PENNSYLVANIA HOUSING FINANCE AGENCY

2004 Annual Report

BALANCING THE WAYS AND MEANS...

Mission of the
Pennsylvania Housing Finance Agency

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

2004 HIGHLIGHTS

In 2004, the Pennsylvania Housing Finance Agency:

Reserved $12,566,799 in funding for the Homeownership Choice Programs, including the Mixed-Use Facility Financing Initiative, a new program for efficient creation of affordable houses and commercial opportunities in older urban areas of the Commonwealth. Homeownership Choice Programs funding is popular throughout Pennsylvania because of its production-centered orientation and its legacy of success.

Allocated $32,070,000 of rental housing tax credits that will generate nearly $256,000,000 of investment in affordable multifamily apartments.

Under the PennHOMES program, earmarked $23,884,000 for 952 rental units in 21 rental complexes.

Provided $21,100,000 of Homeowners' Emergency Mortgage Assistance loans to 2,753 families to help keep them from losing their homes to foreclosure. To date, the program had made $344,000,000 of loans to 33,400 families and had been repaid in excess $183,000,000.

Promoted understanding of affordable housing among homebuyers, builders, developers, elected officials, real estate professionals, and the general public at more than 70 workshops, seminars, and public meetings.

Inaugurated the Comprehensive Homeowner Counseling Initiative to better educate first time buyers and coordinate PHFA's counseling efforts.

Financed the purchase of houses for 6,400 Pennsylvania families with $585,000,000 of funding provided by PHFA-issued mortgage securities. At the end of 2004, the Agency's home mortgage loan financing totaled $6,143,000,000 for 105,550 homebuyers.

Administered $319,000,000 of HUD Section 8 contracts to assist lower income families, senior citizens, and persons with disabilities living at 55,700 subsidized apartments in 679 Pennsylvania developments.

As an organization, achieved a 100 percent participation rate while contributing $47,384 to the Commonwealth's United Way Campaign, an average of slightly more than $171 for each Agency donor, and $5,170 more than the amount expected from an organization of PHFA's size.

PHFA's commitment to community revitalization is evident in its new downtown Harrisburg headquarters building that opened in January 2004. Before that, the site, located at 211 North Front Street, had been vacant for more than 40 years.

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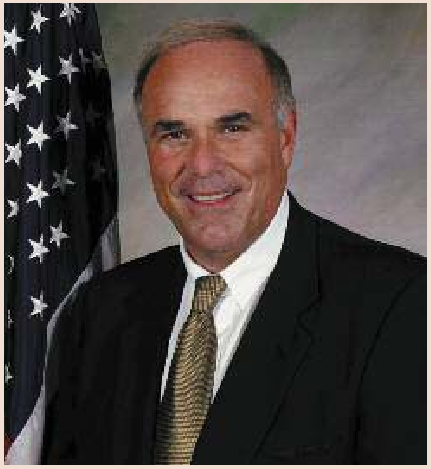
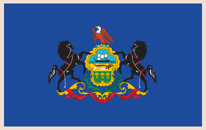
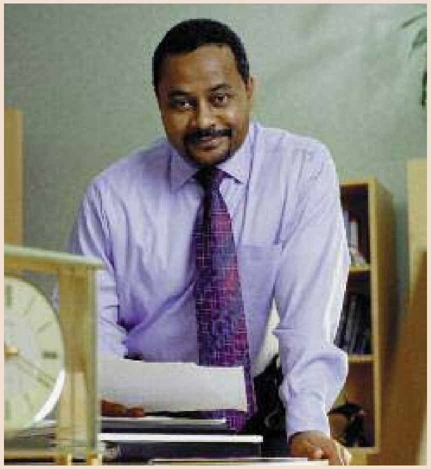




Edward G. Rendell

Governor of Pennsylvania

Governor Rendell is a dedicated advocate for the revitalization of the Commonwealth's rural and urban areas, and strongly supports good, safe housing for all Pennsylvanians.



PHFA
PENNSYLVANIA HOUSING FINANCE AGENCY

Brian A. Hudson, Sr.

Executive Director and Chief Executive Officer

Brian understands the fiscal mechanics required to balance ways and means. As a leader, he understands the role that responsible, creative, and well-grounded programs play in today's PHFA—and tomorrow's.

"DECENT, SAFE, AFFORDABLE HOUSING...

One person, one family, one home at a time—it's how a neighborhood, a community (or a Commonwealth) gets built. The idea of bringing people and viable housing together sounds like a simple enough concept, and it can be. After all, for most of us, the desire for secure and suitable surroundings is central to our basic makeup.

Whether it's a single house, a multifamily complex, or an apartment that's been specially adapted to meet the needs of a physically disadvantaged resident, the concept of "home" has special connotations for each of us. None of the thousands of citizens we worked with in 2004 had to be talked into the idea of decent, safe, and affordable housing; it's part of the American dream we all share.

Still, turning that dream into a tangible, sustainable reality calls for practical planning, perseverance, and more than a dash of creativity. And it always calls for money, in one form or another.

As PHFA and its partnering institutions understand full well, the challenge comes in acquiring and distributing the required capital in order for good homes and apartments to take shape—and to bring those critical housing resources within reach of those who need them most.

That's what balancing the ways and means is all about. In the most practical, day-to-day sense, it's what the PHFA is all about, as well. After all, "Housing" and "Finance" are our middle names.

IT'S PART OF THE AMERICAN DREAM WE ALL SHARE."

"DECENT, SAFE, AFFORDABLE HOUSING..."

While trends continue to evolve in the affordable housing industry, one constant remains: construction is not a low-ticket item. Accordingly, on a personal level, PHFA initiatives and programs play a pivotal role in helping thousands of Pennsylvanians have a place they can call home.

Of course, houses and apartment buildings are only the most visible aspect of PHFA's involvement in the myriad neighborhoods that comprise the Commonwealth. Investments in housing within a given community generate and support jobs throughout the surrounding area. New and upgraded housing means local and state tax bases are energized, as well.

On other fronts, new Agency initiatives help train potential homeowners about ways to reach their housing goals, while existing homeowners can receive priceless information about budgeting and on how to meet their mortgage obligations.

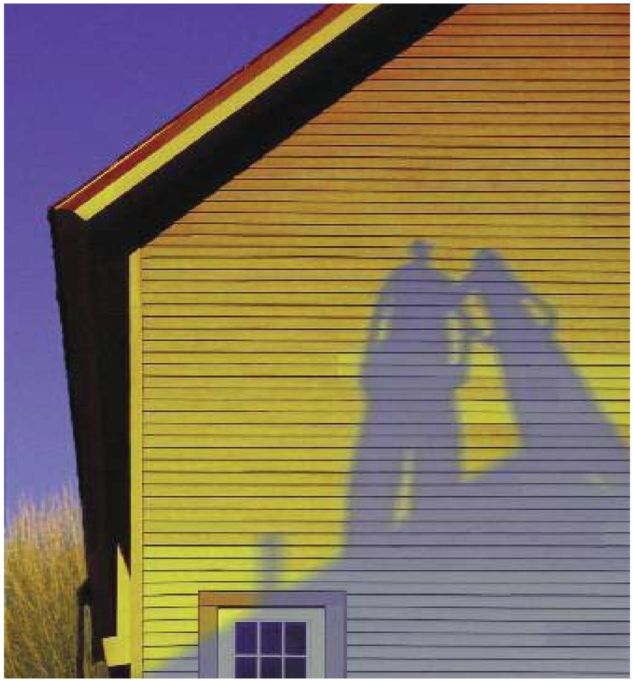
Agency-sponsored Services programs help residents of multifamily rental developments with quality-of-life issues that offer them the opportunity to grow, no matter what their age or circumstance.

PHFA people create opportunities—and deliver hope. They implement programs, and put them in motion. The results are both tangible and intangible. And they're dramatic testimony to the power of practical, creative financing when applied to affordable housing. Right here at home.

"WE CAN'T AFFORD THE ALTERNATIVE."

from left to right: **John Paone,** Board Member; **Richard G. Mingey,** Board Member; **Ronald S. Mintz,** Board Member.

"THERE TO KEEP AN EMERGENCY...



Sometimes, helping to put people into homes of their own is just the beginning; helping to keep them there is crucial when, through no fault of their own, homeowners' financial resources fail to measure up to expenses.

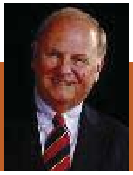
When it comes to the delicate art of balancing ways and means, there's no guarantee of an uneventful or successful outcome. Layoffs, serious illness, or accidents and other personal disasters can happen to families anywhere, at any time.

