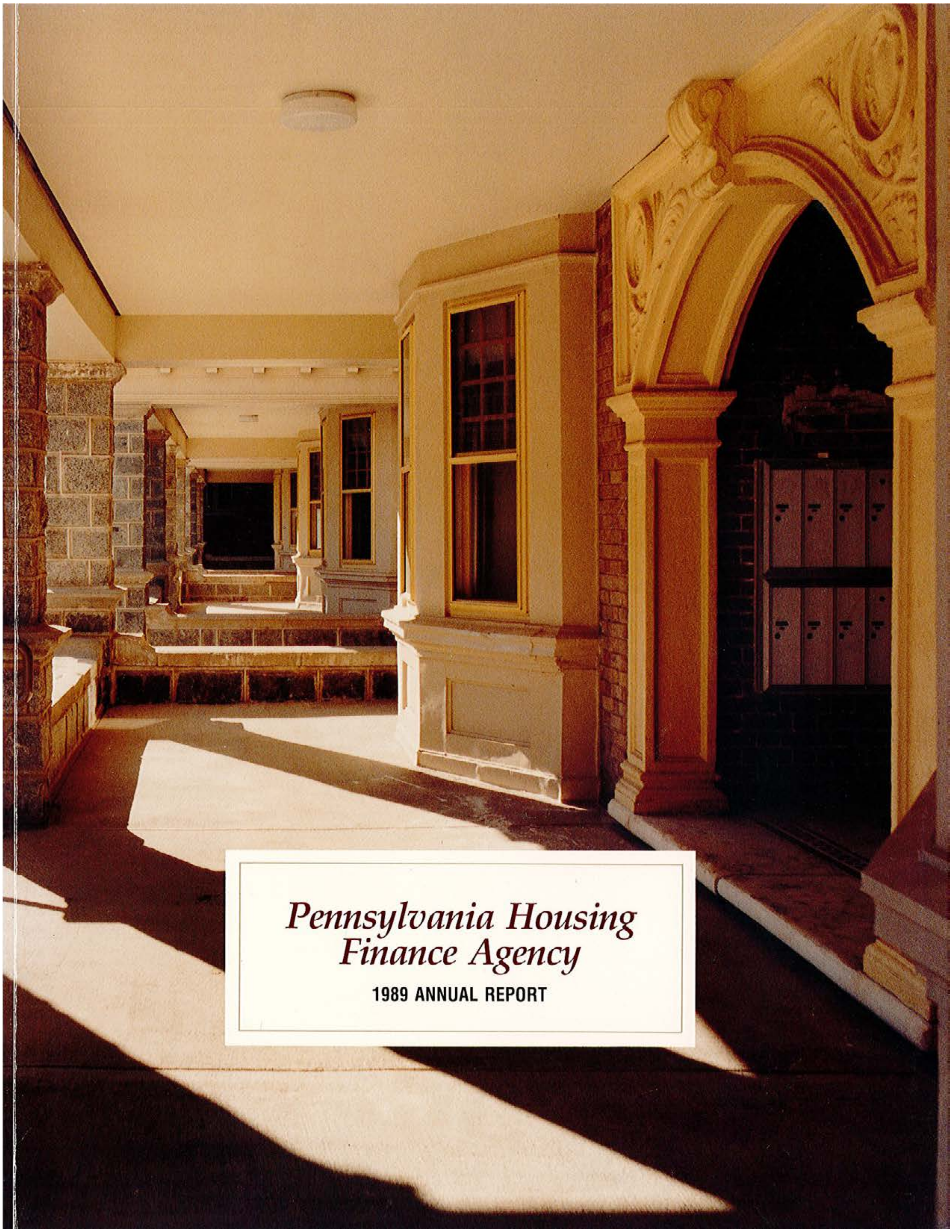

Pennsylvania Housing Finance Agency

1989 ANNUAL REPORT

The Pennsylvania Housing Finance Agency is a public corporation of the Commonwealth. Its purpose is to finance housing for Pennsylvanians of low and moderate income.

To accomplish this, the Agency has developed financing and support programs that promote the purchase, construction and rehabilitation of rental apartments, preserve existing affordable housing and provide mortgage loans to first time home buyers. PHFA also manages the Homeowners' Emergency Mortgage Assistance Program which assists families facing foreclosure.

Funds for the multifamily and single family programs are raised through the sale of securities to investors. The Homeowners' Emergency Mortgage Assistance Program is supported by a yearly appropriation from the General Assembly.

The Agency is governed by a ten member Board of Directors that includes the Secretaries of Banking, Commerce and Community Affairs, the State Treasurer and six private citizen members.

Headquartered in Harrisburg with satellite offices in Norristown and Pittsburgh, the Agency has a staff of 152 with expertise in administration, architecture, counselling, engineering, finance, law, management, mortgage servicing and underwriting. PHFA is committed to affirmative hiring, housing and lending practices in all its operations.

To date, the Agency has financed more than 31,000 apartment units and 29,000 single family homes through the sale of $2 billion of tax-exempt bonds. It has channelled $100 million into the Homeowners' Emergency Mortgage Assistance Program, saving 9,000 families from foreclosure.

MEMBERS OF THE BOARD

Karen A. Miller
Secretary of Community Affairs

Raymond R. Christman
Secretary of Commerce

J. Roger Glunt, President
Glunt Building Co., Inc.

Sarah W. Hargrove
Secretary of Banking

Catherine Baker Knoll
State Treasurer

Hillard Madway

Ronald S. Mintz

Kenny Ross, Chairman
Ross Development Company

Mark Schwartz, Esq.

Herman A. Silverman
Chairman, Sylvan Pools, Inc.

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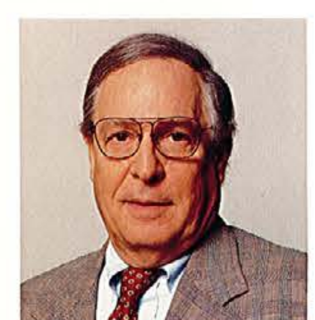


Kenny Ross, Chairman
Ross Development Company

Mark Schwartz, Esq.

Herman A. Silverman
Chairman, Sylvan Pools, Inc.

Message to the Governor

Karen A. Miller
Chairperson

Karl Smith
Executive Director

The Commonwealth in 1989 was again forced to look to itself to initiate and fund housing programs as the role of the federal government continued to diminish. This year, however, Congressional activity to create a coordinated national housing effort is gaining momentum. The Agency is hopeful that a rational housing commitment by the United States will be put in place to complement Pennsylvania's efforts and reverse the federal government's recent neglect.

In 1989, the Agency committed $10 million more of its own funds to subsidize rental housing development efforts. This brings to $36 million the amount PHFA has set aside since 1987, financing 2,335 apartments for the homeless and low income families.

From state sources the Agency was able to further strengthen its ability to finance rental housing in two ways. First, the State Treasurer pledged a construction line of credit at two points below prime rate for multifamily projects receiving PHFA permanent loans. Second, the State Workers Insurance Fund (SWIF) agreed to purchase $25 million of Agency issued long-term taxable bonds at a rate 75 basis points above ten year Treasury notes. These valuable commitments by the Commonwealth will allow PHFA to attract developers and make affordable housing development more economically feasible.

1989 also saw the maturing of the Low Income Rental Housing Tax Credit Program. A product of the 1986 Tax Reform Act, the credit is one of the few housing incentives available to multifamily sponsors from the federal government. Prior to this year, credit usage was sporadic. However, with PHFA's outreach and education efforts, demand for the credit now exceeds the $14.5 million allocation. This private market stimulator has helped create 7,600 additional rental apartments in the Commonwealth.

The Agency continued its efforts to make home ownership possible for Pennsylvanians. In 1989 more than $155 million was lent to 3,800 families, financing homes in every county of the Commonwealth. To help low-income homebuyers, the Agency has begun a closing cost assistance program. New methods to underwrite and insure loans have also been put in place to help those denied home ownership by the conventional mortgage insurance market.

The Agency worked with the Commonwealth's Washington office to see that two important housing incentives are extended beyond this year. Pennsylvania renters and home buyers have been the beneficiaries of the Tax Credit Program and mortgage revenue bonds. With the strong support of Pennsylvania's Congressional delegation both programs are likely to be renewed, allowing these efforts to continue.

As a homeless prevention effort, the Homeowners' Emergency Mortgage Assistance Program is without parallel in the nation. Many families would have been forced into the streets except for this support. By offering them an opportunity to rebuild their lives while finding education, training and employment, the Homeowners' Emergency Mortgage Assistance Program has allowed more than 9,000 families to remain in their homes and stay together. It is expected that this program will be renewed by the General Assembly.

More than six million dollars of mortgage assistance loans have already been repaid and program efficiencies developed by PHFA over the years allow all appropriated funds to go directly to home owners.

In addition to enhancing the Commonwealth's housing stock, PHFA's portfolio management assures financial security for the investor and the Agency's continued ability to generate low cost financing. Also, the Agency maintains what it finances. Its default rate for multifamily projects is zero; of 29,000 single family homes financed, less than one-half of one percent have been foreclosed. This record of achievement and high credit rating by Wall Street makes the Pennsylvania Housing Finance Agency one of the most productive organizations of its kind in the nation. We fully expect to build on and improve that record in the future.

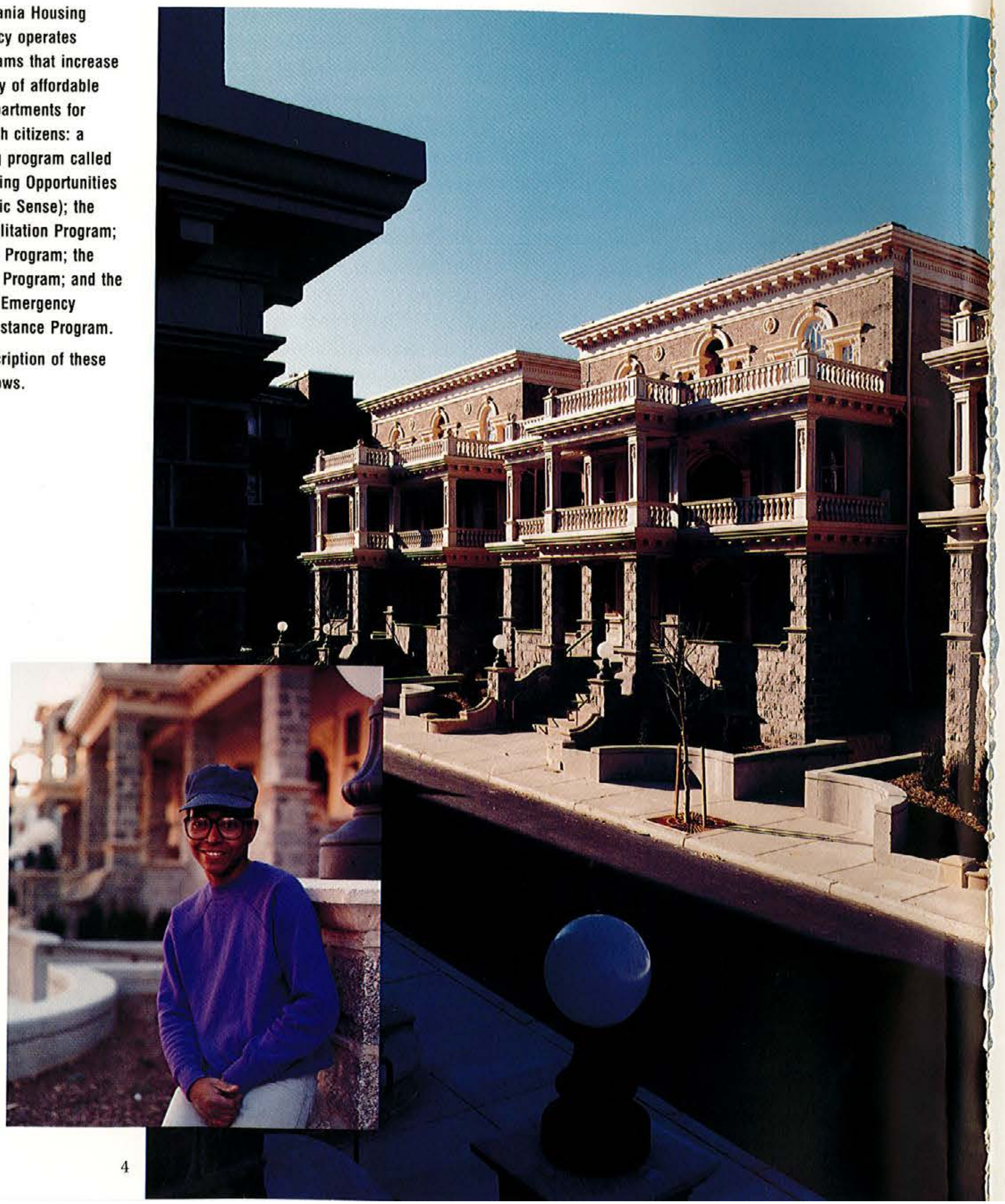
This report covers the Agency's activities and presents a detailed financial statement for the year ending June 30, 1989. It is respectfully submitted to the Governor, the General Assembly and the citizens of the Commonwealth of Pennsylvania.

