We are
husbands and wives,
mothers and fathers,
brothers and sisters,
sons and daughters,
friends and neighbors.

We are ordinary people.
But we do extraordinary things.

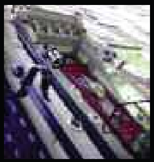
We are PHFA.

PENNSYLVANIA HOUSING FINANCE AGENCY

Annual Report 2003

WHAT CAN ORDINARY PEOPLE ACCOMPLISH?

Open and see.

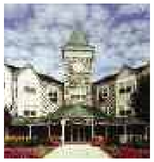


PHFA programs have improved the living conditions of one in every twelve Pennsylvanians.

2003 HIGHLIGHTS

In 2003, the Pennsylvania Housing Finance Agency:

- Reserved $15,000,000 for the Homeownership Choice Program and a new mixed-use program to fund efficient development of affordable houses and dwelling units above street-level commercial facilities in older urban areas of the Commonwealth. The Homeownership Choice Program has gained national attention and was recognized for its success by the National Council of State Housing Agencies.
- Allocated $23,892,000 of rental housing tax credits that will generate nearly $189,000,000 of actual investment in affordable multifamily apartments.
- Under the PennHOMES Program, earmarked $29,742,000 for 1,202 rental units in 27 rental complexes.
- Provided $14,664,000 of Homeowners' Emergency Mortgage Assistance loans to 2,298 families to help keep them from losing their homes to foreclosure. To date, the program has made $323,000,000 of loans to 33,300 families and has been repaid in excess of $170,000,000.
- Promoted the understanding of affordable housing among homebuyers, builders, developers, elected officials, real estate professionals, and the general public at more than 60 workshops, seminars, and public meetings.
- Financed the purchase of houses for 3,035 Pennsylvania families with $228,000,000 of funding provided by PHFA-issued mortgage securities. At the end of 2003, the Agency's home mortgage loan financing totaled $5,500,000,000 for 100,000 homebuyers.
- Administered $161,000,000 of HUD Section 8 housing assistance payments for families of modest means, senior citizens, and persons with disabilities living in 40,479 subsidized apartments at 524 Pennsylvania developments.
- As an organization, contributed $43,071 to the 2003 Commonwealth's United Way Campaign, an average of $169 for each Agency donor. Because a number of retirees also made donations in the annual effort, PHFA's participation rate was 106 percent of its workforce.



THE PEOPLE, THE PROGRAMS, AND PHFA.

PHFA is comprised of everyday people from all walks of life. Working together under one common purpose, the Agency exists to provide decent and affordable housing for older adults, people of modest means, and those who have special needs. Since 1972 we have made hundreds-of-thousands of homes and apartments available for Pennsylvanians across the Commonwealth. We not only provide good housing, but also create jobs and energize local and state tax bases.

Behind our programs are real people who bring our efforts to life. Their professional lives are not separate from who they are away from the job. They are husbands and wives, mothers and fathers, sisters and brothers, sons and daughters, and friends and neighbors. They are ordinary people who understand the responsibility with which they have been charged and stand as stewards of the Agency's mission. They are the very cause and reason our programs have changed the lives of so many Pennsylvanians.

Within these pages you will meet a few of our people. They are much like anyone else. But they are extraordinary people, as well. And they accomplish extraordinary things.

They are PHFA.

Brian Hudson, Executive Director

Brian Hudson's career at PHFA traces the history of the Agency itself. He began as a junior staff member while still an undergraduate, and worked his way up to Chief Financial Officer before being appointed Executive Director. As a Certified Public Accountant, Brian understands the need for responsible, well-thought-out programs. As a leader, he knows that people are the greatest asset any organization can have.

SONYA DOESN'T JUST WORK FOR PHFA.
FIVE YEARS AGO, PHFA WORKED FOR HER.

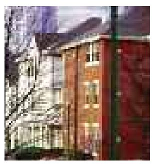
Sonya Burhannan: married and the mother of three, she knows how PHFA programs succeed. Her own home was purchased through a program that featured a below-market interest rate loan. In a way, this makes her ordinary. Just like any of us. Yet, Sonya Burhannan is extraordinary in so many ways. She is more than a nine-to-five Agency employee. Every day when she comes to work, Sonya brings a contribution to the Agency which, at first glance, goes unseen. When she arrives at the office, Sonya brings the woman who believes her children come first. She brings the woman who spends evenings editing a youth newsletter and who chaperones grade school field trips. Sitting in her office is not just a PHFA employee but a Sunday school teacher and vice-president of the church choir.

As a mother, a wife, and a sister, Sonya Burhannan is an ordinary woman. If you're lucky, she's your neighbor. And she is a part of PHFA.

PHFA staff members work with private companies to ensure that the Agency's REO portfolio is effectively managed.

Sonya Burhannan, REO Coordinator

As coordinator for the Agency's REO (real estate owned) operation, Sonya makes sure that all of the proper procedures for the disposition of PHFA-owned single-family properties are followed. She settles accounts in order to turn those homes into new opportunities for other Commonwealth families.



JERRY LOVES HIS JOB.
EVERY SINGLE ONE OF THEM.

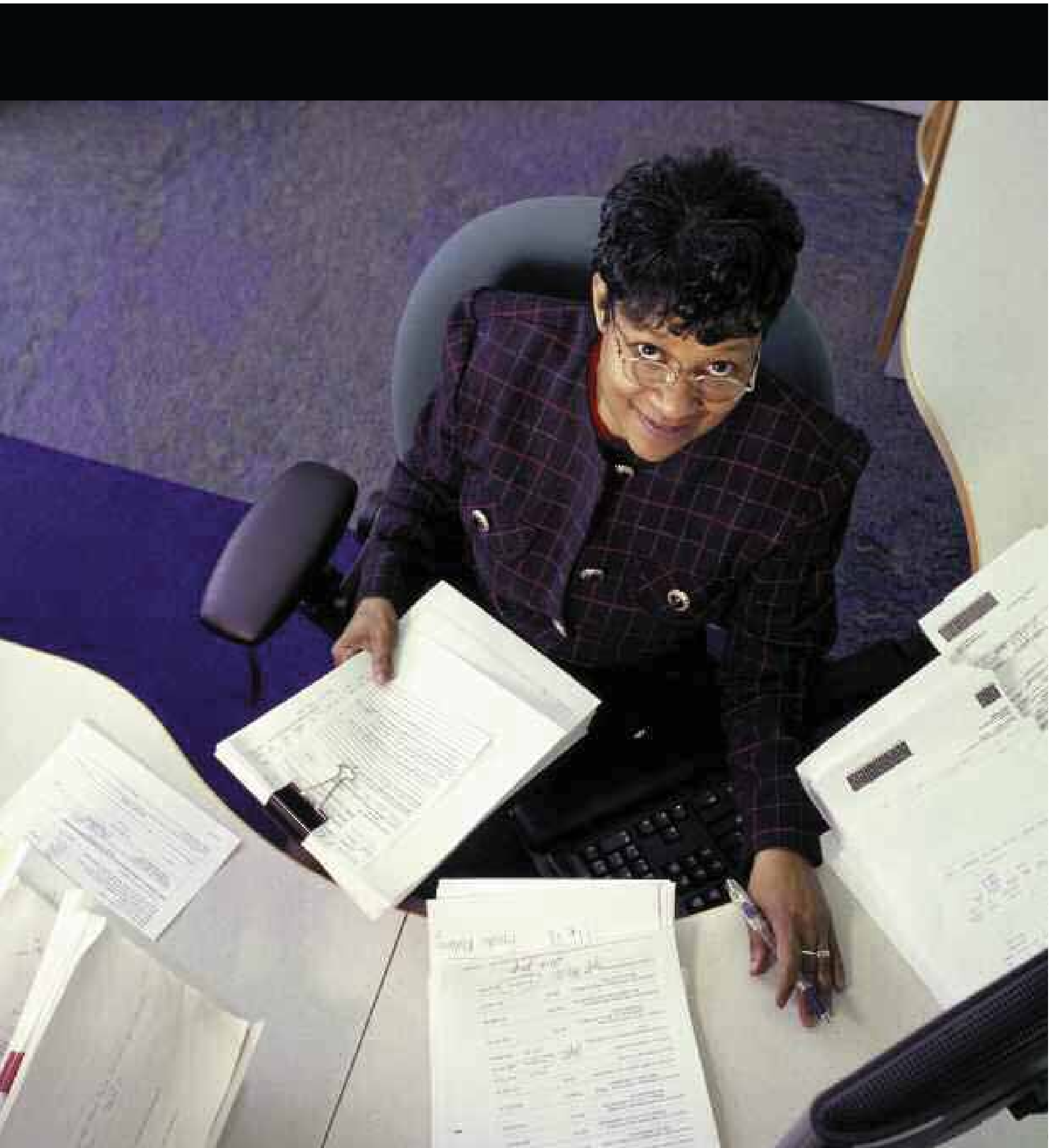
Jerry Seman wears many hats. He's the Vice President of the Jersey Shore State Bank in Williamsport, Pennsylvania; the Senior Mortgage Officer of 16 branches; and the father of a four-and-a-half-year-old baseball player. And that job counts as two. He's one of the many PHFA partners who work in tandem with the Agency to make funds available to first-time homebuyers. But Jerry has other lives. One spent organizing fundraising events to aid underprivileged children, and a life where he spends summer evenings tossing a baseball with his son. He is a man with a family and a mortgage of his own. A man who has seen *Finding Nemo* more times than he can count.

