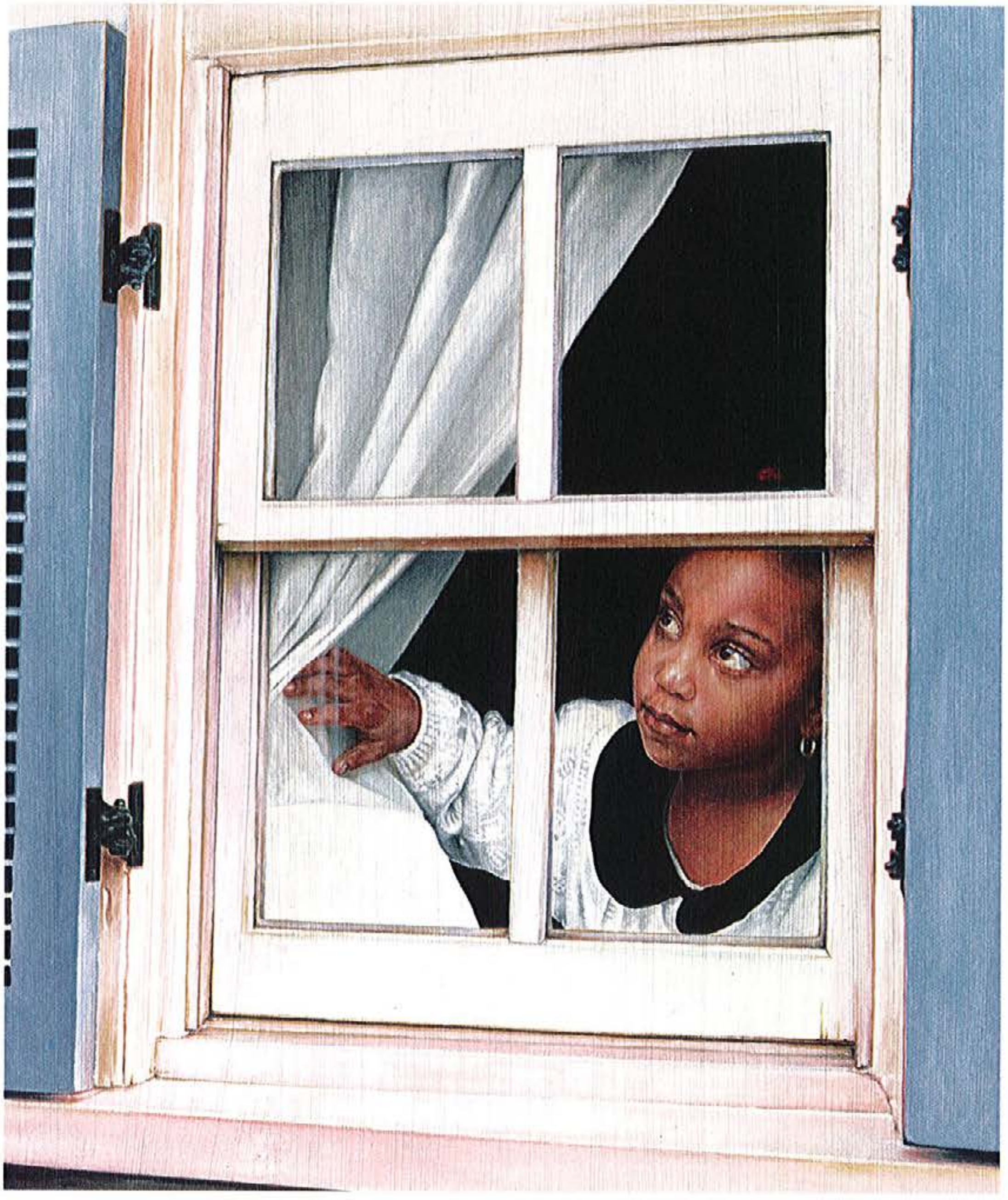
The home is your window to the world.



PENNSYLVANIA HOUSING FINANCE AGENCY

1999 ANNUAL REPORT

1999 Highlights

In 1999, the Pennsylvania Housing Finance Agency:

• Created the Access Home Modification Program, which offers zero-interest rate loans, to help persons with disabilities make accessibility improvements to homes being financed with PHFA mortgage loans.

• Awarded $23,671,000 of PennHOMES financing for the development of 1,431 affordable rental units in 28 locations throughout the state.

• Allocated $16,000,000 of housing tax credits for 52 rental developments that will provide 2,500 units.

• Witnessed the completion of the first of six Agency-financed rental developments that integrate on-site supportive services into independent living arrangements for older adults.

• Was cited by Moody's Investors Services for its strong financial position resulting from favorable portfolio management, satisfactory mortgage insurance provisions and active program management, and confirmed its Aa2 rating on PHFA single family bonds.

• Co-sponsored 53 public hearings held across the state to solicit suggestions on sound land use.

• Hosted more than 350 housing and service professionals at the annual Supportive Services Conference.

• Enlisted the support of every member of the Pennsylvania Congressional Delegation in co-sponsoring Federal legislation to raise the limits on the amount of housing bonds and tax credits the Agency can provide.

• Participated in more than 60 public meetings, seminars and workshops to explain Agency programs to developers, real estate professionals, builders, elected officials, lenders, first-time homebuyers and the general public.

• Was recognized by the United States Department of Housing and Urban Development for excellence in Section 8 contract administration by clearly defining the responsibilities of the Agency, project owners and management agents.

• Sold $469,000,000 of single family mortgage revenue bonds which provided loans to Pennsylvania homebuyers. By the end of 1999, PHFA had provided almost $4,000,000,000 to finance 81,000 houses.

• Committed $14,500,000 of Homeowners' Emergency Mortgage Assistance funds to help 1,883 Pennsylvania families avoid foreclosure. Repayments to the program reached $16,900,000, an all-time high. These funds will be recycled to assist other homeowners.

• Completed the transfer of all single-family mortgage servicing to the Agency, bringing the total number of loans handled in-house to 42,573, with an annual principal balance of $2,230,000,000.

• Allocated $5,000,000 to develop the Homeownership Choice Demonstration Program to help urban areas offer additional housing options. Two other financial organizations have already agreed to commit an additional $12,000,000 in matching funds to support the Agency's efforts.

• Published the *Funding Affordable Housing Resource Guide* to provide listings of public, private and foundation financing for rental housing and homeownership programs in a single document.

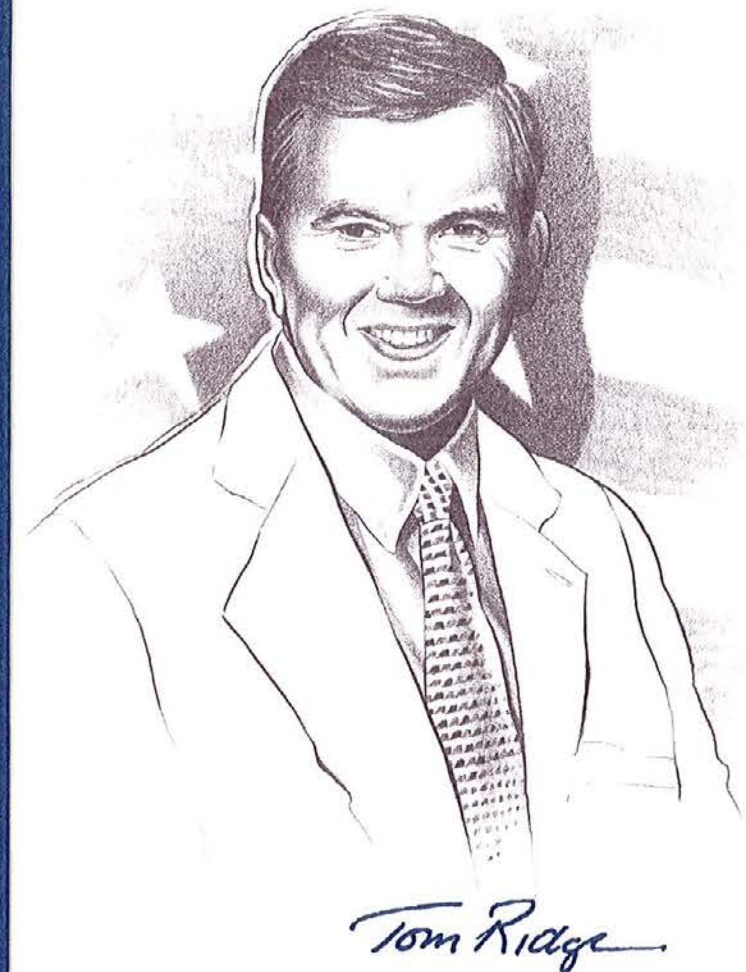
• Worked with the State Treasurer, Fannie Mae and others to successfully introduce the *Hafer HomeBuyer Program*, a new $200,000,000 below market-rate mortgage program that will help more than 2,000 moderate income families buy homes of their own.

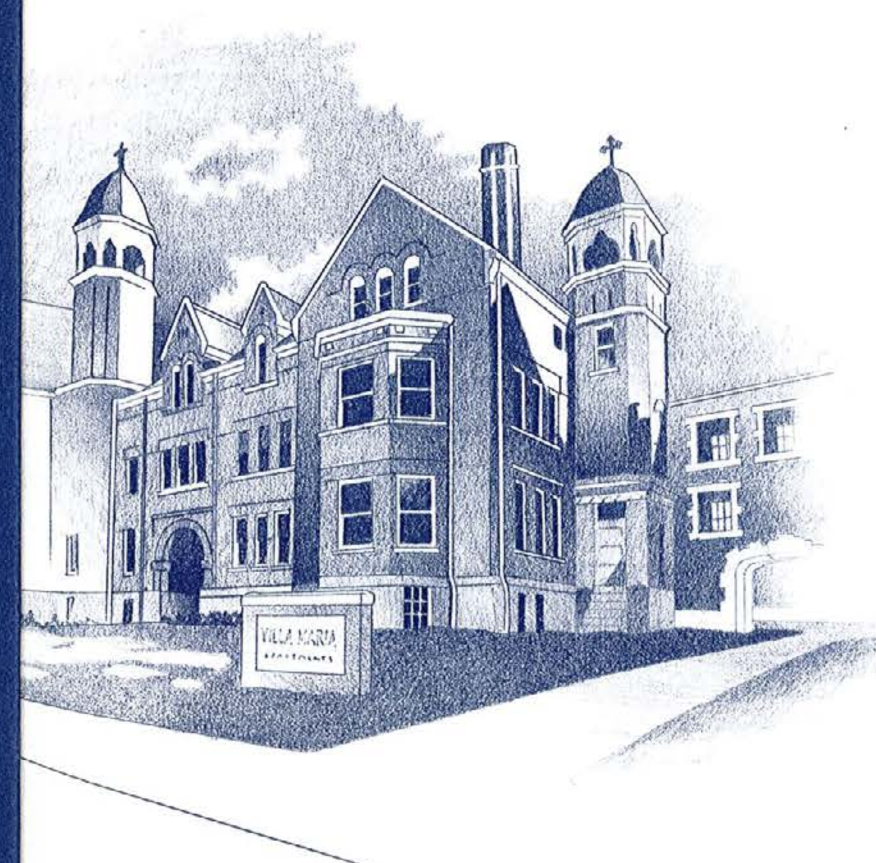
• Successfully completed the conversion of computer programs to ensure Y-2K compliance.

