

**Pennsylvania
Housing Finance
Agency**

**Financial Statements
Year Ended June 30, 1979**

Pennsylvania
Housing Finance
Agency

Accountant's Report

To the Members of the
Pennsylvania Housing Finance Agency:

We have examined the balance sheets of Pennsylvania Housing Finance Agency as of June 30, 1979 and 1978, and the related statements of revenues, operating expenses and changes in fund balances and changes in financial position for the years then ended. Our examinations were 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 financial position of Pennsylvania Housing Finance Agency at June 30, 1979 and 1978, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, made as of July 1, 1977 in the method of accounting for loan financing fees as described in note 4 to the financial statements.

PEAT, MARWICK, MITCHELL & CO.

Harrisburg, Pennsylvania
August 31, 1979

Pennsylvania Housing Finance Agency

Balance Sheets

June 30, 1979 and 1978

	1979				1978			
	General Fund	Construction Loan Fund	Rental Housing Program Group	Combined Total - Memorandum Only	General Fund	Construction Loan Fund	Rental Housing Program Group	Combined Total - Memorandum Only
Assets								
Cash	\$ 3,085	—	—	3,085	52,392	—	4,365	56,757
Investments	6,900,378	45,430,436	166,947,457	219,278,271	4,723,159	49,458,859	137,832,938	192,014,956
Mortgage loans receivable (note 6)	971,267	—	187,256,158	188,227,425	171,566	—	101,907,093	102,078,659
Construction advances (note 5)	—	82,481,393	51,517,982	133,999,375	—	59,786,631	79,120,316	138,906,947
Other real estate	—	—	—	—	—	1,933,132	—	1,933,132
Deferred and other assets (note 7)	275,018	501,577	10,636,952	11,413,547	339,939	321,027	10,351,501	11,012,467
Due from other funds	2,117,000	—	—	2,117,000	2,273,884	—	—	2,273,884
	<u>\$10,266,748</u>	<u>128,413,406</u>	<u>416,358,549</u>	<u>555,038,703</u>	<u>7,560,940</u>	<u>111,499,649</u>	<u>329,216,213</u>	<u>448,276,802</u>
Liabilities and Fund Balances								
Notes payable (note 6)	\$ —	116,542,913	—	116,542,913	—	105,023,967	2,000,000	107,023,967
Accrued interest payable	—	1,799,132	7,739,147	9,538,279	—	1,037,040	6,592,511	7,629,551
Accounts payable and accrued expenses	199,556	316,379	347,606	863,541	139,855	—	266,449	406,304
Other liabilities (note 4)	21,973	3,706,050	7,579,000	11,307,023	212,575	1,616,860	3,227,804	5,057,239
Bonds payable (note 7)	—	—	393,814,695	393,814,695	—	—	310,332,475	310,332,475
Due to other funds	—	2,117,000	—	2,117,000	—	1,443,263	830,621	2,273,884
Total liabilities	<u>221,529</u>	<u>124,481,474</u>	<u>409,480,448</u>	<u>534,183,451</u>	<u>352,430</u>	<u>109,121,130</u>	<u>323,249,860</u>	<u>432,723,420</u>
Fund balances (note 7)	<u>10,045,219</u>	<u>3,931,932</u>	<u>6,878,101</u>	<u>20,855,252</u>	<u>7,208,510</u>	<u>2,378,519</u>	<u>5,966,353</u>	<u>15,553,382</u>
	<u>\$10,266,748</u>	<u>128,413,406</u>	<u>416,358,549</u>	<u>555,038,703</u>	<u>7,560,940</u>	<u>111,499,649</u>	<u>329,216,213</u>	<u>448,276,802</u>

See accompanying notes to financial statements.

