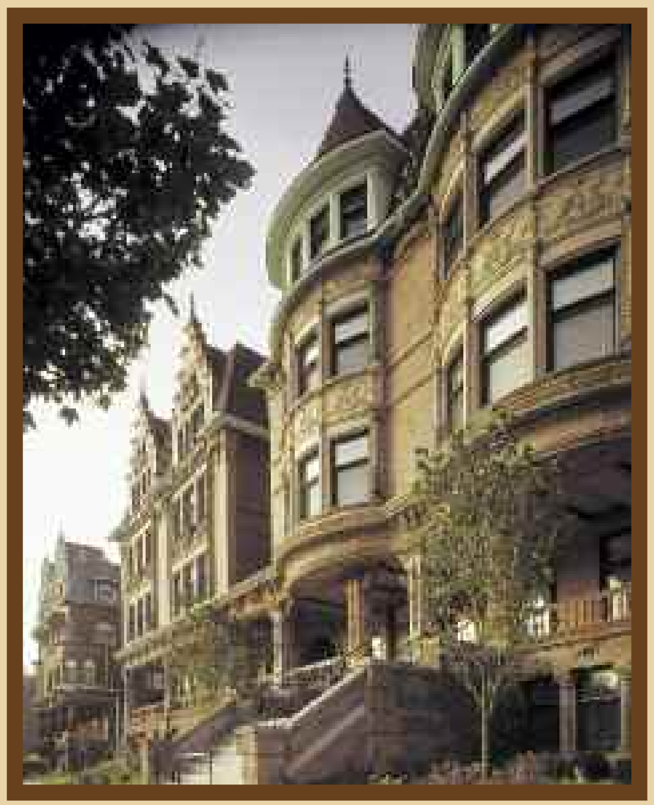
PENNSYLVANIA HOUSING FINANCE AGENCY



REPORT FOR THE YEARS
2007–2008

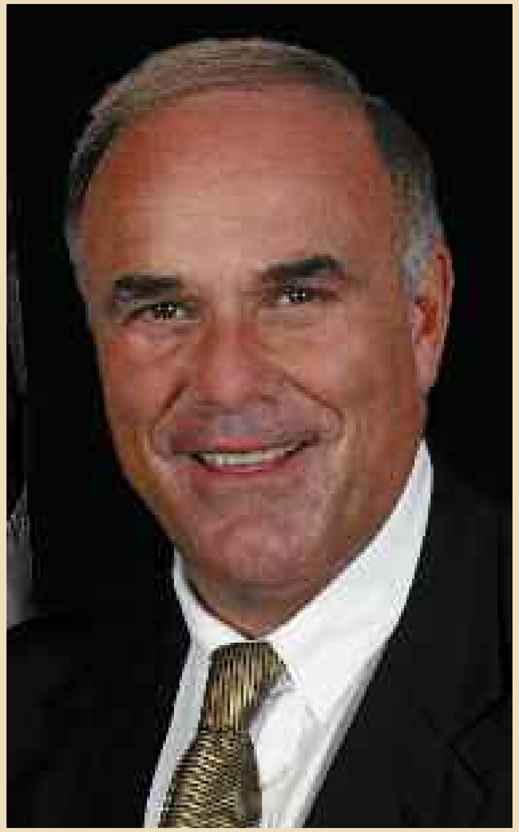
Contents

Mission Statement

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.

On the cover: the Brentwood in Philadelphia's Parkside Historic District, restored with an allocation of tax credits from PHFA, provides 43 affordable apartments.

MESSAGE FROM THE GOVERNOR



Edward G. Rendell
GOVERNOR
Commonwealth of Pennsylvania

The Commonwealth's investment in its citizens, homes, and communities has never been more important than it is today. Because Pennsylvania was better prepared to deal with the problems posed by the national credit crisis, we have been better able to respond to help those who have been most affected. But that doesn't mean the job is complete; much remains to be done and we are committed to continue developing new ways to help those with difficulties, strategies to strengthen our existing programs, and methods to deliver on the promise of a brighter future for ourselves and our children. I encourage and support PHFA's efforts to make decent, safe, affordable housing the birthright of every Pennsylvanian.

Thousands of Pennsylvanians have benefited from PHFA programs. Now, more than ever, this work is vital and has lasting value.

Affordable housing provides a foundation for employment and well-being.

MESSAGE FROM THE EXECUTIVE DIRECTOR

Brian A. Hudson, Sr.
EXECUTIVE DIRECTOR &
CHIEF EXECUTIVE OFFICER
Pennsylvania Housing Finance Agency

The Pennsylvania Housing Finance Agency's commitment to providing the funds for affordable homes and apartments remains strong. During the difficult economic times the nation has recently experienced, PHFA addressed these challenges by encouraging responsible lending, by providing funds for decent, safe, rental units, and by creating new programs to help families facing foreclosure. Such efforts are vital to the Commonwealth's economic future. On behalf of the Agency's Board and staff, I would like to express my appreciation to Governor Rendell and his Administration, the State Senate and House of Representatives, the United States Congress, and to the citizens of Pennsylvania for the confidence you have shown in PHFA.

2007-2008
REPORT OF THE

PENNSYLVANIA HOUSING FINANCE AGENCY

Staying optimistic in the current environment can be a daunting challenge. It seems that housing organizations everywhere are beset by problems, and struggle to remain relevant and productive. That is why it is reassuring to know that, although headlines constantly proclaim some of the worst economic times in three-quarters of a century, the programs of the Pennsylvania Housing Finance Agency have stayed viable and continue to meet the needs of Commonwealth citizens for good, safe homes and apartments.

Increasing opportunities to live in decent surroundings promises a brighter present and a better future to citizens across the state. PHFA programs help fulfill this promise by addressing the needs both of individuals and organizations. Renters and homebuyers alike benefit because of Agency programs to help lower the cost of their lease or mortgage payments, while builders, developers, lenders, real estate professionals, and others involved in the business of delivering affordable housing are able to take advantage of a wide range of options, allowing them to more effectively serve their clients.

PHFA is able to offer good news about housing by providing Commonwealth citizens affordable mortgage loans, no-fee housing counseling and anti-predatory lending training, foreclosure prevention programs, and decent rental housing for older adults, families of modest means, and persons with disabilities.

By making the most of existing programs, exploring new initiatives, and

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PHFA continues to operate programs to enhance multifamily rental housing and single family homeownership opportunities, including foreclosure prevention through the Homeowners' Emergency Mortgage Assistance Program. In addition to these, the Agency has implemented new measures to address current conditions in the mortgage loan sector and is tackling the stubborn adverse economic conditions that weaken neighborhoods, threaten mortgage markets, and undermine rental development.

Funding for these initiatives comes from a number of sources, including tax credits and transfers from state and federal sources, but the Agency primarily counts on program fees and the sale of securities to investors throughout the nation. A substantial part of earnings is used to subsidize PHFA's housing programs.

HOMEOWNERSHIP

One of the biggest efforts undertaken by PHFA is providing the financial opportunity for families and individuals to purchase homes of their own. Agency programs include first mortgage loans, downpayment and closing cost assistance, loans to make accessibility improvements, refinancing of unaffordable mortgages, on-lot sewage system upgrade financing, and credit counseling. Funding for these initiatives is made available through a network of participating lenders. Because PHFA services all its loans, the Agency can work with borrowers in the event of payment problems, thereby reducing the chances of homeowner default and foreclosure.


Capital Heights, Harrisburg

In the past two years, using funds from its sale of mortgage revenue bonds, the Agency provided 12,000 Pennsylvania families affordable mortgages that allowed them to buy homes throughout the state. A record 7,000 home purchase loans were made in 2007 and, in 2008, another record 2,800 Keystone PLUS assistance loans helped buyers with lower incomes and limited assets to avoid predatory loans and reap the benefits that accrue to homeownership.

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cooperating with other housing-interest groups, PHFA has furnished the leadership necessary to improve living conditions in Pennsylvania.

In spite of the difficulties now confronting the nation, PHFA remains committed to finding ways to offer the financial resources to develop and preserve affordable rental housing, to underwrite mortgage loans for those seeking to purchase homes, and to prevent foreclosures. Within these major areas, the Agency has moved to broaden efforts such as promoting energy conservation to maintain multifamily complexes in the state's housing stock, or of ensuring that every Pennsylvanian with access to the Internet can find the information needed to locate rental units. Complementing these measures are various counseling and educational events encompassing a wide range of housing issues, all directed toward informed, knowledgeable consumers.


PHFA funding for construction and rehabilitation creates thousands of jobs in the building trades.

The underlying strength of Agency-issued securities remains high because of the prudence and care exhibited in program management. With that in place, PHFA plans to continue funding production programs as it has in the past, in order to offer financial support for housing. It will seize any appropriate opportunity to leverage capital for worthwhile projects.

Analyzing value and potential rather than merely reacting to fear-based inertia will help lead the Nation out of the fiscal crisis. PHFA has been in the vanguard of state housing finance agencies addressing investors' concerns. The message

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More than 20 percent of PHFA's homeownership loans were for minority buyers in 2008, an all-time high.

In 2008, 364 buyers took advantage of the Agency's HOMEstead downpayment and closing cost assistance program, an additional PHFA record.

The fact that typical PHFA borrowers use only a quarter of their income for mortgage payments, along with extensive homeownership counseling initiatives, reflects PHFA's commitment to sound and prudent lending policies. By using proven mortgage products, the Agency has maintained remarkably low delinquency and foreclosure rates: five times lower for conventional-, and three times lower for government-insured loans. Such impressive statistics can also be attributed to a sensible approach toward loan servicing. This is particularly impressive when considering that nearly all of the 50,000-plus existing Agency-financed loans are for first-time homebuyers.

Nothing rivals the security that comes from having a good place to live. PHFA's programs help families buy homes of their own, find decent apartments, and improve their lives.

In October 2007 PHFA also instituted two mortgage re-finance programs, called REAL and HERO, to address the looming sub-prime and predatory lending crisis. These Agency programs assist Commonwealth homeowners by modifying or refinancing unaffordable mortgage loans. To date, the programs have already made $20,000,000 of loans to help more than 300 hard-pressed borrowers avert foreclosure. The City of Philadelphia and PNC Bank have joined financially in this first-of-its-kind endeavor.

More than $5,000,000 in Renovate and Repair Program loans were made to help qualified borrowers fund home-improvement loans in formerly underserved areas.

Along with the Office of Long Term Living (jointly operated by the Pennsylvania Departments of Aging and Public Welfare), PHFA has begun to improve access to information about home modifications. This program can be extended to help renters in the future.

PHFA also provided in-person training and education about Agency programs to more than 3,000 lending institution staff members and real estate professionals, made personal outreach to 7,000 individuals at homebuyer events, and trained over 600 program affiliates using newly created Web-based lender training.

In addition, the Agency's community revitalization initiatives, collectively called the Homeownership Choice Programs, have encouraged residential construction in urban

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conveyed is that mortgage revenue bonds are solid instruments yielding excellent returns in turbulent times. Reaction to investor educational seminars PHFA has conducted the past year has been overwhelmingly positive, reflecting an awareness that the Agency is a fiscally sound, well-managed organization dedicated to long-term stability. During more than 35 years of steady growth, the Agency has offered excellent returns on investment, backed by performing loans, which give purchasers of PHFA bonds the assurance they seek in structuring their portfolios.

Building on this financial foundation, PHFA has faced the economy's slowdown, and its effects on Pennsylvanians, with calmness and deliberation in order to best be of service. Throughout the past two years, even as many renowned institutions were withdrawing from the affordable housing sector, PHFA continued to make loans to developers of multifamily rental units, and remained steadfast in its commitment to helping homebuyers all across the Commonwealth.

Knowledge and dedication are in plentiful supply among housing organizations across Pennsylvania. However committed PHFA may be to improving the state's opportunities, the Agency can't accomplish its mission alone. By creating partnerships, resources are leveraged for maximum benefit to citizens.

Maintaining the high quality of multifamily housing complexes is increasingly more vital, especially in view of the aging of developments that house so many residents who require assistance in making rental payments. That is why an ongoing preventive maintenance program, vigilant management oversight, and frequent financial reviews are all part of the Agency's normal procedures to ensure continued utility of these valuable apartment dwellings. In addition,

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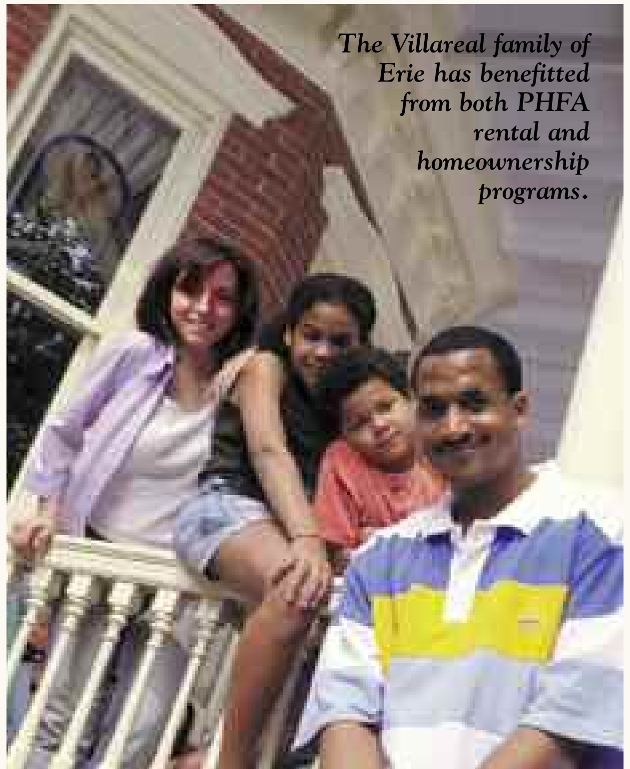
areas and older communities by helping builders turn neglected neighborhoods into attractive places to live. They offer funding for new construction and rehabilitation, blight eradication, and mixed-use development.

By awarding $22,100,000 in 2007 and 2008, PHFA brought its total HCP investment to $87,695,000 for 2,369 homes, 270 apartments, and 78 commercial spaces in 78 developments across the state. This funding has generated another half-billion dollars of investment from outside sources.

Helping prospective homeowners make informed decisions and guiding families toward financial independence is a primary goal of PHFA's Comprehensive Housing Counseling Initiative. It has proven effective in expanding homeownership opportunities, increasing minority ownership, fighting predatory lending, and preventing foreclosure.

There are more than 100 organizations now participating in the CHCI statewide network, as evidenced by the 77 percent increase in counselor training. The program's success has helped create a remarkable five-fold drop in delinquency rates for Agency-financed loans. By the end of 2008, more than 25,000 clients had used this service.



The Villareal family of Erie has benefitted from both PHFA rental and homeownership programs.

An additional 22,000 families will be served through PHFA's partnership with NeighborWorks of America's National Foreclosure Mitigation Counseling Initiative, which has awarded the Agency more than $14,000,000 to support its counseling efforts through 2009.

The Homeowners' Emergency Mortgage Assistance Program is a nationally recognized measure that provides temporary, short-term funding to cure mortgage delinquencies. A revolving fund using state appropriations and loan repayments for operation, it is one of the country's most successful and cost-effective homelessness prevention efforts, and a huge factor in encouraging neighborhood stability.

In the past two years, this pioneering program disbursed $20,000,000 to help homeowners remain in their homes. Since its inception in 1984, HEMAP has invested $435,000,000 to save 42,000 homes at an average cost of about $10,300. The overall repayments amount to $243,000,000.

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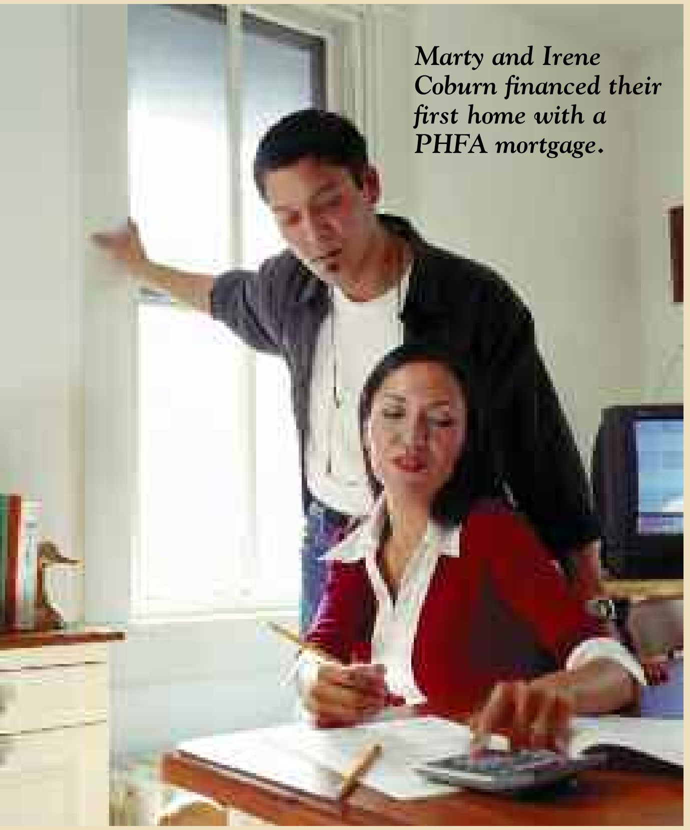
PHFA has undertaken measures to improve operating efficiencies, including encouraging energy-saving designs, funding utility audits in existing projects, and working with foundations, environmental groups, and governmental entities to define new techniques for optimum cost savings.

Because there is always a potential for economic conditions to erode even more than they already have, the Agency will renew its utilization of appropriate strategic solutions that contribute to strong, safe, and stable growth in both the housing financial and housing infrastructure areas. This includes working with the United States Department of Housing and Urban Development, and its subsidiaries, Fannie Mae and Freddie Mac, as well as the Federal Home Loan Banks, for sources of liquidity to direct toward improved dwellings. Not only will this help Pennsylvania, it will also provide these enterprises with valuable, high-performing assets, further encouraging the housing recovery at a time when many market functions have been damaged.



Marty and Irene Coburn financed their first home with a PHFA mortgage.

The Agency strongly believes that such long-term investments, applied strategically, will improve its efforts to have a positive effect on the state's housing situation, even at times like the present. By anticipating events and standing ready to act swiftly and decisively, PHFA is a vital component in the overall recovery that will come.

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RENTAL HOUSING

PHFA's rental housing programs offer development sponsors financing and tax credits to build and rehabilitate privately-owned, tax-paying, affordable apartment units across Pennsylvania. The resulting structures are closely monitored so that they remain safe, enduring, and attractive investments in the Commonwealth's housing stock.

Rental activity progressed with PHFA's approval of $44,218,000 of PennHOMES and federal HOME funds for 1,846 affordable units in 32 multifamily complexes in 2007 and 2008. During this period, the Agency also authorized $131,034,000 of tax-exempt bond issuance authority to Pennsylvania's county and municipal entities for another 1,973 much-needed apartments.

Rental developments funded by PHFA represent a wide variety of housing models, sponsoring organizations, and programmatic directions, but they share one thing in common; without the support and encouragement of a great many participants, they wouldn't exist.

Heavy demand for tax credits continued under this program with requests leading available supply by a three-to-one margin. And, despite the downturn in the syndication markets that has caused a shortfall in equity generation, PHFA is working to increase credit availability, thereby enhancing economic feasibility for additional units.

In its Tax Credit Allocation Plan, PHFA emphasizes parts of the Commonwealth that have the highest need for affordable housing and directs credits to areas promising the best opportunity to meet revitalization goals. By awarding all tax credit allocations and PennHOMES funding in a single cycle, the Agency has been able to ensure that sufficient financial resources are in place for the preservation, rehabilitation, or new construction of affordable units for supportive housing and for properties that had significant community impact. This process has been facilitated with the use of $12,060,000 of bridge loan financing to help sponsors more easily move toward construction starts.

With the assistance of the Pennsylvania Office of Long Term Living, PHFA also committed $12,243,000 to four new LIFE Centers for older adults.

The Agency has not limited its multifamily activity to finance alone. It used the capabilities afforded by the internet to improve access to information, not merely about PHFA programs, but about affordable housing provided by many other county, municipal, and privately funded organizations. The *Quick Connections* free electronic newsletter for property managers and service providers now has 3,000 monthly subscribers, while the Web-based Pennsylvania Affordable Apartment Locator continues to improve its breadth and scope with more than 75,000 apartments shown in 1,315 listings at the end of 2008.

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Nowhere is this relevancy better demonstrated than with the introduction in October 2007 of the REAL and HERO initiatives, two new home refinance programs to help hard-pressed homeowners pay their mortgages. As it became more apparent that a national problem in affordability was occurring, the Agency implemented these programs to squarely address the matter in Pennsylvania; borrowers who found themselves owing more than their houses were worth as well as those whose mortgage payments had become unaffordable were the intended beneficiaries of the effort. Acting quickly and using its considerable secondary market mortgage lending experience, the Agency has helped the Commonwealth avoid the deluge of bad debt that has drastically afflicted so many other parts of the country.

PHFA encourages more affordable, environmentally sustainable, and energy-efficient homes and apartments, in its policies and programs. This helps improve neighborhoods, stabilize communities, and contributes to the Commonwealth's economic well-being.

As the federal government takes action to catalyze a recovery, PHFA will realize additional opportunities for expanding production and preservation of housing in ways that cannot be anticipated. What can be foreseen, however, are needs, including those that recently have become apparent. Leading these are a need for greater flexibility in directing resources and a growing awareness that high energy costs have consequences to the long-term survival of affordable rental housing. That is why the Agency has positioned itself to make the most of every opportunity to reduce cost, improve quality, and broaden the reach of all its programs.

With a goal of broadening its vendor-selection base, PHFA's Minority and Women's Business Initiative has created a Web-based directory to assist housing partners in locating the goods and services they seek. This new innovation provides information by trade classification, region or county, and permits searches by vendor name and business category.

Webinars are now integral to the training PHFA offers its service providers and housing managers. Although regional meetings are a mainstay in upholding the high standard of professionalism expected of the Agency's partnerships, cyber-conferencing allows participants to benefit from additional training without the expense involved in off-site events.

The importance of PHFA's supportive housing programs can also be seen in such efforts as the following:

- The 12-year-old Family Supportive Services Escrow Program that provides help, including employment, education, mentoring, and after-school activities for youth to nearly 1,000 beneficiary families in the City of Philadelphia.

- Family Resource Centers helping 1,200 families in counties across the Commonwealth.

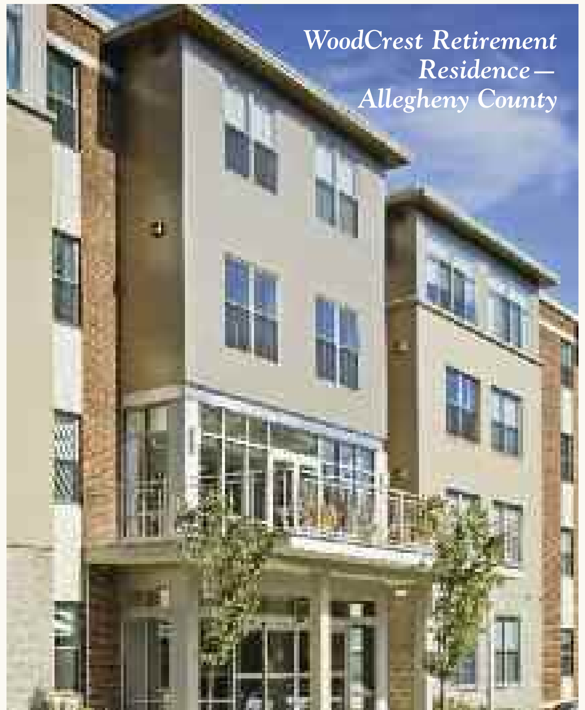
- The three-year-long Healthy Living pilot program to determine the effect of health and access to medical care on self-sufficiency for lower-income families.