Jerry Seman appears quite ordinary. He is a father, a husband, and a brother. But he also is a community leader and a harbinger of hope. And a partner of PHFA.

All PHFA homeownership loans are originated by participating lending institutions.

Jerry Seman, Bank Mortgage Officer

By partnering with PHFA, Jerry promotes many of the programs that offer assistance in the purchasing of single-family residential homes. Statewide programs that offer conventional, FHA, VA, and Rural Housing Service loans along with closing cost assistance and other PHFA efforts to help Commonwealth homebuyers. And his influence is far-reaching. He has helped thousands of families across northern Pennsylvania finance places they can call their own.



Vikki Lauer, Single Family Loan Officer

Vikki is there when PHFA programs meet the users. She works with participating lenders to handle the details of complex transactions. Although she doesn't think of it in this way, her efforts bring the benefit of homeownership to Pennsylvanians who otherwise would never have the opportunity to buy a place of their own.

NOTHING FINE-TUNES YOUR ABILITY TO MANAGE TIME LIKE THREE ACTIVE GRANDCHILDREN.

If it's not a soccer match, it's baseball. Attendance at her grandchildren's games is expected of Vikki Lauer. And after 21 years at the Agency, she's learned a thing or two about tight schedules and multi-tasking your way to accomplishment. She began at PHFA as a receptionist. She trained and tutored her way to Senior Loan Officer. She loves her grandchildren. She lives for the quiet moments she spends with them and a pack of Crayolas. And she believes everyone should have a shot at success.

Vikki Lauer loves her ordinary life. She is a mother, a daughter, and a neighbor. And to three toddling children, she's a grandmother. She is PHFA.

PHFA's education and counseling efforts, low mortgage interest rates, and flexible financing options have allowed tens of thousands of families to become homeowners.

Jay Hausher, Senior Technical Services Representative

Jay draws on a wealth of experience to make sure that PHFA-financed multifamily rental developments are soundly built and correctly maintained. He is on-site at all critical stages of construction, and realizes that because of what he does, thousands of Pennsylvanians will enjoy decent, safe housing for many decades to come.

JAY KNOWS HOW TO BRING A TEAM TOGETHER. HE LEARNED IT ON THE BASKETBALL COURT.

No important goal can be accomplished without people working together. Building construction is no exception. Jay Hausher supervises PHFA multifamily construction sites and is no stranger to teamwork. He's the coach of his eleven-year-old daughter's basketball team. He juggles his weekends the way most people do, with his family. He tries not to bring work home with him, even though he always brings home to work. He brings his commitment to helping others, his enthusiasm to get the job done, and his appreciation for the success that results when people pull together.

Jay Hausher is typically American. He is a husband, a father, and a brother. And on Saturday mornings he is a coach and an inspiration. And proudly, he is a part of PHFA.

PHFA-financed multifamily rental developments are imaginatively designed, well constructed, and prudently managed. They provide decent, safe, and enduring places to live for older adults, families of modest means, and persons with disabilities.

Rosa Roque, Mortgage Servicing Specialist

She counsels homeowners and helps them stay current with mortgage obligations. Rosa lets them know of the many opportunities that the Agency makes available. She wants borrowers to understand that their relationship with PHFA is not that of opponents facing each other, but rather a cooperative arrangement between responsible parties.

THE AMERICAN DREAM IS THE SAME FOR EVERYONE. IN ANY LANGUAGE.

When someone has a question about a PHFA program, Rosa Roque usually has the answer, often in Spanish. But there is more to Rosa than meets the eye. Married, she is the proud mother of a Chihuahua, a Doberman, and a twelve-pound cat. She spends weekends with her husband, time with her close-knit family, and works ambitiously on her many interests. Whether it's restoring a late-model muscle car or casting a line in the Susquehanna River, Rosa is a picture of every day middle America. But her distinguishing traits of patience, caring, and understanding come to work with her. They follow her to each meeting and sit beside her for every phone call.

Rosa is a wife, a sister, and a daughter. She works hard for her family. She is compassionate. She is real. She is talented. Rosa is all of this, both at home and at PHFA.

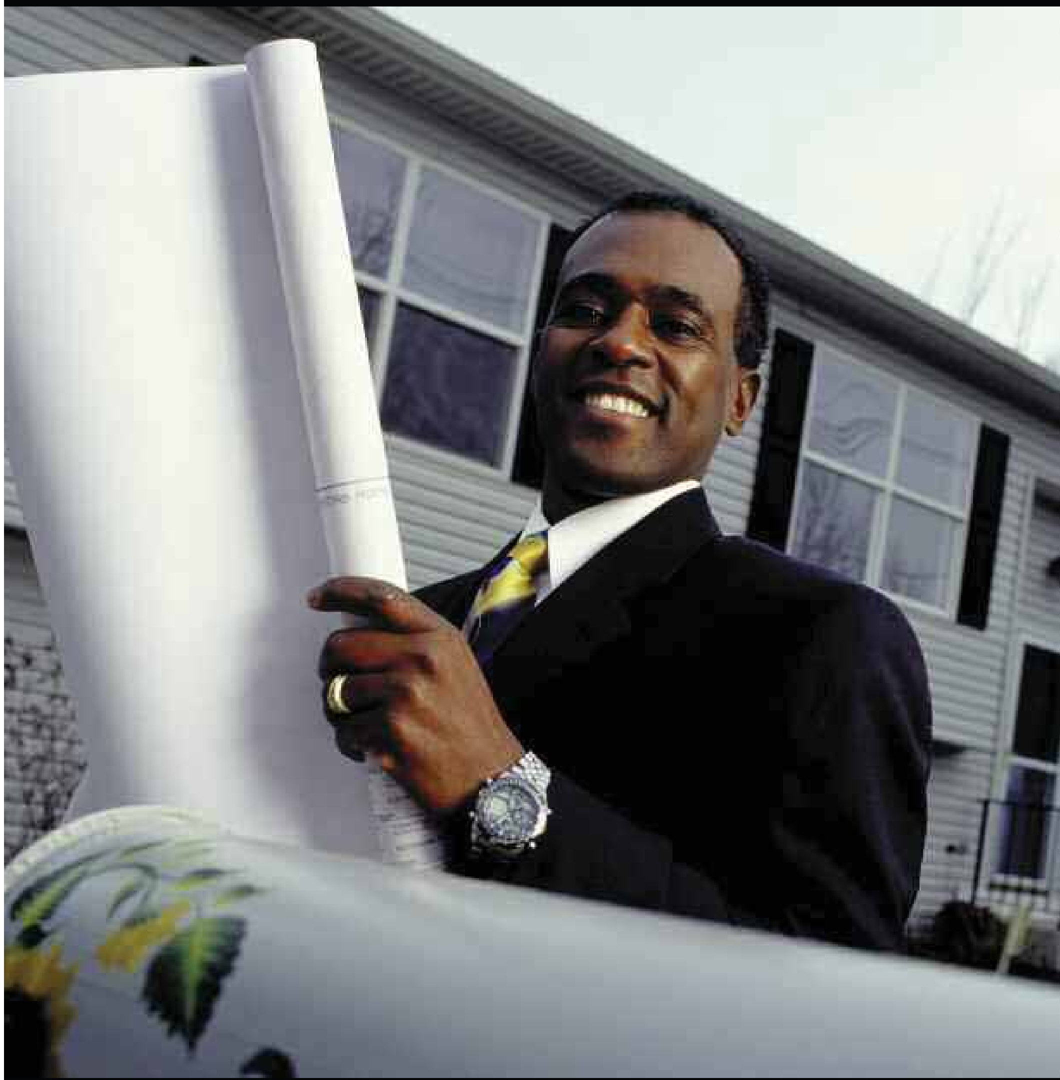
The appreciation in value of their homes is the way most Pennsylvanians build wealth.

TO BE BLESSED IN YOUR LIFE YOU FIRST HAVE TO BE A BLESSING.

He says that. Don Crenshaw speaks those words like a mantra. And he believes it. He believes his job is more than just building single-family housing developments. He sees what his structures become. He witnesses real families sharing their excitement in the success of their own American Dream. Don can relate. He has a home of his own. A place where he and his wife, Toni, are raising two daughters and a son. A place that shelters his own hopes, dreams, and wishes for his family. He is a man like any other. But he possesses the rare talent to bring what he values to others. And as he elevates the lives of other families with homes of their own, he enriches his own life.

Don Crenshaw seems like an average businessman. He is a husband, a father, and a brother. But he is also a blessing. Disguised as an ordinary man. And a partner of PHFA.

The nationally recognized Homeownership Choice Program generates about nine dollars in private investment for every dollar committed by PHFA.



Donald Crenshaw, Housing Developer

A private developer and participant in the PHFA Homeownership Choice Program, Don is currently working on the third phase of a housing complex that will provide 86 new single-family homes for Pennsylvania families.

BEFORE THERE'S A HOME
THERE'S AN IDEA.

Deborah Stuart sees things. She sees beautiful homes in the most unlikely places. In an old, abandoned building she sees a revitalized apartment complex. She is an architect by trade and a visionary by design. She has worked with PHFA to erect and refurbish hundreds of homes and apartments in Harrisburg, York, Lancaster, and Allentown. But her passion for creating beautiful things doesn't end with bricks and mortar. She is also a mother. Her magnum opus is a twelve-year-old daughter, Erica, who often sits by her side to provide ideas for the playgrounds that will be a part of the homes Deborah builds tomorrow.

