LOOKING *back*

PENNSYLVANIA HOUSING FINANCE AGENCY

MOVING *forward*

2012 ANNUAL REPORT

back

Housing finance agencies were an experiment that would ultimately prove successful — started four decades ago by states around the country to help expand affordable rental and home-purchase options. These states, including Pennsylvania, recognized that their housing programs could provide a powerful economic stimulus that would create family-sustaining jobs. More importantly, they understood that quality, affordable housing was needed to create vibrant communities and help people reach their full potential. The Pennsylvania Housing Finance Agency (PHFA) would prove to be a leader among states in these efforts.

During its 40-year history, PHFA has never wavered from its core values of treating people with respect and delivering friendly, caring customer service. Yet, the years reveal a public corporation that is ever changing and willing to test novel ideas with the potential to streamline operations and expand the availability of affordable housing for the state's residents. PHFA remains a state agency firmly grounded in its housing mission and faithfully adhering to its public service tradition, but always pioneering new and better approaches to its housing programs.

forward

Our Mission

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

1972

PHFA created by Pennsylvania General Assembly. The next year, it moves into offices at 3211 North Front Street with eight employees.

1974

PHFA issues short-term notes to finance construction of 5,000 affordable housing units through 29 multifamily developments.

1977

PHFA sells nation's first advance refunding bonds.

1982

PHFA launches single-family housing programs with participation by 56 lenders.

1982

PHFA issues single-family Mortgage Revenue Bond Series A in the aggregate principal amount of $100 million to provide 30-year mortgages with an interest rate of 14.05 percent.

1983

PHFA is now a $1 billion agency with more than 28,000 rental units in its portfolio.

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1983

Agency moves into larger offices at 2101 North Front Street, Harrisburg.

1983

State legislature authorizes pioneering Homeowners' Emergency Mortgage Assistance Program (HEMAP).

1985

Rating agency Standard & Poor's designates PHFA as first "top-tier" housing finance agency in the nation.

A message *from* GOVERNOR TOM CORBETT

The Pennsylvania Housing Finance Agency's 40 years of operation share a common theme of service aimed at expanding affordable housing options for the state's residents. In spite of changing times, the agency has held true to that mission, growing to become one of the largest and most innovative housing finance agencies in the country. We can all be proud of the work done by PHFA in service to Pennsylvanians.

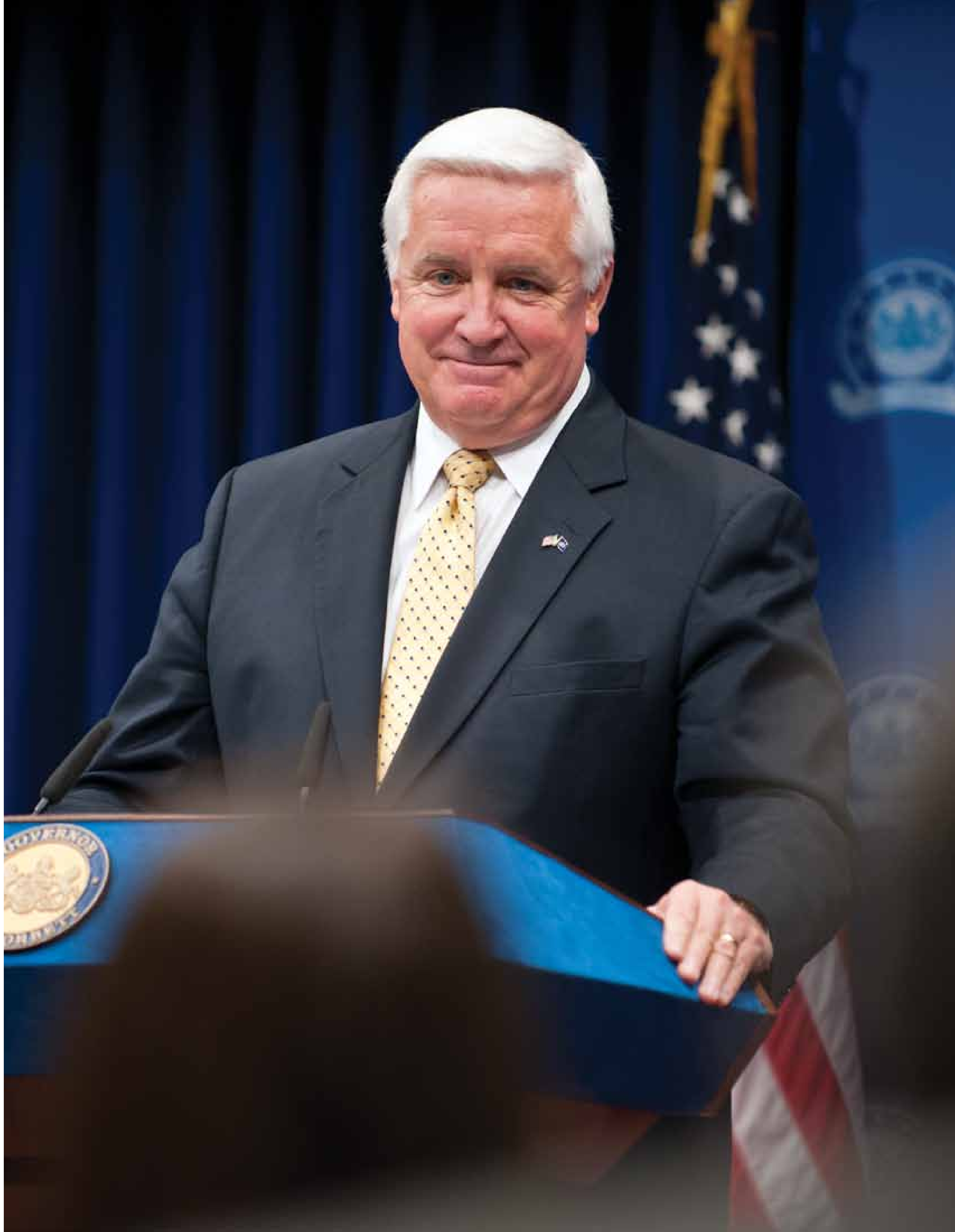
Central to the vision that shaped PHFA's creation is a belief that government and the private sector can work together to make our state stronger and better serve Pennsylvanians, drawing on the unique strengths of each. An example is the agency's funding of rental housing to meet the needs of people on low and moderate incomes, people with special needs, and seniors. PHFA doesn't manage the actual construction of those buildings. Instead, it provides a portion of the funding critical to construction and lets private sector developers use their expertise to lead the building of the structures.

Coordinated public and private efforts

Another example of this effective public-private partnership can be seen in PHFA's provision of affordable mortgage products. The agency offers 30-year, fixed-rate mortgages. But the loan originators are actually private sector lending institutions at work in your community. Additionally, in the case of homeownership education for families thinking about buying their first home, PHFA doesn't deliver these classes. Instead, they fund private sector counseling agencies located throughout the state whose well-trained staffs meet with Pennsylvanians one-on-one to answer their pressing housing questions.

PHFA follows a public-private sector model that works because it draws on the strengths of each. The result can be seen in 40 years of success making housing more accessible to all our state's residents at various income levels and with differing needs. If you're looking to move to Pennsylvania, or if you're a state resident in search of housing, PHFA should be your first stop for the information and programs to get you into that home or apartment best suited for your family.

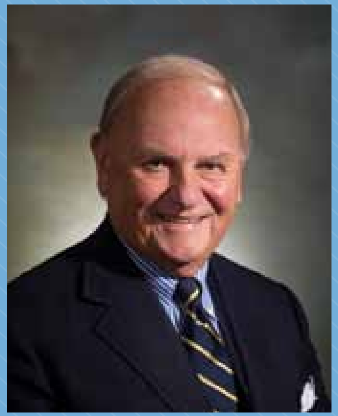
Tom Corbett



PENNSYLVANIA HOUSING FINANCE AGENCY

BOARD *of* DIRECTORS 2011-2012

Chairman of the Board
The Honorable Glenn Moyer



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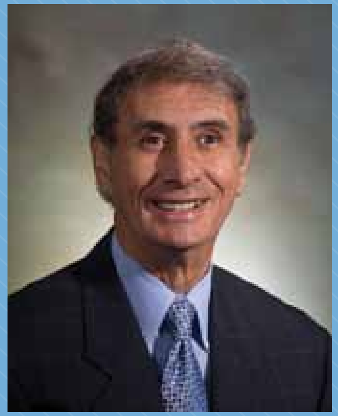

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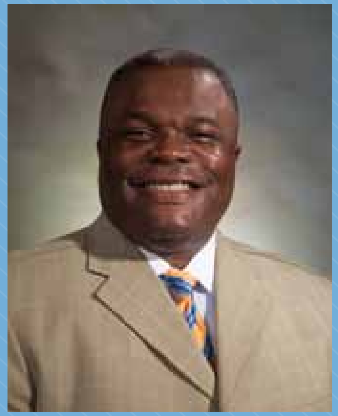


Howard B. Slaughter, Jr., D.Sc.

The Honorable
C. Alan Walker

LOOKING BACK,
MOVING FORWARD

A message *from the* executive director

TOP: Former PHFA Executive Director Karl Smith in the early 1990s at a construction site for an agency-funded apartment building. **BOTTOM:** Groundbreaking in 2003 for PHFA's current Harrisburg office. Shown in the middle are former PHFA Executive Director William Bostic (left) and current Executive Director Brian Hudson.

The year 2012 marks our 40th year of service to Pennsylvanians, providing an opportune time to reflect on our origin and our ongoing mission. Many state residents don't know the story about how PHFA came to be. But knowing how the agency was created really is vital to understanding the programs we lead and the way we work.

An historical timeline covering the first four decades of PHFA's existence winds through the pages of this annual report, touching on key agency milestones. I'd like to share more with you about PHFA's formative years.

Back in the early 1970s, various pioneering states had begun to experiment with the creation of housing finance agencies, or HFAs as they came to be known. These were to be a special sort of public service organization, established using public tax dollars but then expected to fund themselves by drawing on their operational fees and, most importantly, on their market investments through their offering of mortgage-backed securities and other financial instruments.

A mission defined by the state legislature

In 1972, a forward-looking Pennsylvania legislature passed a law to create an HFA in our state — the Pennsylvania Housing Finance Agency. The General Assembly provided PHFA with start-up capital. But from then on, it would be expected to pay its own way.