- Partnerships between 12 institutions of higher learning and the owners of 12 PHFA-financed properties in the Student Connections program, a measure that incorporates work-based learning for college students with educational skills for participating developments.

- The StrongWomen exercise program to help improve health and encourage independence among older residents, implemented with the help of the Pennsylvania Department of Health and the Pennsylvania State Extension Service.

- Eighty-eight sites now taking part in the two-decade old Supportive Services program. Any money generated from the program is recycled into training and service programs.

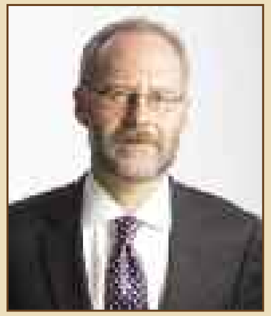
The Agency also administers Section 8 Housing Assistance Payment Contracts on 44,527 units in 561 rental properties for the federal government.


WoodCrest Retirement Residence—Allegheny County

The Commonwealth Cornerstone Group, a PHFA-created nonprofit, received a New Markets Tax Credit allocation of $60,000,000 in 2008 that will be used to create business and job opportunities in targeted areas of need.

Board of the Pennsylvania Housing Finance Agency

Chairman



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Gary E. Lenker

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The Honorable
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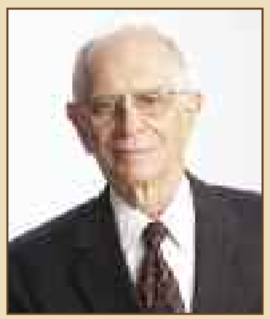

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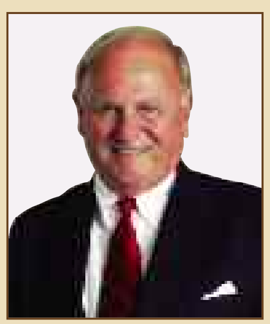

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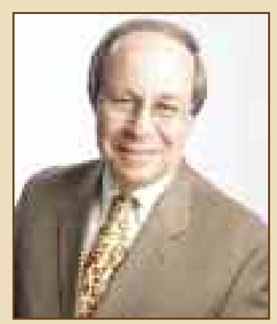

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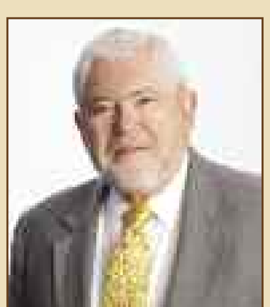
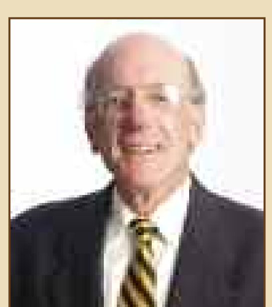
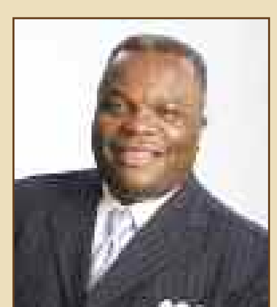


Stuart E. Price

The Honorable
Estelle B. Richman



Mark Schwartz, Esq.



Howard B. Slaughter, Jr.,
D.Sc.

Pennsylvania Housing Finance Agency

Basic Financial Statements and Required Supplemental Information with Report of Independent Auditors

June 30, 2007 and 2006

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Report of Independent Auditors

Members of the Board of Directors
Pennsylvania Housing Finance Agency

We have audited the accompanying financial statements of the General Fund, Multi-family Program, Single Family Program, Insurance Fund and Homeowners Emergency Mortgage Assistance Program (HEMAP) as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements, as listed in the table of contents, of the Pennsylvania Housing Finance Agency (PHFA), a component unit of the Commonwealth of Pennsylvania. These financial statements are the responsibility of PHFA's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of PHFA as of and for the year ended June 30, 2006 were audited by other auditors whose report dated November 15, 2006 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of PHFA's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PHFA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, Multi-family Program, Single Family Program, Insurance Fund and HEMAP of PHFA, as of June 30, 2007, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 26, 2007 on our consideration of PHFA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Schedule of Retirement Plan Funding Progress, on pages 18 through 47 and 48, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

September 26, 2007

Ernst + Young LLP

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Board of Directors
Pennsylvania Housing Finance Agency

We have audited the financial statements of the General Fund, Multi-family Program, Single Family Program, Insurance Fund and Homeowners Emergency Mortgage Assistance Program (HEMAP) as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the Pennsylvania Housing Finance Agency (PHFA), a component unit of the Commonwealth of Pennsylvania, and have issued our report thereon dated September 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of PHFA as of and for the year ended June 30, 2006, whose report thereon dated November 15, 2006 expressed an unqualified opinion.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PHFA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PHFA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PHFA's internal control over financial reporting. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PHFA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Members of the Board of Directors, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

September 26, 2007

A member firm of Ernst & Young Global Limited

This discussion and analysis of the financial performance of the Pennsylvania Housing Finance Agency ("Agency") is required supplementary information. It introduces the financial statements for the fiscal year ended June 30, 2007 with selected comparative information for the fiscal year ended June 30, 2006 and 2005. It provides the financial highlights and assessments that, in management's view, significantly affected the Agency's overall financial position. 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 basis financial statements include three required statements that provide different views of the Agency. They are the Balance Sheet, the Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows and the accompanying notes to the financial statements.

The Balance Sheet provides information about the liquidity and solvency of the Agency by indicating the nature and the amounts of investments in resources (assets), the obligations to Agency creditors (liabilities) and net assets. Net assets represent the amount of total assets less liabilities. The organization of the statement separates assets and liabilities into current and non-current.

The Statement of Revenues, Expenses and Change in Net Assets accounts for all the current year's revenue and expenses in order to measure the success of the Agency's operations over the past year. It can be used to determine how the Agency has funded its costs. By presenting the financial performance of the Agency, the change in net assets is similar to net profit or loss for a business. This statement is organized by separating operating revenues and interest expense from nonoperating revenue and expenses. Operating revenue and interest expense are defined as those relating to our primary business of funding homes and apartments throughout the Commonwealth. Nonoperating revenue and expenses are those that do not contribute directly to our primary business.

The Statement of Cash Flows is presented using the direct method of reporting. It provides information about the Agency's cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities. Cash collections and payments are presented in this statement to arrive at the net increases or decreases in cash and cash equivalents for each year.

These statements are accompanied by a complete set of notes to the financial statements and required supplementary information. They present information that is essential in understanding the financial statements, such as the Agency's accounting methods and policies providing information about the content of the financial statements. Additionally, details of contractual obligations, future commitments, contingencies and developing events that could materially affect the Agency's financial position are disclosed.

FINANCIAL ANALYSIS

The following sections will discuss the Agency's financial results for the three-year period ended June 30, 2007 and should be read in conjunction with the audited financial statements that follow this section. The amounts discussed below have been rounded to facilitate reading of this analysis.

Changes in Financial Position

The following tables represent the condensed Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets:

(in thousands of dollars)	*June 30, 2007*	*June 30, 2006*	*June 30, 2005*	*Percentage Change 2007/2006*	*Percentage Change 2006/2005*
Assets					
Mortgage loan receivables	$ 3,859,214	$ 3,368,407	$ 2,954,440	14.6%	14.0%
Capital assets	35,411	35,434	35,445	−0.1%	0.0%
Other assets	1,192,595	1,070,958	1,238,934	11.4%	−13.6%
Total assets	$ 5,087,220	$ 4,474,799	$ 4,228,819	13.7%	5.8%
Liabilities					
Long-term liabilities	4,137,254	3,550,821	3,371,236	16.5%	5.3%
Other liabilities	238,229	256,229	207,458	−7.0%	23.5%
Total liabilities	$ 4,375,483	$ 3,807,050	$ 3,578,694	14.9%	6.4%
Net assets:					
Invested in capital assets	$ 15,456	$ 15,488	$ 15,635	−0.2%	−0.9%
Restricted	83,060	90,126	87,867	−7.8%	2.6%
Unrestricted	613,221	562,135	546,623	9.1%	2.8%
Total net assets	$ 711,737	$ 667,749	$ 650,125	6.6%	2.7%

	June 30, 2007	*June 30, 2006*	*June 30, 2005*	*Percentage Change 2007/2006*	*Percentage Change 2006/2005*
Operating Revenues:					
Interest on mortgage loans	$ 181,445	$ 158,181	$ 151,030	14.7%	4.7%
Federal program awards	311,745	289,228	280,033	7.8%	3.3%
Other income	86,255	56,215	73,426	53.4%	−23.4%
Total Operating revenue	579,445	503,624	504,489	15.1%	−0.2%
Operating Expenses	535,177	485,656	459,978	10.2%	5.6%
Non-operating Revenue (Expense)	(280)	(344)	792	−18.6%	−143.4%
Change in net assets	$ 43,988	$ 17,624	$ 45,303	149.6%	−61.1%

Financial Highlights

As a result of this year's operations, the Agency's net operating income was $44 million as compared with $18 million in the prior year. Profitability, based on net operating income, as measured by the adjusted return on average assets (excluding the change in the fair value of investments) remained constant with the prior year at .8% at June 30, 2007. During the year ended June 30, 2005, the adjusted return on average assets was 1%. The change in the fair value has been removed from the ratio due to the volatility of the return.

During the fiscal year ended June 30, 2007, the Agency's total assets increased by $612 million due primarily to changes in mortgage loans and investments. Total liabilities increased by $568 million due to increases in the related debt to finance mortgage loans. During the fiscal year ended June 30, 2006, total assets increased by $246 million and total liabilities increased by $228 million over the prior year. During the year ended June 30, 2005, total assets increase by approximately $371 million and liabilities increased by $326 million over the prior year.

Loan Portfolios

Purchased and construction mortgage loan portfolios are the Agency's primary performing assets. The total loan portfolio of the Agency increased $491 million to $3.859 billion at June 30, 2007 from $3.368 billion at June 30, 2006, after adjustments for loan loss. The total loan portfolio of the Agency increased 12.5% to $3.368 billion at June 30, 2006 from $2.999 billion at June 30, 2005, after adjustments for loan loss. Increases in the mortgage loan portfolios resulted from mortgage loan advances for construction and the purchases of loans exceeding mortgage loan repayments and loan payoffs. Loan portfolio increases were primarily driven by positive economic conditions escalating housing demand. The following are key highlights of loan related activities:

- During the year, the Multifamily Program funded approximately $43 million of PennHOMES loans that provide construction and permanent loan financing for rental housing development. The Multifamily portfolio increased to $550 million as of June 30, 2007, from $547 million as of June 30, 2006 after adjustments for normal principal payments. During the prior year, the Multifamily Program funded approximately $38 million of PennHOMES loans increasing the portfolio to $547 million as of June 30, 2006, from $534 million as of June 30, 2005 after adjustments for normal principal amortization payments.
- The Single Family Program purchased approximately $728 million of new mortgage loans increasing the Single Family portfolio to $3.261 billion as of June 30, 2007, from $2.774 billion as of June 30, 2006 after adjustments for normal principal payments. During the prior year, the Single Family Program purchased approximately $607 million of new mortgage loans increasing the portfolio to $2.774 million of June 30, 2006, from $2.420 million as of June 30, 2005 after adjustments for normal principal payments.
- HEMAP disbursed approximately $23 million of emergency mortgage assistance loans during the year. The portfolio remained constant with the prior year at $48 million as of June 30, 2007 and 2006. During the prior year, HEMAP disbursed approximately $23 million of assistance loans increasing the portfolio to $48 million as of June 30, 2006, from $46 million as of June 30, 2005.

Long-Term Debt Activity

During the current year, total liabilities increased by $568 million mainly as a result of the issuance of long-term bonds in order to provide funds needed to make new mortgage loans, described previously. The Single Family Program issued five separate mortgage revenue bonds totaling approximately $917 million. Approximately one-half of the proceeds were made available to purchase new mortgages loans. The remaining portion were made available for the purchase of new mortgage loans through the refunding of certain outstanding bonds series to reduce total debt service in future years. The Multifamily Program issued one Multifamily Development Bond totaling $12.6 million. See Note G and J for further information.

During the prior fiscal year, total liabilities increased by $185 million as a result of the issuance of long-term bonds in order to provide funds needed to make new mortgage loans. The Single Family Program issued four separate single-family mortgage revenue bonds totaling approximately $530 million. Approximately one-half of the proceeds were made available to purchase new mortgages loans. The remaining portion was used for the refunding of certain outstanding bonds series to reduce total debt service in future years. Total long-term debt outstanding, net of redemptions and scheduled maturities, increased by $165 million during the fiscal year ended June 30, 2006.

Change in Net Assets

The Agency reports financial activity financed with debt that is secured solely by the pledge of net revenues from that activity as well as activity that is not supported by taxes or similar revenue. The term net assets defines the surplus or deficit of that activity. In the governmental environment, net assets consist of invested in capital assets, net of related debt, restricted and unrestricted. Capital assets, net of related debt are Agency owned capital assets reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

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.

Unrestricted net assets consist of net assets that do not meet the definition of restricted net assets. The Members of the Board may internally designated unrestricted net assets for specific loan programs to meet the business needs of the Agency. Those are presented as "designated" net assets within the unrestricted balances. Equally, Members of the Board may remove or modify such designations. See Note K for further discussion.

- Net assets of the General Fund decreased by approximately $34 million to $124 million at June 30, 2007 from $158 million at June 30, 2006. The unrestricted portion of net assets that may be used to finance operations decreased by approximately $33 million to $109 million at June 30, 2007 from $142 million at June 30, 2006. Net assets decreased by $13 million or 7.8%, to $158 million at June 30, 2006 from $171 million at June 30, 2005.
- Net assets of the Multifamily Program increased by approximately $23 million to $263 million at June 30, 2007 from $240 million at June 30, 2006. The unrestricted portion of net assets that may be used to finance operations increased by approximately $23 million to $261 million at June 30, 2007 from $238 million at June 30, 2006. Net assets increased by $16 million or 7.1%, to $240 million at June 30, 2006 from $224 million at June 30, 2005. The unrestricted portion of net assets that may be used to finance operations increased to $238 million at June 30, 2006 from $216 million at June 30, 2005.
- Net assets of the Single Family Program increased by approximately $51 million to $235 million at June 30, 2007 from $184 million at June 30, 2006. The unrestricted portion of net assets that may be used to finance operations increased by approximately $59 million to $154 million at June 30, 2007 from $95 million at June 30, 2006. Net assets increased by $13 million or about 7.6%, to $184 million at June 30, 2006 from $171 million at June 30, 2005. The unrestricted portion of net assets that may be used to finance operations increased to $95 million at June 30, 2006 from $91 million at June 30, 2005.
- Net assets of the Insurance Fund increased by approximately $3 million to $45 million at June 30, 2007 from $42 million at June 30, 2006. Net assets decreased approximately $1 million to $42 million from $43 million at June 30, 2006 and 2005, respectively.
- Net assets of HEMAP remained constant at $44 million at June 30, 2007 and June 30, 2006, respectively. The unrestricted portion remained constant at $44 million at June 30, 2007 and 2006. Net assets increased by $3 million or about 7.3%, to $44 million at June 30, 2006 from $41 million at June 30, 2005.

Economic Factors and Other Financial Information

The primary business activity of the Agency is providing a secondary market for the purchase of single-family and multifamily mortgage loans. The Agency's mortgage financing activities are sensitive to changes in interest rates, the spread between the rate on the Agency's loans and those available in the conventional mortgage markets and the availability of affordable housing in the Commonwealth. The availability of long-term tax-exempt financing on favorable terms is a key element in providing the funding necessary for the Agency to continue its mortgage financing activities.

The Agency's main sources of revenues include mortgage loan activity, investment interest income and externally funded grants and subsidies. Interest rates have an effect on both the mortgage programs and investment income revenues. If interest rates continue at current levels, the Agency expects mortgage and investment income to remain relatively stable. If interest rates rise, mortgage and investment income should increase as new loans are originated and new investments are purchased at the higher rates. If interest rates fall, mortgage and investment income will decrease as new loans are originated and new investments are purchased at the lower rates. Any decrease in interest rates may also cause an increase in prepayments on higher rate mortgages. The Agency uses many of these prepayments to call the corresponding bond series, which lowers the interest expense incurred on the Agency's overall bonds outstanding, or to recycle mortgages to obtain the maximum allowable spread. Large federal deficits or changes in programs or funding levels could have a negative impact on externally funded program revenues.

Capital Related Activities

During the year ended June 30, 2007, the Agency purchased an adjacent property to its Harrisburg, Pennsylvania headquarters. The acquisition will permit the Agency to expand its headquarters in future years, if desired. Acquisition costs of $774 thousand have been included in the capital assets footnote as additions to land and building. The Agency did not have any substantial capital related activity during the years ended June 30, 2006 and 2005.

PENNSYLVANIA HOUSING FINANCE AGENCY

BALANCE SHEETS

June 30, 2007 and 2006

(in thousands of dollars)

2007

	General Fund	Multifamily Program	Single Family Program	Insurance Fund	Subtotal	HEMAP	Totals
Assets							
Current Assets:							
Cash and cash equivalents (Note C)	$ 14,965	$ 273,987	$ 427,526	$ 32,692	$ 749,170	$ –	$ 749,170
Investments (Note C)	9,244	2,218	23,652	–	35,114	–	35,114
Accrued interest receivable on investments	503	655	3,357	131	4,646	–	4,646
Mortgage loans receivable (Note D)	–	27,507	57,271	–	84,778	6,335	91,113
Advances to other funds	24,073	–	–	–	24,073	–	24,073
Total current assets	48,785	304,367	511,806	32,823	897,781	6,335	904,116
Noncurrent assets:	–						
Restricted cash and cash equivalents (Note C)	–	1,960	81,100	–	83,060	–	83,060
Investments (Note C)	63,030	48,129	154,476	13,054	278,689	–	278,689
Mortgage loans receivable (Note D)	–	522,433	3,203,719	–	3,726,152	41,949	3,768,101
Capital assets, net (Note E)	35,377	–	–	–	35,377	34	35,411
Deferred assets	2,280	10,091	5,466	–	17,837	6	17,843
Total noncurrent assets	100,687	582,613	3,444,761	13,054	4,141,115	41,989	4,183,104
Total assets	$ 149,472	$ 886,980	$ 3,956,567	$ 45,877	$ 5,038,896	$ 48,324	$ 5,087,220
Liabilities							
Current liabilities:							
Bonds payable (Note G)	$ –	$ 27,238	$ 137,455	$ –	$ 164,693	$ –	$ 164,693
Accrued interest payable (Note G)	392	6,253	37,648	–	44,293	–	44,293
Accounts payable and accrued expenses	3,222	11	899	258	4,390	780	5,170
Advances from other funds	–	2,366	20,398	–	22,764	1,309	24,073
Total current liabilities	3,614	35,868	196,400	258	236,140	2,089	238,229
Noncurrent liabilities:							
Bonds payable (Note G)	19,921	324,207	3,467,735	–	3,811,863	–	3,811,863
Escrow and other noncurrent liabilities	1,791	263,475	57,040	610	322,916	2,475	325,391
Total noncurrent liabilities	21,712	587,682	3,524,775	610	4,134,779	2,475	4,137,254
Total liabilities	25,326	623,550	3,721,175	868	4,370,919	4,564	4,375,483
Net Assets							
Invested in capital assets, net of related debt	15,456	–	–	–	15,456	–	15,456
Restricted by debt covenants	–	1,960	81,100	–	83,060	–	83,060
Unrestricted	108,690	261,470	154,292	45,009	569,461	43,760	613,221
Total net assets	124,146	263,430	235,392	45,009	667,977	43,760	711,737
Total liabilities and net assets	$ 149,472	$ 886,980	$ 3,956,567	$ 45,877	$ 5,038,896	$ 48,324	$ 5,087,220

2006

	General Fund	Multifamily Program	Single Family Program	Insurance Fund	Subtotal	HEMAP	Totals
Assets							
Current Assets:							
Cash and cash equivalents (Note C)	$ 31,728	$ 184,620	$ 346,822	$ 29,624	$ 592,794	$ 541	$ 593,335
Investments (Note C)	9,726	24,834	90,042	12,524	137,126	–	137,126
Accrued interest receivable on investments	1,112	3,414	10,328	104	14,958	–	14,958
Mortgage loans receivable (Note D)	–	23,266	40,610	–	63,876	6,285	70,161
Advances to other funds	43,831	–	–	–	43,831	(654)	43,177
Total current assets	86,397	236,134	487,802	42,252	852,585	6,172	858,757
Noncurrent assets:							
Restricted cash and cash equivalents (Note C)	–	1,960	88,166	–	90,126	–	90,126
Investments (Note C)	56,439	106,570	10,884	–	173,893	–	173,893
Mortgage loans receivable (Note D)	–	523,584	2,733,279	–	3,256,863	41,382	3,298,245
Capital assets, net (Note E)	35,406	–	–	–	35,406	28	35,434
Deferred assets	3,645	10,174	4,519	–	18,338	6	18,344
Total noncurrent assets	95,490	642,288	2,836,848	–	3,574,626	41,416	3,616,042
Total assets	$ 181,887	$ 878,422	$ 3,324,650	$ 42,252	$ 4,427,211	$ 47,588	$ 4,474,799
Liabilities							
Current liabilities:							
Bonds payable (Note G)	$ –	$ 26,368	$ 144,665	$ –	$ 171,033	$ –	$ 171,033
Accrued interest payable (Note G)	390	6,927	29,599	–	36,916	–	36,916
Accounts payable and accrued expenses	3,534	11	873	213	4,631	472	5,103
Advances from other funds	–	2,611	40,566	–	43,177	–	43,177
Total current liabilities	3,924	35,917	215,703	213	255,757	472	256,229
Noncurrent liabilities:							
Bonds payable (Note G)	19,918	349,043	2,871,134	–	3,240,095	–	3,240,095
Escrow and other noncurrent liabilities	304	253,038	54,168	502	308,012	2,714	310,726
Total noncurrent liabilities	20,222	602,081	2,925,302	502	3,548,107	2,714	3,550,821
Total liabilities	24,146	637,998	3,141,005	715	3,803,864	3,186	3,807,050
Net Assets							
Invested in capital assets, net of related debt	15,488	–	–	–	15,488	–	15,488
Restricted by debt covenants	–	1,960	88,166	–	90,126	–	90,126
Unrestricted	142,253	238,464	95,479	41,537	517,733	44,402	562,135
Total net assets	157,741	240,424	183,645	41,537	623,347	44,402	667,749
Total liabilities and net assets	$ 181,887	$ 878,422	$ 3,324,650	$ 42,252	$ 4,427,211	$ 47,588	$ 4,474,799

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

PENNSYLVANIA HOUSING FINANCE AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended June 30, 2007 and 2006

(in thousands of dollars)

