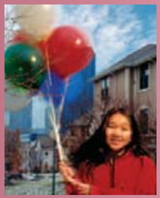
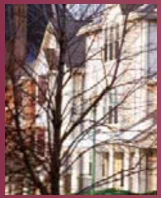



PENNSYLVANIA HOUSING FINANCE AGENCY

INNOVATION & REINVENTION

Celebrating 30 Years

2002 ANNUAL REPORT

PENNSYLVANIA HOUSING FINANCE AGENCY
1972–2002

Partners

In the past three decades, PHFA has taken advantage of partnerships with other organizations to deliver good housing to the citizens of the Commonwealth.

- United States Department of Housing and Urban Development
- Federal Reserve Bank of Philadelphia
- Federal Home Loan Bank of Pittsburgh
- Fannie Mae
- Freddie Mac
- Ginnie Mae
- Commonwealth of Pennsylvania Governor's Office
- Commonwealth of Pennsylvania Congressional Delegation
- Commonwealth of Pennsylvania Senate and House of Representatives
- Commonwealth of Pennsylvania Treasury Department
- Commonwealth of Pennsylvania Department of Banking
- Commonwealth of Pennsylvania Department of Public Welfare
- Commonwealth of Pennsylvania Department of Community and Economic Development
- Commonwealth of Pennsylvania Department of Labor and Industry
- Commonwealth of Pennsylvania Department of Aging
- The Enterprise Foundation
- Local Initiative Support Corporation
- The Reinvestment Fund
- Pew Charitable Trusts
- Pennsylvania Affordable Housing Coalition
- The Pennsylvania State University
- Pennsylvania's Housing and Redevelopment Authorities, Community Action Agencies and other organizations dedicated to helping enhance the Commonwealth's housing stock
- The many for-profit and nonprofit housing developers, builders, contractors, architects, engineers, management and finance specialists, service providers, housing counselors, real estate professionals, lending institutions, insurers, building inspectors and maintenance specialists working to make Pennsylvania a better place to call home

Change, innovation, consolidation and reinvention are the signposts that help us navigate forward.

—William C. Bostic, Executive Director

From its inception in 1972, the Pennsylvania Housing Finance Agency has tirelessly pursued its mission to provide the capital for "decent, safe and affordable homes and apartments for older adults, persons of modest means and those with special housing needs." Indeed, PHFA quickly became the major conduit for bringing federal funding and investor financing to bear on the housing needs of the Commonwealth. Within the first decade of the Agency's existence, not only had its bonds achieved a rating of "excellent," it had also created an operational framework which was a model for the entire nation.

With a staff knowledgeable in areas ranging from construction engineering to real estate law and whose skills are constantly enhanced by continuing education, professional development and occupational training, PHFA today continues to carry out its mission faithfully and fully.

One of PHFA's strengths has always been its ability to anticipate new situations and create programs to deal with them. This is fortunate because the past three decades have witnessed substantial alterations in the economic, social and political life of our nation. And, often, these changes have had a profound impact on the housing needs of Pennsylvanians. For PHFA, these changes have brought about unprecedented programs, expanded services and altered priorities.

As we celebrate the 30th anniversary of our founding, it is useful to look back at the ways in which our agency has responded to the momentous challenges our nation and our commonwealth have faced. For it is truly a chronicle of innovation and reinvention.

Our Mission

In order to make the Commonwealth a better place to live while fostering community and economic development, the Pennsylvania Housing Finance Agency provides the capital for decent, safe and affordable homes and apartments for older adults, persons of modest means and those with special housing needs.

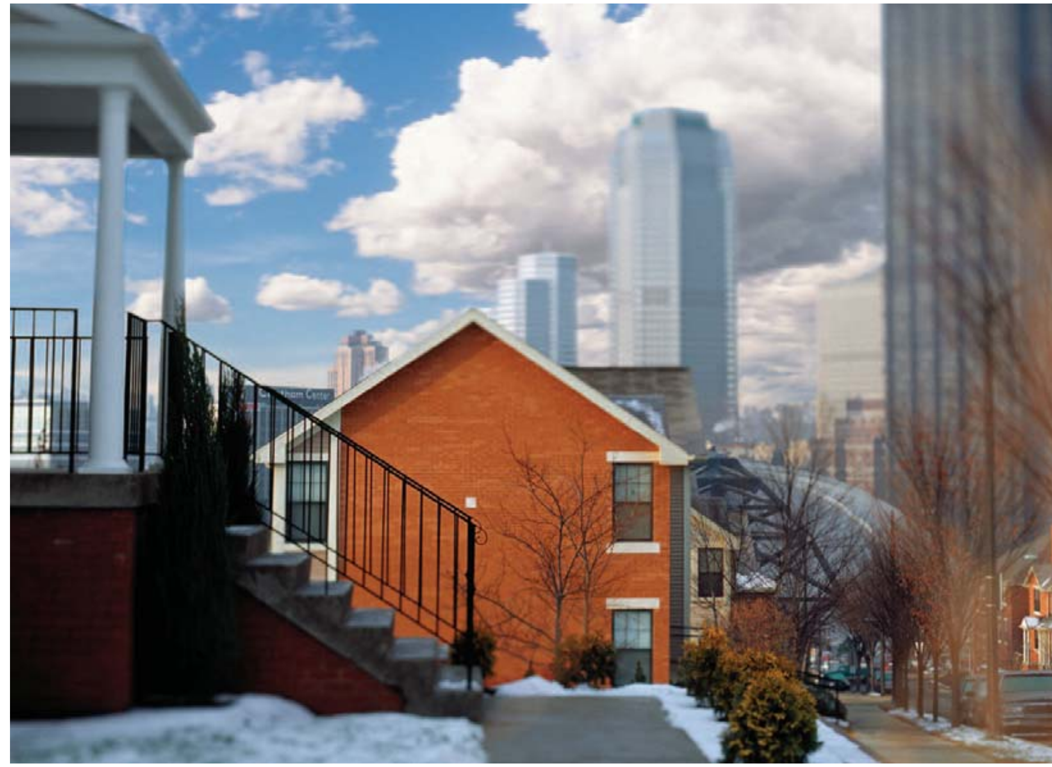
Economic Changes

Heavy industry was once the very definition of our state's economy. But not any more.

Metals & Mortgages

In many parts of the United States, the final quarter of the 20th century saw dramatic economic shifts, particularly in heavy industry. Beginning in the mid-1970s, durable manufacturing and primary metals industries began to decline. In Pennsylvania alone, statewide employment in those two sectors by 1983 was roughly half of what it had been in 1979. By the 1990s, foreign competition had forced dozens of Pennsylvania steel companies to lay off workers, close plants or even file for bankruptcy protection.

The Pennsylvania Housing Finance Agency was not slow in responding. In 1983, we created the Homeowners' Emergency Mortgage Assistance Program (HEMAP), the first of its kind in the nation. This program dealt directly with the crisis in the steel industry by providing help to families who were in danger of losing their homes.



Cities & Solutions

Another momentous alteration during this period was an increasing decentralization of employment nationwide and a corresponding growth in suburban development. Philadelphia, for example, lost nearly 150,000 residents in the 1990s—more than any other American city—while the suburban counties surrounding it lost more than a third of their farmland to development. Even in Crawford County, the city of Meadville lost over nine percent of its population between 1980 and 1996.

Once again, PHFA created innovative programs to combat the effects of these disruptions on Pennsylvania's housing market. One example was the Homeownership Choice Program, which works to reverse the effects of suburban sprawl by funding the efficient development of affordable houses in older urban areas.

1970s

- **1972** PHFA created by the General Assembly to improve the State's housing stock
- **1973** Agency initiates rental housing development program
- **1974** Section 8 multifamily rental program commences
- **1975** Achieves occupancy of first PHFA properties
- **1976** State legislature demonstrates its confidence in PHFA by backing the agency's securities
- **1977** Units under construction or completed reaches 13,000
- PHFA sells nation's first advance refunding bonds

1980s

- **1980** Rental production exceeds 20,000 units
- Completes first HUD turnkey construction project
- PHFA bonds rated A+ by Standard & Poor's
- **1982** PHFA programs expand to include single family homeownership with $100 million bond issue
- Federal Section 8 new construction program ends
- **1983** Creation of pioneering Homeowners' Emergency Assistance Program (HEMAP)

Demographic Changes

More older adults and smaller households provide both challenges and opportunities.