• Initiated a pilot program, in partnership with Rural Opportunities, Inc. and the United States Department of Agriculture's Rural Housing Service, which provides closing cost and down payment assistance to help families purchase homes in rural areas.

• Introduced a Family Resource Center Initiative to increase service delivery to residents, while achieving property management goals, in Agency-financed properties in Philadelphia.

• Received the National Council of State Housing Agencies' Award for Program Excellence in Communication for PHFA's 1998 Annual Report.





Governor Tom Ridge

Together Creating Possibilities

A major goal of my administration is to improve the quality of life for Pennsylvanians by creating programs that encourage community and economic development. Good, affordable housing is an important link in the success of these efforts.

It is a tremendous advantage, therefore, that the state is served in this regard by the Pennsylvania Housing Finance Agency. PHFA understands that housing is the cornerstone of a strong community.

Safe dwellings help parents provide a secure environment for raising their children. Senior apartments enable older adults to enjoy their later years among others with whom they can share experiences and activities. Accessible design allows persons with disabilities to live independently.

The Agency excels at providing the mortgage capital that is central to good housing for families and individuals who otherwise might not be able to find decent places to live. PHFA's ability to raise funds among private sector investors is the critical factor in making below-market-rate loans available for homes and apartments. This means that more Pennsylvanians can have the opportunity to buy places of their own, move into decent rental units, or find proper supportive services to meet their changing needs.

Housing also has a huge impact on Pennsylvania's economy by encouraging employment in building and construction, lending, real estate and associated industries. It's a role that has provided invaluable assistance to my Administration's efforts to move the state into a leadership position for America's future.

I want to express my support of PHFA's Board and staff in the vital work they do for the citizens of Pennsylvania. Thanks to the Pennsylvania Housing Finance Agency, this Commonwealth is truly a great place to call home.

Pennsylvania Housing Finance Agency

See yourself...*Sufficient*

David E. Zuern
Chairman

William C. Bostic
Executive Director

The home defines the way we live. It is our window to the world.

Good housing provides safety and security for our families and ourselves, instills confidence, engenders respect and promotes independence. It helps make us better, more knowledgeable citizens. There is no single greater influence on children than their home environment.

There is no single greater influence on children than their home environment

That's why the programs of the Pennsylvania Housing Finance Agency are so critical to the welfare of Commonwealth citizens. Working with its partners around the state and throughout the nation, the Agency helps deliver on the promise of America.

As Pennsylvania's major source of funding for affordable homes and apartments, PHFA, since its inception, has made a positive impact on the lives of 700,000 residents through its single family, rental development and foreclosure abatement initiatives.

In 1999, alone, the Agency enabled 6,400 families to buy their first homes, prevented nearly 1,900 foreclosures, and provided funding and tax credits to almost 4,000 quality affordable apartments for older adults, those with modest financial resources and persons with disabilities. This was accomplished through the Agency's three major program areas.

In addition, special new initiatives, such as administering the State Treasurer's Hafer HomeBuyer Program to offer below-market-rate mortgages to moderate income Pennsylvanians and co-sponsorship of Sound Land Use Forums held throughout the Commonwealth to address suburban sprawl, were also pursued.

While the Agency's many and varied tasks are all directed toward making the Commonwealth a better place to live, PHFA doesn't work alone. Without the support and cooperation of many private and governmental organizations, everything we do would be diminished. Therefore, we want to express our appreciation and gratitude to Governor Ridge and his administration, Pennsylvania's Congressional Delegation, the General Assembly, the Federal Home Loan Bank of Pittsburgh, Fannie Mae, the investment community, builders, housing advocates, lending institutions, real estate professionals and others who have done so much to bring the benefits of good housing to our citizens.

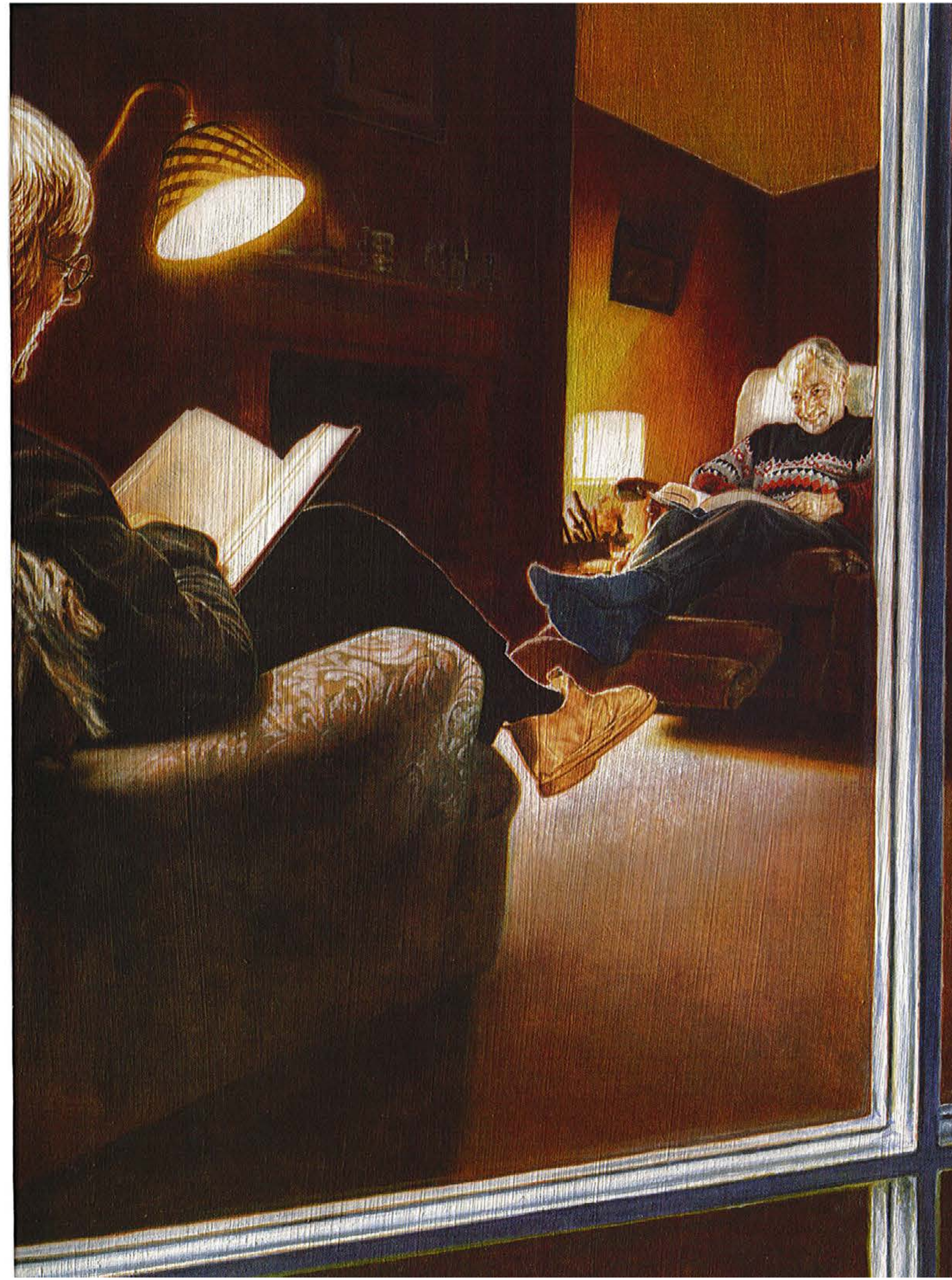
A special note of appreciation is extended to former Board Chairman and Banking Secretary Richard C. Rishel who served the Agency diligently and well until his retirement last May. His distinguished leadership and outstanding public service to improve the quality of life for Pennsylvania citizens were an inspiration to all those who had the privilege to work with him.

The following pages of this document offer a glimpse into the homes of a few people whose lives have been improved by Agency programs. We invite you to take a look at how they have benefited from safe, secure and affordable housing.

Find yourself...*Respect*

The Meyers. That's us. Dottie and Art. We've been blessed with long and full lives. With mixed feelings, we've watched our lifelong friends make that final move—the move into nursing homes and retirement communities. For some folks this is a necessary and welcome transition, but not for us. We may not be as energetic as we used to be, and we're ready for a more manageable lifestyle. We've lived in many different houses during our time together, and they've always been distinctly ours. That was important to us. But after many years, we realized our home was no longer a realistic financial option. While that's nothing to be ashamed of, somehow we saw our pride dwindle in the face of reality. Would we have to move in with our children and burden them? Then we found a beautiful apartment building right here in our own borough that we could afford on our fixed income. We still live independently and can enjoy the company of a lot of other folks just like us. And we've kept our self-respect.

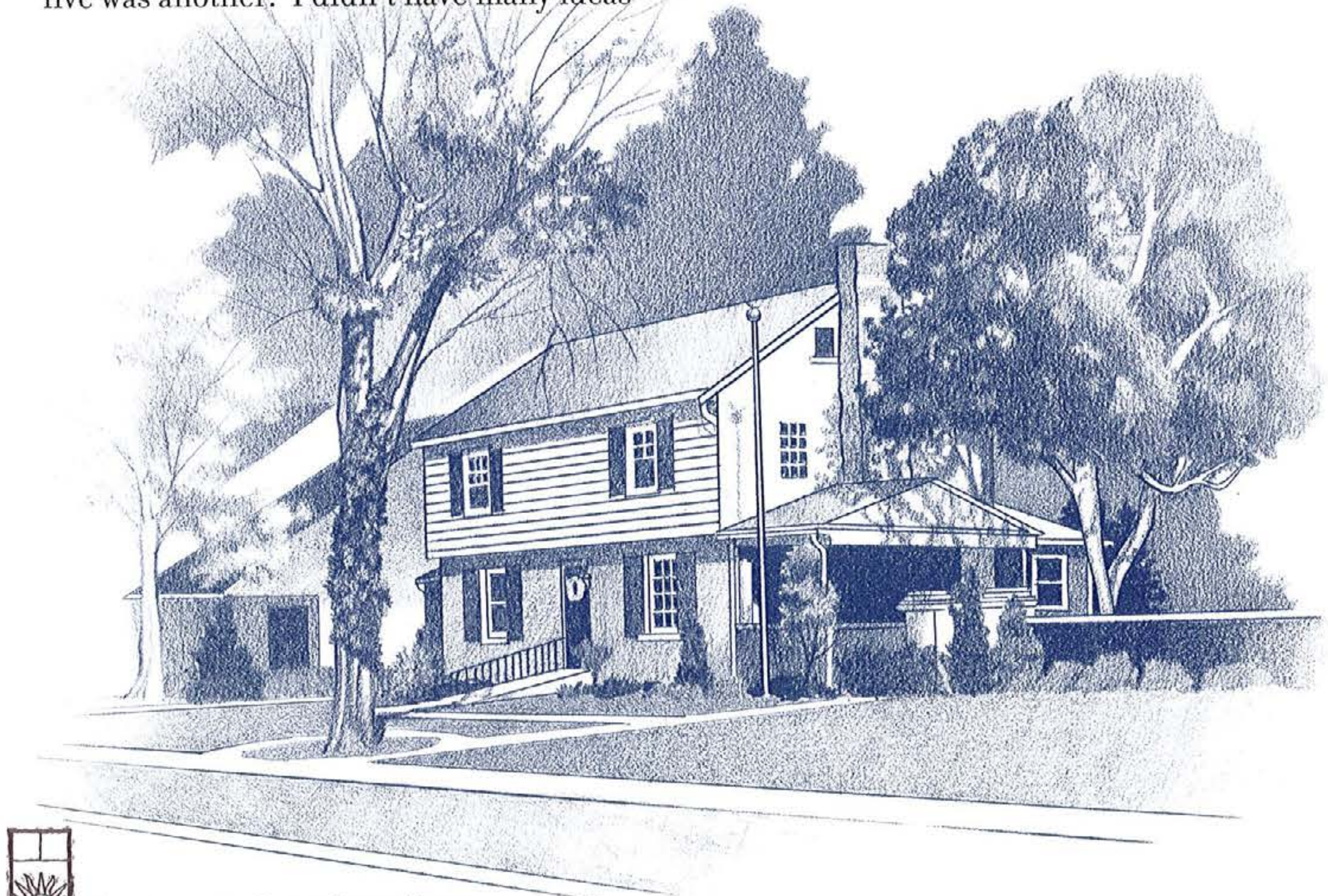
Through the PennHOMES and Housing Tax Credit programs, PHFA offers financing options for the construction and rehabilitation of affordable rental apartments like the one where the Meyers live.