Karen A. Miller
Chairperson

Karl Smith
Executive Director

The Pennsylvania Housing Finance Agency operates several programs that increase the availability of affordable homes and apartments for Commonwealth citizens: a rental housing program called HOMES (Housing Opportunities Make Economic Sense); the Rental Rehabilitation Program; the Tax Credit Program; the Single Family Program; and the Homeowners' Emergency Mortgage Assistance Program.

A brief description of these programs follows.

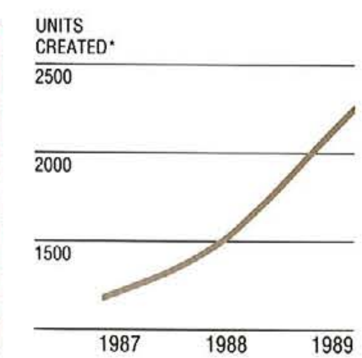


HOMES Program

Central to the Agency's multifamily rental housing effort is the HOMES (Housing Opportunities Make Economic Sense) Program, instituted in 1987 as a demonstration program to assist homeless Pennsylvanians. The HOMES Program provides developers of multifamily housing with permanent financing for the construction or rehabilitation of rental apartments. Under the program, PHFA concentrates resources and efforts to help develop housing for the elderly, low income families and handicapped persons. Combining PHFA's ability to generate mortgage financing with rental housing tax credits, HOMES low interest, deferred repayment subsidies have allowed the Agency to underwrite the development of 2,325 multifamily units. In 1989, the Board authorized $10,000,000 for HOMES complexes, bringing the total amount devoted to the program to $36,000,000 since its inception.

Linda Conner is a resident of Regent Square (facing page and cover). A loan from the Pennsylvania Housing Finance Agency helped convert these formerly abandoned buildings into 80 affordable apartments for Philadelphia renters.

RENTAL HOUSING PRODUCTION



*Includes units approved under the Rental Housing Demonstration Program, the Homeless Housing Demonstration Program and the HOMES (Housing Opportunities Make Economic Sense) Program.

The effect of HOMES is reflected in the wide dispersal of funds to projects in both urban and rural areas of the state. Because the typical recipient of HOMES financing is a small project, with an average of 27 rental units, PHFA has been able to finance developments in locations where the concentration of lower income families is greatest: blighted urban neighborhoods and rural communities where no previous funding had been available.

Typical of these efforts is the rehabilitation of Color Clinic Apartments in Allentown, which will serve twelve families. It is located in an inner city neighborhood that experienced serious economic decline in the 1970's and early 1980's. Because of absentee ownership of rental units and the economic recession earlier in the decade, Allentown suffered disproportionately in the loss of city services, job opportunities and economic development. Along with City activities that will bring the area rejuvenated growth, the Color Clinic project has helped stabilize a declining neighborhood, provided construction employment and acted as a buffer against an eroding community base. The Valley Housing Development Corporation, a non-profit organization that was established by the Lehigh County Housing Authority, is the project sponsor.

Another PHFA financed project, Mountain House in Arendtsville, Adams County, provides rehabilitated apartments to rural farm workers who have been major contributors to this region's economy.

Migrant workers have long been important to South Central Pennsylvania's agricultural output. The cost of worker housing in the past has rested largely upon the farm owners who depend on this labor market to produce annual crops. As years passed, however, owners were less able to guarantee such support and the shortfall in available housing manifested itself in the form of homelessness among the labor population. Mountain House is a cooperative venture between PHFA, Farmworker's Opportunities, Inc. and other non-profit organizations who believe that such housing will be an inducement to develop similar rental units for a vital element of the Commonwealth's agricultural work force.

Selection of projects such as these represents the Board's determination to finance developments that can be successfully managed to achieve the goals set forth in the National Housing Act of 1947, to insure that all Americans have access to decent, affordable places to live.

The SWIF Fund and Treasury Line of Credit

The Pennsylvania Housing Finance Agency has historically been able to attract the attention of investors who sought securities of unquestioned strength and attractive yields. This year has been no exception.

1989 saw the commitment by the State Workers Insurance Fund (SWIF) to purchase $25 million of Agency bonds to support multifamily mortgages. Such an arrangement means that the Fund can purchase a safe and profitable portfolio of mortgage-backed securities at yields that will improve its earnings, and that PHFA is able to provide reduced rate loans to developers for the construction of rental properties. The loan rate, 75 basis points above current ten year Treasury note yield, is approximately one-and-a-half percent below prime.

Further reducing the cost of development is an arrangement with the State Treasurer to provide PHFA with a $20 million line of credit for construction of affordable rental housing. Funds are lent at two points below prime. By lowering financing costs associated with the construction phase of development, sponsors can bring down rent levels paid by residents.

Both these funding sources hold the promise of long term benefit to lower income Pennsylvania renters.

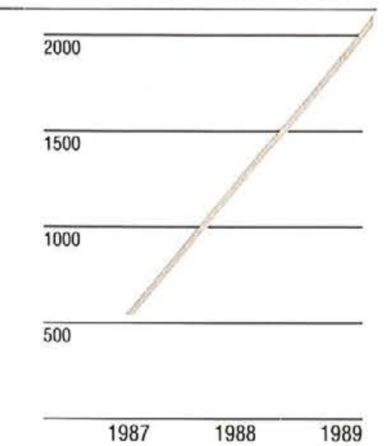
Rental Rehabilitation

Authorized by the Housing and Urban Recovery Act of 1983, the Rental Rehabilitation Program provides grants to help support the restoration of privately owned properties that are to be used for rental residences. Emphasizing maximum leverage of private dollars to reduce public costs, more than 200 Commonwealth communities currently qualify for participation in the program.

The Rental Rehabilitation Program is designed to meet several objectives including targeting lower income families with children as its intended beneficiaries. PHFA judges community need and local capacity for rehabilitation in awarding Rental Rehabilitation Program grants.

Martin Luther King Apartments will provide decent homes for ten homeless families in Harrisburg.

RENTAL UNITS REHABILITATED



Rehabilitation assistance operates on a 50-50 matching basis: recipients are responsible for half the cost. It can provide property owners with grants of up to $8,500 per unit, depending upon bedroom size. Section 8 certificates may also be available to eligible tenants under this program.

Since its inception 2,025 units have received funding under the Rental Rehabilitation Program.

Supportive Services Program

PHFA was one of only ten agencies across the nation selected by the Robert Wood Johnson Foundation to develop a supportive services program for frail elderly residents of subsidized housing. To date, the owners of 46 Agency-financed developments have agreed to participate in this pioneering effort.

To implement the program the Agency is conducting a survey to identify specific individual needs that, when fulfilled, will allow senior residents to maintain a high quality of life in their current surroundings.

As the survey is conducted, PHFA is commencing the initial training of rental housing management staff to more effectively address the needs of an aging population. When the surveys and training are completed, results will be made available to other housing providers who can undertake similar programs that enhance the living conditions of older renters.

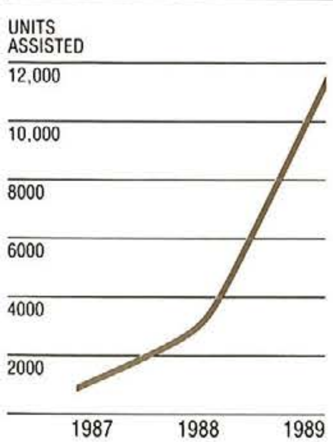
The Tax Credit Program

The 1986 Tax Reform Act created a tax credit to provide incentives for the development of low income rental housing. Individuals, for-profit and non-profit corporations, trusts and partnerships use the Low Income Rental Housing Tax Credit Program.

Tax credits are allocated to each state by the U.S. Treasury Department. In the Commonwealth the Agency administers the program.

The program offers direct federal income tax savings. Each dollar of credit reduces the amount of income tax owed by one dollar. Credits are claimed annually for a ten year period.

LOW INCOME RENTAL HOUSING TAX CREDIT PROGRAM



Mountain House is home for agricultural workers in Adams County.

1989 has witnessed an explosive growth of the Low Income Rental Housing Tax Credit Program. The demand for credits has by far exceeded the nearly $15 million authorized for Pennsylvania. Over 7,600 affordable rental units have resulted from this program.

Because the credit is one of the few incentives to private development of affordable housing, Congress is considering its extension beyond the end of the year. PHFA supports this action and has actively worked with the Pennsylvania Congressional delegation to continue providing this valuable inducement.

PHFA's various multifamily programs are designed to work in unison with private funding as well as existing federal, state and local programs. Although the Agency focuses considerable resources on meeting housing needs, the demand for funds exceeds the available supply. In the past a typical multifamily proposal included only one funding source. Today the successful project combines myriad grants and loans in order to develop the product. This has the effect of making PHFA's underwriting the central element of affordable rental housing units for the state's low income elderly population and homeless families.

The restoration of older rental units involves contributions from the Agency, local non-profit developers and, frequently, foundations.

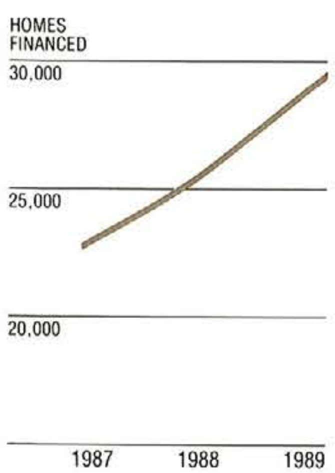
Single Family Home Ownership Program

The single family home ownership program offers below rate mortgage financing to first-time home buyers. It is the largest single program operated by PHFA. This effort is focused toward helping buyers with lower incomes purchase modest homes. The average annual income of eligible borrowers is $23,331. The average loan amount is $41,455 with an average home sales price of $48,457. Loans have been made in every county of the Commonwealth.

In 1989 PHFA expanded the availability of FHA insurance for low-equity borrowers. This has helped lower the closing cost of mortgage loans. More than twenty participating lenders are authorized to insure mortgages on FHA's behalf. PHFA continues to work to expand this availability across the Commonwealth.

To help in areas where FHA insurance is unavailable or not appropriate, PHFA and two private mortgage insurance companies, GE Capital Mortgage and the Mortgage Guarantee Insurance Corporation, are co-sponsoring a reduced rate private insurance program. Based on PHFA's financial strength, borrowers can obtain lower mortgage insurance fees and more liberal underwriting terms on Agency financed loans.

SINGLE FAMILY PRODUCTION



The Pennsylvania Housing Finance Agency has helped more than 29,000 families buy homes of their own.

Under the program, default risk is divided between PHFA and the companies with the effect that on a $50,000 loan, a borrower can reduce the cost of mortgage insurance by almost one-half.

PHFA anticipates that $100 million of mortgage loans will be underwritten using this new insurance mechanism.

In addition to providing mortgage loan financing to the general public, PHFA has operated pilot programs that meet special housing needs. These include:

- A mortgage pool for residents of the Logan area of Philadelphia who are being forced to relocate because of subsidence of the terrain.
- Reserved mortgages for minority renters who wish to purchase homes in the Diamond Street and Strawberry Manor areas of Philadelphia.
- A cooperative venture with the Allentown Redevelopment Authority to help Hispanic citizens purchase homes.
- A new construction venture in the City of Sunbury that will offer builders guaranteed loans to help revitalize a declining neighborhood.

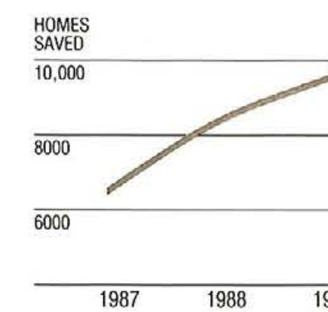
During 1989 PHFA funded nearly $165,000,000 in mortgages for 3,380 houses, bringing to over 29,000 the number of loans financed by the Agency.

HEMAP

The Homeowners Emergency Mortgage Assistance Program (HEMAP) was established in 1983. It is designed to protect citizens who, through no fault of their own, are in danger of losing their homes to foreclosure. Eligible applicants receive assistance in an amount sufficient to bring their mortgage payments current, and may also be eligible for continuing monthly payment assistance for up to thirty-six months.

HOMEOWNERS EMERGENCY MORTGAGE ASSISTANCE PROGRAM

More than a quarter of PHFA-financed single family mortgages are for new houses. The result: new jobs in construction, enhanced local tax bases and a stronger economy.