Aging & Equity

As the state's economy has altered during the past three decades, so has the demographic makeup of its citizenry. One significant development is the so-called "graying" of Pennsylvania. According to U.S. Census Bureau data for the year 2000, more than two million of our residents are 62 years of age or older. This represents over 18 percent of our population.

While many of our elderly live in retirement villages or continuing care facilities, many do not. In 1990, PHFA created a national prototype program, called HomePlus, based on the concept of reverse equity mortgages. This idea, which allows seniors to realize the equity in their homes while still residing in them, has since been adopted by the private banking industry.

Many older homeowners have lived in their homes for years and lack the financial resources to make the necessary renovations that are important to maintaining their quality of life. Our Access Home Modification Program provides no-interest loans for the purpose of improving accessibility. In addition, one of the objectives of our Housing Services Division, which was created in 1997, is to encourage the establishment of supportive services to help elderly residents live more independently.

Parents & Solutions

Another significant demographic trend has been the increase in families with only one parent. Nationwide, single parent households have grown from five percent of all households in 1970 to nine percent in 1990. In Pennsylvania, households containing a single mother with children under 18 comprise more than six percent of all households.

Since single parent households are usually also single income, financial assistance is often necessary. Once again, PHFA provides an array of programs, such as our Lower Income Homeownership and Closing Cost Assistance programs.

1983 Total multifamily production surpasses 28,000 units

1984 "80/20" rental housing program production program begins

Agency works with DCA on pilot program to create low-cost energy efficient homes

1985 PHFA is first housing agency in the nation to earn Standard & Poor's "Top Tier" status

1986 Federal low income rental housing tax credit debuts

1987 Agency initiates $5 million homeless housing demonstration program

1988 Initiates HOMES (currently PennHOMES) rental housing program

1989 PA State Workers Insurance Fund purchases $25 million in PHFA bonds

Federal funding of housing programs decreases further

1990s

1990 HomePlus reverse equity mortgage program—first in the nation

Launches $100 million Homestart program

Political Changes

National trends, regional needs

and local sensibilities combine to affect housing policies.

It's been said that one measure of a society is how it treats the most helpless and the least prosperous of its members. The past several decades have witnessed increased governmental efforts to provide for those with special needs.

Poverty & Payments

PHFA was, in fact, created to help one such group: older Pennsylvanians. But with the authorizing of housing assistance payments in 1974 under Section 8 of the Housing and Community Development Act, our agency's focus quickly widened to include low income families. However, in recent years, the promise of the Section 8 program has diminished.

Fewer building owners are willing to accept Section 8 vouchers, preferring to rent to higher paying tenants. Federal government funding for low income housing has also declined, forcing the states to make up the difference.

Fortunately, PHFA has been there to take up the challenge and reinvent low income housing assistance. Working closely with federal government agencies including HUD, Fannie Mae and the Department of Agriculture's Rural Housing Service, we have created a variety of multifamily and single family programs. One of these, our PennHOMES program, has financed nearly 30,000 dwelling units.

Access & Assistance

The passage of the Americans with Disabilities Act in 1990 underscored for the nation at large the needs of this special group. As it has done repeatedly through the years, PHFA responded boldly and innovatively.

Our Access Home Modification Loan Program provides financial assistance to persons with disabilities or who have a family member with a disability living with them in order to retrofit the home to meet the accessibility needs of the household member with the disability.

1991 Closing Cost Assistance and Rural Homeownership programs created

1992 Second phase of Homestart program

1993 Federal Mortgage Revenue Bond and Low Income Housing Tax Credit made permanent

1994 PennVEST loan program begins

Intensified Single Family Homeownership counseling efforts launched

1995 PHFA issues first Single Family Taxable Bond in $10 million offering

1996 Agency production passes 51,000 rental units, 63,000 single family homes

1997 PHFA surpasses $3 billion in single family mortgage loans

Agency hosts first Statewide Housing Forum

1998 Standard & Poor's awards PHFA multifamily bond issue AAA rating

Access Home Modification program for persons with disabilities is created

1999 Expansion of Access Home Modification program

Hafer Homebuyer Program provides $300 million over three years for single family mortgages

Homeownership Choice program begins

Future Changes

One thing is certain: PHFA will continually innovate and keep on reinventing.

PHFA & the future

In the years to come, our Agency will persevere in its mission to provide affordable multifamily rental housing as well as ownership opportunities for Pennsylvania's families. And we will work even harder to strengthen our partnerships with federal, state and local organizations in order to improve the Commonwealth's housing stock.

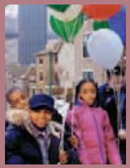
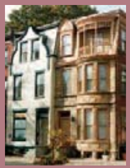
Look for PHFA to expand it's efforts to meet the needs of our underserved citizens, including minorities, persons with disabilities and older Pennsylvanians through such successful programs as Homeownership Choice and Special Initiatives. In addition, we expect—with the help of Pennsylvania's congressional delegation—to comprehensively utilize federal mortgage revenue bonds and rental housing tax credits. Finally, we intend to enlarge the market for PHFA securities by seeking out more investors.

While no one can predict with any degree of exactitude the changes and challenges that lie ahead, PHFA will assuredly respond to future housing needs as it has for the past three decades, with creativity, competence and resolve.

2000s

- **2000** Hosts second Statewide Housing Forum with Federal Home Loan Bank of Pittsburgh
- **2001** Agency teams with Penn State Data Center to conduct statewide housing study
- Agency assumes authority to administer 40,000+ HUD Section 8 housing assistance contracts
- **2002** Breaks ground for new Harrisburg headquarters building
- More than 700 attend third Statewide Housing Forum
- First loans closed under section 8 homeownership program




PENNSYLVANIA HOUSING FINANCE AGENCY

Financial Statements

and Required Supplemental Information

June 30, 2002 and 2001

Management's Discussion and Analysis

(dollar amounts in thousands)
June 30, 2002

Prepared by the
Finance Division
Brian Hudson, Deputy Executive Director and Chief Financial Officer

This section of the Pennsylvania Housing Finance Agency's (Agency) annual financial report presents the Agency management's discussion and analysis of the Agency's financial performance during the fiscal year ended June 30, 2002. It is intended to be read in conjunction with the Agency's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- Net income for the year ended June 30, 2002 was $15,718, a decrease of $17,688 or 52.9% as compared to the prior year. This decrease is due to lower rates of return on the investment portfolio and increased mortgage prepayments, both of which can be attributed to the Federal Reserve decreasing interest rates throughout the economy during the year ended June 30, 2002. In the current fiscal year the mortgage repayments were invested at interest rates lower than in the prior year, thus resulting in a decrease in net income. This is consistent with the Agency's primary business objective of providing low-cost housing opportunities to Pennsylvania residents.
- The balance in the outstanding loan portfolio is $2,817,405 as of June 30, 2002, a decrease of $22,691 or .8% when compared to the prior year. This decrease is attributed to the accelerated mortgage prepayment speeds in the current fiscal year and an increase in competitiveness of the housing markets, both of which were fueled by the decreasing interest rates throughout the year. Prepayments reflect the impact of market conditions and borrowers taking advantage of refinancing opportunities in the conventional mortgage marketplace. We received approximately $247,594 in single family prepayments during the fiscal year, an increase of $123,488 or 100% when compared to the prior year. During this fiscal year, activity of the Agency included funding approximately $493,659 of single family mortgage loans. Mortgage repayments are either reinvested into new loans if the interest rates are competitive, or used to redeem outstanding bonds of the Agency. Additional activity included multi-family loan prepayments and scheduled loan amortization payments. There were no significant adjustments to the allowance for loan losses due to the stabilization of the portfolio and the cumulative results of prior years' provisions.
- During the current fiscal year $550,000 of long-term bonds were issued to fund single family loans and to redeem prior bond issues. The Agency redeemed $589,435 of bonds payable prior to maturity in order to decrease overall cost of capital to the Agency. The total long-term debt outstanding, as of June 30, 2002 increased by $46,251 or 1.6% when compared to the prior year due to overall growth of the Agency's lending programs.
- Net loss for the fiscal year ended June 30, 2002 was $6,874 a decrease of $3,167 as compared to the prior year. Net loss was affected by an increase of application volumes, expanded collection efforts and a decreased provision for potential loan losses. Increased application volumes were realized as a result of a downturn in the economy and a subsequent increase in mortgage delinquencies. The balance in the outstanding loan portfolio is $54,100 as of June 30, 2002, a decrease of $5,127 or 8.7% when compared to the prior year. This decrease is attributed to a combination of increased loan prepayments received and an increase in loans written off during the fiscal year. The Program received $13,100 in repayments during the fiscal year, an increase of $377 or 3.0% when compared to the prior year. Increased repayments reflect the impact of our collection efforts, along with low interest rates that have spurred refinancing. This reduces our overall balance, as repayments are greater than disbursements. Loans written off during the year were $9,969 an increase of $1,633 or 19.6% when compared to the prior year. The increase is attributed to the Program being more aggressive in write-offs of non-performing loans than in prior years.

