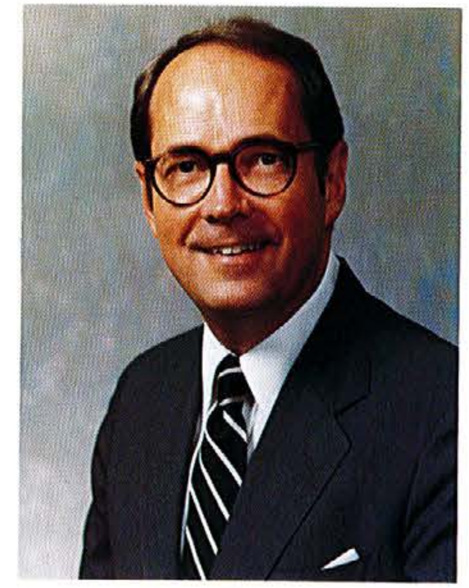
Pennsylvania Housing Finance Agency

1981 Annual Report

A Message from the Governor



I am pleased to present the 1981 Annual Report of the Pennsylvania Housing Finance Agency (PHFA).

Because the Housing Finance Agency is able to offer lower interest loans, it helps to make decent housing available to elderly and lower income families who might otherwise be unable to afford it. The Agency's ability to structure and market tax-exempt bonds helps to assure that investors will continue to favorably receive PHFA bonds.

Pennsylvania is a state rich in natural, human, and economic resources. Housing is a critical factor in all of these areas. Through prudent, careful development, the state housing stock serves as a catalyst that creates jobs, benefiting our communities and preserving our natural heritage.

As I outlined in my housing policy in March of this year, I expect PHFA will continue to play a significant role in the financing, not only of new developments, but of older buildings that can be rehabilitated into good, adequate shelter. It is particularly rewarding to me that several of the Agency's developments are historic structures. Through its efforts, PHFA has assured these buildings will continue to play a useful role in the Commonwealth.

As we continue to seek decent affordable homes for all Pennsylvanians, I am happy to receive this 1981 Annual Report.

Dick Thornburgh
Governor

A Message from the Chairperson

The Board of Directors of the Pennsylvania Housing Finance Agency can present with pride this 1981 Annual Report. During this past year, a turbulent financial market and unprecedented high interest rates have made the task of providing decent housing for lower-income Pennsylvanians more difficult than ever before. PHFA has been a match for the task.

By careful analysis of the financial markets, PHFA has been able to issue its securities in favorable periods. Thus, the Agency has been able to raise capital on a timely basis to finance housing for the Commonwealth's lower-income citizens.

With the issuance of Gov. Thornburgh's State Housing Policy in March 1981, PHFA's role has taken on an added dimension. PHFA now has a framework within which it can equitably share its finite resources throughout Pennsylvania thereby ensuring that all citizens have a chance to share in the Agency's programs.

And, as PHFA is an integral part of Governor Thornburgh's Housing Policy, its future activity can be expected to grow.

PHFA's board realizes that the difficulties we have faced and overcome are not the only challenges with which we will be faced. Ever increasing costs of construction, the decline of the present housing stock, high interest rates and general inflation cannot be dealt with in a short period of time. But we have played an important part in attracting investment in Pennsylvania, and enabling better housing to be built at no cost to the state taxpayers. Through our bond sales we are able to finance subsidized housing that is comparable to any in the nation.

The Pennsylvania Housing Finance Agency owes a great deal of appreciation to Gov. Thornburgh's administration, the General Assembly and the people of the state. As Chairperson of the Agency, I pledge that we will continue to operate in an effective, compassionate manner for the benefit of our citizens.

Shirley M. Dennis

Shirley M. Dennis
Chairperson

A Message from the Executive Director

From the time it was created by the State Legislature in 1972, the Pennsylvania Housing Finance Agency has sought to provide good, affordable shelter to the Commonwealth's citizens. That goal is more than empty words; it is the standard by which the Agency measures its success. Applying that standard, 1981, a bad year generally for housing, has been a successful one for PHFA.

By the end of the 1981 fiscal year, June 30, 1981, PHFA had financed $529,212,741 in low income mortgages under strict guidelines. These mortgages have provided the funds that have built 193 multi-family developments in 137 municipalities across the State. Because of this, more than 23,000 elderly persons, lower income families and handicapped individuals are offered the opportunity to live in decent, safe and clean dwellings that they could not otherwise afford.

Most of the Agency's developments are eligible for Federal Section 8 rental assistance. This program allows tenants to pay only a quarter of their income for rent, and assurance to PHFA investors that rental income will be available for mortgage repayment.

Careful underwriting, exacting technical requirements, high quality construction inspection, continual monitoring of on-going management after construction are some factors that guarantee residents of PHFA-financed developments good places to live. All this contributes to a portfolio of solid, substantial housing units that will endure.

This Annual Report reflects some of the reasons why PHFA can be numbered as one of the leading housing finance agencies in the nation. Its production and financial record are the result of an active and involved Board of Directors, a commitment by the Administration to housing, great interest by the State Legislature, and finally, a highly professional staff.