That's why there's HEMAP—the Homeowners' Emergency Mortgage Assistance Program.

Since PHFA instituted the program in 1984, nearly 34,000 families—over 120,000 individuals—have been able to save their homes from foreclosure. Just as important for all Commonwealth residents, HEMAP is actually a money-saving operation. Almost half of those who have received assistance from the program have repaid their loans in full, eliminating what otherwise would have been a crippling burden on Pennsylvania's housing resources and demonstrating a genuine investment in their communities.

The program not only works, it's a tremendous success.

from left to right: **The Honorable Dennis Yablonsky,** Board Member; **The Honorable A. William Schenck III,** Chairman; **The Honorable Barbara Hafer,** Board Member; **Thomas B. Hagen,** Board Member.



FROM BECOMING A STATISTIC...

"EVERY MULTIFAMILY RENTAL PROPERTY IS ACTUALLY...

People of modest means share the same dream that their more affluent neighbors do—that of having a safe, secure "home base." The resources that help them qualify for homeownership may not even be on the horizon yet. Or, homeownership may be a stage in life that has already come and gone. Perhaps, their individual needs dictate a more accessible, less physically challenging home environment.

In any case, whether it's in a 100-plus unit high-rise complex, or in a rehabilitated structure with apartments numbering in the single digits, the concept of "home" is still paramount. And PHFA is there with programs and services that not only foster the development of good rental housing, but that help make each development a safe and sustainable community in its own right.

The Agency's PennHOMES program and PHFA-allocated tax credits have been the impetus for multifamily developers to provide some of the most attractive and most desirable apartments the Commonwealth has to offer.

PHFA rental housing tax credits generate huge investment in multifamily developments.

And PHFA professionals coordinate resources from throughout the Commonwealth to ensure that renters have access to after-school programs, transportation, meals, safety, and security services—all the "amenities" that are the hallmarks of a true community.

A COMMUNITY IN ITS OWN RIGHT"

from left to right: **The Honorable Estelle Richman,** Board Member; **Gary E. Lenker,** Vice Chairman.

"POSITIVE CHANGE IS MORE THAN JUST A WORTHY GOAL.

Charity may begin at home, but the homes that Pennsylvania Housing Finance Agency helps to bring into being aren't a result of charity. They are bought and paid for by the owners, with mortgage loans from PHFA.

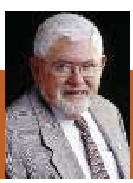
All PHFA loans are originated by participating lending institutions—firms that keep a well-practiced eye on the bottom line. In fact, the Agency probably wouldn't have a role in helping to finance the American dream for so many Pennsylvanians if sound judgement wasn't the dynamic at work in the marketplace.

It's because PHFA-issued mortgage securities have always had a healthy reputation in the financial markets that our homeownership programs have been able to flourish, and to let nearly 6,500 Pennsylvania families take that life-changing step this year.

Working in tandem with our financial partners, PHFA has a number of flexible programs in place that turn conventional, FHA, VA, and Rural Housing Service options into below-market interest loans. Lenders, homeowners, and PHFA become, in essence, a three-way partnership—one that provides a solid return that makes practical business sense for the lending institutions, and makes dreams come true for Commonwealth citizens every day.

PHFA is proud of its role in paving the way. After all, in a very positive sense, the funds that make new homes (and new homeowners) possible actually "stay" and grow in the community. Because, for most Pennsylvanians, appreciation in the value of their homes is their primary means of building wealth.

"IT'S AN ASSET THAT STEMS FROM PRIDE OF OWNERSHIP"



from left to right: **Stewart E. Price,** Board Member;
Morris J. Dean, Board Member;
Noel Eisenstat, Board Member.

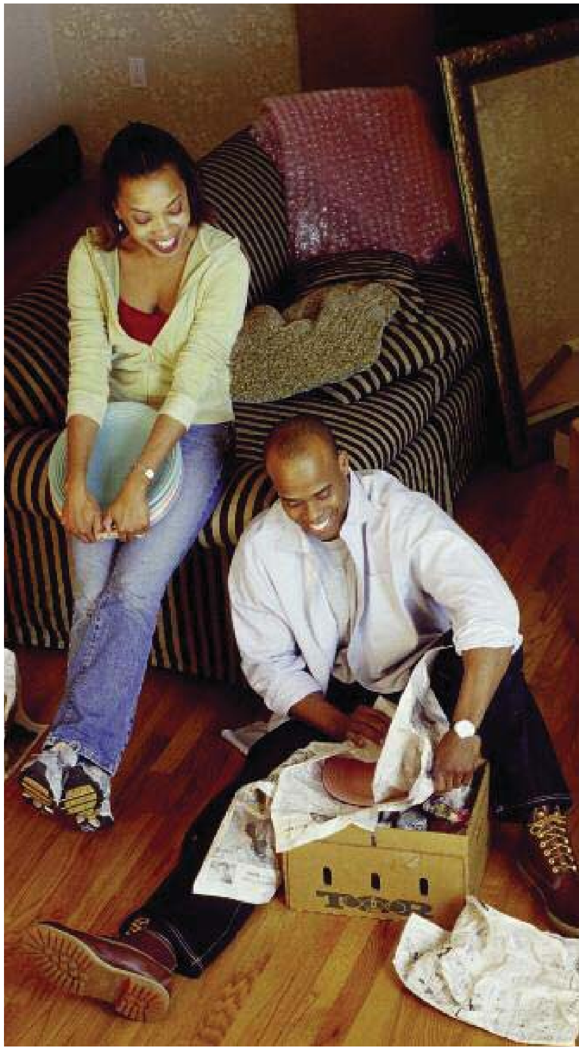
"IF WE TAKE BALANCING THE WAYS AND MEANS PERSONALLY...

We'll concede the fact: for some people, the concept of "finance" may not be one that fires the imagination. It's too easy to think of dusty ledgers, arcane jargon, and endless columns of numbers marching across interminable spreadsheets.

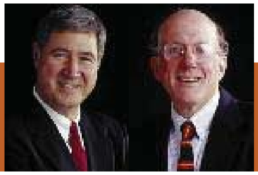
Until you see the human side of how public-spirited financing can change the future for a family, a community, and an entire Commonwealth. For the better.

The Pennsylvania Housing Finance Agency has been there, as over 105,000 of our neighbors became homeowners. We've been instrumental in making decent rental housing available for 70,000 more. And we've made it possible for 35,000 families to keep a roof over their heads when the rest of the world seems to be crashing down around them.

The people who live in a community will always represent what makes that place unique and special. That's why promoting good, safe housing will always be at the core of PHFA's mission. And it's why we believe "finance" can be so incredibly exciting.



IT'S BECAUSE PEOPLE ARE IN THE BALANCE."



from left to right: **Raymond S. Angeli,** Board Member; **Mark Schwartz,** Board Member.

FINANCIAL STATEMENTS

AND REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2004 and 2003

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Prepared by **Brian Hudson, CPA, Executive Director**

(in thousands of dollars)

JUNE 30, 2004

Summary of Organization and Business

The 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 110,000 homes and 65,000 apartment units while saving 31,000 homes from foreclosure. The Agency's funding comes from a variety of sources including sales of its own securities to private investors throughout the United States, grants from State and Federal governments, program fees, investment interest earnings and interest earned on loan portfolios. Investment earnings and program fees are used to pay Agency expenses and subsidize housing programs.

The members of the Board of the Agency set policy and oversee the organization's operation. The Board is comprised of 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.

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, this statement measures net income and the resulting change in net assets. If revenues exceed expenses, the results is income which, when added to the net assets at the beginning of the year, increase the net assets. 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 Statement No. 34 ("GASB No. 34"), "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.*" The Agency also adopted GASB Statements No. 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 HIGHLIGHTS

The financial analysis presented below, based on the programs of the Agency for the fiscal year ended June 30, 2004, should be read in conjunction with the financial statements that begin after this section. The amounts below have been rounded to facilitate reading this analysis.