OVERVIEW OF ANNUAL FINANCIAL STATEMENTS

This year the Agency implemented a new format for our financial statements to comply with Statement No. 34 of the Government Accounting Standard Board (GASB), *Basic Financial Statements and Management's Discussion and Analysis.* The annual financial report consists of three parts: Management's Discussion and Analysis (MD&A); the financial statements, including notes to the financial statements; and supplemental schedules. The MD&A serves as an introduction to the basic financial statements and supplementary information and presents management's examination and analysis of the Agency's financial condition and performance.

The financial statements consist of the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. The adoption of this standard had no effect on the Agency's financial condition; it does, however, revise the presentation of our financial statements. The major changes imposed by GASB 34 require us to reorganize our Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets. In compliance with GASB 34, the organization of the new Statements of Net Assets separates assets and liabilities into current versus non-current assets and liabilities. The Statements of Revenues, Expenses and Changes in Net Assets groups "Operating income and expenses" separately from "Non-operating income and expenses." Operating income and expenses are defined as those relating to our primary business of making mortgage loans and issuing bonds. Non-operating income and expenses are those which do not contribute to the primary business objectives of the Agency. The Agency had no non-operating income or expenses.

GASB 34 requires a change in the definition of restricted net assets. In prior years, the Agency's internally designated funds were presented as restricted funds within the fund balance section of the balance sheets. GASB 34 defines restricted assets as those assets whose use is restricted by third parties. The organization of the Statements of Cash Flows has not changed, but the Agency has presented the Direct Method of Cash Flows to arrive at cash flows from operating activities with a separate reconciliation of net income disclosed.

The General Fund is the Agency's administrative and operating fund. The Multi-family and Single Family Funds provide financial information related to program activities and the bond indentures. The Agency raises capital to finance mortgage loans primarily through the sale of taxable and tax exempt bonds. Each bond indenture may include one or more series of bonds issued under a general resolution. The bond indentures govern the contractual arrangements between the Agency, the bond trustee and the bondholders.

Notes to the financial statements provide required disclosures and other information that is essential to obtain a full understanding of material data provided in the statements.

The notes to the financial statements present information about the Agency's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information related to the Agency pension plan is also provided in accordance with guidance from the GASB.

Financial Condition

Management believes the Agency's financial condition is strong. The Agency is operating well within financial policies and guidelines set by the members of the Board. Adequate liquid asset levels, good mortgage portfolio performance and an increase in the level of unrestricted net assets at June 30, 2002 exhibit the Agency's financial strength. Total net assets as of June 30, 2002 increased 2.8% to $578,828 from $563,110 in the previous year. Unrestricted net assets increased $12,723 or 2.6% from the prior year, comprising 12.8% of total assets and 85.2% of total net assets. Total assets grew $78,192 or 2.1% from the prior year.

Financial Analysis

The following table summarizes the changes in net assets between June 30, 2002 and 2001 (in thousands):

	2002	2001	Change	Percentage
Assets:				
Cash and deposits	$ 924,940	$ 876,854	$ 48,086	5.5%
Long-term investments	85,552	82,557	2,995	3.6%
Loans receivables	2,817,405	2,794,714	$22,691	0.8%
Other assets	27,179	22,759	$4,420	19.4%
Total assets	$ 3,855,076	$ 3,776,884	$ 78,192	2.1%
Liabilities:				
Current payables	53,187	51,642	1,545	3.0%
Long-term bonds payable	2,941,135	2,894,884	46,251	1.6%
Other noncurrent payables	281,926	267,248	14,678	5.5%
Total liabilities	$ 3,276,248	$ 3,213,774	$ 62,474	1.9%
Net assets:				
Restricted	85,552	82,557	2,995	3.6%
Unrestricted	493,276	480,553	12,723	2.6%
Total net assets	$ 578,828	$ 563,110	$ 15,718	2.8%

The following table summarizes the changes in net income between fiscal years 2002 and 2001 (in s):

	2002	2001	Change	Percentage
Revenues:				
Interest on loans	$ 181,966	$ 191,423	$ (9,457)	(4.9)%
Interest on investments	24,649	44,334	$ (19,685)	(44.4)%
Program revenues	24,691	24,850	(159)	(0.6)%
Grant revenue	242,744	149,950	$ 92,794	61.9%
Other revenues	2,882	8,039	$ (5,157)	(64.1)%
Total revenues	$ 476,932	$ 418,596	$ 58,336	13.9%
Expenses:				
Interest expense	176,232	181,764	$ (5,532)	(3.0)%
Operating expenses	25,701	25,456	$ 245	1.0%
Grant expenses	242,744	149,950	$ 92,794	61.9%
Loan loss allowance	15,794	27,462	$ (11,668)	(42.5)%
Total expenses	$ 460,471	$ 384,632	$ 75,839	19.7%
Net income before extraordinary items	$ 16,461	$ 33,964	$ (17,503)	(51.5)%

Debt Administration

At year-end, the Agency had total debt outstanding of $2,941,135 an increase of $46,251 or 1.6% during the fiscal year, as shown in the table below. More detailed information about the Agency's debt is presented in Note H and I to the financial statements. The following table summarizes the changes in debt between fiscal years 2002 and 2001:

	2002	2001	Change	Percentage
Bonds payable	$ 2,940,339	$ 2,853,783	$ 86,556	3.0%
Notes payable	796	41,101	$ (40,305)	(98.1)%
Total debt payable	$ 2,941,135	$ 2,894,884	$ 46,251	1.6%

Summary of Organization and Business

The Pennsylvania Housing Finance Agency was created by the General Assembly in 1972 to provide more affordable housing for older adults, families of modest means and persons with disabilities. Since inception, the Agency has financed more than 84,000 houses and 55,000 apartment units while saving 26,000 homes from foreclosure. The Agency's funding comes from a variety of sources; including the sale of its own securities to private investors throughout the United States; grants from State and Federal governments; program fees and charges and interest charged on loans. Investment earnings and program fees are used to pay agency expenses and subsidized housing programs.

The members of the Board of the Pennsylvania Housing Finance Agency set policy and oversee the organization's operation. The Board has 14 members. The Secretary of Banking, the Secretary of Community and Economic Development, the Secretary of Public Welfare and the State Treasurer serve by virtue of their offices. Four members are named to the Board by the majority and minority leaders of the State Senate and House of Representatives. Six private citizen members are appointed by the Governor and confirmed by the State Senate.

General Trends and Significant Events

The Agency continues to receive positive outlook reports from both Standard and Poor's and Moody's Investor Service. The changes in private activity bond authority have allowed Housing Finance Agencies to increase their activity over the previous year. Management expects strong bond issue activity for fiscal year ending June 30, 2003. In the current interest rate environment, prepayments will continue to be steady. Management of the Agency's loan pipeline including, but not limited to, offering competitive rates, recycling and bond redemptions will be critical. An assessment will be made of existing support programs to determine funding levels for 2003 based net income carried for the period ending June 30, 2002.