2007

	General Fund	Multifamily Program	Single Family Program	Insurance Fund	Subtotal	HEMAP	Totals
Operating revenues:							
Interest on mortgage loans	$ –	$ 35,484	$ 144,986	$ –	$ 180,470	$ 975	$ 181,445
Fee income	27,122	38	2,454	451	30,065	351	30,416
Investment income	4,002	5,220	26,690	1,049	36,961	149	37,110
Net increase (decrease) in fair value of investments	202	3,536	1,118	2,372	7,228	–	7,228
Federal program awards	–	311,745	–	–	311,745	–	311,745
Other Income	–	1,501	–	–	1,501	10,000	11,501
Total operating revenue (loss)	31,326	357,524	175,248	3,872	567,970	11,475	579,445
Operating expenses:							
Interest on bonds	825	14,854	156,738	–	172,417	–	172,417
Salaries and related benefits	18,371	–	–	–	18,371	2,300	20,671
General and administrative	5,367	2,130	4,830	400	12,727	2,106	14,833
Provision for loan loss	–	6,200	1,600	–	7,800	7,711	15,511
Federal program awards expense	–	311,745	–	–	311,745	–	311,745
Total operating expenses	24,563	334,929	163,168	400	523,060	12,117	535,177
Net operating income (loss)	6,763	22,595	12,080	3,472	44,910	(642)	44,268
Nonoperating expenses:							
Loss on early extinguishment of debt	–	(132)	(148)	–	(280)	–	(280)
Income (loss) before transfers	6,763	22,463	11,932	3,472	44,630	(642)	43,988
Transfers:							
Interfund transfers in (out)	(40,358)	543	39,815	–	–	–	–
Increase (decrease) in net assets	(33,595)	23,006	51,747	3,472	44,630	(642)	43,988
Total net assets – beginning of year	157,741	240,424	183,645	41,537	623,347	44,402	667,749
Total net assets – end of year	$ 124,146	$ 263,430	$ 235,392	$ 45,009	$ 667,977	$ 43,760	$ 711,737

2006

	General Fund	Multifamily Program	Single Family Program	Insurance Fund	Subtotal	HEMAP	Totals
Operating revenues:							
Interest on mortgage loans	$ –	$ 37,120	$ 120,120	$ –	$ 157,240	$ 941	$ 158,181
Fee income	22,574	451	2,564	616	26,205	388	26,593
Investment income	1,920	5,576	23,405	1,294	32,195	85	32,280
Net increase (decrease) in fair value of investments	(4,829)	(6,162)	(2,064)	(2,901)	(15,956)	–	(15,956)
Federal program awards	–	289,228	–	–	289,228	–	289,228
Other Income	–	1,708	–	–	1,708	11,590	13,298
Total operating revenue (loss)	19,665	327,921	144,025	(991)	490,620	13,004	503,624
Operating expenses:							
Interest on bonds	823	18,037	132,881	–	151,741	–	151,741
Salaries and related benefits	18,162	–	–	–	18,162	2,342	20,504
General and administrative	6,273	2,796	4,440	600	14,109	2,010	16,119
Provision for loan loss	–	1,000	2,000	–	3,000	5,064	8,064
Federal program awards expense	–	289,228	–	–	289,228	–	289,228
Total operating expenses	25,258	311,061	139,321	600	476,240	9,416	485,656
Net operating income (loss)	(5,593)	16,860	4,704	(1,591)	14,380	3,588	17,96
Nonoperating expenses:							
Loss on early extinguishment of debt	–	(124)	(220)	–	(344)	–	(344)
Income (loss) before transfers	(5,593)	16,736	4,484	(1,591)	14,036	3,588	17,624
Transfers:							
Interfund transfers in (out)	(7,746)	29	7,717	–	–	–	–
Increase (decrease) in net assets	(13,339)	16,765	12,201	(1,591)	14,036	3,588	17,624
Total net assets – beginning of year	171,080	223,659	171,444	43,128	609,311	40,814	650,125
Total net assets – end of year	$ 157,741	$ 240,424	$ 183,645	$ 41,537	$ 623,347	$ 44,402	$ 667,749

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

PENNSYLVANIA HOUSING FINANCE AGENCY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2007 and 2006

(in thousands of dollars)

2007

	General Fund	Multifamily Program	Single Family Program	Insurance Fund	Subtotal	HEMAP	Totals
Cash flows from operating activities							
Cash disbursed on mortgage loans	$ –	$ (42,862)	$ (727,863)	$ –	$ (770,725)	$ (22,851)	$ (793,576)
Cash received on mortgage loans	–	39,772	240,762	–	280,534	22,199	302,733
Interest received on mortgages and other loans	–	38,243	151,957	–	190,200	975	191,175
Cash received from fees and charges	27,122	1,539	2,454	451	31,566	351	31,917
Cash paid to employees and vendors	(20,743)	(8,247)	(7,351)	(275)	(36,616)	(12,003)	(48,619)
Cash received for escrow and other liabilities	1,487	10,437	2,872	1	14,797	–	14,797
Cash received from other government sources	–	–	–	–	–	10,000	10,000
Net cash provided by (used in) operating activities	7,866	38,882	(337,169)	177	(290,244)	(1,329)	(291,573)
Cash flows from noncapital financing activities							
Transfers (to) from other funds	(20,600)	298	19,647	–	(655)	655	–
Proceeds from sale of bonds	–	12,600	916,935	–	929,535	–	929,535
Principal payments on bonds	–	(36,698)	(327,692)	–	(364,390)	–	(364,390)
Interest paid on bonds	–	(15,528)	(148,689)	–	(164,217)	–	(164,217)
Net cash provided by (used in) noncapital financing activities	(20,600)	(39,328)	460,201	–	400,273	655	400,928
Cash flows from capital financing activities							
Interest on capital asset debt	(820)	–	–	–	(820)	–	(820)
Purchases of capital assets	(1,304)	–	–	–	(1,304)	(16)	(1,320)
Net cash provided by (used in) capital financing activities	(2,124)	–	–	–	(2,124)	(16)	(2,140)
Cash flows from investing activities							
Purchase of investments	(33,999)	(63,896)	(1,725,327)	–	(1,823,222)	–	(1,823,222)
Proceeds from sales and maturities of investments	28,092	148,489	1,649,243	1,842	1,827,666	–	1,827,666
Investment income	4,002	5,220	26,690	1,049	36,961	149	37,110
Net cash provided by (used in) investing activities	(1,905)	89,813	(49,394)	2,891	41,405	149	41,554
Net increase (decrease) in cash and cash equivalents	(16,763)	89,367	73,638	3,068	149,310	(541)	148,769
Cash and cash equivalents, beginning of year	31,728	186,580	434,988	29,624	682,920	541	683,461
Cash and cash equivalents, end of year	$ 14,965	$ 275,947	$ 508,626	$ 32,692	$ 832,230	$ –	$ 832,230

2006

	General Fund	Multifamily Program	Single Family Program	Insurance Fund	Subtotal	HEMAP	Totals
Cash flows from operating activities							
Cash disbursed on mortgage loans	$ –	$ (38,149)	$ (606,802)	$ –	$ (644,951)	$ (22,448)	$ (667,399)
Cash received on mortgage loans	–	24,028	243,520	–	267,548	15,518	283,066
Interest received on mortgages and other loans	–	40,630	131,175	–	171,805	868	172,673
Cash received from fees and charges	25,020	–	–	616	25,636	388	26,024
Cash paid to employees and vendors	(24,091)	(3,130)	(315)	(210)	(27,746)	(4,315)	(32,061)
Cash received for escrow and other liabilities	–	11,640	5,324	–	16,964	91	17,055
Cash received from other government sources	–	–	–	–	–	11,590	11,590
Net cash provided by (used in) operating activities	929	35,019	(227,098)	406	(190,744)	1,692	(189,052)
Cash flows from noncapital financing activities							
Transfers (to) from other funds	(23,203)	719	23,720	–	1,236	(1,236)	–
Proceeds from sale of bonds	–	22,010	529,815	–	551,825	–	551,825
Principal payments on bonds	–	(39,261)	(347,768)	–	(387,029)	–	(387,029)
Interest paid on bonds	–	(18,447)	(130,728)	–	(149,175)	–	(149,175)
Net cash provided by (used in) noncapital financing activities	(23,203)	(34,979)	75,039	–	16,857	(1,236)	15,621
Cash flows from capital financing activities							
Interest on capital asset debt	(823)	–	–	–	(823)	–	(823)
Purchases of capital assets	–	–	–	–	–	–	–
Net cash provided by (used in) capital financing activities	(823)	–	–	–	(823)	–	(823)
Cash flows from investing activities							
Purchase of investments	(14,591)	(3,563)	(6,392)	–	(24,546)	–	(24,546)
Proceeds from sales and maturities of investments	8,861	17,600	7,074	–	33,535	–	33,535
Investment income	1,920	5,576	23,405	1,175	32,076	85	32,161
Net cash provided by (used in) investing activities	(3,810)	19,613	24,087	1,175	41,065	85	41,150
Net increase (decrease) in cash and cash equivalents	(26,907)	19,653	(127,972)	1,581	(133,645)	541	(133,104)
Cash and cash equivalents, beginning of year	58,635	166,927	562,960	28,043	816,565	–	816,565
Cash and cash equivalents, end of year	$ 31,728	$ 186,580	$ 434,988	$ 29,624	$ 682,920	$ 541	$ 683,461

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

PENNSYLVANIA HOUSING FINANCE AGENCY

STATEMENTS OF CASH FLOWS, CONTINUED

Years Ended June 30, 2007 and 2006

(in thousands of dollars)

	2007							2006						
	General Fund	*Multifamily Program*	*Single Family Program*	*Insurance Fund*	*Subtotal*	*HEMAP*	*Totals*	*General Fund*	*Multifamily Program*	*Single Family Program*	*Insurance Fund*	*Subtotal*	*HEMAP*	*Totals*
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:														
Net operating income (loss)	$ 6,763	$ 22,595	$ 12,080	$ 3,472	$ 44,910	$(642)	$44,268	$(5,593)	$16,860	$4,704	$(1,591)	$14,380	$3,588	$17,968
Depreciation, amortization and accretion	1,333	–	–	–	1,333	10	1,343	(1)	176	10,075	–	10,250	11	10,261
Provision for loan loss	–	6,200	1,600	–	7,800	7,711	15,511	–	1,000	2,000	–	3,000	5,064	8,064
Interest expense on bonds	825	14,854	156,738	–	172,417	–	172,417	–	18,037	132,881	–	150,918	–	150,918
Investment income	(4,002)	(5,220)	(26,690)	(1,049)	(36,961)	(149)	(37,110)	(1,920)	(5,576)	(23,405)	(1,294)	(32,195)	(85)	(32,280)
Amortization of deferred gain	–	–	–	–	–	–	–	–	946	–	–	946	–	946
Net (increase) decrease in fair value of investments	(202)	(3,536)	(1,118)	(2,372)	(7,228)	–	(7,228)	4,829	6,162	2,064	2,901	15,956	–	15,956
Changes in assets and liabilities:	–	–	–	–										
Mortgage loans receivable, net	–	(9,290)	(488,701)	–	(497,991)	(8,363)	(506,354)	–	(14,121)	(363,282)	–	(377,403)	(7,015)	(384,418)
Accrued interest receivable on investments	609	2,759	6,971	(27)	10,312	35	10,347	793	919	2,899	119	4,730	–	4,730
Deferred and other assets	1,365	83	(947)	1	502	43	545	434	(1,024)	(673)	–	(1,263)	1	(1,262)
Accounts payable and accrued expenses	(312)	–	2,872	152	2,712	26	2,738	2,403	–	315	270	2,988	37	3,025
Escrow and other liabilities	1,487	10,437	26	–	11,950	–	11,950	(16)	11,640	5,324	1	16,949	91	17,040
Net cash provided by (used in) operating activities	$ 7,866	$ 38,882	$ (337,169)	$ 177	$ (290,244)	$ (1,329)	$ (291,573)	$929	$35,019	$(227,098)	$406	$(190,744)	$1,692	$(189,052)

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

A. Description of the Agency

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 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.

B. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Agency are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, regardless of when the cash flow takes place. Operating costs and expenses are charged to expense as incurred, except those directly related to mortgage loan or program originations, which are deferred, netted against fee income for mortgage loans originated, and amortized over the contractual life of the related mortgage loan or program.

The Agency is required to follow all statements of the Governmental Accounting Standards Board. Governmental Accounting Standards Board Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* was issued to give guidance in determining Generally Accepted Accounting Principles for governmental proprietary funds. It provides that all proprietary fund activities follow all Financial Accounting Standards Board Statements issued prior to November 30, 1989, unless they conflict with Governmental Accounting Standards Board pronouncements. It also provides that the governmental unit must elect whether to follow FASB Statements after that date.

The Agency has elected not to follow any Financial Accounting Statement Board pronouncements issued after November 30, 1989.

Reporting Entity

The Agency is a component unit of the Commonwealth of Pennsylvania as described in Governmental Accounting Standards Board Statement No. 14, as amended by Governmental Accounting Standards Board Statement No 39, *"Determining whether Certain Organizations are Component Units."* These financial statements are discretely presented as part of the Commonwealth's financial statements.

Description of Funds

The accounts of the Agency are organized on the basis of separate enterprise funds, each of which is considered a separate accounting entity with a separate set of self-balancing accounts that comprise assets, liabilities, net assets and revenues and expenses. Within each fund, there are accounts required by the respective bond resolutions. Certain assets under the respective bond resolutions are restricted and are not available for any other purpose other than as provided.

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 bonds in the other funds. All Agency expenses are recorded in this fund except provisions for potential loan losses and specific program expenses that are charged to the loan-related program funds.

Multifamily Program– The Multifamily Program transactions relate to the construction, rehabilitation and permanent financing of multifamily rental housing developments generally designed for persons and families of low and moderate income or the elderly.

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

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. HEMAP provides emergency mortgage assistance loans to mortgagors facing foreclosure because of circumstances beyond their control.

Cash and Cash Equivalents

Cash includes cash on hand and cash deposits. For the purpose of the statements of cash flows, cash equivalents consist of investments with maturity of three months or less when acquired.

Investments

In accordance with Governmental Accounting Standards Board Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and External Investment Pools,"* investments are reported at fair market value on the balance sheet, with changes in fair market value recognized in investment income in the statement of revenues, expenses, and changes in net assets. Fair value of investment securities is determined upon values provided by quoted market prices and external investment managers.

Pass-through Grants

The Agency follows Governmental Accounting Standards Board 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 operating income and expense when eligible expenditures occur.

Pension Plan

The Agency follows Governmental Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* which requires the Agency to measure and disclose an amount for annual pension cost and net pension obligation.

Derivative Financial Instruments

The Agency enters into various interest rate swap agreements in order to manage risk associated with interest on its bond portfolio. As currently allowed under accounting principals generally accepted in the United States, the Agency does not record the fair value or changes in the fair value of interest rate swaps in its financial statements. See Note H for relevant disclosures.

Net Assets

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets represent those portions of the total net assets that are restricted when constraints placed on net assets use have been either (1) externally imposed by creditors, grantors or laws and regulations of other governments or (2) are imposed by law through constitutional provisions or enabling legislation

Unrestricted net assets represent those portions of the total net assets set aside to reflect current unitization and tentative plans for future operational utilization of such net assets. The Board of Directors of the Agency may internally designate these assets for specific loan programs and to meet the business needs of the Agency.

When both restricted and unrestricted resources are available in a fund, it is the Agency's policy to spend restricted resources to the extent allowed and only spend unrestricted resources when needed.

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.

Interest Income

Interest income is recognized over the remaining time to maturity of investment securities, mortgage loans receivable and construction advances based upon the constant yield method. Multifamily and Single Family Program loans more than 180 days delinquent in scheduled payments are considered nonperforming loans which result in the cessation of recognition of additional interest on such loans.

Operating and Nonoperating Revenues and Expenses

The Agency was created with the authority to issue bonds to the investing public in order to create a flow of capital through the Agency into mortgage loans to qualified housing sponsors and to certain individuals. The Agency's primary purpose is to borrow funds in the bond market and to use those funds to make single-family and multifamily mortgages and loans. Its primary operating revenue is derived from the interest income and fees from those mortgages and loans and on the invested proceeds from the bond issues. The Agency records all revenues from mortgages and loans, investments, and externally funded programs as operating revenues. The primary operating expenses are from the interest expenses on outstanding debt. The costs of providing mortgages and loans are recorded as operating expenses. Nonoperating revenue and expenses are those that do not contribute directly to the Agency's primary purpose.

Debt Issuance Costs, Bond Discounts and Other Bond Related Costs

The Agency issues bonds to provide capital for its mortgage programs and other uses consistent with its mission. Bonds are recorded at cost plus accreted interest and premiums, less discounts and deferred debt refunding losses. Discounts and premiums are amortized using the effective interest method. Deferred debt refunding losses are amortized over the shorter of the remaining life of the old debt, or the remaining life of the new debt. The Agency capitalizes costs related to bond issuances to deferred assets and amortizes these costs to interest expense over the contractual life of the bonds using the effective interest method.

Advances To and From Other Funds and Interfund Transfers

To meet liquidity requirements of individual funds, the Agency transfers funds to and from the separate enterprise funds. The Agency is permitted to make interfund transfers to the extent that such transfers 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.

Mortgage Loans Receivable

Mortgage loans receivable are carried at amounts disbursed or advanced 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.

Real Estate Owned

During the normal course of business, the Agency acquires single-family real estate through foreclosure. Real estate owned is stated at the lower of cost or estimated net realizable value and is included in mortgage loans receivable on the balance sheet.

Capital Assets

Building, furniture and equipment are capitalized at costs and depreciation is provided on the straight-line basis over the estimated useful lives, which are thirty years for the building and from three to ten years for furniture and equipment. The capitalization floor is $1 for all categories of capital assets. Expenses for maintenance and repairs are charged to operating expenses.

Compensated Absences

Agency employees are granted vacation and illness pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitations, unused vacation and illness pay earned and, upon retirement, termination or death, may be compensated for certain amounts at their current rate of pay. Vacation and illness pay is recognized as an expense in the amount earned each year.

Implemented and Pending Governmental Accounting Standards Board Pronouncements

Governmental Accounting Standards Board Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension."* This statement establishes standards for the measurement, recognition and display of OPEB expense/expenditures and related liabilities (assets) and note disclosures in the financial reports of state and local governmental employers. This statement will be effective for the year ended June 30, 2008. The Agency is currently evaluating the impact of implementing Statement No. 45 on its financial statements.

Governmental Accounting Standards Board Statement No. 46, *"Net Assets Restricted by Legislation."* This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The Agency has adopted Statement No. 46 for its June 30, 2007 financial statements. Statement No. 46 did not have an effect on the Agency's financials statements for the year ended June 30, 2007.

Governmental Accounting Standards Board Statement No. 47, *"Accounting for Termination Benefits."* This Statement establishes accounting standards for termination benefits, and requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities. The Agency provides termination benefits through an existing defined benefit OPEB plan. As a result, the provisions of this Statement will be implemented simultaneously with the requirements of Statement 45. The Agency is currently evaluating the impact of implementing Statement No. 47 on its financial statements.

Governmental Accounting Standards Board Statement No. 48, *"Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues Accounting for Termination Benefits."* Historically, guidance for reporting the effects of those transactions in governmental financial statements either has been provided in several standards or, in certain cases, was not specifically addressed in authoritative literature. In addition, little or no information about pledged revenues was being disclosed in the notes to the financial statements. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This Statement is effective for the Agency's June 30, 2008 financial statements. The Agency is currently evaluating the impact of implementing Statement No. 48 on its financial statements.

Governmental Accounting Standards Board Statement No. 50, *"Pension Disclosures—an amendment of Government Accounting Standards Board Statements No. 25 and No. 27."* This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This Statement is effective for the Agency's June 30, 2008 financial statements. The Agency is currently evaluating the impact of implementing Statement No. 50 on its financial statements.

Reclassifications

Certain reclassifications have been made in the June 30, 2006 financial statements to conform to the June 30, 2007 presentation.

(in thousands of dollars)

C. Deposits and Investments

Deposits

The Agency has a policy that deposits must be held in insured depositories satisfactory to the Agency and must be fully collateralized. Cash and cash equivalents consist of demand deposits, time deposits, cash held in trust and short-term investments. A summary of the Agency's cash and equivalents is shown below:

	June 30, 2007	*June 30, 2006*
Restricted cash and cash equivalents	$ 83,060	$ 90,126
Unrestricted cash and cash equivalents	749,170	593,335
Carrying amount of cash and cash equivalents	$ 832,230	$ 683,461
Bank balance of cash and cash equivalents	$ 830,612	$ 783,309

Note: Restricted cash and cash equivalents represent the amount of cash deposits restricted by bond resolutions.

Custodial Credit Risk

The Agency assumes levels of custodial credit risk for its deposits with financial institutions. Custodial credit risk is the risk that, in the event of a bank failure, the Agency's deposits may not be returned. The Agency has not established a formal custodial credit risk policy for its deposits.

Of the Agency's $830,612 bank balance at June 30, 2007, cash deposits in the amount of $830,219 were uninsured and collateralized, in accordance with Act 72 of the Commonwealth of Pennsylvania, with securities held by the pledging financial institution, its trust department or agent, but not in the Agency's name.

Investments

The investment policies of the Agency are governed by Commonwealth statutes and contractual provisions contained in the bond trust indentures. As of June 30, 2007, the Agency held the following investments with the listed maturities and ratings by Moody's Investors Service:

		Investment Maturities (in years)			
Investment Type/Rating	*Fair Value*	*Less than 1*	*1–5*	*6–10*	*More than 10*
U.S. Government Agency Securities*	$ 263,164	$ 30,898	$ 202,460	$ 451	$ 29,355
U.S. Treasury Securities*	25,375	–	53	22,659	2,663
Corporate bonds/Aaa	1,940	–	–	1,940	–
Corporate bonds/Aa	11,153	1,899	5,887	1,882	1,485
Corporate bonds/A	2,317	2,317	–	–	–
Corporate bonds/Baa	7,924	–	5,181	2,743	–
Corporate bonds**	1,930	-	1,930	-	-
	$ 313,803	$ 35,114	$ 215,511	$ 29,675	$ 33,503

* U.S. Government and Treasury securities have an implied rating of Aaa as they are not subject to credit risk.
**Securities that are not rated.

Interest Rate Risk

The Agency's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Agency has elected to use the segmented time distribution method of disclosure for its interest rate risk.

Credit Risk

Credit risk is the risk of loss due to the failure of the security or backer. The Agency mitigates its credit risk by limiting investments to those permitted in the deposit and investment policies, diversifying the investment portfolio and pre-qualifying firms with which the Agency administers its investment activities. The credit quality ratings of the Agency's investments as of June 30, 2007, as described by nationally recognized statistical rating organizations, are shown in the table above. U.S. Government and Treasury securities that are explicitly guaranteed by the U.S. government in the amount of $288,539 are not considered to have credit risk.

Concentration of Credit Risk

Concentration risk is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer. Concentration limits are not established in the bond indentures and governing agreements for trust investments. The Agency has not established a formal concentration of credit risk policy for the concentration of credit risk.

Custodial Credit Risk

For investments, custodial credit risk is the risk that, in the event of failure of the custodian or counterparty holding the investment, the Agency will not be able to recover the value of the investment. The Agency has not established a formal custodial credit risk policy for its investments.

Of the Agency's $313,803 investment balance at June 30, 2007, investments in the amount of $25,264 were held by bank trust departments in book entry only form in the Agency's name and accordingly were subject to custodial credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Agency does not hold foreign currency investments and therefore is not subject to foreign currency risk.