Statements of Revenues, Operating Expenses and Changes in Fund Balances

Years ended June 30, 1979 and 1978

	1979		1978		1978		1978	
	General Fund	Construction Loan Fund	Rental Housing Program Group	Combined Total - Memorandum Only	General Fund	Construction Loan Fund	Rental Housing Program Group	Combined Total - Memorandum Only
Revenues:								
Interest income:								
Investments	\$ 692,205	4,590,158	12,785,816	18,068,179	248,024	3,985,939	5,628,161	9,862,124
Mortgage loans receivable (note 5)	51,828	—	12,375,612	12,427,440	9,896	—	7,006,362	7,016,258
Construction advances (note 5)	—	3,257,115	3,629,160	6,886,275	—	2,480,645	5,481,844	7,962,489
Total interest income	744,033	7,847,273	28,790,588	37,381,894	257,920	6,466,584	18,116,367	24,840,871
Fees, charges and other income (note 4)	3,934,516	13,790	—	3,948,306	3,809,218	32,767	3,267	3,845,252
Total revenues	<u>4,678,549</u>	<u>7,861,063</u>	<u>28,790,588</u>	<u>41,330,200</u>	<u>4,067,138</u>	<u>6,499,351</u>	<u>18,119,634</u>	<u>28,686,123</u>
Operating expenses:								
Interest on notes (note 6)	—	5,592,122	68,734	5,660,856	—	4,415,018	206,880	4,621,898
Interest on bonds (note 7)	—	—	25,468,127	25,468,127	—	—	16,497,163	16,497,163
Salaries and related benefits	1,862,475	—	—	1,862,475	1,551,728	—	—	1,551,728
Other general and administrative	1,086,478	—	—	1,086,478	1,016,045	—	—	1,016,045
Provision for potential loan losses (note 5)	10,000	—	1,940,394	1,950,394	20,000	—	300,000	320,000
Total operating expenses	<u>2,958,953</u>	<u>5,592,122</u>	<u>27,477,255</u>	<u>36,028,330</u>	<u>2,587,773</u>	<u>4,415,018</u>	<u>17,004,043</u>	<u>24,006,834</u>
Excess of revenues over operating expenses before the cumulative effect of change in accounting principle	1,719,596	2,268,941	1,313,333	5,301,870	1,479,365	2,084,333	1,115,591	4,679,289
Cumulative effect of change in accounting principle (note 4)	—	—	—	—	(786,480)	—	—	(786,480)
Excess of revenues over operating expenses	1,719,596	2,268,941	1,313,333	5,301,870	692,885	2,084,333	1,115,591	3,892,809
Interfund transfers (note 7)	1,117,113	(715,528)	(401,585)	—	(698,698)	(768,006)	1,466,704	—
Refund of excess investment income	—	—	—	—	—	(43,619)	—	(43,619)
Fund balances beginning of period	7,208,510	2,378,519	5,966,353	15,553,382	7,214,323	1,105,811	3,384,058	11,704,192
Fund balances at end of period	<u>\$10,045,219</u>	<u>3,931,932</u>	<u>6,878,101</u>	<u>20,855,252</u>	<u>7,208,510</u>	<u>2,378,519</u>	<u>5,966,353</u>	<u>15,553,382</u>

See accompanying notes to financial statements

Pennsylvania Housing Finance Agency
Statements of Changes in Financial Position
 Years ended June 30, 1979 and 1978

