343,956	19,558	12,375	4,505,186
Rental housing program bonds less unamortized discount (note 5)	—	—	79,933,529	—	—	79,933,529	—	—	—	—	—	—
Accrued interest on bonds	—	—	1,740,343	—	—	1,740,343	—	—	—	—	—	—
Good faith deposit	—	—	—	—	—	—	—	—	237,750	—	—	237,750
Retention on construction advances	—	2,565,771	3,057,941	—	125,848	5,749,560	—	1,683,818	2,739,167	—	—	4,422,985
Accounts payable and accrued expenses	64,791	—	1,078,503	—	—	1,143,294	172,055	—	—	—	—	172,055
Escrowed funds (note 6)	—	522,896	454,769	—	—	977,665	—	576,438	179,757	—	—	756,195
Project grant funds	—	9,638	—	—	—	9,638	—	159,925	54,089	—	—	214,014
Total liabilities	64,791	62,955,711	113,591,914	3,457,144	3,369,139	183,438,699	172,055	54,986,897	81,363,835	361,558	2,449,775	139,334,120
Fund balances:												
Unrestricted	843,782	1,537,149	1,055,613	3,410	26,747	3,466,701	595,046	755,430	883,508	—	139	2,234,123
Investment in fixed assets	105,579	—	—	—	—	105,579	98,333	—	—	—	—	98,333
Contingency reserve for potential loan losses	1,400,000	—	—	—	—	1,400,000	1,400,000	—	—	—	—	1,400,000
Reserve for demonstration programs	250,000	—	—	—	—	250,000	250,000	—	—	—	—	250,000
Restricted	—	88,414	2,233,696	—	—	2,322,110	—	36,418	2,314,483	—	—	2,350,901
Total fund balances	2,599,361	1,625,563	3,289,309	3,410	26,747	7,544,390	2,343,379	791,848	3,197,991	—	139	6,333,357
Commitments and subsequent events (notes 9 and 10)												
	$2,664,152	64,581,274	116,881,223	3,460,554	3,395,886	190,983,089	2,515,434	55,778,745	84,561,826	361,558	2,449,914	145,667,477

See accompanying summary of significant accounting policies and notes to financial statements.
Certain reclassifications for 1975 have been made to conform to classifications adopted in 1976.

Pennsylvania Housing Finance Agency

Statements of Revenues and Operating Expenses

Years Ended June 30, 1976 and 1975

	Year ended June 30, 1976						Year ended June 30, 1975					
	General Fund	Construction Loan Fund	Rental Housing Program Group	Rural Construction Program Mortgage Loan Fund	Turnkey Construction Loan Fund	Combined total—memorandum only	General Fund	Construction Loan Fund	Rental Housing Program Group	Rural Construction Program Mortgage Loan Fund	Turnkey Construction Loan Fund	Combined total—memorandum only
Revenues:												
Interest income:												
Investments	$ 136,389	1,856,109	2,666,170	168,427	146,550	4,973,645	189,516	2,979,694	4,541,368	13,447	13,455	7,737,480
Mortgage loans receivable held as investments, net (note 1)	693	—	61,940	—	—	62,633	—	—	67,813	—	—	67,813
Mortgage loans receivable (note 3)	—	—	148,341	—	—	148,341	—	—	23,438	—	—	23,438
Construction advances (note 3)	—	2,401,661	3,372,650	1,282	60,968	5,836,561	—	592,701	877,770	6,514	—	1,476,985
Total interest income	137,082	4,257,770	6,249,101	169,709	207,518	11,021,180	189,516	3,572,395	5,510,389	19,961	13,455	9,305,716
Fees and charges (note 3)	1,520,461	—	—	—	—	1,520,461	1,816,934	—	—	—	—	1,816,934
Other	4,620	—	—	—	—	4,620	9,212	14,711	—	—	—	23,923
Total revenues	1,662,163	4,257,770	6,249,101	169,709	207,518	12,546,261	2,015,662	3,587,106	5,510,389	19,961	13,455	11,146,573
Operating expenses:												
Salaries and related benefits	954,536	—	—	—	—	954,536	669,769	—	—	—	—	669,769
Professional and contracted services	216,433	—	163,418	—	—	379,851	203,476	—	—	—	—	203,476
Interest on notes (note 4)	—	3,212,710	3,376,652	136,963	171,641	6,897,966	—	2,702,730	3,877,655	19,558	12,375	6,612,318
Interest on bonds (note 5)	—	—	2,526,213	—	—	2,526,213	—	—	—	—	—	—
Furnishings, fixtures and equipment	7,246	—	—	—	—	7,246	58,429	—	—	—	—	58,429
General and administrative	365,179	—	—	—	—	365,179	370,866	—	—	—	—	370,866
Provision for potential loan losses	10,000	83,000	—	—	—	93,000	—	43,000	57,000	—	—	100,000
Total operating expenses	1,553,394	3,295,710	6,066,283	136,963	171,641	11,223,991	1,302,540	2,745,730	3,934,655	19,558	12,375	8,014,858
Excess of revenues over operating expenses	$ 108,769	962,060	182,818	32,746	35,877	1,322,270	713,122	841,376	1,575,734	403	1,080	3,131,715

See accompanying summary of significant accounting policies and notes to financial statements.
Certain reclassifications for 1975 have been made to conform to classifications adopted in 1976.