D. Mortgage Loans Receivable

A summary of mortgage loans receivable at June 30, 2007 and 2006 consisted of the following:

	June 30, 2007	*June 30, 2006*
Multifamily mortgage loans	$ 714,585	$ 705,606
Single-family mortgage loans	3,240,913	2,757,438
HEMAP loans	86,988	85,090
	4,042,486	3,548,134
Add:		
Loan discounts	21,515	17,209
Less:		
Allowance for potential loan losses	204,787	196,937
Mortgage receivable, net	3,859,214	3,368,406
Less current portion	91,113	70,161
Long-term portion	$ 3,768,101	$ 3,298,245

Multifamily mortgage loans receivable are collateralized by first mortgages on the related properties. The federal government provides insurance for certain developments included in the Multifamily programs, as well as subsidizes certain developments through its Section 8 Program. Construction advances are recorded as mortgage loans receivable. Upon substantial completion and occupancy of the development, the amortization of the advances commences.

Insurance for the Single Family Program is provided by commercial companies and self-insurance through the Agency's Insurance Fund. 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. It is the eligible borrowers' responsibility to bear the cost of primary insurance.

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, 2007 and 2006, the total loans covered under this program were $65,742 and $84,953, respectively. The Agency discontinued originating mortgage loans under these agreements in September 1993. Additionally, the Agency has internally designated certain net assets for self-insurance for certain multifamily and single-family loans (see Note K.) HEMAP loans are uninsured and unsecured due to their lien position.

(in thousands of dollars)

Changes in the Insurance Fund's claim liability amounts are as follows:

	June 30, 2007	June 30, 2006
Beginning Balance	$ 709	$ 439
Current year estimated claims payable	400	600
Claim payments	(248)	(330)
Total claim liability	861	709
Less current portion	258	213
Long-term portion	$ 603	$ 496

The claims liability is based on the requirements of the Governmental Accounting Standards Board, which 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 allowance for potential loan losses for the Multifamily Program, Single Family Program and HEMAP are as follows at June 30, 2007 and 2006:

	Multifamily		Single Family		HEMAP		Totals	
	2007	2006	2007	2006	2007	2006	2007	2006
Beginning Balance	$155,979	$156,223	$ 3,433	$ 2,510	$ 37,525	$ 40,079	$196,937	$198,812
Provision charged to income	6,200	1,000	1,600	2,000	7,711	5,064	15,511	8,064
Charge-offs, net of recoveries	(361)	(1,244)	(768)	(1,077)	(6,532)	(7,618)	(7,661)	(9,939)
Balance, June 30	$161,818	$155,979	$ 4,265	$ 3,433	$ 38,704	$ 37,525	$204,787	$196,937

E. Capital Assets

Capital assets activity for the year ended June 30, 2007:

	Beginning Balance July 1, 2006	Additions	Deletions	Ending Balance June 30, 2007
Non depreciable capital assets:				
Land	$ 2,060	$ 394	$ –	$ 2,454
Total non depreciable capital assets	2,060	394	–	2,454
Depreciable capital assets:				
Building and Improvements	29,075	588	16	29,647
Computers and Equipment	5,269	220	37	5,452
Furniture and Fixtures	4,278	119	121	4,276
Automobiles	61	68	3	126
Total depreciable capital assets	38,683	995	177	39,501
Less accumulated depreciation:				
Building and Improvements	1,901	622	–	2,523
Computers and Equipment	2,758	452	36	3,174
Furniture and Fixtures	611	263	72	802
Automobiles	39	6	–	45
Total accumulated depreciation:	5,309	1,343	108	6,544
Total depreciable capital assets, net	33,374	(348)	69	32,957
Capital Assets, net	$ 35,434	$ 46	$ 69	$ 35,411

Depreciation expense for the years ended June 30, 2007 and 2006 totaled $1,343 and $1,392, respectively.

F. Servicing Portfolio

Included in the Single Family Program are mortgage loans serviced for investors, which are not included within the Agency's Balance Sheet. The total amount of loans serviced for others under sub-servicing agreements is $137,662 and $124,951 at June 30, 2007 and 2006, respectively. The Agency has a limited exposure for losses within this serviced portfolio.

G. Bonds Payable

Bonds issued to provide capital for mortgage programs and other uses have the full faith and credit of the Agency pledged for repayment of the bonds issued. The bonds are secured, as described in the applicable agreements by the revenues, investments, mortgage loans and others assets in the fund and accounts established by the respective security agreements. A substantial portion of the assets of the Agency is pledged to the outstanding obligations of the Agency.

Bonds issued and outstanding for the General Fund are as follows:

Description of Bonds as Issued	Final Maturity Date	Amounts Outstanding June 30, 2007	Amounts Outstanding June 30, 2006
Variable Rate Building Development Bonds	2034	$ 20,000	$ 20,000
Unamortized bond discount		(79)	(82)
Total bonds payable		19,921	19,918
Less current portion		–	–
Long-term portion		$ 19,921	$ 19,918

Bonds issued and outstanding for the Multifamily Program are as follows:

Description of Bonds as Issued	Final Maturity Date	Amounts Outstanding June 30, 2007	Amounts Outstanding June 30, 2006
Multi-Family Development Bonds			
Issue 1990A, 7.5%	2023	$1,639	$1,680
Multi-Family Housing Bonds			
Issue FHA-1992, 7.75-8.20%	2024	–	10,200
Subordinate Limited Obligation Bonds			
Issue 1995, 5.50-6.15%	2021	3,397	3,555
Rental Housing Refunding Bonds			
Series 2002 (refunding), 3.58%	2021	79,550	89,760
Series 2003, 3.46-3.55%	2020	117,550	125,790
Residential Development Bonds			
Issue 2002 (refunding), 1.80%-5.25%	2024	32,980	36,315
Multi-Family Development Bonds			
Issue 1989B, 8.25%	2019	385	405
Issue 1993A (refunding), 5.38%	2022	11,125	11,655
Issue 1993F, 6.53%	2019	5,325	5,615
Issue 1997G.7.36%	2027	9,555	9,750
Issue 1998H, 6.3%	2028	15,705	16,040
Issue 2003 (refunding), 3.25-4.80%	2019	18,150	21,140
Issue 2005A, 4.00-5.00%	2025	21,355	22,010
Issue 2005K, Variable	2036	26,885	27,375
Issue 2007L, 4.20%	2009	12,600	–
		356,201	381,290
Unamortized bond discount		(3)	(129)
Unamortized deferred loss of refundings		(4,753)	(5,750)
Total bonds payable		351,445	375,411
Less current portion		27,238	26,368
Long-term portion		$ 324,207	$ 349,043

(in thousands of dollars)

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

Description of Bonds as Issued	*Final Maturity Date*	*Amounts Outstanding June 30, 2007*	*2006*
Single Family Mortgage Revenue			
Series 1996 - 47, 4.20-6.75%	2027	$ 5,290	$ 6,410
Series 1996 - 48, 4.00-6.15%	2028	–	1,345
Series 1996 - 52, 4.40-7.00%	2027	1,560	3,325
Series 1996 - 53, 4.20-6.15%	2027	1,545	3,330
Series 1997 - 54, 5.37-7.22%	2028	2,790	3,855
Series 1997 - 55, 3.70-5.75%	2013	2,145	4,185
Series 1997 - 56, 4.00-6.15%	2028	2,015	2,945
Series 1997 - 57, 4.30-6.15%	2029	1,015	2,750
Series 1997 - 58, 4.30-7.81%	2028	2,665	3,195
Series 1997 - 59, 4.00-5.15%	2029	7,655	12,425
Series 1997 - 60, 4.00-7.69%	2028	2,320	2,975
Series 1997 - 61, 4.00-6.80%	2029	47,955	49,260
Series 1998 - 62, 4.25-6.40%	2029	51,035	52,290
Series 1998 - 63, 3.95-5.50%	2030	53,949	55,229
Series 1998 - 64, 3.65-5.25%	2030	52,910	54,871
Series 1999 - 65, 3.25-5.25%	2030	54,605	60,330
Series 1999 - 66, 4.05-6.95%	2031	41,165	89,110
Series 1999 - 67, 4.05-7.51%	2030	43,270	49,250
Series 1999 - 68, 4.30-7.02%	2031	26,230	28,650
Series 2000 - 69, 4.35-6.25%	2031	36,960	38,615
Series 2000 - 70, 4.30-5.90%	2032	36,780	38,425
Series 2001 - 72, 3.25-5.35%	2032	167,580	175,985
Series 2002 - 73, 1.75-5.45%	2033	155,110	167,740
Series 2002 - 74, 1.80-5.25%	2032	98,920	99,360
Series 2002 - 75, 1.90-5.20%	2033	92,535	94,465
Series 2003 - 77, variable rate	2033	87,900	93,415
Series 2003 - 78, variable rate	2025	67,345	69,575
Draw Down Series 2003, variable rate	2008	60,000	140,000
Series 2003 - 79, variable rate	2034	88,050	93,340
Series 2003 - 80, variable rate	2024	3,855	90,000
Series 2004 - 81, variable rate	2034	91,155	95,360
Series 2004 - 82, variable rate	2034	90,855	95,530
Series 2004 - 83, variable rate	2035	118,610	123,435
Series 2004 - 84, variable rate	2034	92,980	96,680
Series 2004 - 85, variable rate	2035	92,565	97,015
Series 2004 - 86, variable rate	2035	98,835	99,415
Series 2005 - 87, variable rate	2035	96,590	99,190
Series 2005 - 88, variable rate	2037	96,565	99,115
Series 2005 - 89, variable rate	2035	120,130	123,645
Series 2005 - 90, variable rate	2036	123,090	124,795
Series 2005 - 91, variable rate	2036	154,020	154,715
Series 2006 - 92, variable rate	2036	124,825	125,000
Series 2006 - 93, variable rate	2037	123,475	125,000
Series 2006 - 94, variable rate	2037	123,800	-
Series 2006 - 95, variable rate	2037	198,195	-
Series 2006 - 96, 3.60-5.72%	2037	194,975	-
Series 2007 - 97, variable rate	2037	199,415	-
Series 2007 - 98, variable rate	2037	199,240	-
		3,634,474	3,045,545
Unamortized bond discount		(9,549)	(8,702)
Unamortized deferred loss of refundings		(19,735)	(21,044)
Total bonds payable		3,605,190	3,015,799
Less current portion		137,455	144,665
Long-term portion		$ 3,467,735	$ 2,871,134

The approximate principal and interest payments required on outstanding bonds over the next five years and thereafter are as follows:

Year Ending	*General Fund Principal*	*Interest*	*Multi-Family Program Principal*	*Interest*	*Single Family Program Principal*	*Interest*	*Total*
2008	$ –	$ 742	$ 27,238	$ 15,479	$ 137,455	$ 161,979	$ 342,893
2009	–	742	28,405	14,413	80,460	157,861	281,881
2010	–	742	42,247	12,983	83,685	154,392	294,049
2011	–	742	29,756	11,495	86,605	150,603	279,201
2012	–	742	27,107	10,286	88,415	146,675	273,225
2013– 2017	1,095	3,671	110,320	35,767	465,950	670,150	1,286,953
2018– 2022	2,170	3,352	56,515	15,843	602,772	546,225	1,226,877
2023– 2027	2,675	2,914	21,362	7,024	713,332	395,637	1,142,944
2028– 2032	3,310	2,373	8,105	2,543	758,856	226,824	1,002,011
2033– 2037	10,750	770	5,145	567	593,570	68,922	679,724
2038– 2042	–	–	–	–	23,375	569	23,944
	$ 20,000	$ 16,790	$ 356,200	$ 126,400	$3,634,475	$2,679,837	$6,833,702

Variable Rate Demand Bonds

Variable rate demand bonds have fixed principal maturities and variable interest rates, which are determined and reset periodically by the remarketing agent on each determination date.

Early Extinguishment of Debt

During the years ended June 30, 2007 and 2006, as a result of the prepayment of certain mortgages, the Agency repurchased or redeemed, prior to their scheduled maturity, the principal amount of certain of its bonds, totaling approximately $35,227 and $56,424, respectively. Net losses of $280 and $344 on early extinguishments have been recorded as a non-operating expense for years ended June 30, 2007 and 2006, respectively. These losses arise as a result of immediate recognition of deferred bond issuance costs and discounts that would have been amortized over the life of the applicable bond issues had they not been retired.

Current Refundings

During the year ended June 30, 2007 and 2006, as a result of new debt proceeds, the Agency refunded the principal amount of certain Single Family Bonds, totaling approximately $231,138 and $252,320, respectively. Although the current refunding resulted in the recognition of a deferred loss of $1,196 and $2,038 for the years ended June 30, 2007 and 2006, respectively, the Agency in effect reduced its aggregate debt service payments by $12,534 over the next 30 years and obtained an economic gain (difference between the present value of the old debt and new debt service payments) of $6,210 for the year ended June 30, 2007. The Agency reduced it aggregate debt service payments by $11,397 and obtained an economic gain of $21,750 for the year ended June 30, 2006.

Advance Refundings

The Agency effects an advanced refunding where the proceeds of issued bonds are used to defease outstanding debt of the Agency. The result is an in-substance defeasance whereby the Agency purchases securities, which are depositing into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. The Agency defeased Multifamily Residential Development Bonds, Issue H and M in prior years. At June 30, 2007 and 2006, the defeased principal outstanding is $3,740 and $4,640, respectively.

Conduit Debt Obligations

To provide for the financial assistance of a local public housing authority, the Agency issued one series of Limited Obligation Multifamily Development Bond issue 2003-J. The bond is secured by the property financed and is payable solely from payments received on the underlying loan. The bond does not constitute a debt or pledge of the faith and credit of the Agency, and accordingly has not been reported in the accompanying financial statements. At June 30, 2007, the Limited Obligation Multifamily Development Bond outstanding balance is $10,872.

(in thousands of dollars)

Bond Covenants

Capital reserves have been established by the Agency to meet the requirements of bond covenants. The covenants require minimum capital reserve requirements for the Multi-Family and Single Family Programs. 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 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.

H. Interest Rate Swap

Swap Objectives

In order to both reduce the Agency's overall costs of borrowing long-term capital and protect against the potential of rising interest rates, the Agency enters into pay-fixed, receive-variable interest rate swap agreements at a cost less than what the Agency would have paid to issue conventional fixed-rate debt.

Swap Payments

As of June 30, 2007, debt service requirements of the Agency's outstanding variable-rate debt and net swap payments, assuming current interest rates remain constant, are displayed in the following schedule. As interest rates vary, variable-rate bond interest payments and net swap payments will also vary.

Year Ended June 30	*Variable Rate Bond Principal*	*Variable Rate Bond Interest*	*Interest Rate Swap, Net*	*Total*
2008	$ 31,255	$ 68,721	$ 1,044	$ 101,020
2009	31,830	67,451	1,361	100,642
2010	32,625	66,152	1,523	100,300
2011	31,685	64,820	1,698	98,203
2012	27,905	63,558	1,752	93,215
2013–2017	164,880	300,645	11,450	476,975
2018–2022	260,330	256,142	11,812	528,284
2023–2027	350,040	198,778	9,507	558,325
2028–2032	430,625	117,026	5,551	553,202
2033–2037	362,005	34,003	1,488	397,496
2038–2042	4,585	99	3	4,687
	$ 1,727,765	$ 1,237,395	$ 47,189	$ 3,012,349

Fair Value

Because interest rates have changed since the agreements became effective, a majority of the Agency's interest rate swaps have a positive or negative fair value as of June 30, 2007. Changes in fair values are countered by reductions or increases in total interest payments required under variable-rate bonds. Given that payments on the Agency's variable-rate bonds adjust to changing interest rates, the associated debt does not have corresponding increases in fair value.

Significant Terms

The terms, fair value and credit rating of the Agency's outstanding swaps as of June 30, 2007, are included in the following schedule:

*Counter-Party and Rating**	*Related Bond Issue*	*Notional Amount*	*Effective Date*	*Maturity Date*	*Fixed Rate Paid*	*Variable Rate Received*	*Fair Value of Contract*
Goldman Sachs AAA/Aaa	1999-67B	$21,005	8/2002	4/2029	5.950%	1-month LIBOR plus 50bps	$ (631)
	2000-69B	1,890	3/2000	4/2008	7.305%	3-month LIBOR	(22)
	2001-72	24,350	9/2001	10/2023	5.695%	1-month LIBOR	(346)
	RHR2002A**	63,585	7/2002	1/2021	3.575%	67% of 1-week LIBOR	(871)
	RHR2002B**	21,115	7/2002	1/2021	3.575%	67% of 1-week LIBOR	–
	2002-74	30,000	8/2002	10/2032	4.285%	67% of 1-month LIBOR	(80)
	2003-77B**	59,900	9/2003	10/2033	4.060%	67% of 1-month LIBOR	645
	2003-77C	17,150	9/2003	4/2012	2.690%	67% of 1-month LIBOR	274
	2004-81B	10,650	4/2004	4/2013	2.365%	67% of 1-month LIBOR	285
	2004-81C**	62,740	4/2004	10/2034	3.557%	67% of 1-month LIBOR	2,724
	2004-84C	18,635	9/2004	4/2018	3.115%	67% of 1-month LIBOR	388
	2004-84D**	58,335	9/2004	10/2034	3.879%	67% of 1-month LIBOR	1,161
	2004-86B**	71,565	11/2004	10/2033	3.417%	67% of 1-month LIBOR	1,761
	2004-86C**	19,790	12/2004	10/2035	4.125%	67% of 1-month LIBOR	320
	2005-89**	122,070	6/2005	10/2035	3.605%	67% of 1-month LIBOR	3,372
	2005-91B	70,000	12/2005	10/2036	3.953%	67% of 1-month LIBOR	1,335
	2006-94B	35,165	7/2006	04/2027	4.152%	69% of 1-month LIBOR	(396)
UBS AG AA+/Aaa	2000-70	8,190	4/2001	4/2011	6.927%	1-month LIBOR	213
	2002-73	11,750	3/2002	4/2010	5.017%	1-month LIBOR	(38)
	2002-75	30,000	12/2002	10/2032	3.957%	70% of 1-month LIBOR	(1,221)
	2003-79B**	57,350	12/2003	10/2033	3.997%	65% of 1-month LIBOR + 25bps	(277)
	2004-83B	30,565	8/2004	10/2019	3.410%	65% of 1-month LIBOR + 25bps	(567)
	2004-83C**	42,905	8/2004	10/2035	4.060%	65% of 1-month LIBOR + 25bps	(224)
	2004-85B	30,235	11/2004	4/2019	3.168%	65% of 1-month LIBOR + 25bps	(1,113)
	2004-85C**	44,645	11/2004	10/2035	3.879%	65% of 1-month LIBOR + 25bps	(708)
	2005-87B	44,285	3/2005	10/2023	3.460%	65% of 1-month LIBOR + 25bps	(1,097)
	2005-87C**	47,300	3/2005	10/2035	3.882%	65% of 1-month LIBOR + 25bps	(970)
	2005-90C**	60,820	9/2005	4/2036	3.692%	65% of 1-month LIBOR + 25bps	(3,048)
	2006-92B**	42,870	3/2006	10/2036	3.996%	65% of 1-month LIBOR + 25bps	(1,032)
	2006-95C**	39,180	9/2006	04/2026	4.115%	65% of 1-month LIBOR + 25bps	(81)
	2007-97D1	27,535	3/2007	10/2014	4.922%	1-month LIBOR	(160)
	2007-97D2	13,365	3/2007	4/2012	4.862%	1-month LIBOR	(422)
Bear Stearns AAA/Aaa	RHR2003A**	58,775	6/2003	7/2020	3.457%	70% of 1-month LIBOR	(1,247)
	RHR2003B**	58,775	6/2003	7/2020	3.547%	70% of 1-month LIBOR	(1,172)
Lehman AAA/Aaa	MF2003	20,660	6/2003	4/2019	3.860%	1-month LIBOR + 15bps	1,613
PNC Bank A+/Aa3	VRBD2004	20,000	2/2004	1/2034	3.945%	65% of 1-month LIBOR + 25bps	652
Merrill Lynch AA-/Aa3	2004-82B	48,060	5/2004	10/2030	3.643%	61% of 1-month LIBOR + 39bps	786
	2004-82C**	35,220	5/2004	10/2034	4.164%	61% of 1-month LIBOR + 39bps	(1)
	2005-88B	53,955	5/2005	10/2035	3.500%	61% of 1-month LIBOR + 39bps	1,318
	2005-88C**	31,930	5/2005	10/2035	3.975%	61% of 1-month LIBOR + 39bps	561
	2006-93B	37,185	5/2006	4/2037	4.266%	61% of 1-month LIBOR + 39bps	(390)
	2007-98C**	41,955	5/2007	10/2037	4.105%	61% of 1-month LIBOR + 39bps	678
Royal Bank AA-/Aaa	MF2005-K**	26,885	3/2005	1/2036	5.183%	1-month LIBOR	964

* Credit Ratings supplied by Standard and Poor's/Moody's.
** Indicates an embedded option to reduce the notional amount without a payment to the counterparty.
LIBOR = London Interbank Offered Rate
bps = Basis points.

(in thousands of dollars)

Basis, Interest Rate and Termination Risks

Basis risk exists to the extent the Agency's variable-rate bond payments do not exactly equal the index of the swap. If any of the swaps are terminated, the associated floating rate bonds would no longer carry synthetic fixed interest rates and, thus, the Agency would be exposed to interest rate risk. This risk is mitigated by the fact that the termination payment could be used to enter into an identical swap at the termination date of the existing swap. Further, if any of the swaps have a negative fair value at termination, the Agency would be liable to the counterparty for payments equal to the swaps' fair value. The Agency or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the agreement. Furthermore, the Agency maintains the option to terminate swap agreements anytime. As of June 30, 2007, the Agency is not exposed to any additional termination risk on its interest rate swaps.

Credit Risk

All of the Agency's swaps rely upon the performance of the third parties who serve as swap counterparties, and as a result, the Agency is exposed to credit risk – i.e., the risk that swap counterparty fails to perform according to contractual obligations. The appropriate measurement of the risk at the reporting date is the fair value of the swaps, as shown in the column labeled "Fair value of contract" in the table above. The Agency is exposed to credit risk on the outstanding swaps, which have positive fair values. As of June 30, 2007, the Agency is exposed to a total of $19,050 of credit risk to counterparties. To mitigate credit risk, the Agency maintains strict credit standards for swap counterparties. Additionally, credit events can trigger certain termination provisions of collateral provisions as outlined in the swap agreements.

Rollover Risk

Rollover risk is the risk that a swap associated with a bond issue does not extend to the maturity of that debt. When the swap terminates, the associated debt will no longer have the benefit of the swap. The Agency is exposed to rollover risk on the following debt:

	Debt Associated Bond Issue	*Swap Maturity Dates*	*Termination Dates*
	2000-69B	10/2013	04/2008
	2000-70B	04/2017	04/2011
	2001-72C	10/2024	10/2023
	2002-73C	10/2019	04/2010
*	2004-81B	04/2031	04/2013
*	2004-82B	04/2032	10/2030
*	2004-83B	10/2033	10/2019
*	2004-85B	10/2033	04/2019
*	2004-86B	04/2035	10/2033
*	2005-87B	10/2034	10/2023
*	2005-88B	10/2036	10/2035
*	2005-88C	04/2037	10/2035
	2007-97D1	10/2037	10/2014
	2007-97D2	10/2037	04/2012

* While the maturity dates for these tax-exempt bond issues differ from the associated interest rate swap termination dates, the principal amount of these bond issues outstanding equals the notional value of the associated interest rate swaps.