Contacting the Agency's Financial Management

This financial report is designed to provide the citizens of Pennsylvania, our constituents and investors with a general overview of the Agency's finances and to demonstrate the Agency's financial accountability over its resources. If you have questions about this report or need additional financial information, contact the Deputy Executive Director at Pennsylvania Housing Finance Agency, 2101 North Front Street, Harrisburg, PA 17110, or visit our website at: www.phfa.org.

Report of Independent Accountants

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Facsimile (717) 232-5672

To the Members of the
Pennsylvania Housing Finance Agency

In our opinion, the accompanying statement of net assets and the related statements of revenues, expenses and changes in net assets and cash flows present fairly, in all material respects, the financial position of the Pennsylvania Housing Finance Agency (Agency) at June 30, 2002 and 2001, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. 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 did not audit the financial statements of the Homeowners Emergency Mortgage Assistance Program (HEMAP), which statements reflect 1.49 percent and .54 percent of the total assets and interest income, respectively, of the related totals for the year ended June 30, 2002 and 1.71 percent and .58 percent of the total assets and interest income, respectively, of the related totals for the year ended June 30, 2001. Those statements were audited by other auditors whose report has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for HEMAP, is based solely on the report of the other auditors. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America 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 audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only 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 the cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 4, 2002 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended June 30, 2002. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

PricewaterhouseCoopers LLP

October 4, 2002

Financial Statements

Statements of Net Assets

(in thousands)
as of June 30, 2002 and 2001

	2002						2001					
	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)
Assets												
Deposits and investments	$ 112,437	$ 412,630	$ 360,901	$ 35,257	$ 3,715	$ 924,940	$ 124,705	$ 360,806	$ 353,915	$ 31,821	$ 5,607	$ 876,854
Current portion of loans receivable	—	36,418	45,836	—	6,725	88,979	—	32,513	46,852	—	7,708	87,073
Interfund accounts receivable (payable)	32,866	(3,701)	(28,671)	—	(494)	—	13,587	(5,746)	(7,389)	—	(452)	—
Total current assets	145,303	445,347	378,066	35,257	9,946	1,013,919	138,292	387,573	393,378	31,821	12,863	963,927
Noncurrent assets												
Restricted deposits and investments	—	11,822	73,730	—	—	85,552	—	10,810	71,747	—	—	82,557
Loans receivable, net of current portion	—	490,283	2,187,752	—	47,375	2,725,410	—	496,211	2,140,060	—	51,519	2,687,790
Construction advances	—	3,016	—	—	—	3,016	—	19,851	—	—	—	19,851
Deferred and other assets	9,374	5,166	12,505	8	126	27,179	6,900	4,374	11,333	10	142	22,759
Total noncurrent assets	9,374	510,287	2,273,987	8	47,501	2,841,157	6,900	531,246	2,223,140	10	51,661	2,812,957
Total assets	$ 154,677	$ 955,634	$ 2,652,053	$ 35,265	$ 57,447	$ 3,855,076	$ 145,192	$ 918,819	$ 2,616,518	$ 31,831	$ 64,524	$ 3,776,884
Liabilities and Net Assets												
Current liabilities												
Current portion of long-term debt	—	34,513	40,375	—	—	74,888	—	23,778	93,257	—	—	117,035
Accrued interest payable	—	14,436	34,633	—	—	49,069	—	14,924	33,588	—	—	48,512
Accounts payable and accrued expenses	2,532	—	97	—	250	2,879	1,911	—	73	—	276	2,260
Accrued mortgage claims	—	—	—	1,239	—	1,239	—	—	—	870	—	870
Total current liabilities	3,532	48,949	75,105	1,239	250	128,075	1,911	38,702	126,918	870	276	168,677
Noncurrent liabilities												
Long-term debt, net of current portion	—	514,036	2,352,211	—	—	2,866,247	—	504,050	2,273,799	—	—	2,777,849
Escrow and other liabilities	250	225,345	53,331	—	3,000	281,926	289	220,984	42,798	—	3,177	267,248
Total noncurrent liabilities	250	739,381	2,405,542	—	3,000	3,148,173	289	725,034	2,316,597	—	3,177	3,045,097
Total liabilities	2,782	788,330	2,480,647	1,239	3,250	3,276,248	2,200	763,736	2,443,515	870	3,453	3,213,774
Net assets												
Restricted	—	11,822	73,730	—	—	85,552	—	10,810	71,747	—	—	82,557
Unrestricted	151,895	155,482	97,676	34,026	54,197	493,276	142,992	144,273	101,256	30,961	61,071	480,553
Total net assets	151,895	167,304	171,406	34,026	54,197	578,828	142,992	155,083	173,003	30,961	61,071	563,110
Total liabilities and net assets	$ 154,677	$ 955,634	$ 2,652,053	$ 35,265	$ 57,447	$ 3,855,076	$ 145,192	$ 918,819	$ 2,616,518	$ 31,831	$ 64,524	$ 3,776,884

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

Statements of Revenues, Expenses and Changes in Net Assets

(in thousands)
For the years ended June 30, 2002 and 2001

	2002						2001					
	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)*
Operating income												
Interest income												
Interest on loans (Note F)	$ —	$ 48,896	$ 132,109	$ —	$ 961	$ 181,966	$ 28	$ 49,343	$ 141,038	$ —	$ 1,014	$ 191,423
Interest on investments	3,928	6,617	12,435	1,524	145	24,649	6,382	10,842	24,569	2,194	347	44,334
Total interest income	3,928	55,513	144,544	1,524	1,106	206,615	6,410	60,185	165,607	2,194	1,361	235,757
Interest expense												
Interest on notes and bonds	—	33,257	142,975	—	—	176,232	—	34,269	147,495	—	—	181,764
Total interest expense	—	33,257	142,975	—	—	176,232	—	34,269	147,495	—	—	181,764
Net interest income before provision for potential loan losses	3,928	22,256	1,569	1,524	1,106	30,383	6,410	25,916	18,112	2,194	1,361	53,993
Provision for potential loan losses	—	8,000	3,000	—	4,794	15,794	—	16,000	3,000	—	8,462	27,462
Net operating income (loss)	3,928	14,256	(1,431)	1,524	(3,688)	14,589	6,410	9,916	15,112	2,194	(7,101)	26,531
Non-interest income (expense)												
Fee income	20,395	—	2,119	1,907	270	24,691	20,360	—	1,609	2,624	257	24,850
Pass-through grants (Note C)	—	242,744	—	—	—	242,744	—	149,950	—	—	—	149,950
Pass-through grants (Note C)	—	(242,744)	—	—	—	(242,744)	—	(149,950)	—	—	—	(149,950)
Residual receipts	—	1,167	—	—	—	1,167	—	1,743	—	—	—	1,743
Salaries and related benefits	(12,461)	—	—	—	(1,612)	(14,073)	(11,236)	—	—	—	(1,556)	(12,792)
General and administrative	(5,975)	(2,558)	—	(1,251)	(1,844)	(11,628)	(6,859)	(3,047)	—	(1,117)	(1,641)	(12,664)
Gain on sale of investments	199	—	—	—	—	199	—	—	—	—	—	—
Net increase (decrease) in fair value of investments	2,055	1,891	(4,074)	885	—	757	736	2,040	2,683	204	—	5,663
Amortization of deferred gain	—	759	—	—	—	759	—	633	—	—	—	633
Total non-interest income (expense)	4,213	1,259	(1,955)	1,541	(3,186)	1,872	3,001	1,369	4,292	1,711	(2,940)	7,433
Income (loss) before extraordinary item	8,141	15,515	(3,386)	3,065	(6,874)	16,461	9,411	11,285	19,404	3,905	(10,041)	33,964
Extraordinary item—loss on early retirement of debt	—	(9)	(734)	—	—	(743)	—	(10)	(548)	—	—	(558)
Net income (loss)	8,141	15,506	(4,120)	3,065	(6,874)	15,718	9,411	11,275	18,856	3,905	(10,041)	33,406
Changes in net assets												
Interfund transfers	762	(3,285)	2,523	—	—	—	1,256	(1,359)	103	—	—	—
Net assets at beginning of the year	142,992	155,083	173,003	30,961	61,071	563,110	132,325	145,167	154,044	27,056	71,112	529,704
Net assets at end of the year	$ 151,895	$ 167,304	$ 171,406	$ 34,026	$ 54,197	$ 578,828	$ 142,992	$ 155,083	$ 173,003	$ 30,961	$ 61,071	$ 563,110