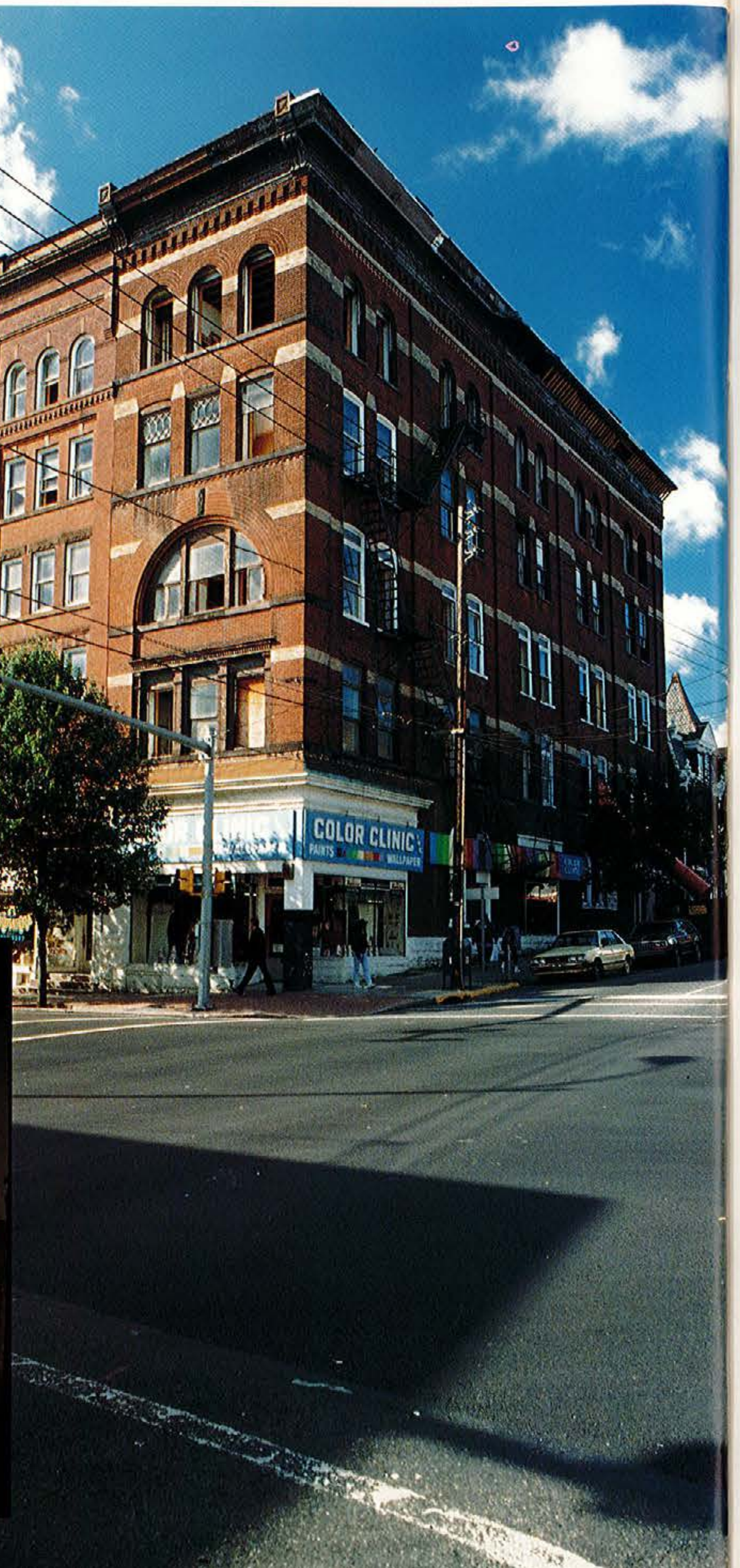


HEMAP is a loan program. Repayment begins and interest starts to accrue when the home owner is financially able. More than six-and-a-half million dollars of repayments have already been received. Repaid loans are reinvested in the program so that other citizens facing foreclosure can be assisted.

As a homeless prevention program, HEMAP is unlike any other in the nation. Working through counselling agencies, non-profit corporations and lending institutions, PHFA offers families the opportunity to remain in their homes, find retraining where necessary and once again join the work force.

The program is supported by funds provided by an annual appropriation from the state.

The Pennsylvania Housing Finance Agency has made multifamily mortgage loans of nearly $1,000,000,000 to finance more than 30,000 apartments across the Commonwealth.



Restoration of Color Clinic Apartments in Allentown was financed by PHFA.

PERMANENTLY FINANCED PHFA RENTAL HOUSING APARTMENT PROJECTS

PROJECT	COUNTY	UNITS/TYPE	MORTGAGE
McIntosh Court	Adams	12 G/N	$ 75,000
Mountain House Apartments	Adams	7 G/R	332,411
Baldwin Towers	Allegheny	99 E/N	4,048,475
Bellefield Dwellings	Allegheny	158 G/R	4,330,000
Bridgeville Towers	Allegheny	102 E/N	3,305,000
Carson Towers	Allegheny	133 E/R	4,210,000
Debra House	Allegheny	15 G/R	401,585
Dorothy Day Apartments	Allegheny	17 F/R	1,000,000
Eastland Apartments	Allegheny	27 F/R	825,000
Fairfax Apartments	Allegheny	247 G/R	3,965,000
Granada Apartments	Allegheny	22 E/R	690,000
Hilltop Apartments	Allegheny	152 F/N	3,125,000
Honus Wagner Apartments	Allegheny	129 E/N	4,411,500
Hulton Arbors	Allegheny	78 F/N	3,480,000
K. Leroy Irvis Tower	Allegheny	191 E/N	6,440,000
Monroe Tower	Allegheny	101 E/N	3,680,000
One Point Breeze Apartments	Allegheny	36 G/R	150,104
Penn Arbors	Allegheny	125 E/N	5,084,295
Punta Gorda Place	Allegheny	20 G/N	189,837
Riverview Park Apartments	Allegheny	168 G/N	3,250,000
Rolling Woods	Allegheny	85 F/N	3,539,137
Shields Building	Allegheny	30 E/R	625,000
South Park Apartments	Allegheny	101 F/N	4,219,591
*Squires Manor Phase I	Allegheny	132 G/N	2,412,000
The Lyceum Et Al	Allegheny	28 F/R	1,152,700
Thomas Village Apartments	Allegheny	66 F/N	2,820,260
Towne North Tower	Allegheny	135 E/N	4,705,000
Village Green Apartments	Allegheny	100 F/N	3,991,905
William S. Moorhead Tower	Allegheny	142 E/N	5,855,000
Penn Park Apartments	Allegheny	20 G/F	801,000
Beaver Falls Plaza	Beaver	121 E/N	3,800,000
Conway Towers	Beaver	85 E/N	3,112,800
New Brighton Elderly Apartments	Beaver	101 E/N	4,532,500
PRV Manor	Beaver	35 E/N	1,550,000
Spring Run Apartments Phase I	Beaver	101 F/N	4,190,000
Valley View Apartments	Beaver	120 F/N	3,710,000
Penn Bedford Apartments	Bedford	50 E/R	2,037,745
B'Nai B'rith House of Reading	Berks	175 E/N	4,910,000
Reading Elderly Housing	Berks	201 E/N	7,115,000
River Oak Apartments	Berks	72 F/N	2,238,548
Sencit Townehouse	Berks	201 E/N	5,135,000
777 Court Street	Berks	90 G/N	2,465,000
Cherry Grove Apartments	Blair	76 F/N	2,905,000
Greenfields	Blair	59 F/N	1,985,000
Harmony House	Blair	10 G/R	507,121
Spring Manor	Blair	51 E/N	1,804,035
Tyrone Elderly Housing	Blair	100 E/N	2,495,000
Tyrone Family Housing	Blair	50 F/N	1,520,000
Chemung View	Bradford	101 E/N	3,157,900
Galilee Village	Bucks	120 E/N	2,785,000
Meadow Glen	Bucks	91 F/N	3,741,513
Robert Morris Apartments	Bucks	63 F/R	2,281,828
Woodview Apartments	Bucks	119 E/N	4,455,000
Butler Arbors	Butler	120 E/N	3,050,000
Barnesboro Family Project	Cambria	62 F/N	2,167,552
Garden Terrace Apartments	Cambria	101 E/N	3,110,000
Haida Village	Cambria	31 F/N	1,131,548
Lodge Run	Cambria	31 E/N	1,018,403
Mountview Manor	Cambria	61 E/N	1,825,000
Gardens of Gypsy Hill	Carbon	71 F/N	2,380,000
Lansford Townhouses	Carbon	51 F/N	1,814,400
Lehigh Coal & Navigation Building	Carbon	27 E/R	815,000
Philipsburg Towers	Centre	102 E/N	2,705,000
City Clock Apartments	Chester	32 E/R	751,500
Park Spring Apartments	Chester	151 F/N	4,120,000
Regency Park Apartments	Chester	126 F/N	4,870,000
Trinity House	Chester	134 E/N	4,810,000
Vincent Heights	Chester	91 E/N	3,354,100
Broadwood Tower	Clarion	66 E/N	1,920,000
Hillside Village	Columbia	51 F/N	1,720,000
Bartlett Gardens	Crawford	43 E/R	1,145,000
Forest Green Estates	Crawford	100 F/N	3,405,000
Titusville Housing for Elderly	Crawford	65 E/N	1,968,000
Orchard Apartments	Cumberland	81 F/N	3,115,200
Susquehanna View Apartments	Cumberland	201 E/N	5,533,500
Village of Timber Hill	Cumberland	56 G/N	1,407,300
Cumberland Court Apartments	Dauphin	108 F/N	2,365,000
Edison Village	Dauphin	125 EF/R	5,385,000
Hershey Plaza	Dauphin	216 E/N	7,245,000
Interfaith Apartments	Dauphin	126 E/N	4,365,000
Martin Luther King Housing	Dauphin	10 G/R	420,126
Pheasant Hill Estates	Dauphin	172 E/N	4,681,600
Williamsburg Estates	Dauphin	312 G/N	7,025,000
Daniel Scott Commons	Delaware	72 F/N	3,272,500
Palmerhouse	Delaware	124 E/N	5,564,859
Robert H. Stinson Tower	Delaware	150 H/N	4,840,000
Barnabas Court	Erie	57 E/N	1,820,000
Covington Valley Estates	Erie	43 F/N	1,662,959
Girard Towers	Erie	51 E/N	1,875,038
Glenwood Manor Apartments	Erie	224 G/R	4,341,760
Independence House	Erie	12 H/N	400,000
Pennsylvanian	Erie	112 E/R	2,655,000
Richford Arms	Erie	100 E/R	3,150,000
Scalise Apartments (HANDS)	Erie	30 G/R	1,013,662
Tandem Townhouses	Erie	48 F/N	1,880,000
Union City Estates	Erie	51 F/N	1,907,808

No longer in Agency's portfolio

E = Elderly F = Family G = General Occupancy H = Handicapped N = New Construction R = Rehabilitated Dwelling

PROJECT	COUNTY	UNITS	TYPE	MORTGAGE
Simpson Manor	Fayette	126	F/N	3,510,000
Union Gardens	Fayette	95	F/N	3,947,849
Barclay Village	Franklin	86	F/N	2,335,000
Waynesboro Trinity House	Franklin	76	E/N	3,315,000
Blairsville House	Indiana	87	E/N	1,550,000
Mahoning Towers	Jefferson	101	E/N	2,450,000
Allied Terrace	Lackawanna	121	E/N	4,200,000
Cross Apartments	Lackawanna	6	G/R	203,374
Olyphant Apartments	Lackawanna	90	E/N	3,581,407
Village Park Apartments	Lackawanna	160	F/N	5,655,000
Lancaster Arms	Lancaster	74	F/N	3,376,419
Market House Apartments	Lancaster	51	E/R	1,920,000
Millersville Manor	Lancaster	121	E/R	2,875,000
Oak Hollow South	Lancaster	67	F/N	2,295,000
Old North Mansion Apartments	Lancaster	18	G/R	300,742
Plum Tree Apartments	Lancaster	15	F/R	605,000
Prince Street Towers	Lancaster	201	E/N	5,640,000
Rothsville School Apartments	Lancaster	15	G/R	535,565
Dennis Schill Manor	Lawrence	71	E/N	2,835,000
Hileman Apartments	Lawrence	41	F/R	1,120,000
Highland Glen	Lebanon	96	F/N	3,805,000
Plaza Apartments	Lebanon	128	G/N	2,250,000
Allentown NSA I	Lehigh	21	F/R	524,397
Color Clinic	Lehigh	12	F/R	581,909
Ridge Manor	Lehigh	30	E/N	1,011,597
South 6th Street Rehab	Lehigh	49	F/R	1,750,000
Towne House Apartments	Lehigh	160	E/N	4,195,000
Woodland Manor	Lehigh	70	F/N	2,620,000
Daniel J. Flood Tower	Luzerne	211	E/N	6,500,000
Edwardsville Village	Luzerne	252	F/N	4,950,000
Hazlewood	Luzerne	100	E/N	2,520,000
Marion Terrace	Luzerne	200	F/N	5,800,000
Marlboro Place	Luzerne	76	G/N	1,345,000
Ten East South	Luzerne	130	G/N	4,370,000
Berkshire Manor	Lycoming	20	E/R	625,000
Emery Towers	McKean	102	E/N	4,411,208
Connelly Manor	Mercer	127	E/N	3,768,000
Greenville House	Mercer	101	E/N	3,501,900
Reynolds West Estates	Mercer	101	F/N	3,935,000
Wade D. Mertz Towers	Mercer	103	E/N	3,095,000
Kish Apartments	Mifflin	141	E/N	3,725,000
Pocono Creek Apartments	Monroe	100	G/N	2,265,000
Cooperative Housing Initiative I	Montgomery	14	G/R	466,752
Dock Village	Montgomery	100	F/N	4,275,000
*Meadowick Village	Montgomery	273	G/N	7,050,000
Norristown Elderly Housing	Montgomery	175	E/N	6,560,000
Norriswood Apartments	Montgomery	42	G/R	814,319
Oakwood Gardens	Montgomery	48	F/R	1,430,000
Rolling Hills	Montgomery	232	F/N	6,250,000
Telford Gardens Apartments	Montgomery	49	F/R	1,765,000
Bangor Elderly	Northampton	101	E/N	3,825,000
Belvidere Apartments	Northampton	20	E/R	763,375
Easton Senior Citizens Housing	Northampton	98	E/N	1,776,000
55 Broadway Apartments	Northampton	26	G/R	465,500