I. Advances Receivable, Payable and Transfers

A summary of advances to and from other funds is summarized below for the year ended June 30, 2007:

Advance payable fund:	
Multifamily Program	$2,366
Single Family Program	20,398
HEMAP	1,309
Total	$ 24,073
Advance receivable fund:	
General fund	$ 24,073
Interfund transfers in:	
Multifamily Program	$543
Single Family Program	39,815
	$ 40,358
Interfund transfers out:	
General fund	$ 40,358

Advances and the subsequent transfers are used to (1) move funds between the General Fund and the other funds of the Agency for financing mortgage related activities, subsidize debt service payments and other operating advances, (2) to move general Agency revenue to the General Fund from the other funds, and (3) to reimburse the General Fund from the other funds for expenditures paid on behalf of the other funds by the General Fund.

J. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007:

	Beginning Balance July 1, 2006	*Additions*	*Reductions*	*Ending Balance June 30, 2007*
Bonds Payable	$ 3,446,835	$ 929,535	$ 365,694	$ 4,010,676
Net Premium (discount) on Bonds	(8,913)	(2,377)	(1,659)	(9,631)
Deferred refunding loss	(26,794)	(1,196)	(3,501)	(24,489)
Bonds Payable, net	3,411,128	925,962	360,534	3,976,556
Escrow and Other Liabilities	310,726	523,443	508,778	325,391
Total net long-term liabilities	$ 3,721,854	$ 1,449,405	$ 869,312	$ 4,301,947

K. Net Assets

Invested in Capital Assets, net of related debt

This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted Net Assets

Restricted net assets represent those portions of the total net assets that are restricted when constraints placed on net assets use have been either (1) externally imposed by creditors, grantors or laws and regulations of other governments or (2) are imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets

Unrestricted net assets represent those portions of the total net assets set aside to reflect current tentative plans for future operational utilization of such net assets. The Members of the Board may internally designate these assets for specific loan programs to meet the business needs of the Agency.

(in thousands of dollars)

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 unrestricted net assets as follows:

	June 30, 2007	*June 30, 2006*
Single-Family Insurance Fund	$ 16,500	$ 16,500
Multifamily Insurance Fund	10,000	10,000
PennHOMES Program	–	15,000
Housing Initiatives	11,850	11,850
Home Buyer Counseling	6,500	5,500
Home Choice Program	47,150	43,150
Homeless Auxiliary Initiative	1,593	1,593
	$ 93,593	$ 103,593

The designation for the Single Family Insurance fund is 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 Multifamily Insurance Fund is for any event where a loss occurs on any of the multifamily developments for which the Agency acts as an insurer or coinsurer.

The designation for the PennHOMES program provides below market and deferred interest financing to lower development costs for apartment developments financed by the Agency.

The designation for Housing Initiatives provides below market financing for Multifamily and Single Family special developments financed by the Agency.

The designation for Home Buyer Counseling is to provide funding for home buying education to first time homebuyers.

The designation for the Home Choice Program funds the development of single-family homes in urban communities.

The designation for the Homeless Auxiliary Initiative provides funding to homeless shelters and those organizations, which support shelters.

Multifamily Program

Restrictions on the Multifamily Program net assets are as follows:

	June 30, 2007	*June 30, 2006*
Net assets restricted by debt covenants	$ 1,960	$ 1,960

Net assets restricted by debt covenants are required under certain bond indentures, whose proceeds are used to fund the Agency's multifamily programs.

The Agency has internally designated a portion of the Multifamily Program unrestricted net assets as follows:

	June 30, 2007	*June 30, 2006*
PennHOMES Program	$ 137,000	$ 179,290
Senior Housing with Supportive Services	4,000	4,000
Supportive Services	2,300	2,100
Preservation	3,000	2,000
	$ 146,300	$ 187,390

The designation for the PennHOMES Program, funded by unrestricted multifamily proceeds, lowers development costs for apartment developments financed by the Agency.

The designation for Senior Housing with Supportive Services provides funding for rental housing and specialized resident services for elderly residents.

The designation for Supportive Services provides multifamily developments with funds for resident services.

Preservation is a joint venture with the National Housing Trust to preserve and improve affordable multifamily homes for low and moderate-income use. The program saves multifamily developments, 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

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

	June 30, 2007	*June 30, 2006*
Net assets restricted by debt covenants	$ 81,100	$ 88,166

Net assets restricted by debt covenants are required under certain bond indentures, whose proceeds are used to fund the Agency's Single Family loan programs, including the Single Family 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 unrestricted net assets as follows:

	June 30, 2007	*June 30, 2006*
Closing Cost Subsidy Program	$ 14,750	$ 14,750
Additional Single Family Insurance Program	2,455	2,455
	$ 17,205	$ 17,205

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

The designation for the Additional Single Family Insurance Program covers 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 unrestricted net assets of the Insurance Fund as follows:

	June 30, 2007	*June 30, 2006*
Risk retention	$ 45,009	$ 41,527

The designation for additional risk retention provides private single-family mortgage insurance.

HEMAP

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

	June 30, 2007	*June 30, 2006*
Emergency Mortgage Assistance Program	$ 43,760	$ 44,402

The designation for Emergency Mortgage Assistance Program makes available assistance loans to mortgagees facing foreclosure because of circumstances beyond their control.

(in thousands of dollars)

L. Pension Plans

As of June 30, 2007, substantially all eligible full-time employees are participants in the Pennsylvania Housing Finance Agency Employees' Retirement Plan ("Plan") or Government Excess Benefit Plan ("Excess Plan"), both, which are a noncontributory defined benefit, single employer plans.

Plan Descriptions

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 service may receive credit for their time of service providing they contribute funds equivalent to the cost of their pension benefits accumulated during their military service. 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.

All participants in the Plan who will receive retirement benefits in an amount that is less than the benefits otherwise payable under the terms of the Plan due to limitations on benefits imposed by IRC Section 415 shall automatically participate in the Excess Plan. Participation in the Excess Plan will cease for any year in which the retirement benefits from the Plan does not exceed the limitation imposed by IRC Section 415. Pension payments under the Excess Plan are paid in the same form as the pension benefits payable under the Plan.

Funding Policy

Contribution requirements of the Plan and Excess Plan are established and may be amended by the Members of the Board. 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:

	June 30, 2007	*June 30, 2006*
Annual required contribution	$ 2,335	$ 1,482
Employer contributions made	(2,400)	(1,450)
Change in net pension obligation	$ (65)	$ 32
Net pension (asset) obligation		
Beginning of year	(834)	(866)
End of year	$ (899)	$ (834)

The Agency's contribution to the Plan and Excess Plan is shown in the following schedule and exceeded the actuarial required and actual contribution. The actuarial required contribution was computed as part of an actuarial valuation as of January 01, 2007, using the aggregate actuarial cost method. Significant actuarial assumptions used in the valuation include (a) a rate of return on present and future assets of 7.5% per year compounded annually and (b) projected salary increases of 4.5% per year. Both (a) and (b) include an unstated moderate inflation component based on long-term historical average rates. The actuarial value of assets is determined using market values determined by the trustee.

Three-Year Trend Information for the Plan:

Calendar Year Ending	*Annual Pension Cost*	*Percentage of APC Contributed*	*Net Pension (Asset)*
December 31, 2004	$ 1,501	106.6%	$ (866)
December 31, 2005	1,482	97.8%	(834)
December 31, 2006	2,335	102.8%	(899)

M. Contingencies and Commitments

Contingent Liabilities

The Agency participates in several federally assisted programs. Those programs are subject to program audits and adjustments by the grantor agencies or their representatives. Any disallowed claims, including amounts already collected, would become a liability of the Agency. In management's opinion, disallowance, if any, will be immaterial.

Commitments

Outstanding commitments by the Agency to make or acquire multifamily and single-family mortgages aggregate approximately $2,625 and $128,664, respectively, at June 30, 2007.

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.

Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Agency carries commercial insurance.

N. Subsequent Events

On September 06, 2007, the Agency issued $200,000 Single Family Mortgage Revenue Bonds, Series 2007-99A through 2007-99D. The bonds are general obligations of the Agency that bear interest at fixed and variable rates payable on each April 1 and October 1, with a final maturity date of April 1, 2038. The bonds will be primarily secured by program obligations consisting of qualifying single-family mortgage loans purchased from bond proceeds.

On September 06, 2007, the Agency entered into two separate interest rate swap agreements. The purpose of the swap agreements is to effectively convert the variable rate interest associated with the Series 2007-99C and 2007-99D Bonds to a synthetic fixed rate in an effort to hedge the Agency's exposure to interest rate fluctuations and to take advantage of interest rate environments in the financial markets. Under the terms of the agreement, the Agency is to pay to the counterparty a fixed rate of 3.885% and 5.149% respectively, for Series 2007-99C and Series 2007-99D and receive from the counterparty a variable rate equal to 69% of one-month LIBOR and one-month LIBOR, respectively, for Series 2007-99C and Series 2007-99D.

(in thousands of dollars)

Schedule of Retirement Plan Funding Progress

Actuarial Valuation Date	*Actuarial Value of Assets (a)*	*Entry Age Actuarial Accrued Liability (AAL) (b)*	*Unfunded AAL (UAAL) (b-a)*	*Funded Ratio (a/b)*	*Covered Payroll (c)*	*UAAL as a Percentage of Covered Payroll ((b-a)/c)*
01/01/2005	$ 24,704	$ 29,604	$ 4,900	83.4%	$ 10,901	45.0%
01/01/2006	26,864	37,975	11,111	70.7%	11,565	96.1%
01/01/2007	31,939	41,823	9,884	76.4%	12,464	79.3%

The information presented in the required supplemental information schedule is determined as part of the actuarial valuations at the dates indicated.

Pennsylvania Housing Finance Agency

Basic Financial Statements and Required Supplemental Information with Report of Independent Auditors

June 30, 2008 and 2007

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ERNST & YOUNG

Report of Independent Auditors

Members of the Board of Directors
Pennsylvania Housing Finance Agency

We have audited the accompanying financial statements of the General Fund, Multi-family Program, Single Family Program, Insurance Fund and Homeowners Emergency Mortgage Assistance Program (HEMAP) as of and for the years ended June 30, 2008 and 2007, which collectively comprise the basic financial statements, as listed in the table of contents, of the Pennsylvania Housing Finance Agency (PHFA), a component unit of the Commonwealth of Pennsylvania. These financial statements are the responsibility of PHFA's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of PHFA's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PHFA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, Multi-family Program, Single Family Program, Insurance Fund and HEMAP of PHFA, as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 10 and 11, PHFA adopted Government Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension.*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2008 on our consideration of PHFA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, the Schedule of Retirement Plan Funding Progress, and the Schedule of Funding Progress for the Postemployment Healthcare Plan on pages 53 through 84 and 85, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

September 30, 2008

ERNST & YOUNG

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Board of Directors
Pennsylvania Housing Finance Agency

We have audited the financial statements of the General Fund, Multi-family Program, Single Family Program, Insurance Fund and Homeowners Emergency Mortgage Assistance Program (HEMAP) as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the Pennsylvania Housing Finance Agency (PHFA), a component unit of the Commonwealth of Pennsylvania, and have issued our report thereon dated September 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal control over financial reporting

In planning and performing our audit, we considered PHFA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PHFA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PHFA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency FS-2008-1 described below to be a significant deficiency in internal control over financial reporting. However, the significant deficiency was remediated prior to the issuance of this report.

FINDING FS-2008-1

Criteria

PHFA is responsible for the fair presentation of its basic financial statements in conformity with U.S. generally accepted accounting principles (GAAP), and for establishing and maintaining effective internal control over financial reporting.

Condition

Loans forgiven during the year under audit, otherwise reported as assets with carrying values, were not properly removed from the accounts and records of PHFA.

Cause

Promissory notes attached to loan agreements, which contained clauses affording expiration and loan forgiveness to borrowers contingent upon borrowers' adherence to certain terms within the promissory notes and corresponding loan agreements, expired during the year under audit. The promissory notes' expiration resulted in forgiveness of the loans to which they were attached. The forgiven loan amounts, which had otherwise been considered and reported as assets with carrying values, were not properly removed from the accounts and records of PHFA. This resulted in the need for EY to propose an adjusting entry, posted to the accounting records and reflected in the financial statements attributable to the year under audit, to remove the carrying amount of the uncollectible asset.

Effect

The basic financial statements required quantitative adjustment of a nature great enough to conclude that there exists a more than remote likelihood of misstatement of the financial statements that would not otherwise be prevented or detected by PHFA's internal control over financial reporting.

Recommendation

EY recommends that PHFA enhance its system by which promissory notes and corresponding loans subject to potential forgiveness are recorded and monitored, and that loan amounts which may result in a reduction of assets reflected on financial statements prepared in accordance with GAAP be better tracked from the time the underlying loans are initiated. PHFA may consider generating and maintaining a schedule of such loans, reflecting the amount of the loans and both the loans' inception dates and potential expiration dates, and monitoring collectibility on a regular basis. Implementing procedures to better track potentially forgivable loans may help to assist PHFA in reflecting a more accurate or collectible amount of assets relating to loans receivable on its financial statements and improve the design of the PHFA's internal control over financial reporting.

Auditee Position

Agree.

Explanation and Corrective Action to Be Taken

Promissory notes' expirations were not communicated to the accounting functions of PHFA on a timely basis. Although proper accounting of these loans occurred when the notes were originated, future contingencies, which in this case relates to the forgiveness provisions of certain loans and terms thereto, were not made known to those performing accounting functions.

The accounting functions of both the Multifamily and Single Family Programs will maintain and monitor these agreements and contract documents and ensure that related pertinent information accompanies all loan information used to record transactions into PHFA's accounting systems.

In addition, funds will not be disbursed until PHFA obtains a signed copy of the mortgage note pertaining to that disbursement.

Timetable for Implementation

Immediately.

Monitoring to Be Performed

Management will maintain a regular review process of the terms and other conditions of agreements and contracts that affect PHFA's accounting records.

Responsible Person(s)

Director of Accounting and Loan Servicing and the Manager of Finance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and other matters

As part of obtaining reasonable assurance about whether PHFA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

PHFA's response to the finding identified in our audit is described above. We did not audit PHFA's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Members of the Board of Directors, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

September 30, 2008

This discussion and analysis of the financial performance of the Pennsylvania Housing Finance Agency ("Agency") is required supplementary information. It introduces the financial statements for the fiscal year ended June 30, 2008 with selected comparative information for the fiscal year ended June 30, 2007 and 2006. It provides the financial highlights and assessments that, in management's view, significantly affected the Agency's overall financial position. 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 that provide different views of the Agency. They are the Balance Sheet, the Statement of Revenues, Expenses and Change in Net Assets, the Statement of Cash Flows and the accompanying notes to the financial statements.

The Balance Sheet provides information about the liquidity and solvency of the Agency by indicating the nature and the amounts of investments in resources (assets), the obligations to Agency creditors (liabilities) and net assets. Net assets represent the amount of total assets less liabilities. The organization of the statement separates assets and liabilities into current and noncurrent.

The Statement of Revenues, Expenses and Change in Net Assets accounts for all of the current year's revenue and expenses in order to measure the success of the Agency's operations over the past year. It is used to determine how the Agency has funded its costs. By presenting the financial performance of the Agency, the change in net assets is similar to net profit or loss for a business. This statement is organized by separating operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses are defined as those relating to our primary business of funding homes and apartments throughout the Commonwealth of Pennsylvania. Nonoperating revenues and expenses are those that do not contribute directly to our primary business.

The Statement of Cash Flows is presented using the direct method of reporting. It provides information about the Agency's cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities. Cash receipts and payments are presented in this statement to arrive at the net increase or decrease in cash and cash equivalents for each year.

These statements are accompanied by a complete set of notes to the financial statements and required supplementary information regarding the funding progress of the Agency's Retirement and Postemployment Healthcare Plans. They present information that is essential in understanding the financial statements, such as the Agency's accounting methods and policies providing information about the content of the financial statements. Additionally, details of contractual obligations, future commitments, contingencies and developing events that could materially affect the Agency's financial position are disclosed.

FINANCIAL ANALYSIS

The following sections will discuss the Agency's financial results for the three-year period ended June 30, 2008 and should be read in conjunction with the audited financial statements that follow this section. The amounts discussed have been rounded to facilitate reading of this analysis.

Changes in Financial Position

The following tables represent the condensed Balance Sheets and Statement of Revenues, Expenses and Changes in Net Assets:

(in thousands of dollars)	*June 30, 2008*	*June 30, 2007*	*June 30, 2006*	*Percentage Change 2008/2007*	*Percentage Change 2007/2006*
Assets					
Mortgage loans receivable, net	$ 4,281,078	$ 3,859,214	$ 3,368,407	10.9%	14.6%
Capital assets, net	34,838	35,411	35,434	−1.6%	−0.1%
Other assets	1,083,621	1,192,595	1,070,958	−9.1%	11.4%
Total assets	$ 5,399,537	$ 5,087,220	$ 4,474,799	6.1%	13.7%
Liabilities					
Long-term liabilities	4,410,731	4,081,045	3,550,821	8.1%	14.9%
Other liabilities	244,973	294,438	256,229	−16.8%	14.9%
Total liabilities	$ 4,655,704	$ 4,375,483	$ 3,807,050	6.4%	14.9%
Net assets:					
Invested in capital assets, net of related debt	$ 14,914	$ 15,456	$ 15,488	−3.5%	−0.2%
Restricted	84,185	83,060	90,126	1.4%	−7.8%
Unrestricted	644,734	613,221	562,135	5.1%	9.1%
Total net assets	$ 743,833	$ 711,737	$ 667,749	4.5%	6.6%

	June 30, 2008	*June 30, 2007*	*June 30, 2006*	*Percentage Change 2008/2007*	*Percentage Change 2007/2006*
Operating Revenues:					
Interest on mortgage loans	$ 201,535	$ 181,445	$ 158,181	11.1%	14.7%
Federal program awards	461,231	311,745	289,228	48.0%	7.8%
Other income	46,791	41,917	72,171	11.6%	−41.9%
Total operating revenue	709,557	535,107	519,580	32.6%	3.0%
Operating Expense	718,314	535,177	485,656	34.2%	10.2%
Non-operating expense (revenue)	(40,853)	(44,058)	16,300	−7.3%	−370.3%
Change in net assets	$ 32,096	$ 43,988	$ 17,624	−27.0%	149.6%

Financial Highlights

During the fiscal year ended June 30, 2008, the Agency's total assets increased by $312 million due primarily to increases in mortgage loan receivables and investments, which were made possible by the issuance of Agency debt. Total liabilities increased by $280 million due to increases in the related debt to finance mortgage loans. During the prior year, total assets increased by $612 million and total liabilities increased by $568 million over 2006.

The Agency's total increase in net assets was $32 million as a result of this year's operations, for the year ended June 30, 2008, compared with a $44 million increase in net assets in the prior year. Increase in net assets was $18 million for the year ended June 30, 2006. The reduction in the current year's increase of net assets was primarily driven by:

- Increases in interest paid for outstanding long-term debt exceeded the increase of interest received on mortgage loan repayments,
- Increases in salary and related benefits and general and administrative costs to staff mortgage foreclosure prevention initiatives and programs, and
- Increased provision for loan loss influenced by the current mortgage loan environment.

Loan Portfolios

Purchased and construction mortgage loan portfolios are the Agency's primary performing assets. The loan portfolio continues to increase year by year driven by the escalating housing demand in the Commonwealth. The following are key highlights of loan related activities:

- During the year, the Multifamily Program funded approximately $71 million of loans that provide construction and permanent loan financing for rental housing development. That funding activity increased the total loan portfolio by $12 million to $562 million at June 30, 2008 from $550 million at June 30, 2007 after principal payments and adjustments for loan losses. During the prior year, the Multifamily Program funded approximately $43 million of loans. The portfolio increased to $550 million as of June 30, 2007, from $547 million as of June 30, 2006 due to adjustments for loan losses and principal payments.
- The Single Family Program purchased approximately $642 million of new mortgage loans during the year. That activity increased the total portfolio by $400 million to $3.7 billion as of June 30, 2008, from $3.3 billion as of June 30, 2007 after adjustments for loan losses and principal payments. The total loan portfolio of the Agency increased $500 million to $3.3 billion at June 30, 2007 from $2.8 billion at June 30, 2006.
- The Homeowners Emergency Mortgage Assistance Program ("HEMAP") disbursed approximately $20 million of emergency mortgage assistance loans during the year. The total portfolio increased $1 million to $49 million as of June 30, 2008, from $48 million as of June 30, 2007. During the prior year, HEMAP disbursed approximately $22 million of assistance loans maintaining the portfolio at $48 million as of June 30, 2007 and June 30, 2006.

Long-Term Debt Activity

Total liabilities of the Single Family Program increased by $297 million mainly as a result of the issuance of long-term bonds in order to provide funds needed to make new mortgage loans, as described previously. The Single Family Program issued four separate mortgage revenue bonds totaling approximately $610 million. Additionally, the Single Family Program issued a $2.5 million note to fund the Homeowners' Equity Recovery Opportunity Loan Program.

During the prior year, total liabilities outstanding increased by $568 million. The Single Family Program issued five separate single-family mortgage revenue bonds totaling approximately $917 million during the prior year. During fiscal year ended June 30, 2006, total liabilities increased by $165 million, with $530 million in bonds issued.

Change in Net Assets

The Agency reports financial activity financed with debt secured solely by the pledge of net revenues from that activity. The term net assets defines the surplus or deficit of that activity. The following are key highlights of changes in net assets:

- Net assets of the General Fund decreased by approximately $16 million to $108 million at June 30, 2008 from $124 million at June 30, 2007. Net assets decreased by $34 million to $124 million at June 30, 2007 from $158 million at June 30, 2006.
- Net assets of the Multifamily Program decreased by approximately $21 million to $242 million at June 30, 2008 from $263 million at June 30, 2007. Net assets increased by $23 million to $263 million at June 30, 2007 from $240 million at June 30, 2006.
- Net assets of the Single Family Program increased by approximately $68 million to $303 million at June 30, 2008 from $235 million at June 30, 2007. Net assets increased by $51 million to $235 million at June 30, 2007 from $184 million at June 30, 2006.
- Net assets of the Insurance Fund increased by approximately $3 million to $48 million at June 30, 2008 from $45 million at June 30, 2007. Net assets increased approximately $3 million to $45 million from $42 million at June 30, 2007 and 2006, respectively.
- Net assets of HEMAP decreased by approximately $2 million to $42 million at June 30, 2008 from $44 million at June 30, 2007. Net assets remained constant at $44 million at June 30, 2007 and 2006, respectively.