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

Statements of Cash Flows

(in thousands)
For the years ended June 30, 2002 and 2001

	2002						2001					
	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)*
Cash flows from operating activities												
Principal received (disbursed) on loans	$ —	$ 14,542	$ (55,101)	$ —	$ 479	$ (40,080)	$ —	$ (6,106)	$ 40,969	$ —	$ 2,167	$ 37,030
Cash received for interest on mortgages	—	47,375	139,890	—	631	187,896	28	49,848	141,736	—	423	192,035
Fees, charges, and other	18,906	—	—	1,909	202	21,017	20,364	—	—	2,622	205	23,191
Cash paid for operating expenses	(18,751)	(2,558)	(1,148)	(882)	(3,390)	(26,729)	(18,945)	(3,047)	(812)	(1,939)	(3,118)	(27,861)
Cash received (remitted) for escrow and other liabilities	—	5,120	10,533	—	—	15,653	—	(983)	4,685	—	—	3,702
Net cash provided by (used in) operating activities	155	64,479	94,174	1,027	(2,078)	157,757	1,447	39,712	186,578	683	(323)	228,097
Cash flows from noncapital financing activities												
Due (from) to other funds	(19,279)	(2,045)	21,282	—	42	—	(961)	857	104	—	(10)	(10)
Fund balance transfers from (to) other funds and other changes	762	(3,285)	2,523	—	—	—	1,256	(1,359)	103	—	—	—
Proceeds from sale of bonds and notes	—	45,660	701,944	—	—	747,604	—	14,400	332,929	—	—	347,329
Maturities of bonds and notes	—	(25,156)	(677,427)	—	—	(702,583)	—	(21,205)	(311,966)	—	—	(333,171)
Interest paid on bonds and notes	—	(33,745)	(141,930)	—	—	(175,675)	—	(34,739)	(148,310)	—	—	(183,049)
Net cash provided by (used in) noncapital financing activities	(18,517)	(18,571)	(93,608)	—	42	(130,654)	295	(42,046)	(127,140)	—	(10)	(168,901)
Cash flows from investing activities												
Purchase of investments	(92,970)	(143,945)	(86,732)	(1,947)	(816)	(326,410)	(151,114)	(181,557)	(18,471)	—	(6,351)	(357,493)
Interest received on investments	3,928	6,617	12,435	1,524	145	24,649	6,382	10,842	24,569	2,194	347	44,334
Proceeds from sales and maturities of investments	42,238	68,273	41,379	—	2,474	154,364	235,001	268,206	143,470	—	6,252	652,929
Net cash provided by (used in) investing activities	(46,804)	(69,055)	(32,918)	(423)	1,803	(147,397)	90,269	97,491	149,568	2,194	248	339,770
Net increase (decrease) in cash and cash equivalents	(65,166)	(23,147)	(32,352)	604	(233)	(120,294)	92,011	95,157	209,006	2,877	(85)	398,966
Cash and cash equivalents at beginning of year	121,749	309,272	376,352	21,316	(498)	828,191	29,738	214,115	167,346	18,439	(413)	429,225
Cash and cash equivalents at end of year	$ 56,583	$ 286,125	$ 344,000	$ 21,920	$ (731)	$ 707,897	$ 121,749	$ 309,272	$ 376,352	$ 21,316	$ (498)	$ 828,191

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

Statements of Cash Flows

(in thousands)
For the years ended June 30, 2002 and 2001

	2002						2001					
	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)*
Reconciliation of net income to net cash provided by operating activities												
Net income (loss)	$ 8,141	$ 15,506	$ (4,120)	$ 3,065	$ (6,874)	$ 15,718	$ 9,411	$ 11,275	$ 18,856	$ 3,905	$ (10,041)	$ 33,406
Depreciation, amortization and accretion	565	808	2,773	—	48	4,194	402	645	4,670	—	40	5,757
Loss on early retirement of debt	—	9	734	—	—	743	—	10	548	—	—	558
Loan loss provision	—	8,000	3,000	—	4,794	15,794	—	16,000	3,000	—	8,462	27,462
Interest expense on notes and bonds, excluding amortization and accretion	—	33,257	142,975	—	—	176,232	—	34,269	147,495	—	—	181,764
Interest income on investments	(3,928)	(6,617)	(12,435)	(1,524)	(145)	(24,649)	(736)	(2,040)	(2,683)	(204)	(347)	(6,010)
Net (increase) decrease in fair value of investments	(2,055)	(1,891)	4,074	(885)	—	(757)	(6,382)	(10,842)	(24,569)	(2,194)	—	(43,987)
Amortization of deferred gain	—	759	—	—	—	759	—	633	—	—	—	633
Gain on sale of investments	(199)	—	—	—	—	(199)	—	—	—	—	—	—
Increase (decrease) due to changes in operating assets and liabilities												
Mortgage loans receivable	—	(5,977)	(51,200)	—	6,908	(50,269)	—	1,630	36,221	—	1,638	39,489
Construction advances	—	16,835	—	—	—	16,835	—	(10,738)	—	—	—	(10,738)
Deferred and other assets	(2,951)	(1,330)	(2,184)	2	(31)	(6,494)	(1,592)	(147)	(1,644)	(2)	(70)	(3,455)
Escrow and other liabilities	(39)	5,120	10,533	—	(177)	15,437	(34)	(983)	4,685	(481)	(53)	3,134
Accounts payable and accrued expenses	621	—	24	—	(26)	619	378	—	(1)	—	48	425
Accrued mortgage claims	—	—	—	369	—	369	—	—	—	(341)	—	(341)
Net cash provided by (used in) operating activities	$ 155	$ 64,479	$ 94,174	$ 1,027	$ 4,497	$ 164,332	$ 1,447	$ 39,712	$ 186,578	$ 683	$ (323)	$ 228,097
Reconciliation of cash and cash equivalents to the balance sheets												
Total deposits and investments per the balance sheets	112,437	424,452	434,631	35,257	3,715	1,010,492	124,705	371,616	425,662	31,821	5,607	959,411
Less												
Investments not meeting the definition of cash and cash equivalents	55,854	138,327	90,631	13,337	4,446	302,595	2,956	62,344	49,310	10,505	6,105	131,220
Cash and cash equivalents at end of the year	$ 56,583	$ 286,125	$ 344,000	$ 21,920	$ (731)	$ 707,897	$ 121,749	$ 309,272	$ 376,352	$ 21,316	$ (498)	$ 828,191
Supplemental schedule of noncash activities												
Mortgage loan receivable (charge-offs), net of recoveries	$ —	$ (13)	$ (992)	$ —	$ —	$ (1,005)	$ —	$ (375)	$ 2,842	$ —	$ —	$ 2,467

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

NOTES TO FINANCIAL STATEMENTS

(dollar amounts in thousands)
June 30, 2002

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, 2002 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, net assets, 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.

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.

During the year ended June 30, 2002, the Agency adopted GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis." Statement No. 34 requires changes to the presentation of the financial statements, but has no impact on the financial condition of the Agency. The new reporting standard requires the use of the term net assets rather than fund balance. Changes have also been made to separate current and noncurrent assets and liabilities within the balance sheet.

Within the statement of revenues, expense and changes in net assets, Statement No. 34 requires operating income and expenses to be separated from nonoperating income in order to show net operating income. Operating income and expenses are defined as those activities directly related to the Agency's primary business objective of providing housing opportunities throughout the Commonwealth of Pennsylvania. PHFA has no nonoperating activities, however changes were made to highlight interest income and expense to facilitate financial statement analysis.

The Agency follows GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting" for reporting and disclosure purposes. As permitted by Statement No. 20, the Agency has elected to not apply Financial Accounting Standards Board (FASB) 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.

PHFA has presented the statement of cash flows using the direct method as required by GASB Statement No. 34. A reconciliation of net income to cash provided from operating activities is also shown.

Investment Securities

The Agency values its investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires the investments to be carried at fair value.