PROJECT	COUNTY	UNITS	TYPE	MORTGAGE
Wyandotte Street Apartments	Northampton	7	G/R	357,085
Center City Apartments	Northumberland	34	G/R	1,125,238
Coal Township Elderly Housing	Northumberland	101	E/N	2,860,000
Milton Apartments	Northumberland	80	F/N	3,165,000
Mt. Carmel Elderly Housing	Northumberland	100	E/N	2,700,000
Riverfront Apartments	Northumberland	200	E/N	5,492,700
Perry Manor	Perry	50	F/N	1,970,000
Allen Lane Apartments	Philadelphia	17	F/R	755,900
Breslyn Apartments	Philadelphia	60	F/R	3,235,100
Christian Street Apartments	Philadelphia	72	G/N	2,818,568
Church Lane Apartments	Philadelphia	40	G/R	1,236,652
Crafts House	Philadelphia	55	G/R	3,250,000
Delaire Landing	Philadelphia	180	G/N	3,845,000
Dorado Village	Philadelphia	81	F/N	4,134,700
15th and Jefferson	Philadelphia	39	F/N	1,805,100
Franklin Park Apartments	Philadelphia	125	F/R	5,934,600
Haddington Elderly Apartments	Philadelphia	136	E/N	5,920,000
Haddington Townhouses	Philadelphia	126	F/N	6,495,700
Harbor View Towers Retirement Center	Philadelphia	196	E/N	10,967,000
Kensington Townhouses	Philadelphia	71	F/N	3,400,300
Larchwood Gardens	Philadelphia	180	G/R	2,665,623
Levering Court	Philadelphia	20	G/R	650,000
Monte Vista Apartments	Philadelphia	159	EF/R	7,606,500
Oak Lane/Chelten Court	Philadelphia	62	G/R	1,519,000
*One Buttonwood Square	Philadelphia	304	G/N	10,220,000
Park Tower Apartments	Philadelphia	157	E/N	7,155,000
Powelton Avenue	Philadelphia	25	G/R	1,153,584
Regent Street Apartments	Philadelphia	80	F/R	750,000
Single Parent Family	Philadelphia	4	G/R	103,751
Queens Court Apartments	Philadelphia	32	G/R	1,311,455
*Queen Village II	Philadelphia	51	G/R	1,180,000
Susquehanna Townhouses	Philadelphia	37	F/R	1,807,900
*Temple University Student Housing	Philadelphia	82	G/R	2,000,000
Trinity Place Apartments	Philadelphia	44	G/R	535,000
Venango House	Philadelphia	106	E/N	4,820,000
Mahanoy Elderly Housing	Schuylkill	125	E/N	3,940,000
Majestic House	Schuylkill	74	E/R	2,520,000
Stayman Park	Snyder	77	E/N	2,470,000
Pine Meadow	Snyder	100	F/N	3,715,000
Coleman Towers	Somerset	51	E/N	2,007,847
Laurel Village II	Somerset	48	F/N	1,570,000
Village at Somerset	Somerset	101	F/N	4,772,967
Montrose Square	Susquehanna	81	E/N	2,750,000
Mansfield Village	Tioga	51	F/N	1,883,130
Kelly Apartments	Union	80	E/N	2,130,000
Cornplanter Housing Project	Venango	20	F/N	1,244,215
Franklin Arbors	Venango	88	E/N	2,365,000
Bentleyville Apartments	Washington	102	F/N	3,925,000
Canon House	Washington	104	E/N	3,165,000

*No longer in Agency's portfolio

The opening of 40 renovated apartments is celebrated at Church Lane in the Germantown section of Philadelphia.

PROJECT	COUNTY	UNITS	TYPE	MORTGAGE
Char House	Washington	104	E/N	3,430,000
Liberty Tower	Washington	104	E/N	3,730,000
Penn Park	Washington	25	F/R	801,000
Thomas Campbell North	Washington	75	E/N	2,255,000
Eastmont Estates	Westmoreland	100	F/N	2,699,948
Filbern Manor	Westmoreland	127	E/N	3,800,000
Huntingdon Village	Westmoreland	96	F/N	3,960,000
Maple Hill Apartments	Westmoreland	72	F/N	2,869,500
Markvue Apartments	Westmoreland	35	G/N	563,000
Nu-Ken Tower	Westmoreland	101	E/N	4,175,000
Pershing Square	Westmoreland	111	E/N	4,285,000
Rostraver Apartments	Westmoreland	96	F/N	3,583,400
Sandalwood	Westmoreland	86	F/N	3,512,269
Wimmerton Apartments	Westmoreland	100	G/N	1,820,000
Cable House	York	83	F/R	3,565,000
Delphia House	York	104	E/N	3,050,000
TOTAL PROJECTS: 190		18928		614,257,762

PHFA-FINANCED CONSTRUCTION LOAN PROJECTS

PROJECT	COUNTY	UNITS	TYPE	MORTGAGE
Bower Hill III Apartments	Allegheny	135	E/N	$7,842,900
Brinton Towers	Allegheny	190	E/N	4,272,200
Heritage Park	Allegheny	108	E/N	4,171,100
Roosevelt Arms	Allegheny	191	E/R	5,290,100
Settlers Place	Allegheny	164	F/N	5,732,100
Squirrel Hill	Allegheny	117	E/R	3,648,600
Scottswood	Beaver	106	F/N	4,246,300
Wilson Townhouses	Berks	200	F/N	4,483,800
Belmondo on the Delaware	Bucks	195	G/N	5,265,000
Center Square Towers	Bucks	352	E/N	7,558,400
Downingtown Sr. Citizen Housing	Chester	40	E/N	1,216,800
Bloomsburg Elderly	Columbia	76	E/N	2,407,400
Cumberland Elderly Housing	Cumberland	101	E/N	3,009,800
Maclay Street NSA Project	Dauphin	126	F/R	6,033,500
Rutherford Park Townhouses	Dauphin	85	F/N	3,534,400
Elk Towers	Elk	103	E/N	3,517,300
Mid-City Towers	Erie	132	E/N	3,437,700
Connellsville Towers	Fayette	111	E/N	4,247,600
Carmichaels Arbors	Greene	76	E/N	2,114,500
Mountainview Gardens	Greene	120	F/N	4,229,400
Robindale Heights Apartments	Indiana	20	F/N	695,600
Mulberry Tower	Lackawanna	206	E/N	6,692,900
Webster Towers	Lackawanna	98	E/N	2,076,200
North Queen St. Apartments	Lancaster	8	F/R	517,200
Westview Terrace	Lawrence	106	F/N	2,036,705
Brookside Apartments	Lebanon	100	E/N	2,098,500
Plaza II	Lebanon	128	G/N	2,521,100
Catasauqua Apartments	Lehigh	10	F/R	397,200
Lutheran Manor	Lehigh	197	E/N	5,630,500
Anthracite Apartments	Luzerne	121	E/N	3,918,000
Center City Apartments	Luzerne	176	E/N	5,525,200
City Heights	Luzerne	151	E/N	4,658,000
Eastside Moderate Income Housing	Luzerne	76	F/N	1,478,400
Freeland II Housing	Luzerne	22	E/R	1,032,100
Hillside Apartments	Luzerne	200	F/N	4,099,900
Sherman Terrace Apartments	Luzerne	344	EF/N	7,249,300
Williamsport Elderly Housing	Lycoming	101	E/N	2,758,600
Pine Tree Village	Mercer	128	F/N	5,198,900
Riverview Manor	Mercer	123	F/N	2,512,000
Shenango Village	Mercer	100	F/N	1,877,500
Courtland Plaza	Monroe	101	E/N	2,793,300
Creekview Apartments	Monroe	80	F/N	2,288,700
Moreland Towers	Montgomery	138	E/N	2,884,700
Southside Apartments	Northampton	150	E/N	4,045,000
2400 Chestnut Street	Philadelphia	372	G/N	15,280,000
20th and South Streets	Philadelphia	61	G/R	2,055,400
American Postal Workers House	Philadelphia	300	E/N	10,465,500
Delaire Landing Phase 5	Philadelphia	216	G/N	5,204,500

E = Elderly F = Family G = General Occupancy H = Handicapped N = New Construction R = Rehabilitated Dwelling

PROJECT	COUNTY	UNITS/TYPE	MORTGAGE
Executive House	Philadelphia	301 G/N	18,634,500
Gray Manor	Philadelphia	130 E/N	5,421,000
Lutheran Elderly Housing	Philadelphia	208 E/N	6,992,400
Mount Vernon Apartments	Philadelphia	124 F/N	2,428,800
Shalom Apartments	Philadelphia	155 E/N	4,833,400
Stenton Arms Apartments	Philadelphia	113 F/R	1,158,100
University City Townhouses	Philadelphia	70 F/N	3,807,400
University Plaza Apartments	Philadelphia	442 E/N	15,500,800
Verona Apartments	Philadelphia	117 G/R	2,614,800
West Poplar Apartments	Philadelphia	140 F/N	4,939,800
Wister Townhouses	Philadelphia	200 F/N	7,308,700
Lewisburg Elderly Housing	Union	80 E/N	2,698,900
Oak Hill Apartments	Venango	120 F/N	2,313,100
Pin Oak Village	Venango	100 F/R	1,752,700
Belvedere Acres	Washington	96 F/N	3,799,000
Washington Arbors	Washington	101 E/N	2,587,200
TOTAL PROJECTS: 64		9058	281,040,405

PHFA-FINANCED RURAL RENTAL HOUSING PROJECTS

Rayburn Manor	Armstrong	46 F/N	$1,415,367
Washington Glen	Bucks	42 F/N	1,475,418
Emerald Estates	Cambria	35 E/N	1,373,000
McAteer Village	Clearfield	35 F/N	1,231,580
Titusville Manor	Crawford	47 F/N	1,421,055
Hummelstown Manor	Dauphin	51 E/N	1,672,105
Strathemeade Square	Franklin	23 F/N	846,000
Nathan Village Apartments	Lancaster	51 E/N	1,322,622
Oak Bottom Village	Lancaster	24 F/N	795,800
Oak Hollow	Lancaster	56 F/N	947,900
Hillcrest Village	Montgomery	72 F/N	2,223,900
Valley Manor	Montgomery	40 F/N	1,279,125
Valley Vista	Montgomery	101 E/N	2,311,000
Avonmore Housing for the Elderly	Westmoreland	36 E/N	1,357,578
Derry Area Senior Citizens Housing	Westmoreland	18 E/N	342,000
TOTAL PROJECTS: 15		677	20,014,450

PHFA-FINANCED TURNKEY PUBLIC HOUSING CONSTRUCTION LOAN PROJECTS

PROJECT	COUNTY	UNITS/TYPE	MORTGAGE
West View Elderly	Allegheny	100 E/N	$4,196,970
Monaca Elderly Turnkey	Beaver	100 E/N	4,583,304
Birdsboro Elderly Turnkey	Berks	16 E/N	664,938
Fleetwood Elderly Turnkey	Berks	20 E/N	710,113
Sinking Springs	Berks	25 F/N	1,319,220
Wyalusing Elderly	Bradford	30 E/N	1,186,447
Slippery Rock Turnkey	Butler	50 E/N	2,144,700
Lehighton Turnkey	Carbon	10 G/N	550,426
Oxford Elderly Turnkey	Chester	48 E/N	2,015,473
Renovo Family Turnkey	Clinton	27 F/N	1,617,248
Pomfret Street Apartments	Cumberland	25 F/N	1,188,387
Williamstown Boro Family Turnkey	Dauphin	10 F/N	469,658
Williams Township Family Turnkey	Dauphin	40 F/N	2,071,757
J. Leonard Ostrow	Erie	80 E/N	2,742,400
Millcreek Elderly Housing	Erie	65 E/N	2,000,000
North East Elderly Turnkey	Erie	40 E/N	1,443,786
Burrell Township Turnkey	Indiana	50 EF/N	2,291,580
Saltsburg Family Turnkey	Indiana	25 F/N	1,226,070
Carbondale Elderly Turnkey	Lackawanna	45 E/R	1,750,795
Lebanon City Turnkey	Lebanon	39 F/N	1,584,798
Slatington Elderly	Lehigh	75 E/N	3,752,946
Foster Township Turnkey	McKean	42 EF/N	1,792,422
McKean County Turnkey	McKean	136 EF/N	2,437,400
Schuylkill Haven Turnkey	Schuylkill	40 F/N	1,596,695
Middleburg Family Turnkey	Snyder	40 F/N	1,757,096
Arnold Family Housing	Westmoreland	20 F/N	1,004,945
Greensburg Family	Westmoreland	20 F/N	955,533
Lower Burrell Elderly Turnkey	Westmoreland	125 F/N	4,361,280
Trafford Elderly Turnkey	Westmoreland	100 E/N	3,708,320
Fairview Township Turnkey	York	75 E/N	3,209,697
TOTAL PROJECTS: 30		1518	60,334,404