Pennsylvania Housing Finance Agency

Statements of Changes in Fund Balances

Years Ended June 30, 1976 and 1975

	Year ended June 30, 1976					
	General Fund	Construction Loan Fund	Rental Housing Program Group	Rural Construction Program Mortgage Loan Fund	Turnkey Construction Loan Fund	Combined total—memorandum only
Unrestricted fund balance at beginning of period	$ 595,046	755,430	883,508	—	139	2,234,123
Excess of revenues over operating expenses	(30,369)	910,064	284,260	32,746	35,877	1,232,578
Transfer of net investment income	279,105	(128,345)	(112,155)	(29,336)	(9,269)	—
Transfer (appropriation) for:						
Contingency reserve for potential loan losses	—	—	—	—	—	—
Reserve for demonstration programs	—	—	—	—	—	—
Unrestricted fund balance at end of period	$ 843,782	1,537,149	1,055,613	3,410	26,747	3,466,701
Investment in fixed assets at beginning of period	$ 98,333	—	—	—	—	98,333
Purchase of fixed assets	7,246	—	—	—	—	7,246
Investment in fixed assets at end of period	$ 105,579	—	—	—	—	105,579
Contingency reserve for potential loan losses at beginning of period	$1,400,000	—	—	—	—	1,400,000
Transfer (appropriation) from unrestricted fund balance	—	—	—	—	—	—
Contingency reserve for potential loan losses at end of period	$1,400,000	—	—	—	—	1,400,000
Reserve for demonstration programs at beginning of period	$ 250,000	—	—	—	—	250,000
Transfer (appropriation) from unrestricted fund balance	—	—	—	—	—	—
Reserve for demonstration programs at end of period	$ 250,000	—	—	—	—	250,000
Restricted fund balance at beginning of period	$ —	36,418	2,314,483	—	—	2,350,901
Excess of revenues over operating expenses	139,138	51,996	(101,442)	—	—	89,692
Refund of excess investment income	—	—	(118,483)	—	—	(118,483)
Service Fees	(139,138)	—	139,138	—	—	—
Restricted fund balance at end of period	—	88,414	2,233,696	—	—	2,322,110
Total fund balances	$2,599,361	1,625,563	3,289,309	3,410	26,747	7,544,390

	Year ended June 30, 1975					
	General Fund	Construction Loan Fund	Rental Housing Program Group	Rural Construction Program Mortgage Loan Fund	Turnkey Construction Loan Fund	Combined total—memorandum only
Unrestricted fund balance at beginning of period	1,010,110	144,143	11,578	—	—	1,165,831
Excess of revenues over operating expenses	713,122	804,958	1,198,729	403	1,080	2,718,292
Transfer of net investment income	521,814	(193,671)	(326,799)	(403)	(941)	—
Transfer (appropriation) for:						
Contingency reserve for potential loan losses	(1,400,000)	—	—	—	—	(1,400,000)
Reserve for demonstration programs	(250,000)	—	—	—	—	(250,000)
Unrestricted fund balance at end of period	595,046	755,430	883,508	—	139	2,234,123
Investment in fixed assets at beginning of period	39,904	—	—	—	—	39,904
Purchase of fixed assets	58,429	—	—	—	—	58,429
Investment in fixed assets at end of period	98,333	—	—	—	—	98,333
Contingency reserve for potential loan losses at beginning of period	—	—	—	—	—	—
Transfer (appropriation) from unrestricted fund balance	1,400,000	—	—	—	—	1,400,000
Contingency reserve for potential loan losses at end of period	1,400,000	—	—	—	—	1,400,000
Reserve for demonstration programs at beginning of period	—	—	—	—	—	—
Transfer (appropriation) from unrestricted fund balance	250,000	—	—	—	—	250,000
Reserve for demonstration programs at end of period	250,000	—	—	—	—	250,000
Restricted fund balance at beginning of period	—	—	1,979,071	—	—	1,979,071
Excess of revenues over operating expenses	—	36,418	377,005	—	—	413,423
Refund of excess investment income	—	—	(41,593)	—	—	(41,593)
Service Fees	—	—	—	—	—	—
Restricted fund balance at end of period	—	36,418	2,314,483	—	—	2,350,901
Total fund balances	2,343,379	791,848	3,197,991	—	139	6,333,357

See accompanying summary of significant accounting policies and notes to financial statements.
Certain reclassifications for 1975 have been made to conform to classifications adopted in 1976.

Summary of Significant Accounting Policies

June 30, 1976 and 1975

Authorizing Legislation
The Pennsylvania Housing Financing Agency is a body corporate and politic created by the Housing Finance Agency Law, Act of December 3, 1959, P.L. 1688, as amended. The Act became effective March 27, 1961 when the Governor declared by proclamation that sufficient funds were available for its administration. The Agency was activated July 11, 1970 upon the signing of a grant contract funded by appropriations of the General Assembly in its 1970 session.

Pursuant to the Act, the Agency is authorized and empowered, among other things, to finance the construction and rehabilitation of housing units for sale or rent to low and moderate income persons or families or the elderly. Bonds and notes issued under the provisions of the Act shall not be deemed to constitute a debt or liability of the Commonwealth of Pennsylvania or any political subdivision thereof or a pledge of the faith and credit of the Commonwealth of Pennsylvania or of any political subdivision thereof.

On April 7, 1976 the Pennsylvania General Assembly amended the Act to, among other things, add the State Treasurer, the Secretary of Commerce, and the Secretary of Banking to the Board; limit the making of mortgage loans under the Rental Housing Program to only those made in conjunction with present and future Federal housing assistance programs, except for those mortgage loans for which the Agency had issued written commitments or written feasibility approval by January 1, 1976; prohibit the Agency from issuing bond anticipation notes except to renew outstanding bond anticipation notes; subject the issuance of bonds and notes to the written approval of the Governor; permit the Agency to create additional capital reserve funds; and provide that the Agency shall submit to the Governor and the General Assembly, at least thirty days before the beginning of each legislative session, a written statement of the obligations of the Agency falling due during the succeeding twelve months and the manner in which the Agency anticipates providing for such obligations so that the Governor can place the amount of any estimated capital reserve fund deficiencies or of funds otherwise necessary to avoid default on bonds or notes of the Agency in the budget of the Commonwealth thereby enabling the General Assembly to provide appropriations to the Agency.

Operations
The Agency follows the accrual basis of accounting except that furnishings, fixtures and equipment are charged to operations when purchased and, accordingly, no depreciation is recorded in the statements of revenues and operating expenses and changes in fund balances. However, these assets are reported in the General Fund assets and fund balance at cost. Construction loan financing fees in the General Fund are recorded as income at the time each project loan is closed. Service fees are accrued as earned.

Operating expenses include administrative expenses of the Agency; certain costs and expenses incurred in connection with the authorization, issuance and sale of notes and bonds, and costs related to investigations, surveys, appraisals and other matters pertaining to the evaluation of mortgage loan proposals and advances. Such costs and expenses are charged to operations in the General Fund as incurred. Costs incurred in connection with bond issues are charged to a Cost of Issuance account (in the Bond Proceeds Fund) where such an account is provided from bond proceeds.

Capitalization of Project Costs
The Agency capitalizes certain costs associated with the construction phase of each project. These costs include the Agency construction loan financing fee, service fees, and interest charged on construction advances.

Investments
Investments are carried at cost which approximates market value. Mortgage loans receivable held as investments are carried at cost less principal collections; discount on these loans is amortized on a straight-line basis over the term of the mortgage.