Build yourself...*Confidence*

I am Laxshimi. Some people say I have a handicap. I was born in a foreign country and came to America when I was a teenager. I don't see that as a problem. It was a challenge to learn about a new culture and a new way to do things. But the wheelchair—that's another matter. It is a recent acquisition, and it has changed the way I go about doing things. Employment wasn't a problem: a teacher can do her job from any position. But getting a place to live was another. I didn't have many ideas and no one to guide me. Then I learned that I could buy a house and get financing for accessibility modifications to help me meet my needs. My new home has helped me retain my independence and self-confidence.

The Pennsylvania Housing Finance Agency Access Home Program provides mortgage funding along with deferred loans for accessibility improvements.

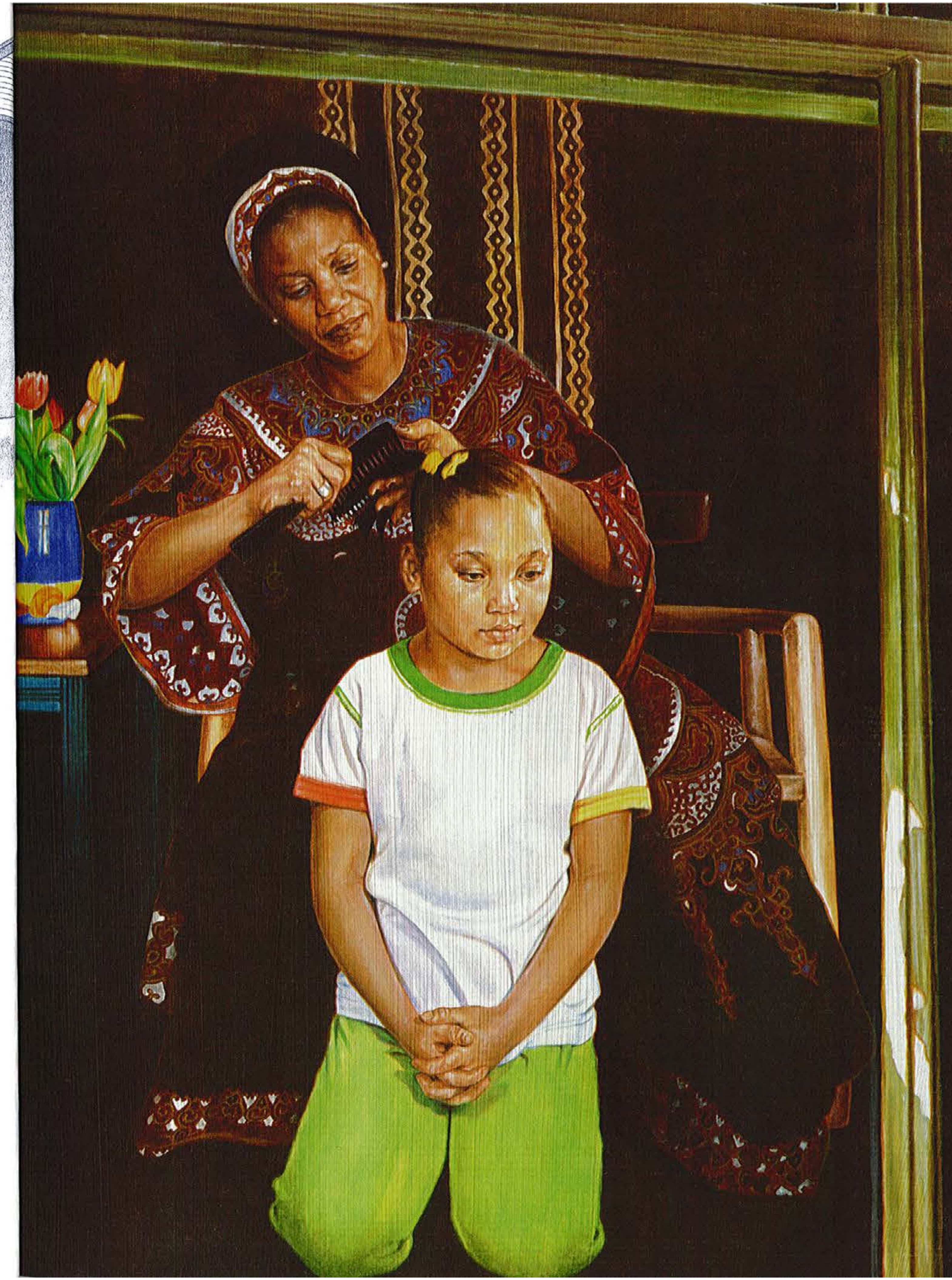


Own yourself...*Identity*

The American dream. I never thought it applied to me or my daughter, Tamika.

We'd been on our own since the day I brought her home from the hospital, and it hasn't been easy on a nurse's salary. But if I've tried to teach her one thing, it's to be proud of who she is and where she comes from. Nevertheless, many times, it seems like all the work I did was undone by the negative forces surrounding us: people who had given up on society; those who had lost interest in our community; and worst of all, those who had lost faith in themselves. That's when I found out about a community counseling program that helped me learn how to find a house that was for sale—one that fit my budget. I never thought I could buy a nice home in a good neighborhood, but I was shown a way to straighten out my credit, get a low-interest rate mortgage loan and even get help with closing costs. Now, we own a home and all the safety and security it gives us.

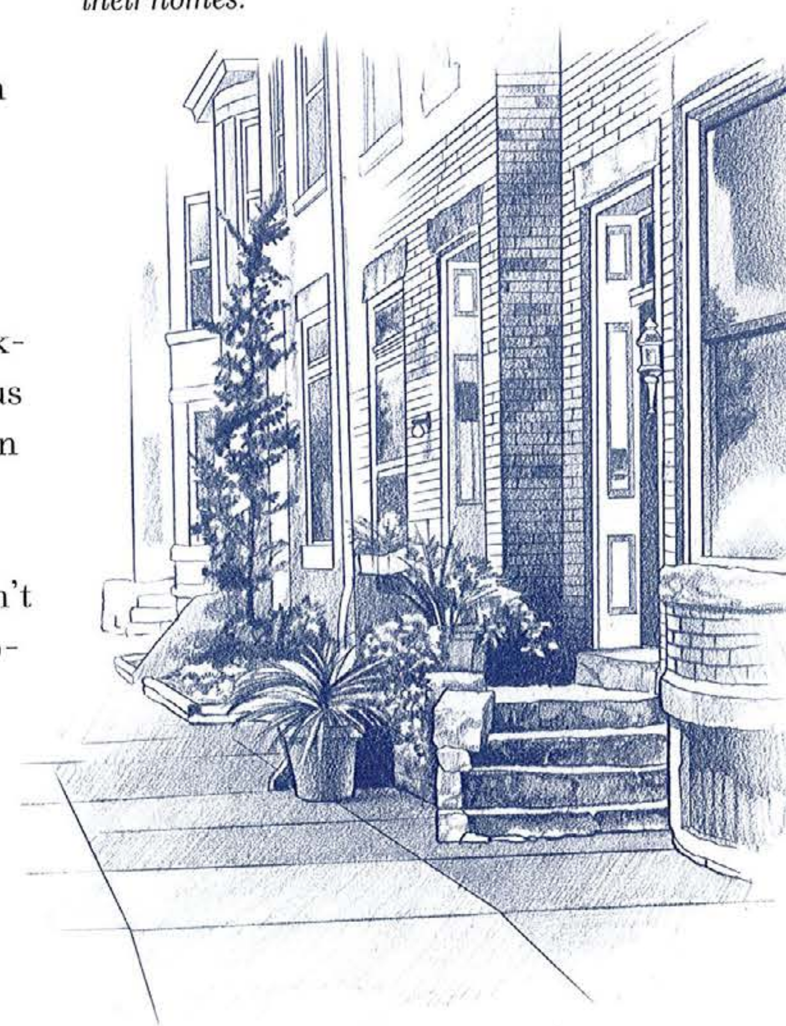
PHFA's low-interest rate home mortgage loans and closing cost assistance programs help turn America's dream of homeownership into Pennsylvania's reality.



Share yourself...*Discovery*

Hello. I'm Ruth, and three months ago I was nearly homeless. It's true, and it could happen to anybody. But let me start at the beginning. Bob, my husband, had worked in the plant his whole life, and had a good income. Well, it was his whole life until he got sick. I was a homemaker, raising the kids—they were a real handful. I can still see the day when Frances tried to run a circus in the living room with all the neighborhood cats and dogs. But I never thought I'd see the day when I wouldn't be living in the house where they grew up. We worked hard. We saved. We did everything we were supposed to do, but that still didn't keep Bob from getting sick. It didn't stop the medical bills from taking all our savings. And it didn't stop us from getting a foreclosure notice. Then I found out about a program to help us keep our house. It's for people like us who face financial difficulties that aren't our fault, and whose homes are in jeopardy. We applied and got accepted. It gave us a predictable source of steady mortgage payments until we got back on our feet. It gave us the time to make a new plan for ourselves, and for our home. Now we've turned 321 Maple Street into a bed and breakfast and have more reservations than we ever thought possible.

The Homeowners' Emergency Mortgage Assistance Program protects Commonwealth families from foreclosure so they can remain in their homes.