PENNSYLVANIA HOUSING FINANCE AGENCY

BALANCE SHEETS

June 30, 2008 and 2007

(in thousands of dollars)

2008

	General Fund	Multifamily Program	Single Family Program	Insurance Fund	Subtotal	HEMAP	Totals
Assets							
Current Assets:							
Cash and cash equivalents	$ 39,279	$ 199,021	$ 374,682	$ 25,778	$ 638,760	$ 205	$ 638,965
Investments	4,086	4,135	1,999	–	10,220	–	10,220
Accrued interest receivable on investments	263	973	1,527	218	2,981	–	2,981
Mortgage loans receivable, net	–	28,496	64,270	–	92,766	6,404	99,170
Advances to other funds	14,512	–	–	–	14,512	–	14,512
Total current assets	58,140	232,625	442,478	25,996	759,239	6,609	765,848
Noncurrent assets:							
Restricted cash and cash equivalents	–	3,838	80,347	–	84,185	–	84,185
Investments	39,112	65,480	185,773	23,640	314,005	–	314,005
Mortgage loans receivable, net	–	533,797	3,605,821	–	4,139,618	42,290	4,181,908
Capital assets, net	34,815	–	–	–	34,815	23	34,838
Deferred assets	4,093	7,662	6,993	–	18,748	5	18,753
Total noncurrent assets	78,020	610,777	3,878,934	23,640	4,591,371	42,318	4,633,689
Total assets	136,160	$ 843,402	$ 4,321,412	$ 49,636	$ 5,350,610	$ 48,927	$ 5,399,537
Liabilities							
Current liabilities:							
Bonds and notes payable	$ –	$ 27,850	$ 88,390	$ –	$ 116,240	$ –	$ 116,240
Accrued interest payable	387	5,936	41,550	–	47,873	–	47,873
Accounts payable and accrued expenses	3,321	79	1,014	301	4,715	501	5,216
Escrow	–	16,274	44,858	–	61,132	–	61,132
Advances from other funds	–	206	11,500	–	11,706	2,806	14,512
Total current liabilities	3,708	50,345	187,312	301	241,666	3,307	244,973
Noncurrent liabilities:							
Bonds and notes payable	19,924	295,703	3,809,363	–	4,124,990	–	4,124,990
Escrow and other noncurrent liabilities	4,163	255,566	21,908	1,037	282,674	3,067	285,741
Total noncurrent liabilities	24,087	551,269	3,831,271	1,037	4,407,664	3,067	4,410,731
Total liabilities	27,795	601,614	4,018,583	1,338	4,649,330	6,374	4,655,704
Net Assets							
Invested in capital assets, net of related debt	14,891	–	–	–	14,891	23	14,914
Restricted by debt covenants	–	3,838	80,347	–	84,185	–	84,185
Unrestricted	93,474	237,950	222,482	48,298	602,204	42,530	644,734
Total net assets	108,365	241,788	302,829	48,298	701,280	42,553	743,833
Total liabilities and net assets	$ 136,160	$ 843,402	$ 4,321,412	$ 49,636	$ 5,350,610	$ 48,927	$ 5,399,537

2007

	General Fund	Multifamily Program	Single Family Program	Insurance Fund	Subtotal	HEMAP	Totals
Assets							
Current Assets:							
Cash and cash equivalents	$ 14,965	$ 273,987	$ 427,526	$ 32,692	$ 749,170	$ –	$ 749,170
Investments	9,244	2,218	23,652	–	35,114	–	35,114
Accrued interest receivable on investments	503	655	3,357	131	4,646	–	4,646
Mortgage loans receivable, net	–	27,507	57,271	–	84,778	6,335	91,113
Advances to other funds	24,073	–	–	–	24,073	–	24,073
Total current assets	48,785	304,367	511,806	32,823	897,781	6,335	904,116
Noncurrent assets:							
Restricted cash and cash equivalents	–	1,960	81,100	–	83,060	–	83,060
Investments	63,030	48,129	154,476	13,054	278,689	–	278,689
Mortgage loans receivable, net	–	522,433	3,203,719	–	3,726,152	41,949	3,768,101
Capital assets, net	35,377	–	–	–	35,377	34	35,411
Deferred assets	2,280	10,091	5,466	–	17,837	6	17,843
Total noncurrent assets	100,687	582,613	3,444,761	13,054	4,141,115	41,989	4,183,104
Total assets	$ 149,472	$ 886,980	$ 3,956,567	$ 45,877	$ 5,038,896	$ 48,324	$ 5,087,220
Liabilities							
Current liabilities:							
Bonds and notes payable	$ –	$ 27,238	$ 137,455	$ –	$ 164,693	$ –	$ 164,693
Accrued interest payable	392	6,253	37,648	–	44,293	–	44,293
Accounts payable and accrued expenses	3,222	11	899	258	4,390	780	5,170
Escrow	–	40,501	15,708	–	56,209	–	56,209
Advances from other funds	–	2,366	20,398	–	22,764	1,309	24,073
Total current liabilities	3,614	76,369	212,108	258	292,349	2,089	294,438
Noncurrent liabilities:							
Bonds and notes payable	19,921	324,207	3,467,735	–	3,811,863	–	3,811,863
Escrow and other noncurrent liabilities	1,791	222,974	41,332	610	266,707	2,475	269,182
Total noncurrent liabilities	21,712	547,181	3,509,067	610	4,078,570	2,475	4,081,045
Total liabilities	25,326	623,550	3,721,175	868	4,370,919	4,564	4,375,483
Net Assets							
Invested in capital assets, net of related debt	15,456	–	–	–	15,456	–	15,456
Restricted by debt covenants	–	1,960	81,100	–	83,060	–	83,060
Unrestricted	108,690	261,470	154,292	45,009	569,461	43,760	613,221
Total net assets	124,146	263,430	235,392	45,009	667,977	43,760	711,737
Total liabilities and net assets	$ 149,472	$ 886,980	$ 3,956,567	$ 45,877	$ 5,038,896	$ 48,324	$ 5,087,220

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

PENNSYLVANIA HOUSING FINANCE AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended June 30, 2008 and 2007

(in thousands of dollars)

	2008							2007						
	General Fund	*Multifamily Program*	*Single Family Program*	*Insurance Fund*	*Subtotal*	*HEMAP*	*Totals*	*General Fund*	*Multifamily Program*	*Single Family Program*	*Insurance Fund*	*Subtotal*	*HEMAP*	*Totals*
Operating revenues:														
Fee income	$ 30,025	$ –	$ 3,436	$ 313	$ 33,774	$ 254	$ 34,028	$ 27,122	$ 38	$ 2,454	$ 451	$ 30,065	$ 351	$ 30,416
Interest on mortgage loans	–	33,445	167,213	–	200,658	877	201,535	–	35,484	144,986	–	180,470	975	181,445
Federal program awards	–	459,687	1,544	–	461,231		461,231	–	311,745	–	–	311,745	–	311,745
Other Income	78	1,473	–	–	1,551	11,212	12,763	–	1,501	–	–	1,501	10,000	11,501
Total operating revenue (loss)	30,103	494,605	172,193	313	697,214	12,343	709,557	27,122	348,768	147,440	451	523,781	11,326	535,107
Operating expenses:														
Interest on bonds	788	17,079	180,595	–	198,462	–	198,462	825	14,854	156,738	–	172,417	–	172,417
Salaries and related benefits	22,155	–	–	–	22,155	2,871	25,026	18,371	–	–	–	18,371	2,300	20,671
General and administrative	5,288	2,359	5,076	600	13,323	2,065	15,388	5,367	2,130	4,830	400	12,727	2,106	14,833
Provision for loan loss	–	8,042	1,400	–	9,442	8,765	18,207	–	6,200	1,600	–	7,800	7,711	15,511
Federal program awards expense	–	459,687	1,544	–	461,231		461,231	–	311,745	–	–	311,745	–	311,745
Total operating expenses	28,231	487,167	188,615	600	704,613	13,701	718,314	24,563	334,929	163,168	400	523,060	12,117	535,177
Net operating income (loss)	1,872	7,438	(16,422)	(287)	(7,399)	(1,358)	(8,757)	2,559	13,839	(15,728)	51	721	(791)	(70)
Nonoperating revenue (expenses):														
Investment income	4,614	4,294	28,447	3,576	40,931	151	41,082	4,204	8,756	27,808	3,421	44,189	149	44,338
Loss on early extinguishment of debt	–	(31)	(198)	–	(229)	–	(229)	–	(132)	(148)	–	(280)	–	(280)
Income (loss) before transfers	6,486	11,701	11,827	3,289	33,303	(1,207)	32,096	6,763	22,463	11,932	3,472	44,630	(642)	43,988
Transfers:														
Ttransfers out (in)	22,267	33,343	(55,610)	–	–	–	–	40,358	(543)	(39,815)	–	–	–	–
Change in net assets	(15,781)	(21,642)	67,437	3,289	33,303	(1,207)	32,096	(33,595)	23,006	51,747	3,472	44,630	(642)	43,988
Total net assets – beginning of year	124,146	263,430	235,392	45,009	667,977	43,760	711,737	157,741	240,424	183,645	41,537	623,347	44,402	667,749
Total net assets – end of year	$ 108,365	$ 241,788	$ 302,829	$ 48,298	$ 701,280	$ 42,553	$ 743,833	$ 124,146	$ 263,430	$ 235,392	$ 45,009	$ 667,977	$ 43,760	$ 711,737

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

PENNSYLVANIA HOUSING FINANCE AGENCY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2008 and 2007

(in thousands of dollars)

	2008							2007						
	General Fund	*Multifamily Program*	*Single Family Program*	*Insurance Fund*	*Subtotal*	*HEMAP*	*Totals*	*General Fund*	*Multifamily Program*	*Single Family Program*	*Insurance Fund*	*Subtotal*	*HEMAP*	*Totals*
Cash flows from operating activities														
Receipts from principal payments on mortgage loans	$ –	$ 58,870	$ 233,115	$ –	$ 291,985	$ 10,750	$ 302,735	$ –	$ 39,772	$ 240,762	$ –	$ 280,534	$ 22,199	$ 302,733
Receipts from fees, charges and other receipts	30,025	–	3,436	313	33,774	11,466	45,240	27,122	1,539	2,454	451	31,566	10,351	41,917
Receipts from interest on mortgages	–	33,127	169,043	–	202,170	948	203,118	–	38,243	151,957	–	190,200	975	191,175
Receipts for funds held in escrow	2,450	9,838	9,726	–	22,014	–	22,014	1,487	10,437	2,872	1	14,797	–	14,797
Payments for mortgages purchased and advances	–	(71,223)	(642,216)	–	(713,439)	(19,907)	(733,346)	–	(42,862)	(727,863)	–	(770,725)	(22,851)	(793,576)
Payments to employees and suppliers	(27,600)	(7,904)	(7,888)	(217)	(43,609)	(4,698)	(48,307)	(20,743)	(8,247)	(7,351)	(275)	(36,616)	(12,003)	(48,619)
Net cash provided by (used in) operating activities	4,875	22,708	(234,784)	96	(207,105)	(1,441)	(208,546)	7,866	38,882	(337,169)	177	(290,244)	(1,329)	(291,573)
Cash flows from noncapital financing activities														
Proceeds from the sale of bonds	–	180,790	609,625	–	790,415	–	790,415	–	12,600	916,935	–	929,535	–	929,535
Payments for retirement of bonds	–	(208,713)	(317,260)	–	(525,973)	–	(525,973)	–	(36,698)	(327,692)	–	(364,390)	–	(364,390)
Payments of bond interest	–	(17,396)	(176,693)	–	(194,089)	–	(194,089)	–	(15,528)	(148,689)	–	(164,217)	–	(164,217)
Operating subsidies and transfers to other funds	(12,706)	(35,503)	46,712	–	(1,497)	1,497	–	(20,600)	298	19,647	–	(655)	655	–
Net cash provided by (used in) noncapital financing activities	(12,706)	(80,822)	162,384	–	68,856	1,497	70,353	(20,600)	(39,328)	460,201	–	400,273	655	400,928
Cash flows from capital financing activities														
Purchases of capital assets	(755)	–	–	–	(755)	(2)	(757)	(1,304)	–	–	–	(1,304)	(16)	(1,320)
Interest paid on capital debt	(790)	–	–	–	(790)	–	(790)	(820)	–	–	–	(820)	–	(820)
Net cash used in capital financing activities	(1,545)	–	–	–	(1,545)	(2)	(1,547)	(2,124)	–	–	–	(2,124)	(16)	(2,140)
Cash flows from investing activities														
Proceeds from sales and maturities of investments	91,412	82,955	996,371	–	1,170,738	–	1,170,738	28,092	148,489	1,649,243	1,842	1,827,666	–	1,827,666
Interest and dividends	1,343	6,471	26,827	1,990	36,631	151	36,782	4,002	5,220	26,690	1,049	36,961	149	37,110
Purchases of investments	(59,065)	(104,400)	(1,004,395)	(9,000)	(1,176,860)	–	(1,176,860)	(33,999)	(63,896)	(1,725,327)	–	(1,823,222)	–	(1,823,222)
Net cash provided by (used in) investing activities	33,690	(14,974)	18,803	(7,010)	30,509	151	30,660	(1,905)	89,813	(49,394)	2,891	41,405	149	41,554
Net increase (decrease) in cash and cash equivalents	24,314	(73,088)	(53,597)	(6,914)	(109,285)	205	(109,080)	(16,763)	89,367	73,638	3,068	149,310	(541)	148,769
Cash and cash equivalents, beginning of year	14,965	275,947	508,626	32,692	832,230	–	832,230	31,728	186,580	434,988	29,624	682,920	541	683,461
Cash and cash equivalents, end of year	$ 39,279	$ 202,859	$ 455,029	$ 25,778	$ 722,945	$ 205	$ 723,150	$ 14,965	$ 275,947	$ 508,626	$ 32,692	$ 832,230	$ –	$ 832,230

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

PENNSYLVANIA HOUSING FINANCE AGENCY

STATEMENTS OF CASH FLOWS, CONTINUED

Years Ended June 30, 2008 and 200

(in thousands of dollars)

2008

	General Fund	Multifamily Program	Single Family Program	Insurance Fund	Subtotal	HEMAP	Totals
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	$ 1,872	$ 7,438	$ (16,422)	$ (287)	$ (7,399)	$ (1,358)	$ (8,757)
Interest expense on bonds	788	17,079	180,595	–	198,462	–	198,462
Provision for loan loss	–	8,042	1,400	–	9,442	8,765	18,207
Depreciation, amortization and accretion	1,317	–	–	–	1,317	13	1,330
Changes in assets and liabilities:							
Mortgage loans receivable, net	–	(20,395)	(410,501)	–	(430,896)	(9,175)	(440,071)
Accrued interest receivable on investments	240	(318)	1,830	(87)	1,665	–	1,665
Deferred and other assets	(1,813)	2,429	(1,527)	–	(911)	1	(910)
Accounts payable and accrued expenses	99	68	115	43	325	(279)	46
Escrow and other liabilities	2,372	8,365	9,726	427	20,890	592	21,482
Net cash provided by (used in) operating activities	$ 4,875	$ 22,708	$ (234,784)	$ 96	$ (207,105)	$ (1,441)	$ (208,546)

2007

	General Fund	Multifamily Program	Single Family Program	Insurance Fund	Subtotal	HEMAP	Totals
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	$ 2,559	$ 13,839	$ (15,728)	$ 51	$ 721	$ (791)	$ (70)
Interest expense on bonds	825	14,854	156,738	–	172,417	–	172,417
Provision for loan loss	–	6,200	1,600	–	7,800	7,711	15,511
Depreciation, amortization and accretion	1,333	–	–	–	1,333	10	1,343
Changes in assets and liabilities:							
Mortgage loans receivable, net	–	(9,290)	(488,701)	–	(497,991)	(8,363)	(506,354)
Accrued interest receivable on investments	609	2,759	6,971	(27)	10,312	35	10,347
Deferred and other assets	1,365	83	(947)	1	502	43	545
Accounts payable and accrued expenses	(312)	–	2,872	152	2,712	26	2,738
Escrow and other liabilities	1,487	10,437	26	–	11,950	–	11,950
Net cash provided by (used in) operating activities	$ 7,866	$ 38,882	$ (337,169)	$ 177	$ (290,244)	$ (1,329)	$ (291,573)

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

1. Description of the Agency

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 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.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Agency are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, regardless of when the cash flow takes place. Expenses are charged as incurred, except those directly related to mortgage loan or program originations, which are deferred, netted against fee income for mortgage loans originated, and amortized over the contractual life of the related mortgage loan or program.

The Agency is required to follow all statements of the Governmental Accounting Standards Board (GASB). GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, was issued to give guidance in determining Generally Accepted Accounting Principles for governmental proprietary funds. It provides that all proprietary fund activities follow all Financial Accounting Standards Board (FASB) Statements issued prior to November 30, 1989, unless they conflict with GASB standards. It also provides that the governmental unit must elect whether to follow FASB Statements after that date. The Agency has elected not to follow FASB pronouncements issued after November 30, 1989.

Reporting Entity

The Agency is a component unit of the Commonwealth of Pennsylvania as described in GASB Statement No. 14, as amended by GASB Statement No. 39, *"Determining whether Certain Organizations are Component Units."* These financial statements are discretely presented as part of the Commonwealth's financial statements.

Description of Funds

The accounts of the Agency are organized based on separate enterprise funds, each of which is considered a separate accounting entity with a separate set of self-balancing accounts that comprise assets, liabilities, net assets, revenues and expenses. Within each fund, there are accounts required by the respective bond resolutions. Certain assets under the respective bond resolutions are restricted and are not available for any other purpose other than as provided.

General Fund– The General fund is utilized to record transactions that are not directly related to a specific bond resolution. All Agency expenses are recorded in this fund except for specific program expenses that are charged to the loan-related funds.

Multifamily Program– Multifamily Program transactions relate to the construction, rehabilitation and permanent financing of multifamily rental housing developments generally designed for persons and families of low and moderate income or the elderly.

Single Family Program– 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.

Homeowners Emergency Mortgage Assistance Program ("HEMAP")– HEMAP was created by Act 91 of the General Assembly to provide emergency mortgage assistance loans to mortgagors facing foreclosure because of circumstances beyond their control. The Agency administers this program through Commonwealth appropriations, investment earnings and loan repayments.

Cash and Cash Equivalents

Cash includes cash on hand and cash deposits. Cash equivalents are investments with a maturity of three months or less when purchased and include short-term highly liquid money market funds, which are readily convertible to known amounts of cash.

Investments

In accordance with GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and External Investment Pools,"* investments are reported at fair value on the balance sheet, with changes in fair value recognized in investment income in the statement of revenues, expenses, and changes in net assets. Fair value of investment securities is determined upon values provided by quoted market prices and external investment managers.

Mortgage Loans Receivable

Mortgage loans receivable are carried at amounts disbursed or advanced plus accrued interest, and fees, less collections, mortgage loan discounts and allowance for loan losses, if any. Current portions of loans receivable represents the contractual amount due within the next fiscal 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.

Capital Assets

Building, furniture and equipment are capitalized at costs and depreciation is provided on the straight-line basis over the estimated useful lives, which are thirty years for the building and from three to ten years for furniture and equipment. The capitalization floor is $1 for all categories of capital assets. Maintenance and repairs are charged to operating expense.

Real Estate Owned

During the normal course of business, the Agency acquires single-family real estate as a result of non-performing loans. The outstanding mortgage balances attributable to these properties, stated at cost, are included in mortgage loans receivable on the balance sheet. In addition to potential recoveries from mortgagors, these non-performing loans include amounts recoverable through both federal Housing and Urban Development Agency and private mortgage insurance.

Derivative Financial Instruments

The Agency enters into various interest rate swap agreements in order to manage risk associated with interest on its bond portfolio. As currently allowed under accounting principals generally accepted in the United States, the Agency does not record the fair value or changes in the fair value of interest rate swaps in its financial statements.

Advances To and From Other Funds and Interfund Transfers

To meet liquidity requirements of individual funds, the Agency transfers funds to and from the separate enterprise funds. The Agency makes interfund transfers to the extent that such transfers are not required to meet the Agency's debt obligations and if such transfers are not in violation of the terms of bond resolutions or indentures.

Operating and Nonoperating Revenues and Expenses

The Agency was created with the authority to issue bonds to the investing public in order to create a flow of capital through the Agency into mortgage loans to qualified housing sponsors and to certain individuals. The Agency's primary purpose is to borrow funds in the bond market and to use those funds to make single-family and multifamily mortgages and loans. Its primary operating revenue is derived from the interest income and fees from those mortgages and loans. Revenues from mortgages and loans and externally funded programs are recorded as operating revenues. Primary operating expenses are the interest expenses on outstanding debt. Revenues and expenses that do not contribute to the Agency's primary purpose are considered nonoperating.

(in thousands of dollars)

Interest Income

Interest income is recognized over the remaining time to maturity of investment securities, mortgage loans receivable and construction advances based upon the constant yield method. Multifamily and Single Family Program loans more than 180 days delinquent in scheduled payments are considered nonperforming loans which result in the cessation of recognition of additional interest on such loans.

Pass-through Grants

The Agency follows 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 operating income and expense when eligible expenses occur.

Debt Issuance Costs, Bond Discounts and Other Bond Related Costs

The Agency issues bonds to provide capital for its mortgage programs and other uses consistent with its mission. Bonds are recorded at cost plus accreted interest and premiums, less discounts and deferred debt refunding losses. Discounts and premiums are amortized using the effective interest method. Deferred debt refunding losses are amortized over the shorter of the remaining life of the old debt, or the remaining life of the new debt. The Agency capitalizes costs related to bond issuances to deferred assets and amortizes these costs to interest expense over the contractual life of the bonds using the effective interest method.

Pension Plan and Other Post Employment Benefits

GASB Statement No. 27, *"Accounting for Pensions by State and Local Governmental Employers,"* amended by GASB Statement No. 50, *"Pension Disclosures–an amendment of GASB Statements No. 25 and No. 27,"* requires the Agency to measure and disclose amounts for annual pension cost and net pension obligations.

GASB Statement No 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension" requires the Agency to establish standards for the measurement, recognition and disclosure of OPEB expenses and related liabilities (assets) and note disclosures in the financial reports.

Compensated Absences

Agency employees are granted vacation and illness pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitations, unused vacation and illness pay earned and, upon retirement, termination or death, may be compensated for certain amounts at their current rate of pay. Vacation and illness pay is recognized as an expense in the amount earned each year.

Net Assets

Net assets comprise the excess of revenues over expenses from operating income, non-operating revenues and expenses. Net assets are classified in the following three components:

Invested in Capital Assets, Net of Related Debt– This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted by Debt Covenants– The Agency has restricted net assets in amounts sufficient to meet required debt service and operating expenses as defined by each bond resolution.

Unrestricted– This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt. This component includes net assets that may be designated for specific purposes by the Members of the Board.

When both restricted and unrestricted resources are available in a fund, it is the Agency's policy to spend restricted resources to the extent allowed and only spend unrestricted resources when needed.

Pending Governmental Accounting Standards Board Pronouncements

In June 2008, the GASB issued Statement 53, *"Accounting and Financial Reporting for Derivative Instruments."* This statement is intended to improve how governmental entities report information about derivative instruments–financial arrangements used by governments to manage specific risks or make investments–in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting, and also addresses hedge accounting requirements. PHFA is required to adopt GASB Statement No. 53 for its 2010 financial statements. The Agency is currently evaluating the impact of implementing Statement No. 53 on its financial statements.

Recently Adopted Accounting Standards

GASB Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension."* This statement establishes standards for the measurement, recognition, and display of other postemployment benefit expenses and related liabilities, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The financial statements incorporate the changes required by Statement No. 45, effective for the year ended June 30, 2008, see note 11.

GASB Statement No. 50, *"Pension Disclosures–an amendment of Government Accounting Standards Board Statements No. 25 and No. 27."* This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. Note 10 to the financial statements incorporate the changes required by Statement No. 50, effective for the year ended June 30, 2008.

Reclassifications

Certain reclassifications have been made in the June 30, 2007 financial statements to conform to the June 30, 2008 presentation.

3. Deposits and Investments

Deposits

The Agency has a policy that cash and cash equivalents must be held in insured depositories satisfactory to the Agency and must be fully collateralized. Cash and cash equivalents consist of demand deposits, time deposits, cash held in trust and Money Market Funds. A summary of the Agency's cash and cash equivalents is shown below:

	June 30, 2008	*June 30, 2007*
Restricted cash and cash equivalents	$ 84,185	$ 83,060
Unrestricted cash and cash equivalents	638,965	749,170
Carrying amount of cash and cash equivalents	$ 723,150	$ 832,230
Bank balance of cash and cash equivalents	$ 722,897	$ 830,612

Note: Restricted cash and cash equivalents represent the amount of cash deposits restricted by bond resolutions.