PHFA would not be a traditional state agency funded annually with state tax dollars. But it wouldn't fully be a private sector company either, since it was established with public funding, led by a board of state-appointed directors, and charged with a public service mission. This hybrid state agency is described in its bylaws as "a body corporate and politic constituting a public corporation and government instrumentality of the Commonwealth of Pennsylvania."

With an initial staff of eight, from its early office at 3211 North Front Street in Harrisburg, PHFA was charged with ensuring that affordable housing options would be available to the state's residents, filling a void not being fully addressed by the marketplace.

There was no model elsewhere for how this work was to be done. So the staff learned by doing. In some instances, HFAs in other states tried new approaches, and we learned from their accomplishments. In other cases, PHFA initiated novel programs, gaining experience from its successes and from projects that fell short.

Exploring ways to expand affordable housing options

So the agency grew. First, it focused on the funding of apartment buildings that would offer rents to people with low and moderate incomes, seniors, and people with disabilities. Later, it launched into the provision of affordable mortgages for people who were ready for the responsibilities of homeownership.

Foreclosure prevention, too, became part of the agency's mission with the start, in the 1980s, of the Homeowners' Emergency Mortgage Assistance Program (HEMAP) that grew to become a national model due to its success. Still later, the agency added the enhancement of no-cost counseling to educate people interested in buying their first home.

Fourteen years into its existence, the young agency faced an extremely difficult financial market. Its ability to sustain itself was in jeopardy. The legislature stepped up at that time with a loan of $61 million to help PHFA through those challenging years. That loan was later repaid — with $1 million in interest.

Since that time, the agency has been able to survive and thrive on its own investments, and through partnerships with other state agencies on financing for special housing programs. It has continued to evolve

to meet the needs of a changing housing environment and dynamic financial markets.

Understanding the vision that led to our creation helps us stay true to our mission. That's why, in this 40th anniversary year, we pause to look back at how we started and where we've been. But our main focus, as always, remains toward the future — moving forward — so that we can continue to meet the challenge we were given four decades ago: To expand affordable housing options for Pennsylvanians. It's that task that motivates us in our ongoing service to the state's residents.

We're PHFA. Welcome home!

Brian A. Hudson

Brian A. Hudson Sr.
Executive Director and CEO

Under Karl Smith, PHFA became known nationally as an agency eager to pioneer new affordable housing programs. He's still fondly remembered by the staff for his genuine concern for the agency's employees.

1988

Start of HOMES rental housing program (now known as PennHOMES).

1991

PHFA first begins offering closing cost assistance to first-time homebuyers.

CREATING a housing agency that succeeds at innovation and EMBRACING CHANGE

If you were to pick an executive director who played a pivotal role in guiding PHFA during its formative years, it would have to be Karl Smith. He served as executive director for nine years — from 1987 until 1996 — years that, in hindsight, set a positive tone for how the agency would conduct business and laid a foundation for future growth.

Under Smith's leadership, the agency initiated and expanded programs focused on rental housing, homeownership and foreclosure prevention that continue to define the agency's core character.

"It had always struck me as a place that had a lot of potential," Smith recalled about what drew him to the agency.

At this critical time in PHFA's development, Smith and the board institutionalized a culture that not only accepted innovation and change, but embraced it.

"That was one of the advantages of things here. You could start something, and if it didn't work you could stop it. We'd just say it didn't work and move on. That was thanks to the independence of the agency."

Learning by doing was part of the job

For instance, Smith shared how the agency changed its approach to the multifamily rental developments it was funding as it learned from its own experience and the experience of other states. As a result, the emphasis at PHFA changed from funding large buildings for only low-income families to, instead, building on a smaller scale, building for families at multiple income levels, and rehabilitating existing buildings with historical significance whenever possible.

"As we got more into rehabilitating existing buildings, that really helped a lot. You'd reuse and fix up a landmark that had been in the community for decades rather than tearing something down and putting something new up. That was much more acceptable to the community.

"For example, there's an affordable housing development in Harrisburg that no one realizes is one of our projects, and that's really the way you want it because it blends into the community."

The culture and values established by Smith and the board members from that time are a legacy that continues to shape and guide the agency decades later.

1992

PHFA surpasses $2 billion in bond sales supporting the agency's single-family home loan program.

1993

Permanent extension granted to state HEMAP foreclosure prevention program.

Owning a home has helped Julie PROVIDE A BETTER LIFE FOR HER TWO BOYS

Purchasing a home has had special meaning for Julie Ann Jones. It marked another significant milestone in her efforts to rebuild her life and make a better future for her two sons in south Philadelphia.

In 2004, she was divorced from her husband and burdened with debt. Fortunately, she had a steady income from her information technology job. She was renting a home on South Woodstock Street, and when the landlord suggested he might sell it to her, she saw an opportunity to provide stability for her two boys.

"I really set to rebuilding after the divorce," she recalls. "Rebuilding everything— not just financially, but my family with my sons, too. I didn't want to take them out of the environment they had already started to grow up in. So staying in south Philadelphia was a goal."

Julie came to PHFA for her mortgage

The landlord suggested she contact PHFA to see if she'd qualify for a mortgage. Julie was doubtful. After the divorce, she'd had to file for bankruptcy. She'd paid the bankruptcy off ahead of schedule. But it was a black mark on her credit history. Plus, she hadn't been able to save much for the anticipated down payment and closing costs. Nevertheless, she reached out to PHFA.

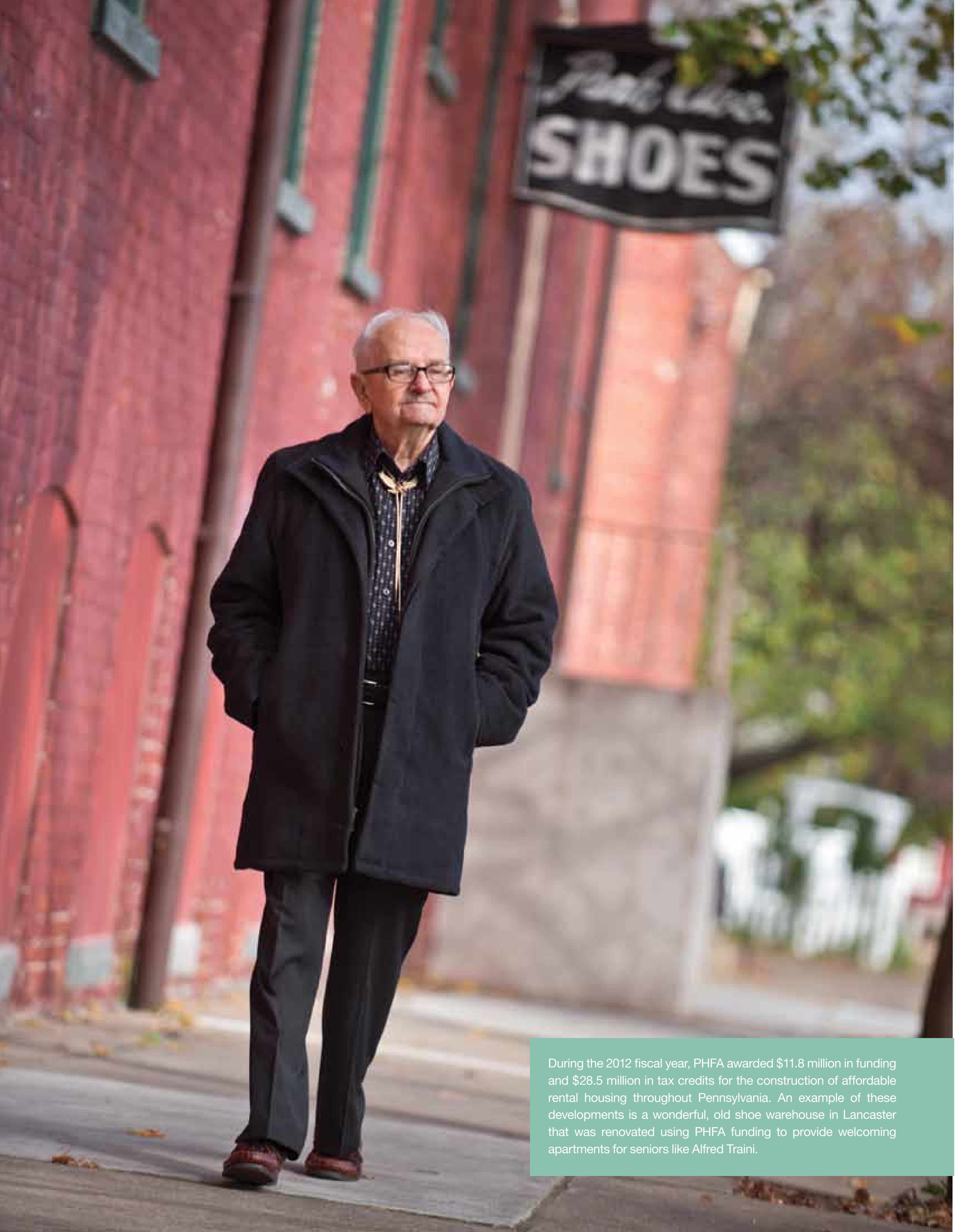
Within 60 days, Julie was approved for her PHFA mortgage, including down payment and closing cost assistance. That was because the review by PHFA took into account Julie's responsible handling of her situation, while not overlooking the issues from her past. It was clear that Julie was ready for the responsibilities of homeownership.

When asked about her experience working with PHFA and her lender, she responds: "I think the biggest thing is that I was treated with kindness. And that really is what made the difference. With both PHFA and First National Bank of Chester County, I was treated with kindness and respect."

The home, Julie says, has helped her family put down deep roots in their Philadelphia neighborhood.

"I think it's really defined our family and who we are. [My boys] can say they spent their childhood in one home. It's given them the stability they need."

Since its inception, PHFA has made 148,233 mortgage loans with a total loan value of $10.6 billion, helping a growing number of Pennsylvania families achieve their dreams of homeownership. Julie Ann Jones purchased her home in south Philadelphia with a PHFA mortgage.



During the 2012 fiscal year, PHFA awarded $11.8 million in funding and $28.5 million in tax credits for the construction of affordable rental housing throughout Pennsylvania. An example of these developments is a wonderful, old shoe warehouse in Lancaster that was renovated using PHFA funding to provide welcoming apartments for seniors like Alfred Traini.

1994 PHFA increases in-house servicing of its consumer home loans — now up to 15,000.

1996 PHFA has made 63,000 single-family home loans.

ALFRED'S LIFE OF HARD WORK IS REWARDED with housing that promotes his independence

If you go to visit Alfred Traini in Lancaster at Park Avenue Apartments, be sure to allow yourself plenty of time. At 84 years of age, Alfred has lived a long and interesting life. It began in 1927 when he was born in Hamburg, Pennsylvania to immigrant parents.