The Honorable
Feather O. Houstoun
Secretary of Public Welfare

Chairman
The Honorable David E. Zuern
Secretary of Banking

Vice Chairman
Gary E. Lenker
Vice President and Director of Operations
Donco Construction, Inc.

Brenda Maisha Jefferson Jackson
Housing Consultant

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Pennsylvania Housing Finance Agency

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENTS
for the years ended June 30, 1999 and 1998

AND REQUIRED SUPPLEMENTAL INFORMATION

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Report of Independent Accountants

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
One South Market Square
Harrisburg PA 17101-9916
Telephone (717) 231-5900
Fascimile (717) 232-5672

October 5, 1999

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

In our opinion the accompanying balance sheets and the related statements of revenues, expenses and changes in fund balances and cash flows present fairly, in all material respects, the financial position of The Pennsylvania Housing Finance Agency (Agency) at June 30, 1999 and 1998, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles. 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 audits. We did not audit the financial statements of the Homeowners Emergency Mortgage Assistance Program (HEMAP) whose statements reflect total assets and revenues constituting 2.3% and 0.5%, respectively of the related totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for HEMAP, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States, which require that we plan and perform the audit 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note A, the financial statements present only financial information about The Pennsylvania Housing Finance Agency and are not intended to present fairly the financial position of the Commonwealth of Pennsylvania and the results of its operations and cash flows of its proprietary and similar trust fund types in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 45 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because the disclosure criteria specified by TB 98-1, as amended, are not sufficiently specific and, therefore, preclude the prescribed procedures from providing meaningful results. In addition, we do not provide assurance that the Agency is or will become year 2000 compliant, that the Agency's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Agency does business are or will become 2000 compliant.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Funding Progress and Schedule of Contributions from the Employer and Other Contributing Entities, on pages 43 and 44, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. Such information has been subjected to the auditing procedures applied in the audits 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.

PricewaterhouseCoopers LLP

Pennsylvania Housing Finance Agency

Balance Sheets
as of June 30, 1999 and 1998

1999

(in thousands)		General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)
ASSETS							
Deposits and investments (Note E)	$	100,805	346,135	332,935	25,674	6,360	811,909
Mortgage loans receivable (Note F)		—	554,337	2,055,585	—	75,791	2,685,713
Construction advances (Note F)		—	17,770	—	—	—	17,770
Deferred and other assets		5,268	4,751	8,685	8	110	18,822
Due from other funds		17,763	—	—	—	—	17,763
	$	123,836	922,993	2,397,205	25,682	82,261	3,551,977
LIABILITIES AND FUND BALANCES							
Bonds payable (Note I)		—	547,183	2,173,668	—	—	2,720,851
Notes payable (Note H)		—	6,049	—	—	—	6,049
Escrow and other liabilities		166	207,369	41,060	904	3,356	252,855
Accrued interest payable		—	15,880	33,139	—	—	49,019
Accounts payable and accrued expenses		1,628	—	120	—	239	1,987
Accrued mortgage claims		—	—	—	130	—	130
Due to other funds		—	3,715	13,547	—	501	17,763
Total liabilities		1,794	780,196	2,261,534	1,034	4,096	3,048,654
Fund balances (Note K):							
Reserved		—	1,960	36,305	10,000	78,165	126,430
Unreserved:							
Internally designated		43,250	128,915	14,205	14,648	—	201,018
Undesignated		78,792	11,922	85,161	—	—	175,875
Total fund balances		122,042	142,797	135,671	24,648	78,165	503,323
	$	123,836	922,993	2,397,205	25,682	82,261	3,551,977

1998

(in thousands)	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)
ASSETS						
Deposits and investments (Note E)	96,025	283,590	377,180	23,329	8,343	788,467
Mortgage loans receivable (Note F)	—	569,793	1,959,510	—	78,015	2,607,318
Construction advances (Note F)	—	23,910	—	—	—	23,910
Deferred and other assets	4,152	5,181	6,970	7	146	16,456
Due from other funds	12,060	—	—	—	—	12,060
	112,237	882,474	2,343,660	23,336	86,504	3,448,211
LIABILITIES AND FUND BALANCES						
Bonds payable (Note I)	—	544,927	2,142,637	—	—	2,687,564
Notes payable (Note H)	—	6,049	—	—	—	6,049
Escrow and other liabilities	394	177,862	30,090	704	3,364	212,414
Accrued interest payable	—	16,015	33,267	—	—	49,282
Accounts payable and accrued expenses	1,399	—	56	—	203	1,658
Accrued mortgage claims	—	—	—	342	—	342
Due to other funds	—	3,576	8,021	—	463	12,060
Total liabilities	1,793	748,429	2,214,071	1,046	4,030	2,969,369
Fund balances (Note K):						
Reserved	—	1,960	41,540	10,000	82,474	135,974
Unreserved:						
Internally designated	43,000	104,840	12,205	12,290	—	172,335
Undesignated	67,444	27,245	75,844	—	—	170,533
Total fund balances	110,444	134,045	129,589	22,290	82,474	478,842
	112,237	882,474	2,343,660	23,336	86,504	3,448,211

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

Pennsylvania Housing Finance Agency

Statements of Revenues, Expenses and Changes in Fund Balances as of June 30, 1999 and 1998

	1999						1998					
(in thousands)	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)
REVENUES:												
Interest income:												
Investments	$ 5,482	8,011	20,648	1,671	379	36,191	5,062	7,744	19,188	1,581	422	33,997
Mortgage loans receivable (Note F)	116	51,492	134,012	—	1,024	186,644	134	52,226	134,459	—	1,267	188,086
Construction advances (Note F)	—	113	—	—	—	113	—	158	—	—	—	158
Total interest income	5,598	59,616	154,660	1,671	1,403	222,948	5,196	60,128	153,647	1,581	1,689	222,241
Fees and charges	14,592	—	1,469	1,763	305	18,129	11,958	—	1,884	1,843	285	15,970
Amortization of deferred gain	—	661	—	—	—	661	—	585	—	—	—	585
Gain on sale of investments	—	—	—	—	—	—	—	—	12	—	—	12
Unrealized gain on investments	(781)	(2,683)	(2,581)	(200)	—	(6,245)	374	1,506	2,249	141	—	4,270
Grant revenue	—	243	—	—	—	243	—	—	—	—	10,000	10,000
Pass-through grants (Note C)	—	118,835	—	—	—	118,835	—	117,810	—	—	—	117,810
Residual receipts	—	1,841	—	—	—	1,841	—	4,574	—	—	—	4,574
Nonrecurring income	12	—	—	—	—	12	189	—	—	—	—	189
Total operating revenue	19,421	178,513	153,548	3,234	1,708	356,424	17,717	184,603	157,792	3,565	11,974	375,651
EXPENSES:												
Interest on notes (Note H)	—	214	—	—	—	214	—	235	—	—	—	235
Interest on bonds (Note I)	—	35,435	139,902	—	—	175,337	—	35,644	136,624	—	—	172,268
Salaries and related benefits	9,445	—	—	—	1,444	10,889	8,882	—	—	—	1,421	10,303
General and administrative	4,345	2,654	—	276	1,705	8,980	3,688	2,840	—	—	1,613	8,141
Pass-through grants (Note C)	—	118,835	—	—	—	118,835	—	117,810	—	—	—	117,810
Loan loss provision	—	12,000	1,600	—	2,868	16,468	—	18,000	600	—	6,691	25,291
Mortgage insurance	—	—	—	—	—	—	—	—	—	317	—	317
Mortgage claims	—	—	—	600	—	600	—	—	—	300	—	300
Total operating expenses	13,790	169,138	141,502	876	6,017	331,323	12,570	174,529	137,224	617	9,725	334,665
Income before extraordinary item and cumulative effect of accounting change	5,631	9,375	12,046	2,358	(4,309)	25,101	5,147	10,074	20,568	2,948	2,249	40,986
Extraordinary loss and accounting change:												
Cumulative effect of accounting change, valuing investments at fair value	—	—	—	—	—	—	1,423	5,728	8,550	535	—	16,236
Early extinguishment of debt (Note I)	—	—	(620)	—	—	(620)	—	(15)	(381)	—	—	(396)
Net income (loss)	5,631	9,375	11,426	2,358	(4,309)	24,481	6,570	15,787	28,737	3,483	2,249	56,826
Fund balances at beginning of year	110,444	134,045	129,589	22,290	82,474	478,842	102,177	119,955	100,852	18,807	80,225	422,016
Fund balance transfers, net (Note D)	5,967	(623)	(5,344)	—	—	—	1,697	(1,697)	—	—	—	—
Fund balances at end of year	$ 122,042	142,797	135,671	24,648	78,165	503,323	110,444	134,045	129,589	22,290	82,474	478,842