Karl C. Smith

Karl C. Smith
Acting Executive Director

The Pennsylvania Housing Finance Agency has been a major force in housing delivery for the Commonwealth's senior citizens since its creation in 1972. Agency financed high-rise apartments are homes for more than ten thousand older persons in the state.

During the past year, the supply of well designed and soundly built subsidized apartment developments has grown significantly because of the strength of the Pennsylvania Housing Finance Agency. By issuing $63,040,000 of long term bonds and $100,425,000 of short term notes in fiscal year 1981, PHFA has been able to finance more than 2700 units in 32 communities of the Commonwealth.

As an independent Agency of the State Government, PHFA functions much like a private financing corporation to meet a public purpose: helping the housing needs of lower income households, elderly persons and handicapped individuals. It makes low interest loans available to qualified nonprofit and limited dividend sponsors to rehabilitate or build rental apartment developments.

PHFA mortgages are made for both construction and permanent financing requirements of rental developments. Up to 100 percent of a project's development costs may be lent to nonprofit sponsors while limited dividend sponsors may borrow up to 90 percent.

Although the Agency was created by the State Legislature and depends upon that body for continuing support, it does not receive any state tax revenues for its operations. Rather, PHFA raises money through the sale of mortgage revenue bonds and notes to private institutions and investors. These bonds and notes are exempt from federal income taxes. As a result of this tax exemption, PHFA can lend the proceeds of its bond and note issues at lower than conventional mortgage rates.

Security for PHFA bonds comes in the form of the rent collected from the apartments financed. Each mortgage loan also represents a first lien on the development. Reserve funds for the developments provide additional security.

Most residents of PHFA-financed developments receive housing subsidies from the federal government. The Section 8 Rental Assistance Program allows qualified tenants to pay a smaller portion (no more than 25 percent) of income for rent with any remaining rental charges paid by the federal government.

Applications by sponsors for PHFA loans are reviewed to determine the quality of the site and the need for subsidized housing in the area. To encourage as wide a range of sponsors as possible, this "site and market" review is given paramount consideration in PHFA's selection of applications for processing. As applications are processed other factors are naturally considered.

Some factors are:

- Financial feasibility—each PHFA-financed development must be self-supporting.

- Professional qualifications of the sponsors' development team to insure sustained, competent construction and management.

- Building design and construction—PHFA wants its developments to be safe, attractive and desirable dwellings.

- Conformity to local land-use requirements. Before closing a

Maintenance and security are of constant concern at PHFA developments. Such attention to detail assures that projects will be enduring structures.

Victoria Village in Allentown is a PHFA financed substantial rehabilitation development. This project has helped spark new residential and commercial development in a formerly blighted inner city area.

loan, PHFA requires that a development meet municipal zoning regulations and comply with state building codes.

The Agency and Its Programs

The complex nature of housing finance, underwriting, design, construction and management requires a dedicated professional staff of experts from many fields. To better deliver good housing to the citizens of Pennsylvania, the Agency's staff is organized into several divisions with specialists in the fields of finance, law, market analysis, engineering, architecture, cost estimating, housing management, construction inspection, insurance, affirmative action and mortgage servicing.

The Executive Division is responsible for the overall management of the Agency including personnel, public information and legislative affairs.

The Affirmative Action Division is responsible for equal opportunity programs, affirmative action, prevailing wage compliance and fair housing practices. The Development Division is primarily responsible for site location and market review, program research, program implementation, feasibility analysis and mortgage underwriting. The Technical Services Division is responsible for working with mortgagors, architects, and contractors concerning architectural requirements, construction cost estimates, and engineering-related functions. The Construction Division is responsible for inspecting the developments during the construction and guaranty periods and for reviewing and approving contractor's cost certifications. The Mortgage Servicing Division's responsibilities include over-all supervision of disbursements of loan proceeds under all of the Agency's programs. The Management Division's responsibilities include overseeing rental, occupancy, and maintenance of housing developments. The Finance Division maintains the financial records of the Agency, supervises the custody, investment and disbursement of Agency funds, maintains the escrows for Agency developments and has general responsibility for the servicing and payment of Agency bonds and notes. The Legal Division is responsible for closing the Agency's mortgage loans and serving as counsel to the Agency with respect to certain legal matters.

Substantial Rehabilitation

PHFA has a commitment to the Commonwealth to insure that its architectural and community heritage is preserved. As part of this commitment, it encourages sponsors to submit applications for substantial rehabilitation of older existing buildings for use as housing. Across Pennsylvania there is an abundance of architectural variety that often dates from colonial days. Although much of this housing has fallen into disrepair and has been demolished, a good deal remains, a wealth of potential housing units. Through its unique ability to finance otherwise prohibitively expensive rehabilitation projects, PHFA has been a positive

Half of Pennsylvania's housing stock is more than half-a-century old. By applying modern rehabilitation methods to older buildings, PHFA-financed developments offer excellent housing to lower income residents while maintaining the structure's historic quality.