Deborah Stuart is a mother, a sister, and a neighbor. But her imagination is a canvas for the American Dream. And she is a partner of PHFA.

PHFA has provided financing or tax credits for more than half the Commonwealth's approximately 190,000 subsidized rental units.

Deborah Stuart, Architect

Deborah Stuart devotes the same time and attention to PHFA-financed rental developments that she lavishes on her other architectural commissions. An integral part of the multifamily development team, as a partner with PHFA, she helps deliver on the promise of good, enduring apartments for those who need them.

Carla Falkenstein, Housing Services Manager

Many PHFA-financed multifamily complexes provide additional amenities to meet the specific needs of senior adults and working families. By cooperating with developers, Carla creates a customized plan and organizes the proper resources to make these services possible.

PEOPLE NEED MORE THAN A PLACE TO LIVE.
THEY NEED A PLACE THEY CAN CALL HOME.

There is more to a home than four walls and a roof. And it's Carla Falkenstein who makes that difference happen. As Manager of Housing Services, she and her staff gather resources from around the Commonwealth to bring additional services to residents in multifamily and senior neighborhoods to provide ready meals, transportation, housekeeping, and after-school programs. She is dedicated to creating opportunities so that the residents have a chance for fulfillment and prosperity. She is like a watchful parent to those she serves. And she's had lots of practice as the mother of three grown children of her own.

Like most women, Carla faces multiple challenges as a wife, a mother, and daughter. As an accomplished professional, she is the person who delivers the promise of hope. She is PHFA.

PHFA-sponsored housing services help meet the needs of residents of multifamily rental developments for safety, security, and the opportunity to grow.

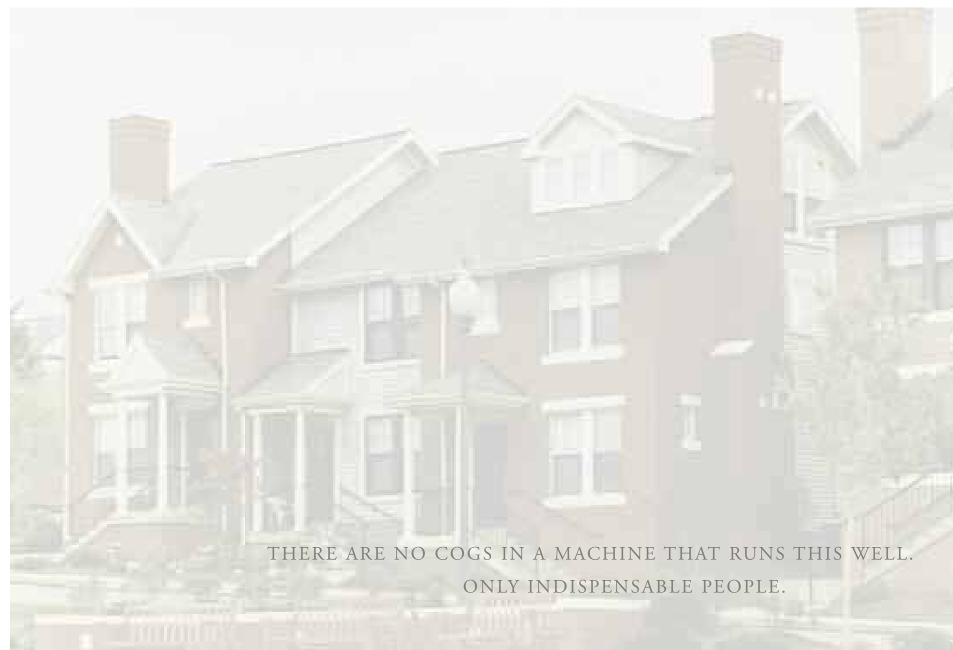
fig. 1 *fig.* 2 *fig.* 3 *fig.* 4 *fig.* 5 *fig.* 6 *fig.* 7 *fig.* 8 *fig.* 9 *fig.* 10 *fig.* 11 *fig.* 12 *fig.* 13 *fig.* 14 *fig.* 15

THE LEADERS. THE EXAMPLES. THE MEMBERS OF THE BOARD.

From diverse and distinguished backgrounds, the members of the Board continue to lead the Agency in building stronger communities. They are instrumental in demonstrating the Agency's value both to the people it serves and to the private investors whose capital makes these important programs possible. These men and women lead an Agency that is a national model. The Board is committed to PHFA's continued growth, enhanced impact, and strong, involved leadership. They are Pennsylvania Housing Finance Agency.

The Agency's securities are highly regarded by the nation's investors. PHFA was the first "Top Tier" housing agency in America.

(fig.1) John Paone; *(fig.2)* Richard G. Mingey; *(fig.3)* Ronald S. Mintz; *(fig.4)* The Honorable Barbara Hafer; *(fig.5)* The Honorable Dennis Yablonsky; *(fig.6)* Thomas B. Hagen; *(fig.7)* Gary E. Lenker, *Vice Chairman; (fig.8)* Brian A. Hudson, Sr., *Executive Director and CEO; (fig.9)* The Honorable Estelle Richman; *(fig.10)* The Honorable A. William Schenck III, *Chairman; (fig.11)* Noel Eisenstat; *(fig.12)* Raymond S. Angeli; *(fig.13)* Stuart E. Price; *(fig.14)* Mark Schwartz; *(fig.15)* Morris J. Dean.



FINANCIAL STATEMENTS

AND REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2003 AND 2002

INDEX

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of dollars)

June 30, 2003

Prepared by the Finance Division | Brian Hudson, CPA, Executive Director

This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position of the Pennsylvania Housing Finance Agency ("the Agency"). Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow this section.

BASIC FINANCIAL STATEMENTS

The basic financial statements include three required statements, which provide different views of the Agency. They are the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows. These statements provide current and long-term information about the Agency and its activities. These financial statements report information using accounting methods similar (although not identical) to those used by private sector companies. The statement of net assets includes all assets, liabilities and net assets as of the fiscal year-end date. The statement of revenues, expenses and changes in net assets presents all the current fiscal year's revenues and expenses, and presents net income and the resulting change in net assets. If revenues exceed expenses, the result is income which, when added to the net assets at the beginning of the year, increases the net assets of the Agency. If expenses exceed revenues, the result is a loss and when subtracted from the beginning net assets would result in a decrease of net assets. The final required statement is the statement of cash flows. This statement reports cash receipts, disbursements and the net change in cash resulting from the principal types of activities; operating activities, financing activities and investing activities. These categories provide answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the fiscal year.

In order for the basic financial statements to be complete, they must be accompanied by a complete set of footnotes and required supplemental information ("RSI"). The footnotes (or notes) provide disclosures which are required to conform with generally accepted accounting principles ("GAAP"). The Agency has adopted accounting standards promulgated by the Government Accounting Standards Board ("GASB"). The driving force behind this expanded Management's Discussion and analysis is GASB Number 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, which the Agency adopted in the prior fiscal year. The Agency also adopted GASB Number 37 and 38, which together define RSI to include this discussion section as well as the Schedule of Funding Progress and Contributions from the Employer and Other Contributing Entities.

FINANCIAL ANALYSIS

The financial analysis presented below, based on the programs of the Agency for the fiscal year ended June 30, 2003, should be read in conjunction with the financial statements which begin after this section. The amounts below have been presented in thousands to facilitate reading of this analysis.

During the fiscal year ended June 30, 2003, the Agency's combined total assets, consisting primarily of mortgage loan receivables and investment securities, increased by approximately 3.6 percent, to $3,991,966 from $3,855,076, a $136,890 increase. During the fiscal year ended June 30, 2002, combined total assets grew by $78,192, approximately a 2.1 percent increase. The reported total combined net income after extraordinary items increased total net assets by approximately $23,401, to $602,230 at June 30, 2003 from $578,828 at June 30, 2002.

The Agency's combined income before extraordinary items for the fiscal year ended June 30, 2003, was $24,668, as compared with $16,461 in the prior year. The $8,207 increase in income before extraordinary items resulted primarily from changes in the following items: The provision for loan loss allowance was only $8,878, compared to the prior year's provision of $15,794. Loan loss provisions are charged against income and are based on study and analysis by management. The realized gain on the sale of investments increased by approximately $2,011 over the prior year. Gains are realized when the investment's selling value exceeds the book value. The investment portfolio increased in value by $5,581 during the period, as compared to a gain of only $757 in 2002. Also driving the increase was a decrease in interest expense of $5,712 when compared to the prior year. This is due to the low interest rate environment.

Loan Portfolios

The Multi-Family construction and mortgage loans, the Single Family mortgage loans and the HEMAP mortgage loans are the Agency's primary assets. These include $510,009 of Multi-Family Program loans, $2,012,952 of Single Family Program loans and $49,183 of HEMAP mortgage loans. A reduction in the mortgage loan portfolios occurred due to repayments and payoffs exceeding construction and mortgage loan advances and new purchases of loans. For the fiscal year ended June 30, 2003 the following are key highlights of loan related activities:

- The Agency funded approximately $18,070 of Multi-Family Program loans. However, the Multi- Family portfolio decreased to $510,009 as of June 30, 2003, from $526,701 as of June 30, 2002 after adjustments for normal principal amortization payments and the prepayments of several mortgage loans.
- The Single Family Program purchased approximately $192,496 of new mortgage loans. However, the Single Family portfolio decreased to $2,012,952 as of June 30, 2003, from $2,242,000 as of June 30, 2002 as a result of scheduled mortgage payments and prepayments. Single Family borrowers prepaid approximately $403,881 of loans during fiscal year 2003 due to reduced interest rates in the conventional mortgage marketplace.
- The HEMAP Program disbursed approximately $12,906 of loans during the year, however the portfolio decreased to $49,183 as of June 30, 2003. The decrease is due to principle payments and loan write-offs during the year.