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

Pennsylvania Housing Finance Agency

Statements of Cash Flows
as of June 30, 1999 and 1998

(in thousands)	1999 General Fund	1999 Multi-Family Program	1999 Single Family Program	1999 Insurance Fund	1999 HEMAP	1999 Totals (Memorandum Only)	1998 General Fund	1998 Multi-Family Program	1998 Single Family Program	1998 Insurance Fund	1998 HEMAP	1998 Totals (Memorandum Only)
Cash flows from operating activities:												
Net income (loss) $	5,631	9,375	11,426	2,358	(4,309)	24,481	6,570	15,787	28,737	3,483	2,249	56,826
Adjustments to reconcile net income to net cash provided by (used in) operating activities:												
Depreciation and amortization	373	240	1,924	—	69	2,606	355	704	(4,316)	—	26	(3,231)
Loss on early extinguishment of debt	—	—	620	—	—	620	—	15	381	—	—	396
Loan loss provision	—	12,000	1,600	—	2,868	16,468	—	18,000	600	—	6,691	25,291
Interest expense on notes and bonds, excluding amortization accretion	—	34,988	139,902	—	—	174,890	—	36,874	145,329	—	—	182,203
Interest income on investments	(5,482)	(5,624)	(20,648)	(1,671)	(379)	(33,804)	(5,062)	(7,744)	(19,188)	(1,581)	(422)	(33,997)
Cumulative effect of accounting change, valuing investments at fair value	—	—	—	—	—	—	(1,423)	(5,728)	(8,550)	(535)	—	(16,236)
Unrealized gain on investments	781	2,683	2,581	200	—	6,245	(374)	(1,506)	(2,249)	(141)	—	(4,270)
Gain on sale of investments	—	—	—	—	—	—	—	—	(12)	—	—	(12)
Amortization of deferred gain	—	661	—	—	—	661	—	(585)	—	—	—	(585)
Loss on sale of real estate owned	—	—	—	—	3	3						
Increase (decrease) due to changes in operating assets and liabilities:												
Mortgage loans receivable	—	3,456	(97,675)	—	(644)	(94,863)	—	(1,432)	(158,730)	—	(4,066)	(164,228)
Construction advances	—	6,140	—	—	—	6,140	—	(10,242)	—	—	—	(10,242)
Deferred and other assets	(1,489)	430	(2,335)	(1)	(33)	(3,428)	(511)	498	(1,849)	(4)	(1)	(1,867)
Escrow and other liabilities	(228)	29,507	10,970	200	(8)	40,441	71	7,921	5,214	(1)	67	13,272
Accounts payable and accrued expenses	229	—	64	—	36	329	212	—	46	—	(8)	250
Accrued mortgage claims	—	—	—	(212)	—	(212)	—	—	—	(27)	—	(27)
Net cash provided by (used in) operating activities	(185)	93,856	48,429	874	(2,397)	140,577	(162)	52,562	(14,587)	1,194	4,536	43,543
Cash flows from noncapital financing activities:												
Due (from) to other funds	(5,703)	139	5,526	—	38	—	17,176	861	(18,037)	—	50	50
Fund balance transfers from (to) other funds	5,967	(623)	(5,344)	—	—	—	1,697	(1,697)	—	—	—	—
Proceeds from sale of bonds and notes	—	18,250	235,582	—	—	253,832	—	—	375,855	—	—	375,855
Redemptions and maturities of bonds and notes	—	(16,234)	(206,475)	—	—	(222,709)	—	(23,363)	(124,422)	—	—	(147,785)
Interest paid on bonds and notes	—	(35,784)	(140,030)	—	—	(175,814)	—	(36,426)	(138,215)	—	—	(174,641)
Net cash provided by (used in) noncapital financing activities	264	(34,252)	(110,741)	—	38	(144,691)	18,873	(60,625)	95,181	—	50	53,479
Cash flows from investing activities:												
Purchase of investments	(206,505)	(214,669)	(33,207)	—	(5,699)	(460,080)	(155,728)	(180,529)	(97,018)	—	(13,308)	(446,583)
Interest received on investments	5,482	5,624	20,648	1,671	379	33,804	5,062	7,744	19,188	1,581	422	33,997
Proceeds from sales and maturities of investments	200,944	173,316	71,876	—	8,233	454,369	131,955	166,888	52,673	—	9,303	360,819
Net cash provided by (used in) investing activities	(79)	(35,729)	59,317	1,671	2,913	28,093	(18,711)	(5,897)	(25,157)	1,581	(3,583)	(51,767)
Net increase (decrease) in cash and cash equivalents	—	23,875	(2,995)	2,545	554	23,979	—	(13,960)	55,437	2,775	1,003	45,255
Cash and cash equivalents at beginning of year	—	185,474	172,196	12,653	(967)	369,356	—	199,434	116,759	9,878	(1,970)	324,101
Cash and cash equivalents at end of year $	—	209,349	169,201	15,198	(413)	393,335	—	185,474	172,196	12,653	(967)	369,356
Reconciliation of cash and cash equivalents to the balance sheets:												
Total deposits and investments per the balance sheets	100,805	346,135	332,935	25,674	6,360	811,909	96,025	283,590	377,180	23,329	8,343	788,467
Less:												
Investments not meeting the definition of cash equivalents at fair value at June 30, 1998	100,805	136,786	163,734	10,476	6,773	418,574	96,025	98,116	204,984	10,676	9,310	419,111
Cash and cash equivalents at end of year $	—	209,349	169,201	15,198	(413)	393,335	—	185,474	172,196	12,653	(967)	369,356
Supplemental schedule of noncash operating activities:												
Mortgage loan receivable charge offs $	—	—	(1,618)	—	(8,295)	(9,913)	—	—	(598)	—	(5,549)	(6,147)

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

Pennsylvania Housing Finance Agency

Notes to Financial Statements
(dollar amounts in thousands)

for the years ended June 30, 1999 and 1998

A. Authorizing Legislation:

The Pennsylvania Housing Finance Agency (Agency) is a corporate and political body 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 to authorize the Agency to make or purchase loans to finance the purchase, construction, improvement or rehabilitation of owner-occupied single family residences, and to finance the construction and rehabilitation of housing units without requiring the housing units to be subsidized or assisted by a federal government program.

The Act was further amended to authorize the Agency to furnish emergency mortgage assistance to mortgagors facing foreclosure because of circumstances beyond their control, through the form of loans.

The Agency has been determined to be a component unit of the Commonwealth of Pennsylvania for financial reporting purposes and thus, the financial results of the Agency will be included in the Commonwealth's June 30, 1999 financial statements.

B. Fund Accounting:

The accounts of the Agency are organized on the basis of separate enterprise 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, and 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. The Multi-Family Program also provides funds for the bridge loan program. This program provides funds to multi-family construction projects, to be used as owner's equity. These funds assist the construction project to finance pre-construction costs.

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. Borrowers participating in the Single Family Program have the option of obtaining primary mortgage insurance through the Pennsylvania Housing Insurance Fund.

Insurance Fund:

Through the Insurance Fund, the Agency provides primary mortgage insurance coverage for single family mortgage loans, and charges the participants a premium for this coverage.

HEMAP:

The Homeowners Emergency Mortgage Assistance Program (HEMAP) was created by Act 91 of the General Assembly as a separate fund within the Agency. Transactions relate to the furnishing of emergency mortgage assistance to mortgagors facing foreclosure because of circumstances beyond their control, through the form of loans, in an amount sufficient to bring the mortgage current, and, if necessary, to provide continuing assistance for a period of up to 36 months. The mortgagor's obligation to repay the loan does not commence until there is the financial ability to do so. As stated in Act 91, no Agency funds are being expended on HEMAP; however, it does rely on the Agency for various administrative services, for which it pays a support services fee.

The Agency follows Governmental Accounting Standards Board (GASB) Statement No. 14, "The Reporting Entity." As a result, HEMAP has been determined to be part of the reporting entity. Accordingly, HEMAP has been included as a separate fund in the financial statements. A separately published audit report of HEMAP is available for public inspection in the Agency's Finance Department.

HEMAP received a $10,000 appropriation for the fiscal year ended June 30, 1998. Funding from repayments are estimated to continue to be sufficient to meet continuing loan program obligations and administrative costs. HEMAP is currently reviewing restructuring options, including legislative changes, that would make it self-sustaining or allow for a reduction of the appropriation.

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.

The Agency follows GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting" (Statement No. 20) for reporting and disclosure purposes. As permitted by Statement No. 20, the Agency has elected to not apply Financial Accounting Standards Board pronouncements issued after November 30, 1989 unless the GASB specifically adopts the FASB Statement or Interpretation.

Cash and Cash Equivalents:

For the purpose of the statements of cash flows, the Agency considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents.

Investment Securities:

The Agency adopted Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which changes the method of accounting for investment securities from the cost method to fair value.

The fair value of the Authority's investment securities are based upon values provided by external investment managers and quoted market prices.

The cumulative effect as of July 1, 1997 of adopting Statement No. 31, representing unrealized gains on investment securities, is to increase the fund balance by $16,236.

Mortgage Loans Receivable and Construction Advances:

Mortgage loans receivable and construction advances are carried at amounts disbursed plus accrued interest and fees, less collections, mortgage loan discounts 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. Factors considered by management include the estimated fair market values of the properties that represent collateral, the amount of mortgage insurance to be received, if any, and the past experience and financial condition of the borrowers. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. Additions to the allowance are provided by charges to expense.

Mortgage Real Estate Owned:

During the normal course of business, the Agency purchases single family properties at foreclosure proceedings to avoid or minimize losses on mortgage loans. These properties are recorded at cost and are held and managed by the Agency until purchasers are located. Subsequent costs directly related to the sale or improvement of the real estate are capitalized, as they are recoverable as part of the insurance claim. Losses arising from the properties are charged to the allowance for potential loan losses when incurred.

Nonaccrual Loans:

The Agency's policy is not to place a loan on nonaccrual status. For those mortgage loans fully insured, the accrued interest is recoverable as part of the mortgage insurance claim. In management's opinion, there is adequate reserve in the allowance for potential loan losses for any unrecovered accrued interest for mortgages which are self-insured by the Agency.

Mortgage Loan Interest:

Interest income is recognized over the life of construction advances and mortgage loans receivable based upon the constant yield method.

Mortgage Loan Origination Fees and Costs:

Loan origination fees range from 1% to 2.5% of the loan commitment for the Multi-Family Program and from 0% to 1% of the mortgage amount for the Single Family Program. The Single Family loan origination fees are retained by the financial institutions which originate Agency loans.

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 Notes and Bonds Payable Discounts:

Underwriter discounts relating to notes and bonds payable, including original issue discounts, are amortized over the lives of the related debt using the interest method.

Deferred Gain:

In prior years, in an effort to maintain the low-income status of various multi-family projects, the Agency acquired these projects, at below market value, from the original owners. The Agency in turn sold these properties, at market price, to the current owners with the condition that they would retain their low-income status.

The deferred gain (the excess of the selling price over the Agency's acquisition price) is included in escrow and other liabilities and is being amortized over the lives of the current owners' mortgage loans using the installment method.

Deferred Costs of Refunding:

The Agency follows GASB Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," which requires that the difference between the reacquisition price and the net carrying amount of defeased debt be deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the balance sheet, the amount of the unamortized deferred costs of refunding is reported as a deduction from or addition to the new debt. During the years ended June 30, 1999 and 1998, the Agency deferred losses of $1,625 and $2,461, respectively, on refunding Single Family Mortgage Revenue Bonds. As of June 30, 1999 and 1998, the unamortized deferred costs of refunding are $8,640 and $7,543, respectively.

Pass-through Grants:

The Agency has implemented GASB Statement No. 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance." GASB Statement No. 24 requires that all cash pass-through grants received by a governmental entity be reported in its financial statements. The effect of applying these provisions is to increase both operating revenues and operating expenses by $118,835 and $117,810 for the years ended June 30, 1999 and 1998, respectively. This change has no effect on net income.

Total Columns on Financial Statements:

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Such data is not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Use of Estimates in the Preparation of Financial Statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

E. Deposits, Investments and Securities Lending:

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 collateralized 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; noncollateralized 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 and investments consist of the following at June 30, 1999 and 1998:

	1999	1998
Deposits	$ 2,876	$ 2,760
Investments	809,033	785,707
Total deposits and investments	$ 811,909	$ 788,467

Management is not aware of any violations of statutory authority or contractual provisions for deposits and investments during the years ended June 30, 1999 and 1998.

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):

	Bank Balance				
June 30, 1999	Category 1	Category 2	Category 3	Total	Carrying Amount
Demand deposits	$ 100	—	15,265	15,365	2,876
June 30, 1998					
Demand deposits	$ 100	—	7,355	7,455	2,760

Deposits classified as Category 3 are collateralized by pooled collateral in accordance with Act 72 of the Commonwealth of Pennsylvania. The bank balances in excess of the 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 represent the Agency's ownership interests in investment agreements, mutual funds and investment in the State Treasurer's investment pool. 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.