"I come from a family of 14, and I'm the baby of the family. I was raised in a house with no electricity and no running water. But our home was spotless," Alfred reflected.

In his family, everyone helped with the cleaning chores. Little did he know how valuable those skills would be during his life. As an adult, he and his wife moved to California. It wasn't too long before the cleaning jobs he found earned him a stellar reputation among the state's movie stars, well-to-do and even the state's governor.

While his client list was impressive, the income earned by butlers and housemen in the 1950s and '60s was modest. Decades later as a senior citizen, Alfred faced the challenge of finding housing that would fit within his budget.

An empty shoe warehouse becomes a housing treasure

After coming back to Pennsylvania, Alfred discovered the Park Avenue Apartments — a housing development of 24 units for seniors on limited incomes. The site of a former shoe company warehouse and outlet store, the building was renovated in 2010 using financing that included low-income housing tax credits provided by PHFA.

"I love the building," Alfred smiles. "It's an older building. I was amazed when I first walked into this place. It is very beautiful."

It's a home where Alfred plans to happily stay the rest of his life.

"We have an activities coordinator here who has programs for us downstairs in the community room, and I love doing arts and crafts. I knit. I make hats and scarfs and things. The staff is wonderful.

"I sure want to thank you people [at PHFA] for doing what you did to make all this possible, because I could never afford to live in something so beautiful. And to think at my age now to have this. I have never had anything so beautiful."

1996

PHFA has invested $1.2 billion in financial assistance to build affordable multifamily developments across Pennsylvania, producing 51,000 rental units.

1997

Agency celebrates 25th anniversary. It has 222 employees.

1997

PHFA surpasses $3 billion of home mortgage loans to Pennsylvania homebuyers.

Homeownership counseling helped Ejetta ACHIEVE her LONGTIME DREAM

Ejetta Roberson is living proof that anything is possible with some knowledge and lots of personal determination.

For 25 years, Ejetta worked hard at making a better life for her and her six children. Part of her dream was a desire to give her family the security of a home offering stability and the pride of ownership.

"I would have done anything to own a home," she recalls. "I wanted a home of my own because I kept saying, 'Why should I pay this rent when I could be building something that's mine? A home, an investment.' That's all I kept thinking, and I kept working toward that dream."

But there were challenges. Her one child had a terminal illness that sometimes required her to be away from work for extended periods. As a result, bills started to pile up, and that, in turn, drove down her credit rating.

Homeownership counseling was an important first step

Her efforts started in 1996 by getting educated about what it would take to buy a home. First, she went to a homebuyers class at the bank where she worked. Next, she met with Mike Mauer of the Mon Valley Initiative (MVI), which counsels people interested in homeownership. The counseling is free — funded in part by PHFA.

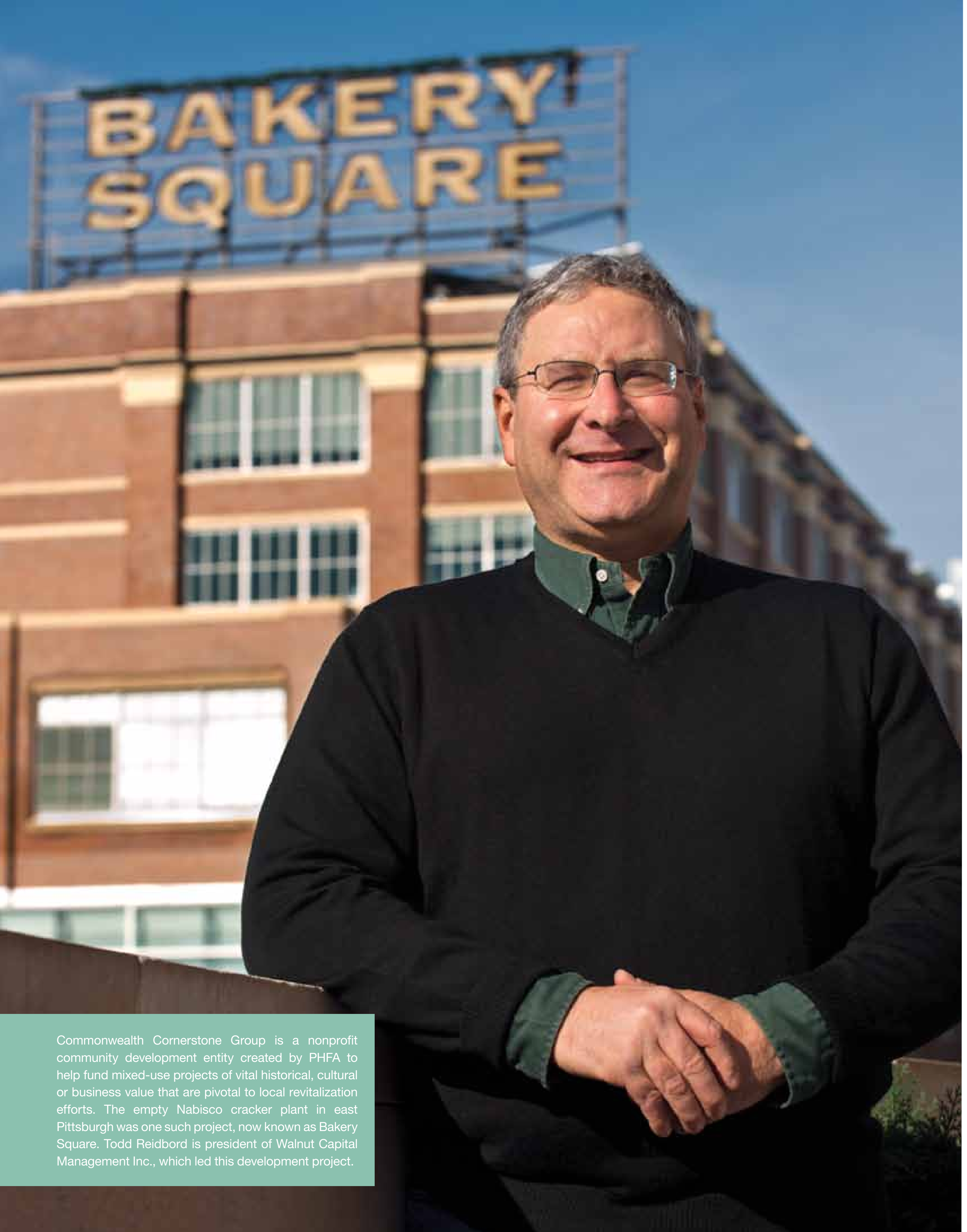
Her biggest obstacle, Mike explained, was her low credit rating. But he showed her steps she could take that would raise her credit rating so she could qualify for a home loan.

It took five years of hard work and careful budgeting by Ejetta to improve her credit score. But ultimately she was successful. In early December 2011, a few weeks before Christmas, the Roberson family moved into their first home.

"The counseling made a big difference," she explains. "It helps you to understand credit, what's needed to purchase a home, and your debt-to-income ratio. It teaches you all that.

"I'm glad that I waited to buy a home. I'm glad that I matured enough [because] I appreciate it so much more. It was a long haul, but it was worth every bit of it."

PHFA works with a network of 82 private sector counseling agencies located across the Commonwealth. The 300 counselors they employ provide Pennsylvanians with information and guidance about homeownership and foreclosure prevention. Ejetta Roberson of Swissvale got the help she needed to purchase her first home in 2011.



Commonwealth Cornerstone Group is a nonprofit community development entity created by PHFA to help fund mixed-use projects of vital historical, cultural or business value that are pivotal to local revitalization efforts. The empty Nabisco cracker plant in east Pittsburgh was one such project, now known as Bakery Square. Todd Reidbord is president of Walnut Capital Management Inc., which led this development project.

1997

Agency launches first website — www.PHFA.org — to enhance customer service.

1999

All PHFA home loans from this date are serviced by the agency in Harrisburg for the life of the loans.

PHFA historical timeline continues on page 76.

A grand, old bakery plant BEGINS LIFE ANEW *with a* 21ST CENTURY FOCUS

When Nabisco, and then a subsequent baker, shut down the cookie and cracker plant along Penn Avenue in Pittsburgh in 2004 after 86 years of operation, the city didn't just lose a major employer. It lost a proud part of its history. The tired, neglected building seemed to reflect the general sentiment in the area that the East Liberty/Larmier neighborhood had little left to offer.

But a turnaround came when public and private partners saw beyond the dust and rust accumulating at the empty plant. The project was led by forward-looking developer Walnut Capital and its investment partner, the RCG Longview Fund, which were attracted by both the historical character of the building and its strategic location.

“It's a huge, grand brick building,” explains Todd Reidbord, president of Walnut Capital Management Inc. “And we felt that it had so much potential being right on the edge of where the universities and medical centers are expanding.”

The project, to be known as Bakery Square, was seen as the perfect location to serve as a high-tech office center, and work began to make it happen.

Commonwealth Cornerstone Group played a key role

Commonwealth Cornerstone Group (CCG) was created by PHFA in 2004 to help fund exactly these kinds of mixed-use developments that can serve as anchor projects to stimulate revitalization. In the case of Bakery Square, CCG provided investment through New Markets Tax Credits.

Reidbord explains: “Working in the city, you have to make a tremendous investment in infrastructure, including parking and other public infrastructure, which doesn't necessarily have a return on investment. But it's a critical investment because you need the ability to fill this cost gap.

“The New Markets Tax Credit investments are able to help provide this infrastructure to create the office space, to bring the jobs. So it's all part of this chain that's needed to make the project successful.”

Built during the economic downturn, completing Bakery Square was a daunting challenge. But it was a project urgently needed on the east side of the city. Drawing on public and private partners was essential for getting the project done.

“I think the only way this works is through a public-private partnership,” Reidbord confirmed. “The old factory building is completely occupied now. Every square inch of it is leased. I think today we'd say it's a big success.”

PENNSYLVANIA HOUSING FINANCE AGENCY

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REPORT OF INDEPENDENT AUDITORS June 30, 2012 and 2011

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Members of the Board of Directors
Pennsylvania Housing Finance Agency

We have audited the accompanying financial statements of the General Fund, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund and Homeowners' Emergency Mortgage Assistance Program ("HEMAP") of the Pennsylvania Housing Finance Agency ("PHFA"), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 audit provides 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, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund and HEMAP of PHFA as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012 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.