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

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.

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 the lower of cost or market value. Costs incurred subsequent to foreclosure which are directly related to the sale or improvement of the real estate are capitalized to the extent they enhance the value of the property. At the time of foreclosure, losses are charged to the allowance for loan losses. Subsequent losses are charged to expenses when incurred.

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 direct salaries 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, 2002 and 2001, the Agency deferred losses of $5,260 and $0, respectively, on refunding Single Family Mortgage Revenue Bonds. As of June 30, 2002 and 2001, the unamortized deferred costs of refunding are $16,002 and $11,565, respectively.

Pass-through Grants

The Agency has implemented GASB Statement No. 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance." 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 non-interest income and expenses by $242,744 and $149,950 for the years ended June 30, 2002 and 2001, 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 accounting principles generally accepted in the United States of America 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.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation. The reclassifications had no impact on total assets, liabilities, net assets, net income, or cash flows.

D. Net Asset Transfers and Other Changes

The Agency is permitted to make net asset transfers to the extent that such 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 of America, 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, 2002 and 2001:

	2002	2001
Deposits	$ 63,917	$ 23,092
Investments	946,575	936,319
Total deposits and investments	$ 1,010,492	$ 959,411

Management is not aware of any violations of statutory authority or contractual provisions for deposits and investments during the years ended June 30, 2002 and 2001.

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				Carrying
	Category 1	Category 2	Category 3	Total	Amount
June 30, 2002					
Demand deposits	$ 200	—	$ 65,935	$ 66,135	$ 63,917
June 30, 2001					
Demand deposits	$ 200	—	$ 23,444	$ 23,644	$ 23,092

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.

	Amortized Cost			Total
	Category 1	Category 2	Total Amortized Cost	Carrying Amount/ Fair Value
June 30, 2002				
Corporate bonds	$ 11,493	$ —	$ 11,493	$ 11,531
Repurchase agreements	—	397	397	397
U.S. Government and agency securities	255,603	—	255,603	271,237
Short-term investments	484,421	4,049	488,470	488,470
Totals	$ 751,517	$ 4,446	755,963	771,635
Add amounts not categorized because securities are not used as evidence of the investments				
Investment agreements			28,357	28,357
Money market accounts			146,583	146,583
Total investments			$ 930,903	$ 946,575

	Amortized Cost			Total
	Category 1	Category 2	Total Amortized Cost	Carrying Amount/ Fair Value
June 30, 2001				
Corporate bonds	$ 1,003	$ —	$ 1,003	$ 1,022
Repurchase agreements	—	294	294	294
U.S. Government and agency securities	114,448	—	114,448	129,145
Short-term investments	491,392	5,811	497,203	497,203
Totals	$ 606,843	$ 6,105	612,948	627,664
Add amounts not categorized because securities are not used as evidence of the investments				
Investment agreements			8,690	8,690
Money market accounts			299,965	299,965
Total investments			$ 921,603	$ 936,319

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 may lend 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. As of June 30, 2002 and 2001, the Agency had no securities on loan.

The amortized cost and estimated market values of investments in debt securities as of June 30, 2002 and 2001 are as follows:

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds	$ 11,493	$ 103	$ (65)	$ 11,531
Repurchase agreements	397	—	—	397
U.S. Government obligations	42,111	13,383	—	55,494
U.S. Government agency obligations	213,492	2,268	(17)	215,743
Short-term investments	488,470	—	—	488,470
Investment agreements	28,357	—	—	28,357
Money market accounts	146,583	—	—	146,583
	$ 930,903	$ 15,754	$ (82)	$ 946,575

	2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds	$ 1,003	$ 19	$ —	$ 1,022
Repurchase agreements	294	—	—	294
U.S. Government obligations	49,685	13,246	—	62,931
U.S. Government agency obligations	64,763	1,505	(54)	66,214
Short-term investments	497,203	—	—	497,203
Investment agreements	8,690	—	—	8,690
Money market accounts	299,965	—	—	299,965
	$ 921,603	$ 14,770	$ (54)	$ 936,319

The amortized cost and estimated market value of investments at June 30, 2002, 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	$ 679,484	$ 679,678
Due after one year through five years	209,172	211,988
Due after five years through ten years	11,177	14,098
Due after ten years	31,070	40,811
	$ 930,903	$ 946,575

There were no sales of investments in debt securities, prior to maturity, during 2002 and 2001.

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 the net assets 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, 2002 and 2001 is as follows:

	Mortgage Loans Receivable	Construction Advances
June 30, 2002		
Insured and subsidized	$ 44,109	$ —
Insured and nonsubsidized	49,400	3,016
Uninsured and subsidized	376,414	—
Uninsured and nonsubsidized	207,348	—
	677,271	3,016
Allowance for potential loan losses	150,570	—
	$ 526,701	$ 3,016

	Mortgage Loans Receivable	Construction Advances
June 30, 2001		
Insured and subsidized	$ 44,421	$ —
Insured and nonsubsidized	51,411	19,851
Uninsured and subsidized	378,826	—
Uninsured and nonsubsidized	196,649	—
	671,307	19,851
Allowance for potential loan losses	142,583	—
	$ 528,724	$ 19,851

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 $95,672 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 designated a portion of its net assets 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, 2002 and 2001, the total loans covered under this program are $292,239 and $352,576, respectively, and the coverage provided is estimated to be approximately $83,993 and $101,011, 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, $92,471 are covered under this shared risk contract at June 30, 2001, and the Agency's maximum potential exposure is $2,683.

The claims liability of $1,239 and $870 reported in the Insurance Fund as of June 30, 2002 and 2001, respectively, is based on the requirements of GASB Statement No. 30, "Risk Financing Omnibus," which amends GASB 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues." GASB 30 requires that the basis for estimating the liability for unpaid claims, including the effects of specific incremental claim adjustment expenditures/expenses, salvage, and subrogation, and whether other allocated or unallocated claim adjustment expenditures/expenses are included. Changes in the Insurance Fund's claim liability amounts are as follows:

	2002	2001
Balance, July 1	$ 870	$ 1,211
Current year claims and changes in estimates	1,251	980
Claim payments	(882)	(1,321)
Balance, June 30	$ 1,239	$ 870

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 2001-71. The total principal outstanding of mortgage loans self-insured by the Agency is $2,186,421 and $2,139,690 at June 30, 2002 and 2001, respectively. As of June 30, 2002, cumulative pool losses since inception of the self-insurance program are $8,964.

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, $83,112 and $91,561 as of June 30, 2002 and 2001, respectively, are currently required to make repayments.

Changes in the allowance for potential loan losses for the Multi-Family and Single Family Programs are as follows at June 30, 2002 and 2001:

	Multi-Family		Single Family		HEMAP	
	2002	2001	2002	2001	2002	2001
Balance, July 1	$ 142,583	$ 126,958	$ 126,958	$ 3,176	$ 50,450	$ 49,989
Provision charged to income	8,000	16,000	16,000	3,000	4,794	8,462
Charge-offs, net of recoveries	(13)	(375)	(375)	(2,842)	(9,401)	(8,001)
Balance, June 30	$ 150,570	$ 142,583	$ 142,583	$ 3,334	$ 45,843	$ 50,450

The Agency has internally designated a portion of the net assets 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 $479,393 and $393,825 at June 30, 2002 and 2001, 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 and Single Family Programs and the outstanding borrowings are as follows:

	2002	2001
$50,000 Note for funding of the Hafer Homebuyer Program, bearing interest from the date of issuance at a rate equal to the daily short-term investment pool rate, which was 4.25% at June 30, 2001.	$ —	$ 37,547
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%.	—	3,554
The Pew Foundation Bridge Loan Note bearing a fixed interest rate of 3%.	796	—
Total notes payable	$ 796	$ 41,101