	1979				1978			
	General Fund	Construction Loan Fund	Rental Housing Program Group	Combined Total - Memorandum Only	General Fund	Construction Loan Fund	Rental Housing Program Group	Combined Total - Memorandum Only
Sources of funds:								
From operations:								
Excess of revenues over operating expenses before the cumulative effect of change in accounting principle	\$ 1,719,596	2,268,941	1,313,333	5,301,870	1,479,365	2,084,333	1,115,591	4,679,289
Items which do not use (provide) funds:								
Depreciation	27,664	—	—	27,664	15,996	—	—	15,996
Provision for potential loan losses	10,000	—	1,940,394	1,950,394	20,000	—	300,000	320,000
Amortization of premium and discount, net	23,283	257,009	617,711	898,003	1,910	256,815	573,970	832,695
Amortization of deferred revenue	(273,002)	—	—	(273,002)	—	—	—	—
Funds provided from operations	1,507,541	2,525,950	3,871,438	7,904,929	1,517,271	2,341,148	1,989,561	5,847,980
Cumulative effect of change in accounting principle	—	—	—	—	(786,480)	—	—	(786,480)
Inter-fund transfers	1,117,113	(715,528)	(401,585)	—	(698,698)	(768,006)	1,466,704	—
Bond proceeds	—	—	83,982,865	83,982,865	—	—	196,233,970	196,233,970
Mortgage principal payments	—	26,020,757	1,321,927	27,342,684	—	22,688,700	382,164	23,070,864
Change in:								
Cash	49,307	—	4,365	53,672	—	171,065	224,832	395,897
Investments, net of premium and discount	—	4,020,492	—	4,020,492	557,413	28,794,284	—	29,351,697
Inter-fund accounts	156,884	673,737	—	830,621	—	1,392,808	—	1,392,808
Notes payable	—	11,269,868	—	11,269,868	—	—	—	—
Accrued interest payable	—	762,092	1,146,636	1,908,728	—	—	1,680,163	1,680,163
Other assets and liabilities, net	163,171	4,158,151	3,759,706	8,081,028	4,615	—	—	4,615
Total	\$ 2,994,016	48,715,519	93,685,352	145,394,887	594,121	54,619,999	201,977,394	257,191,514
Uses of funds:								
Refund of excess investment income	\$ —	—	—	—	—	43,619	—	43,619
Investment in construction advances and mortgage loans receivable	811,773	48,715,519	61,009,052	110,536,344	11,541	45,610,954	66,297,476	111,919,971
Payment of bond principal	—	—	814,000	814,000	—	—	—	—
Bonds defeased (note 7)	—	—	—	—	—	—	80,005,034	80,005,034
Change in:								
Cash	—	—	—	—	52,392	—	—	52,392
Investments, net of premium and discount	2,182,243	—	29,031,679	31,213,922	—	—	41,828,348	41,828,348
Inter-fund accounts	—	—	830,621	830,621	530,188	—	862,620	1,392,808
Notes payable	—	—	2,000,000	2,000,000	—	7,707,469	2,960,000	10,667,469
Accrued interest payable	—	—	—	—	—	540,501	—	540,501
Other assets and liabilities, net	—	—	—	—	—	717,456	10,023,916	10,741,372
Total	\$ 2,994,016	48,715,519	93,685,352	145,394,887	594,121	54,619,999	201,977,394	257,191,514

See accompanying notes to financial statements.

**Notes
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June 30, 1979 and 1978

(1) Authorizing Legislation

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

On April 7, 1976, the Pennsylvania General Assembly amended the Act to, among other things, limit the origination of mortgage loans under the Rental Housing Program to those made in conjunction with present and future Federal housing assistance programs; prohibit the Agency from issuing bond anticipation notes except to renew outstanding bond anticipation notes; and subject the issuance of bonds and notes to the written approval of the Governor.

(2) Description of Funds Groups

(a) GENERAL FUND

The General Fund is utilized to record certain loan origination fees, service charges and revenue from investments not otherwise pledged for the repayment of notes or bonds in the other funds. All expenses of the Agency are recorded in this fund except interest and provisions for loan losses which are charged to the funds to which such expenses relate.

(b) CONSTRUCTION LOAN FUND

The Construction Loan Fund is primarily utilized to account for transactions related to the making of construction advances on developments insured by the Federal Housing Administration. Also, these developments are generally subject to permanent loan commitments from the Federal or Government National Mortgage Associations.

(c) RENTAL HOUSING PROGRAM GROUP

The Rental Housing Program Group is utilized to account for transactions related to construction, rehabilitation and permanent financing of rental housing developments generally designed for low and moderate income persons and families or elderly persons.

(3) Summary of Significant Accounting Policies

The major accounting principles and practices followed by the Agency are presented below to assist the reader in understanding the accompanying financial statements:

(a) FUND ACCOUNTING

The accounts are organized on the basis of funds, each of which is a separate accounting entity.

(b) INVESTMENT SECURITIES

Investment securities consist of collateralized certificates of deposit, savings accounts, U. S. Government securities, and U.S. Government securities held under repurchase agreements, and are carried at amortized cost which approximate market value.

(c) MORTGAGE LOANS AND CONSTRUCTION ADVANCES

Mortgage loans and construction advances are carried at amounts advanced plus accrued interest and fees, less collections and allowance for potential loan losses, if any.

(d) ALLOWANCE FOR POTENTIAL LOAN LOSSES

The allowance for potential loan losses is based primarily upon the current financial condition of the loan portfolio. Additions to the allowance are made by charges to operating expenses.