Financial Analysis

(in thousands of dollars)

The following table represents the changes in combined net assets between June 30, 2004 and 2003:

	2004	2003	Change	Percentage
Assets				
Deposits and investments	$ 1,111,436	$ 1,292,092	$ (180,656)	(14.0)%
Restricted investments	85,713	82,938	2,775	3.3%
Mortgage loan receivables	2,598,190	2,572,144	26,046	1.0%
Other assets	61,978	44,792	17,186	38.4%
Total assets	$ 3,857,317	$ 3,991,966	$ (134,649)	(3.4)%
Liabilities				
Current liabilities	$ 202,034	$ 126,135	$ 75,899	60.2%
Long-term bonds payable	2,764,350	2,960,089	(195,739)	(6.6)%
Other payable	286,111	303,512	(17,401)	(5.7)%
Total liabilities	$ 3,252,495	$ 3,389,736	$ (137,241)	(4.0)%
Net assets				
Restricted	$ 85,713	$ 82,938	$ 2,775	3.3%
Unrestricted	519,109	519,292	(183)	0.0%
Total net assets	$ 604,822	$ 602,230	$ 2,592	0.4%

The following table summarizes the changes in combined net income between fiscal years 2004 and 2003:

	2004	2003	Change	Percentage
Revenues				
Interest on loans	$150,694	$ 173,828	$ (23,134)	(13.3)%
Interest on investments	20,725	18,852	1,873	9.9%
Program revenues	23,523	25,659	(2,136)	(8.3)%
Grant revenue	295,923	266,493	29,430	11.0%
Other revenues	953	11,135	(10,182)	(91.4)%
Total revenues	$ 491,818	$ 495,967	$ (4,149)	(0.8)%
Expenses				
Interest expense	$ 145,371	$ 170,520	$ (25,149)	(14.7)%
Operating expenses	33,095	25,408	7,687	30.3%
Grant expenses	295,923	266,493	29,430	11.0%
Loan loss allowance	12,831	8,878	3,953	44.5%
Total expenses	$487,220	$ 471,299	$ 15,921	$ 3.4%
Net income before extraordinary items	$ 4,598	$ 24,668	$ (20,070)	(81.4)%

During the fiscal year ended June 30, 2004, the Agency's combined total assets, consisting primarily of mortgage loans and investments, decreased by approximately 3.4%, to $3,857,317 from $3,991,966, a $134,649 decrease. During the prior fiscal year ended June 30, 2003, combined total assets grew by $136,890 approximately a 3.6% increase. The reported total combined net income increased total net assets by approximately $2,592 to $604,822 at June 30, 2004 from $602,230 at June 30, 2003 or approximately 0.4 %. The Agency's combined income before extraordinary items for the fiscal year ended June 30, 2004, was $4,598, as compared with $24,668 in the prior year.

The Agency's combined income before extraordinary items for the fiscal year ended June 30, 2004, was $4,598, as compared with $24,668 in the prior year. The $20,070 decrease in income before extraordinary items resulted primarily from a decline in the unrealized fair value of investments by $11,872, an increase in the provision for loan loss allowance of $3,953, and an increase in general and administrative expenses of $3,014 in the fiscal year ended June 30, 2004 compared to the fiscal year ended June 30, 2003.

Loan Portfolios

Multi-Family construction and mortgage loans and the Single Family and Home Owners Emergency Assistance Program ("HEMAP") mortgage loan portfolios are the Agency's primary assets. These include $510,973 of Multi-Family Program and $2,044,375 of Single Family Program loans and $42,842 of HEMAP mortgage loans. An increase in the mortgage loan portfolios resulted from construction and mortgage loan advances and the purchases of loans exceeding mortgage repayments and payoffs. For the fiscal year ended June 30, 2004 the following are key highlights of loan related activities:

• The Agency funded approximately $26,174 of Multi-Family Program loans increasing the portfolio to $510,973 as of June 30, 2004, from $510,009 as of June 30, 2003 after adjustments for normal principal amortization payments and the prepayments of several mortgage loans.
• The Single Family Program purchased approximately $389,526 of new mortgage loans increasing the Single Family portfolio to $2,044,375 as of June 30, 2004, from $2,012,952 as of June 30, 2003 after adjustments for normal principal payments and mortgage payoffs.
• HEMAP disbursed approximately $17,979 of assistance loans during the year, however, the portfolio decreased to $42,842 as of June 30, 2004, from $49,183 as of June 30, 2003. The decrease is due to principle payments and increased loan write-offs during the year.

Financing Activity

During the current fiscal year, total combined liabilities decreased by $137,241, as a result of redemptions of bonds from mortgage prepayments. Total combined long-term debt outstanding decreased by $195,739 during the fiscal year ended June 30, 2004.

New Debt Issues

• The Agency's Single Family Program issued seven separate bond issues totaling approximately $945,285. The proceeds from these issuances were used to purchase qualifying mortgages and to redeem certain outstanding debt issuances.
• The Agency's General Fund issued a bond issue for $20,000 to finance a portion of the costs related to the development and acquisition of an office building for the Agency's corporate office and operations.

Debt Redemptions

• $144,336 of Multi-Family Program bonds were redeemed prior to maturity as a result of loan prepayments and bond issuance proceeds received in the current and prior fiscal years.
• $763,090 of Single Family Mortgage Revenue Bonds was redeemed as a result of mortgage loan prepayments and bond issuance proceeds received in the current and prior fiscal years.

Refunding

• The resolution adopted by action of the members of the Board in July 2003 issued one bond series totaling $73,680 in order to refund maturing principal on one outstanding Single Family Program related bond.
• The resolution adopted by action of the members of the Board in October 2003 issued one bond series totaling $90,000 in order to refund maturing principals on two series of outstanding Single Family Program related bonds.
• The resolution adopted by action of the members of the Board in November 2003 issued one bond series totaling $381,605 in order to refund maturing principals on seventeen series of outstanding Single Family Program related bonds.

Change in Net Assets

Under GASB No. 34 the term net assets is used (instead of fund balance) for entities like the Agency, which is considered an "enterprise fund" in accounting terminology. An enterprise fund reports activity that is financed with debt that is secured solely by a pledge of net revenues from the activity. 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 No. 34 defines restricted net assets as those subject to constraints that are either externally imposed by creditors, grantors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation; these are presented as restricted net assets. Votes by the members of the Board for specific purposes may be presented as "designated" net assets within the unrestricted balance in the accompanying footnotes. Such designated assets mean the Agency's members of the Board have considered these to be directed to certain activities. Members of the Board may choose to act to remove or modify such designations.

• Net assets of the Multi-Family Program increased by $20,781, or 12.1%, to $192,709 at June 30, 2004 from $171,928 at June 30, 2003. The unrestricted portion of net assets that may be used to finance day-to-day operations increased to $183,905 at June 30, 2004 from $164,482 at June 30, 2003. The net increase in unrestricted net assets in the Multi-Family Program is primarily the result of increase of net interest income realized by bond refunding. Bond refunding allows the Agency to achieve debt service savings associated with the financing of the Agency's Multi-Family Programs.
• Net assets of the Single Family Program decreased by $7,403 or about 4.5 %, to $158,576 at June 30, 2004 from $165,979 at June 30, 2003. The unrestricted portion of net assets that may be used to finance day-to-day operations decreased to $81,667 at June 30, 2004 from $90,487 at June 30, 2003. The decrease resulted primarily from the net loss of $8,770 plus the extraordinary loss of $1,971. Extraordinary losses are related to early retirement of debt as a result of prepayments by Single Family borrowers.
• Net assets of HEMAP decreased by $5,929 or about 12.6 %, to $41,081 at June 30, 2004 from $47,009 at June 30, 2003. Decreases resulted from increased costs as a result of processing increased number of applications and increased costs of collection efforts on slow performing loans. An increase in the loan loss provision, resulting from management's evaluation, also resulted in higher costs.

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 combined level of unrestricted net assets at June 30, 2004 exhibit the Agency's financial strength. Total net assets as of June 30, 2004 increased 0.4% to $604,822 from $602,230 during the fiscal year. Combined unrestricted net assets decreased $183 from the prior year, comprising 13.5 % of total assets and 85.8 % of total net assets at June 30, 2004.

Debt Administration

At year-end, the Agency had total debt outstanding of $2,928,626 a decrease of $110,048 or 3.6 % during the fiscal year. Detailed information about the Agency's debt is presented in Note H to the financial statements.

Comparison of Fiscal Year 2003 with Fiscal Year 2002 Results

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

(in thousands of dollars)

	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	3.5%
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%

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

(in thousands of dollars)	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%

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 $136,890 or 3.6%, to $3,991,966 from $3,855,076. During the fiscal year ended June 30, 2002, combined total assets grew by $78,192, an increase of approximately 2.1%. 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 from a decrease in the provision for loan loss allowance of $8,878 for the fiscal year ended June 30, 2003 compared with $15,794 in the fiscal year ended June 30, 2002. The loan loss provisions are charged against income and are based on analysis of management. Further driving the increase were realized gains on the sale of investments which increased by $2,011 and interest expense which decreased by $5,712.