E = Elderly F = Family G = General Occupancy H = Handicapped N = New Construction R = Rehabilitated Dwelling

PENNSYLVANIA HOUSING FINANCE AGENCY
REPORT ON AUDITS OF FINANCIAL STATEMENTS
for the years ended June 30, 1989 and 1988
AND SUPPLEMENTAL SCHEDULES
for the year ended June 30, 1989

Coopers & Lybrand

certified public accountants

To the Members of the
Pennsylvania Housing Finance Agency
Harrisburg, Pennsylvania

We have audited the accompanying balance sheets of the Pennsylvania Housing Finance Agency (Agency) as of June 30, 1989 and 1988, and the related statements of revenues, expenses and changes in fund balances and changes in financial position for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 1989 and 1988, and the results of its operations and its changes in financial position for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules, Ten-Year Historical Trend Information: Analysis of Funding Progress and Revenues by Source and Expenses by Type, on pages 38 and 39 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

5 North Fifth Street
Harrisburg, Pennsylvania
September 6, 1989 (except as
to Note M, which is as of
September 14, 1989)

Coopers & Lybrand

Balance Sheets

June 30, 1989 and 1988

	1989				1988			
	General Fund	Multi-Family Program	Single Family Program	Combined Total	General Fund	Multi-Family Program	Single Family Program	Combined Total
ASSETS:								
Deposits and investments (Note E)	$67,526,736	274,087,825	469,570,976	811,185,537	$68,565,547	239,589,418	360,449,310	668,604,275
Mortgage loans receivable (Note F)	369,079	544,046,925	765,086,995	1,309,502,999	444,600	544,723,764	653,583,376	1,198,751,740
Construction advances (Note F)	—	9,677,942	—	9,677,942	—	3,767,463	—	3,767,463
Deferred and other assets	1,633,421	8,469,516	3,191,692	13,294,629	1,459,803	8,883,643	2,702,569	13,046,015
Due from other funds	327,287	—	1,223,821	1,551,108	—	—	6,294,191	6,294,191
	$69,856,523	836,282,208	1,239,073,484	2,145,212,215	$70,469,950	796,964,288	1,023,029,446	1,890,463,684
LIABILITIES AND FUND BALANCES:								
Notes payable (Note G)	—	15,000,000	—	15,000,000	—	2,000,000	—	2,000,000
Accrued interest payable	—	20,794,594	39,736,579	60,531,173	—	20,349,989	34,446,801	54,796,790
Accounts payable and accrued expenses	732,361	—	—	732,361	677,954	—	—	677,954
Escrow and other liabilities	1,434,959	78,969,634	6,201,303	86,605,896	902,865	66,928,032	7,746,857	75,577,754
Bonds payable (Note H)	—	660,965,203	1,149,582,190	1,810,547,393	—	658,091,594	945,686,576	1,603,778,170
Due to other funds	—	1,551,108	—	1,551,108	5,302,158	992,033	—	6,294,191
Total liabilities	2,167,320	777,280,539	1,195,520,072	1,974,967,931	6,882,977	748,361,648	987,880,234	1,743,124,859
Fund balances:								
Reserved	345,863	3,360,000	23,459,022	27,164,885	345,863	3,360,000	15,662,397	19,368,260
Unreserved:								
Designated	37,574,955	19,623,254	27,836	57,226,045	32,911,487	14,842,925	355,346	48,109,758
Undesignated	29,768,385	36,018,415	20,066,554	85,853,354	30,329,623	30,399,715	19,131,469	79,860,807
Total fund balances	67,689,203	59,001,669	43,553,412	170,244,284	63,586,973	48,602,640	35,149,212	147,338,825
	$69,856,523	836,282,208	1,239,073,484	2,145,212,215	$70,469,950	796,964,288	1,023,029,446	1,890,463,684

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

Statements of Revenues, Expenses and Changes in Fund Balances

for the years ended June 30, 1989 and 1988

	1989				1988			
	General Fund	Multi-Family Program	Single Family Program	Combined Total	General Fund	Multi-Family Program	Single Family Program	Combined Total
REVENUES:								
Interest income:								
Investments	$ 5,674,185	16,325,006	35,125,603	57,124,794	$ 5,532,034	13,453,457	24,150,995	43,136,486
Mortgage loans receivable (Note F)	26,812	51,634,189	65,641,356	117,302,357	29,217	51,010,564	61,189,248	112,229,029
Construction advances (Note F)	—	346,492	—	346,492	—	651,580	—	651,580
Total interest income	5,700,997	68,305,687	100,766,959	174,773,643	5,561,251	65,115,601	85,340,243	156,017,095
Fees and charges	3,611,261	—	—	3,611,261	3,310,180	—	—	3,310,180
Gain on sale of investments	—	16,563	937	17,500	179,591	5,000	2,344	186,935
Total operating revenue	9,312,258	68,322,250	100,767,896	178,402,404	9,051,022	65,120,601	85,342,587	159,514,210
EXPENSES:								
Interest on notes (Note G)	—	832,215	—	832,215	—	11,666	97,336	109,002
Interest on bonds (Note H)	—	57,378,870	90,948,460	148,327,330	—	57,652,112	80,856,233	138,508,345
Salaries and related benefits	4,512,610	—	—	4,512,610	4,532,886	—	—	4,532,886
General and administrative	2,137,224	—	—	2,137,224	2,214,455	—	—	2,214,455
Loan loss provision	—	—	400,000	400,000	—	—	—	—
Total operating expenses	6,649,834	58,211,085	91,348,460	156,209,379	6,747,341	57,663,778	80,953,569	145,364,688
Net income before extraordinary items	2,662,424	10,111,165	9,419,436	22,193,025	2,303,681	7,456,823	4,389,018	14,149,522
Extraordinary gain (loss):								
Early extinguishment of debt (Note H)	—	—	(1,015,236)	(1,015,236)	—	18,953	(1,135,451)	(1,116,498)
Property conversion (Note K)	—	1,727,670	—	1,727,670	—	—	—	—
Net income	2,662,424	11,838,835	8,404,200	22,905,459	2,303,681	7,475,776	3,253,567	13,033,024
Fund balances at beginning of year	63,586,973	48,602,640	35,149,212	147,338,825	70,748,212	34,576,194	28,981,395	134,305,801
Fund balance transfers, net (Note D)	1,439,806	(1,439,806)	—	—	(9,464,920)	6,550,670	2,914,250	—
Fund balances at end of year	**$67,689,203**	**59,001,669**	**43,553,412**	**170,244,284**	**$63,586,973**	**48,602,640**	**35,149,212**	**147,338,825**

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

Statements of Changes in Financial Position

for the years ended June 30, 1989 and 1988

	1989				1988			
	General Fund	Multi-Family Program	Single Family Program	Combined Total	General Fund	Multi-Family Program	Single Family Program	Combined Total
SOURCES OF DEPOSITS AND INVESTMENTS:								
From operations:								
Net income before extraordinary items	$ 2,662,424	10,111,165	9,419,436	22,193,025	2,303,681	7,475,776	3,253,567	13,033,024
Items not using (providing) cash:								
Amortization of discounts on notes and bonds payable	—	1,159,719	1,855,541	3,015,260	—	1,326,831	817,402	2,144,233
Other (accretion), amortization and depreciation	441,120	460,926	(400,911)	501,135	401,538	484,420	(467,086)	418,872
Loan loss provision	—	—	400,000	400,000	—	—	—	—
Deposits and investments provided by operations before extraordinary items	3,103,544	11,731,810	11,274,066	26,109,420	2,705,219	9,287,027	3,603,883	15,596,129
Extraordinary gain (loss):								
Early extinguishment of debt	—	—	(1,015,236)	(1,015,236)	—	(18,953)	1,135,451	1,116,498
Property conversion	—	1,727,670	—	1,727,670	—	—	—	—
Deposits and investments provided by operations	3,103,544	13,459,480	10,258,830	26,821,854	2,705,219	9,268,074	4,739,334	16,712,627
Fund balance transfers, net	1,439,806	(1,439,806)	—	—	(9,464,920)	6,550,670	2,914,250	—
Bond and note proceeds, net of discount	—	21,000,000	489,980,073	510,980,073	—	4,246,000	258,981,136	263,227,136
Mortgage principal payments received	75,521	8,747,861	60,225,437	69,048,819	51,786	4,695,733	71,621,384	76,368,903
Mortgages permanently financed	—	1,689,100	—	1,689,100	—	16,234,197	—	16,234,197
Increase in due to other funds	—	559,075	5,070,370	5,629,445	2,030,289	188,854	—	2,219,143
Increase in accrued interest payable	—	444,605	5,289,778	5,734,383	—	376	9,515,325	9,515,701
Decrease in other assets, net of other liabilities	—	12,055,708	—	12,055,708	109,136	10,708,405	4,027,001	14,844,542
Total sources of deposits and investments	4,618,871	56,516,023	570,824,488	631,959,382	(4,568,490)	51,892,309	351,798,430	399,122,249
USES OF DEPOSITS AND INVESTMENTS:								
Increase in construction advances and mortgage loans receivable	—	15,731,506	171,484,314	187,215,820	—	18,927,466	143,977,601	162,905,067
Payment of bond principal	—	6,286,110	287,940,000	294,226,110	—	6,114,618	234,065,000	240,179,618
Payment of note principal	—	—	—	—	—	—	2,611,626	2,611,626
Increase in due from other funds	5,629,445	—	—	5,629,445	—	—	2,219,143	2,219,143
Increase in other assets, net of other liabilities	28,237	—	2,278,508	2,306,745	—	—	—	—
Total uses of deposits and investments	5,657,682	22,017,616	461,702,822	489,378,120	—	25,042,084	382,873,370	407,915,454
Increase (decrease) in deposits and investments	(1,038,811)	34,498,407	109,121,666	142,581,262	(4,568,490)	26,850,225	(31,074,940)	(8,793,205)
Deposits and investments at beginning of year	68,565,547	239,589,418	360,449,310	668,604,275	73,134,037	212,739,193	391,524,250	677,397,480
Deposits and investments at end of year	**$67,526,736**	**274,087,825**	**469,570,976**	**811,185,537**	**$68,565,547**	**239,589,418**	**360,449,310**	**668,604,275**

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

A. Authorizing Legislation:

The Pennsylvania Housing Finance Agency (Agency) is a body corporate and politic created by the Housing Finance Agency Law, Act of December 3, 1959, P.L. 1688 (Act), 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 persons and families of low and moderate income 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 political subdivisions or a pledge of the faith and credit of the Commonwealth of Pennsylvania or of any of its political subdivisions.

The act was amended, on December 31, 1981, to authorize the Agency to make or purchase loans to finance the purchase, construction, improvement or rehabilitation of owner-occupied single family residences.

The Act was further amended, on May 31, 1984, to authorize the Agency to finance the construction and rehabilitation of housing units without requiring the housing units to be subsidized or assisted by a Federal Government program.

In December, 1986, legislation was enacted by the Pennsylvania General Assembly to extend the operations of the Agency through December 31, 1995.

B. Fund Accounting:

The accounts of the Agency are organized on the basis of funds, each of which is considered to be a separate accounting entity with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenses. The funds used by the Agency are described below.

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

Multi-Family Program:
The Multi-Family Program transactions relate to the construction, rehabilitation and permanent financing of multi-family rental housing developments generally designed for persons and families of low and moderate income or the elderly.

Single Family Program:
The Single Family Program transactions relate to the purchase of mortgage loans for owner-occupied single family residences for persons and families of low and moderate income.

C. Summary of Significant Accounting Policies:

The financial statements have been prepared on the accrual basis. On this basis, revenues are recognized in the year in which they are earned and become measurable, and expenses are recognized in the year they are incurred.

Deposits and Investments:
Investment securities are carried at the lower of amortized cost or market, plus accrued interest. Deposits are carried at cost, plus accrued interest. Premiums and discounts on investments are amortized on a straight-line basis over the term of the investment.

Mortgage Loans Receivable and Construction Advances:
Mortgage loans receivable and construction advances are carried at amounts disbursed plus accrued interest and fees, less collections and allowance for potential loan losses, if any.