Accounting principles generally accepted in the United States require that the Management's Discussion and Analysis, the Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Employees' Retirement Plan and Government Excess Benefit Plan, and the Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Postemployment Benefits Plan on pages 24 through 29, and 73 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst & Young LLP

December 7, 2012

REPORT ON INTERNAL CONTROL

Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

June 30, 2012 and 2011

Ernst & Young

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Members of the Board of Directors Pennsylvania Housing Finance Agency

We have audited the financial statements of the General Fund, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund and Homeowners' Emergency Mortgage Assistance Program (HEMAP) as of and for the year ended June 30, 2012, 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 December 7, 2012. 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

Management of PHFA is responsible for establishing and maintaining effective 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 opinions 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, 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. However, we identified a deficiency in internal control over financial reporting, described below that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Finding: As of June 30, 2011, a balance of $2,130,042 of counseling fees had accumulated and had been capitalized in the PHFA Single Family Fund with the intent of amortizing them over future periods. The portion of these fees that relate to non-PHFA borrowers should have been recorded in the General Fund and expensed as incurred. Similarly, the portion of these fees that relate to PHFA borrowers should have been expensed as incurred in the Single Family Fund. This resulted in an overstatement of the General Fund's and Single Family Fund's net assets at June 30, 2011. In preparing PHFA's 2012 financial statements, management corrected the accounting and reporting for these prior year fees by transferring the previously capitalized counseling fee expenses attributable to non-PHFA borrowers from the Single Family Fund to the General Fund and expensing the prior year balances of all previously capitalized amounts for both PHFA and non-PHFA borrowers in the Single Family Fund and General Fund. PHFA did not have sufficient controls in place to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct the accounting for and reporting of counseling fees on a timely basis with respect to the year ended June 30, 2011.

PHFA's Response: Counseling fees of this nature are to be expensed as incurred by virtue of an annual set-aside established and approved by the PHFA Board. Management has corrected the accounting and reporting of these fees, previously capitalized and amortized within the Single Family Fund in prior years, by transferring the prior year balances attributable to non-PHFA borrowers to the General Fund during the year under audit and expensing all prior year balances of counseling fees attributable to both PHFA borrowers and non-PHFA borrowers through the Single Family Fund and General Fund, respectively, as of June 30, 2012. As a result, the net assets of both the General Fund and the Single Family Fund are fairly stated at June 30, 2012. PHFA will evaluate its financial statement close process in an effort to avoid future deficiencies in internal control over financial reporting of this nature and, in turn, implement additional measures of control as deemed necessary.

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 management, Members of the Board of Directors, 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

December 7, 2012

Management's DISCUSSION & ANALYSIS

Introduction

This discussion and analysis of the financial performance of the Pennsylvania Housing Finance Agency ("Agency") is required supplementary information. It introduces the financial statements presented on a consolidated basis comprised of the five separate funds for the year ended June 30, 2012 with selected comparative information for the years ended June 30, 2011 and 2010. 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 Agency's basic financial statements include the Balance Sheets, the Statements of Revenues, Expenses and Changes in Fund Net Assets, the Statements of Cash Flows and the Notes to Financial Statements.

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

The Statements of Revenues, Expenses and Changes in Fund Net Assets account 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.

The Statements of Cash Flows are presented using the direct method of reporting. They provide information about the Agency's cash receipts, cash payments and net changes in cash resulting from operating, investing and financing activities. Cash receipts and payments are presented in these statements to arrive at the net increase or decrease in cash and cash equivalents for each year.

The financial statements are accompanied by a complete set of notes and required supplementary information. They present information that is essential in understanding the financial statements, such as accounting methods and policies providing information about the content of the financial statements.

CONDENSED BALANCE SHEETS

For the years ended June 30 (in thousands):

				Percentage Change	
	2012	**2011**	**2010**	**2012/2011**	**2011/2010**
Assets:					
Mortgage loans receivable	$4,475,857	$4,805,610	$4,490,827	(7%)	7%
Capital assets	31,524	32,439	33,353	(3%)	(3%)
Other assets	1,086,024	1,213,218	1,741,216	(10%)	(30%)
Total assets	$5,593,405	$6,051,267	$6,265,396	(8%)	(3%)
Liabilities:					
Current liabilities	288,329	417,297	782,236	(31%)	(47%)
Long-term liabilities	4,484,073	4,823,520	4,712,074	(7%)	2%
Total liabilities	4,772,402	5,240,817	5,494,310	(9%)	(5%)
Net assets:					
Invested in capital assets, net of related debt	11,588	12,506	13,423	(7%)	(7%)
Restricted	212,255	179,589	239,098	18%	(25%)
Unrestricted	597,160	618,355	518,565	(3%)	19%
Total net assets	821,003	810,450	771,086	1%	5%
Total liabilities and net assets	$5,593,405	$6,051,267	$6,265,396	(8%)	(3%)

Discussion and Analysis of the Significant Changes in the Balance Sheets

CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investment balances decreased 12% to $864 million at June 30, 2012 from $980 million at June 30, 2011, compared to a decrease to $980 million at June 30, 2011 from $1.5 billion at June 30, 2010. Typically, balances of cash, cash equivalents and investments fluctuate relative to the timing of the receipt of bond proceeds and the disbursement of those proceeds for mortgage loans. The current interest rate environment challenges the Agency since it directly affects the Agency's ability to issue bonds that would produce marketable mortgage interest rates. In response to this challenge, the Agency pooled and sold loans to the Government National Mortgage Association ("GNMA") to generate liquidity to meet loan production needs. Since income from that process approximates the required funding of new mortgage loan purchases, the effects result in reduced levels of cash and investments when compared to prior years. A discussion of the Agency's housing programs and how the Agency financed those programs is included in the following paragraphs.

FUNDING ACTIVITY OF THE MULTIFAMILY HOUSING PROGRAM

The Multifamily Housing Program funded approximately $65 million of mortgage loans compared with $200 million in the prior year. The mortgage loan portfolio decreased by 3% to $452 million at June 30, 2012 from $468 million at June 30, 2011, after the effects of scheduled principal payments, prepayments and the provision for loan loss. This is compared to a decrease of 6% to $468 million at June 30, 2011 from $498 million at June 30, 2010.

The expense for the provision for loan loss decreased slightly by 3% to $3.0 million for the year ended June 30, 2012 from $3.1 million at June 30, 2011 based on management's estimate of future portfolio performance.

LOAN PURCHASE AND FINANCING ACTIVITY OF THE SINGLE FAMILY MORTGAGE LOAN PROGRAM

The Single Family Mortgage Loan Program purchased approximately $292 million of new single-family mortgage loans compared with $816 million in the prior year. The mortgage loan portfolio decreased 5% to $4.0 billion at June 30, 2012 from $4.2 billion at June 30, 2011, after the effects of scheduled principal payments, prepayments and the provision for loan loss. This is compared to an increase of 8% to $4.2 billion at June 30, 2011 from $3.9 billion at June 30, 2010.

The expense for the provision for loan loss remained at $5.0 million for the year ended June 30, 2012 and 2011 based on management's estimate of future portfolio performance.

Sales of mortgage loans through GNMA continued to be a primary funding source for single-family loan purchases through the recently implemented secondary market mortgage purchase program. Through this program, implemented during 2011, the Agency accessed the To-Be-Announced ("TBA") market by securitizing its mortgage loans in the Mortgage-Backed Securities ("MBS") market through GNMA.

The TBA market facilitates the forward trading of MBS securities backed by government-sponsored entities such as GNMA. GNMA assembles loans into collections or "pools" and offers those as mortgage-backed securities through a process known as securitization. Various private and public investors purchase these MBS securities. This program allows the Agency to fund loans at competitive market rates.

During the years ended June 30, 2012 and 2011, the Agency pooled mortgage loans with a principal balance of $196.6 million and $141.6 million, respectively, into GNMA MBS. The securities are then purchased by private investors or held by the Agency. The Agency earns revenue for servicing loans in these GNMA pools, which is included as program income and fees on the Statements of Revenues, Expenses and Changes in Fund Net Assets. Mortgage loans that have been securitized into pools and sold through GNMA are not included on the Agency's financial statements.

The Agency realized a net gain during the years ended June 30, 2012 and 2011 of $14 million and $4.5 million, respectively, on the sale of these pools. Net gains are recorded as program income and fees on the Statements of Revenues, Expenses and Changes in Fund Net Assets.

ASSISTANCE ACTIVITY OF THE HOMEOWNERS' EMERGENCY MORTGAGE ASSISTANCE PROGRAM

HEMAP provided approximately $8.5 million of continuing emergency mortgage assistance loans compared with $29 million in the prior year. The mortgage assistance portfolio decreased 14% to $56 million at June 30, 2012 from $65 million at June 30, 2011, after adjustments for the provision for loan loss, prepayments, and scheduled principal payments. This is compared to an increase of 18% to $65 million at June 30, 2011 from $55 million at June 30, 2010.

The expense for the provision for loan loss is maintained at $11 million at June 30, 2012 and 2011, respectively, based on management's estimate of future portfolio performance.

Additionally, HEMAP passed-through federal Emergency Homeowners' Loan Program funding totaling $52 million to eligible homeowners in danger of losing their homes to foreclosure. Loans funded by this program are owned by the U.S. Department of Housing and Urban Development and are reported on HEMAP's books as federal program awards and expenses on the Statements of Revenues, Expenses and Changes in Fund Net Assets.

LONG-TERM DEBT ACTIVITY OF THE MULTIFAMILY HOUSING PROGRAM

During the year, the Multifamily Housing Program did not issue any bonds. As a result, the total outstanding bonds balance at June 30, 2012 decreased by 25% to $127 million because of scheduled debt payments and redemptions. The Multifamily Housing Program did not issue any bonds during the years ended June 30, 2011 and 2010.

The Multifamily Housing Program finances various housing developments throughout the Commonwealth of Pennsylvania with multifamily development bonds proceeds relating to the construction or rehabilitation of multifamily rental housing developments generally designed for persons or families of low and moderate income or the elderly.

LONG-TERM DEBT ACTIVITY OF THE SINGLE FAMILY MORTGAGE LOAN PROGRAM

During the year, the Agency issued $82 million of Single Family Mortgage Revenue Bonds, Series 2011-113, to refund Series 2011-111 issued during September 2011. Total debt outstanding of the Single Family Mortgage Loan Program decreased by 10% to $4.0 billion because of scheduled debt payments and bond calls totaling $432 million using mortgage prepayments. During the years ended June 30, 2011 and 2010, the Agency issued Mortgage Revenue Bonds totaling $596 million and $1.2 billion, respectively. The Single Family Mortgage Loan Program provides residential mortgage financing programs that serve low- to middle-income qualified homebuyers with mortgage revenue bond proceeds.