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, 2002 and 2001, amounts to $15,725 and $20,181, respectively, including amounts funded by bond proceeds. Such amounts are $3,903 and $9,371, 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, 2002 and 2001 amounts to $85,206 and $74,345, respectively, including amounts funded by bond proceeds. Such amounts are $11,476 and $2,598, 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, 2002	2001
Residential Development Bonds				
Issue 1991A (refunding)	6.65–7.60%	2013	$ 31,435	$ 33,025
Issue 1992A (refunding)	7.950%	2025	19,990	20,670
Issue 1992 (refunding)	3.65–6.5%	2023	130,550	136,620
Issue 1993 (refunding)	3.5–5.8%	2022	167,900	174,125
Issue 2002 (refunding)	1.8–4.4%		45,660	—
State Workers' Insurance Fund				
Issue 1994	6.990%	2019	28,540	29,925
Multi-Family Housing Bonds				
Issue 1982B	9.50–10.875%	2024	4,875	4,875
Issue 1985A	6.75–9.375%	2028	2,078	2,117
Issue 1987A	7.00–8.500%	2002	70	135
Issue FHA-1992	7.75–8.200%	2024	34,085	34,630
Moderate Rehabilitation Bonds				
Issue 1985B	5.25–9.000%	2017	1,210	1,355
Multi-Family Development Bonds				
Issue 1989B	8.250%	2015	475	485
Issue 1993A (refunding)	5.380%	2022	24,995	27,860
Issue 1993F	6.530%	2019	10,370	10,700
Issue 1997G	7.630%	2027	10,410	10,545
Issue 1998H	6.300%	2028	17,195	17,440
Issue 2000I	4.5–5.0%	2002	12,500	14,400
Federal National Mortgage Association				
Issue 1990A	7.500%	2023	3,376	3,435
Subordinate Limited Obligation Bonds				
Issue 1995	5.50–6.15%	2021	4,081	4,192
			549,795	526,534
Unamortized bond discount			(2,042)	(2,260)
			$ 547,753	$ 524,274

During the year ended June 30, 2002, the Agency redeemed prior to maturity $2,190 of Multi-Family Housing Bonds, Series 1993A and Issue 1994. An extraordinary loss of $9 resulted from the redemptions.

During the year ended June 30, 2001, the Agency redeemed prior to maturity $2,165 of Multi-Family Housing Bonds, Series 1984A and 1993A. An extraordinary loss of $10 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, 2002 and 2001.

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, 2002	2001
Single Family Mortgage Revenue Bonds				
Series Q	6.00–8.375%	2018	$ —	$ 505
Series U	6.15–7.800%	2020	—	2,365
Series 1990 - 29	6.10–7.375%	2016	—	5,100
Series 1991 - 30	5.30–7.300%	2017	—	10,030
Series 1991 - 31	5.40–8.950%	2023	—	59,230
Series 1991 - 32	7.150%	2015	—	30,420
Series 1992 - 33	4.50–6.900%	2017	—	25,005
Series 1992 - 34	4.50–7.000%	2024	625	68,000
Series 1992 - 35	2.88–9.480%	2016	84,650	86,355
Series 1993 - 36	3.40–5.450%	2014	45,410	46,755
Series 1993 - 37	5.45–5.600%	2025	75,000	75,000
Series 1994 - 38	3.50–6.125%	2024	17,680	19,685
Series 1994 - 39	3.90–6.875%	2024	27,270	36,440
Series 1994 - 40	4.00–6.900%	2025	25,825	36,480
Series 1994 - 41	4.00–6.650%	2025	33,775	45,365
Series 1994 - 42	5.50–6.850%	2025	41,610	58,515
Series 1994 - 43	4.75–7.500%	2025	4,965	5,690
Series 1995 - 44	6.30–8.400%	2027	39,105	46,795
Series 1995 - 45	5.00–7.550%	2026	40,305	41,705
Series 1995 - 46	3.95–6.300%	2027	43,565	46,585
Series 1996 - 47	4.20–6.750%	2027	46,275	47,905
Series 1996 - 48	4.00–6.150%	2028	38,340	41,490
Series 1996 - 49	4.60–6.450%	2027	40,740	47,980
Series 1996 - 50	3.64–6.350%	2027	25,460	35,915
Series 1996 - 51	4.55–6.375%	2028	56,920	65,595
Series 1996 - 52	4.40–7.000%	2027	52,945	56,655
Series 1996 - 53	4.20–6.150%	2027	54,325	58,070
Series 1997 - 54	5.375–7.22%	2028	30,775	38,645
Series 1997 - 55	3.70–5.750%	2013	27,010	28,620
Series 1997 - 56	4.00–6.150%	2028	58,090	63,360
Series 1997 - 57	4.30–6.150%	2029	41,900	45,255
Series 1997 - 58	4.30–5.450%	2009	60,370	64,400
Series 1997 - 59	4.00–5.150%	2029	60,990	66,635
Series 1997 - 60	4.00–5.100%	2009	62,720	67,045
Series 1997 - 61	4.00–4.900%	2008	65,055	69,780
Series 1997 - 62	4.25–5.200%	2011	65,105	70,080
Series 1999 - 63	3.95–5.150%	2030	60,006	61,069
Series 1999 - 64	3.65–5.250%	2030	71,443	73,726
Series 1999 - 65	3.25–5.250%	2030	90,620	94,730
Series 1999 - 66	4.05–6.95%	2030	132,125	139,560
Series 1999 - 67	4.05–7.51%	2030	135,270	143,330
Series 1999 - 68	4.30–7.02%	2030	72,450	74,985
Series 2000 - 69	4.35–6.25%	2031	71,145	74,595
Series 2000 - 70	4.30–6.791%	2028	74,460	75,000
Series 2001 - 71	3.375%	2001	—	7,785
Series 2001 - 72	3.25–5.35%	2032	225,000	—
Series 2002 - 73	2.10–5.45%	2033	225,000	—
			2,424,324	2,358,235
Unamortized bond discount			(15,736)	(17,161)
Unamortized deferred costs of refundings			(16,002)	(11,565)
			$ 2,392,586	$ 2,329,509

During the year ended June 30, 2002, the Agency redeemed prior to maturity $331,660 of Single Family Mortgage Revenue Bonds Series 1990-29, 1991-30, 1991-31, 1991-32, 1992-33, 1992-34, 1994-38, 1994-39, 1994-40, 1994-41, 1994-42, 1995-44, 1995-45, 1995-46, 1996-47, 1996-48, 1996-50, 1996-51, 1996-52, 1996-53, 1997-54, 1997-56, 1997-57, 1997-58, 1997-59, 1997-60, 1997-61, 1998-62, 1998-64, 1999-65, 1999-66, 1999-67, 1999-68, 2000-69, 2000-70, using mortgage prepayments. Extraordinary losses of $734 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, 2002, the Agency redeemed prior to maturity $257,665 of Single Family Mortgage Revenue Bonds, Series U, 1990-29, 1991-31, 1992-34, 1991-32, 1991-30, 1991-31, 1992-33, 1994-39, 1994-40, 1994-41, 1994-42, 1995-44, 1996-49, 1996-50, 1996-51, using bond proceeds.

Although a deferred loss of $5,260 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 $67,227 and was able to reduce its aggregate debt service payments as a result of these transactions by a total of $190,563 over the succeeding 30 years from the current refundings.

During the year ended June 30, 2001, the Agency redeemed prior to maturity $53,850 of Single Family Mortgage Revenue Bonds Series Z, 1990-29, 1991-30, 1991-31, 1992-33, 1994-38, 1994-41, 1994-42, 1995-44, 1995-45, 1995-46, 1996-47, 1996-48, 1996-50, 1996-51, 1996-52, 1996-53, 1997- 54, 1997-56, 1997-57, 1997-58, 1997-59, 1997-60, 1997-61, 1997-62, 1998-64, 1999-65, 1999-66, 1999-67 and 1999-68, using mortgage prepayments. Extraordinary losses of $548 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, 2001, the Agency did not redeem any Single Family Mortgage Revenue Bonds prior to maturity, using bond proceeds.