Student nurses from nearby Pennsylvania State University regularly visit residents of Philipsburg Manor, a highrise apartment for elderly citizens that was financed by a PHFA loan. Social services are an important part of Agency management activities.

force in preserving not only individual older buildings, but in some cases whole blocks of finely wrought older structures. This effort has provided badly needed housing, and often proven the catalyst a community needed to reverse housing blight and community decay that might have become irreversible without Agency assistance.

Social Services

As important as is the financing activity of the Pennsylvania Housing Finance Agency, ongoing management of its completed developments must be equally considered. The Agency's management staff starts working with sponsors at the early stages of a development's processing to insure that the development is run in a sound manner throughout the life of the mortgage. Fiscal accountability, maintenance, tenant selection and property management are areas of primary consideration to PHFA.

With more than 120 developments under management, PHFA has realized a need to assist tenants in obtaining ordinary and special social services. This need is beyond the bricks and mortar aspect of management. Working with project managers and individual residents, the Agency's Social Services Coordinator provides information to tenants on available community services. Because many of the elderly tenants may be unaware of services that are available to them, the Social Services Coordinator often acts as liaison between PHFA developments and senior citizen centers, meals on wheels, visiting nurse programs, etc.

Lasting Quality

"Decent, safe and sanitary housing" has been the hallmark of PHFA-financed developments since its creation. But insuring that these words become and remain a fact is no simple task.

An added dimension has been added to the Agency's on-going management oversight in the form of a maintenance coordinator. Periodic inspections of completed developments for proper care and maintenance of physical aspects of the actual structure for any latent defects, not only assures the Agency that its buildings are in good condition, it can also alert owners to potential problems that might otherwise go unnoticed. This attention to detail gives PHFA-financed developments a standard of quality that benefits owners, management agents and, most important, residents.

Outreach

Despite an excellent record of employment of women and minority citizens by PHFA, the Agency has constantly sought to improve its outreach to non-traditional members of the development community. Reflecting this commitment to serve as wide a constituency as possible, the Agency

Compassion and understanding are as important in creating a lasting development as the bricks and mortar that went into its construction.

Secretary Shirley M. Dennis, PHFA Chairperson, was keynote speaker at the Outreach Conferences held by the Agency in Philadelphia and Pittsburgh. Encouraging women and minority businesses to participate in the development business is an Agency priority that will continue as new projects are completed.

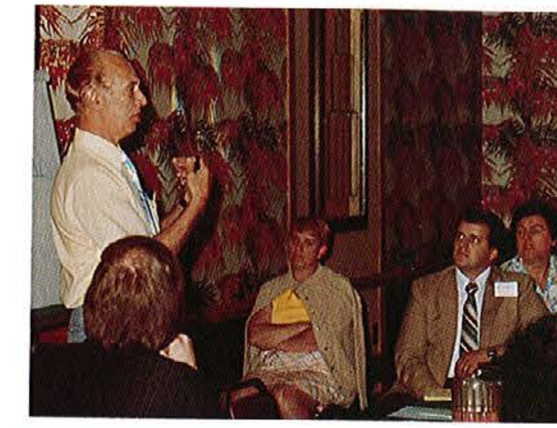
Board urged the PHFA staff to increase efforts to attract women and minority sponsors, attorneys, architects, contractors and property managers as clients.

To implement this goal, PHFA hosted two outreach conferences in fiscal year 1981. More than 300 participants attended meetings that were held in Philadelphia and Pittsburgh. Staff specialists presented each aspect of the Agency's program to the attendees, many of whom have responded positively to this information.

Supplementing this effort has been a continuing information program to minority and female managed firms, participation at workshops for handicapped persons and constant monitoring of Agency business to insure that PHFA is an Agency that is available to all persons. The Board of Directors' interest in this important area will remain a staff priority.

The Future

The Pennsylvania Housing Finance Agency intends to remain a major force in the Commonwealth's housing future. Through its financial stability, its proven performance and its history of excellence, it anticipates an even stronger housing role in years to come. Its various programs, its commitment to fair housing practices and sound shelter and its strength as an institution to better the state's housing stock make it a force that can produce remarkable results in the future. The dedication of PHFA to improve housing will be matched only by its performance in meeting that goal.



Agency sponsored training sessions offer property managers regular opportunities to explore new management methods, share experiences and discuss problems. Residents receive direct benefits from such seminars in the form of more effectively managed developments.

Having a good place to live is important to persons of all ages. Living in a good place is itself a reason to celebrate. Residents of PHFA developments create a genuine community and a good place to live.