Project Grant Funds
These funds consist primarily of amounts received by mortgagors for the completion of designated housing projects and deposited with the Agency. The funds were provided to the mortgagors by the Department of Community Affairs of the Commonwealth of Pennsylvania and the Appalachian Regional Commission. All interest income earned on the investment of these funds must be returned to the grantor or used to reduce project costs, at the option of the grantor.

Contingency Reserve for Potential Loan Losses
The Agency established a contingency reserve in order to provide for unanticipated future losses on construction advances or on mortgage loans receivable on completed projects. This reserve was created through an appropriation of the unrestricted General Fund balance, and not by charges against revenues.

Provision for Potential Loan Losses
Periodically the Agency reviews construction advances and mortgage loans receivable in order to provide for potential losses when they become determinable. The provision is established by a charge against current revenues.

Reserve for Demonstration Programs
The Agency established a reserve for demonstration programs. This reserve was created through an appropriation of the unrestricted General Fund Balance, and not by charges against revenues.

Investment of Undisbursed Note and Bond Proceeds and Other Monies
The Agency has the power to invest monies of any fund held by it which are not required for immediate disbursement and to transfer to the General Fund the excess of interest income earned over expense incurred prior to the applicable project closing and any unrestricted excess remaining at the completion of construction. Certain amounts of the excess interest income on certain projects have been allocated to be used for mortgage principal reductions or other project related purposes. These amounts are recorded as restricted funds in the accompanying financial statements.

General Fund
The General Fund records revenues related to the expenses recorded in this fund, the payment of expenses as deemed necessary to carry out the provisions of the Housing Finance Agency Law, and the receipt of revenues transferred from time to time from other funds to the extent such transfers are permitted by the applicable resolutions upon the satisfaction of obligations of such other funds. Revenues initially recorded in this fund which are directly pledged to the repayment of specific notes or bonds are reflected as transfers to the appropriate restricted fund.

Construction Loan Fund
The Construction Loan Fund records all transactions relating to the making of construction advances on FHA-insured projects financed by the issuance and sale of notes by the Agency. These projects, except the Easton project (see note 3), are subject to commitments from the Federal or Government National Mortgage Associations (FNMA/GNMA) to approved FNMA or GNMA sellers for the purchase of the mortgages upon final endorsement by the Federal Housing Administration (FHA). Repayments of construction advances and mortgage loans are pledged to the holders of notes issued under this program.

Rural Construction Program Mortgage Loan Fund
The Rural Construction Program Mortgage Loan Fund records all transactions relating to the construction of rental housing in rural areas financed by the issuance and sale of rural construction mortgage loan notes by the Agency. Construction advances under this program are made after inspection and approval by the Farmers Home Administration which, subject to the availability of funds, has committed to purchase the mortgage upon satisfactory completion of construction. There is no insurance of construction advances under this program. Repayments of construction advances and mortgage loans are also pledged to the holders of notes issued under this program.

Turnkey Construction Loan Fund
The Turnkey Construction Loan Fund records all transactions relating to the construction financing of "turnkey" developments through the sale of turnkey construction mortgage loan notes. Under this program, the development is constructed by private developers pursuant to a contract with a local housing authority and the U.S. Department of Housing and Urban Development (HUD). There is no insurance of mortgage loan advances under this program. Upon completion of the development, the local housing authority is obligated to purchase the development for the contract price. The proceeds of such purchase are used in part to repay the Agency's construction mortgage loan. HUD is obligated to provide the local housing authority with funds to purchase the development upon satisfactory completion. Repayments of construction advances and mortgage loans are also pledged to the holders of notes issued under this program.

Rental Housing Program Group
The Rental Housing Program Group records all transactions relating to construction and permanent financing of Rental Housing projects which do not fall within the lending parameters of the other Agency funds mentioned above. The Agency has issued under this Program its 1975 Series A and 1976 Series A Bonds, bond anticipation notes and general obligation notes. Pursuant to the Rental Housing Program Bond Resolution (the General Resolution) and other resolutions under which these bonds and notes were issued, certain funds and accounts, including a capital reserve fund, were created for the purpose of restricting the application of the proceeds of these bonds and notes and of the revenues from the financed projects to the purposes of this Program and the debt service on such bonds and notes.

Prior to the issuance of the 1975 Series A Bonds (July 1, 1975) this capital reserve fund was reported as a separate fund of the Agency. The General Resolution referred to above has been closed out, and no future bonds can be issued pursuant thereto except for completion and refunding bonds.

Amortization of Note and Bond Premium and Discount
Note premium and discount are amortized on a straight-line basis over the term of the note. Bond discount is amortized over the life of the issue using the interest method.

Notes to Financial Statements

June 30, 1976 and 1975

(1) **Mortgage Loans Receivable Held as Investments**

The mortgage loans held in the Rental Housing Program Group are secured by first mortgage liens on single family homes in Pennsylvania. These loans are insured by the Federal Housing Administration (FHA) and mature between November, 1990 and November, 2002. The mortgages bear a 7% interest rate; however, the Agency has provided an interest reduction rider to reduce rates to as low as 5% per annum. The interest reduction rider also provides for graduated interest rate increases when the mortgagor's income exceeds limits established in the rider.

The Agency also made single-family mortgage loans of $92,563 which are included in the General Fund during the year ended June 30, 1976 under the Philadelphia Urban Homestead Program. These loans bear interest at rates ranging from 1% to 8% for terms of 15 to 30 years. These demonstration loans are high risk loans for which the Agency has established a provision for potential loan losses of $10,000 at June 30, 1976. The Agency has limited its commitment to $250,000 under this program.

(2) **Investments**

Investments at June 30, 1976 and 1975 consist of certificates of deposit, U. S. Treasury Bills and U. S. Government securities held under repurchase agreement as permitted by the General Resolution. The market value of investments approximates cost.

Included in cash are unrestricted withdrawal 5% savings accounts as follows:

	June 30	
	1976	1975
General Fund	$ 79,971	$56,552
Construction Loan Fund	599,843	—
Rental Housing Program Group	3,393,576	—

(3) **Construction Advances and Mortgage Loans Receivable**

All advances on construction mortgage loans are collateralized by first mortgages on the related properties of the housing sponsors.

Construction Loan Fund—As of June 30, 1976 and 1975, the Agency had advanced funds aggregating $47,867,363 and $23,906,709, which includes accrued interest receivable of $469,803 and $214,413 under mortgage loan agreements of $58,652,500 and $43,678,600, respectively.