Custodial Credit Risk

The Agency assumes levels of custodial credit risk for its cash and cash equivalents with financial institutions. Custodial credit risk is the risk that, in the event of a bank failure, the Agency's cash and cash equivalents may not be returned. The Agency has not established a formal custodial credit risk policy for its cash and cash equivalents.

At June 30, 2008, the carrying value of the Agency's cash deposits equaled $21,756 and the bank balance equaled $28,473, of which $28,088 was uninsured and collateralized in accordance with Act 72 of the Commonwealth of Pennsylvania, with securities held by the pledging financial institution, its trust department or agent, but not in the Agency's name. The difference between total cash and cash equivalents and total deposits represents Money Market Funds equaling $701,394, with a bank balance of $694,424, that does not expose the Agency to custodial credit risk.

Investments

The investment policies of the Agency are governed by Commonwealth statutes and contractual provisions contained in the bond trust indentures. The primary objectives of the Agency's investment activities are to provide suitable returns, preserve principal, meet liquidity needs and to further the purposes of the Agency.

Interest Rate Risk

The Agency's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Agency has elected to use the segmented time distribution method of disclosure for its interest rate risk.

(in thousands of dollars)

As of June 30, 2008, the Agency held the following investments with the listed maturities:

Investment Type	Fair Value	Investment Maturities (in years) Less than 1	1–5	6–10	More than 10
U.S. Government Agency Securities*	$ 294,933	$ 8,189	$ 251,255	$ 2,902	$ 32,587
U.S. Treasury Securities*	19,076	32	–	19,044	–
Corporate bonds	10,216	2,000	6,258	1,958	–
	$ 324,225	$ 10,221	$ 257,513	$ 23,904	$ 32,587

In addition to the amounts listed above, at June 30, 2008 the Agency held investments in Money Market Funds with a fair value of $701,394, reported as cash equivalents, all with maturities of less than 90 days.

As of June 30, 2008, the Agency had investments in various mortgage-backed securities, which substantially included $54,805, $86,616 and $57,129 invested in the Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Federal Home Loan Bank, respectively. These securities, listed as U.S. Government Agency Securities above, are sensitive to interest rate changes because, for example, borrowers have the option to prepay their mortgages.

Credit Risk

The Agency mitigates its credit risk by limiting investments to those permitted in the deposit and investment policies, diversifying the investment portfolio and pre-qualifying firms with which the Agency administers its investment activities. As of June 30, 2008, the Agency's exposure to credit risk was as follows (ratings by Moody's Investors Service):

Investment Type	Fair Value	Quality Ratings Aaa	Aa	A	Baa	Unrated*
U.S. Government Agency Obligations	$ 294,933	$ 229,478	$ –	$ –	$ 7,772	$ 57,683
U.S. Treasury Securities	19,076		–	–	–	19,076
Corporate bonds	10,216	–	1,950	6,266	–	2,000
	$ 324,225	$ 229,478	$ 1,950	$ 6,266	$ 7,772	$ 78,759

*Unrated debt investments are securities that are not rated by the NRSROs. Investments guaranteed by the full faith of the U.S. Government, such as U.S. Treasury Securities, are not considered to be subject to credit risk and do not require disclosure of credit quality

Of the $701,394 fair value in Money Market Funds, reported as cash equivalents, $685,114 is rated Aaa by Moody's Investors Service and $16,280 is not rated.

Concentration of Credit Risk

Concentration risk is the risk of loss attributed to the magnitude of the Agency's investment in a single investment issuer. Concentration limits are not established in the bond indentures and governing agreements for trust investments. Investments in any one issuer that represent 5% or more of total investments as of June 30, 2008 were as follows:

Issuer	Total Investments	Percent of Total
Federal Home Loan Mortgage Corporation	$86,616	8%
Federal Home Loan Bank	57,129	6%
Federal National Mortgage Association	54,805	5%
Federal Farm Credit Banks	53,958	5%

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the custodian or counterparty holding the investment, the Agency will not be able to recover the value of the investment. The Agency has not established a formal custodial credit risk policy for its investments. All of the Agency's $324,225 investment balance at June 30, 2008 is held by bank trust departments, acting as the counterparty, in book entry only form in the Agency's name and accordingly was subject to custodial credit risk. The total investment in Money Market Funds equaling $701,394, reported as cash equivalents, does not expose the Agency to custodial credit risk.

4. Mortgage Loans Receivable

Mortgage loans receivable at June 30, 2008 and 2007 consisted of the following:

	June 30, 2008	June 30, 2007
Multifamily mortgage loans	$ 732,889	$ 714,585
Single Family mortgage loans	3,646,407	3,240,913
HEMAP loans	89,275	86,988
	4,468,571	4,042,486
Add:		
Loan discounts	25,072	21,515
Less:		
Allowance for potential loan losses	212,565	204,787
Mortgage receivable, net	4,281,078	3,859,214
Less current portion	99,170	91,113
Long-term portion	$ 4,181,908	$ 3,768,101

Multifamily mortgage loans receivable are collateralized by first mortgages on the related properties. The federal government provides insurance to certain developments included in the Multifamily program, as well as subsidizes certain developments through its Section 8 Program. Construction advances are recorded as mortgage loans receivable. Amortization of the advances commences upon substantial completion and occupancy of the development. Insurance for the Single Family Program is provided by commercial companies and self-insurance through the Agency's Insurance Fund. 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. It is the eligible borrowers' responsibility to bear the cost of primary insurance.

The Agency provides primary mortgage insurance coverage for certain 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, 2008 and 2007, the total loans covered under this program were $52,518 and $65,742, respectively.

Changes in the Insurance Fund's claim liability amounts were as follows:

	June 30, 2008	June 30, 2007
Beginning Balance	$ 868	$ 709
Current year estimated claims payable	600	400
Claim payments	(130)	(241)
Total claim liability	1,338	868
Less current portion	301	258
Long-term portion	$ 1,037	$ 610

The claims liability is based on the requirements of the GASB, which requires that the basis for estimating the liability for unpaid claims, including the effects of specific incremental claim adjustment expenses, salvage, and subrogation and whether other allocated or unallocated claim adjustment expenses are included.

Changes in the allowance for potential loan losses for the Multifamily Program, Single Family Program and HEMAP were as follows at June 30, 2008 and 2007:

(in thousands of dollars)

	Multifamily		Single Family		HEMAP		Totals	
	2008	2007	2008	2007	2008	2007	2008	2007
Beginning Balance	$ 161,818	$155,979	$ 4,265	$ 3,433	$ 38,704	$ 37,525	$204,787	$196,937
Loss Provision	8,042	6,200	1,400	1,600	8,765	7,711	18,207	15,511
Net Charge-offs	(2,042)	(361)	(1,499)	(768)	(6,888)	(6,532)	(10,429)	(7,661)
Balance, June 30	$ 167,818	$ 161,818	$ 4,166	$ 4,265	$ 40,581	$ 38,704	$212,565	$204,787

5. Servicing Portfolio

The Agency receives fee income in the General Fund for servicing mortgage loans for investors. Since these loans are not reported on the balance sheet of the Agency, there is no exposure of loss to the Agency relating to these loans. The total amount of loans serviced for others under servicing agreements is $121,734 and $137,662 at June 30, 2008 and 2007, respectively.

6. Capital Assets

Capital assets activity for the year ended June 30, 2008 consisted of:

	Beginning Balance July 1, 2007	Additions	Deletions	Ending Balance June 30, 2008
Non depreciable capital assets:				
Land	$ 2,454	$ –	$ –	$ 2,454
Total non depreciable capital assets	2,454	–	–	2,454
Depreciable capital assets:				
Building and Improvements	29,647	100	6	29,741
Computers and Equipment	5,452	582	–	6,034
Furniture and Fixtures	4,276	79	6	4,349
Automobiles	126	–	14	112
Total depreciable capital assets	39,501	761	26	40,236
Less accumulated depreciation:				
Building and Improvements	2,523	612	–	3,135
Computers and Equipment	3,174	453	-	3,627
Furniture and Fixtures	802	247	5	1,044
Automobiles	45	16	15	46
Total accumulated depreciation:	6,544	1,328	20	7,852
Total depreciable capital assets, net	32,957	(567)	6	32,384
Capital Assets, net	$ 35,411	$ (567)	$ 6	$ 34,838

Capital assets activity for the year ended June 30, 2007 consisted of:

	Beginning Balance July 1, 2006	Additions	Deletions	Ending Balance June 30, 2007
Non depreciable capital assets:				
Land	$ 2,060	$ 394	$ –	$ 2,454
Total non depreciable capital assets	2,060	394	–	2,454
Depreciable capital assets:				
Building and Improvements	29,075	588	16	29,647
Computers and Equipment	5,269	220	37	5,452
Furniture and Fixtures	4,278	119	121	4,276
Automobiles	61	68	3	126
Total depreciable capital assets	38,683	995	177	39,501
Less accumulated depreciation:				
Building and Improvements	1,901	622	–	2,523
Computers and Equipment	2,758	452	36	3,174
Furniture and Fixtures	611	263	72	802
Automobiles	39	6	–	45
Total accumulated depreciation:	5,309	1,343	108	6,544
Total depreciable capital assets, net	33,374	(348)	69	32,957
Capital Assets, net	$ 35,434	$ 46	$ 69	$ 35,411

Depreciation expense for June 30, 2008 and 2007 totaled $1,328 and $1,343, respectively.

7. Bonds and Notes Payable

Bonds issued to provide capital for mortgage programs and other uses have the full faith and credit of the Agency pledged for repayment of the bonds issued. The bonds are secured, as described in the applicable agreements by the revenues, investments, mortgage loans and others assets in the fund and accounts established by the respective security agreements. A substantial portion of the assets of the Agency is pledged to the outstanding obligations of the Agency.

Bonds issued and outstanding for the General Fund are as follows:

Description of Bonds as Issued	Final Maturity Date	Amounts Outstanding June 30, 2008	2007
Variable Rate Building Development Bonds	2034	$ 20,000	$ 20,000
Unamortized bond discount		(76)	(79)
Total bonds payable		19,924	19,921
Less current portion		–	–
Long-term portion		$ 19,924	$ 19,921

(in thousands of dollars)

Bonds issued and outstanding for the Multifamily Program are as follows:

Description of Bonds as Issued	Final Maturity Date	Amounts Outstanding June 30, 2008	2007
Multi-Family Development Bonds			
Issue 1990A, 7.5%	2023	$ 1,595	$ 1,639
Subordinate Limited Obligation Bonds			
Issue 1995, 5.50-6.15%	2021	3,228	3,397
Rental Housing Refunding Bonds			
Series 2008A/B, variable rate	2021	73,740	79,550
Series 2008C/D, variable rate	2020	107,050	117,550
Residential Development Bonds			
Issue 2002 (refunding), 1.80%-5.25%	2024	29,535	32,980
Multifamily Development Bonds			
Issue 1989B, 8.25%	2019	365	385
Issue 1993A (refunding), 5.38%	2022	10,560	11,125
Issue 1993F, 6.53%	2019	5,020	5,325
Issue 1997G.7.36%	2027	9,340	9,555
Issue 1998H, 6.3%	2028	15,345	15,705
Issue 2003 (refunding), 3.25-4.80%	2019	13,875	18,150
Issue 2005A, 4.00-5.00%	2025	20,615	21,355
Issue 2005K, variable rate	2036	26,350	26,885
Issue 2007L, 4.20%	2009	12,600	12,600
		329,218	356,201
Unamortized bond discount		(226)	(3)
Unamortized deferred loss of refundings		(5,439)	(4,753)
Total bonds payable		323,553	351,445
Less current portion		27,850	27,238
Long-term portion		$ 295,703	$ 324,207

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

Description of Bonds as Issued	Final Maturity Date	Amounts Outstanding June 30, 2008	2007
Single Family Mortgage Revenue			
Series 1996 - 47, 4.20-6.75%	2027	$ 4,100	$ 5,290
Series 1996 - 52, 4.40-7.00%	2027	–	1,560
Series 1996 - 53, 4.20-6.15%	2027	–	1,545
Series 1997 - 54, 5.37-7.22%	2028	870	2,790
Series 1997 - 55, 3.70-5.75%	2013	–	2,145
Series 1997 - 56, 4.00-6.15%	2028	–	2,015
Series 1997 - 57, 4.30-6.15%	2029	–	1,015
Series 1997 - 58, 4.30-7.81%	2028	1,795	2,665
Series 1997 - 59, 4.00-5.15%	2029	1,360	7,655
Series 1997 - 60, 4.00-7.69%	2028	1,900	2,320
Series 1997 - 61, 4.00-6.80%	2029	39,540	47,955
Series 1998 - 62, 4.25-6.40%	2029	50,385	51,035
Series 1998 - 63, 3.95-5.50%	2030	50,178	53,949
Series 1998 - 64, 3.65-5.25%	2030	51,767	52,910
Series 1999 - 65, 3.25-5.25%	2030	50,270	54,605
Series 1999 - 66, 4.05-6.95%	2031	29,040	41,165
Series 1999 - 67, 4.05-7.51%	2030	37,380	43,270
Series 1999 - 68, 4.30-7.02%	2031	21,910	26,230
Series 2000 - 69, 4.35-6.25%	2031	36,125	36,960
Series 2000 - 70, 4.30-5.90%	2032	35,165	36,780

Description of Bonds as Issued	Final Maturity Date	Amounts Outstanding June 30, 2008	2007
Series 2001 - 72, 3.25-5.35%	2032	157,970	167,580
Series 2002 - 73, 1.75-5.45%	2033	127,515	155,110
Series 2002 - 74, variable rate	2032	98,530	98,920
Series 2002 - 75, variable rate	2033	90,555	92,535
Series 2003 - 77, variable rate	2033	82,405	87,900
Series 2003 - 78, variable rate	2025	59,885	67,345
Draw Down Series 2003, variable rate	2008	–	60,000
Series 2003 - 79, variable rate	2034	81,765	88,050
Series 2003 - 80, variable rate	2024	–	3,855
Series 2004 - 81, variable rate	2034	87,610	91,155
Series 2004 - 82, variable rate	2034	85,835	90,855
Series 2004 - 83, variable rate	2035	85,540	118,610
Series 2004 - 84, variable rate	2034	88,650	92,980
Series 2004 - 85, variable rate	2035	88,860	92,565
Series 2004 - 86, variable rate	2035	96,185	98,835
Series 2005 - 87, variable rate	2035	93,020	96,590
Series 2005 - 88, variable rate	2037	91,170	96,565
Series 2005 - 89, variable rate	2035	115,780	120,130
Series 2005 - 90, variable rate	2036	120,320	123,090
Series 2005 - 91, variable rate	2036	122,805	154,020
Series 2006 - 92, variable rate	2036	123,635	124,825
Series 2006 - 93, variable rate	2037	117,700	123,475
Series 2006 - 94, variable rate	2037	117,850	123,800
Series 2006 - 95, variable rate	2037	187,570	198,195
Series 2006 - 96, 3.60-5.72%	2037	188,870	194,975
Series 2007 - 97, variable rate	2037	197,510	199,415
Series 2007 - 98, variable rate	2037	196,855	199,240
Series 2007 - 99, variable rate	2038	198,950	–
Series 2007 - 100, variable rate	2038	199,975	–
Series 2007 - 101, variable rate	2038	59,625	–
Series 2007 - 102, variable rate	2038	150,000	–
Note Purchase Agreement - 2.5%	2017	2,500	–
		3,927,225	3,634,474
Unamortized bond discount		(11,823)	(9,549)
Unamortized deferred loss of refundings		(17,649)	(19,735)
Total bonds and notes payable		3,897,753	3,605,190
Less current portion		88,390	137,455
Long-term portion		$ 3,809,363	$ 3,467,735

(in thousands of dollars)

The approximate principal and interest payments required on outstanding bonds and notes over the next five years and thereafter are as follows:

Fiscal Year Ending	*General Fund Principal*	*General Fund Interest*	*Multi-Family Program Principal*	*Multi-Family Program Interest*	*Single Family Program Principal*	*Single Family Program Interest*	*Total*
2009	$ –	$ 302	$ 27,850	$ 9,647	$ 88,390	$ 138,360	$ 264,549
2010	–	302	41,417	8,708	91,975	135,482	277,884
2011	–	302	29,941	7,733	91,270	131,853	261,099
2012	–	302	28,522	6,996	94,215	128,152	258,187
2013	–	302	27,519	6,279	93,135	124,234	251,469
2014-2018	1,495	1,477	100,409	22,029	576,175	559,365	1,260,950
2019-2023	2,260	1,332	43,925	10,446	698,288	436,137	1,192,388
2024-2028	2,790	1,146	18,740	3,933	814,302	303,652	1,144,563
2029-2033	3,455	916	7,200	1,033	802,545	162,507	977,656
2034-2038	10,000	151	3,695	147	556,135	42,651	612,779
2039-2043	–	–	–	–	20,795	213	21,008
	$ 20,000	$ 6,532	$ 329,218	$ 76,951	$3,927,225	$2,162,606	$6,522,532

Early Extinguishment of Debt

During the years ended June 30, 2008 and 2007, because of the prepayment of certain mortgages, the Agency repurchased or redeemed, prior to their scheduled maturity, the principal amount of certain of its bonds, totaling approximately $51,781 and $35,227, respectively. Net losses of $229 and $280 on early extinguishments have been recorded as a non-operating expense for years ended June 30, 2008 and 2007, respectively. Losses arise because of immediate recognition of deferred bond issuance costs and discounts that would have been amortized over the life of the applicable bond issues had they not been retired.

Current Refundings

During the years ended June 30, 2008 and 2007, because of new debt proceeds, the Agency refunded the principal amount of certain Single Family Bonds, totaling approximately $160,959 and $231,138, respectively. Although the current refunding resulted in the recognition of a deferred loss of $484 and $1,196 for the years ended June 30, 2008 and 2007, respectively, the Agency in effect reduced its aggregate debt service payments by $12,398 and $12,534 over the next 30 years and obtained an economic gain (difference between the present value of the old debt and new debt service payments) of $7,076 and $6,210 for the years ended June 30, 2008 and 2007, respectively.

Advance Refunding

The Agency effected an advanced refunding where the proceeds of issued bonds were used to defease outstanding debt of the Agency. The result is an in-substance defeasance whereby the Agency purchased securities, which were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. The Agency defeased Multifamily Residential Development Bonds, Issue H in prior years. At June 30, 2008 and 2007, the defeased principal outstanding is $2,725 and $3,740, respectively. Issue M, reported last year, matured on July 01, 2007.

Conduit Debt Obligations

The Agency issued series 2003J Limited Obligation Multifamily Development Bonds to provide for the financial assistance of a local public housing authority. The bonds are secured by the property financed and is payable solely from payments received on the underlying loans. The bonds are special and limited obligations of the Agency, which are considered conduit debt obligations by GASB. The bonds do not constitute a debt or pledge of the faith and credit of the Agency and, accordingly, has not been reported in the accompanying financial statements. At June 30, 2008 and 2007, the Limited Obligation Multifamily Development Bonds outstanding balance was $10,621 and $10,872, respectively.

Bond Covenants

Minimum capital reserves have been established by the Agency to meet the requirements of bond covenants. 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 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. Bond covenant requirements regarding restricted cash and net assets were met at the year-end.

Note Purchase Agreement

During the fiscal year, the Agency entered into a loan agreement with PNC bank for an amount up to $5,000 to fund the Homeowners' Equity Recovery Opportunity Loan Program. The agreement resulted in 2.5% annual fixed interest payable beginning in the year 2008 through year 2017. At June 30, 2008, the principal outstanding balance is $2,500. These liabilities are recorded as part of the Single Family Program.

8. Long-Term Liabilities

Long-term liability activities for the year ended June 30, 2008 were as follows:

	Balance July 01, 2007	*Additions*	*Reductions*	*Balance June 30, 2008*	*Due Within One Year*
Bonds and notes payable	$ 4,010,676	$ 1,056,211	$ 790,444	$ 4,276,443	$ 116,240
Net premium (discount) on bonds	(9,631)	(3,353)	(859)	(12,125)	–
Deferred refunding loss	(24,489)	(2,108)	(3,509)	(23,088)	–
Bonds and notes payable, net	3,976,556	1,050,750	786,076	4,241,230	116,240
Net OPEB obligation	–	3,041	–	3,041	–
Escrow	164,143	205,139	200,381	168,901	61,132
Other liabilities	161,248	349,198	335,515	174,931	-
Escrow and other liabilities	325,391	557,378	535,896	346,873	61,132
Total net long-term liabilities	$ 4,301,947	$ 1,608,128	$ 1,321,972	$ 4,588,103	$ 177,372

Long-term liability activities for the year ended June 30, 2007 were as follows:

	Balance July 01, 2006	*Additions*	*Reductions*	*Balance June 30, 2007*	*Due Within One Year*
Bonds payable	$ 3,446,835	$ 929,535	$ 365,694	$ 4,010,676	$ 164,693
Net premium (discount) on bonds	(8,913)	(2,377)	(1,659)	(9,631)	–
Deferred refunding loss	(26,794)	(1,196)	(3,501)	(24,489)	–
Bonds and notes payable, net	3,411,128	925,962	360,534	3,976,556	164,693
Escrow and other liabilities	310,726	523,443	508,778	325,391	56,209
Total net long-term liabilities	$ 3,721,854	$ 1,449,405	$ 869,312	$ 4,301,947	$ 220,902

9. Restricted and Unrestricted Net Assets

General Fund

The Members of the Board have designated all of the General Fund unrestricted net assets for the following purposes at June 30, 2008 and 2007:

	June 30, 2008	*June 30, 2007*
Single Family Insurance Fund	$ 16,500	$ 16,500
Multifamily Insurance Fund	10,000	10,000
Housing Initiatives	11,850	11,850
Home Buyer Counseling	6,500	6,500
Home Choice Program	47,031	47,150
Homeless Auxiliary Initiative	1,593	1,593
	$ 93,474	$ 93,593

(in thousands of dollars)

The Single Family Insurance Fund is for any special hazard losses on single-family mortgages not covered by other insurance or losses arising out of default on mortgage loans funded with the proceeds of the Series C and subsequent issues.

The Multifamily Insurance Fund is for any event where a loss occurs on any of the multifamily developments for which the Agency acts as an insurer or coinsurer.

Housing Initiatives provide below market financing for Multifamily and Single Family special developments financed by the Agency.

Home Buyer Counseling funds home buying education to first time homebuyers.

The Home Choice Program funds the development of single-family homes in urban communities.

Homeless Auxiliary Initiative provides funding to homeless shelters and those organizations that support shelters.

Multifamily Program

Restrictions on the Multifamily Program net assets at June 30, 2008 and 2007:

	June 30, 2008	*June 30, 2007*
Net assets restricted by debt covenants	$ 3,838	$ 1,960

Net assets restricted by debt covenants are required under certain bond indentures, whose proceeds are used to fund the Agency's multifamily programs.

The Members of the Board have designated a portion of Multifamily Program unrestricted net assets for the following purposes at June 30, 2008 and 2007:

	June 30, 2008	*June 30, 2007*
PennHOMES Program	$ 137,000	$ 137,000
Senior Housing with Supportive Services	4,000	4,000
Supportive Services	2,300	2,300
Preservation	3,000	3,000
	$ 146,300	$ 146,300

The PennHOMES Program, funded by unrestricted multifamily proceeds, lowers development costs for apartment developments financed by the Agency.