General Trends and Significant Events

The Agency continues to receive a positive outlook 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 the fiscal year ending June 30, 2005.

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 the report or need additional financial information, contact the Executive Director at Pennsylvania Housing Finance Agency, 211 North Front Street, Harrisburg, PA 17101, or visit our website at www.phfa.org.

REPORT OF INDEPENDENT AUDITORS

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To the Members of the
Pennsylvania Housing Finance Agency

In our opinion, the accompanying statements 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, 2004 and 2003, 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% and 0.55% of the total assets and interest income, respectively, of the related totals for the year ended June 30, 2004 and 1.26% and .52% of the total assets and interest income, respectively, of the related totals for the year ended June 30, 2003. 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 1, 2004 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, 2004. 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.

October 1, 2004 PricewaterhouseCoopers LLP

STATEMENTS OF NET ASSETS

(in thousands of dollars)

JUNE 30, 2004 AND 2003

	2004 General Fund	2004 Multi-Family Program	2004 Single Family Program	2004 Insurance Fund	2004 HEMAP	2004 Totals (Memorandum Only)	2003 General Fund	2003 Multi-Family Program	2003 Single Family Program	2003 Insurance Fund	2003 HEMAP	2003 Totals (Memorandum Only)
Assets												
Deposits and investments (Note E)	$ 140,973	$ 312,979	$ 616,772	$ 38,910	$ 1,802	$ 1,111,436	$ 156,561	$ 466,636	$ 629,102	$ 38,337	$ 1,456	$ 1,292,092
Current portion of loans receivable (Note F)	-	19,995	36,458	-	5,717	62,170	-	31,386	33,704	-	6,593	71,683
Interfund accounts receivable (payable)	15,749	(2,654)	(12,398)	-	(697)	-	12,309	(2,708)	(9,082)	-	(519)	-
Total current assets	$ 156,722	$ 330,320	640,832	38,910	6,822	1,173,606	168,870	495,314	653,724		7,530	1,363,775
Noncurrent assets												
Restricted deposits and investments	-	8,804	76,909	-	-	85,713	-	7,446	75,492	-	-	82,938
Loans receivable, net of current portion (Note F)	-	490,978	2,007,917	-	37,125	2,536,020	-	478,623	1,979,248	-	42,590	2,500,461
Construction advances (Note F)	-	10,533	-	-	-	10,533	-	20,309	-	-	-	20,309
Deferred and other assets	$ 41,301	7,895	2,195	-	54	51,445	13,591	6,865	3,946	-	81	24,483
Total noncurrent assets	41,301	518,210	2,087,021	-	37,179	2,683,711	13,591	513,243	2,058,686	-	42,671	2,628,191
Total assets	$ 198,023	$ 848,530	$ 2,727,853	$ 38,910	$ 44,001	$ 3,857,317	$ 182,461	$ 1,008,557	$ 2,712,410	$ -	$ 50,201	$ 3,991,966
Liabilities and Net Assets												
Current liabilities												
Current portion of long-term debt (Note H)	$ -	$ 27,856	$ 136,420	$ -	$ -	$ 164,276	$ -	$ 53,505	$ 25,080	$ -	$ -	$ 78,585
Accrued interest payable (Note H)	321	8,180	24,883	-	-	33,384	-	10,236	33,741	-	-	43,977
Accounts payable and accrued expenses	3,468	11	151	-	206	3,836	2,349	5	109	-	223	2,686
Accrued mortgage claims (Note F)	-	-	-	538	-	538	-	-	-	887	-	887
Total current liabilities	3,789	36,047	161,454	538	206	202,034	2,349	63,746	58,930	887	223	126,135
Noncurrent liabilities												
Long-term debt, net of current portion (Note H)	19,912	383,790	2,360,648	-	-	2,764,350	-	532,639	2,427,450	-	-	2,960,089
Escrow and other liabilities	235	235,984	47,175	3	2,714	286,111	248	240,244	60,051	-	2,969	303,512
Total noncurrent liabilities	20,147	619,774	2,407,823	3	2,714	3,050,461	248	772,883	2,487,501	-	2,969	3,263,601
Total liabilities	23,936	655,821	2,569,277	541	2,920	3,252,495	2,597	836,629	2,546,431	887	3,192	3,389,736
Net assets												
Restricted (Note J)	-	8,804	76,909	-	-	85,713	-	7,446	75,492	-	-	82,938
Unrestricted (Note J)	174,087	183,905	81,667	38,369	41,081	519,109	179,864	164,482	90,487	37,450	47,009	519,292
Total net assets	174,087	192,709	158,576	38,369	41,081	604,822	179,864	171,928	165,979	37,450	47,009	602,230
Total liabilities and net assets	$ 198,023	$ 848,530	$ 2,727,853	$ 38,910	$ 44,001	$ 3,857,317	$ 182,461	$ 1,008,557	$ 2,712,410	$ 38,337	$ 50,201	$ 3,991,966

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, 2004 AND 2003

	2004						2003					
	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)
Operating income												
Interest income												
Interest on loans (Note F)	$ -	$ 43,117	$ 106,678	$ -	$ 899	$ 150,694	$ -	$ 46,648	$ 126,211	$ -	$ 969	$ 173,828
Interest on investments (Note E)	3,580	4,215	11,324	1,564	42	20,725	3,986	4,605	8,707	1,512	42	18,852
Total interest income	3,580	47,332	118,002	1,564	941	171,419	3,986	51,253	134,918	1,512	1,011	192,680
Interest expense												
Interest on notes and bonds (Note H)	-	21,425	123,946	-	-	145,371	-	27,173	143,347	-	-	170,520
Total interest expense	-	21,425	123,946	-	-	145,371	-	27,173	143,347	-	-	170,520
Net interest income before provision for potential loan losses	3,580	25,907	(5,944)	1,564	941	26,048	3,986	24,080	(8,429)	1,512	1,011	22,160
Provision for potential loan losses (Note F)	-	2,000	800	-	10,031	12,831	-	2,000	2,000	-	4,878	8,878
Net operating income (loss)	3,580	23,907	(6,744)	1,564	(9,090)	13,217	3,986	22,080	(10,429)	1,512	(3,867)	13,282
Noninterest income												
Fee income (Note F)	20,187	-	1,913	1,094	329	23,523	21,787	-	2,073	1,513	286	25,659
Construction advances	-	4	-	-	-	4	-	517	-	-	-	517
Pass-through grants income (Note L)	-	295,923	-	-	-	295,923	-	266,493	-	-	-	266,493
Gain on sale of investments	-	-	-	-	-	-	2,210	-	-	-	-	2,210
Net increase (decrease) in fair value of investments (Note E)	(2,729)	(4,812)	(3,192)	(1,139)	-	(11,872)	2,070	1,940	672	899	-	5,581
Amortization of deferred gain (Note C)	-	666	-	-	-	666	-	689	-	-	-	689
Residual receipts	-	5,444	-	-	-	5,444	-	2,138	-	-	-	2,138
Other income	-	-	-	-	6,711	6,711	-	-	-	-	-	-
Total noninterest income	17,458	297,225	(1,279)	(45)	7,040	320,399	26,067	271,777	2,745	2,412	286	303,287
Noninterest expense												
Pass-through grants expense (Note L)	-	295,923	-	-	-	295,923	-	266,493	-	-	-	266,493
Salaries and related benefits	15,173	-	-	-	1,979	17,152	13,493	-	-	-	1,699	15,192
General and administrative	6,557	3,527	747	-	1,899	12,730	4,937	2,764	107	-	1,908	9,716
Mortgage claims	-	-	-	600	-	600	-	-	-	500	-	500
Nonrecurring expense	2,613	-	-	-	-	2,613	-	-	-	-	-	-
Total noninterest expense	24,343	299,450	747	600	3,878	329,018	18,430	269,257	107	500	3,607	291,901
Income (loss) before extraordinary item	(3,305)	21,682	(8,770)	919	(5,928)	4,598	11,623	24,600	(7,791)	3,424	(7,188)	24,668
Extraordinary item - loss on early retirement of debt	-	(35)	(1,971)	-	-	(2,006)	-	(156)	(1,110)	-	-	(1,266)
Net income (loss)	(3,305)	21,647	(10,741)	919	(5,928)	2,592	11,623	24,444	(8,901)	3,424	(7,188)	23,402
Changes in net assets												
Interfund transfers (Note D)	(2,472)	(866)	3,338	-	-	-	16,346	(19,820)	3,474	-	-	-
Net assets at beginning of the year	179,864	171,928	165,979	37,450	47,009	602,230	151,895	167,304	171,406	34,026	54,197	578,828
Net assets at end of the year	$ 174,087	$ 192,709	$ 158,576	$ 38,369	$ 41,081	$ 604,822	$ 179,864	$ 171,928	$ 165,979	$ 37,450	$ 47,009	$ 602,230