Financing Activity

During the current fiscal year, total combined liabilities increased by $113,488, as a result of net issuance of long-term bonds in order to provide funding required to originate and purchase mortgages. Total combined long-term debt outstanding, net of discounts and deferred losses on refundings, increased by $93,842 during the fiscal year ended June 30, 2003.

New Debt Issues

- The Agency's Multi-Family Program completed three bond issuances during 2003, totaling approximately $296,380. The proceeds from these issuances were used to refinance existing debt and create new housing opportunities for elderly, disabled and low-income Pennsylvanians.
- The Agency's Single Family Program issued three separate bond issues totaling approximately $205,165. The proceeds from these issuances were used to purchase qualifying mortgages.

Debt Redemptions

- $13,885 of Multi-Family Program bonds were redeemed prior to maturity as a result of loan prepayments received in the current year.
- $108,325 of Single Family Mortgage Revenue Bonds was redeemed as a result of mortgage loan prepayments received, as noted above.

Refunding

- The resolution adopted by action of Agency members in April 2002 issued two bond series totaling approximately $200,345 in order to refund two outstanding Multi-Family Bond Series.

Change in Net Assets

Under GASB 34 the term net assets is used (instead of fund balance) for entities like the Agency, which is considered an "enterprise fund." An enterprise fund reports activities using the accrual basis of accounting. In the governmental environment, net assets are either restricted or unrestricted. Unrestricted net assets consist of net assets that do not meet the definition of restricted. GASB 34 defines restricted net assets as those assets, whose use is restricted by external creditors, grantors, laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Assets identified by the members of the Board for specific purposes may be presented as "designated" net assets within the unrestricted balance in the accompanying footnotes. Designating assets means the Agency's Board of Directors has considered these assets to be internally restricted for business strategies aimed at increasing prosperity throughout the Commonwealth. Members of the Board may choose to remove or modify such internal designations at any time.

- Net assets of the Multi-Family Program increased by $4,624, or 2.8 percent, to $171,928 at June 30, 2003 from $167,304 at June 30, 2002. The unrestricted portion of net assets that may be used to finance day-to-day operations increased to $164,482 at June 30, 2003 from $155,482 at June 30, 2002. The net increase in unrestricted net assets in the Multi-Family Program is due to the net income of $24,444 for the year, partially offset by interfund transfers of $19,820. Net income increased $8,938 when compared to the prior year due to decreased interest expense and a decrease in the loan loss provision. The multi-family interest expense decreased $6,084 from the prior year, due to the refunding of old bond issuances carrying high interest rates, with new low rate debt. The provision for loan loss decreased $6,000, when compared to the prior year as fewer HOMES program loans were originated during the year. HOMES loans are fully reserved for at issuance.

- Net assets of the Single Family Program decreased by $5,427 or about 3.2 percent, to $165,979 at June 30, 2003 from $171,406 at June 30, 2002. The unrestricted portion of net assets that may be used to finance day-today operations decreased to $90,487 at June 30, 2003 from $97,676 at June 30, 2002. The decrease resulted from the net loss of $7,791 plus an extraordinary loss of $1,110, which was partially offset by transfers from other funds. The net loss is driven by the low interest rate environment. The environment has caused excessive loan prepayments which the Agency must reinvest at lower yields. The Single Family Program has constrained costs of funding as bonds can only be refunded in accordance with indentures.

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, 2003 exhibit the Agency's financial strength. Total net assets as of June 30, 2003 increased 4.0 percent to $602,230 from $578,828 during the fiscal year. Combined unrestricted net assets increased $26,016 or 5.3 percent from the prior year, comprising 13.0 percent of total assets and 86.2 percent of total net assets at June 30, 2003. Total assets grew $136,890 or 3.6 percent from the prior year.

Financial Analysis

(in thousands of dollars)

The following table summarizes the changes in combined net assets between June 30, 2003 and 2002:

	2003	2002	Change	Percentage
Assets				
Deposits and investments	1,292,092	$ 924,940	$ 367,152	39.7%
Restricted investments	82,938	85,552	(2,614)	(3.1)%
Mortgage Loan receivables	2,572,144	2,814,389	(242,245)	(8.6)%
Other assets	44,792	30,195	14,597	48.3%
Total assets	3,991,966	$ 3,855,076	$ 136,890	3.6%
Liabilities				
Current liabilities	126,135	$ 128,075	$ (1,940)	(1.5)%
Long-term bonds payable	2,960,089	2,866,247	93,842	3.3%
Other payable	303,512	281,926	21,586	7.7%
Total liabilities	3,389,736	$ 3,276,248	$ 113,488	3.46%
Net assets				
Restricted	82,938	$ 85,552	$ (2,614)	(3.1)%
Unrestricted	519,292	493,276	26,016	5.3%
Total net assets	602,230	$ 578,828	$ 23,402	4.0%

Management's Discussion and Analysis

(in thousands of dollars)

The following table summarizes the changes in combined net income between fiscal years 2003 and 2002:

	2003	2002	Change	Percentage
Revenues				
Interest on loans	173,828	$ 181,966	$ (8,138)	(4.5)%
Interest on investments	18,852	24,649	(5,797)	(23.5)%
Program revenues	25,659	24,691	968	3.9%
Grant revenue	266,493	242,744	23,749	9.8%
Other revenues	11,135	2,882	8,253	286.4%
Total revenues	495,967	$ 476,932	$ 19,035	4.0%
Expenses				
Interest expense	170,520	$ 176,232	$ (5,712)	(3.2)%
Operating expenses	25,408	25,701	(293)	(1.1)%
Grant expenses	266,493	242,744	23,749	9.8%
Loan loss allowance	8,878	15,794	(6,916)	(43.8)%
Total expenses	471,299	$ 460,471	$ 10,828	2.4%
Net income before extraordinary items	24,668	$ 16,461	$ 8,207	49.9%

Debt Administration

At year-end, the Agency had total debt outstanding of $3,038,674 an increase of $97,539 or 3.3 percent 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 2003 and 2002:

(in thousands of dollars)	2003	2002	Change	Percentage
Bonds payable	3,038,674	$ 2,940,339	$ 98,335	3.3%
Notes payable	—	796	(796)	(100.0)%
Total debt payable	3,038,674	$ 2,941,135	$ 97,539	3.3%

Management's Discussion and Analysis

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, 2004. In the current interest rate environment, prepayments will continue to be steady and refundings will be made in accordance with indentures. Management will continue to criticize potential borrowers and potential investments to ensure the appropriate benefit is received by the Commonwealth in relation to risk undertaken. An assessment will also be made of existing support programs to determine funding levels for 2004 based net income carried for the period ending June 30, 2003.

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

PRICEWATERHOUSECOOPERS

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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, 2003 and 2002, 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 1.26 percent and .52 percent of the total assets and interest income, respectively, of the related totals for the year ended June 30, 2002. 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 10, 2003 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, 2003. 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 10, 2003

Statements of Net Assets

(in thousands of dollars)

June 30, 2003 and 2002

	2003						2002					
	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 (Note E)	$ 156,561	$ 466,636	$ 629,102	$ 38,337	$ 1,456	$ 1,292,092	$ 112,437	$ 412,630	$ 360,901	$ 35,257	$ 3,715	$ 924,940
Current portion of loans receivable (Note F)	—	31,386	33,704	—	6,593	71,683	—	36,418	45,836	—	6,725	88,979
Interfund accounts receivable (payable)	12,309	(2,708)	(9,082)	—	(519)	—	32,866	(3,701)	(28,671)	—	(494)	—
Total current assets	168,870	495,314	653,724	38,337	7,530	1,363,775	145,303	445,347	378,066	35,257	9,946	1,013,919
Noncurrent assets												
Restricted deposits and investments	—	7,446	75,492	—	—	82,938	—	11,822	73,730	—	—	85,552
Loans receivable, net of current portion (Note F)	—	478,623	1,979,248	—	42,590	2,500,461	—	490,283	2,196,164	—	47,375	2,733,822
Construction advances (Note F)	—	20,309	—	—	—	20,309	—	3,016	—	—	—	3,016
Deferred and other assets	13,591	6,865	3,946	—	81	24,483	9,374	5,166	4,093	8	126	18,767
Total noncurrent assets	13,591	513,243	2,058,686	—	42,671	2,628,191	9,374	510,287	2,273,987	8	47,501	2,841,157
Total assets	$ 182,461	$ 1,008,557	$ 2,712,410	$ 38,337	$ 50,201	$ 3,991,966	$ 154,677	$ 955,634	$ 2,652,053	$ 35,265	$ 57,447	$ 3,855,076
Liabilities and Net Assets												
Current liabilities												
Current portion of long-term debt (Note I)	$ —	$ 53,505	$ 25,080	$ —	$ —	$ 78,585	$ —	$ 34,513	$ 40,375	$ —	$ —	$ 74,888
Accrued interest payable (Note I)	—	10,236	33,741	—	—	43,977	—	14,436	34,633	—	—	49,069
Accounts payable and accrued expenses	2,349	5	109	—	223	2,686	2,532	—	97	—	250	2,879
Accrued mortgage claims (Note F)	—	—	—	887	—	887	—	—	—	1,239	—	1,239
Total current liabilities	2,349	63,746	58,930	887	223	126,135	2,532	48,949	75,105	1,239	250	128,075
Noncurrent liabilities												
Long-term debt, net of current portion (Note I)	—	532,639	2,427,450	—	—	2,960,089	—	514,036	2,352,211	—	—	2,866,247
Escrow and other liabilities	248	240,244	60,051	—	2,969	303,512	250	225,345	53,331	—	3,000	281,926
Total noncurrent liabilities	248	772,883	2,487,501	—	2,969	3,263,601	250	739,381	2,405,542	—	3,000	3,148,173
Total liabilities	2,597	836,629	2,546,431	887	3,192	3,389,736	2,782	788,330	2,480,647	1,239	3,250	3,276,248
Net assets												
Restricted (Note K)	—	7,446	75,492	—	—	82,938	—	11,822	73,730	—	—	85,552
Unrestricted (Note K)	179,864	164,482	90,487	37,450	47,009	519,292	151,895	155,482	97,676	34,026	54,197	493,276
Total net assets	$ 179,864	171,928	165,979	37,450	47,009	602,230	151,895	167,304	171,406	34,026	54,197	578,828
Total liabilities and net assets	182,461	$ 1,008,557	$ 2,712,410	$ 38,337	$ 50,201	$ 3,991,966	$ 154,677	$ 955,634	$ 2,652,053	$ 35,265	$ 57,447	$ 3,855,076