All funds were advanced at interest rates ranging from 7.0% to 8.75% of the cumulative advances, of which 0.5% of the face amount of the mortgage commitment is recognized as a service fee on an annual basis. A construction loan financing fee in the amount of 1.0% of the mortgage commitment is also received at closing. Construction loans on all projects, except one in Easton, Pennsylvania, are subject to commitments from the Federal or Government National Mortgage Associations (FNMA/GNMA) to approved FNMA or GNMA sellers to purchase the mortgage upon final endorsement by the Federal Housing Administration (FHA). The Agency reserves the option to provide permanent financing under the Rental Housing Program, rather than to exercise the FNMA or GNMA commitment, although it has no present intention to do so. As of June 30, 1976 and 1975, the mortgage loan on the Easton project was in default and it is the Agency's intention to assign the project to FHA at 99% of the insured funds disbursed. On July 11, 1975, FHA approved a mortgage increase on the Easton project of $295,800 to increase the approved mortgage to a total of $1,619,100. This $295,800 increase will not be insured until final project endorsement by FHA. The Agency has advanced $167,279 of the mortgage increase as of June 30, 1976. This project is being financed from project mortgage loan notes (see note 4) and unrestricted balances in the construction loan fund. It is the intention of the Agency to assign this loan to FHA after completion of construction, but there is no assurance that such an assignment can be effected, in which case the project mortgage loan notes would have to be refunded or otherwise paid. There is no commitment for the permanent financing of this project.

In order to protect against various contingencies, the Agency requires cash, irrevocable letters of credit or pledged securities to be provided by each project's developer and/or contractor for the Agency's use to cure any breaches of the mortgagor's and/or contractor's obligations. As of June 30, 1976, the Agency held irrevocable letters of credit in the aggregate amount of $3,112,719 upon which it can draw. The letters of credit expire periodically up to two years after the related projects' dates of completion (see note 6).

The review of the carrying value of construction advances resulted in a provision for loss on construction advances of $83,000 at June 30, 1976. The provision is netted against the carrying value of such advances in the statements of assets, liabilities and fund balances. The reserve was $126,000 and $43,000, at June 30, 1976 and 1975, respectively.

Rental Housing Program Group

Note Financed Mortgage Loan Fund—This fund was part of the former Rental Housing Program Mortgage Loan Fund at June 30, 1975. Pursuant to the General Resolution, the Rental Housing Program Mortgage Loan Fund was divided into various funds and accounts upon issuance of the 1975 Series A Bonds; this division established the Note Financed Mortgage Loan Fund. On mortgages remaining within the Note Financed Mortgage Loan Fund, the Agency had advanced funds as of June 30, 1976 and 1975 aggregating $11,128,140 and $3,388,290, which includes accrued interest receivable of $61,191 and $20,201 under mortgage loan agreements of $17,196,873 and $7,590,000, respectively. All funds were advanced at interest rates ranging from 4.75% to 8.19%, such rates being based upon the interest rates paid by the Agency on notes issued for this Program. In addition, a service fee is charged at 0.5% per annum of the original mortgage commitment during construction and of the outstanding

(Continued)

principal balance of the mortgage loan after completion of construction. The Agency also receives a construction loan financing fee, at closing, which fee is computed as a percentage of the mortgage commitment in order to cover operating expenses, financing costs and other Agency related expenses. The construction loan financing fee had been 2% of the mortgage commitment amount through June 24, 1975, when the Agency increased the fee to 3%.

The permanent mortgages will be payable over terms of 30 to 45 years at rates to be determined upon the issuance of the related bonds.

One project has been completed as of June 30, 1976 and 1975 and is secured by a first mortgage lien on the related housing project. The mortgage loan receivable at June 30, 1976 and 1975 amounts to $1,448,201 and $1,484,547 which includes accrued interest receivable of $7,151 and $6,035, respectively. This project is currently funded by Commonwealth bond anticipation notes. The current annual interest rate on this mortgage loan receivable is 6.00%, which rate is based upon the interest rate paid by the Agency. The maturity of this mortgage loan will be determined upon issuance of bonds to permanently finance the project.

In order to protect against various contingencies, the Agency requires cash, irrevocable letters of credit or pledged securities to be provided by each project's developer and/or general contractor for the Agency's use to cure any breaches of the mortgagor's and/or contractor's obligations and/or provide funds for operations (to the extent that project revenue is insufficient to meet its costs after completion of construction). At June 30, 1976, the Agency held irrevocable letters of credit in the aggregate amount of $561,992 and $170,000 of the Agency's Construction Mortgage Loan Notes—Issue Six (see note 4). The letters of credit expire periodically up to two years after the related projects' dates of completion (see note 6).

The review of the carrying value of construction advances and the mortgage loan receivable resulted in a provision for loss on construction advances of $57,000 at June 30, 1975. The provision is netted against the carrying value of such advances in the statements of assets, liabilities, and fund balances. No additional provision is necessary at June 30, 1976.

Bond Financed Mortgage Loan Fund—This fund was part of the former Rental Housing Program Mortgage Loan Fund at June 30, 1975. Pursuant to the General Resolution, the Rental Housing Program Mortgage Loan Fund was divided into various funds and accounts upon the issuance of the 1975 Series A Bonds on July 1, 1975; this division established the Bond Financed Mortgage Loan Fund. On mortgages within the Bond Financed Mortgage Loan Fund, the Agency had advanced funds as of June 30, 1976 and 1975 aggregating $56,458,527 and $35,141,363, which includes accrued interest receivable of $327,465 and $106,185 respectively. All funds were advanced at interest rates ranging from 6.00% to 8.49%. In addition, a service fee is charged at 0.5% per annum of the original mortgage commitment during construction and of the outstanding principal balance of the mortgage loan after completion of construction. The Agency also receives a construction loan financing fee, at closing, which fee is computed as a percentage of the mortgage commitment in order to cover operating expenses, financing costs and other Agency related expenses. The construction loan financing fee on these projects was 2% of the mortgage commitment through June 24, 1975, when the Agency increased the fee to 3%.

The permanent mortgage will be payable over terms of 30 to 45 years at effective interest rates of 7.9% to 8.17%, such rates being based upon the effective rate paid by the Agency on the related bonds issued to finance these mortgages. Two of the permanently financed projects were completed as of June 30, 1976.