	Amortized Cost			Total
June 30, 1999	Category 1	Category 2	Total Amortized Cost	Carrying Amount/ Fair Value
Corporate bonds	$ 25		25	30
Repurchase agreements	71,794		71,794	71,794
U.S. Government and agency securities:				
Not on securities loan	386,511		386,511	401,454
On securities loan	—		—	—
Short-term investments	191,865	6,773	198,638	198,638
Totals	$ 650,195	6,773	656,968	671,916
Add amounts not categorized because securities are not used as evidence of the investments:				
Investment agreements			49,387	49,387
Mutual funds			87,730	87,730
Total investments			$ 794,085	809,033

June 30, 1999	Amortized Cost Category 1	Category 2	Total Amortized Cost	Total Carrying Amount/ Fair Value
Corporate bonds	$ 38		38	44
Repurchase agreements	63,615		63,615	63,615
U.S. Government and agency securities:				
Not on securities loan	273,738		273,738	287,084
On securities loan	58,925		58,925	66,078
Short-term investments	181,892	9,310	191,202	191,202
Totals	$ 578,208	9,310	587,518	608,023
Add amounts not categorized because securities are not used as evidence of the investments:				
Investment agreements			102,428	102,428
Mutual funds			71,516	71,516
Investment in State Treasurer's investment pool			3,740	3,740
Total investments			$ 765,202	785,707

The Agency has implemented GASB Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions." Under the authority of the Agency's Board, the Agency lends securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Agency's primary custodial bank manages the securities lending program and receives cash, securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the Agency unless the borrower defaults. Cash, collateral securities, and letters of credit are initially pledged at 102% of the market value of the securities lent, and additional collateral has to be provided by the next business day if its value falls to less than 100% of the market of the securities lent. Securities on loan at year-end are classified in the preceding schedule of custodial credit risk according to the category for the collateral received on the securities lent. At June 30, 1998, the Agency had no credit risk exposure to borrowers because the amounts the Agency owes the borrowers exceed the amounts the borrowers owe the Agency. There were no securities on loan at June 30, 1999. Securities on loan at year-end are classified on the preceding schedule of custodial credit risk according to the category for the collateral received on the securities lent.

The amortized cost and estimated market values of investments in debt securities as of June 30, 1999 and 1998 are as follows:

1999	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Corporate bonds	$ 25	5	—	30
Repurchase agreements	71,794	—	—	71,794
U.S. Government obligations	63,757	15,834	—	79,591
U.S. Government agency obligations	322,754	1,422	(2,313)	321,863
Short-term investments	198,638	—	—	198,638
Investment agreements	49,387	—	—	49,387
Mutual funds	87,730	—	—	87,730
	$ 794,085	17,261	(2,313)	809,033

1998	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Corporate bonds	$ 38	6	—	44
Repurchase agreements	63,615	—	—	63,615
U.S. Government obligations	64,850	19,728	—	84,578
U.S. Government agency obligations	267,813	1,650	(879)	268,584
Short-term investments	191,202	—	—	191,202
Investment agreements	102,428	—	—	102,428
Mutual funds	71,516	—	—	71,516
State Treasurer's investment pool	3,740	—	—	3,740
	$ 765,202	21,384	(879)	785,707

The amortized cost and estimated market value of investments at June 30, 1999, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Market Value
Due in one year or less	$ 550,462	550,462
Due after one year through five years	191,964	185,595
Due after five years through ten years	17,636	22,230
Due after ten years	34,023	50,746
	$ 794,085	809,033

Proceeds from sales of investments in debt securities, prior to maturity, during 1999 and 1998 are $1,508 and $6,465, respectively. Net gains of $2 and $12 respectively, are realized on those sales.

F. Mortgage Loans Receivable and Construction Advances:

The mortgage loans receivable and construction advances are collateralized by first mortgages on the related properties. The federal government provides insurance for certain projects included in the Multi-Family Program, as well as subsidizes certain projects through its Section 8 Program. Insurance for the Single Family Program is provided by commercial companies and self-insurance through the Agency's Insurance Fund. In addition, the Agency has internally designated a portion of fund balances for self-insurance for certain multi-family and single family loans (see Note K). A summary of multi-family mortgage loans receivable and construction advances at June 30, 1999 and 1998 is as follows:

June 30, 1999	Mortgage Loans Receivable	Construction Advances
Insured and subsidized	$ 44,904	—
Insured and nonsubsidized	50,990	17,770
Uninsured and subsidized	384,453	—
Uninsured and nonsubsidized	185,911	—
	666,258	17,770
Allowance for potential loan losses	111,921	—
	$ 554,337	17,770

June 30, 1998	Mortgage Loans Receivable	Construction Advances
Insured and subsidized	$ 45,434	—
Insured and nonsubsidized	50,752	23,845
Uninsured and subsidized	394,696	—
Uninsured and nonsubsidized	178,832	65
	669,714	23,910
Allowance for potential loan losses	99,921	—
	$ 569,793	23,910

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.

The Agency has reimbursement agreements covering up to $288,500 in mortgage loans with various commercial mortgage insurers in order to provide mortgagors with lower premiums for primary mortgage insurance. Under these agreements, the mortgage insurers are primarily responsible to the holders of the mortgage insurance policies, and the Agency will assume a portion of the mortgage default risk. Although the Agency has internally restricted a portion of its fund balance in connection with this potential exposure, no losses have ever resulted under these agreements. The Agency discontinued originating mortgage loans under these agreements in September 1993.

The Agency provides primary mortgage insurance coverage for single family mortgage loans through the Insurance Fund which ranges from 20% to 30% (depending on the loan-to-value ratio at origination) of the unpaid principal balance. At June 30, 1999 and 1998, the total loans covered under this program are $393,071 and $380,322 respectively, and the coverage provided is estimated to be approximately $112,314 and $108,644, respectively. The participants in this program are charged an annual premium for this coverage.

In order to increase the Insurance Fund's capacity to provide primary mortgage insurance for single family mortgage loans, the Agency purchased shared risk coverage through a commercial mortgage insurer during fiscal year 1996. This coverage extends to all loans that were outstanding as of August 31, 1995 and provides that the Agency shall remain solely liable for 10% of the product of multiplying the Insurance Fund coverage percentage (20% to 30%) times the aggregate outstanding principal balance for each loan. After exhaustion of the Agency's retention, the commercial insurer is liable on a per loan basis for losses up to the limit of the Insurance Fund's coverage in each loan-to-value ratio category. Of the total loans covered under the Insurance Fund, $222,254 are covered under this shared risk contract at June 30, 1996, and the Agency's maximum potential exposure is $6,362.

The claims liability of $130 and $342 reported in the Insurance Fund as of June 30, 1999 and 1998, respectively, is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which amends GASB 10. The claims liability calculation includes the effects of specific incremental claim adjustment expenditures/expenses, salvage, and subrogation, and other allocated and unallocated claim adjustment expenditures/expenses. Changes in the Insurance Fund's claim liability amounts are as follows:

	1999	1998
Balance, July 1	$ 342	369
Current year claims and changes in estimates	600	300
Claim payments	(812)	(327)
Balance, June 30	$ 130	342

The Agency has elected to self-insure certain losses sustained by reason of default in payments by eligible borrowers in excess of primary insurance for single family mortgage loans originating from proceeds obtained from single family bond issues Series C through 1996-51. The total principal outstanding of mortgage loans self-insured by the Agency is $2,017,901 and $1,933,609 at June 30, 1999 and 1998, respectively. As of June 30, 1999, cumulative pool losses since inception of the self-insurance program are $3,920.

The HEMAP mortgage loans receivable are collateralized by liens on the respective properties. The assistance HEMAP provides is considered a second mortgage on the property. In cases of default, there is no assurance that any equity will remain after the primary lender is satisfied. Of the total mortgage loans receivable outstanding, $99,218 and $49,669 as of June 30, 1999 and 1998, respectively, are currently required to make repayments.

Changes in the allowance for potential loan losses for the Multi-Family and Single Family Programs and HEMAP are as follows at June 30, 1999 and 1998:

	Multi-Family		Single Family		HEMAP	
	1999	1998	1999	1998	1999	1998
Balance, July 1	$ 99,921	81,921	1,404	1,402	59,415	57,653
Provision charged to income	12,000	18,000	1,600	600	2,868	6,691
Charge-offs	—	—	(1,618)	(598)	(7,719)	(4,929)
Balance, June 30	$ 111,921	99,921	1,386	1,404	54,564	59,415

The Agency has internally designated a portion of fund balances in both the General Fund and Single Family Program for self-insurance (see Note K).

G. Servicing Portfolio:

Included in the Single Family Program are mortgage loans serviced for investors which are not included in the financial statements. The total amount of loans serviced for others is $84,799 and $108,476 at June 30, 1999 and 1998, respectively.

H. Notes Payable:

The Agency's lines of credit, with the Department of Treasury of the Commonwealth of Pennsylvania, for the funding of Multi-Family Programs and the outstanding borrowings are as follows:

	1999	1998
$15,000 line of credit, bearing interest from the date of issuance at a rate equal to the current yield on two-year Treasury Notes plus 20 basis points, which is determined on the date of issuance, 4.47%-6.98% at June 30, 1999 and 1998, respectively.	$ 1,000	1,000
	1,000	1,000
Additionally, the Agency has the following notes payable outstanding for the funding of the Bridge Loan Program:		
Regional Housing Development Corporation Bridge Loan Note bearing a fixed interest rate of 3%.	4,819	4,819
Redevelopment Authority of the City of Philadelphia Bridge Loan Note bearing a fixed interest rate of 0%	230	230
	5,049	5,049
Total notes payable	$ 6,049	6,049

I. Bonds Payable:

Bonds have been issued to provide financing of mortgage loans under the Multi-Family and Single Family Programs. The full faith and credit of the Agency are 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.

The most restrictive covenants require minimum capital reserve requirements for the Multi-Family and Single Family Programs. The capital reserve fund has been established by the Agency to meet these requirements.

The capital reserve requirement for certain Multi-Family bonds requires that a one-year debt service minimum balance be maintained at all times. The capital reserve fund at June 30, 1999 and 1998, amounts to $18,292 and $18,106 respectively, including amounts funded by bond proceeds. Such amounts are $7,390 and $6,996, respectively, in excess of the requirement.

The capital reserve requirement for Single Family bonds 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, 1999 and 1998 amounts to $76,094 and $71,665 respectively, including amounts funded by bond proceeds. Such amounts are $9,111 and $5,609 respectively, in excess of the requirement.

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

Issue	Interest Rate Range At Issuance	Final Maturity Date	Amounts Outstanding June 30, 1999	1998
Residential Development Bonds:				
Issue 1991A (refunding)	6.65-7.60%	2013	$ 35,900	37,205
Issue 1992A (refunding)	7.950%	2025	21,880	22,420
Issue 1992 (refunding)	3.65-6.5%	2023	147,780	152,930
Issue 1993 (refunding)	3.5-5.8%	2022	185,685	191,060
State Workers' Insurance Fund:				
Issue 1994	6.990%	2019	32,175	33,180
Multi-Family Housing Bonds:				
Issue 1982B	9.50-10.875%	2024	4,875	4,875
Issue 1985A	6.75-9.375%	2028	2,194	2,233
Issue 1987A	7.00-8.500%	2002	250	300
Issue 1988A	11.000%	2008	1,041	1,108
Issue FHA-1992	7.75-8.200%	2024	35,615	36,055
Moderate Rehabilitation Bonds:				
Issue 1984A	6.50-10.375%	2001	350	655
Issue 1985B	5.25-9.000%	2017	2,150	2,475
Multi-Family Development Bonds:				
Issue 1989B	8.250%	2015	505	515
Issue 1993A (refunding)	5.380%	2022	31,585	32,335
Issue 1993F	6.530%	2019	11,300	11,570
Issue 1997G	7.630%	2027	10,790	10,900
Issue 1998H	6.300%	2028	17,895	—
Federal National Mortgage Association:				
Issue 1990A	7.500%	2023	3,541	3,588
Subordinate Limited Obligation Bonds:				
Issue 1995	5.50-6.15%	2021	4,393	4,483
			549,904	547,887
Unamortized bond discount			(2,721)	(2,960)
			$ 547,183	544,927

During the year ended June 30, 1998, the Agency redeemed prior to maturity $730 of Multi-Family Housing Bonds, Issue 1985A. An extraordinary loss of $15 resulted from the redemptions.