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

Statements of Revenues, Expenses and Changes in Net Assets

(in thousands of dollars)

Years Ended June 30, 2003 and 2002

2003

	GENERAL FUND	2003 MULTI-FAMILY PROGRAM	SINGLE FAMILY PROGRAM	INSURANCE FUND	HEMAP	TOTALS (MEMORANDUM ONLY)
Operating income						
Interest income						
Interest on loans (Note F)	$ —	$ 46,648	$ 126,211	$ —	$ 969	$ 173,828
Interest on investments (Note E)	3,986	4,605	8,707	1,512	42	18,852
Total interest income	3,986	51,253	134,918	1,512	1,011	192,680
Interest expense						
Interest on notes and bonds (Note I)	—	27,173	143,347	—	—	170,520
Total interest expense	—	27,173	143,347	—	—	170,520
Net interest income before provision for potential loan losses	3,986	24,080	(8,429)	1,512	1,011	22,160
Provision for potential loan losses (Note F)	—	2,000	2,000	—	4,878	8,878
Net operating income (loss)	3,986	22,080	(10,429)	1,512	(3,867)	13,282
Noninterest income						
Fee income (Note F)	21,787	—	2,073	1,513	286	25,659
Construction advances	—	517	—	—	—	517
Pass-through grants income (Note M)	—	266,493	—	—	—	266,493
Gain on sale of investments	2,210	—	—	—	—	2,210
Net increase (decrease) in fair value of investments (Note E)	2,070	1,940	672	899	—	5,581
Amortization of deferred gain (Note C)	—	689	—	—	—	689
Residual receipts	—	2,138	—	—	—	2,138
Total noninterest income	26,067	271,777	2,745	2,412	286	303,287
Noninterest expense						
Pass-through grants expense (Note M)	—	266,493	—	—	—	266,493
Salaries and related benefits	13,493	—	—	—	1,699	15,192
General and administrative	4,937	2,764	107	—	1,908	9,716
Mortgage claims	—	—	—	500	—	500
Total noninterest expense	18,430	269,257	107	500	3,607	291,901
Income (loss) before extraordinary item	11,623	24,600	(7,791)	3,424	(7,188)	24,668
Extraordinary item - loss on early retirement of debt	—	(156)	(1,110)	—	—	(1,266)
Net income (loss)	11,623	24,444	(8,901)	3,424	(7,188)	23,402
Changes in net assets						
Interfund transfers (Note D)	16,346	(19,820)	3,474	—	—	—
Net assets at beginning of the year	151,895	167,304	171,406	34,026	54,197	578,828
Net assets at end of the year	$ 179,864	$ 171,928	$ 165,979	$ 37,450	$ 47,009	$ 602,230

2002

	GENERAL FUND	2002 MULTI-FAMILY PROGRAM	SINGLE FAMILY PROGRAM	INSURANCE FUND	HEMAP	TOTALS ONLY)
Operating income						
Interest income						
Interest on loans (Note F)	$ —	$ 48,896	$ 132,109	$ —	$ 961	$ 181,966
Interest on investments (Note E)	3,928	6,617	12,435	1,524	145	24,649
Total interest income	3,928	55,513	144,544	1,524	1,106	206,615
Interest expense						
Interest on notes and bonds (Note I)	—	33,257	142,975	—	—	176,232
Total interest expense	—	33,257	142,975	—	—	176,232
Net interest income before provision for potential loan losses	3,928	22,256	1,569	1,524	1,106	30,383
Provision for potential loan losses (Note F)	—	8,000	3,000	—	4,794	15,794
Net operating income (loss)	3,928	14,256	(1,431)	1,524	(3,688)	14,589
Noninterest income						
Fee income (Note F)	20,395	—	2,119	1,907	270	24,691
Construction advances	—	—	—	—	—	—
Pass-through grants income (Note M)	—	242,744	—	—	—	242,744
Gain on sale of investments	199	—	—	—	—	199
Net increase (decrease) in fair value of investments (Note E)	2,055	1,891	(4,074)	885	—	757
Amortization of deferred gain (Note C)	—	759	—	—	—	759
Residual receipts	—	1,167	—	—	—	1,167
Total noninterest income	22,649	246,561	(1,955)	2,792	270	270,317
Noninterest expense						
Pass-through grants expense (Note M)	—	242,744	—	—	—	242,744
Salaries and related benefits	12,461	—	—	—	1,612	14,073
General and administrative	5,975	2,558	—	—	1,844	10,377
Mortgage claims	—	—	—	1,251	—	1,251
Total noninterest expense	18,436	245,302	—	1,251	3,456	268,445
Income (loss) before extraordinary item	8,141	15,515	(3,386)	3,065	(6,874)	16,461
Extraordinary item - loss on early retirement of debt	—	(9)	(734)	—	—	(743)
Net income (loss)	8,141	15,506	(4,120)	3,065	(6,874)	15,718
Changes in net assets						
Interfund transfers (Note D)	762	(3,285)	2,523	—	—	—
Net assets at beginning of the year	142,992	155,083	173,003	30,961	61,071	563,110
Net assets at end of the year	$ 151,895	$ 167,304	$ 171,406	$ 34,026	$ 54,197	$ 578,828

Statements of Cash Flows

(in thousands of dollars)

Years Ended June 30, 2003 and 2002

	2003						2002					
	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	$ —	$ (2,601)	$ 218,495	$ —	$ (979)	$ 214,915	$ —	$ 14,542	$ (55,101)	$ —	$ 656	$ (39,903)
Cash received for interest on mortgages	—	48,894	138,718	—	1,017	188,629	—	47,375	139,890	—	631	187,896
Fees, charges, and other	18,344	—	—	1,508	361	20,213	18,906	—	—	1,909	202	21,017
Cash paid for operating expenses	(18,613)	(2,769)	(820)	(852)	(3,475)	(26,529)	(18,751)	(2,558)	(1,148)	(882)	(3,390)	(26,729)
Cash received (remitted) for escrow and other liabilities	—	15,588	6,720	—	(31)	22,277	—	5,120	10,533	—	(127)	15,526
Net cash provided by (used in) operating activities	(269)	59,112	363,113	656	(3,107)	419,505	155	64,479	94,174	1,027	(2,028)	157,807
Cash flows from noncapital financing activities												
Due (from) to other funds	20,582	(993)	(19,589)	—	25	25	(19,279)	(2,045)	21,282	—	42	—
Fund balance transfers from (to) other funds and other changes	16,346	(19,820)	3,474	—	—	—	762	(3,285)	2,523	—	—	—
Proceeds from sale of bonds and notes	—	296,380	205,165	—	—	501,545	—	45,660	701,944	—	—	747,604
Maturities of bonds and notes	—	(253,743)	(147,211)	—	—	(400,954)	—	(25,156)	(677,427)	—	—	(702,583)
Interest paid on bonds and notes	—	(31,373)	(144,239)	—	—	(175,612)	—	(33,745)	(141,930)	—	—	(175,675)
Net cash provided by (used in) noncapital financing activities	36,928	(9,549)	(102,400)	—	25	(74,996)	(18,517)	(18,571)	(93,608)	—	42	(130,654)
Cash flows from investing activities												
Purchase of investments	(159,949)	(46,915)	(117,088)	—	—	(323,952)	(92,970)	(143,945)	(86,732)	(1,947)	(816)	(326,410)
Interest received on investments	3,986	4,605	8,707	1,512	42	18,852	3,928	6,617	12,435	1,524	145	24,649
Proceeds from sales and maturities of investments	132,166	110,302	104,649	13	2,919	350,049	42,238	68,273	41,379	—	2,474	154,364
Net cash provided by (used in) investing activities	(23,797)	67,992	(3,732)	1,525	2,961	44,949	(46,804)	(69,055)	(32,918)	(423)	1,803	(147,397)
Net increase (decrease) in cash and cash equivalents	12,862	117,555	256,981	2,181	(121)	389,458	(65,166)	(23,147)	(32,352)	604	(183)	(120,244)
Cash and cash equivalents												
Beginning of year	56,583	286,125	344,000	21,920	(731)	707,897	121,749	309,272	376,352	21,316	(498)	828,191
End of year	$ 69,445	$ 403,680	$ 600,981	$ 24,101	$ (852)	$ 1,097,355	$ 56,583	$ 286,125	$ 344,000	$ 21,920	$ (681)	$ 707,947