Allowance for Potential Loan Losses:
The allowance for potential loan losses is determined based upon management's evaluation of mortgage loans receivable and construction advances. Additions to the allowance are made by charges to expense.

Loan Interest:
Interest income is recognized over the life of construction advances and mortgage loans.

Loan Origination Fees and Costs:
Loan origination fees range from .75% to 1.5% of the loan commitment for the Multi-Family Program and from 0% to 2% of the mortgage amount for the Single Family Program.

Loan origination costs relate to investigations, surveys, appraisals and other matters pertaining to the evaluation of mortgage loan proposals and construction advances.

The net difference between the loan origination fee and the related direct loan origination cost is deferred and amortized using the interest method over the life of the loan.

Amortization of Note and Bond Discounts:
Note and bond underwriter discounts, including original issue discounts, are amortized over the lives of the issues using the interest method.

D. Fund Balance Transfers:

The Agency is permitted to make fund balance transfers to the extent that such fund balances and the related assets are not required to meet the Agency's debt obligations and provided that such transfers are not in violation of the terms of bond resolutions or indentures. The Single Family bond resolutions contain such restrictions on transfers. Fund balance transfers from the Multi-Family Program include earnings in excess of the note and bond interest and other related expenses transferred to comply with arbitrage regulations.

In accordance with certain bond resolutions, the Agency has transferred prescribed amounts from the General Fund to the Single Family Program. Such proceeds have been used primarily to meet Capital Reserve and Self-Insurance Fund requirements for Single Family Mortgage Revenue Bonds. The Agency transferred a net amount of $2,914,250 from the General Fund to the Single Family Program during the year ended June 30, 1988. There were no such transfers during the year ended June 30, 1989.

E. Deposits and Investments:

Authority for Agency Deposits and Investments:
The deposit and investment policies of the Agency are governed by statutes and contractual provisions contained in the bond trust indentures. Agency deposits must be held in insured depositories satisfactory to the Agency and must be fully collateralized. Permissible investments include direct obligations of or guaranteed by the U.S. Treasury and U.S. Government agencies; any other obligation of the U.S. Treasury or any other U.S. Government agencies which are legal

investments for savings banks, savings associations, or savings and loan associations in the Commonwealth of Pennsylvania; fully secured public housing bonds, temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities; direct and general obligations of or obligations guaranteed by the Commonwealth of Pennsylvania; direct and general obligations of any state of the United States, guaranteed by such state, provided that at the time of purchase the obligations maintain a satisfactory investment rating; fully collateralized repurchase agreements; reverse repurchase agreements; mutual or money market funds; commercial paper or finance company paper; non-collateralized certificates of deposit and various investment agreements that maintain a satisfactory investment rating; and interest-bearing time or demand deposits and certificates of deposit.

Deposits:
The following summary presents the Agency's deposits which are fully insured or collateralized with securities held by the Agency's agent in the Agency's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Agency's name (Category 2) and those deposits which are not collateralized or those collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Agency's name (Category 3), were as follows:

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
June 30, 1989					
Demand deposits (overdrafts)	$ 261,160	—	558,596	819,756	(435,946)
Certificates of deposit	3,560,000	31,645,000	—	35,205,000	35,290,504
	$3,821,160	**31,645,000**	**558,596**	**36,024,756**	**34,854,558**
June 30, 1988					
Demand deposits (overdrafts)	$ 893,535	—	—	893,535	(1,175,015)
Certificates of deposit	5,240,000	580,000	—	5,820,000	5,829,467
	$6,133,535	**580,000**	—	**6,713,535**	**4,654,452**

Deposits classified as Category 3 are secured by pooled collateral in accordance with Act 72 of the Commonwealth of Pennsylvania. The bank balances in excess of carrying amount represent checks which have not cleared the bank, net of deposits in transit or other transactions not recorded by the bank until after year-end.

Investments:
The Agency categorizes investments according to the level of credit risk assumed by the Agency. Category 1 includes investments that are insured, registered or held by the Agency's agent in the Agency's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Agency's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the Agency's name. Certain investments have not been categorized because securities are not used as evidence of the investment. These uncategorized investments include ownership interests in mutual funds and investment agreements.

The summary below identifies the level of credit risk assumed by the Agency and the total carrying amount and market value of the Agency's investments.

	Carrying Amount				
	Category 1	Category 2	Category 3	Total	Market Value
June 30, 1989					
Corporate bonds	$ 8,737,642	—	—	8,737,642	8,627,685
Repurchase agreements	366,732,295	27,956,233	—	394,688,528	394,688,528
U.S. Government obligations	133,787,390	208,812	—	133,996,202	159,795,165
U.S. Government Agency obligations	220,516,335	—	—	220,516,335	219,952,407
Other	14,091,638	—	—	14,091,638	14,091,638
Totals	**$743,865,300**	**28,165,045**	—	772,030,345	797,155,423
Add amounts not categorized because securities are not used as evidence of the investments:					
Mutual funds				4,300,634	4,300,634
Total investments				**776,330,979**	**801,456,057**
June 30, 1988					
Corporate bonds	$ 8,754,914	—	—	8,754,914	8,552,507
Repurchase agreements	252,547,294	12,953,012	—	265,500,306	265,500,306
U.S. Government obligations	134,828,126	—	—	134,828,126	150,704,121
U.S. Government Agency obligations	214,776,508	—	—	214,776,508	212,537,901
Other	11,892,010	—	—	11,892,010	11,892,010
Totals	**$622,798,852**	**12,953,012**	—	635,751,864	649,186,845
Add amounts not categorized because securities are not used as evidence of the investments:					
Citicorp investment agreement				24,141,479	24,141,479
Mutual funds				4,056,480	4,056,480
Total investments				**663,949,823**	**677,384,804**

The following provides a reconciliation of the carrying amount presented in the balance sheets at June 30, 1989 and 1988:

	1989	1988
Deposits	$ 34,854,558	4,654,452
Investments	776,330,979	663,949,823
Total deposits and investments	**$811,185,537**	**668,604,275**

Management is not aware of any violations of statutory authority or contractual provisions for deposits and investments during the years ended June 30, 1989 and 1988.

F. Mortgage Loans Receivable and Construction Advances:

The mortgage loans receivable and construction advances are secured by first mortgages on the related properties. The Federal Government provides insurance for certain projects included in the Multi-Family Program, with insurance for the Single Family Program being provided by commercial companies. In addition, the Agency has designated a portion of fund balance for self-insurance for certain Multi-Family and Single Family loans (see note I). A summary of Multi-Family construction advances and mortgage loans receivable as of June 30, 1989 and 1988 is as follows:

	Mortgage Loans Receivable	Construction Advances
June 30, 1989:		
Insured and subsidized	$ 45,205,790	5,404,772
Insured and nonsubsidized	14,804,805	3,732,049
Uninsured and subsidized	463,204,053	541,121
Uninsured and nonsubsidized	28,432,277	—
	551,646,925	9,677,942
Allowance for potential loan losses	7,600,000	—
	$544,046,925	**9,677,942**
Interest rate range	**7.4% – 14.0%**	**6.5% – 10.25%**
June 30, 1988:		
Insured and subsidized	$ 45,294,578	157,075
Insured and nonsubsidized	14,276,466	1,093,712
Uninsured and subsidized	462,160,553	2,516,676
Uninsured and nonsubsidized	30,592,167	—
	552,323,764	3,767,463
Allowance for potential loan losses	7,600,000	—
	$544,723,764	**3,767,463**
Interest rate range	**7.4% – 14.0%**	**1.0% – 10.6%**

There has been no increase in the Agency's multi-family program aggregate allowance for potential loan losses during the years ended June 30, 1989 and 1988.

Substantially all single family mortgage loans are subject to two levels of insurance, primary insurance and pool insurance. Primary insurance is required on all Single Family mortgage loans where the loan principal amount exceeds 80% of the lesser of the purchase price or the initial appraised value of the property. The amount of primary insurance coverage required, as defined in the bond resolutions, is the amount by which the loan exceeds 66.5% – 72.0% (depending on Single Family bond issue) of the lesser of the appraised value or sales price of the residence. It is the eligible borrowers responsibility to bear the cost of primary insurance.

Pool insurance covers certain losses sustained by reason of default in payments by eligible borrowers in excess of primary insurance. The Agency has elected to self-insure the pool insurance for Single Family mortgage loans originating from proceeds obtained from Single Family bond issues Series I through V. The total principal outstanding of mortgage loans self-insured by the Agency was $365,505,083 and $207,627,132 at June 30, 1989 and 1988, respectively. On July 6, 1988, the Agency assumed pool insurance coverage for Single Family mortgage loans originating from proceeds obtained from Single Family bond issues Series C through H. The total principal outstanding of these mortgage loans was $371,764,413 and $408,313,342 at June 30, 1989 and 1988, respectively.

The Agency established an allowance for potential loan losses for its Single Family mortgage loans of $400,000 at June 30, 1989.

The Agency has placed restrictions on retained earnings in both the General Fund and Single Family Program for self-insurance (see Note I).

G. Notes Payable:

The Agency maintains a line of credit agreement with the Department of Treasury of the Commonwealth of Pennsylvania. Under the Agreement, the Agency may draw down an amount up to $20,000,000. At the time funds are drawn, the interest rates on the respective notes are fixed at rates equal to 2 points below the current prime rate listed by Morgan Guaranty Trust of New York. These funds may be used for any and all of the purposes for which the Agency is lawfully established. As of June 30, 1989 and 1988, the Agency had notes payable outstanding of $15,000,000 and $2,000,000, respectively, which bear interest at rates ranging from 7% to 9.5% for 1989 and at a rate of 7% for 1988.

H. Bonds Payable:

Bonds have been issued to provide financing of mortgage loans under the Multi-Family Program and Single Family Program. The full faith and credit of the Agency is pledged for repayment of most of the bonds issued. The bonds are collateralized by:

(1) The mortgage loans made on the related properties;

(2) Most revenues, mortgage advance amortization payments and recovery payments received by the Agency from mortgage loans; and

(3) Certain funds and accounts established pursuant to the bond indentures including investment of the bond proceeds.

The security covenants, together with covenants in the notes payable agreements, in effect, make available all assets of all funds for debt related purposes.

Bonds issued and outstanding for the Multi-Family Program are as follows:

Issue	Interest Rate Range At Issuance	Final Maturity Date	Amount Outstanding June 30 1989	Amount Outstanding June 30 1988
Residential Development Bonds:				
Issue A	4.50 – 7.60%	2019	$ 76,910,000	77,640,000
Issue B	4.00 – 6.60%	2020	29,120,000	29,445,000
Issue 1977 (refunding)	3.60 – 6.50%	2023	84,640,000	85,395,000
Issue C	4.25 – 6.375%	2020	21,415,000	21,645,000
Issue D	4.50 – 6.75%	2021	75,610,000	76,360,000
Issue E	5.50 – 7.25%	2022	20,355,000	20,530,000
Issue F	5.80 – 7.60%	2022	56,010,000	56,690,000
Issue G	7.125%	2012	7,300,000	7,300,000
Issue H	6.00 – 7.70%	2023	50,825,000	51,450,000
Issue I	5.50 – 9.25%	2023	49,105,000	49,535,000
Issue J	9.50 – 14.50%	2013	24,140,000	24,260,000
Issue K	8.50 – 13.625%	2013	21,885,000	22,010,000
Issue L	7.75 – 12.125%	2025	27,915,000	28,145,000
Issue M	7.25 – 11.00%	2014	20,170,000	20,355,000
Issue N	9.75%	2014	3,180,000	3,210,000
Issue O	10.375%	2015	6,910,000	6,910,000
Issue P	10.375%	2015	5,510,000	5,550,000
State Workers' Insurance Fund	9.8%	2014	8,000,000	—
Section 23 Assisted Bonds:				
Issue 1977A	5.75%	1995	771,000	866,000
Multi-Family Housing Bonds:				
Issue 1980	9.80 – 10.00%	2023	11,210,000	11,255,000
Issue 1982A	9.75 – 13.50%	2024	61,960,000	62,080,000
Issue 1982B	9.50 – 10.875%	2024	14,035,000	14,085,000
Issue 1985A	6.75 – 9.375%	2028	15,242,657	15,258,767
Issue 1985B	8.875%	2028	1,735,000	1,740,000
Issue 1987A	7.00 – 8.50%	2002	705,000	750,000
Issue 1988A	10.65%	2008	1,496,000	1,496,000
Limited Obligation Residential Development Bonds:				
Issue 1984A	6.50 – 11.25%	2006	1,502,242	1,572,242
Issue 1985B	6.50 – 9.50%	2005	1,670,000	1,730,000
Moderate Rehabilitation Bonds:				
Issue 1984A	6.50 – 10.375%	2001	3,710,000	3,865,000
Issue 1984	5.25 – 9.00%	2017	5,125,000	5,320,000
			708,161,899	706,448,009
Unamortized bond discount			(47,196,696)	(48,356,415)
			$660,965,203	658,091,594

During the year ended June 30, 1988, the Agency redeemed prior to maturity $250,000 of Residential Development Bonds, Issue G and Limited Obligation Residential Development Bonds, Issue 1985 B. An extraordinary gain of $18,953 resulted from the redemptions.