NET ASSETS

Net assets increased slightly to $821 million or 1% at June 30, 2012 from $810 million at June 30, 2011. This can be compared to an increase of 5% to $810 million at June 30, 2011 from $771 million at June 30, 2010. Despite strong operating results, net assets were negatively impacted by a $27 million non-cash expense attributed to terminations of certain interest rate swap hedges, as discussed in the following section.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

For the years ended June 30 (in thousands):

	2012	2011	2010	Percentage Change 2012/2011	Percentage Change 2011/2010
Operating revenues:					
Mortgage loan interest	$ 202,566	$ 206,728	$ 197,947	(2%)	4%
Investment income, net	33,756	19,163	25,422	76%	(25%)
Program income and fees	534,226	526,418	684,169	1%	(23%)
Total operating revenues	770,548	752,309	907,538	2%	(17%)
Operating expenses:					
Interest on bonds	174,532	181,672	191,066	(4%)	(5%)
Program expenses	558,183	531,273	691,859	5%	(23%)
Total operating expenses	732,715	712,945	882,925	3%	(19%)
Special Item	(27,280)	-	-	100%	-
Change in net assets	10,553	39,364	24,613	(73%)	60%
Total net assets	$ 821,003	$ 810,450	$ 771,086	1%	5%

Discussion and Analysis of the Significant Changes in the Statements of Revenues, Expenses and Changes in Fund Net Assets

DISCUSSION OF THE CHANGE IN NET ASSETS

The Agency's change in net assets at June 30, 2012 was $10.5 million of income, compared with $39 million of income for June 30, 2011 and $25 million of income at June 30, 2010. The decrease in income for 2012 compared to 2011 is attributed to the accounting treatment of the Agency exercising options related to its interest rate swap agreements, whereby the Agency recognized a Special Item expense of $27 million. The Agency took advantage of the economic benefits associated with reducing the semiannual fixed payments to counterparties for 10 of its interest rate swaps at various times during the year ended June 30, 2012. The 10 agreements were amended, whereby the Agency reduced its semiannual fixed rate payment to the swaps' counterparties.

The aforementioned options were embedded within the respective swap agreements at the time the agreements were entered into, and existed as a cost to the Agency to have these rights embedded at the time the agreements were entered into; as such, these options were considered to be an additional element of each swap agreement. However, according to GASB Statement No. 53, by exercising the aforementioned embedded options, certain critical terms were changed (i.e. the fixed leg of the swap) of the associated interest rate swap agreements. GASB Statement No. 53 identifies a change in the critical terms of a derivative instrument as an event that terminates hedge accounting. In the instance of a termination event, GASB Statement No. 53 requires the Deferred Outflow of Resources associated with these effectively hedging swaps, which had previously been reported on the Balance Sheets, to be recognized as either a revenue or an expense on the Statements of Revenue, Expenses and Changes in Fund Net Assets.

The termination events, which had occurred during the year ended June 30, 2012, were significant transactions within the control of management that were infrequent in occurrence; therefore, the events meet the GASB definition of a Special Item. As a result, the recognition of the Deferred Outflow of Resources associated with these interest rate swaps as either income or expense has been reported as a Special Item on the Statements of Revenues, Expenses and Changes in Fund Net Assets. Simultaneously, the fair values of these swaps at the time of termination were reclassified on the Balance Sheet from Derivative Instrument – Interest Rate Swaps to Deferred Swap Borrowing. In accordance with GASB Statement No. 53, the Deferred Swap Borrowing account will be amortized and recognized as a component of operating income over the lives of the underlying interest rate swaps in order to recoup the effects of the Special Item expense over time.

The effects of the termination events described above and the ultimate effects of the resultant Special Item on the Agency's net assets represent non-cash transactions. At no time was the Agency required to relinquish or exchange cash or any other monetary assets because of the termination events and resultant Special Item.

See Note 8 — Special Item within the Notes to the Financial Statements for further details of these termination events.

HEMAP RESTART

On June 22, 2012, the Governor signed Senate Bill No. 1433 (Act 70). This bill authorizes 90% of the "Homeowner Assistance Settlement Agreement" to be appropriated to the HEMAP Program. HEMAP's share of these funds will total approximately $60 million over a multi-year period. This bill provides sufficient funding to allow HEMAP to restart and will provide funding for the next several fiscal years.

ADDITIONAL INFORMATION

This discussion and analysis is intended to provide additional information regarding the activities of the Agency. Additional current or historical, audited or unaudited financial information can be found at the Agency's website at www.phfa.org.

BALANCE SHEETS (in thousands of dollars) June 30, 2012 and 2011

BALANCE Sheets

2012

ASSETS	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Current assets:							
Cash and cash equivalents	$ 75,786	$ 43,888	$ 238,341	$ 35,197	$ 393,212	$ 1	$ 393,213
Restricted cash and cash equivalents	1,670	127,205	38,808	-	167,683	-	167,683
Investments	119	35	5,006	6,003	11,163	-	11,163
Restricted investments	46	446	8,594	-	9,086	-	9,086
Accrued interest receivable on investments	212	305	933	76	1,526	-	1,526
Mortgage loans receivable, net	-	28,287	81,684	-	109,971	7,244	117,215
Other current assets	1,819	2,968	-	-	4,787	2,057	6,844
Due from other funds	49,514	30,123	-	-	79,637	-	79,637
Total current assets	129,166	233,257	373,366	41,276	777,065	9,302	786,367
Noncurrent assets:							
Investments	43,149	2,066	116,408	2,092	163,715	-	163,715
Restricted investments	-	-	119,044	-	119,044	-	119,044
Mortgage loans receivable, net	-	423,711	3,886,449	-	4,310,160	48,482	4,358,642
Capital assets, net	31,523	-	-	-	31,523	1	31,524
Other noncurrent assets	25,866	1,884	13,249	-	40,999	4	41,003
Deferred outflow of resources	1,172	13,247	78,691	-	93,110	-	93,110
Total noncurrent assets	101,710	440,908	4,213,841	2,092	4,758,551	48,487	4,807,038
Total assets	$ 230,876	$ 674,165	$ 4,587,207	$ 43,368	$ 5,535,616	$ 57,789	$ 5,593,405
LIABILITIES							
Current liabilities:							
Bonds and notes payable, net	$ -	$ 20,324	$ 61,940	$ -	$ 82,264	$ -	$ 82,264
Accrued interest payable	386	2,627	38,313	-	41,326	-	41,326
Accounts payable and accrued expenses	1,940	53	2,799	158	4,950	514	5,464
Escrow deposits and development reserves	25	28,099	44,500	-	72,624	-	72,624
Other current liabilities	54	1,069	5,111	300	6,534	480	7,014
Due to other funds	-	-	79,637	-	79,637	-	79,637
Total current liabilities	2,405	52,172	232,300	458	287,335	994	288,329
Noncurrent liabilities:							
Bonds and notes payable, net	19,936	106,501	3,891,843	-	4,018,280	-	4,018,280
Derivative instrument - Interest rate swaps	1,172	13,637	82,346	-	97,155	-	97,155
Deferred swap borrowing	-	2,747	23,399	-	26,146	-	26,146
Development reserves	-	85,691	-	-	85,691	-	85,691
Other noncurrent liabilities	18,599	178,736	30,331	2,740	230,406	26,395	256,801
Total noncurrent liabilities	39,707	387,312	4,027,919	2,740	4,457,678	26,395	4,484,073
Total liabilities	42,112	439,484	4,260,219	3,198	4,745,013	27,389	4,772,402
NET ASSETS							
Invested in capital assets, net of related debt	11,587	-	-	-	11,587	1	11,588
Restricted by bond resolution or legislation	-	7,636	174,220	-	181,856	30,399	212,255
Unrestricted	177,177	227,045	152,768	40,170	597,160	-	597,160
Total net assets	188,764	234,681	326,988	40,170	790,603	30,400	821,003
Total liabilities and net assets	$ 230,876	$ 674,165	$ 4,587,207	$ 43,368	$ 5,535,616	$ 57,789	$ 5,593,405

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

2011

ASSETS	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Current assets:							
Cash and cash equivalents	$ 67,399	$ 29,885	$ 320,336	$ 33,144	$ 450,764	$ 358	$ 451,122
Restricted cash and cash equivalents	223	129,128	59,795	-	189,146	-	189,146
Investments	8,223	6,183	-	-	14,406	-	14,406
Restricted investments	516	41	140,871	-	141,428	-	141,428
Accrued interest receivable on investments	127	204	1,062	305	1,698	-	1,698
Mortgage loans receivable, net	-	30,914	82,098	-	113,012	8,472	121,484
Other current assets	4,120	42	731	-	4,893	186	5,079
Due from other funds	31,653	54,685	-	-	86,338	-	86,338
Total current assets	112,261	251,082	604,893	33,449	1,001,685	9,016	1,010,701
Noncurrent assets:							
Investments	28,989	5,785	136,845	7,085	178,704	-	178,704
Restricted investments	-	5,102	-	-	5,102	-	5,102
Mortgage loans receivable, net	-	436,646	4,190,821	-	4,627,467	56,659	4,684,126
Capital assets, net	32,437	-	-	-	32,437	2	32,439
Other noncurrent assets	21,411	2,565	14,608	-	38,584	4	38,588
Deferred outflow of resources	1,358	13,560	86,689	-	101,607	-	101,607
Total noncurrent assets	84,195	463,658	4,428,963	7,085	4,983,901	56,665	5,040,566
Total assets	$ 196,456	$ 714,740	$ 5,033,856	$ 40,534	$ 5,985,586	$ 65,681	$ 6,051,267
LIABILITIES							
Current liabilities:							
Bonds and notes payable, net	$ -	$ 23,926	$ 163,500	$ -	$ 187,426	$ -	$ 187,426
Accrued interest payable	384	3,367	40,842	-	44,593	-	44,593
Accounts payable and accrued expenses	2,778	86	2,053	2	4,919	814	5,733
Escrow deposits and development reserves	82	22,336	49,814	-	72,232	-	72,232
Other current liabilities	1,770	14,600	4,305	300	20,975	-	20,975
Due to other funds	-	-	86,338	-	86,338	-	86,338
Total current liabilities	5,014	64,315	346,852	302	416,483	814	417,297
Noncurrent liabilities:							
Bonds and notes payable, net	19,933	144,786	4,226,032	-	4,390,751	-	4,390,751
Derivative instrument - Interest rate swaps	1,358	14,138	91,257	-	106,753	-	106,753
Deferred swap borrowing	-	-	-	-	-	-	-
Development reserves	-	98,164	-	-	98,164	-	98,164
Other noncurrent liabilities	14,432	156,063	31,526	2,211	204,232	23,620	227,852
Total noncurrent liabilities	35,723	413,151	4,348,815	2,211	4,799,900	23,620	4,823,520
Total liabilities	40,737	477,466	4,695,667	2,513	5,216,383	24,434	5,240,817
NET ASSETS							
Invested in capital assets, net of related debt	12,504	-	-	-	12,504	2	12,506
Restricted by bond resolution or legislation	-	5,102	133,242	-	138,344	41,245	179,589
Unrestricted	143,215	232,172	204,947	38,021	618,355	-	618,355
Total net assets	155,719	237,274	338,189	38,021	769,203	41,247	810,450
Total liabilities and net assets	**$ 196,456**	**$ 714,740**	**$ 5,033,856**	**$ 40,534**	**$ 5,985,586**	**$ 65,681**	**$ 6,051,267**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS (in thousands of dollars) years ended June 30, 2012 and 2011