In order to protect against various contingencies, the Agency requires cash, irrevocable letters of credit or pledged securities to be provided by each project's developer and/or general contractor for the Agency's use to cure any breaches of the mortgagor's and/or contractor's obligations and/or to provide funds for operations (to the extent that project revenue is insufficient to meet its costs after completion of construction). At June 30, 1976, the Agency held irrevocable letters of credit in the aggregate amount of $4,271,040 upon which it can draw and $339,515 of the Agency's Construction Mortgage Loan Notes—Issue Six (see note 4). The letters of credit expire periodically up to two years after the related projects' dates of completion (see note 6).

The review of the carrying value of construction advances determined that no provision for loss on construction advances was necessary at June 30, 1976 or 1975.

Rural Construction Program Mortgage Loan Fund—The Agency had advanced funds aggregating $90,446 and $342,000 during the years ended June 30, 1976 and 1975 under construction mortgage loan agreements of $947,898 and $342,000, respectively. Funds are advanced at an interest rate of 6.3% of the cumulative advances, of which 0.5% of the face amount of the mortgage commitment was recognized as a service fee on an annual basis during construction. Construction loan financing fees are also received at closing, in the amount of 1.5% of the mortgage commitment. The Farmers Home Administration fulfilled its commitment by purchasing one rural construction loan from the Agency for $342,000 on June 17, 1975 when the project was completed. Proceeds from the Farmers Home Administration were used to pay off the related rural construction mortgage loan notes when they matured on July 1, 1975 (see note 4).

The Agency issued notes in the amount of $2,490,000 under this Program in November, 1975, based upon commitments from the Farmers Home Administration. At June 30, 1976 the proceeds of these notes were invested in short-term investments which are being held in escrow by the Agency for retirement of these notes. Although the notes were originally issued to provide construction financing, it is not anticipated that the proceeds will be utilized for this purpose.

(Continued)

Notes to Financial Statements (Continued)

Turnkey Construction Loan Fund—As of June 30, 1976, the Agency had advanced funds aggregating $1,916,758 which includes accrued interest of $9,963, under mortgage loan agreements of $2,437,400 at an interest rate of 7%. Construction loan financing fees are received at closing in the amount of 2% of the mortgage commitment. Upon completion of each project, a local housing authority is obligated to purchase the project. HUD is obligated to provide the funds for this purchase. The proceeds of the purchase are used in part to repay the Agency's construction mortgage loans.

In October, 1975 the Agency issued $625,000 of notes under this Program. On June 30, 1976 the proceeds of this loan were invested in short-term investments which are being held in escrow by the Agency for retirement of these notes. Although the notes were originally issued to provide construction financing, it is not anticipated that the proceeds will be utilized for this purpose (see note 4).

(4) **Notes Payable**

The Agency issues various notes to provide interim financing of mortgage loans to qualified housing sponsors. The notes are collateralized by the full faith and credit of the Agency and by all monies received in repayment of principal and interest on the related mortgage loans. The proceeds of a consolidated issue of loan notes are used to finance a number of projects, whereas a non-consolidated issue finances one project.

Bond Anticipation Notes (original and/or renewal issues) will be repaid from either the proceeds of the first definitive bond issues of the Agency designated to provide funds with which to pay such notes, or renewal note issues. On April 7, 1976 the Act was amended to restrict the Agency's issuance of bond anticipation notes. See "Authorizing Legislation" in the Summary of Significant Accounting Policies.

General Obligation Notes will be repaid from either (a) the proceeds of the first definitive bond issues of the Agency designated to provide funds with which to pay such notes, (b) renewal notes or (c) monies appropriated to the Agency by the Commonwealth of Pennsylvania on February 2, 1976 for the purpose of meeting unfunded obligations of the Agency pursuant to that appropriation. Although the Agency has not pledged the bond proceeds mentioned in (a) above, it is the Agency's intention to use such proceeds for that purpose. See note 8.

Commonwealth Bond Anticipation Notes are non-negotiable notes issued to the State Treasurer to evidence the Agency's liability to repay the Commonwealth of Pennsylvania for any monies utilized under the February 2, 1976 appropriation. These notes will be repaid from (a) sums received from the sale of the first definitive bond issue as may be issued by the Agency to retire these notes, (b) all monies received constituting hazard insurance receipts or the proceeds of condemnation awards related to the applicable projects and (c) all monies received in repayment of principal and interest on the applicable project mortgage loans.

Construction Mortgage Loan Notes will be repaid either (a) from the sale of the construction mortgage loans by the Agency through the originating mortgagee to the Federal or Government National Mortgage Associations which will provide the permanent financing for the housing projects for which such notes were issued, or (b) from the Agency's issuance of notes or bonds designated to repay notes related to projects on which the Agency exercises its option to permanently finance, although the Agency had no intention to exercise such option as of June 30, 1976 or 1975.

Project Mortgage Loan Notes will be repaid from the proceeds of the sale or other disposition of the project financed by these notes as deemed appropriate by the Agency or by renewal notes (see note 3).

Rural Construction Mortgage Loan Notes will be repaid from the proceeds of the sale of the related housing project to the Farmers Home Administration or from investment proceeds related to the project which did not close or enter the construction phase or by renewal notes.

Turnkey Construction Mortgage Loan Notes will be repaid by monies received from the developer of the related turnkey project, pursuant to such developer's sale of the project to a local housing authority, or by renewal notes.

Notes payable at June 30, 1976 and 1975 are as follows:

As of June 30, 1976	Issue Date	Due Date	Annual Interest Rate	Original Issue and Amount Outstanding
CONSTRUCTION LOAN FUND				
Construction Mortgage Loan Notes:				
Renewal Consolidated Issue Seven	Feb. 2, 1976	July 15, 1976	4.15%	$ 8,155,000
Renewal Consolidated Issue Six Block One	Sept. 15, 1975	Sept. 15, 1976	5.89	21,501,000
Renewal Consolidated Issue Six Block Two	Sept. 15, 1975	Sept. 15, 1976	5.89	4,530,000
Issue Six	Oct. 24, 1975	Oct. 15, 1976	5.60	4,110,000
Renewal Consolidated Issue Eight	Feb. 2, 1976	Jan. 15, 1977	4.30	10,855,000
Consolidated Issue Seven	Nov. 5, 1975	May 5, 1977	6.00	4,701,000
Issue Eight	Dec. 15, 1975	Dec. 15, 1977	5.75	2,950,000
				56,802,000
Unamortized discount				(32,202)
Unamortized premium				134
				56,769,932
Project Mortgage Loan Notes:				
Renewal Issue Two	Apr. 15,1976	Mar. 15, 1978	4.75	1,330,000
Unamortized discount				(5,405)
				1,324,595
Total—Construction Loan Fund				$58,094,527