Bonds issued and outstanding for the Single Family Program are as follows:

Issue	Interest Rate Range At Issuance	Final Maturity Date	Amount Outstanding June 30 1989	Amount Outstanding June 30 1988
Single Family Mortgage Revenue Bonds:				
Series C	6.00 – 9.375%	2014	$ 60,864,325	62,269,325
Series D	5.75 – 9.75%	2014	63,262,774	65,417,774
Series E	6.00 – 10.25%	2015	37,024,838	38,344,838
Series F	7.50 – 11.625%	2015	62,600,000	113,910,000
Series G	6.00 – 9.625%	2016	146,985,000	148,245,000
Series H	5.50 – 9.875%	2016	78,293,488	80,253,488
Series I	6.00 – 10.00%	2016	24,005,321	24,855,321
Series J	4.50 – 9.0%	2013	42,821,666	43,916,666
Series K	4.50 – 7.9%	2013	53,451,868	54,496,868
Series L	4.00 – 7.125%	2014	39,240,000	39,755,000
Series N	4.60 – 8.25%	2014	54,245,000	54,995,000
Series O	5.75 – 8.20%	2018	80,260,000	80,335,000
Series P	4.75 – 8.00%	2016	25,475,000	25,600,000
Series Q	6.00 – 8.375%	2018	50,000,000	50,000,000
Series R	6.20 – 8.125%	2019	80,000,000	80,000,000
Series S	6.70 – 7.60%	2016	25,000,000	—
Series T	7.00 – 7.875%	2020	25,000,000	—
Series U	6.625%	1990	79,335,000	—
Series V	6.00 – 7.80%	2016	25,000,000	—
Series W	7.00%	1989	50,500,000	—
Series X	7.10%	1990	66,000,000	—
			1,169,364,280	962,394,280
Unamortized bond discount			(19,782,090)	(16,707,704)
			$1,149,582,190	945,686,576

During the years ended June 30, 1989 and 1988, $50,075,000 of Single Family Mortgage Revenue Bonds, Series F and O and $37,700,000 of Series F, respectively, were redeemed prior to maturity by the Agency using mortgage prepayments and undisbursed bond proceeds. Extraordinary losses of $1,015,236 and $1,135,451, respectively, resulted from the redemptions as unamortized bond discount and related costs of issuance for the bonds redeemed were expensed.

During the year ended June 30, 1988, the Agency retired the entire outstanding Series M convertible option bonds through refunding and the use of the Series O bond proceeds. No gain or loss resulted from this transaction.

Single Family Mortgage Revenue Bonds Series U, W, and X were issued during the year ended June 30, 1989 as convertible option bonds with first mandatory tender dates of March 1, 1990, November 30, 1989, and May 30, 1990, respectively. If interest rates are favorable at the first mandatory tender date, it is the Agency's intention to remarket the convertible option bonds as long-term bonds.

Single Family Mortgage Revenue Bond proceeds of $128,075,000 related to Series Q, R, S and T and $65,935,000 related to Series O and P, were remarketed during the years ended June 30, 1989 and 1988, respectively.

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. Bonds may also be redeemed at par prior to the ten-year period if mortgage loan prepayments exceed prescribed levels and from undisbursed bond proceeds. Provisions of the bonds include mandatory annual sinking fund payments to provide for redemption of the term bonds.

Required principal payments related to bonds payable are as follows at June 30, 1989:

Year ending:	Multi-Family Program	Single Family Program
1990	$ 6,893,271	14,675,000
1991	7,668,434	17,070,000
1992	8,208,117	18,085,000
1993	8,779,346	19,855,000
1994	9,399,034	21,380,000
Thereafter	667,213,687	882,464,280
	$708,161,889	973,529,280
Convertible option bonds	—	195,835,000
	$708,161,889	**1,169,364,280**

I. Reserved and Designated Fund Balances:

General Fund:

The General Fund reserved fund balance represents funds required to be held in trust under the terms of the indenture of the Multi-Family Housing Bond Issue 1980.

The remaining fund balance of the General Fund is not restricted under the terms of the various bond resolutions and can be used by the Agency for any purpose authorized by the Act. The Agency has internally designated the General Fund fund balance as follows:

	June 30 1989	1988
Single Family Self Insurance Fund	$10,793,375	10,793,375
Multi-Family Self Insurance Fund	10,000,000	10,000,000
Additional Single Family Insurance Program	7,705,000	6,250,000
Homeless Housing Program	5,000,000	—
Rental Housing Demonstration Program	3,104,416	4,868,112
Single Family Closing Cost Subsidies	972,164	1,000,000
	$37,574,955	**32,911,487**

The fund balance designated for the Single Family Self Insurance Fund is to be used for any special hazard losses on Single Family Mortgages not covered by other insurance, and losses arising out of default on mortgage loans funded with the proceeds of the Series I through R issues. The Single Family Self Insurance Fund has been established at not less than 1% of anticipated mortgages to be originated on Issues I through R. The Single Family Series I resolution required that a Self Insurance Fund be held by the trustee. This was funded by the General Fund and is included in the Single Family Program's reserved fund balance.

The designation of fund balance for the Multi-Family Self Insurance Fund has been established to set funds aside in the event a loss occurs on any of the Multi-Family projects which the Agency acts as an insurer or co-insurer.

The designation of fund balance for the Additional Single Family Insurance Program has been established to cover losses in the event of default on single family mortgage loans.

The designation of fund balance for the Homeless Housing Program has been established to encourage rehabilitation, construction or adoption of structures that offer suitable permanent accommodations for homeless families and individuals.

The designation of fund balance for the Rental Housing Demonstration Program has been established to provide below market rate mortgage loans for multi-family developments.

The designation of fund balance for Single Family Closing Cost Subsidies has been established to assist qualified Single Family home buyers with the initial costs incurred at the inception of a mortgage.

Multi-Family Program:

Restrictions on the Multi-Family Program fund balance are as follows:

	June 30 1989	1988
Capital Reserve not funded by bond proceeds	$1,960,000	1,960,000
Development Reserve	1,400,000	1,400,000
	$3,360,000	**3,360,000**

The Capital Reserve and Development Reserve are required under certain trust indentures in order to establish and maintain the Agency's Multi-Family Program.

The Agency has internally designated the Multi-Family Program fund balance as follows:

	June 30 1989	1988
HOMES Program	$10,000,000	10,000,000
Homeless Housing Program	5,000,000	4,842,925
Rental Housing Demonstration Program	2,895,584	—
Property Conversion Residual Receipts	1,727,670	—
	$19,623,254	**14,842,925**

The designation of fund balance for the HOMES Program, which was funded from unrestricted Multi-Family proceeds, has been established to lower development costs for apartment projects financed by the Agency.

The designation of fund balance for the Homeless Housing Program has been established to encourage rehabilitation, construction or adoption of structures that offer suitable permanent accommodations for homeless families and individuals.

The designation of fund balance for the Rental Housing Demonstration Program was established to earmark funds for a one time pilot program to fund multi-family, low-income developments.

The designation of fund balance for Property Conversion Residual Receipts has been established to set aside funds obtained from the purchase of two Multi-Family Housing Projects. As part of these transactions, the Agency obtained the rights to the projects' residual receipts. Such amounts have been designated for the exclusive use of the HOMES program.

Single Family Program:
Restrictions on the Single Family Program fund balance are as follows:

	June 30	
	1989	**1988**
Capital Reserve not funded by bond proceeds	$12,672,928	6,463,828
Self Insurance Fund held by Trustee	10,786,094	9,198,569
	$23,459,022	**15,622,397**

The Capital Reserve not funded by bond proceeds represents funding provided by the Agency to meet the capital reserve required under bond indentures in excess of amounts funded by bond proceeds. The Capital Reserve Fund has been established by the Agency to meet this requirement for Single Family Bonds which must be equal to at least 3% of the aggregate principal amount of all Single Family Bonds outstanding plus one million dollars. The Capital Reserve Fund at June 30, 1989 and 1988, respectively, amounted to $41,971,465 and $40,948,139, including amounts funded by bond proceeds. Such amounts were $5,890,537 and $11,076,311, respectively, in excess of the requirement.

The Self-Insurance Fund held by Trustee represents amounts set aside to self-insure the pool insurance for Single Family mortgage loans.

The Agency has internally designated $27,836 of the Single Family Program fund balance for closing cost subsidies at June 30, 1989 and $355,346 for various purposes at June 30, 1988.

J. Pension Plan:

Plan Description:
Eligible full-time employees participate in either the Pennsylvania Housing Finance Agency Employees' Retirement Plan (Plan), a non-contributory defined benefit, single employer plan, or the Pennsylvania State Employes' Retirement System (PSERS). Participation in PSERS is limited to those employees who were active members of PSERS at the time of their employment by PHFA. As of June 30, 1989 and 1988, substantially all eligible full-time employees are participants in the Plan. The Agency's payroll for employees covered by the Plan for the years ended June 30, 1989 and 1988 was $3,726,000 and $3,419,000, respectively.

Full-time employees become eligible for participation in the Plan after completion of one year of service. A participant's benefits vest upon the completion of 5 years of service. Under the provisions of the Plan, participants

with prior military experience may receive credit for their time of service in the military providing they contribute funds equivalent to the cost of their pension benefits accumulated during their military service. The Plan was previously amended to convert it from a contributory to a non-contributory pension plan. At the time of the amendment, participants had the option to receive a refund in the amount of their contributions, with interest, or increase their pension benefits. Substantially all employees elected to withdraw their contributions to the Plan at that time.

A participant is eligible for normal retirement after attainment of age 65. The Plan also provides early and late retirement provisions and death and disability benefits. The normal retirement pension is payable monthly during the participant's lifetime with payments ceasing upon the participant's death.

The amount of the monthly pension benefit is computed as follows:

1. New participants after December 31, 1981 and participants who elected refund of contributions with interest:
   2% of final average monthly pay multiplied by completed years and completed months of service at retirement.
2. Participants who did not elect refund of contributions with interest:
   a. 2.35% of final average monthly pay multiplied by completed years and completed months of service through December 31, 1981, plus,
   b. 2% of final average monthly pay multiplied by completed years and completed months of service beginning on or after January 1, 1982.

Average monthly pay is based upon the 5 consecutive plan years of highest pay during the last 10 years preceding retirement.

As of January 1, 1989 and 1988, Plan membership consisted of:

	1989	**1988**
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	46	41
Current employees:		
Vested	82	77
Nonvested	54	49
	182	**167**

Funding Status and Progress:
The amount shown on the following page as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Plan on an ongoing basis; assess progress made in accumulating sufficient assets to pay benefits when due; and make comparisons among employers.

The measure is the actuarial present value of credited projected benefits and is independent of the actuarial funding method used to determine contributions to the Plan.

The pension benefit obligation was computed as part of an actuarial valuation performed as of January 1, 1989 and 1988. Significant actuarial assumptions used in the valuations include (a) a rate of return on the investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4% a year compounded annually, attributable to inflation, (c) additional projected salary increases of 1% a year, attributable to seniority, and (d) no post-retirement benefit increases.

Total assets in excess of pension benefit obligation at January 1, 1989 and 1988, the most recent valuation dates, were as follows:

	1989	1988
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 464,362	440,415
Current employees:		
Accumulated employee contributions	23,498	10,645
Employer contributions – vested	2,243,627	2,439,101
Employer contributions – nonvested	225,339	301,423
Total pension benefit obligation	2,956,826	3,191,584
Plan assets at market value	4,600,930	4,010,369
Assets in excess of pension benefit obligation	**$ (1,644,104)**	**(818,785)**

There were no changes in actuarial assumptions or benefit provisions used in calculating the pension benefit obligation during the years ended June 30, 1989 and 1988.

Contribution Required and Contributions Made:
The Plan's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The contribution rate for normal cost is determined using the aggregate actuarial cost method. Significant actuarial assumptions used to complete the actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation. The contributions to the Plan for the years 1988 and 1987 were $261,937 and $298,230, respectively, representing normal cost (7.0% and 8.7%, respectively, of current covered payroll) and were made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of January 1, 1988 and 1987, respectively. The Agency contributed $246,955 and $288,866 (6.6% and 8.4%, respectively, of current covered payroll); employees contributed $14,982 and $9,364 (0.4% and 0.3%, respectively, of current covered payroll) for Plan years 1988 and 1987, respectively.

Trend Information:
Trend information designed to provide information about the Agency's progress made in accumulating sufficient assets to pay benefits when due is presented in the following schedule. Ten year trend information is presented on pages 38 and 39.