The Agency defeased Multi-Family Residential Development Bonds, Issues H and M in prior years, by depositing sufficient funds in an irrevocable trust with an escrow agency to provide for all future debt service payments. The funds were invested in U.S. Treasury strips. The defeased principal outstanding on these bonds is $7,120 at June 30, 1999 and 1998.

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

Issue	Interest Rate Range At Issuance	Final Maturity Date	Amounts Outstanding June 30, 1999	1998
Single Family Mortgage Revenue Bonds:				
Series J	4.50-9.000%	2013	$ —	1,040
Series N	4.60-8.250%	2014	—	1,420
Series O	5.75-8.200%	2018	—	1,490
Series P	4.75-8.000%	2016	270	780
Series Q	6.00-8.375%	2018	2,305	3,100
Series R	6.20-8.125%	2019	2,015	3,220
Series S	6.70-7.600%	2016	21,505	22,085
Series T	7.00-7.875%	2020	6,525	6,915
Series U	6.15-7.800%	2020	5,135	63,125
Series V	6.00-7.800%	2016	—	22,950
Series W	6.30-7.800%	2020	44,935	45,715
Series X	6.80-8.150%	2024	1,275	2,045
Series Y	6.20-7.450%	2016	22,700	25,495
Series Z	6.00-7.550%	2016	12,225	16,145
Series 1990 - 27	6.50-8.150%	2021	1,900	2,570
Series 1990 - 28	6.30-7.650%	2023	15,155	59,485
Series 1990 - 29	6.10-7.375%	2016	18,160	21,070
Series 1991 - 30	5.30-7.300%	2017	15,000	17,675
Series 1991 - 31	5.40-8.950%	2023	69,785	74,670
Series 1991 - 32	7.150%	2015	30,420	30,420
Series 1992 - 33	4.50-6.900%	2017	33,885	38,210
Series 1992 - 34	4.50-7.000%	2024	70,310	71,360
Series 1992 - 35	2.88-9.480%	2016	89,505	90,980
Series 1993 - 36	3.40-5.450%	2014	49,255	50,425
Series 1993 - 37	5.45-5.600%	2025	75,000	75,000
Series 1994 - 38	3.50-6.125%	2024	24,790	27,185
Series 1994 - 39	3.90-6.875%	2024	37,670	38,235
Series 1994 - 40	4.00-6.900%	2025	37,690	38,245
Series 1994 - 41	4.00-6.650%	2025	47,250	47,990
Series 1994 - 42	5.50-6.850%	2025	60,000	60,000
Series 1994 - 43	4.75-7.500%	2025	47,765	48,370
Series 1995 - 44	6.30-8.400%	2027	48,485	48,965
Series 1995 - 45	5.00-7.550%	2026	45,795	48,170
Series 1995 - 46	3.95-6.300%	2027	48,075	48,745
Series 1996 - 47	4.20-6.750%	2027	49,700	50,000
Series 1996 - 48	4.00-6.150%	2028	47,475	49,060
Series 1996 - 49	4.60-6.450%	2027	49,355	50,000
Series 1996 - 50	3.64-6.350%	2027	42,275	45,365
Series 1996 - 51	4.55-6.375%	2028	72,525	74,365
Series 1996 - 52	4.40-7.000%	2027	68,665	73,590
Series 1996 - 53	4.20-6.150%	2027	70,020	73,455
Series 1997 - 54	5.375-7.22%	2028	46,135	48,585
Series 1997 - 55	3.70-5.750%	2013	31,640	33,055
Series 1997 - 56	4.00-6.150%	2028	79,665	92,875
Series 1997 - 57	4.30-6.150%	2029	49,395	50,000
Series 1997 - 58	4.30-5.450%	2009	73,315	74,855
Series 1997 - 59	4.00-5.150%	2029	73,300	75,000
Series 1997 - 60	4.00-5.100%	2009	73,820	75,000

continued

Issue	Interest Rate Range At Issuance	Final Maturity Date	Amounts Outstanding June 30, 1999	1998
Series 1997 - 61	4.00-4.900%	2008	74,955	75,000
Series 1997 - 62	4.25-5.200%	2011	75,000	75,000
Series 1999 - 63	3.95-5.150%	2030	62,355	—
Series 1999 - 64	3.65-5.250%	2030	75,190	—
Series 1999 - 65	3.25-5.250%	2030	99,875	—
			2,199,445	2,168,500
Unamortized bond discount			(17,137)	(18,320)
Unamortized deferred costs of refundings			(8,640)	(7,543)
			$ 2,173,668	2,142,637

During the year ended June 30, 1999, the Agency redeemed prior to maturity $45,845 of Single Family Mortgage Revenue Bonds Series Y and Z, 1990-28, 1990-29, 1991-30, 1991-31, 1992-33, 1994-38, 1995-45, 1996-47, 1996-48, 1996-50, 1996-51, 1996-52, 1996-53, 1997-54, 1997-56, 1997-57, 1997-58, 1997-59, 1997-60, and 1997-61, using mortgage prepayments. Extraordinary losses of $620 resulted from the redemptions as unamortized bond discount and related costs of issuance for the bonds redeemed were expensed. Additionally, during the year ended June 30, 1999, the Agency redeemed prior to maturity $118,235 of Single Family Mortgage Revenue Bonds, Series U, Y, Z, and 1990-28, using bond proceeds. Although a deferred loss of $1,844 resulted from the refundings, the Agency in effect obtained an economic gain (difference between the present value of the old and new debt service payments) of $234 and was able to reduce its aggregate debt service payments as a result of these transactions by a total of $89,255 over the succeeding 22 years from the current refundings.

During the year ended June 30, 1998, the Agency redeemed prior to maturity $22,390 of Single Family Mortgage Revenue Bonds Series N, O, Y, Z, 1997-58, 1997-56, 1997-54, 1996-53, 1996-52, 1996-51, 1996-50, 1996-48, 1995-45, 1994-38, 1992-33, 1991-31, 1991-30, 1990-29 and 1990-28, using mortgage prepayments. Extraordinary losses of $381 resulted from the redemptions as unamortized bond discount and related costs of issuance for the bonds redeemed were expensed. Additionally, during the year ended June 30, 1998, the Agency redeemed prior to maturity $28,752 of Single Family Mortgage Revenue Bonds, Series J, K, T, and U, using bond proceeds. Although a deferred loss of $638 resulted from the refundings, the Agency in effect obtained an economic gain (difference between the present value of the old and new debt service payments) of $6,622 and was able to reduce its aggregate debt service payments as a result of these transactions by a total of $10,087 over the succeeding 22 years from the current refundings.

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 if they are from undisbursed bond proceeds. A provision of the bonds includes mandatory annual sinking fund payments to provide for redemption of the term bonds.

Required principal and interest payments related to bonds payable are as follows at June 30, 1999:

Year ending June 30,		Multi-Family Program Principal	Multi-Family Program Interest	Single Family Program Principal	Single Family Program Interest	Total Principal and Interest Maturities
2000	$	16,830	34,883	76,410	129,729	257,852
2001		17,839	33,930	47,145	125,655	224,569
2002		18,540	32,863	48,110	124,311	223,824
2003		19,991	31,749	49,150	122,218	223,108
2004		20,617	30,624	50,765	119,363	221,369
Thereafter		456,087	287,523	1,927,865	1,564,880	4,236,355
	$	549,904	451,572	2,199,445	2,186,156	5,387,077

J. Operating Leases:

The Agency is obligated under noncancelable operating leases for its buildings. Future minimum payments under these leases at June 30, 1999 are:

2000	$	662
2001		636
2002		639
2003		610
Thereafter		1,294
	$	3,841

Total rental expense is $736 and $717 for the years ended June 30, 1999 and 1998, respectively.

K. Reserved and Internally Designated Fund Balances:

General Fund:

The 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 a portion of the General Fund balance as follows:

		June 30, 1999	June 30, 1998
Single Family Self-Insurance Fund	$	16,500	16,500
Multi-Family Self-Insurance Fund		10,000	10,000
PennHOMES Program		15,000	15,000
Housing initiatives		1,000	1,000
Home buyer counseling		750	500
	$	43,250	43,000

The designation for the Single Family Self-Insurance Fund has been established 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 C and subsequent issues. The Single Family Self-Insurance Fund has been established at not less than 1% of anticipated mortgages to be originated on Issues I and subsequent issues. The Single Family Series I resolution requires that a Self-Insurance Fund be held by the trustee. This is funded by the General Fund and is included in the Single Family Program's restricted fund balance.

The designation for the Multi-Family Self-Insurance Fund has been established in the event a loss occurs on any of the multi-family projects for which the Agency acts as an insurer or coinsurer.

The designation for the PennHOMES Program has been established to provide below market and deferred interest financing to lower development costs for apartment projects financed by the Agency.

The designation for housing initiatives has been established to provide below market financing for multi-family and single family special projects financed by the Agency.

The designation for home buyer counseling has been established to provide funding for home buying education to first time home buyers.

Multi-Family Program:

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

		June 30, 1999	June 30, 1998
Capital Reserve not funded by bond proceeds	$	1,960	1,960

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

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

		June 30, 1999	June 30, 1998
PennHOMES Program	$	123,990	99,990
Senior housing with supportive services		4,000	4,000
Supportive services		925	850
	$	128,915	104,840

The designation for the PennHOMES Program, which is funded from unrestricted multi-family proceeds, has been established to lower development costs for apartment projects financed by the Agency.

The designation for senior housing with supportive services has been established to provide funding for rental housing and specialized resident services for elderly residents.

The designation for supportive services has been established to provide multi-family projects with funds for resident services.

Single Family Program:

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

	June 30, 1999	1998
Capital Reserve not funded by bond proceeds	$ 13,075	20,147
Self-Insurance Fund held by trustee	23,230	21,393
	$ 36,305	41,540

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 Self-Insurance Fund held by trustee represents amounts to self-insure the pool insurance for single family mortgage loans to meet self-insurance requirements under the bond indentures.

The Agency has internally designated a portion of the Single Family Program fund balance as follows:

	June 30, 1999	1998
Closing Cost Subsidy Program	$ 11,750	9,750
Additional Single Family Insurance Program	2,455	2,455
	$ 14,205	12,205

The Closing Cost Subsidy is a program established to assist qualified single family home buyers with the initial costs incurred at the inception of a mortgage.