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

STATEMENTS OF CASH FLOWS

(in thousands of dollars)

YEARS ENDED JUNE 30, 2004 AND 2003

	2004						2003					
	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	$ -	$ 6,812	$ (35,628)	$ -	$ (4,803)	$ (33,619)	$ -	$ (2,601)	$ 218,495	$ -	$ (979)	$ 214,915
Cash received for interest on mortgages	-	48,338	112,369	-	934	161,641	-	48,894	138,718	-	1,017	188,629
Fees, charges, and other	17,514	-	-	1,195	542	19,251	18,344	-	-	1,508	361	20,213
Cash paid for operating expenses	(15,913)	(3,533)	(42)	(349)	(3,805)	(23,642)	(18,613)	(2,769)	(820)	(852)	(3,475)	(26,529)
Cash received (remitted) for escrow and other liabilities	(13)	(3,594)	(12,876)	-	(255)	(16,738)	-	15,588	6,720	-	(31)	22,277
Cash received from federal funding sources	-	-	-	-	6,711	6,711	-	-	-	-	-	-
Net cash provided by (used in) operating activities	1,588	48,023	63,823	846	(676)	113,604	(269)	59,112	363,113	656	(3,107)	419,505
Cash flows from noncapital financing activities												
Due (from) to other funds	(3,959)	(54)	3,316	-	179	(518)	20,582	(993)	(19,589)	-	25	25
Fund balance transfers from (to) other funds and other changes	(2,472)	(866)	3,338	-	-	-	16,346	(19,820)	3,474	-	-	-
Proceeds from sale of bonds and notes	20,000	-	945,285	-	-	965,285	-	296,380	205,165	-	-	501,545
Maturities of bonds and notes	-	(170,405)	(901,631)	-	-	(1,072,036)	-	(253,743)	(147,211)	-	-	(400,954)
Interest paid on bonds and notes	(321)	(23,481)	(132,804)	-	-	(156,606)	-	(31,373)	(144,239)	-	-	(175,612)
Net cash provided by (used in) noncapital financing activities	13,248	(194,806)	(82,496)	-	179	(263,875)	36,928	(9,549)	(102,400)	-	25	(74,996)
Cash flows from investing activities												
Purchase of investments	(127,670)	(151,497)	(88,655)	(698)	(6,676)	(375,196)	(159,949)	(46,915)	(117,088)	-	-	(323,952)
Interest received on investments	3,580	4,215	11,324	1,564	42	20,725	3,986	4,605	8,707	1,512	42	18,852
Proceeds from sales and maturities of investments	115,976	67,364	68,840	-	7,066	259,246	132,166	110,302	104,649	13	2,919	350,049
Cash paid for new corporate offices	(33,941)	-	-	-	-	(33,941)	-	-	-	-	-	-
Net cash provided by (used in) investing activities	(42,055)	(79,918)	(8,491)	866	432	(129,166)	(23,797)	67,992	(3,732)	1,525	2,961	44,949
Net increase (decrease) in cash and cash equivalents	(27,219)	(226,701)	(27,164)	1,712	(65)	(279,437)	12,862	117,555	256,981	2,181	(121)	389,458
Cash and cash equivalents												
Beginning of year	69,445	403,680	600,981	24,101	(852)	1,097,355	56,583	286,125	344,000	21,920	(731)	707,897
End of year	$ 42,226	$ 176,979	$ 573,817	$ 25,813	$ (917)	$ 817,918	$ 69,445	$ 403,680	$ 600,981	$ 24,101	$ (852)	$ 1,097,355

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

STATEMENTS OF CASH FLOWS

(in thousands of dollars)

Years Ended June 30, 2004 and 2003

	2004						2003					
	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)	$ (3,305)	$ 21,647	$ (10,741)	$ 919	$ (5,928)	$ 2,592	$ 11,623	$ 24,444	$ (8,901)	$ 3,424	$ (7,188)	$ 23,402
Depreciation, amortization and accretion	(1,224)	(196)	2,473	-	53	1,106	1,271	242	1,705	-	39	3,257
Loss on early retirement of debt	-	35	1,971	-	-	2,006	-	156	1,110	-	-	1,266
Loan loss provision	-	2,000	800	-	10,031	12,831	-	2,000	2,000	-	4,878	8,878
Interest expense on notes and bonds, excluding amortization and accretion	-	21,425	123,946	-	-	145,371	-	27,173	143,347	-	-	170,520
Interest income on investments	(3,580)	(4,215)	(11,324)	(1,564)	(42)	(20,725)	(3,986)	(4,605)	(8,707)	(1,512)	(42)	(18,852)
Net (increase) decrease in fair value of investments	2,729	4,683	3,192	1,139	-	11,743	(2,070)	(1,940)	(672)	(899)	-	(5,581)
Amortization of deferred gain	-	666	-	-	-	666	-	689	-	-	-	689
Gain on sale of investments	-	-	-	-	-	-	(2,210)	-	-	-	-	(2,210)
Increase (decrease) due to changes in operating assets and liabilities												
Mortgage loans receivable	-	(2,964)	(35,628)	-	(4,492)	(43,084)	-	14,692	217,675	-	(742)	231,625
Construction advances	-	9,776	-	-	-	9,776	-	(17,293)	-	-	-	(17,293)
Deferred and other assets	5,165	(1,240)	1,968	-	(26)	5,867	(4,712)	(2,034)	8,824	(5)	6	2,079
Escrow and other liabilities	(13)	(3,594)	(12,876)	3	(255)	(16,735)	(2)	15,588	6,720	-	(31)	22,275
Accounts payable and accrued expenses	1,119	-	42	-	(17)	1,144	(183)	-	12	-	(27)	(198)
Accrued mortgage claims	-	-	-	349	-	349	-	-	-	(352)	-	(352)
Net cash provided by (used in) operating activities	$ 891	$ 48,023	$ 63,823	$ 846	$ (676)	$ 112,907	$ (269)	$ 59,112	$ 363,113	$ 656	$ (3,107)	$ 419,505
Reconciliation of cash and cash equivalents to the balance sheets												
Total deposits and investments per the balance sheets	140,973	321,783	693,681	38,910	1,802	1,197,149	156,561	474,082	704,594	38,337	1,456	1,375,030
Less: Investments not meeting the definition of cash and cash equivalents	98,747	144,804	119,864	13,097	2,719	379,231	87,116	70,402	103,613	14,236	2,308	277,675
Cash and cash equivalents at end of the year	$ 42,226	$ 176,979	$ 573,817	$ 25,813	$ (917)	$ 817,918	$ 69,445	$ 403,680	$ 600,981	$ 24,101	$ (852)	$ 1,097,355
Supplemental schedule of noncash activities												
Mortgage loan receivable (charge-offs), net of recoveries	$ -	$ (1,656)	$ (1,948)	$ (3,604)	$ (11,254)	$ (18,462)	$ -	$ -	$ (1,890)	$ -	$ (7,514)	$ (9,404)

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

NOTES TO FINANCIAL STATEMENTS

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, 2004 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 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.

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.

Insurance Fund

Through the Insurance Fund, the Agency provides primary mortgage insurance coverage for single family mortgage loan participants that are unable to obtain insurance from other sources.

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 HEMAP Division.

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

C. Summary of Significant Accounting Policies

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

The Agency follows Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis.*

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 ("Statement No. 20"). 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 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 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

The Agency follows FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, which requires that loan origination fees and direct loan origination costs be recognized over the life of the loan as an adjustment to the loan's yield or interest income.

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

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

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, 2004 and 2003, the Agency deferred losses of $8,631 and $0, respectively, on the refunding of Single Family Mortgage Revenue Bonds. As of June 30, 2004 and 2003, the unamortized Single Family deferred costs of refunding are $22,275 and $15,051, respectively. Additionally, during the years ended June 30, 2004 and 2003, the Agency deferred losses of $4,509 and $5,135, respectively, on refunding Multi-Family Mortgage Revenue Bonds. As of June 30, 2004 and 2003, the unamortized Multi-Family deferred costs of refunding are $8,192 and $5,135, 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 $295,923 and $266,493 for the years ended June 30, 2004 and 2003, respectively.

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, 2004 and 2003:

(in thousands of dollars)

	2004	2003
Deposits	$ 38,014	$ 96,726
Investments, at fair value	1,159,135	1,278,304
Total deposits and investments	$ 1,197,149	$ 1,375,030

Management is not aware of any violations of statutory authority or contractual provisions for deposits and investments during the years ended June 30, 2004 and 2003.