(e) LOAN INTEREST AND FEES

Loan financing fees, service fees and interest charges on construction

advances during the construction period are capitalized as part of the loan. Financing fees are recognized as revenue as described in note 4.

(f) **MORTGAGE ORIGATION COSTS**

Costs related to investigations, surveys, appraisals and other matters pertaining to the evaluation of mortgage loan proposals and construction advances are charged to operations in the General Fund as incurred.

(g) **AMORTIZATION OF PREMIUM, DISCOUNT AND DEBT ORIGATION COSTS**

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 effective yield method. Debt origination costs incurred in connection with bonds have been capitalized and are being amortized over the life of the issue using the effective yield method.

(4) **Change in Method of Accounting For Loan Financing Fees**

The Agency generally charges a "financing fee" at the initial closing of a construction loan. In prior years, financing fees were recognized at such time. Effective July 1, 1977, the Agency changed its policy to defer the recognition of revenue relative to the portion of a fee in excess of 1% of the loan commitment and began recognizing such excess over the estimated construction period. The Agency believes such method results in a better matching of revenues with expenses. This change affected only fees related to loans of the Rental Housing Program Group. The effect of the change on the "excess of revenues over operating expenses before cumulative effect of changes in accounting principles" of the General Fund was a decrease of approximately \$322,000 for the year ended June 30, 1978. The cumulative effect of \$786,480 in the General Fund to apply the new method retroactively is included in the "excess of revenues over operating expenses" of the General Fund for the year ended June 30, 1978.

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

The mortgage loans receivable and construction advances are secured by first mortgages on the related properties. Construction loan advances and commitments at June 30, 1979 are at interest rates from 7.00% to 9.50%. Rental Housing Program Group mortgage loans carry interest rates from 6.14% to 9.33% with repayment terms of 18 to 45 years.

As of June 30, 1979, the Agency had made firm mortgage commitments aggregating approximately \$29,200,000 in the Construction Loan Fund and \$32,800,000 in the Rental Housing Program Group in excess of principal amounts included in the balance sheet as construction advances and mortgage loans receivable.

Activity in the Agency's allowance for potential loan losses on construction advances and mortgage loans is summarized below:

	<u>Years ended June 30,</u>			
	<u>1979</u>		<u>1978</u>	
	Construction Loan Fund	Rental Housing Program Group	Construction Loan Fund	Rental Housing Program Group
Balance at July 1	\$ 355,000	457,000	355,000	157,000
Provision for potential loan losses	—	1,940,394	—	300,000
Reserve related to project taken out by Rental Housing Program Group	(310,000)	310,000	—	—
Amounts charged off ...	—	—	—	—
Balance at June 30	<u>\$ 45,000</u>	<u>2,707,394</u>	<u>355,000</u>	<u>457,000</u>

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Certain Rental Housing Program Group developments financed by the Agency receive subsidies under various Federal programs, while substantially all construction advances in the Construction Loan Fund are insured by the Federal Housing Administration (FHA). A summary of construction advances and mortgage loans receivable as of June 30, 1979 follows:

	<u>June 30, 1979</u>		
	<u>Mortgage Loans Receivable</u>	<u>Construction Advances</u>	
	Rental Housing Program Group	Rental Housing Program Group	Construction Loan Fund
Uninsured mortgage loans to developments which receive or will receive rent or interest subsidies from the U. S. Government	\$ 137,012,674	48,515,048	—
Uninsured and unsubsidized mortgage loans receivable	52,950,878	3,002,934	—
Mortgage loans insured by FHA	—	—	82,526,393
	<u>189,963,552</u>	<u>51,517,982</u>	<u>82,526,393</u>
Allowance for potential loan losses	2,707,394	—	45,000
	<u>\$ 187,256,158</u>	<u>51,517,982</u>	<u>82,481,393</u>

(6) **Notes Payable — Construction Loan Fund**

The Agency issues various notes for construction financing which are secured by the full faith and credit of the Agency and by all funds received in repayment of construction advances. Notes payable as of June 30, 1979 and 1978 are at interest rates of from 3.65% to 5.75% and from 3.10% to 4.63%, respectively.

Principal payments are required at note maturity. Notes mature at various dates through July, 1981. Required principal payments for each of the three years ending July 30, 1982 are \$81,235,000, \$30,575,000 and \$4,925,000, respectively.