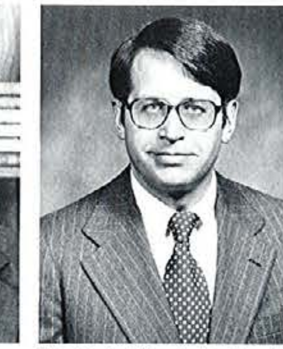
PHFA Board Members


Hon. Shirley M. Dennis


Mr. Hillard Madway


James A. Lineberger, Esquire

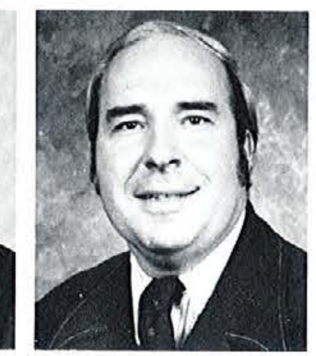

Mr. John H. Miller, Jr.


David A. Murdoch, Esquire


Mr. Herman Silverman


Hon. Ben McEnteer


Hon. Geoffrey Stengel, Jr.


Hon. R. Budd Dwyer


Ronald S. Mintz, Esquire

Chairperson

Hon. Shirley M. Dennis
Secretary of Community Affairs

Mr. Hillard Madway

Ronald S. Mintz, Esquire

James A. Lineberger, Esquire
Director of Community Relations
District Attorney's Office, Philadelphia

Mr. John H. Miller, Jr.
President, John Hobart Miller, Inc.

David A. Murdoch, Esquire
Kirkpatrick, Lockhart,
Johnson & Hutchison

Mr. Herman Silverman
Chairman of the Board
Sylvan Pools, Inc.

Hon. Ben McEnteer, Ex Officio
Secretary of Banking

Hon. Geoffrey Stengel, Jr., Ex Officio
Secretary of Commerce

Hon. R. Budd Dwyer
State Treasurer

Secretary

Mrs. Carrie Barnes
Pennsylvania Housing Finance Agency

Senior Managing Underwriter
Goldman Sachs & Co.

Co-Managing Underwriters
Butcher & Singer, Inc.
Blyth Eastman Paine Webber, Inc.
Parker/Hunter, Inc.
Russell, Rea & Zappala, Inc.
L. F. Rothschild, Unterberg, Towbin

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

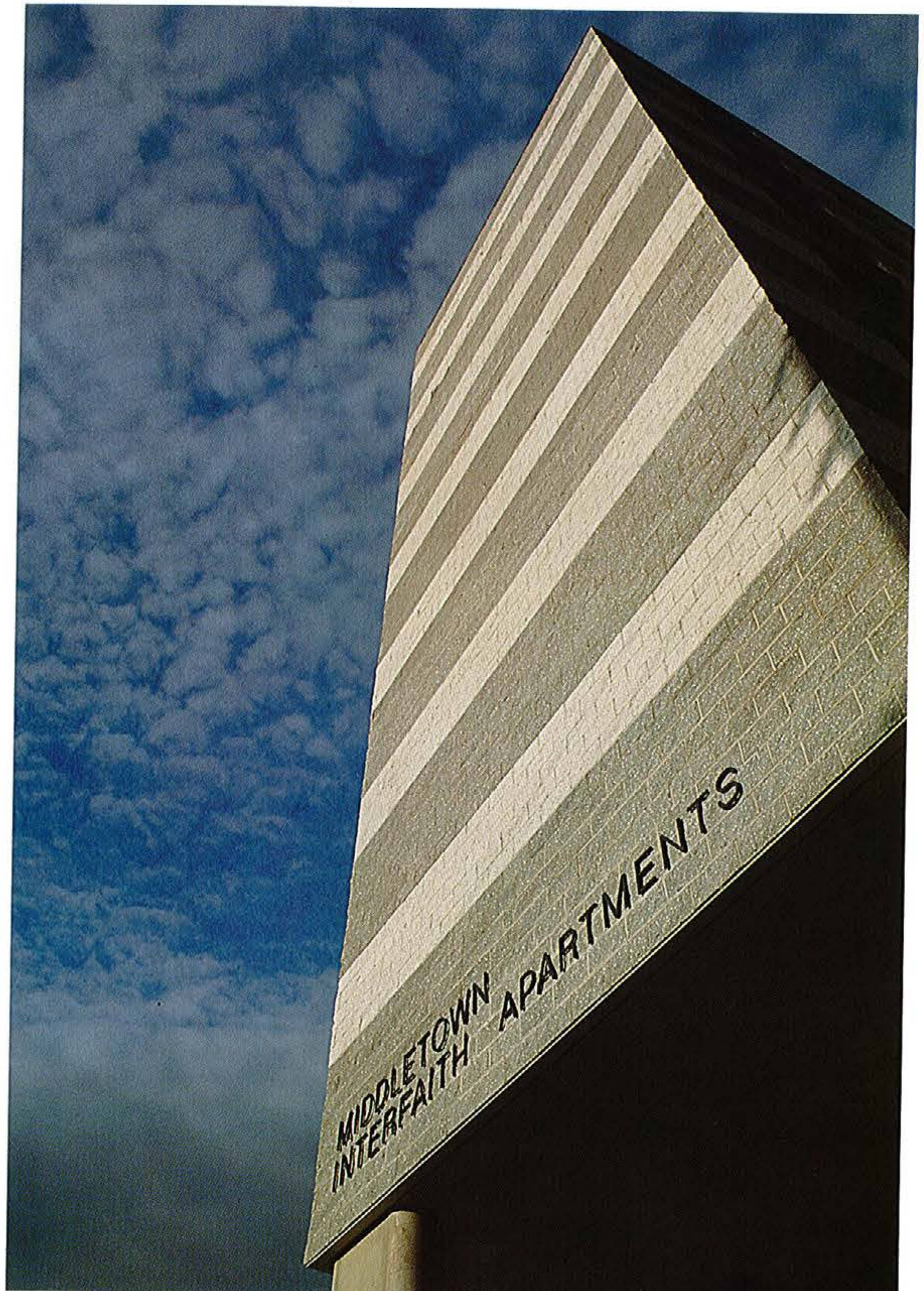
Bond Counsel
Wolf, Block, Schorr and Solis-Cohen
Rose, Schmidt, Dixon & Hasley