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"):

(in thousands of dollars)

	Bank Balance				Carrying
	Category 1	Category 2	Category 3	Total	Amount
June 30, 2004					
Demand deposits	$ 200	$ -	$ 35,140	$ 35,340	$ 38,014
June 30, 2003					
Demand deposits	$ 200	$ -	$ 97,621	$ 97,821	$ 96,726

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 represents 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)

	2004		2003	
	Total Amortized Cost	Total Carrying Amount/ Fair Value	Total Amortized Cost	Total Carrying Amount/ Fair Value
Corporate bonds	$ 61,399	$ 62,415	$ 52,108	$ 55,691
Repurchase agreements	66	66	220	220
U.S. Government and agency securities	306,370	314,735	208,072	225,742
Short-term investments	400,309	400,309	807,935	807,935
Totals	768,144	777,525	1,068,335	1,089,588
Add amounts not categorized because securities are not used as evidence of the investments				
Investment agreements	307,966	307,966	2,908	2,908
Mutual funds	73,644	73,644	185,808	185,808
Total investments	$ 1,149,754	$ 1,159,135	$ 1,257,051	$ 1,278,304

Act 72 allows banking institutions to satisfy the collateralization provisions of Pennsylvania, by pooling eligible investments to cover total public funds on deposit in excess of federal insurance.

The Agency has implemented GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions.* Under the authority of the Agency's Board, the Agency may lend securities to broker-dealers and other entities ("borrowers") for collateral that will be returned for the same securities in the future. The Agency's primary custodial bank manages the securities lending program and receives cash, securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the Agency unless the borrower defaults. Cash, collateral securities, and letters of credit are initially pledged at 102% of the market value of the securities lent, and additional collateral has to be provided by the next business day if its value falls to less than 100% of the market of the securities lent. As of June 30, 2004 and 2003, the Agency had no securities on loan.

The amortized cost and estimated market values of investment securities as of June 30, 2004 and 2003 are as follows:

(in thousands of dollars)

	2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds	$ 61,399	$ 2,274	$ (1,258)	$ 62,415
Repurchase agreements	66	-	-	66
U.S. Government obligations	40,318	10,119	-	50,437
U.S. Government agency obligations	266,052	1,395	(3,149)	264,298
Short-term investments	400,309	-	-	400,309
Investment agreements	307,966	-	-	307,966
Mutual funds	73,644	-	-	73,644
	$ 1,149,754	$ 13,788	$ (4,407)	$ 1,159,135

(in thousands of dollars)

	2003			
	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

The amortized cost and estimated market value of investments at June 30, 2004, 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	$ 810,503	$ 812,543
Due after one year through five years	249,141	247,886
Due after five years through ten years	50,254	56,749
Due after ten years	39,806	41,957
	$ 1,149,704	$ 1,159,135

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 J). A summary of multi-family mortgage loans receivable and construction advances at June 30, 2004 and 2003 is as follows:

(in thousands of dollars)

	Mortgage Loans Receivable	Construction Advances
June 30, 2004		
Insured and subsidized	$ 33,227	$ -
Insured and nonsubsidized	41,741	10,533
Uninsured and subsidized	342,496	-
Uninsured and nonsubsidized	246,423	-
	663,887	10,533
Allowance for potential loan losses	152,914	-
	$ 510,973	$ 10,533

(in thousands of dollars)

June 30, 2003	Mortgage Loans Receivable	Construction Advances
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

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

The Agency has reimbursement agreements covering up to $95,672 in mortgage loans with various commercial mortgage insurers in order to provide mortgagors with lower premiums for primary mortgage insurance. Under these agreements, the mortgage insurers are primarily responsible to the holders of the mortgage insurance policies, and the Agency will assume a portion of the mortgage default risk. Although the Agency has internally designated a portion of its net assets in connection with this potential exposure, no losses have ever resulted under these agreements. The Agency discontinued originating mortgage loans under these agreements in September 1993.

The Agency provides primary mortgage insurance coverage for single family mortgage loans through the Insurance Fund, which ranges from 20% to 30% (depending on the loan-to-value ratio at origination) of the unpaid principal balance. At June 30, 2004 and 2003, the total loans covered under this program were $148,095 and $208,620, respectively, and the coverage provided is estimated to be approximately $42,887 and $60,253, respectively. The participants in this program are charged an annual premium for this coverage.

In order to increase the Insurance Fund's capacity to provide primary mortgage insurance for single family mortgage loans, the Agency purchased shared risk coverage through a commercial mortgage insurer during fiscal year 1996. This coverage extends to all loans that were outstanding as of August 31, 1995 and provides that the Agency shall remain solely liable for 10% of the product of multiplying the Insurance Fund coverage percentage (20% to 30%) times the aggregate outstanding principal balance for each loan. After exhaustion of the Agency's retention 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, $39,672 are covered under this shared risk contract at June 30, 2004, and the Agency's maximum potential exposure is $1,128.

The claims liability of $538 and $887 reported in the Insurance Fund as of June 30, 2004 and 2003, 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 Statement No. 30"). GASB Statement No. 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)

	2004	2003
Balance, July 1	$ 887	$ 1,239
Current year claims and changes in estimates	600	500
Claim payments	(949)	(852)
Balance, June 30	$ 538	$ 887

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 2004-82. The total principal outstanding of mortgage loans self-insured by the Agency is $1,967,406 and $1,945,368 at June 30, 2004 and 2003, respectively. As of June 30, 2003, cumulative pool losses since inception of the self-insurance program are $11.

Changes in the allowance for potential loan losses for the Multi-Family and Single Family Programs are as follows at June 30, 2004 and 2003:

(in thousands of dollars)

	Multi-Family		Single Family	
	2004	2003	2004	2003
Balance, July 1	$ 152,570	$ 150,570	$ 4,052	$ 3,942
Provision charged to income	2,000	2,000	800	2,000
Charge-offs, net of recoveries	(1,656)	-	(1,948)	(1,890)
Balance, June 30	$ 152,914	$ 152,570	$ 2,904	$ 4,052

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 J).

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 $196,584 and $311,137 at June 30, 2004 and 2003, respectively. The Agency has no exposure for losses within this serviced portfolio.

H. Bonds Payable

Bonds have been issued to provide financing of mortgage loans under the Multi-Family and Single Family Programs and to finance a portion of the costs related to the development and acquisition of an office building for the Agency's corporate offices and operations under the general fund. 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, 2004 and 2003, amounts to $10,726 and $12,601, respectively, including amounts funded by bond proceeds. Such amounts are $1,922 and $5,155, respectively, in excess of the requirement.

The capital reserve requirement for Single Family bonds must be equal to at least 3% of the aggregate principal amount of all Single Family bonds outstanding plus one million dollars. The capital reserve fund at June 30, 2004 and 2003 amounts to $87,639 and $86,727, respectively, including amounts funded by bond proceeds. Such amounts are $10,730 and $11,235, respectively, in excess of the requirement.

Bonds issued and outstanding for the general fund are as follows:

(in thousands of dollars)

Issue	Interest Rate Range at Issuance	Final Maturity Date	Amounts Outstanding June 30, 2004	2003
Variable Rate Building Development Bonds	variable	2034	$ 20,000	$ -
Unamortized bond discount			(88)	-
			$ 19,912	$ -

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

Issue	Interest Rate Range at Issuance	Final Maturity Date	Amounts Outstanding June 30, 2004	Amounts Outstanding June 30, 2003
Rental Housing Refunding Bonds				
Series 2002 (refunding)	3.58%	2021	$ 109,030	$ 118,120
Series 2003	3.46-3.55%	2020	141,280	145,020
Residential Development Bonds				
Issue 1993 (refunding)	3.50-5.80%	2022	3,600	152,840
Issue 2002 (refunding)	1.80-4.40%	-	42,725	44,100
Multi-Family Housing Bonds				
Issue 1982B	9.50-10.88%	2024	4,875	4,875
Issue 1985A	6.75-9.38%	2028	-	2,043
Issue FHA-1992	7.75-8.20%	2024	32,855	33,495
Moderate Rehabilitation Bonds				
Issue 1985B	5.25-9.00%	2017	705	730
Multi-Family Development Bonds				
Issue 1989B	8.25%	2015	445	465
Issue 1993A (refunding)	5.38%	2022	18,155	18,810
Issue 1993F	6.53%	2019	8,645	10,020
Issue 1997G	7.63%	2027	10,105	10,265
Issue 1998H	6.30%	2028	16,650	16,930
Issue 2003 (refunding)	3.25-4.80%	2019	25,670	27,240
Federal National Mortgage Association				
Issue 1990A	7.50%	2023	1,753	3,313
Subordinate Limited Obligation Bonds				
Issue 1995	5.50-6.15%	2021	3,836	3,963
			420,329	592,229
Unamortized bond discount			(491)	(950)
Unamortized deferred costs of refundings			(8,192)	(5,135)
			$ 411,646	$ 586,144

During the year ended June 30, 2004, the Agency redeemed prior to maturity, $2,011 of Multi-Family Housing Bonds, issue 1985A, and $715 of Residential Development Bonds 1993, using mortgage prepayments. Extraordinary losses of $35 resulted from the redemptions as unamortized bond discounts and the related costs of issuance for the bonds redeemed were expensed. Additionally, during the year ended June 30, 2004, the Agency redeemed prior to maturity, $141,610 of Residential Development Bonds issue 1993, using bond issuance proceeds. Although a deferred loss of $4,509 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 $21,357 and was able to reduce its aggregate debt service payments as a result of these transactions by a total of $28,357 over the succeeding 30 years from the 2004 refundings.