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

Statements of Cash Flows

(in thousands of dollars)

Years Ended June 30, 2003 and 2002

	2003						2002					
	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)	$ 11,623	$ 24,444	(8,901)	3,424	(7,188)	23,402	8,141	$ 15,506	(4,120)	3,065	(6,874)	15,718
Depreciation, amortization and accretion	1,271	242	1,705	—	39	3,257	565	808	2,773	—	48	4,194
Loss on early retirement of debt	—	156	1,110	—	—	1,266	—	9	734	—	—	743
Loan loss provision	—	2,000	2,000	—	4,878	8,878	—	8,000	3,000	—	4,794	15,794
Interest expense on notes and bonds, excluding amortization and accretion	—	27,173	143,347	—	—	170,520	—	33,257	142,975	—	—	176,232
Interest income on investments	(3,986)	(4,605)	(8,707)	(1,512)	(42)	(18,852)	(3,928)	(6,617)	(12,435)	(1,524)	(145)	(24,649)
Net (increase) decrease in fair value of investments	(2,070)	(1,940)	(672)	(899)	—	(5,581)	(2,055)	(1,891)	4,074	(885)	—	(757)
Amortization of deferred gain	—	689	—	—	—	689	—	759	—	—	—	759
Gain on sale of investments	(2,210)	—	—	—	—	(2,210)	(199)	—	—	—	—	(199)
Increase (decrease) due to changes in operating assets and liabilities												
Mortgage loans receivable	—	14,692	217,675	—	(742)	231,625	—	(5,977)	(51,200)	—	6,908	(50,269)
Construction advances	—	(17,293)	—	—	—	(17,293)	—	16,835	—	—	—	16,835
Deferred and other assets	(4,712)	(2,034)	8,824	(5)	6	2,079	(2,993)	(1,330)	(2,184)	2	(31)	(6,536)
Escrow and other liabilities	(2)	15,588	6,720	—	(31)	22,275	(39)	5,120	10,533	—	(177)	15,437
Accounts payable and accrued expenses	(183)	—	12	—	(27)	(198)	621	—	24	—	(26)	619
Accrued mortgage claims	—	—	—	(352)	—	(352)	—	—	—	369	—	369
Net cash provided by (used in) operating activities	$ (269)	$ 59,112	$ 363,113	$ 656	$ (3,107)	$ 419,505	$ 113	$ 64,479	$ 94,174	$ 1,027	$ 4,497	$ 164,290
Reconciliation of cash and cash equivalents to the balance sheets												
Total deposits and investments per the balance sheets	156,561	474,082	704,594	38,337	1,456	1,375,030	112,437	424,452	434,631	35,257	3,715	1,010,492
Less: Investments not meeting the definition of cash and cash equivalents	87,116	70,402	103,613	14,236	2,308	277,675	55,854	138,327	90,631	13,337	4,446	302,595
Cash and cash equivalents at end of the year	$ 69,445	$ 403,680	$ 600,981	$ 24,101	$ (852)	$ 1,097,355	$ 56,583	$ 286,125	$ 344,000	$ 21,920	$ (731)	$ 707,897
Supplemental schedule of noncash activities												
Mortgage loan receivable (charge—offs), net of recoveries	$ —	$ —	$ (1,890)	$ —	$ (7,514)	$ (9,404)	$ —	$ (13)	$ (992)	$ —	$ (9,969)	$ (10,974)

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

NOTES TO FINANCIAL STATEMENTS

(in thousands of dollars)

June 30, 2003 and 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 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, 2003 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, provisions for potential loan losses, and specific program expenses 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 Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis. Statement No. 34 required changes to the presentation of the financial statements, but had no impact on the financial condition of the Agency. GASB Statement No. 34 requires the use of the term net assets rather than fund balance. Changes were made to separate current and noncurrent assets and liabilities within the balance sheet.

Within the statement of revenues, expenses 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 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 to be cash equivalents.

PHFA has presented the statement of cash flows using the direct method as required by Statement No. 34. A reconciliation of net income to net 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 in the Statement of Net Assets at their 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. The current portion of loans receivable represents the contractual amount due within the next year.

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, the past experience and financial condition of the borrowers, and the economy. 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 other expense as incurred. Real estate owned is included in other assets on the statement of net assets.

Interfund Accounts Receivable (Payable)

To meet liquidity requirements of individual funds, the Agency transfers funds to and from the separate enterprise funds.

Deferred and Other Assets

Deferred assets relate to bond issuance costs, loan origination costs, and other assets. The Agency capitalizes expenses related to bond issuances and amortizes these expenses over the contractual life of the bonds using the constant yield method. The Agency capitalizes the costs of originating multifamily housing projects, net of fees realized, and amortizes these fees over 25 years, the average life of multifamily loans. Other assets relate primarily to furniture and fixtures owned by the Agency which are amortized over their useful life.

Restricted Net Assets

Investments classified as restricted are those investments which may only be expended by the Agency within the guidelines of the outstanding bond indentures.

Unrestricted Net Assets

Unrestricted net assets are those assets not restricted by bond indentures. The Board of Directors of the Agency internally designates these assets for specific loan programs and to meet the recurring business needs of the Agency.

Mortgage Loan Interest

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

Mortgage Loan Origination Fees and Costs

Loan origination fees range from 1 percent to 2.5 percent of the loan commitment for the Multi- Family Program and from 0 percent to 1 percent 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.

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 effective 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, 2003 and 2002, the Agency deferred losses of $0 and $5,260, respectively, on the refunding of Single Family Mortgage Revenue Bonds. As of June 30, 2003 and 2002, the unamortized Single Family deferred costs of refunding are $15,051 and $16,002, respectively. Additionally, during the years ended June 30, 2003 and 2002, the Agency deferred losses of $5,135 and $0, respectively, on refunding Multi-Family Mortgage Revenue Bonds. As of June 30, 2003 and 2002, the unamortized Multi-Family deferred costs of refunding are $5,135 and $0, 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 noninterest income and expense by $266,493 and $242,744 for the years ended June 30, 2003 and 2002, 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. These estimates also effect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses reported during the period. Actual results could differ from management's 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 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, 2003 and 2002:

(in thousands of dollars)	**2003**	**2002**
Deposits	$ 96,726	$ 63,917
Investments, at fair value	1,278,304	946,575
Total deposits and investments	$ 1,375,030	$ 1,010,492

Management is not aware of any violations of statutory authority or contractual provisions for deposits and investments during the years ended June 30, 2003 and 2002.

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
(in thousands of dollars)	Category 1	Category 2	Category 3	Total	Amount
June 30, 2003					
Demand deposits	$ 200	—	$ 97,621	$ 97,821	$ 96,726
June 30, 2002					
Demand deposits	$ 200	—	$ 65,953	$ 66,153	$ 63,917

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. All investments listed below are included in Category 1.

(in thousands of dollars)	Total Amortized Cost	Total Carrying Amount/ Fair Value
June 30, 2003		
Corporate bonds	$ 52,108	$ 55,691
Repurchase agreements	220	220
U.S. Government and agency securities	208,072	225,742
Short-term investments	807,935	807,935
Totals	1,068,335	1,089,588
Add amounts not categorized because securities are not used as evidence of the investments		
Investment agreements	2,908	2,908
Mutual funds	185,808	185,808
Total investments	$ 1,257,051	$ 1,278,304

(in thousands of dollars)	Total Amortized Cost	Total Carrying Amount/ Fair Value
June 30, 2002		
Corporate bonds	$ 11,493	$ 11,531
Repurchase agreements	397	397
U.S. Government and agency securities	255,603	271,237
Short-term investments	488,470	488,470
Totals	755,963	771,635
Add amounts not categorized because securities are not used as evidence of the investments		
Investment agreements	28,357	28,357
Mutual funds	146,583	146,583
Total investments	$ 930,903	$ 946,575

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 percent 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 percent of the market of the securities lent. As of June 30, 2003 and 2002, the Agency had no securities on loan.

The amortized cost and estimated market values of investment securities as of June 30, 2003 and 2002 are as follows:

2003 *(in thousands of dollars)*	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds	$ 52,108	$ 3,586	$ (3)	$ 55,691
Repurchase agreements	220	—	—	220
U.S. Government obligations	167,115	2,439	(174)	169,380
U.S. Government agency obligations	40,957	15,405	—	56,362
Short-term investments	807,935	—	—	807,935
Investment agreements	2,908	—	—	2,908
Mutual funds	185,808	—	—	185,808
	$ 1,257,051	$ 21,430	$ (177)	$ 1,278,304

2002 *(in thousands of dollars)*	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
Mutual funds	146,583	—	—	146,583
	930,903	$ 15,754	$ (82)	$ 946,575

The amortized cost and estimated market value of investments at June 30, 2003, by contractual maturities, 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.