Outside Counsel
Dechert Price & Rhoads
Rhoads, Sinon & Hendershot

Bond Trustees
First Pennsylvania Bank, N.A.
Industrial Valley Bank and Trust Company
Hamilton Bank

Paying Agents
Citibank, N.A.
Continental Illinois National Bank and Trust Company of Chicago
Chemical Bank
First National Bank of Chicago
Morgan Guaranty Trust Co.
Bankers Trust Co.

Depositories
Bank of America, N.T.S.A.
Bank of Pennsylvania
Central Penn National Bank
Chemical Bank
Citibank, N.A.
Commonwealth National Bank
Continental Bank of Norristown
Continental Illinois National Bank & Trust Co.
Cumberland County National Bank
Dauphin Deposit Bank and Trust Co.
Equibank, N.A.
First Pennsylvania Bank, N.A.
Hamilton Bank
Home Unity Savings and Loan Association
Industrial Valley Bank and Trust Company
Mellon Bank, N.A.
Morgan Guaranty Trust Co.
New World National Bank
Philadelphia National Bank
Pittsburgh National Bank
Provident National Bank



The Pennsylvania Housing Finance Agency has used its resources to finance more than 23,000 apartment units in 193 developments across the Commonwealth. Today the Agency is financially strong, professionally managed and prepared to meet the housing challenges of the future. Providing financing for decent, safe, adequate housing for elderly persons, handicapped individuals and families of lower income will remain the measure of PHFA's success.

Accountant's Report

Pennsylvania Housing Finance Agency

To the Members of the
Pennsylvania Housing Finance Agency:

We have examined the balance sheets of the Pennsylvania Housing Finance Agency as of June 30, 1981 and 1980, 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 the Pennsylvania Housing Finance Agency at June 30, 1981 and 1980, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Harrisburg, Pennsylvania
September 25, 1981, except as to note 10,
which is as of October 20, 1981

Balance Sheets

Pennsylvania Housing Finance Agency
June 30, 1981 and 1980

	1981				1980			
	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								
Investments and cash (note 5)	$ 21,386,090	65,019,077	219,520,071	305,925,238	15,572,600	67,350,058	180,428,267	263,350,925
Mortgage loans receivable (note 6)	862,054	—	264,119,437	264,981,491	916,497	—	207,724,968	208,641,465
Construction advances (note 6)	—	64,366,945	115,870,558	180,237,503	—	53,715,440	90,466,801	144,182,241
Deferred and other assets (note 8)	671,247	74,767	10,868,637	11,614,651	639,642	333,086	10,885,569	11,858,297
Due from other funds	345,863	—	—	345,863	—	—	—	—
	$ 23,265,254	129,460,789	610,378,703	763,104,746	17,128,739	121,398,584	489,505,605	628,032,928
Liabilities and Fund Balances								
Notes payable (note 7)	$ —	120,920,031	44,502,304	165,422,335	—	111,875,730	—	111,875,730
Accrued interest payable	—	2,820,092	12,298,625	15,118,717	—	2,710,494	8,435,630	11,146,124
Accounts payable and accrued expenses	1,927,096	—	148,474	2,075,570	367,151	108,101	261,861	737,113
Other liabilities	96,452	1,399,689	15,022,424	16,518,565	20,458	2,710,763	12,039,798	14,771,019
Bonds payable (note 8)	—	—	514,839,300	514,839,300	—	—	454,480,955	454,480,955
Due to other funds	—	—	345,863	345,863	—	—	—	—
Total liabilities	2,023,548	125,139,812	587,156,990	714,320,350	387,609	117,405,088	475,218,244	593,010,941
Fund balances (note 8)	21,241,706	4,320,977	23,221,713	48,784,396	16,741,130	3,993,496	14,287,361	35,021,987
	$ 23,265,254	129,460,789	610,378,703	763,104,746	17,128,739	121,398,584	489,505,605	628,032,928

See accompanying notes to financial statements.