During the year ended June 30, 2003, the Agency redeemed prior to maturity $8,500 of Multi-Family Residential Development Bonds, issue 1993, and $5,385 of Multi-Family Development Bonds, issue 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.

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 $6,670 and $7,120 at June 30, 2004 and 2003, respectively.

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, 2004	Amounts Outstanding June 30, 2003
Single Family Mortgage Revenue Bonds				
Series 1992 - 35	2.88-9.48%	2016	$ -	$ 80,585
Series 1993 - 36	3.40-5.45%	2014	18,410	43,995
Series 1993 - 37	5.45-5.60%	2025	-	75,000
Series 1994 - 38	3.50-6.13%	2024	8,410	15,160
Series 1994 - 39	3.90-6.88%	2024	-	26,560
Series 1994 - 40	4.00-6.90%	2025	-	25,130
Series 1994 - 41	4.00-6.65%	2025	6,180	32,210
Series 1994 - 42	5.50-6.85%	2025	2,030	40,155
Series 1994 - 43	4.75-7.50%	2025	-	3,145
Series 1995 - 44	6.30-8.40%	2027	-	31,165
Series 1995 - 45	5.00-7.55%	2026	3,920	37,385
Series 1995 - 46	3.95-6.30%	2027	3,885	40,245
Series 1996 - 47	4.20-6.75%	2027	41,130	44,525
Series 1996 - 48	4.00-6.15%	2028	3,955	34,370
Series 1996 - 49	4.60-6.45%	2027	5,965	39,960
Series 1996 - 50	3.64-6.35%	2027	18,250	22,430
Series 1996 - 51	4.55-6.38%	2028	3,415	52,175
Series 1996 - 52	4.40-7.00%	2027	10,055	49,605
Series 1996 - 53	4.20-6.15%	2027	23,020	51,895
Series 1997 - 54	5.375-7.22%	2028	18,655	27,275
Series 1997 - 55	3.70-5.75%	2013	23,560	25,325
Series 1997 - 56	4.00-6.15%	2028	22,400	52,840
Series 1997 - 57	4.30-6.15%	2029	20,755	36,295
Series 1997 - 58	4.30-5.45%	2009	42,275	53,300
Series 1997 - 59	4.00-5.15%	2029	40,915	53,760
Series 1997 - 60	4.00-5.10%	2009	45,370	57,250
Series 1997 - 61	4.00-4.90%	2008	52,495	59,540
Series 1998 - 62	4.25-5.20%	2011	56,920	60,905
Series 1998 - 63	3.95-5.15%	2030	57,769	58,909
Series 1998 - 64	3.65-5.25%	2030	62,576	68,663
Series 1999 - 65	3.25-5.25%	2030	74,545	85,750
Series 1999 - 66	4.05-6.95%	2030	113,045	122,750
Series 1999 - 67	4.05-7.51%	2030	112,865	125,275
Series 1999 - 68	4.30-7.02%	2030	61,940	67,330
Series 2000 - 69	4.35-6.25%	2031	54,235	69,890
Series 2000 - 70	4.30-6.791%	2028	72,430	73,935
Series 2001 - 72	3.25-5.35%	2032	194,940	215,490
Series 2002 - 73	2.10-5.45%	2033	192,210	217,740

(in thousands of dollars)

Issue	Interest Rate Range at Issuance	Final Maturity Date	Amounts Outstanding June 30, 2004	2003
Single Family Mortgage Revenue Bonds				
Series 2002 - 74	4.750-6.10%	2033	$ 99,880	$ 100,000
Series 2002 - 75	4.750-6.10%	2033	98,195	100,000
Series 2002 - 76	1.15%	2033	-	5,165
Series 2003 - 77	Variable	2033	99,985	-
Series 2003 - 78	Variable	2025	73,680	-
Draw Down Series	Variable	2008	300,000	-
Series 2003 - 79	Variable	2034	100,000	-
Series 2003 - 80	Variable	2024	90,000	-
Series 2004 - 81	Variable	2034	100,000	-
Series 2004 - 82	Variable	2034	100,000	-
			2,530,315	2,483,082
Unamortized bond discount			(10,972)	(15,501)
Unamortized deferred costs of refundings			(22,275)	(15,051)
			$ 2,497,068	$ 2,452,530

During the year ended June 30, 2004, the Agency redeemed prior to maturity $178,550 of Single Family Mortgage Revenue Bonds Series 1992-35, 1993-36, 1993-37, 1994-38, 1994-39, 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, 2000-70, 2001-72 and 2002-73, using mortgage prepayments. Extraordinary losses of $1,971 resulted in from the redemptions as unamortized bond discount and the related costs of issuance for the bonds redeemed were expensed. Additionally, during the year ended June 30, 2004, the Agency redeemed prior to maturity, $584,540 of Single Family Mortgage Revenue Bonds, Series 1992-35, 1993-36, 1993-37, 1994-38, 1994-39, 1994-40, 1994-41, 1994-42, 1994-43, 1994-44, 1994-45, 1995-46, 1996-48, 1996-49, 1996-50, 1996-51, 1996-52, 1996-53, 1997-54, 1997-56, 1997-57 and 2000-69, using bond issuance proceeds. Although a deferred loss of $8,631 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 $324,538 and were able to reduce its aggregate debt service payments as a result of these transactions by a total of $380,993 over the succeeding 30 years from the 2004 refundings.

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.

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% to 104% 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, 2004:

(in thousands of dollars)

	General Fund		Multi-Family Program		Single Family Program		Total Principal and Interest
Year Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Maturities
2005	$ -	$ 789	$ 27,856	$ 18,391	$ 136,420	$ 106,546	$ 290,002
2006	-	789	25,129	17,383	139,550	102,929	285,780
2007	-	789	26,223	16,415	141,015	98,614	283,056
2008	-	789	27,433	15,392	124,425	94,185	262,224
2009	-	789	28,650	14,309	71,510	90,104	205,362
2010-2014	-	3,945	138,947	54,525	398,215	386,713	982,345
2015-2019	1,910	3,801	98,684	28,630	446,525	293,384	872,934
2020-2024	2,355	3,390	36,418	9,980	436,850	191,952	680,945
2025-2029	2,915	2,883	10,989	1,328	410,074	101,858	530,047
2030-2034	12,820	2,257	-	-	220,441	21,199	256,717
2035-2039	-	-	-	-	5,290	99	5,389
	$ 20,000	$ 20,221	$ 420,329	$ 176,353	$ 2,530,315	$ 1,487,583	$ 4,654,801

I. Operating Leases

The Agency is obligated under noncancelable operating leases for its buildings. Future minimum payments under these leases at June 30, 2004 are:

(in thousands of dollars)

2005	$ 447
2006	78
2007	58
	$ 583

Total rental expense is $849 and $1,103 for the years ended June 30, 2004 and 2003, respectively.

J. 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)

	2004	2003
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	12,100
Home buyer counseling	3,000	2,500
Home Choice Program	24,650	17,150
Homeless Auxiliary initiative	1,593	1,593
	$ 82,843	$ 74,843

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 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

(in thousands of dollars)

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

	2004	2003
Net assets restricted by debt covenants	$ 8,804	$ 7,446

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:

	2004	2003
PennHOMES Program	$ 148,865	$ 148,865
Senior housing with supportive services	4,000	4,000
Supportive services	1,975	1,850
Preservation	500	-
	$ 155,340	$ 154,715

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.