(Continued)

Notes to Financial Statements (Continued)

As of June 30, 1976	Issue Date	Due Date	Annual Interest Rate	Original Issue and Amount Outstanding
RENTAL HOUSING PROGRAM GROUP				
Bond Anticipation Notes:				
Renewal Consolidated				
Issue Two Block One	Sept. 15, 1975	Sept. 15, 1976	6.75%	$ 4,500,000
Renewal Consolidated				
Issue Two Block Two	Oct. 24, 1975	Sept. 15, 1976	6.75	4,500,000
Renewal Consolidated				
Issue Three	Apr. 15, 1976	Apr. 15, 1977	4.45	4,030,000
Consolidated Issue Four				
Block Three	Nov. 25, 1975	Nov. 25, 1977	7.75	1,010,000
				14,040,000
Unamortized discount				(24,356)
				14,015,644
General Obligation Notes:				
Issue One	May 20, 1976	Apr. 15, 1977	4.75	1,205,000
Issue Two	May 20, 1976	Apr. 15, 1977	4.75	2,875,000
Issue Three	May 20, 1976	Apr. 15, 1977	4.75	84,000
Issue Four	May 20, 1976	Apr. 15, 1977	4.75	96,000
				4,260,000
Commonwealth Bond Anticipation Notes:				
Issue One	Feb. 2, 1976	None	6.00	1,450,000
Issue Four	Feb. 2, 1976	None	6.00	5,045,000
Issue Seven	Feb. 2, 1976	None	6.00	2,000,000
				8,495,000
Total—Rental Housing Program Group				$26,770,644
RURAL CONSTRUCTION PROGRAM MORTGAGE LOAN FUND				
Rural Construction Mortgage Loan Notes:				
Issue Two	Nov. 5, 1975	May 5, 1977	6.00	$ 2,490,000
Issue Three	Dec. 15, 1975	June 15, 1977	5.75	955,000
				3,445,000
Unamortized discount				(13,182)
Total—Rural Construction Program Mortgage Loan Fund				$ 3,431,818
TURNKEY CONSTRUCTION LOAN FUND				
Turnkey Construction Mortgage Loan Notes:				
Issue One	May 30, 1975	July 30, 1976	5.98	$ 2,437,400
Issue Two	Oct. 24, 1975	Oct. 15, 1976	5.60	625,000
				3,062,400
Unamortized discount				(927)
Total—Turnkey Construction Loan Fund				$ 3,061,473

As of June 30, 1975	Issue Date	Due Date	Annual Interest Rate	Original Issue and Amount Outstanding
CONSTRUCTION LOAN FUND				
Construction Mortgage Loan Notes:				
Consolidated Issue Three	Sept. 23, 1974	Sept. 15, 1975	7.85%	$19,340,000
Consolidated Issue Four	Oct. 4, 1974	Sept. 15, 1975	7.10	6,650,000
Renewal Consolidated				
Issue One	Oct. 24, 1974	Oct. 24, 1975	6.16	5,765,700
Issue Five	Dec. 2, 1974	Oct. 24, 1975	5.90	2,240,000
Consolidated Issue Five	Feb. 3, 1975	Feb. 2, 1976	4.79	6,111,600
Renewal Consolidated				
Issue Three	Feb. 3, 1975	Feb. 2, 1976	4.79	5,990,000
Renewal Consolidated				
Issue Four	April 11, 1975	Oct. 24, 1975	6.00	3,127,400
				49,224,700
Unamortized premium				1,119
				49,225,819
Project Mortgage Loan Notes:				
Issue One	April 11, 1975	Oct. 24, 1975	6.00	1,211,600
Total—Construction Loan Fund				$50,437,419
RENTAL HOUSING PROGRAM GROUP				
Bond Anticipation Notes:				
Consolidated Issue Two—				
Block Three	Sept. 16, 1974	Sept. 15, 1975	8.25	$ 6,500,000
Issue Two	Sept. 23, 1974	Sept. 15, 1975	8.00	2,280,000
Consolidated Issue Three	Oct. 24, 1974	Oct. 24, 1975	6.40	24,410,000
Issue Three	Feb. 3, 1975	Feb. 2, 1976	5.13	183,152
Renewal Consolidated				
Issue One	Feb. 3, 1975	Feb. 2, 1976	5.00	34,915,000
Consolidated Issue Four—				
Block One	June 26, 1975	June 25, 1976	5.25-5.55	7,500,000
				75,788,152
Unamortized premium				20,964
Total—Rental Housing Program Group				$75,809,116
RURAL CONSTRUCTION MORTGAGE LOAN FUND				
Rural Construction Mortgage Loan Notes:				
Issue One	Oct. 1, 1974	July 1, 1975	7.63	$ 342,000
TURNKEY CONSTRUCTION LOAN FUND				
Turnkey Construction Mortgage Loan Notes:				
Issue One	May 30, 1975	July 30, 1976	5.98	$ 2,437,400

(Continued)

(5) **Bonds Payable**

On July 1, 1975 the Agency issued an aggregate amount of $23,775,000 Rental Housing Program Bonds, 1975 Series A at an effective interest rate of 8.17% pursuant to the Rental Housing Program Bond Resolution adopted on April 9, 1974, and readopted, modified and confirmed on June 5, 1975. The issue is comprised of:

(a) $3,265,000 serial bonds due from 1977 to 1997 and bearing interest at 7.4% to 10% per annum.

(b) $20,510,000 term bonds of which $7,005,000 and $13,505,000 bear interest at 7.9% and 8.0% per annum, respectively, and are due September 1, 2010 and 2021, respectively. These bonds are redeemable prior to maturity, by operation of a sinking fund, on September 1, 1998 through September 1, 2020 in increasing annual amounts from $325,000 (1998) to $1,755,000 (2020), with $745,000 due at maturity.

The 1975 Series A Bonds maturing September 1, 1986, and thereafter, are redeemable prior to maturity at the option of the Agency on September 1, 1985 or on any interest payment due thereafter, at 104% of face amount through August 31, 1989 and at declining premiums thereafter.