Statements *of* REVENUES, EXPENSES *and* CHANGES IN FUND NET ASSETS

2012

	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Operating revenues:							
Interest income on mortgage loans	$ 20	$ 21,746	$ 180,167	$ -	$ 201,933	$ 633	$ 202,566
Program income and fees	48,581	672	4,138	1,936	55,327	2,145	57,472
Investment income	185	47	11,561	548	12,341	-	12,341
Swap borrowing income	-	313	821	-	1,134	-	1,134
Net increase (decrease) in fair value of investments	14,278	107	4,530	265	19,180	-	19,180
Net increase (decrease) in fair value of swaps	-	188	913	-	1,101	-	1,101
Federal program awards	-	420,877	3,558	-	424,435	52,319	476,754
Total operating revenues	63,064	443,950	205,688	2,749	715,451	55,097	770,548
Operating expenses:							
Interest expense on bonds and notes	739	6,752	167,041	-	174,532	-	174,532
Salaries and related benefits	23,672	-	-	-	23,672	1,646	25,318
OPEB liability expense	3,707	-	-	-	3,707	506	4,213
Financing expenses	-	1,480	15,655	-	17,135	-	17,135
General and administrative	8,001	2,502	1,638	600	12,741	497	13,238
Provision for loan loss	-	3,000	5,000	-	8,000	10,976	18,976
Early extinguishment of debt	-	42	2,507	-	2,549	-	2,549
Federal program expense	-	420,877	3,558	-	424,435	52,319	476,754
Total operating expenses	36,119	434,653	195,399	600	666,771	65,944	732,715
Operating income (loss)	26,945	9,297	10,289	2,149	48,680	(10,847)	37,833
Special item and transfers:							
Special item; investment loss on swap termination	-	(3,060)	(24,220)	-	(27,280)	-	(27,280)
Interfund transfers	6,100	(8,830)	2,730	-	-	-	-
Change in Net Assets	33,045	(2,593)	(11,201)	2,149	21,400	(10,847)	10,553
Total net assets - beginning of year	155,719	237,274	338,189	38,021	769,203	41,247	810,450
Total net assets - end of year	$ 188,764	$ 234,681	$ 326,988	$ 40,170	$ 790,603	$ 30,400	$ 821,003

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

2011

	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Operating revenues:							
Interest income on mortgage loans	$ -	$ 25,388	$ 180,653	$ -	$ 206,041	$ 687	$ 206,728
Program income and fees	40,890	11,072	3,664	1,501	57,127	10,958	68,085
Investment income	1,265	(99)	10,998	504	12,668	4	12,672
Swap borrowing income	-	-	-	-	-	-	-
Net increase (decrease) in fair value of investments	(1,152)	495	2,498	(445)	1,396	-	1,396
Net increase (decrease) in fair value of swaps	-	440	4,655	-	5,095	-	5,095
Federal program awards	-	450,225	7,619	-	457,844	489	458,333
Total operating revenues	41,003	487,521	210,087	1,560	740,171	12,138	752,309
Operating expenses:							
Interest expense on bonds and notes	762	8,709	172,201	-	181,672	-	181,672
Salaries and related benefits	23,396	-	-	-	23,396	3,051	26,447
OPEB liability expense	3,170	-	-	-	3,170	432	3,602
Financing expenses	51	829	9,226	-	10,106	-	10,106
General and administrative	5,288	2,301	1,528	600	9,717	953	10,670
Provision for loan loss	-	3,100	5,000	-	8,100	11,252	19,352
Early extinguishment of debt	-	29	2,734	-	2,763	-	2,763
Federal program expense	-	450,225	7,619	-	457,844	489	458,333
Total operating expenses	32,667	465,193	198,308	600	696,768	16,177	712,945
Operating income (loss)	8,336	22,328	11,779	960	43,403	(4,039)	39,364
Special item and transfers:							
Special item; investment loss on swap termination	-	-	-	-	-	-	-
Interfund transfers	8,123	(31,827)	23,704	-	-	-	-
Change in Net Assets	16,459	(9,499)	35,483	960	43,403	(4,039)	39,364
Total net assets - beginning of year	139,260	246,773	302,706	37,061	725,800	45,286	771,086
Total net assets - end of year	$ 155,719	$ 237,274	$ 338,189	$ 38,021	$ 769,203	$ 41,247	$ 810,450

(in thousands of dollars) years ended June 30, 2012 and 2011

Statements of CASH FLOWS

2012

	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Cash Flows From Operating Activities							
Receipts of mortgage loan payments	$ -	$ 77,076	$ 592,197	$ -	$ 669,273	$ 6,930	$ 676,203
Receipts from fees and other income	48,516	571	4,267	2,165	55,519	2,145	57,664
Receipts from interest on mortgages	-	21,746	180,167	-	201,913	633	202,546
Receipt of escrow and development reserves	2,394	2,432	(5,703)	-	(877)	-	(877)
Payments for mortgages and purchases	-	(64,514)	(292,411)	85	(356,840)	(8,501)	(365,341)
Payments to employees and suppliers	(37,155)	(6,260)	(14,457)	-	(57,872)	(4,298)	(62,170)
Net cash provided by (used in) operating activities	13,755	31,051	464,060	2,250	511,116	(3,091)	508,025
Cash Flows From Noncapital Financing Activities							
Proceeds from the sale of bonds	-	-	81,705	-	81,705	-	81,705
Payments for retirement of bonds and notes	-	(41,929)	(519,961)	-	(561,890)	-	(561,890)
Payments of bonds and notes interest	-	(7,492)	(169,570)	-	(177,062)	-	(177,062)
Transfers from (to) other funds	(11,761)	15,732	(3,971)	-	-	2,734	2,734
Net cash provided by (used in) noncapital financing activities	(11,761)	(33,689)	(611,797)	-	(657,247)	2,734	(654,513)
Cash Flows From Capital Financing Activities							
Purchases of capital assets	(303)	-	-	-	(303)	-	(303)
Interest paid on capital debt	(734)	-	-	-	(734)	-	(734)
Net cash used in capital financing activities	(1,037)	-	-	-	(1,037)	-	(1,037)
Cash Flows From Investing Activities							
Proceeds from the sale or maturity of investments	8,692	40,676	90,473	-	139,841	-	139,841
Investment interest received	185	47	11,561	548	12,341	-	12,341
Purchases of investments	-	(26,005)	(57,279)	(745)	(84,029)	-	(84,029)
Net cash provided by (used in) investing activities	8,877	14,718	44,755	(197)	68,153	-	68,153
Net increase (decrease) in cash and cash equivalents	9,834	12,080	(102,982)	2,053	(79,015)	(357)	(79,372)
Cash and cash equivalents, beginning of year	67,622	159,013	380,131	33,144	639,910	358	640,268
Cash and cash equivalents, end of year	$ 77,456	$ 171,093	$ 277,149	$ 35,197	$ 560,895	$ 1	$ 560,896

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

2011

	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Cash Flows From Operating Activities							
Receipts of mortgage loan payments	$ -	$ 230,368	$ 481,018	$ -	$ 711,386	$ 7,117	$ 718,503
Receipts from fees and other income	36,301	11,079	3,806	1,234	52,420	10,980	63,400
Receipts from interest on mortgages	-	25,388	180,653	-	206,041	1,271	207,312
Receipt of escrow and development reserves	1,970	(1,316)	8,695	-	9,349	-	9,349
Payments for mortgages and purchases	-	(200,096)	(815,684)	-	(1,015,780)	(28,758)	(1,044,538)
Payments to employees and suppliers	(51,390)	(5,709)	(22,566)	(219)	(79,884)	(4,333)	(84,217)
Net cash provided by (used in) operating activities	(13,119)	59,714	(164,078)	1,015	(116,468)	(13,723)	(130,191)
Cash Flows From Noncapital Financing Activities							
Proceeds from the sale of bonds	-	-	595,590	-	595,590	-	595,590
Payments for retirement of bonds and notes	-	(51,143)	(769,176)	-	(820,319)	-	(820,319)
Payments of bonds and notes interest	-	(9,643)	(172,906)	-	(182,549)	-	(182,549)
Transfers from (to) other funds	42,704	(47,105)	9,740	-	5,339	13,620	18,959
Net cash provided by (used in) noncapital financing activities	42,704	(107,891)	(336,752)	-	(401,939)	13,620	(388,319)
Cash Flows From Capital Financing Activities							
Purchases of capital assets	(373)	-	-	-	(373)	-	(373)
Interest paid on capital debt	(759)	-	-	-	(759)	-	(759)
Net cash used in capital financing activities	(1,132)	-	-	-	(1,132)	-	(1,132)
Cash Flows From Investing Activities							
Proceeds from the sale or maturity of investments	15,874	13,147	104,561	-	133,582	-	133,582
Investment interest received	5,798	(99)	10,998	504	17,201	4	17,205
Purchases of investments	(3,315)	(16,003)	(198,579)	(3,999)	(221,896)	-	(221,896)
Net cash provided by (used in) investing activities	18,357	(2,955)	(83,020)	(3,495)	(71,113)	4	(71,109)
Net increase (decrease) in cash and cash equivalents	46,810	(51,132)	(583,850)	(2,480)	(590,652)	(99)	(590,751)
Cash and cash equivalents, beginning of year	20,812	210,145	963,981	35,624	1,230,562	457	1,231,019
Cash and cash equivalents, end of year	$ 67,622	$ 159,013	$ 380,131	$ 33,144	$ 639,910	$ 358	$ 640,268