(in thousands of dollars)	Amortized Cost	Fair Value
Due in one year or less	1,025,747	$ 1,027,335
Due after one year through five years	171,114	175,707
Due after five years through ten years	29,592	35,025
Due after ten years	30,598	40,237
	1,257,051	$ 1,278,304

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, 2003 and 2002 is as follows:

(in thousands of dollars)	Mortgage Loans Receivable	Construction Advances
June 30, 2003		
Insured and subsidized	$ 35,361	$ —
Insured and nonsubsidized	47,662	20,309
Uninsured and subsidized	350,668	—
Uninsured and nonsubsidized	228,888	—
	662,579	20,309
Allowance for potential loan losses	152,570	—
	$ 510,009	$ 20,309

(in thousands of dollars)	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

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 percent 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 percent - 72.0 percent (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 percent to 30 percent (depending on the loan-to-value ratio at origination) of the unpaid principal balance. At June 30, 2003 and 2002, the total loans covered under this program were $208,620 and $292,239, respectively, and the coverage provided is estimated to be approximately $60,253 and $83,993, 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 percent of the product of multiplying the Insurance Fund coverage percentage (20 percent to 30 percent) times the aggregate outstanding principal balance for each loan. After exhaustion of the Agency's retention reserve, 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, $59,319 are covered under this shared risk contract at June 30, 2003, and the Agency's maximum potential exposure is $2,683.

The claims liability of $887 and $1,239 reported in the Insurance Fund as of June 30, 2003 and 2002, 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:

(in thousands of dollars)	2003	2002
Balance, July 1	$ 1,239	$ 870
Current year claims and changes in estimates	500	1,251
Claim payments	(852)	(882)
Balance, June 30	$ 887	$ 1,239

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 2003-77. The total principal outstanding of mortgage loans self-insured by the Agency is $1,945,368 and $2,186,421 at June 30, 2003 and 2002, respectively. As of June 30, 2003, cumulative pool losses since inception of the selfinsurance program are $9.

Changes in the allowance for potential loan losses for the Multi-Family and Single Family Programs are as follows at June 30, 2003 and 2002:

	Multi-Family		Single Family	
(in thousands of dollars)	2003	2002	2003	2002
Balance, July	$ 150,570	$ 142,583	$ 3,942	$ 1,934
Provision charged to income	2,000	8,000	2,000	3,000
Charge-offs, net of recoveries	—	(13)	(1,890)	(992)
Balance, June 30	$ 152,570	$ 150,570	$ 4,052	$ 3,942

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 within the Agency's Statement of Net Assets. The total amount of loans serviced for others is $311,137 and $479,393 at June 30, 2003 and 2002, respectively. The Agency has no exposure for losses within this serviced portfolio.

H. Notes Payable

The Agency's outstanding lines of credit are as follows:

(in thousands of dollars)	2003	2002
The Pew Foundation Bridge Loan Note bearing a fixed interest rate of 3 percent.	$ —	$ 796
Total notes payable	$ —	$ 796

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 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, 2003 and 2002, amounts to $12,601 and $15,725, respectively, including amounts funded by bond proceeds. Such amounts are $5,155 and $3,903, respectively, in excess of the requirement.

The capital reserve requirement for Single Family bonds must be equal to at least 3 percent of the aggregate principal amount of all Single Family bonds outstanding plus one million dollars. The capital reserve fund at June 30, 2003 and 2002 amounts to $86,727 and $85,206, respectively, including amounts funded by bond proceeds. Such amounts are $11,235 and $11,476, respectively, in excess of the requirement.

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

(in thousands of dollars) Issue	Interest Rate Range at Issuance	Final Maturity Date	Amounts Outstanding June 30, 2003	2002
Rental Housing Refunding Bonds				
Series 2002 (refunding)	$ 3.58%	2021	118,120	$ —
Series 2003	3.46—3.55%	2020	145,020	—
Residential Development Bonds				
Issue 1991A (refunding)	6.65—7.60%	2013	—	31,435
Issue 1992A (refunding)	7.95%	2025	—	19,990
Issue 1992 (refunding)	3.65—6.50%	2023	—	130,550
Issue 1993 (refunding)	3.50—5.80%	2022	152,840	167,900
Issue 2002 (refunding)	1.80—4.40%		44,100	45,660
State Workers' Insurance Fund				
Issue 1994	6.99%	2019	—	28,540
Multi—Family Housing Bonds				
Issue 1982B	9.50–10.88%	2024	4,875	4,875
Issue 1985A	6.75–9.38%	2028	2,043	2,078
Issue 1987A	7.00–8.50%	2002	—	70
Issue FHA-1992	7.75–8.20%	2024	33,495	34,085
Moderate Rehabilitation Bonds				
Issue 1985B	5.25–9.00%	2017	730	1,210
Multi-Family Development Bonds				
Issue 1989B	8.25%	2015	465	475
Issue 1993A (refunding)	5.38%	2022	18,810	24,995
Issue 1993F	6.53%	2019	10,020	10,370
Issue 1997G	7.63%	2027	10,265	10,410
Issue 1998H	6.30%	2028	16,930	17,195
Issue 2000I	4.50–5.00%	2002	—	12,500
Issue 2003 (refunding)	3.25–4.80%	2019	27,240	—
Federal National Mortgage Association				
Issue 1990A	7.50%	2023	3,313	3,376
Subordinate Limited Obligation Bonds				
Issue 1995	5.50–6.15%	2021	3,963	4,081
			592,229	549,795
Unamortized bond discount			(950)	(2,042)
Unamortized deferred costs of refundings			(5,135)	—
			$ 586,144	$ 547,753

During the year ended June 30, 2003, the Agency redeemed prior to maturity $8,500 of Multi-Family Residential Development Bonds, and $5,385 of Multi-Family Development Bonds, Issues 1993 and 1993A, using mortgage prepayments. An extraordinary loss of $156 resulted from the redemptions as unamortized bond discounts and the related costs of issuance for the bonds were expensed. Additionally, during the year ended June 30, 2003, the Agency redeemed prior to maturity $173,105 of Multi-Family Residential Development Bonds and $27,240 of State Workers' Insurance Funds Bonds issues 1991A, 1992, 1992A, and 1994, using bond issuance proceeds. Although a deferred loss of $5,135 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 $32,645 and was able to reduce its aggregate debt service payments as a result of these transactions by a total of $69,454 over the succeeding 30 years from the 2003 refundings. As the new debt issues carry variable rates, the Agency entered into interest rate swaps to fix the interest payments on the new debt. Management used the fixed swap rates to calculate the economic gain and eliminate the risk of increases in aggregate debt service payments. Further discussion of the Agency's derivative activities is disclosed in Footnote O.

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.

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, 2003 and 2002.

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

(in thousands of dollars)

Issue	Interest Rate Range at Issuance	Final Maturity Date	Amounts Outstanding June 30, 2003	2002
Single Family Mortgage Revenue Bonds				
Series 1992 - 34	4.50-7.00%	2024	-	$ 625
Series 1992 - 35	2.88-9.48%	2016	80,585	84,650
Series 1993 - 36	3.40-5.45%	2014	43,995	45,410
Series 1993 - 37	5.45-5.60%	2025	75,000	75,000
Series 1994 - 38	3.50-6.13%	2024	15,160	17,680
Series 1994 - 39	3.90-6.88%	2024	26,560	27,270
Series 1994 - 40	4.00-6.90%	2025	25,130	25,825
Series 1994 - 41	4.00-6.65%	2025	32,210	33,775
Series 1994 - 42	5.50-6.85%	2025	40,155	41,610
Series 1994 - 43	4.75-7.50%	2025	3,145	4,965
Series 1995 - 44	6.30-8.40%	2027	31,165	39,105
Series 1995 - 45	5.00-7.55%	2026	37,385	40,305
Series 1995 - 46	3.95-6.30%	2027	40,245	43,565
Series 1996 - 47	4.20-6.75%	2027	44,525	46,275
Series 1996 - 48	4.00-6.15%	2028	34,370	38,340
Series 1996 - 49	4.60-6.45%	2027	39,960	40,740
Series 1996 - 50	3.64-6.35%	2027	22,430	25,460
Series 1996 - 51	4.55-6.38%	2028	52,175	56,920
Series 1996 - 52	4.40-7.00%	2027	49,605	52,945
Series 1996 - 53	4.20-6.15%	2027	51,895	54,325
Series 1997 - 54	5.375-7.22%	2028	27,275	30,775
Series 1997 - 55	3.70-5.75%	2013	25,325	27,010
Series 1997 - 56	4.00-6.15%	2028	52,840	58,090
Series 1997 - 57	4.30-6.15%	2029	36,295	41,900
Series 1997 - 58	4.30-5.45%	2009	53,300	60,370
Series 1997 - 59	4.00-5.15%	2029	53,760	60,990
Series 1997 - 60	4.00-5.10%	2009	57,250	62,720
Series 1997 - 61	4.00-4.90%	2008	59,540	65,055
Series 1998 - 62	4.25-5.20%	2011	60,905	65,105
Series 1998 - 63	3.95-5.15%	2030	58,909	60,006
Series 1998 - 64	3.65-5.25%	2030	68,663	71,443
Series 1999 - 65	3.25-5.25%	2030	85,750	90,620
Series 1999 - 66	4.05-6.95%	2030	122,750	132,125
Series 1999 - 67	4.05-7.51%	2030	125,275	135,270
Series 1999 - 68	4.30-7.02%	2030	67,330	72,450
Series 2000 - 69	4.35-6.25%	2031	69,890	71,145
Series 2000 - 70	4.30-6.791%	2028	73,935	74,460
Series 2001 - 72	3.25-5.35%	2032	215,490	225,000
Series 2002 - 73	2.10-5.45%	2033	217,740	225,000

(in thousands of dollars)

Issue	Interest Rate Range at Issuance	Final Maturity Date	Amounts Outstanding June 30, 2003	2002
Single Family Mortgage Revenue Bonds				
Series 2002 - 74	4.750-6.10%	2033	$ 100,000	$ —
Series 2002 - 75	4.750-6.10%	2033	100,000	—
Series 2002 - 76	1.15%	2033	5,165	—
			2,483,082	2,424,324
Unamortized bond discount			(15,501)	(15,736)
Unamortized deferred costs of refundings			(15,051)	(16,002)
			2,452,530	$ 2,392,586

During the year ended June 30, 2003, the Agency redeemed prior to maturity $108,325 of Single Family Mortgage Revenue Bonds Series 1992-34, 1992-35, 1994-38, 1994-41, 1994-42, 1994-43, 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, 2001-72 and 2002-73, using mortgage prepayments. Extraordinary losses of $1,110 resulted from the redemptions as unamortized bond discounts and related costs of issuance for the bonds redeemed were expensed. There were no advanced refundings of Single Family Bonds from the issuance of new debt during 2003.