The designation for preservation has been established as a joint venture with the National Housing Trust to preserve and improve affordable multi-family homes for low and moderate-income use. The program saves multi-family properties which are at risk of conversion to market rate housing and resolves the problems of "troubled" properties that suffer from physical deterioration and financial and social distress.

Single Family Program

(in thousands of dollars)

Restrictions on the Single Family Program net assets are as follows:

	2004	2003
Net assets restricted by debt covenants	$ 76,909	$ 75,492

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, including the Single Family Self-Insurance Fund which has been established at not less than 1% of anticipated mortgages to be originated on Issues I and subsequent issues, and held by a trustee.

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

(in thousands of dollars)

	2004	2003
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)

	2004	2003
Risk retention	$ 38,369	$ 37,450

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)

	2004	2003
Emergency Mortgage Assistance Program	$ 41,081	$ 47,00

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.

K. Pension Plan

The Agency follows GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans*, and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.*

The statements of plan net assets as of December 31, 2003 and 2002 are as follows:

Pennsylvania Housing Finance Agency — Employees' Retirement Plan
Statements of Plan Net Assets — December 31, 2002 and 2001

(in thousands of dollars)

Assets	2003	2002
Short-term investments		
Money markets	$ 1,445	$ 2,153
Mutual funds	9,752	6,730
Total short-term investments	11,197	8,883
Interest and dividends receivable	31	53
Investments, at fair value		
U.S. Government obligations	1,032	2,500
Domestic stocks	9,525	6,109
Total investments	10,557	8,609
Total assets	$ 21,785	$ 17,545
Net Assets		
Net assets held in trust for pension benefits (a schedule of funding progress for each plan is presented on page 49.)	$ 21,785	$ 17,545

Pennsylvania Housing Finance Agency —Employees' Retirement Plan
Statements of Changes in Plan Net Assets —Years Ended December 31, 2003 and 2002

(in thousands of dollars)

	2003	2002
Additions		
Contributions		
Employer	$ 1,500	$ 1,200
Plan members	5	35
Total contributions	1,505	1,235
Investment income		
Interest and dividends	518	452
Net (depreciation) appreciation in fair value of investments	2,777	(3,396)
Total additions	4,800	(1,709)
Deductions		
Benefits	564	564
Net (decrease) increase	4,236	(2,273)
Net assets held in trust for pension benefits		
Beginning of year	17,545	19,818
End of year	$ 21,781	$ 17,545

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, 2003 and 2002:

(in thousands of dollars)

	2003	2002
Retirees and beneficiaries receiving benefits	60	54
Terminated plan members entitled to but not yet receiving benefits	69	68
Active plan members	241	241
	370	363
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, 2004 and 2003, 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)

	2003	2002
Annual required contribution	$ 1,486	$ 988
Employer contributions made	(1,500)	(1,200)
Change in net pension obligation	(14)	(212)
Net pension obligation		
Beginning of year	(753)	(541)
End of year	$ (767)	$ (753)

The annual required contribution for the current year was determined as part of the January 1, 2004 actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions include (a) a 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5% per year. Both (a) and (b) include an inflation component based on long-term historical average rates. The assumptions do not include postretirement benefit increases, which are funded by State appropriation when granted. The actuarial value of assets is determined using market values determined by the trustee.

Three-Year Trend Information

(in thousands of dollars)

Calendar Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2001	$ 455	120.8%	$ (541)
December 31, 2002	988	121.4%	(753)
December 31, 2003	1,486	100.9%	(767)

L. Commitments and Contingencies

Litigation

In the normal course of business there are various claims and suits pending against the Agency. In the opinion of 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, 2004 and 2003.

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, 2004 and 2003 amounts to $295,923 and $266,493, respectively. All federal financial assistance administered by the Agency is subject to audit and as such, any disallowances resulting from noncompliance or questioned costs may become liabilities of the Agency. The Agency's management believes disallowances, if any, would not materially affect the Agency's financial position.

Commitments

Outstanding commitments by the Agency to make or acquire single family and multi-family mortgages aggregate approximately $1,637 and $34,468, respectively, at June 30, 2004.

M. 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, 2004, 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:

(in thousands of dollars)

Counterparty and current rating *	Related Bond Series	Fixed Interest Rate	Original Notional Amounts	Fair Value of Contract at June 30, 2004	Effective Date	Termination Date
Goldman Sachs Mitsui Marine	SF MRB 1999-67	5.950%	26,880	(472)	8/2002	10/2032
Derivative Product, L.P.	SF MRB 2000-69B	7.305%	25,000	(950)	3/2000	4/2008
(AA+/Aa2)	SF MRB 2001-72	5.695%	50,000	(1,904)	9/2001	10/2023
	SF MRB 2002-74	4.285%	30,000	(1,446)	8/2002	10/2032
	SF MRB 2003-77B	4.060%	59,900	5,726	9/2003	4/2033
	SF MRB 2003-77C	2.690%	25,100	148	9/2003	4/2012
	SF MRB 2004-81B	2.365%	14,285	297	3/2004	10/2034
	SF MRB 2004-81C	3.557%	62,740	1,803	3/2004	10/2034
	Rental Housing Refunding, 2002A	3.575%	24,825	795	7/2002	1/2021
	Rental Housing Refunding, 2002B	3.575%	99,295	439	7/2002	1/2021
UBS AG	SF MRB 2002-70	6.927%	25,000	(1,529)	4/2001	4/2011
(AA+/Aa2)	SF MRB 2002-73	5.017%	25,000	(677)	3/2002	4/2010
	SF MRB 2002-75	3.957%	30,000	1,760	12/2002	10/2032
	SF MRB 2003-79	3.997%	57,350	297	12/2003	10/2033
Bear Sterns Financial Products, Inc. (A/A2)	Rental Housing Refunding, 2003A	3.547%	43,505	(273)	6/2003	7/2020
	Rental Housing Refunding, 2003A	3.547%	29,005	(182)	6/2003	7/2020
	Rental Housing Refunding, 2003B	3.457%	72,510	58	6/2003	7/2020
Lehman Brother Derivative Products, Inc. (AAA/Aaa)	MFDevelopment Refunding, 2003	3.860%	27,240	1,527	6/2003	4/2019
PNC Bank, National Association	Variable Rate Building Development Bonds, Series 2004	3.945%	20,000	341	2/2004	1/2034
Merrill Lynch Capital Services, Inc.	SF MRB-82B	3.643%	52,210	(241)	5/2004	10/2030
(AA+/Aa3)	SF MRB-82C	4.154%	35,220	(446)	5/2004	10/2034
				5,071		

* Ratings supplied by Moody's and Standard and Poor's.

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, 2004 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.

N. Subsequent Events

On August 4, 2004, the Agency issued $127,510 Single Family Mortgage Revenue Bonds, Series 2003-83. The proceeds from these bond issuances were used to finance new loan purchases and refund existing bonds.

On September 17, 2004, the Agency issued $100,000 Single Family Mortgage Revenue Bonds, Series 2004-84. The proceeds from these bond issuances were used to finance new loan purchases and refund existing bonds.

PHFA — 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)
1/1/1994	$ 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%
1/1/2004	21,780,220	27,350,780	5,570,510	79.6%	10,605,889	52.5%

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

Calendar Year Ended	Annual Required Contribution	Contributions From Employer	Percentage Contributed
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%
2003	1,485,791	1,500,000	100.9%

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

Additional information as of the latest actuarial valuation follows:

	2004	**2003**
Valuation date	January 1, 2004	January 1, 2003
Actuarial cost method	Aggregate actuarial cost method	Aggregate actuarial cost method
Amortization method	Level dollar	Level dollar
Asset valuation method	Market value as determined by the trustee	Market value as determined by the trustee
Actuarial assumptions		
Investment rate of return	7.5%	7.5%
Projected salary increases	4.5%	4.5%
Includes inflation at cost-of-living adjustments	Moderate, based on long-term historical average rates	Moderate, based on long-term historical average rates

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Tiffany M. Readinger, Underwriter
Coral F. Smith, Assistant Loan Officer
Amanda M. Truman, Assistant Loan Officer
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Karen L. Zapotosky, Manager of Single Family Final Documents/Satisfactions
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Homeowners' Emergency Mortgage Assistance Program

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Resa P. Kepner, Appeals Coordinator
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Donette G. Klinger, Administrative Services Coordinator
Sandra O. Lewis, Secretary
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Angela C. Smith, Loan Closing Coordinator
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Gary Spitz, Administrative Assistant
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Audrey E. Zerance, Loan Closing Coordinator

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