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, 2002:

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
2003	$ 33,717	$ 32,581	$ 40,375	$ 136,644	$ 243,317
2004	21,685	31,737	47,820	134,809	236,051
2005	24,589	30,442	53,025	132,378	240,434
2006	26,005	29,008	54,810	129,682	239,505
2007	27,627	27,453	56,755	126,802	238,637
2008–2012	163,755	109,366	363,105	582,662	1,218,888
2013–2017	143,204	59,009	464,835	468,831	1,135,879
2018–2022	83,717	21,860	531,365	323,950	960,892
2023–2027	23,599	4,106	515,666	168,421	711,792
2028–2032	1,897	120	280,663	39,530	322,210
2033–2037	—	—	15,905	826	16,731
	$ 549,795	$ 345,682	$ 2,424,324	$ 2,244,535	$ 5,564,336

In order to hedge against increases in interest rates on current variable rate bond issues, the Agency has entered into interest rate swaps with various counter-parties on or about the date of the issuance of the following bond series:

- Series 2000-69, the Agency receives LIBOR and pays a fixed rated of 7.31% on an original notional amount of $ 25,000. At June 30, 2002 the swap had a current market value (liability) of $(2,185).
- Series 2000-70, the Agency receives LIBOR and pays a fixed rate of 6.93% on an original notional amount of $25,000. At June 30, 2002 the swap had a current market value (liability) of $(2,282).
- Series 2001-72, the Agency receives LIBOR and pays a fixed rate of 5.70% on an original notional amount of $ 50,000. At June 30, 2002 the swap had a current market value (liability) of $(2,452).
- Series 2002-73, the Agency receives LIBOR and pays a fixed rate of 5.02% on an original notional amount of $ 25,000. At June 30, 2002 the swap had a current market value (liability) of $(659).

The swaps have the effect of fixing the variable rate portion of the debt issue at the current interest rates. The swap agreements subject the Agency to counter-party risk, which is the risk that the counter-party will fail to execute their contractual payment to the Agency. Management has mitigated this risk by using counter-parties with strong financial histories such as: PaineWebber, Goldman & Sachs and UBS AG. The net settlements paid to or received from the counter-parties are recorded as adjustments to interest expense within the income statement.

J. Operating Leases

The Agency is obligated under noncancelable operating leases for its buildings. Future minimum payments under these leases at June 30, 2002 are:

2003	$ 847
2004	745
2005	679
2006	51
Thereafter	—
	$ 2,322

Total rental expense is $1,079 and $816 for the years ended June 30, 2002 and 2001, respectively.

K. Reserved and Internally Designated Net Assets

General Fund

The net assets of the General Fund are 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 net assets as follows:

	June 30, 2002	June 30, 2001
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	6,000	6,000
Home buyer counseling	1,500	1,500
Home Choice Program	7,500	—
Homeless Auxiliary initiative	750	—
	$ 57,250	$ 49,000

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 net assets.

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.

The designation for the Home Choice program has been established to provide funding for the development of single family homes in urban communities.

The designation for the Homeless Auxiliary program has been established to provide funding to homeless shelters and those organizations which support shelters.

Multi-Family Program

Restrictions on the Multi-Family Program net assets are as follows:

	June 30, 2002	June 30, 2001
Net assets restricted by debt covenants	$ 11,822	$ 10,810

Net assets restricted by debt covenants are required under certain bond indentures, whose proceeds were used to fund the Agency's Multi-Family Program.

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

	June 30, 2002	June 30, 2001
PennHOMES Program	$ 144,740	$ 136,490
Senior housing with supportive services	4,000	4,000
Supportive services	1,500	1,250
	$ 150,240	$ 141,740

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 net assets are as follows:

	June 30, 2002	June 30, 2001
Net assets restricted by debt covenants	$ 73,730	$ 71,747

Net assets restricted by debt covenant are required under certain bond indentures, whose proceeds were used to fund the Agency's Single Family Program.

The Agency has internally designated a portion of the Single Family Program net assets as follows:

	June 30, 2002	June 30, 2001
Closing Cost Subsidy Program	$ 13,750	$ 13,750
Additional Single Family Insurance Program	2,455	2,455
	$ 16,205	$ 16,205

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

The Agency has internally designated the net assets of Insurance Fund as follows:

	June 30, 2002	June 30, 2001
Risk retention	$ 34,026	$ 30,961

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

HEMAP

The Agency has internally designated the net assets of the HEMAP Fund as follows:

	June 30, 2002	June 30, 2001
Emergency Mortgage Assistance Program	$ 54,197	$ 61,071

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 of 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 December 31, 2001 and 2000 are as follows:

Pennsylvania Housing Finance Agency
Employees' Retirement Plan
Statements of Plan Net Assets
(in thousands)
as of December 31, 2001 and 2000

	2001	2000
Assets		
Short-term investments		
Money markets	$ 599	$ 942
Mutual funds	7,340	17,048
Total short-term investments	7,939	17,990
Receivables		
Employer	—	—
Interest and dividends	70	53
Total receivables	70	53
Investments, at fair value		
U.S. Government obligations	3,815	2,952
Domestic stocks	7,994	1,059
Total investments	11,809	4,011
Total assets	$ 19,818	$ 22,054
Net Assets		
Net assets held in trust for pension benefits (a schedule of funding progress for each plan is presented on page 38)	$ 19,818	$ 22,054
Additions		
Contributions		
Employer	$ 550	$ 375
Plan members	5	—
Total contributions	555	375
Investment income		
Interest and dividends	612	2,822
Net (depreciation) appreciation in fair value of investments	(2,884)	(3,934)
Total additions	(1,717)	(737)
Deductions		
Benefits	519	486
Net (decrease) increase	(2,236)	(1,223)
Net assets held in trust for pension benefits		
Beginning of year	22,054	23,277
End of year	$ 19,818	$ 22,054

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. 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 December 31, 2001 and 2000:

	2001	2000
Retirees and beneficiaries receiving benefits	48	47
Terminated plan members entitled to but not yet receiving benefits	71	67
Active plan members	229	221
Total	348	335
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, 2002 and 2001, 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:

	2001	2000
Annual required contribution	$ 455	$ 88
Employer contributions made	(550)	(375)
Change in net pension obligation	(95)	(287)
Net pension obligation, beginning of year	(446)	(159)
Net pension obligation, end of year	$ (541)	$ (446)

The annual required contribution for the current year was determined as part of the January 1, 2001 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, 1999	$ 135	123.4%	$ (159)
December 31, 2000	$ 88	426.3%	$ (446)
December 31, 2001	$ 455	120.8%	$ (541)

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, 2002 and 2001 amounts to $242,744 and $149,950, respectively. All federal financial assistance administered 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.

Commitments

Outstanding commitments by the Agency to make or acquire single family, multi-family and HEMAP mortgages aggregate approximately $100,483, $31,000 and $1,323, respectively, at June 30, 2002.

N. Subsequent Events

On July 12, 2002, the Agency issued $124,120 Series 2002 Rental Housing Refunding Bonds. The proceeds from these bonds will be used to refund the Agency's outstanding Series 1992 Rental Housing Refunding Bonds.

On July 25, 2002, the Agency issued $100,000 Series 2002-74 Single Family Mortgage Revenue Bonds. The proceeds of the bonds will be used to refund certain of the Agency's outstanding Single Family Mortgage Revenue Bonds and to fund new single family mortgage loans.

On September 2, 2002, the Agency signed a five-year lease for office space in the Pittsburgh area. The lease which is retroactive to June 1, 2002 requires annual rental payments of $58.

Required Supplemental Information

Pennsylvania Housing Finance Agency
Required Supplemental Information (Unaudited)

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)
1/1/1992	$ 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)%
1/1/2000	$ 23,276,799	$ 17,220,429	$ (6,056,370)	135.2%	$ 7,264,117	(83.4)%
1/1/2001	$ 22,054,056	$ 19,250,828	$ (2,803,228)	114.6%	$ 8,254,152	(34.0)%
1/1/2002	$ 19,817,523	$ 21,685,184	$ 1,867,661	91.4%	$ 8,807,505	21.2%

Schedule of Contributions from the Employer and Other Contributing Entities

Calendar Year Ended	Annual Required Contribution	Contributions From Employer	Percentage Contributed
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%
1999	$ 135,384	$ 167,000	123.4%
2000	$ 87,968	$ 375,000	426.3%
2001	$ 455,464	$ 550,000	120.8%

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

Additional information as of the latest actuarial valuation follows:

	2002	2001
Valuation date	January 1, 2002	January 1, 2001
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	Moderate, based on long-term historical average rates

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