The designation for the Additional Single Family Insurance Program has been established to cover risk sharing agreement primary mortgage insurance losses in the event of default on single family mortgage loans.

Insurance Fund:

Restrictions on the Insurance Fund fund balance are as follows:

	June 30, 1999	1998
Risk retention	$ 10,000	10,000

The risk retention reserve was established as an alternative to private single family mortgage insurance. Through the risk retention program, the Agency retains the risk of mortgage default for mortgage loans.

The Agency has internally designated a portion of the Insurance Fund fund balance as follows:

	June 30, 1999	1998
Additional risk retention	$ 14,648	12,290

The designation for the additional risk retention reserve has been established to provide additional private single family mortgage insurance.

HEMAP:

Restrictions on the HEMAP fund balance are as follows:

	June 30, 1999	1998
Emergency Mortgage Assistance Program	$ 78,165	82,474

The designation for the emergency mortgage assistance program has been established to provide assistance to mortgagees facing foreclosure because of circumstances beyond their control, through the form of loans.

L. Pension Plan:

The Agency follows GASB Statement Nos. 25 and 27, "Financial Reporting for Defined Benefit Pension Plans," and "Accounting for Pensions by State and Local Governmental Employers." GASB Statement No. 25 requires that the statements on plan assets be presented and certain note disclosures be reported in the notes to the financial statements. GASB Statement No. 27 requires that pension plan costs and net pension plan obligations be reported in the financial statement notes.

The statements of plan net assets as of June 30, 1999 and 1998 are as follows:

PENNSYLVANIA HOUSING FINANCE AGENCY
EMPLOYEES' RETIREMENT PLAN

Statement of Plan Net Assets
(in thousands)
as of June 30, 1999 and 1998

ASSETS	1999	1998
Short-term investments:		
Money markets	$ 764	$ 437
Mutual funds	13,041	10,734
Total short-term investments	13,805	11,171
Receivables:		
Employer	58	75
Interest and dividends	58	47
Total receivables	116	122
Investments, at fair value:		
U.S. Government obligations	3,714	2,913
Domestic corporate bonds	—	581
Domestic stocks	2,507	2,178
Total investments	6,221	5,672
Total assets	$ 20,142	$ 16,965
NET ASSETS		
Net assets held in trust for pension benefits (a schedule of funding progress for each plan is presented on page 28)	$ 20,142	$ 16,965

PENNSYLVANIA HOUSING FINANCE AGENCY
EMPLOYEES' RETIREMENT PLAN

Statement of Changes in Plan Net Assets
(in thousands)
as of June 30, 1999 and 1998

	1999	1998
Additions:		
Contributions:		
Employer	$ 334	$ 368
Plan members	24	1
Total contributions	358	369
Investment income:		
Interest and dividends	1,065	1,464
Net appreciation in fair value of investments	1,953	1,667
Total additions	3,376	3,500
Deductions:		
Benefits	199	282
Net increase	3,177	3,218
Net assets held in trust for pension benefits:		
Beginning of year	16,965	13,747
End of year	$ 20,142	$ 16,965

Summary of Significant Accounting Policies:

Basis of Accounting:

Pennsylvania Housing Finance Agency Employees' Retirement Plan financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and are payable in accordance with the terms of each plan.

Method Used to Value Investments:

Investments are reported at market value which approximates fair value as determined by the investment trustee. Short-term money market investments are reported at cost, which approximates fair value. Short-term mutual funds are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated market value, which approximates fair value.

Plan Descriptions and Funding Policy:

Membership of the plan consists of the following at January 1, 1999 and January 1, 1998:

	1999	1998
Retirees and beneficiaries receiving benefits	35	28
Terminated plan members entitled to but not yet receiving benefits	68	62
Active plan members	188	185
Total	291	275
Number of participating employers	1	1

Plan Description:

Eligible full time employees participate in either the Pennsylvania Housing Finance Agency Employees' Retirement Plan (Plan), a noncontributory defined benefit, single employer plan, or the Pennsylvania State Employees' Retirement System (PSERS). Participation in PSERS is limited to those employees who were active members of PSERS at the time of their employment by the Agency. As of June 30, 1999 and 1998, substantially all eligible full-time employees are participants in the Plan.

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 noncontributory 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 from the Plan at that time.

A participant is eligible for normal retirement after attainment of age 65, or age 55 and completion of 30 years of service, or at any age after completion of 35 years of service. The Plan also provides early and late retirement provisions and death and disability benefits. The normal retirement pension is payable monthly during the participant's lifetime with payments ceasing upon the participant's death.

Funding Policy:

The contribution requirements of Plan members are established and may be amended by the Board of the Agency. 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.

Annual Pension Cost and Net Pension Obligation:

The Agency's annual pension cost and net pension obligation to the Plan are as follows:

	1999	1998
Annual required contribution	$ 208	367
Contributions made	334	(368)
Change in net pension obligation	(126)	(1)
Net pension obligation, beginning of year	(1)	—
Net pension obligation, end of year	$ (127)	(1)

The annual required contribution for the current year was determined as part of the January 1, 1999 actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions include (a) a 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5% per year. Both (a) and (b) include an inflation component based on long-term historical average rates. The assumptions do not include postretirement benefit increases, which are funded by State appropriation when granted. The actuarial value of assets is determined using market values determined by the trustee.

Three-Year Trend Information:

Calendar Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 1996	$ 320	100 %	$ —
December 31, 1997	367	100 %	(1)
December 31, 1998	208	160.3 %	(127)

M. Commitments and Contingencies:

Litigation:

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

Grants:

The Agency administers significant financial assistance payments from the federal government in the form of low income mortgage subsidies, interest reduction payments, and rental housing rehabilitation assistance. Such federal financial assistance received during the years ended June 30, 1999 and 1998 amounts to $118,835 and $117,810, respectively. All federal financial assistance administered by the Agency is subject to audit and as such, any disallowances resulting from non-compliance 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.

Commitments:

Outstanding commitments by the Agency to make or acquire single family, multi-family and HEMAP mortgages aggregate approximately $124,094, $18,366 and $871, respectively, at June 30, 1999 and 1998.

N. Subsequent Events:

On July 14, 1999, the Agency issued $144,525 Single Family Mortgage Revenue Bonds, Series 1999-66. The proceeds of these bonds will be used to refund certain of the Agency's outstanding Single Family Mortgage Revenue Bonds, and to fund the purchase of new Single Family Mortgage Loans.

On September 15, 1999, the Agency issued $149,840 Single Family Mortgage Revenue Bonds, Series 1999-67. The proceeds of these bonds will be used to refund certain of the Agency's outstanding Single Family Mortgage Revenue Bonds, and to fund the purchase of new Single Family Mortgage Loans.

Required Supplemental Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/1988	$ 4,010,369	$ 4,106,360	$ 95,991	97.7 %	$ 3,419,003	2.8 %
1/1/1989	4,600,930	3,978,547	(622,383)	115.6 %	3,726,066	(16.7) %
1/1/1990	5,523,141	4,572,770	(950,371)	120.8 %	3,678,877	(25.8) %
1/1/1991	6,001,640	5,173,084	(828,556)	116.0 %	3,959,624	(20.9) %
1/1/1992	7,112,838	6,186,234	(926,604)	115.0 %	4,411,010	(21.0) %
1/1/1993	7,864,913	7,108,441	(756,472)	110.6 %	4,616,834	(16.4) %
1/1/1994	8,805,927	8,311,636	(494,291)	105.9 %	5,369,330	(9.2) %
1/1/1995	9,090,611	9,206,150	115,539	98.7 %	5,542,521	2.1) %
1/1/1996	11,670,289	10,483,711	(1,186,578)	111.3 %	5,940,643	(20.0) %
1/1/1997	13,747,019	12,172,812	(1,574,207)	112.9 %	6,207,591	(25.4) %
1/1/1998	16,964,790	13,519,709	(3,445,081)	125.5 %	6,260,962	(55.0) %
1/1/1999	20,141,983	15,248,566	(4,893,417)	132.1 %	6,620,237	(73.9) %

Schedule of Contributions from the Employer and Other Contributing Entities

Calendar Year Ended	Annual Required Contribution	Contributions From Employer	Percentage Contributed
1988	$ 246,955	$ 246,955	100.0 %
1989	255,906	255,906	100.0 %
1990	222,719	222,719	100.0 %
1991	257,851	257,851	100.0 %
1992	296,773	296,773	100.0 %
1993	331,673	331,673	100.0 %
1994	410,807	410,807	100.0 %
1995	402,720	402,720	100.0 %
1996	319,844	319,844	100.0 %
1997	367,179	368,000	100.2 %
1998	208,114	333,590	160.3 %

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

PENNSYLVANIA HOUSING FINANCE AGENCY

Required Supplemental Information
Notes to Supplemental Schedules

Additional information as of the latest actuarial valuation follows:

	1999	1998
Valuation date	January 1, 1999	January 1, 1998
Actuarial cost method	Aggregate actuarial cost method	Aggregate actuarial cost method
Amortization method	Level dollar	Level dollar
Asset valuation method	Market value as determined by the trustee	Market value as determined by the trustee
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	4.5%	4.5%
Includes inflation at cost-of-living adjustments	Moderate, based on long-term historical average rates	4.0%

PENNSYLVANIA HOUSING FINANCE AGENCY

Disclosures about Year 2000 Issues in Accordance with Governmental Accounting Standards Board Technical Bulletin 98-1, as Amended

Year 2000 Issue:

The year 2000 issue is a result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations as early as fiscal year 1999.

The Pennsylvania Housing Finance Agency has completed an inventory of computer systems and other electronic equipment that are necessary to conducting operations that may be affected by the year 2000 issue. PHFA has identified the following systems requiring year 2000 remediation:

Systems In Process (P) / Completed (C)	Awareness (1)		Assessment (2)		Remediation (3)		Validation & Testing (4)		Responsibility (5)
	P	C	P	C	P	C	P	C	
Financial reporting*, loan servicing*, payroll and employee benefit systems*, and service fee collection systems*.		X		X		X		X	PHFA Outside vendors
HEMAP		X		X		X		X	PHFA HEMAP
Other electronic equipment identified as necessary to conducting operation		X		X		X	X		PHFA Outside vendors

* = Mission critical systems

(1) Awareness stage - Encompasses the establishment of budgets and project plans for dealing with the year 2000 issue.

(2) Assessment stage - When the organization begins the actual process of identifying all the systems and individual components of the systems effected by the year 2000 issue. Mission critical systems are identified at this time.

(3) Remediation stage - When the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems, or switching to compliant systems. During this stage, decisions are made on how to address year 2000 systems or equipment issues, and the required changes are made.

(4) Validation and testing stage - When the organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area(s) need(s) to be corrected and retested.

(5) Responsibility - This column represents the entity responsible for the year 2000 remediation, validation and testing as determined/contracted by PHFA.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that PHFA is or will be Year 2000 ready, that PHFA's remediation efforts will be successful in whole or in part, or that parties with whom PHFA does business will be year 2000 ready.

Staff List

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