The 1975 Series A Bonds are dated July 1, 1975, were sold at a discount of $413,060, and all were outstanding at June 30, 1976. Interest is payable semi-annually on September 1 and March 1 of each year. At June 30, 1976, $401,024 of such discount remained to be amortized.

On May 13, 1976, the Agency issued an aggregate amount of $58,260,000 Rental Housing Program Bonds, 1976 Series A at an effective interest rate of 7.9% pursuant to the Rental Housing Program Bond Resolution. The issue is comprised of:

(a) $7,020,000 serial bonds due from 1977 to 1996 and bearing interest at 4.3% to 7.2% per annum.

(b) $51,240,000 term bonds of which $4,860,000 and $46,380,000 bear interest at 7.5% and 7.75% per annum, respectively, and are due September 1, 2002 and 2023, respectively. These bonds are redeemable prior to maturity, by operation of a sinking fund, on September 1, 1997 through September 1, 2022 in increasing annual amounts from $660,000 (1997) to $3,815,000 (2022), with $2,965,000 due at maturity.

The 1976 Series A Bonds maturing September 1, 1987, and thereafter, are redeemable prior to maturity at the option of the Agency on September 1, 1986 or on any interest payment date thereafter, at 103% of face amount through August 31, 1990 and at declining premiums thereafter.

The 1976 Series A Bonds are dated April 1, 1976, were sold at a discount of $1,712,844, and all were outstanding at June 30, 1976. Interest is payable semi-annually on September 1 and March 1 of each year. At June 30, 1976, $1,700,447 of such discount remained to be amortized.

The 1975 and 1976 Series A Bonds are direct and general obligations of the Agency, and the full faith and credit of the Agency are pledged for the payment of the principal and redemption price of and interest and sinking fund payments on all of the bonds issued pursuant to the Rental Housing Program Bond Resolution. The bonds are secured (subject to the provisions of the resolution permitting the application of certain monies for the purposes and on the terms set forth in the resolution) by:

(a) The mortgages securing mortgage loans made on permanently financed projects;

(b) All revenues, mortgage advance amortization payments and recovery payments received, derived or recovered by the Agency from or related to mortgage loans made on permanently financed projects; and

(c) All funds and accounts created or established by, or maintained pursuant to, the bond resolution (except the General Fund, Escrow Payment Fund and Cost of Issuance Accounts), including the investments thereof and the proceeds of such investments, if any; provided, however, that each mortgage loan account and capitalized interest account is pledged solely to the holders of bonds of the series from which the monies credited to such account are derived; and provided, further, that monies on deposit in the Redemption Account within the Debt Service Fund shall be held in trust for the purchase or retirement of bonds of the series designated by the Agency from which such monies were derived. The Rental Housing Program Bond Resolution was closed out with the issuance of the 1976 Series A Bonds. Future bonds will be issued under new resolutions and indentures.

(6) **Escrowed Funds**

Escrowed funds represent amounts advanced by contractors or developers to cover construction costs in excess of existing mortgage commitments and/or amounts of cash, letters of credit and pledged securities available to be drawn upon by the Agency to cover potential project cost overruns and certain other contingencies (see note 3). Upon satisfactory completion and operation, these funds will be returned to the contractors or developers, to the extent that they have not been invaded by the Agency to satisfy project costs or certain other contingencies. Interest earned on the investment and reinvestment by the Agency of certáin of these funds will also be returned to the contractors; accordingly, such interest is recorded as restricted funds in the financial statements. Interest earned on invaded amounts, if any, will accrue to the Agency.

For projects under the Section 8 housing assistance program, the Agency receives advances from the Federal government. The Agency pays itself from this escrow each month for interest on the mortgage, Agency service fee, and insurance and tax escrows.

The Agency receives from mortgagors monthly payments for taxes, insurance and reserves for replacements. These funds are held by the Agency in escrow and paid as required. Investment income on these funds are credited to the related housing project subject to the Agency's right to take a fee of 1% of the average investable balance as a servicing fee.

(Continued)

Notes to Financial Statements (Continued)

(7) **Pension Plans**

The Agency has its own pension plan to cover all fulltime employees who are not eligible to participate in the State Employes' Retirement System of the Commonwealth of Pennsylvania. The Agency's plan provides for employee contributions in the amount of 2.0% of annual gross wages with the Agency contributing the balance, as determined actuarially, to fund the benefits expected to become payable. The Agency's contribution to the State plan is based upon a percentage of annual gross wages and for the years ended June 30, 1976 and 1975 was 12.6% and 10.96%, respectively.

Pension expense for both plans for the years ended June 30, 1976 and 1975 amounted to $80,901 and $59,777, respectively. There were no unfunded liabilities in the Agency's plan as of June 30, 1976 or 1975.

(8) **Commonwealth of Pennsylvania Appropriation**

On February 2, 1976, legislation was enacted by the Pennsylvania General Assembly pursuant to which $61,600,000 was appropriated for the purpose of paying all of the Agency's then outstanding bond anticipation notes and subsequent renewals, if any, of such notes and for the purpose of meeting unfunded obligations of the Agency under mortgage loans for which partial disbursements had been made by the Agency but for which the entire amount of the Agency's mortgage loan commitment had not been funded through the issuance of bonds or bond anticipation notes. The Agency used $32,048,152 of such appropriation (along with other available funds of the Agency) to pay $35,098,152 in bond anticipation notes which matured on February 2, 1976. The Agency repaid $23,553,152 of such $32,048,152 with a portion of the proceeds of the sale of the Agency's 1976 Series A Rental Housing Program Bonds.

Sufficient funds remain available pursuant to the appropriation to pay the pertinent bond anticipation notes, general obligation notes and renewals thereof and shall continue to remain available so long as such notes or renewals continue to be outstanding. The appropriation does not lapse but continues until repaid or released by the Agency.

Status of Funds Appropriated on February 2, 1976 as of June 30, 1976

Funds Available:		
For bond anticipation notes		
Total notes outstanding at June 30, 1976	$14,040,000	
Less funds from Series A bonds restricted for payment of these notes	8,455,000	$ 5,585,000
For general obligation notes at June 30, 1976		4,260,000
For unfunded obligations		116,790
		9,961,790
Commonwealth bond anticipation notes issued under this appropriation and outstanding at June 30, 1976		8,495,000
Funds released or repaid		43,143,210
Total Funds Appropriated on February 2, 1976		$61,600,000

The appropriation legislation provides that the amount of the appropriation used by the Agency shall be repaid to the Commonwealth from the proceeds of sales of bonds as soon as practical after such sales or from mortgage loan repayments.