(continued) (in thousands of dollars) years ended June 30, 2012 and 2011

Statements of CASH FLOWS (continued)

2012	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	$ 26,945	$ 9,297	$ 10,289	$ 2,149	$ 48,680	$ (10,847)	$ 37,833
Investment interest	(185)	(47)	(11,561)	(548)	(12,341)	-	(12,341)
Swap borrowing income	-	(313)	(821)	-	(1,134)	-	(1,134)
Net change in fair value of investments	(14,278)	(107)	(4,530)	(265)	(19,180)	-	(19,180)
Net change in fair value of swaps	-	(188)	(913)	-	(1,101)	-	(1,101)
Interest expense on bonds	739	6,752	167,041	-	174,532	-	174,532
Provision for loan loss	-	3,000	5,000	-	8,000	10,976	18,976
Depreciation	1,217	-	-	-	1,217	1	1,218
Early extinguishment of debt	-	42	2,507	-	2,549	-	2,549
Changes in assets and liabilities:							
Mortgage loans receivable, net	-	12,562	299,786	-	312,348	(1,571)	310,777
Accrued interest receivable on investments	(85)	(101)	129	229	172	-	172
Other assets	(2,154)	(2,245)	2,090	-	(2,309)	(1,871)	(4,180)
Accounts payable and accrued expenses	(838)	(33)	746	156	31	(1,212)	(1,181)
Escrow deposits and development reserves	(57)	(6,710)	(5,314)	-	(12,081)	-	(12,081)
Other liabilities	2,451	9,142	(389)	529	11,733	1,433	13,166
Net cash provided by (used in) operating activities	$ 13,755	$ 31,051	$ 464,060	$ 2,250	$ 511,116	$ (3,091)	$ 508,025

2011	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	$ 8,336	$ 22,328	$ 11,779	$ 960	$ 43,403	$ (4,039)	$ 39,364
Investment interest	(5,798)	99	(10,998)	(504)	(17,201)	(4)	(17,205)
Swap borrowing income	-	-	-	-	-	-	-
Net change in fair value of investments	1,152	(495)	(2,498)	445	(1,396)	4	(1,392)
Net change in fair value of swaps	-	(440)	(4,655)	-	(5,095)	-	(5,095)
Interest expense on bonds	762	8,709	172,201	-	181,672	-	181,672
Provision for loan loss	-	3,100	5,000	-	8,100	11,252	19,352
Depreciation	1,285	-	-	-	1,285	2	1,287
Early extinguishment of debt	-	29	2,734	-	2,763	-	2,763
Changes in assets and liabilities:							
Mortgage loans receivable, net	-	27,172	(339,666)	-	(312,494)	(21,645)	(334,139)
Accrued interest receivable on investments	(56)	7	142	(267)	(174)	-	(174)
Other assets	(19,919)	544	(7,393)	-	(26,768)	24	(26,744)
Accounts payable and accrued expenses	(851)	(23)	581	-	(293)	99	(194)
Escrow deposits and development reserves	1,970	(1,316)	8,695	381	9,730	-	9,730
Other liabilities	-	-	-	-	-	584	584
Net cash provided by (used in) operating activities	$ (13,119)	$ 59,714	$ (164,078)	$ 1,015	$ (116,468)	$ (13,723)	$ (130,191)

Notes *to* FINANCIAL STATEMENTS

1. Reporting Entity

The Pennsylvania Housing Finance Agency ("Agency") is a component unit of the Commonwealth of Pennsylvania as described in Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity,* as amended by GASB Statement No. 39, *Determining whether Certain Organizations are Component Units*. The Agency's financial information is discretely presented in the Commonwealth's financial statements, but the Agency is not considered part of the Commonwealth's primary government.

The Agency was created by the General Assembly in 1972 to provide affordable housing for older adults, persons and families of modest means and persons with disabilities. Pursuant to the Housing Finance Agency Law, Act of 1959, P. L. 1688, No. 620 ("Act"), as amended, 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, persons with special needs or the elderly who receive assistance from federal government programs.

The Act was amended to authorize the Agency to make or purchase mortgage loans to finance the purchase, construction, improvement or rehabilitation of owner-occupied single-family residences and to finance the construction and rehabilitation of housing units without requiring the housing units to be subsidized or assisted by a federal government program.

The initial legislation and subsequent amendments grant the Agency the power to issue debt to finance its programs and operations. Debt obligations 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 any of its political subdivisions.

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

2. Summary of Significant Accounting Policies

BASIS OF ACCOUNTING

The Agency's basic financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended. 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 complies with GASB pronouncements in conformity with GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, which was issued to give guidance in determining generally, accepted accounting principles for governmental proprietary funds. It provides that all proprietary funds follow all Financial Accounting Standards Board ("FASB") pronouncements issued prior to November 30, 1989, unless they conflict with GASB pronouncements. It also provides that the governmental unit may elect whether to follow FASB pronouncements after that date. The Agency has elected not to follow FASB pronouncements issued after November 30, 1989.

DESCRIPTION OF FUNDS

The accounts of the Agency are structured as separate enterprise funds, each representing a separate accounting entity. The Agency's resources are allocated to these funds based on legal responsibility, accountability and management designation, summarized as follows:

General Fund — Consists of a group of accounts used to record the receipt of income not directly pledged to the repayment of specific bonds and the payment of expenses related to the Agency's administrative functions, including salary and related benefits.

Multifamily Housing Program — Records the activity related to financing of the construction, rehabilitation or operational expenses of multifamily rental housing developments generally designed for persons or families of low and moderate income or the elderly.

Single Family Mortgage Loan Program — Records the transactions related to providing capital for the purchase and servicing of mortgage loans for owner-occupied, single-family residences for persons or families of low and moderate income.

Insurance Fund — The Agency provides primary mortgage insurance coverage through this fund for single-family borrowers that are unable to obtain insurance from other sources.

Homeowners' Emergency Mortgage Assistance Program ("HEMAP") — Created by Act 91 of the General Assembly to provide emergency mortgage assistance loans to mortgagors facing foreclosure because of circumstances beyond their control.

CASH AND CASH EQUIVALENTS

Cash includes cash on hand, cash deposits and checking account balances. Cash equivalents are defined as short-term investments with original maturities of three months or less that are readily convertible to known amounts of cash, which include money market investments.

INVESTMENTS

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are reported at fair value on the Balance Sheets. Changes in the fair values are recognized separately in the Statements of Revenues, Expenses and Changes in Fund Net Assets. Fair value is determined by reference to published market prices and quotations, where available, at the closing of each reporting period.

RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments classified as restricted on the Balance Sheets are restricted primarily by escrow agreements, bond resolutions, debt servicing agreements or other contractual agreements. The Agency holds monies from multifamily property owners and single-family homeowners for payments of real estate taxes, property insurance and operating reserves. The Agency collects mortgage payments on behalf of mortgagees for whom the Agency acts as a servicer. The Agency maintains funds, restricted as to their use, to comply with bond debt capital reserve fund requirements.

MORTGAGE LOANS RECEIVABLE, NET OF ALLOWANCE FOR POTENTIAL LOAN LOSS

Mortgage loans receivable are carried at amounts disbursed plus accrued interest, unamortized loan amortization cost and premiums, less repayments and allowance for loan losses, if any. The current portion of mortgage loans receivable represents the contractual amount due within the next year. 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 values of the properties that represent collateral, mortgage insurance coverage on the collateral, the financial condition of the borrower and the economy as a whole. While management uses available information to recognize losses on mortgage loans, future additions to the allowance may be necessary based on changes in economic conditions.

REAL ESTATE OWNED

During the normal course of business, the Agency acquires and holds for sale single-family real estate because of foreclosure, acceptance of a deed in lieu of foreclosure or other defaults of nonperforming mortgage loans. The outstanding mortgage balances attributable to these properties, stated at cost, are included as mortgage loans receivable on the Balance Sheets of the Single Family Mortgage Loan Program. In addition to the potential recovery from the sale of real estate owned, are recoveries from the U.S. Department of Housing and Urban Development, other federal government programs or private mortgage insurance.

CAPITAL ASSETS

The Agency capitalizes capital assets with an initial cost of $1 or more. Depreciation is calculated using the straight-line method over the estimated useful lives, which ranges from 5 to 45 years. When capital assets are disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded as a revenue or expense.

DUE TO AND DUE 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. Transactions which have not been settled at the year-end are recorded as due to or due from other funds.

OTHER ASSETS AND OTHER LIABILITIES

Accounts that do not fit into the classifications on the Balance Sheets are reported as other assets and other liabilities. Other assets consist mainly of net pension assets, federal funding receivables, prepaid expenses and the deferred costs of bond issuance. Other liabilities consist of escrow deposits, deferred revenues, OPEB obligations, deferred federal funding and accrued expenses.

BONDS AND NOTES PAYABLE, NET OF DISCOUNTS AND LOSS ON REFUNDING

The Agency issues bonds to provide capital for its mortgage programs and other uses consistent with its mission. The bonds are secured by the revenues, investments, mortgage loans and other assets in the fund or accounts established by the respective security agreements. Outstanding bonds are stated at their unpaid balance less any unamortized discounts and unamortized deferred loss of refunding. The current portion of bonds and notes payable represents the principal payable within the next year.

INTEREST RATE SWAP AGREEMENTS

The Agency enters into interest rate swap agreements with various counterparties to hedge the interest rate exposure associated with variable-rate debt and reduce overall borrowing costs. The interest rate swap agreements are structured whereby the Agency pays the counterparty a fixed interest rate in exchange for a variable interest rate payment from the counter-party. In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, interest rate swap agreements are stated at fair value on the Balance Sheets. The fair value of hedging derivative instruments is presented on the Balance Sheets as Derivative Instrument – Interest Rate Swaps, and changes in fair values are presented on the Balance Sheets as Deferred Outflow of Resources. The fair values of investment derivative instruments are presented as Derivative Instrument – Interest Rate Swaps on the Balance Sheets; however, the changes in fair values are no longer deferred, but recognized as a revenue or expense. In the instance of termination events, fair value of the interest rate swaps at the time of termination are reclassified on the Balance Sheet from Derivative Instrument – Interest Rate Swaps to Deferred Swap Borrowing and the values at the time of termination recorded as a Special Item expense. In accordance with GASB Statement No. 53, the Deferred Swap Borrowing account will be amortized and recognized as revenue over the lives of the underlying interest rate swaps in order to recoup the effects of the Special Item expense over time.