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 and 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 $257,775 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 2002 refundings.

Bonds maturing ten years and thereafter from the date of issuance are redeemable at the option of the Agency at prescribed redemption prices ranging from 100 percent to 104 percent 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, 2003:

(in thousands of dollars)

Years Ended June 30,	Multi-Family Program Principal	Multi-Family Program Interest	Single Family Program Principal	Single Family Program Interest	Total Principal and Interest Maturities
2004	$ 25,080	$ 19,662	$ 53,305	$ 128,885	$ 226,932
2005	31,544	19,619	53,300	126,648	231,111
2006	32,665	18,802	55,320	124,162	230,949
2007	34,187	17,923	54,280	121,513	227,903
2008	35,876	16,980	58,040	118,832	229,728
2009-2013	193,009	68,318	394,130	542,386	1,197,843
2014-2018	162,081	38,001	497,050	424,823	1,121,955
2019-2023	60,616	13,250	552,251	275,965	902,082
2024-2028	16,521	2,448	509,396	126,605	654,970
2029-2033	650	20	252,005	23,863	276,538
2034-2038	—	—	4,005	109	4,114
	$ 592,229	$ 215,023	$ 2,483,082	$ 2,013,791	$ 5,304,125

J. Operating Leases

The Agency is obligated under noncancelable operating leases for its buildings. Future minimum payments under these leases at June 30, 2003 are:

(in thousands of dollars)

2004	$ 742
2005	691
2006	51
	$ 1,484

Total rental expense is $1,103 and $1,080 for the years ended June 30, 2003 and 2002, 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:

(in thousands of dollars)	**2003**	**2002**
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	12,100	6,000
Home buyer counseling	2,500	1,500
Home Choice Program	17,150	7,500
Homeless Auxiliary initiative	1,593	750
	$ 74,843	$ 57,250

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 percent 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 initiative 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:

(in thousands of dollars)	**2003**	**2002**
Net assets restricted by debt covenants	$ 7,446	$ 11,822

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:

(in thousands of dollars)	**2003**	**2002**
PennHOMES Program	$ 148,865	$ 144,740
Senior housing with supportive services	4,000	4,000
Supportive services	1,850	1,500
	$ 154,715	$ 150,240

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:

(in thousands of dollars)	**2003**	**2002**
Net assets restricted by debt covenants	$ 75,492	$ 73,730

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

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

(in thousands of dollars)	**2003**	**2002**
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 the Insurance Fund as follows:

(in thousands of dollars)	2003	2002
Risk retention	$ 37,450	$ 34,026

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

HEMAP

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

(in thousands of dollars)	2003	2002
Emergency Mortgage Assistance Program	$ 47,009	$ 54,197

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 Numbers 25 and 27, Financial Reporting for Defined Benefit Pension Plans, and Accounting for Pensions by State and Local Governmental Employers. GASB Statement Number 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 Number 27 requires that pension plan costs and net pension plan obligations be reported in the financial statement notes.

Employees' Retirement Plan
Statements of Plan Net Assets

The statements of plan net assets as of December 31, 2002 and 2001 are as follows:

(in thousands of dollars)	2002	2001
Assets		
Short-term investments		
Money markets	$ 2,153	$ 599
Mutual funds	6,730	7,340
Total short-term investments	8,883	7,939
Interest and dividends receivable	53	70
Investments, at fair value		
U.S. Government obligations	2,500	3,815
Domestic stocks	6,109	7,994
Total investments	8,609	11,809
Total assets	$ 17,545	$ 19,818
Net Assets		
Net assets held in trust for pension benefits (a schedule of funding progress for each plan is presented on page 40)	$ 17,545	$ 19,818

Statements of Changes in Plan Net Assets
Years Ended December 31, 2002 and 2001

(in thousands of dollars)	2002	2001
Additions		
Contributions		
Employer	$ 1,200	$ 550
Plan members	35	5
Total contributions	1,235	555
Investment income		
Interest and dividends	452	612
Net (depreciation) appreciation in fair value of investments	(3,396)	(2,884)
Total additions	(1,709)	(1,717)
Deductions		
Benefits	564	519
Net (decrease) increase	(2,273)	(2,236)
Net assets held in trust for pension benefits		
Beginning of year	19,818	22,054
End of year	$ 17,545	$ 19,818

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, 2002 and 2001:

	2002	2001
Retirees and beneficiaries receiving benefits	54	48
Terminated plan members entitled to but not yet receiving benefits	68	71
Active plan members	241	229
Total	363	348
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, 2003 and 2002, 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 five 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:

(in thousands of dollars)	2002	2001
Annual required contribution	$ 988	$ 455
Employer contributions made	(1,200)	(550)
Change in net pension obligation	(212)	(95)

Net pension obligation

Beginning of year	(541)	(446)
End of year	$(753)	$ (541)

The annual required contribution for the current year was determined as part of the January 1, 2002 actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions include (a) a 7.5 percent investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5 percent 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

(in thousands of dollars) Calendar Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2000	$ 88	$ 426.3%	(446)
December 31, 2001	455	120.8%	(541)
December 31, 2002	988	121.4%	(753)

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 as of June 30, 2003 and 2002.

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, 2003 and 2002 amounts to $266,493 and $242,744, respectively. All federal financial assistance administered by the Agency is subject to audit and as such, any disallowances resulting from non-compliance or questioned costs may become liabilities of the Agency. The Agency's management believes disallowances, if any, would not materially affect the Agency's financial position.

Commitments

Outstanding commitments by the Agency to make or acquire single family and multi-family mortgages aggregate approximately $10,771 and $27,493, respectively, at June 30, 2003.

N. Derivative Financial Instruments

The Agency uses interest rate swaps to hedge against changes in the fair value of variable rate liabilities due to increases in interest rates. As of June 30, 2003, 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:

Counterparty and current rating *	Related Bond Series	Fixed Interest Rate	Original Notional Amounts	Fair Value of Contract at June 30, 2003
Goldman Sachs Mitsui Marine	SF MRB 1999-67	5.950%	26,880	(4,667)
Derivative Product, L.P.	SF MRB 2000-69B	7.305%	25,000	(2,361)
(AA+/Aa2)	SF MRB 2001-72	5.695%	50,000	(5,917)
	SF MRB 2002-74	4.285%	30,000	(3,105)
	Rental Housing Refunding, 2002A	3.575%	24,825	(1,491)
	Rental Housing Refunding, 2002B	3.575%	99,295	(8,334)
UBS AG	SF MRB 2002-73	5.017%	25,000	(2,156)
(AA+/Aa2)	SF MRB 2002-75	3.957%	30,000	(3,940)
PaineWebber Trading Inc.	SF MRB 2000-70	6.927%	25,000	(3,300)
(Wachovia Bank N.A. contingent				
counterparty; (A+/Aa2)				
Bear Sterns Financial Products, Inc.	Rental Housing Refunding, 2003A	3.547%	43,505	(2,803)
(A/A2)	Rental Housing Refunding, 2003A	3.547%	29,005	(1,337)
	Rental Housing Refunding, 2003B	3.457%	72,510	(4,212)
Lehman Brother Derivative Products, Inc.	MFDevelopment Refunding, 2003	3.860%	27,240	(570)
(AAA/Aaa)				

** Ratings supplied by Moody's and Standard and Poor's are as of June 30, 2003.*

The swaps have the effect of fixing the variable rate portion of the debt issue at the current risk adjusted interest rates. The swap agreements subject the Agency to counterparty risk, which is the risk that the counterparty will fail to execute their contractual payment to the Agency. The Agency selects counterparties with strong financial histories and good credit ratings to mitigate this risk. All counterparties with their respective ratings as of June 30, 2003 are shown in the table above. The net settlements paid to or received from the counterparties are reflected as adjustments to interest expense within the Statement of Revenues and Expenses and Changes in Net Assets.

O. Subsequent Events

On August 7, 2003, the Agency issued $100,000 Single Family Mortgage Revenue Bonds, Series 2003-77 and $73,680 of Single Family Mortgage Revenue Bonds Series 2003-78. The proceeds from these bond issuances were used to finance new loan purchases and refund existing bonds.

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

Schedule of Funding Progress Schedule I

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%
1/1/2003	17,544,690	24,123,020	6,578,330	72.7%	9,757,609	67.4%

Schedule of Contributions from the Employer and Other Contributing Entities Schedule II

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%
2002	988,466	1,200,000	121.4%

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

Notes to Supplemental Schedules

Additional information as of the latest actuarial valuation follows:

	2003	2002
Valuation date	January 1, 2003	January 1, 2002
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 percent	7.5 percent
Projected salary increases	4.5 percent	4.5 percent
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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