Statements of Revenues, Operating Expenses and Changes in Fund Balances

Pennsylvania Housing Finance Agency
Years ended June 30, 1981 and 1980

	1981				1980			
	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 (note 5)	$ 1,910,832	7,174,517	22,815,935	31,901,284	1,314,240	6,615,047	18,933,956	26,863,243
Mortgage loans receivable (note 6)	57,847	—	18,139,292	18,197,139	57,107	—	15,451,255	15,508,362
Construction advances (note 6)	—	4,039,260	8,977,352	13,016,612	—	4,534,898	5,929,699	10,464,597
Total interest income	1,968,679	11,213,777	49,932,579	63,115,035	1,371,347	11,149,945	40,314,910	52,836,202
Fees, charges and other income	5,312,376	—	—	5,312,376	5,003,068	—	—	5,003,068
Total revenues	7,281,055	11,213,777	49,932,579	68,427,411	6,374,415	11,149,945	40,314,910	57,839,270
Operating expenses:								
Interest on notes (note 7)	—	8,550,482	2,489,801	11,040,283	—	7,605,977	—	7,605,977
Interest on bonds (note 8)	—	—	37,784,948	37,784,948	—	—	31,340,507	31,340,507
Salaries and related benefits	2,746,030	—	—	2,746,030	2,242,219	—	—	2,242,219
Other general and administrative	1,436,939	—	—	1,436,939	1,158,832	—	—	1,158,832
Provision for potential loan losses (note 6)	—	—	1,656,802	1,656,802	20,000	55,000	1,250,000	1,325,000
Total operating expenses	4,182,969	8,550,482	41,931,551	54,665,002	3,421,051	7,660,977	32,590,507	43,672,535
Excess of revenues over operating expenses	3,098,086	2,663,295	8,001,028	13,762,409	2,953,364	3,488,968	7,724,403	14,166,735
Interfund transfers (notes 4 and 8)	1,402,490	(2,335,814)	933,324	—	3,742,547	(3,427,404)	(315,143)	—
Fund balances at beginning of period	16,741,130	3,993,496	14,287,361	35,021,987	10,045,219	3,931,932	6,878,101	20,855,252
Fund balances at end of period	$ 21,241,706	4,320,977	23,221,713	48,784,396	16,741,130	3,993,496	14,287,361	35,021,987

See accompanying notes to financial statements

Statements of Changes in Financial Position

Pennsylvania Housing Finance Agency
Years ended June 30, 1981 and 1980

	1981				1980			
	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	$ 3,098,086	2,663,295	8,001,028	13,762,409	2,953,364	3,488,968	7,724,403	14,166,735
Items which do not use (provide) funds:								
Provision for potential loan losses	—	—	1,656,802	1,656,802	20,000	55,000	1,250,000	1,325,000
Amortization of investment premium and accretion of discount, net	40,807	502,710	1,088,464	1,631,981	26,631	274,965	675,823	977,419
Amortization of deferred revenue	—	—	—	—	(21,973)	—	—	(21,973)
Funds provided from operations	3,138,893	3,166,005	10,746,294	17,051,192	2,978,022	3,818,933	9,650,226	16,447,181
Inter-fund transfers	1,402,490	(2,335,814)	933,324	—	3,742,547	(3,427,404)	(315,143)	—
Bond proceeds, net	—	—	61,854,970	61,854,970	—	—	61,511,485	61,511,485
Mortgage principal payments	54,007	63,490	1,394,976	1,512,473	35,434	157,937	830,209	1,023,580
Mortgages permanently financed	—	37,251,274	—	37,251,274	—	55,632,808	—	55,632,808
Change in:								
Investments, net of premium and discount, and cash	—	2,324,494	—	2,324,494	—	—	—	—
Due to other funds	—	—	345,863	345,863	2,117,000	—	—	2,117,000
Notes payable	—	8,548,078	44,385,771	52,933,849	—	—	—	—
Accrued interest payable	—	109,598	3,862,995	3,972,593	—	911,362	696,483	1,607,845
Other assets and liabilities, net	1,575,428	—	2,514,763	4,090,191	—	—	3,764,554	3,764,554
Total	$ 6,170,818	49,127,125	126,038,956	181,336,899	8,873,003	57,093,636	76,137,814	142,104,453
Uses of funds:								
Investment in construction advances and mortgage loans receivable	$ —	47,966,269	84,913,612	132,879,881	—	27,079,792	61,554,570	88,634,362
Payment of bond principal	—	—	1,951,000	1,951,000	—	—	1,237,000	1,237,000
Change in:								
Investments, net of premium and discount, and cash	5,824,955	—	39,174,344	44,999,299	8,675,887	21,919,622	13,346,244	43,941,753
Due from other funds	345,863	—	—	345,863	—	2,117,000	—	2,117,000
Notes payable	—	—	—	—	—	4,942,148	—	4,942,148
Other assets and liabilities, net	—	1,160,856	—	1,160,856	197,116	1,035,074	—	1,232,190
Total	$ 6,170,818	49,127,125	126,038,956	181,336,899	8,873,003	57,093,636	76,137,814	142,104,453

See accompanying notes to financial statements.