	Plan Year Ended December 31,		
	1988	1987	1986
Net assets available for benefits expressed as a percentage of the pension benefit obligation	155.60%	125.65	159.67
Assets in excess of pension benefit obligation expressed as a percentage of covered payroll	44.12	23.95	40.50
Employer contributions expressed as a percentage of covered payroll	6.63	8.45	4.77

K. Gain on Property Conversion:

The Agency purchased two multi-family housing projects for a total of $1,600,000 during the year ended June 30, 1989. These projects were subsequently sold for a net gain of $2,225,232 which will be deferred and amortized over the life of the mortgages received as part of these sales. Additionally, an extraordinary gain of $1,727,670 was recognized when the Agency obtained the rights to the projects' residual receipts. Residual receipts represent excess project funds to which the original owner was not entitled under the terms of the mortgage or regulatory agreement governing the project. These funds have been designated exclusively for use in the HOMES Program.

L. Commitments and Contingencies:

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

Federal Grants:
The Agency receives significant financial assistance from the Federal Government in the form of low income mortgage subsidies and interest reduction payments. Such federal financial assistance received during the years ended June 30, 1989 and 1988 amounted to $98,480,763 and $92,642,980, respectively. Additionally, $2,469,389 of rental housing rehabilitation assistance was passed through the Agency to residential rental property owners during the year ended June 30, 1989. All federal financial assistance received by the Agency is subject to audit and as such, any disallowances resulting from noncompliance or questioned costs may become liabilities of the Agency. The Agency's management believes disallowances, if any, would not materially affect the Agency's financial position.

M. Subsequent Events:

On September 14, 1989, the members of the Board of the Agency authorized the issuance of $35,000,000 Single Family Mortgage Revenue Bonds, Series Y. The proceeds of these bonds will be used for single family mortgage loans.

TEN-YEAR HISTORICAL TREND INFORMATION

Analysis of Funding Progress

for the ten years ended June 30, 1989

Plan Year Ended December 31	(1) Net Assets Available for Benefits*	(2) Pension Benefit Obligation	(3) Percentage Funded (1) / (2)	(4) Overfunded or (Unfunded) Pension Benefit Obligation (1) − (2)	(5) Annual Covered Payroll	(6) Overfunded or (Unfunded) Pension Benefit Obligation as a Percentage of Covered Payroll (4) / (5)
1979	$ 658,377	$1,015,109	64.86%	$ (356,732)	$1,584,895	(22.51)%
1980	926,151	1,506,207	61.49	(580,056)	2,087,829	(27.78)
1981	1,264,456	622,810	203.02	641,646	2,234,769	28.71
1982	1,679,565	812,505	206.71	867,060	2,281,596	38.00
1983	2,131,355	1,181,157	180.45	950,198	2,368,744	40.11
1984	2,508,568	1,464,098	171.34	1,044,470	2,704,789	38.62
1985	3,243,211	1,834,293	176.81	1,408,918	3,030,037	46.50
1986	3,731,011	2,336,633	159.67	1,394,378	3,442,741	40.50
1987	4,010,369	3,191,584	125.65	818,785	3,419,003	23.95
1988	4,600,930	2,956,826	155.60	1,644,104	3,726,066	44.12

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Pension Plan. Trends in overfunded or unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Pension Plan.

*At market value

TEN-YEAR HISTORICAL TREND INFORMATION

Revenues by Source and Expenses by Type

for the ten years ended June 30, 1989

Plan Year Ended December 31	Revenue by Source					Employer Contributions as a Percentage of Covered Payroll
	Employee Contributions	Employer Contributions	Investment Income	Realized and Unrealized Gains and (Losses)	Total	
1979	$31,960	$136,661	$ 48,832	$ (13,204)	$204,249	8.62%
1980	38,217	200,034	84,121	(48,994)	273,378	9.58
1981	46,609	236,041	141,524	(67,414)	356,760	10.56
1982	6,149	188,791	151,458	260,520	606,918	8.27
1983	1,834	281,274	141,353	36,856	461,317	11.87
1984	1,248	229,744	216,792	(29,590)	418,194	8.49
1985	1,248	210,595	211,109	321,273	744,225	6.95
1986	486	164,281	233,608	101,040	499,415	4.77
1987	9,364	288,866	249,228	(249,296)	298,162	8.45
1988	14,982	246,955	279,604	78,353	619,894	6.63

Plan Year Ended December 31	Expenses by Type			
	Benefits	Administrative Expenses	Refunds	Total
1979	$ 5,520	—	$ 10,828	$ 16,348
1980	5,604	—	—	5,604
1981	18,455	—	—	18,455
1982	12,776	—	$179,033	191,809
1983	9,476	$51	—	9,527
1984	40,964	17	—	40,981
1985	9,577	5	—	9,582
1986	11,597	18	—	11,615
1987	18,804	—	—	18,804
1988	29,333	—	—	29,333

Contributions were made in accordance with actuarially determined contribution requirements. In 1981 the Plan was amended to convert it from a contributory to a non-contributory pension plan. At the time of the amendment, participants had the option to receive a refund in the amount of their contributions, with interest, or increase their pension benefits. Substantially all employees elected to withdraw their contributions to the Plan at that time.

Under the provisions of the Plan, participants with prior military experience may receive credit for their time of service in the military providing they contribute funds equivalent to the cost of their pension benefits accumulated during their military service.

Pennsylvania Housing Finance Agency Staff Complement

EXECUTIVE

Karl Smith – Executive Director
Carrie M. Barnes, Executive Assistant to Executive Director
Vanessa S. Edwards, Research Manager
William W. Fogarty, Deputy Director of Information Resources
Phillip M. Friday, Director of Information Resources
John F. Goryl, Assistant Counsel
Christine A. Gessner, Executive Assistant
Nancy K. Johnson, Information Resources Assistant
Marcia M. Manske-Hess, Legal Administrator
Constance M. Mohler, Legal Administrator
W. Roy Newsome, Jr., Special Assistant
Lisa M. Nicotera, Administrative Assistant
Rebecca L. Peace, Chief Counsel
Pamela S. Pryzie, Public Information Officer
JoLynn M. Stoy, Assistant Counsel

MULTI-FAMILY OPERATIONS

David L. Evans – Assistant Executive Director

Development Division
William A. Bennett, Development Officer
Myrna Bernstein, Administrative Assistant
Eileen J. Demshock, Manager, Tax Credit Program
Brenda Jack, Senior Development Officer
Sandra L. Klunk, Administrative Assistant
William J. Koons, Manager of Development
Kathy S. Levin, Development Officer
LaVera A. Nelson, Development Coordinator
Richard N. Nichols, Manager, Rental Rehabilitation and Special Projects
Anthony D. Santeusanio, Development Officer

Management Division
W. Alan Shenk, Director
Frank C. Bangor, Manager of Project Operations
Jill M. Bornman, Data Entry Coordinator
John Brazen, Financial Analyst I
Carol A. Carroll, Secretary
Barbara M. Conjar, Management Representative
Carl R. Dudeck, Jr., Financial Analyst I
Donna J. Farnham, Insurance Coordinator
Naomi P. Garcia, Data Entry Clerk
Mary Jane Margay, Financial Analyst I
Harry E. Neuhart, Financial Analyst I
Gary W. Paiano, Management Representative
Brian L. Shull, Financial Analyst II
Jacklyn D. Stine, Administrative Assistant
Brenda B. Thomas, Secretary
Joseph T. Toia, Manager of Financial Analysis
Peggy A. Wedde, Data Entry Clerk
Cynthia K. Zlogar, Financial Analyst I

Management – Norristown Office
Susan R. Garthwaite, Management Representative
Carolyn Harle, Senior Management Representative/Manager
Mary I. Johnson, Secretary
K. Lyn Kirshenbaum, Management Representative

Management – Pittsburgh Office
Carrie B. Emerson, Management Representative
Carolyn J. James, Secretary
Imelda H. Labadie, Administrative Assistant
David C. Rhoads, Management Representative
Mary Ann Sipos, Management Representative
Brenda B. Wells, Senior Management Representative/Manager

Technical Services Division
Mark J. DeHarde, Director
E. F. Ciarrocca, Staff Engineer
Donald F. Clarke, Staff Architect
H. Robert Faulkner, Technical Services Representative
Pat E. Foca, Manager of Facilities & Construction Operations
Eugene T. Garrison, Technical Services Representative
Carolyn W. Heatherly, Secretary
Elmer C. Jones, Technical Services Representative
Robert V. Lezzer, Engineer Reviewer & Energy Coordinator
Riitta M. Lukkari, Manager of Architecture & Engineering
David C. Porter, Technical Services Representative
James W. Richardson, Construction Cost Estimator & Contract Coordinator
Donna J. Rodgers, Administrative Assistant
Larry B. Thorn, Technical Services Representative
Benjamin Tomassetti, Technical Services Representative
Robert A. Wochley, Technical Services Representative
Emma L. Woodyard, Construction Data Coordinator

FINANCE, PERSONNEL AND COMPUTER SERVICES

Brian A. Hudson – Assistant Executive Director

Finance Division
Susan M. Belles, Mortgage Servicing Accountant
Virginia A. Blair, Investment Coordinator
Agnes M. Enck, Assistant Accountant II
Pamela K. Frazier, Investment Officer II
Linda A. Hall, Assistant Accountant II
Anthony J. Julian, Jr., Deputy Director of Finance
Joseph Knopic, Manager of Project Financing
Trudy R. Lehman, Assistant Accountant II
Eleanor A. Matthias, Assistant Accountant II
Kathleen D. Raley, Assistant Accountant I
John H. Richards, Staff Accountant II
Constance M. Ross, Staff Accountant II
Donna M. Sciortino, Investment Officer II
Yvonne C. Springs, Secretary
Sherry L. Zvolensky, Administrative Assistant

Personnel & Administration Division
Deborah A. Zlogar, Director
Arlene M. Frontz, Administrative Assistant
Wendy K. Klinger, Personnel Assistant
George W. Ulrich, Micrographic Technician
Charles A. Washington, Clerk/Messenger
Lois M. Zook, Receptionist

Computer Services Division
Stanley C. Wohler, Director
Kathleen Deitzler, Sr. Computer Programmer Analyst
Deborah A. Geary, Computer Programmer Analyst I
Shirley A. Kirk, Sr. Computer Programmer Analyst
Daryl G. Martin, Sr. Computer Programmer Analyst
Gladiola L. Oaks, Computer Programmer Analyst I
Edward J. Raley, Project Leader

SINGLE FAMILY OPERATIONS

Donald J. Plunkett – Assistant Executive Director

Single Family Division
Edwin A. Beam, Jr., Mortgage Servicing Representative
Rose Falco, Senior Mortgage Servicing Representative
Diana M. Franklin, Mortgage Servicing Coordinator
Thomas L. Gouker, Mortgage Servicing Representative
Anne C. Klitsch, Single Family Loan Officer
Vikki C. Lauer, Underwriter II
William J. Manahan, Chief Underwriter
Cathy A. Matter, Escrow Coordinator
Denise A. Mattern, Underwriter II
Tammy J. Miller, Underwriter II
Clifford S. Morton, Single Family Loan Officer
Bonita M. Russell, Servicing Coordinator
Linda A. Stewart, Underwriter II
Ray E. Trimmer, Manager of Single Family Loan Originations
JoAnn Wade, Servicing Coordinator
Penny M. Zapcic, Mortgage Purchasing Coordinator
Karen L. Zapotosky, Final Document Coordinator

Homeowners' Emergency Mortgage Assistance Program
Robert F. Bobincheck, Director
Elaine M. Artz, Assistant Accountant
Vivian O. Beason, Administrative Assistant
Carlene D. Cook, Secretary
J. Kathleen Cunkle, Loans Closing Coordinator
Marguerite M. Dowling, Assistant Accountant
Robert L. Dryden, Loan Processor
Kimberly A. Fry, Senior Loan Closing Officer
Christine K. Hall, Administrative Assistant
Dollie D. Himes, Loan Officer
Stacy L. Jenkins, Administrative Assistant
Anne Johnson, Administrative Services Coordinator
Viktoria Copenhager, Secretary
Kathleen D. Krupa, Staff Accountant
Ann A. Mermelstein, Closing Officer
Mildred N. Minter, Clerk/Receptionist
Carole J. Piccolo, Loan Officer
Fredrick M. Reed, Manager of Loan Processing
W. Christine Rodgers, Loan Officer
Daryl D. Rotz, Senior Loan Officer
Patricia E. Roussel, Loan Officer
Lisa A. Rudy, Loan Processor
Daniel W. Shade, Collections Clerk
Linda A. Smeltz, Data Entry Clerk
Mary E. Smith, Administrative Assistant
Carolyn L. Staub, Collections Coordinator
Augustus E. Sullivan, Jr., Loan Officer
Lori S. Toia, Loan Officer
David R. Trone, Senior Accountant
Stephanie H. White, Administrative Assistant
Angela M. Yoder, Collections Clerk
Audrey E. Zerance, Administrative Assistant

Appeals Unit
Michael D. Cooper, Senior Hearing Examiner
Elaine P. Morris, Hearing Examiner
Lin C. Toner, Appeals Coordinator

Pennsylvania Housing
Finance Agency
2101 North Front Street
Harrisburg, Pennsylvania
17105-8029
(717) 780-3800