Senior Housing with Supportive Services provides funding for rental housing and specialized resident services for elderly residents.

Supportive Services provides multifamily developments with funds for resident services.

Preservation represents a joint venture with the National Housing Trust to preserve and improve affordable multifamily homes for low and moderate-income use. Preservation saves multifamily developments that are at risk of conversion to market-rate housing by resolving the problems of physical deterioration and financial and social distress.

Single Family Program

Restrictions on the Single Family Program net assets at June 30, 2008 and 2007:

	June 30, 2008	*June 30, 2007*
Net assets restricted by debt covenants	$ 80,347	$ 81,100

Net assets restricted by debt covenants are required under certain bond indentures, whose proceeds are used to fund the Agency's Single Family loan programs, including the Single Family 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 Members of the Board have designated a portion of Single Family Program unrestricted net assets for the following purposes at June 30, 2008 and 2007:

	June 30, 2008	*June 30, 2007*
Closing Cost Subsidy Program	$ 14,750	$ 14,750
Additional Single Family Insurance Program	2,455	2,455
	$ 17,205	$ 17,205

The Closing Cost Subsidy program assists qualified single-family homebuyers with the initial costs incurred at the inception of a mortgage.

Additional Single Family Insurance Program covers risk sharing agreement primary mortgage insurance losses in the event of default on single-family mortgage loans.

Insurance Fund

The Members of the Board have designated the Insurance Fund's unrestricted net assets for the following purposes at June 30, 2008 and 2007:

	June 30, 2008	*June 30, 2007*
Risk retention	$ 48,298	$ 45,009

Risk Retention provides private single-family mortgage insurance.

HEMAP

The Members of the Board have designated HEMAP's unrestricted net assets for the following purposes at June 30, 2008 and 2007:

	June 30, 2008	*June 30, 2007*
Homeowners Emergency Mortgage Assistance Program	$ 42,530	$ 43,760

The Homeowners Emergency Mortgage Assistance Program makes available assistance loans to mortgagees facing foreclosure because of circumstances beyond their control.

10. Pension Plans

Plan Description

As of June 30, 2008, substantially all eligible full-time employees are participants in the Pennsylvania Housing Finance Agency Employees' Retirement Plan ("Plan") or Government Excess Benefit Plan ("Excess Plan"), which are both noncontributory defined benefit, single employer plans. The Plans do not issue stand-alone financial statements.

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 service may receive credit for their time of service providing they contribute funds equivalent to the cost of their pension benefits accumulated during their military service. 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. Contribution requirements and benefit provisions of the Plan and Excess Plan are established and may be amended by the Members of the Board.

All participants in the Plan who will receive retirement benefits in an amount that is less than the benefits otherwise payable under the terms of the Plan due to limitations on benefits imposed by IRC Section 415 shall automatically participate in the Excess Plan. Participation in the Excess Plan will cease for any year in which the retirement benefits from the Plan do not exceed the limitation imposed by IRC Section 415. Pension payments under the Excess Plan are paid in the same form as the pension benefits payable under the Plan.

(in thousands of dollars)

Funding Policy

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 Asset

The Agency's annual pension costs and net pension assets of the Plan are as follows:

	June 30, 2008	*June 30, 2007*
Annual required contribution (ARC)	$ 2,364	$ 2,335
Annual pension cost	2,364	2,335
Contributions made	(2,600)	(2,400)
Increase in net pension asset	(236)	(65)
Net pension asset beginning of year	(899)	(834)
Net pension asset end of year	$ (1,135)	$ (899)

Three-Year Trend Information for the Plan:

Calendar Year Ending	*Annual Pension Cost (APC)*	*Percentage of APC Contributed*	*Net Pension (Asset)*
December 31, 2005	$ 1,482	97.8%	$ (834)
December 31, 2006	2,335	102.8%	(899)
December 31, 2007	2,364	110.0%	(1,135)

Funded Status and Funding Progress

As of January 01, 2008 and 2007, the most recent actuarial valuation dates, the funded status of the Plan was as follows:

Actuarial Valuation Date	*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL)- Entry Age (b)*	*Unfunded AAL (UAAL) (b-a)*	*Funded Ratio (a/b)*	*Covered Payroll (c)*	*UAAL as a Percentage of Covered Payroll ((b-a)/(c)*
01/01/2007	$ 31,939	$ 41,823	$ 9,884	76.4%	$ 12,464	79.3%
01/01/2008	37,040	46,470	9,430	79.7%	12,652	74.5%

Pension plan assets and liabilities are not included in the basic financial statements of PHFA.

The following is information as of the most recent actuarial valuations:

Actuarial valuation dates	January 01, 2008 and 2007
Actuarial cost method	Aggregate*
Asset valuation method	Market value as determined by the trustee
Actuarial assumptions:	
Investment rate of return**	7.5%
Projected salary increases**	4.5%

* The aggregate actuarial cost method is used to determine the annual required contribution of the employer. Because that method does not identify or separately amortize unfunded actuarial liabilities, information about funded status is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status of the Plan.

** Includes moderate inflation rate assumption.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements presents multiyear trend information about whether the actuarial value of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

11. Postemployment Benefits Other Than Pensions

Effective July 1, 2007, the Agency adopted the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." In addition to the relevant disclosures within this note related to the implementation of GASB Statement No. 45, the financial statements reflect a long-term liability and related expenses of $3,041 resulting from the adoption.

Plan Description

The Agency sponsors a single-employer defined benefit plan ("Plan") to provide certain postretirement healthcare benefits (OPEB) to all former employees who are members of the Employee Pension Plan currently receiving retirement income. Such benefits are available to members' spouses during the life of the retiree. Specific details of the Plan include the provision of certain hospitalization, major medical insurance, physician services and prescription drug coverage. These benefits are provided through insurance companies. The Agency is under no statutory or contractual obligation to provide these postretirement healthcare benefits. Because the Plan consists solely of the Agency's commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated for the Plan.

Funding Policy

Premiums under the Plan for post-employment healthcare benefits are funded by retirees desiring such coverage via co-pays paid to the Agency in accordance with rates established by the Agency. For the fiscal year ended June 30, 2008, contribution rates for Plan members equaled 2.5% of the insurance premium per participant per month. For the fiscal year ended June 30, 2008, Plan members receiving benefits paid $8, which was used to offset the Agency's total outlays to insurance carriers equaling $322 for current year premiums due. The net outlay from the Agency, which equaled $314, represents the Agency's net cost paid for current year premiums due.

The Agency currently funds postemployment health care benefits on a pay-as-you-go basis. Although the Agency is studying the establishment of trusts that would be used to accumulate and invest assets necessary to pay for the accumulated liability, these financial statements assume that pay-as-you-go funding will continue.

Contribution requirements and benefit provisions of the Plan are established and may be amended by the Members of the Board.

Annual OPEB Cost and Net OPEB Obligation

The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years.

The following table illustrates the components of the Agency's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Agency's net OPEB obligation:

	June 30, 2008
Annual required contribution (ARC)	$ 3,363
Annual OPEB expense	3,363
Contributions made	(322)
Increase in net OPEB obligation	3,041
Net OPEB obligation beginning of year	–
Net OPEB obligation end of year	$ 3,041

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation at June 30, 008 was as follows:

Fiscal Year Ended	*Annual OPEB Cost*	*Percentage of Annual OPEB Cost Contributed*	*Net OPEB Obligation End of Year*
June 30, 2008	$ 3,363	10.0%	$ 3,041

Because the fiscal year ended June 30, 2008 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the above illustration does not reflect similar information respective of the two preceding years.

(in thousands of dollars)

Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled $28,071, resulting in an unfunded actuarial accrued liability (UAAL) of $28,072. The covered payroll (annual payroll of active employees covered by the Plan) equaled $13,382, and the ratio of the UAAL to the covered payroll equaled 209.8%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as RSI following the notes to the financial statements, is to present multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the Agency maintains no Plan assets, information relative to Plan asset required disclosures is not applicable. Additionally, because 2007 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the RSI does not reflect similar information respective of the two preceding years.

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purpose are based on the substantive Plan (the Plan as understood by the Agency and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Agency and Plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the actuarial valuation dated July 1, 2007, the entry age normal cost method was used. Because the Agency funds its OPEB on a pay-as-you-go basis, the Plan has no assets (investments) used specifically for paying the post-retirement medical benefits; therefore, the actuarial assumptions included a 4.5% discount rate, which approximates the expected rate of return on non-pension investments held by the Agency. Actuarial assumptions also included annual healthcare cost trend rates of 9%, initially, reduced by decrements to an ultimate rate of 5% for healthcare costs after eight years and later. The UAAL is being amortized as a level dollar amount over thirty years on an open basis.

SCHEDULE OF FUNDING PROGRESS FOR THE POSTEMPLOYMENT HEALTHCARE PLAN

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))*
07/01/2007	$ –	$ 28,072	$ 28,072	0.0%	$ 13,382	209.8%

Because 2007 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the above illustration does not reflect similar information respective of the two preceding years.

12. Interest Rate Swaps

Swap Objectives

In order to both reduce the Agency's overall costs of borrowing long-term capital and protect against the potential of rising interest rates, the Agency enters into pay-fixed, receive-variable interest rate swap agreements at a cost less than what the Agency would have paid to issue conventional fixed-rate debt.

Swap Payments

At June 30, 2008, debt service requirements of the Agency's outstanding variable-rate debt and net swap payments, assuming current interest rates remain constant, are displayed in the following schedule:

Fiscal Year Ending June 30	*Variable Rate Bond Principal*	*Variable Rate Bond Interest*	*Interest Rate Swap, Net*	*Total*
2009	$ 36,290	$ 34,686	$ 36,251	$ 107,227
2010	36,915	33,637	34,402	104,954
2011	34,995	32,918	32,393	100,306
2012	30,385	32,268	30,492	93,145
2013	25,625	31,720	29,030	86,375
2014-2018	219,530	149,318	127,422	496,270
2019-2023	303,905	123,999	100,090	527,994
2024-2028	420,520	92,436	71,394	584,350
2029-2033	432,760	51,999	38,544	523,303
2034-2038	318,170	13,456	7,209	338,835
	$ 1,859,095	$ 596,437	$ 507,227	$ 2,962,759

As interest rates vary, variable-rate bond interest payments and net swap payments will also vary.

Fair Value

Because interest rates have changed since the agreements became effective, a majority of the Agency's interest rate swaps have a positive or negative fair value as of June 30, 2008. Changes in fair values are countered by reductions or increases in total interest payments required under variable-rate bonds. Given that payments on the Agency's variable-rate bonds adjust to changing interest rates, the associated debt does not have corresponding increases in fair value.

Credit Risk

All of the Agency's swaps rely upon the performance of the third parties who serve as swap counterparties, and as a result, the Agency is exposed to credit risk—i.e., the risk that swap counterparty fails to perform according to contractual obligations. The appropriate measurement of the risk at the reporting date is the fair value of the swaps, as shown in the column labeled "Fair value of contract" in the table above. The Agency is exposed to credit risk on the outstanding swaps, which have positive fair values. As of June 30, 2008, the Agency is exposed to a total of $23,873 of credit risk to counterparties. To mitigate credit risk, the Agency maintains strict credit standards for swap counterparties. Additionally, credit events can trigger certain termination provisions of collateral provisions as outlined in the swap agreements.

Significant Terms

The terms, fair value and credit rating of the Agency's outstanding swaps as of June 30, 2008, are included in the following schedule:

*Counter-Party and Rating**	*Bond Issue*	*Notional Amount*	*Effective Date*	*Maturity Date*	*Fixed Rate Paid*	*Variable Rate Received*	*Fair Value of Contract*
Goldman	1999-67B	$19,885	8/2002	4/2029	5.950%	1-month LIBOR plus 50bps	$ (2,061)
Sachs	2001-72C	20,210	9/2001	10/2023	5.695%	1-month LIBOR	(1,327)
AAA/Aaa	RHR2002A**	55,765	7/2002	1/2021	3.575%	67% of 1-week LIBOR	(2,814)
	RHR2002B**	18,520	7/2002	1/2021	3.575%	67% of 1-week LIBOR	–
	2002-74A	30,000	8/2002	10/2032	4.285%	67% of 1-month LIBOR	(1,556)
	2003-77B**	59,900	9/2003	10/2033	4.060%	67% of 1-month LIBOR	(1,460)
	2003-77C	13,075	9/2003	4/2012	2.690%	67% of 1-month LIBOR	(103)
	2004-81B	9,262	4/2004	4/2013	2.365%	67% of 1-month LIBOR	(10)
	2004-81C**	62,740	4/2004	10/2034	3.557%	67% of 1-month LIBOR	(46)
	2004-84C	15,365	9/2004	4/2018	3.115%	67% of 1-month LIBOR	(174)
	2004-84D**	58,335	9/2004	10/2034	3.879%	67% of 1-month LIBOR	(1,164)
	2004-86B**	68,120	11/2004	10/2033	3.417%	67% of 1-month LIBOR	(1,088)
	2004-86C**	19,790	12/2004	10/2035	4.125%	67% of 1-month LIBOR	(95)
	2005-89**	115,215	6/2005	10/2035	3.605%	67% of 1-month LIBOR	(1,030)
	2005-91B	70,000	12/2005	10/2036	3.953%	67% of 1-month LIBOR	(2,129)
	2006-94B	35,165	7/2006	4/2027	4.152%	69% of 1-month LIBOR	(2,365)
	2007-99C	15,000	9/2007	10/2023	3.885%	69% of 1-month LIBOR	(865)

(in thousands of dollars)

	2007-99D	69,255	9/2007	4/2015	5.149%	1-mth LIBOR rounded up .001%	(3,258)

*Counter-Party and Rating**	*Bond Issue*	*Notional Amount*	*Effective Date*	*Maturity Date*	*Fixed Rate Paid*	*Variable Rate Received*	*Fair Value of Contract*
UBS AG	2000-70B	5,545	4/2001	4/2011	6.927%	1-month LIBOR	260
AA-/Aa1	2002-73C	5,270	3/2002	4/2010	5.017%	1-month LIBOR	107
	2002-75A	30,000	12/2002	10/2032	3.957%	70% of 1-month LIBOR	313
	2003-79B**	57,350	12/2003	10/2033	3.997%	65% of 1-month LIBOR + 25bps	3,114
	2004-83B	26,815	8/2004	10/2019	3.410%	65% of 1-month LIBOR + 25bps	462
	2004-83C**	42,905	8/2004	10/2035	4.060%	65% of 1-month LIBOR + 25bps	2,001
	2004-85B	26,505	11/2004	4/2019	3.168%	65% of 1-month LIBOR + 25bps	(116)
	2004-85C**	44,645	11/2004	10/2035	3.879%	65% of 1-month LIBOR + 25bps	1,687
	2005-87B	40,440	3/2005	10/2023	3.460%	65% of 1-month LIBOR + 25bps	680
	2005-87C**	47,300	3/2005	10/2035	3.882%	65% of 1-month LIBOR + 25bps	1,358
	2005-90C**	60,820	9/2005	4/2036	3.692%	65% of 1-month LIBOR + 25bps	82
	2006-92B**	42,870	3/2006	10/2036	3.996%	65% of 1-month LIBOR + 25bps	1,234
	2006-95C**	39,180	9/2006	4/2026	4.115%	65% of 1-month LIBOR + 25bps	1,609
	2007-97D1	26,610	3/2007	10/2014	4.922%	1-month LIBOR	927
	2007-97D2	12,710	3/2007	4/2012	4.862%	1-month LIBOR	383
	2007-100C	40,000	12/2007	4/2038	4.136%	65% of 1-month LIBOR + 25bps	4,524
	2007-100D	59,230	12/2007	10/2013	4.471%	1-month LIBOR	1,584
Bear Stearns	RHR2003A**	54,455	6/2003	7/2020	3.457%	70% of 1-month LIBOR	1,647
AAA/NR	RHR2003B**	54,455	6/2003	7/2020	3.547%	70% of 1-month LIBOR	1,901
Lehman NR/Aaa	MF2003	18,870	6/2003	4/2019	3.860%	1-month LIBOR + 15bps	(397)
PNC Bank AA-/Aa3	VRBD2004	20,000	2/2004	1/2034	3.945%	65% of 1-month LIBOR + 25bps	(192)
Merrill	2004-82B	45,390	5/2004	10/2030	3.643%	61% of 1-month LIBOR + 39bps	(860)
Lynch	2004-82C**	35,220	5/2004	10/2034	4.164%	61% of 1-month LIBOR + 39bps	(1,088)
A/A1	2005-88B	51,910	5/2005	10/2035	3.500%	61% of 1-month LIBOR + 39bps	(711)
	2005-88C**	31,930	5/2005	10/2035	3.975%	61%of 1-month LIBOR + 39bps	(401)
	2006-93B	37,185	5/2006	4/2037	4.266%	61% of 1-month LIBOR + 39bps	(2,062)
	2007-98C**	41,955	5/2007	10/2037	4.105%	61% of 1-month LIBOR + 39bps	(1,017)
RBC Capital Markets AA-/Aaa	MF2005-K**	26,350	3/2005	1/2036	5.183%	1-month LIBOR	(1,526)

* Credit Ratings supplied by Standard and Poor's/Moody's.
** Indicates an embedded option to reduce the notional amount without a payment to the counterparty.
LIBOR = London Interbank Offered Rate
bps = Basis points.

Basis, Interest Rate and Termination Risks

Basis risk exists to the extent the Agency's variable-rate bond payments do not exactly equal the index of the swap. If any of the swaps are terminated, the associated floating rate bonds would no longer carry synthetic fixed interest rates and, thus, the Agency would be exposed to interest rate risk. This risk is mitigated by the fact that the termination payment could be used to enter into an identical swap at the termination date of the existing swap. Further, if any of the swaps have a negative fair value at termination, the Agency would be liable to the counterparty for payments equal to the swaps' fair value. The Agency or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the agreement. Furthermore, the Agency maintains the option to terminate swap agreements anytime. As of June 30, 2008, the Agency is not exposed to any additional termination risk on its interest rate swaps.

(in thousands of dollars)

Rollover Risk

Rollover risk is the risk that a swap associated with a bond issue does not extend to the maturity of that debt. When the swap terminates, the associated debt will no longer have the benefit of the swap.

The Agency is exposed to rollover risk on the following debt:

Associated Bond Issue	*Debt Maturity Dates*	*Swap Termination Dates*
2000-70B	10/2028	04/2011
2001-72C	10/2032	10/2023
2002-73C	04/2032	04/2010
2004-81B*	10/2034	04/2013
2004-82B*	04/2034	10/2030
2004-83B*	04/2035	10/2019
2004-85B*	04/2035	04/2019
2004-86B*	10/2035	10/2033
2005-87B*	04/2035	10/2023
2005-88B*	10/2036	10/2035
2005-88C*	04/2037	10/2035
2007-97D1	10/2037	10/2014
2007-97D2	10/2037	04/2012
2007-99D	04/2023	04/2015
2007-100D	04/2038	10/2013

* While the maturity dates for these tax-exempt bond issues differ from the associated interest rate swap termination dates, the principal amount of these bond issues outstanding equals the notional value of the associated interest rate swaps.

13. Advances Receivable, Payable and Transfers

Advances to and from other funds is summarized below for the year ended June 30, 2008:

Advance payable fund:	
Multifamily Program	$ 206
Single Family Program	11,500
HEMAP	2,806
Total	$ 14,512
Advance receivable fund:	
General fund	$ 14,512
Interfund transfers in:	
Single Family Program	55,610
Interfund transfers out:	
General fund	$ 22,267
Multifamily Program	$ 33,343
	$ 55,610

Schedule of Retirement Plan Funding Progress

Actuarial Valuation Date	*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL) - Entry Age (b)*	*Unfunded AAL (UAAL) (b-a)*	*Funded Ratio (a/b)*	*Covered Payroll (c)*	*UAAL as a Percentage of Covered Payroll ((b-a)/(c)*
01/01/2006	$ 26,864	$ 37,975	$ 11,111	70.7%	$ 11,565	96.1%
01/01/2007	31,939	41,823	9,884	76.4%	12,464	79.3%
01/01/2008	37,040	46,470	9,430	79.7%	12,652	74.5%

The information presented below in the required supplementary schedule was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	January 01, 2008
Actuarial cost method	Aggregate
Amortization method	*
Remaining amortization period	*
Amortization period open or closed	*
Asset valuation method	Market Value as determined by the Trustee
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%
Includes inflation at:	Moderate rate based on historical averages
Post-retirement benefit increases	none

* Because the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial accrued liabilities, information about the Plan's funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose. The information presented is intended to serve as a surrogate for the funded status and funding progress of the Plan.

Schedule of Funding Progress for the Postemployment Healthcare Plan

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)*
07/01/2007	$ –	$ 28,072	$ 28,072	0.0%	$ 13,382	209.8%

Because 2007 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the above schedule does not reflect similar information respective of the two preceding years.

EXECUTIVE

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Sherry C. Horn, Loan Counselor III
Wendy I. James, Data Entry Clerk
Resa P. Kepner, Appeals Officer
Regine O. Klimek, Loan Counselor III
Carolyn L. Kochenour, Temporary Employee
Vinh T. Lam, Loan Counselor I
Christina M. Lebo, Secretary
Sandra O. Lewis, Loan Officer I
Keisha R. Luckett, Loan Counselor I
Tracy J. McMurray, Loan Closing Coordinator II
Bonnie L. Nail, Assistant Accountant II
Stacey A. Odogwu, Secretary
Lin C. Patch, Appeals Officer
George F. Pfeiffer, Loan Officer II
Kristin L. Rode, Administrative Services Coordinator II
Lisa A. Rudy, Loan Officer II
Roberta A. Sheaffer, Senior Loan Closing Officer
Airis J. Smallwood, Temporary Employee
Angela C. Smith, Temporary Employee
Ronald L. Smith, Senior Collections Officer
Samantha J. Stevens, Assistant Loan Officer
Carmela M. Swartz, Hearing Examiner II
Lori S. Toia, Manager of Loan Processing

Norristown Office

Nancy Twyman, Manager of Norristown Office
Damien C. Allen, Housing Services Representative I
William G. Bailey, Jr., Development Officer II
Robert G. Butcher, Housing Services Representative I
Peggy A. Colson, Norristown Officer Coordinator
Hernando Espinosa, Housing Management Representative I
James E. Galia, Technical Services Representative II
Jay R. Hausher, Senior Technical Services Representative
Mary I. Johnson, Assistant Housing Management Representative
John S. Paczewski, Technical Services Representative II
Barbara P. Stephens, Public Affairs Officer
Lorraine Weaver-Tawwad, Housing Management Representative II

Pittsburgh Office

Brenda B. Wells, Director of Western Region
Stephen E. Chopek, Housing Services Representative I
Duane M. Davis, Technical Services Representative I
Kristin DeSantis, Administrative Assistant
Tonya L. Esway, Closing Officer
Carla H. Falkenstein, Manager of Housing Services
Marcia M. Hess, Regional Customer Services Representative
Margaret E. MacCall, Housing Management Representative I
Roy D. Redman, Housing Management Representative II
Robert S. Rider, Technical Services Representative II
Michael A. Scott, Technical Services Representative I
Mary Ann Sipos, Senior Housing Management Representative
Charles E. Swope, Senior Technical Services Representative
Aloise E. Tomich, Housing Management Representative II

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