Pennsylvania Housing Finance Agency
June 30, 1981 and 1980

(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, among other things, to 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 making of mortgage loans under the Rental Housing Program only 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 Fund 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 potential 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 multi-family 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) **Investments**
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.

(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 determined based upon management's evaluation of the loan portfolio. Additions to the allowance are made by charges to operating expense.

(e) **Loan Interest and Fees**
Loan financing fees, service fees and interest charges on construction advances during the construction period are generally capitalized as part of the loan. Loan origination financing fees, which range from 0.75% to 1.5% of the loan commitment, are recognized as income at the date of initial mortgage closing. Other financing fees in excess of the loan origination fee are recognized on a straight-line basis over the estimated construction period.

(f) **Mortgage Origination 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.

(4) Interfund Transfers

The Agency makes fund balance transfers from the Construction Loan Fund and Rental Housing Program Group to the General Fund to the extent that such fund balances and the related assets are not required to meet the Agency's debt obligations. The amounts transferred result from the Construction Loan Fund earnings in excess of the note interest and other related expenses. The transfers are made after the construction loans are permanently financed and the notes are redeemed. Transfers from the Rental Housing Program Group result primarily from excess earnings in that fund.

In July 1980, the Agency, in accordance with the trust indenture related to Bond Issue I, transferred $1,460,000 from the General Fund to the Rental Housing Program Group for establishment of the Issue I Special Sub-Account. The assets in this account are reserved for the payment, if required, of Bond Issue I principal or interest.

(5) Investments and Cash

Substantially all investments of the Construction Loan Fund and Rental Housing Program Group are restricted for required capital reserve requirements, payment of construction advances and payment of debt service on the related notes and bonds. A summary of the combined totals of investments by maturity distribution and the related market values follows:

	June 30,			
	1981		1980	
	Amortized cost	Market value	Amortized cost	Market value
U.S. Treasury and government agency securities:				
Due within 1 year	$ 62,884,843	62,290,027	35,173,782	35,746,801
Due in 1–5 years	86,735,844	85,002,956	14,859,914	15,228,715
Due in over 5 years	51,116,521	40,312,486	38,959,390	36,606,315
	200,737,208	187,605,469	88,993,086	87,581,831
Collateralized certificates of deposit:				
Due within 1 year	78,440,000	78,440,000	132,556,852	132,556,852
Due in over 1 year	2,000,000	2,000,000	—	—
	80,440,000	80,440,000	132,556,852	132,556,852
Repurchase agreements	12,460,000	12,460,000	27,394,500	27,394,500
Cash and savings	1,551,715	1,551,715	6,278,169	6,278,169
Accrued interest receivable	10,736,315	10,736,315	8,128,318	8,128,318
	$ 305,925,238	292,793,499	263,350,925	261,939,670

The Agency, as a condition for issuing Residential Development Bonds, Issue F, purchased a securities option agreement from First Pennco Securities, Inc. (First Pennco), which required First Pennco, at the Agency's option, to purchase $51,200,000 of U.S. Government Securities at a guaranteed price. Since the market value of the securities was below the guaranteed purchase price (and the guaranteed purchase price was below cost) when the Agency liquidated its investments to make required construction advances to developments financed by the related bonds, the Agency has exercised its option to sell substantially all the securities to First Pennco. Such sales resulted in a securities loss at June 30, 1980 of approximately $732,500, of which $576,000 was funded by the related bond issue. The $576,000 was deferred and is being amortized over the term of the bond issue (approximately 40 years). No further loss was incurred in the year ended June 30, 1981.

(6) Mortgage Loans Receivable and Construction Advances

The mortgage loans receivable and construction advances receivable are secured by first mortgages on the related properties. Construction Loan Fund mortgage advances and commitments at June 30, 1981 are at interest rates from 7.29% to 12.38% (7.00% to 12.38% at June 30, 1980). Rental Housing Program Group mortgage loans are at interest rates from 6.14% to 9.33% with repayment terms of 18 to 45 years.

As of June 30, 1981 and 1980, undisbursed bond proceeds were sufficient to fund the Agency's outstanding mortgage loan commitments.

Certain Rental Housing Program Group developments financed by the Agency receive subsidies through various federal programs, while substantially all construction advances recorded in the Construction Loan Fund are insured by the Federal Housing Administration (FHA).