(9) **Lease Agreement**

The Agency's office premises are occupied under the terms of a lease agreement which expires on December 31, 1979. Minimum rental commitments under this non-cancellable lease are as follows:

Year ended June 30	
1977	$61,025
1978	61,025
1979	61,025
1980	30,513

Insurance and maintenance expenses are obligations of the Agency. It is expected that in the normal course of business, the lease that expires will be renewed or replaced by a lease on other property; thus, it is anticipated that future minimum lease commitments will not be less than the amount shown for 1979.

Rental expense for the years ended June 30, 1976 and 1975 amounted to $74,378 and $51,857, respectively.

(10) **Subsequent Events**

On July 15, 1976, the Agency issued $6,460,000 of construction mortgage loan notes (Renewal Issue Nine Consolidated) and $2,450,000 of turnkey construction mortgage loan notes (Renewal Issue One). Both notes bear an interest rate of 4.25% and are due July 15, 1977.

Pennsylvania Housing Finance Agency

Statements of Cash Receipts and Disbursements

Years Ended June 30, 1976 and 1975

Year ended June 30, 1976

	General Fund	Construction Loan Fund	Rental Housing Program Group	Rural Construction Program Mortgage Loan Fund	Turnkey Construction Loan Fund	Combined total—memorandum only
Cash balance at beginning of period	$ 78,675	13,463	44,559	92	—	136,789
Receipts:						
Proceeds from sale of notes	—	66,538,842	54,277,797	3,422,338	621,875	124,860,852
Proceeds from sale of bonds	—	—	80,332,600	—	—	80,332,600
Sale of investments	5,748,812	101,815,625	263,431,469	1,530,126	4,137,177	376,663,029
Interest on mortgages held for investment	—	—	70,133	—	—	70,133
Interest on mortgages	—	—	143,952	—	—	143,952
Interest on investments	150,941	2,428,691	3,688,152	63,931	102,270	6,433,985
Interest on construction advances	—	658,660	2,100,093	—	—	2,758,753
Fees and charges	705,836	—	140,531	—	—	846,367
Proceeds from escrowed funds	—	199,696	157,078	—	—	356,774
Project grant funds	—	—	—	—	—	—
Principal payments	—	1,756,496	37,462	—	—	1,793,958
Good faith deposit	—	—	—	—	—	—
Other	22,287	—	90,949	—	—	113,236
	6,627,676	173,398,010	404,470,236	5,016,395	4,861,322	594,373,639
Disbursements:						
Purchase of investments	2,193,097	65,284,718	284,276,286	4,268,338	2,647,344	358,669,783
Mortgage loans held as investments	96,096	—	—	—	—	96,096
Construction advances	—	23,011,308	30,771,033	73,843	1,671,223	55,527,407
Retirement of outstanding notes	—	58,881,734	103,361,304	342,000	—	162,585,038
Operating expenses	1,650,858	3,824,772	6,392,279	121,714	—	11,989,423
Grant disbursements	—	135,257	54,089	—	—	189,346
Escrow disbursements	—	204,288	208,290	—	—	412,578
Interfund disbursements (receipts)	2,706,187	251,045	(3,698,636)	210,001	531,403	—
Other	1,468	90,133	39,694	186	8,969	140,450
	6,647,506	171,683,255	401,404,339	5,016,082	4,858,939	589,610,121
Cash balance at end of period	58,845	1,728,218	3,110,456	405	2,383	4,900,307
Reclassification to accounts payable	21,126	—	919,585	—	—	940,711
Cash balance at end of period reflecting reclassification	$ 79,971	1,728,218	4,030,041	405	2,383	6,841,018

Year ended June 30, 1975

	General Fund	Construction Loan Fund	Rental Housing Program Group	Rural Construction Program Mortgage Loan Fund	Turnkey Construction Loan Fund	Combined total—memorandum only
Cash balance at beginning of period	118	7,243	7,234	—	—	14,595
Receipts:						
Proceeds from sale of notes	—	60,770,665	102,858,873	342,000	2,437,400	166,408,938
Proceeds from sale of bonds	—	—	—	—	—	—
Sale of investments	3,950,689	155,231,054	208,992,716	1,595,743	—	369,770,202
Interest on mortgages held for investment	68,205	—	—	—	—	68,205
Interest on mortgages	—	—	—	—	—	—
Interest on investments	184,091	1,884,682	2,758,589	13,044	—	4,840,406
Interest on construction advances	—	—	—	—	—	—
Fees and charges	1,433,800	—	—	—	—	1,433,800
Proceeds from escrowed funds	80,000	469,827	179,983	2,460	—	732,270
Project grant funds	—	426,450	140,000	4,000	—	570,450
Principal payments	—	—	—	—	—	—
Good faith deposit	—	—	237,760	—	—	237,760
Other	10,823	541	49,450	342,000	—	402,814
	5,727,608	218,783,219	315,217,361	2,299,247	2,437,400	544,464,835
Disbursements:						
Purchase of investments	4,558,213	176,639,746	244,613,559	2,199,311	2,437,400	430,448,229
Mortgage loans held as investments	—	—	—	—	—	—
Construction advances	—	19,747,616	34,749,085	336,103	—	54,832,804
Retirement of outstanding notes	—	20,433,512	34,915,000	—	—	55,348,512
Operating expenses	1,195,139	906,722	1,610,522	713	—	3,713,096
Grant disbursements	—	—	—	—	—	—
Escrow disbursements	—	—	—	—	—	—
Interfund disbursements (receipts)	(104,301)	1,049,403	(708,130)	(236,972)	—	—
Other	—	—	—	—	—	—
	5,649,051	218,776,999	315,180,036	2,299,155	2,437,400	544,342,641
Cash balance at end of period	78,675	13,463	44,559	92	—	136,789
Reclassification to accounts payable	—	—	—	—	—	—
Cash balance at end of period reflecting reclassification	78,675	13,463	44,559	92	—	136,789

Pennsylvania Housing Finance Agency

3211 North Front Street, Harrisburg, Pennsylvania 17110, (717) 787-1450

TEN EAST SOUTH, which will be a 128-unit high-rise, is located in central Wilkes-Barre. It is one of several PHFA-financed developments in Luzerne County, which is still recovering from the housing problems caused by Hurricane Agnes' flooding in 1972.