(7) **Bonds Payable**

Bonds have been issued to provide financing of mortgage loans under the Rental Housing Program. The bonds are direct and general obligations of the Agency. The full faith and credit of the Agency are pledged for the repayment of all the bonds issued. The bonds are secured by:

- (a) The mortgages securing mortgage loans made on the related permanently financed developments;
- (b) Most revenues, mortgage advance amortization payments and recovery payments received by the Agency from mortgage loans made on permanently financed developments; and
- (c) Certain funds and accounts established pursuant to the bond indentures including the investment of the bond proceeds.

These security covenants in effect restrict substantially all assets of all funds for debt-related purposes.

Bonds issued and outstanding are as follows:

<u>Issue</u>	<u>Approximate Effective Interest Rate</u>	<u>Final Maturity</u>	<u>Amount Outstanding June 30,</u>	
			<u>1979</u>	<u>1978</u>
Residential Development Bonds:				
Issue A	7.69	2019	\$84,785,000	84,905,000
Issue B	6.69	2020	32,800,000	32,900,000
Issue 1977 (Refunding)	6.55	2023	91,385,000	91,925,000
Issue C	6.43	2020	24,350,000	24,350,000
Issue D	6.73	2021	83,000,000	83,000,000
Issue E	7.39	2022	23,000,000	—
Issue F	7.53	2022	60,500,000	—
Section 23 Assisted Bonds:				
Issue 1977A	5.88	1995	1,521,000	1,575,000
University Housing Bonds:				
Issue 1979	7.69	2007	<u>2,400,000</u>	<u>—</u>
			403,741,000	318,655,000
Unamortized bond discount			<u>(9,926,305)</u>	<u>(8,322,525)</u>
			<u>\$393,814,695</u>	<u>310,332,475</u>

Bonds maturing ten years and thereafter from the date of issuance are redeemable at the option of the Agency at prescribed redemption prices ranging from 104% to 100% of the principal amount. Provisions of the bonds include mandatory annual sinking fund payments to provide for redemption of the term bonds.

Required principal payments related to the above bonds for the five years ending June 30, 1980 through 1984 are \$1,237,000, \$1,951,000, \$2,130,000, \$2,753,000 and \$2,916,000, respectively.

Residential Development Bonds Issue 1977 were issued to defease the Rental Housing Program Bonds 1976 Series A and 1975 Series A. The proceeds of the new issue were used to purchase U. S. Treasury obligations sufficient to pay the principal and interest, when due, on the defeased bonds. The U. S. Treasury obligations were deposited with the trustee of the defeased bonds.

The Agency accounted for this transaction by removing the U. S. Treasury obligations and liabilities for the defeased bonds from its records; the difference between the carrying amounts of the new and the previously outstanding bonds of \$9,838,246 is reflected as a deferred asset net of \$545,455 in amortization in the accompanying June 30, 1979 balance sheet and is being amortized over the term of the new issue using the effective interest method. Economic benefits arising from the reduced debt servicing requirements of the new bonds are being passed through to mortgagors whose loans secure the new bonds.

Terms of the refunding required the establishment of a "Development Reserve Account" in the Rental Housing Program Group. The Account has been established by the transfer of \$1,400,000 from the General Fund assets and fund balance to the Rental Housing Program Group. The assets of this Account, although held by the Agency, are pledged to the developments securing the new bonds for the term of the developments' mortgage loans.

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(8) **Pension Plans**

All employees are covered by a contributory pension plan. Employee contributions of 2% of annual gross wages are combined with the Agency's contributions to fund the benefits expected to become payable as determined by actuarial valuation. Total pension expense for the years ended June 30, 1979 and 1978 was \$134,015 and \$102,253, respectively.

(9) **Subsequent Events**

The Agency has issued approximately \$14,160,000 of new or renewal Construction Mortgage Loan Notes in various issues dated July 12, 1979. The proceeds of the note issues were used to provide funds for construction financing for several FHA-insured multi-family rental housing developments for which the Agency does not intend to provide permanent financing.

On August 16, 1979, the Agency issued \$8,200,000 Residential Development Bonds, Issue G. The bond proceeds will be used to provide funds to finance a mortgage loan on a residential development and to make a deposit in the capital reserve fund established for the bonds.

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