A summary of Rental Housing Program Group Construction advances and mortgage loans receivable as of June 30, 1981 and 1980 follows:

	June 30, 1981		June 30, 1980	
	Mortgage Loans Receivable	Construction Advances	Mortgage Loans Receivable	Construction Advances
Uninsured mortgage loans secured by developments which receive or will receive rent or interest subsidies from the U.S. government	$ 213,889,562	115,870,558	156,854,757	89,290,049
Uninsured mortgage loans receivable secured by unsubsidized developments	55,729,875	—	54,827,605	1,176,752
	269,619,437	115,870,558	211,682,362	90,446,801
Allowance for potential loan losses	5,500,000	—	3,957,394	—
	$ 264,119,437	115,870,558	207,724,968	90,446,801

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

	Years ended June 30,			
	1981		1980	
	Construction Loan Fund	Rental Housing Program Group	Construction Loan Fund	Rental Housing Program Group
Balance at July 1	$ 100,000	3,957,394	45,000	2,707,394
Provision for potential loan losses	—	1,656,802	55,000	1,250,000
	100,000	5,614,196	100,000	3,957,394
Amounts charged off	—	114,196	—	—
Balance at June 30	$ 100,000	5,500,000	100,000	3,957,394

(7) Notes Payable

The Agency issues various notes for construction financing which are secured by the full faith and credit of the Agency, the underlying construction mortgage, the undisbursed note proceeds and by all funds received in repayment of construction advances.

(a) Notes payable in the Construction Loan Fund at June 30, 1981 and 1980 are at interest rates of 4.50% to 10.00%. Principal payments are required at note maturity. The scheduled principal payments for all notes, which mature at various dates through November, 1983 for each of the three years ending June 30, 1982 through 1984 are $71,900,000, $33,715,000, and $15,950,000, respectively.

(b) Rental Housing Program Group notes payable are at 5.75% and mature in July, 1983.

(8) 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, together with covenants in note payable agreements, in effect make available all assets of all funds for debt-related purposes.

Bonds issued and outstanding are as follows:

Issue	Effective Interest Rate	Final Maturity Date	Amount Outstanding June 30, 1981	1980
Residential Development Bonds:				
Issue A	7.69%	2019	$ 83,840,000	84,320,000
Issue B	6.69	2020	32,370,000	32,590,000
Issue 1977 (Refunding)	6.55	2023	90,355,000	90,880,000
Issue C	6.43	2020	24,190,000	24,350,000
Issue D	6.73	2021	82,495,000	83,000,000
Issue E	7.39	2022	23,000,000	23,000,000
Issue F	7.53	2022	60,500,000	60,500,000
Issue G	7.21	2012	8,200,000	8,200,000
Issue H	7.54	2023	55,400,000	55,400,000
Issue I	9.26	2023	51,600,000	—
Section 23 Assisted Bonds:				
Issue 1977A	5.88	1995	1,403,000	1,464,000
University Housing Bonds:				
Issue 1979	7.69	2007	2,400,000	2,400,000
Multi-family Housing Bonds:				
Issue 1980	10.04	2023	11,440,000	—
			527,193,000	466,104,000
Unamortized bond discount			(12,353,700)	(11,623,045)
			$ 514,839,300	454,480,955

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, 1982 through 1986 are $2,130,000, $2,778,000, $3,261,000, $3,982,000 and $4,206,000, 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 $1,170,866 and $858,807 in amortization in the accompanying June 30, 1981 and 1980 balance sheets 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 projects securing the new bonds for the term of the developments' mortgage loans.

(9) 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, 1981 and 1980 was $208,198 and $174,542, respectively.

As of the latest actuarial valuation date, net plan assets available for the payment of benefits exceeded vested benefits. A comparison of accumulated plan benefits and plan net assets for the Agency's defined benefit plan is presented below:

	January 1, 1981	1980
Actuarial present value of accumulated plan benefits:		
Accrued and vested	$ 745,647	502,529
Accrued, but not vested	329,327	266,189
Total accrued benefits	$ 1,074,974	768,718
Net plan assets available for payment of benefits	$ 926,151	686,599

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 4.5% for both 1981 and 1980.

(10) Contingency

The Agency recently was informally advised by the Internal Revenue Service (IRS) of its position that the Agency's issuance on July 29, 1980 of Residential Development Notes violated arbitrage regulations as interpreted by the IRS in a revenue ruling issued subsequent to the note issue. The IRS advised that it will consider interest on those notes to be subject to federal income tax unless the Agency enters into a closing agreement with the IRS under which the Agency would pay to the IRS an amount determined on the basis of the allegedly impermissible arbitrage. Although counsel for the Agency has advised that the notes were issued in accordance with the Internal Revenue Code and regulations thereunder and that interest thereon is tax-exempt, the Agency intends to enter into negotiations with the IRS in an effort to obtain such a closing agreement acceptable to the Agency. No assurance can be given that such a closing agreement can be obtained nor can the amount, if any, which may be payable by the Agency be presently determined. Accordingly, no provision therefore has been made in the accompanying financial statements. If a settlement is reached, any amount thereof will be charged to operating expenses for the fiscal year in which such settlement is reached. The Agency does not believe that the ultimate liability, if any, resulting from the resolution of this matter will have a material adverse effect on its financial position.

This IRS advice as to the applicability of its arbitrage regulations in no way affects other Agency obligations.

Pennsylvania Housing Finance Agency

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