DEVELOPMENT RESERVES AND ESCROW DEPOSITS

The Agency holds, in escrow, monthly deposits from the single-family homeowners and multifamily developments for payments of real estate taxes, property insurance and mortgage insurance. Development reserves represent operating reserves for repairs and replacement, property improvements and operating deficit reserves.

NET ASSETS

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, reduced by the outstanding balances of any debt that is attributable to the acquisition, construction or improvement of those assets.

Restricted — Consists of net assets with constraints placed on their use by (1) Agency bond resolutions or external groups, such as creditors, grantors, laws or regulations of other governments or (2) law through enabling legislation in accordance with GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of GASB Statement No. 34.

Unrestricted — Consists of net assets that do not meet the definition of invested in capital assets, net of related debt or restricted. This component includes net assets 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.

OPERATING REVENUES AND EXPENSES

The initial legislation and subsequent amendments that created the Agency grant the authority to issue debt to finance its Multifamily Housing and Single Family Mortgage Loan programs. Additionally, the Agency's statutory purpose includes the authority to act as a conduit for federal financial assistance programs throughout the Commonwealth. The Agency records all revenue from mortgage and loan activity, mortgage servicing, grant program administration, investment income and gains on the sale of pooled loans to Government National Mortgage Association as operating revenues. The costs of providing these programs are recorded as operating expenses. The General Funds records revenue and expenses for salaries, benefits, GNMA pooling activity and other operational revenue and expenses that are not directly related to mortgage loan programs.

FEDERAL PROGRAM AWARDS AND EXPENSES

The Agency follows GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*. GASB Statement No. 24 requires that all cash pass-through grants received by a governmental entity be reported in its financial statements. The Agency receives program grants and other federal financial assistance to transfer to various secondary recipients in the Commonwealth of Pennsylvania. The Agency receives administrative fees for the oversight of award distribution, monitoring of subrecipients, reporting to federal agencies and costs for required independent annual audits of the federal awards, which are recorded to program income and fees on the Statements of Revenues, Expenses and Changes in Fund Net Assets.

INTEREST INCOME AND ARBITRAGE LIABILITY

Interest recorded for mortgage loans and construction advances is based upon the constant yield method. Multifamily Housing and Single Family Mortgage Loan Program loans more than 180 days delinquent in scheduled payments are considered nonperforming mortgage loans, which result in the cessation of recognition of additional interest on such mortgage loans.

Investment interest income is recognized over the remaining time to maturity of investment securities. Federal income tax rules limit the investment and loan yields that the Agency may retain for its own use from investing the proceeds from certain of its tax-exempt bond issues. Investment earnings above the arbitrage bond yield are payable to the U.S. Treasury and are recorded as other liabilities on the Balance Sheets.

PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS EXPENSE

GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as amended by GASB Statement No. 50, *Pension Disclosures*, require the Agency to measure and disclose amounts for annual pension cost and net pension obligations. The funding policy is to pay actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. Pension expenses are recorded as salaries and related benefits on the Statements of Revenues, Expenses and Changes in Fund Net Assets.

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 other postemployment benefits (“OPEB”) expenses and related liabilities (assets) and note disclosures in the financial reports. The Agency does not fund its OPEB liability; rather, the Agency maintains health insurance for its retirees on a pay-as-you-go basis. The Agency records OPEB liability expense in accordance with GASB 45 on the Statements of Revenues, Expenses and Changes in Fund Net Assets.

COMPENSATED ABSENCES

Employees earn vacation and illness leave benefits. Upon separation of service, employees will be compensated for accumulated leave balances, limited by Agency policy. Compensated absence leave is recorded as an accrued expense in the period earned as required by GASB Statement No. 16, *Accounting for Compensated Absences*.

DEBT ISSUANCE COSTS, DISCOUNTS AND OTHER RELATED COSTS

The Agency capitalizes costs related to bond issuance, reports those costs as deferred assets and amortizes the costs to interest expense over the contractual life of the bond using the effective interest method. Bond discounts and premiums are amortized over the lives of the bonds using the effective interest method. Pursuant to GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*, gains and losses on debt refunding are deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. Net swap agreement payments are recorded as a component of bond interest expense.

ADOPTED ACCOUNTING STANDARDS

ASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, became effective this year, but is not applicable to the Agency’s financial statements since the Agency maintains a single employer plan.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53* became effective this year. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. The Agency has experienced no assignments, in-substance assignments or replacements; therefore, no accounting terminations have occurred based on these provisions.

ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

GASB issued the following Statements that will become effective in future reporting periods. Management is evaluating the potential impact on the financial statements; however, none are expected to have a material effect when adopted, unless there is some exception stated below.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. This statement is effective for periods beginning after June 15, 2012.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities, issued March 2012*. This statement is effective for periods beginning after December 15, 2012.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62, issued March 2012*. This statement is effective for periods beginning after December 15, 2012.

GASB Statement No. 67, *Financial Reporting for Pension Plans, issued June 2012*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, issued June 2012*. This Statement is effective for fiscal years beginning after June 15, 2014.

Statements No. 67 and 68 set forth new requirements to more fully account for promised future benefits and to disclose changes to the net pension liability. The key requirements of the standards are as follows:

(in thousands of dollars)

- Governments with defined benefit plans must report net pension liability on the Balance Sheets;
- Governments must immediately recognize pension expenses for costs and changes in plan benefit terms such as cost of living adjustments or projected salary adjustments;
- Governments must recognize pension expenses for changes in key assumptions over a newly defined period and account for differences between those assumptions and actual results;
- Plan asset values will no longer be smoothed over time; instead, assets will be reported at fair value, or marked to the market, as of the time of financial reporting;
- The long-term rate of return expected on plan investments must be changed to a high quality, 20-year general obligation municipal bond index rate if the expected plan's combined net position and contribution payments become insufficient to cover projected benefits;
- All plans share a similar cost attribution method of "entry age" which allows for greater uniform accounting;
- Employers participating in shared liability and asset plans must disclose and report on their own actual share of pension liabilities and expenses; and
- Financial disclosures will require more extensive footnotes and provide required supplementary disclosures.

RECLASSIFICATIONS

Certain reclassifications have been made in the June 30, 2011 financial statements to conform to the June 30, 2012 presentation, including $4.5 million of gains on sales of GNMA securitized pools for the year ended June 30, 2011 previously reported as Investment Income now reported as Program Income and Fees.

3. Cash, Cash Equivalents and Investments

CASH AND CASH EQUIVALENTS

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. The Agency had the following cash and cash equivalents balances for the years ended June 30:

	2012	2011
Cash	$ 58,513	$ 57,917
Money Markets	502,383	582,351
Total carrying amount cash and cash equivalents	$ 560,896	$ 640,268
Bank balance of cash and cash equivalents	$ 567,061	$ 627,801

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, 2012, the carrying value of the Agency's cash deposits equaled $58,513 with a bank balance of $67,239, of which $63,796 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 carrying value of the Agency's money market investments, reported as cash equivalents, equaled $502,383 with a bank balance of $499,822, which does not expose the Agency to custodial credit risk.

INVESTMENTS

Commonwealth of Pennsylvania statutes and contractual provisions contained in the bond trust indentures govern the investment policies of the Agency. The Housing Finance Agency Law, Act of December 3, 1959, P. L. 1688 ("Act") and bond indentures provide the authority to invest all Agency funds. In compliance with the Act and bond indentures, it is the policy of the Agency to invest in securities that provide suitable returns, preserve principal, meet liquidity needs and to further the purposes of the Agency.

Securities shall mean and include any of the following obligations, to the extent the same are at the time legal for investment of funds of the Agency under the Act, including amendments thereto hereafter made, or under other applicable law:

- Direct obligations of or obligations guaranteed by the United States of America;
- Any bond, debenture, note, participation certificate or other similar obligation issued by any of the following agencies: Government National Mortgage Association, Federal Land Bank, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Farm Credit Administration, Export-Import Bank and Federal National Mortgage Association;
- Any other obligation of the United States of America or any federal agencies which may then be purchased with Agency funds or which are legal investments for savings banks, savings associations, or savings and loan associations in the Commonwealth;
- Public Housing Bonds issued by public agencies or municipalities and fully secured by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary loans notes or project notes issued by public agencies or municipalities, in such case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
- Direct and general obligations of or obligations guaranteed by the Commonwealth, to the payment of the principal of the interest on which the full faith and credit of the Commonwealth is pledged;
- Direct and general obligations of any state of the United States, to the payment of which the full faith and credit of such state are pledged, but only if such obligations are rated not less than "AA" by Standard & Poor's and "Aa" by Moody's Rating Service or, upon the discontinuance of either or both of such services, another nationally recognized rating service;
- Deposits in interest-bearing time or demand deposits, or certificates of deposit, fully secured as provided under the laws of the Commonwealth or by obligations described in the first six bullet points above;
- Repurchase agreement with Primary Government Securities Dealers fully collateralized by Investment Securities of the types described in the first three bullet points above provided that such collateral is valued at least monthly and that such collateral as applicable is held by the Trustee or a third party;
- Deposits in mutual or money market funds which invest solely in Investment Securities of the types described in the first three bullet points above and with total assets (deposited funds) of five hundred million dollars or greater;
- Commercial paper (except that of the Issuer or an affiliate) or finance company paper rated "P-1" by Moody's Investors Service and "A-1+" by Standard & Poor's Corporation;

(in thousands of dollars)

- Non-collateralized certificates of deposit with institutions rated not less than "Aa" by Moody's Investors Service and "AA" by Standard & Poor's Corporation;
- Investment agreements with an entity whose obligations are rated not less than "AA" by Standard & Poor's Corporation and "Aa" by Moody's Investors Service, or which fully secure such agreements with securities described in the first three bullet points on page 45; and
- Reverse repurchase agreements as applicable to Agency funds.

CREDIT RISK

The Agency mitigates its credit risk by limiting investments to those permitted in its deposit and investment policies, diversifying the investment portfolio and prequalifying firms with which the Agency administers its investment activities.

The credit quality ratings of the Agency's investments for the year ended June 30, 2012, as determined by Moody's Investors Service, are shown below. $232,195 of U.S. Government Agency Mortgage-Backed Securities, U.S. Government Agency Securities and U.S. Treasury securities, which are explicitly guaranteed by the U.S. Government, are not considered to have credit risk and, therefore, are not included in the summary.

Investment Type	Fair Value	Credit Ratings Aaa	Credit Ratings Ba1	Not Rated
U.S. Government Agency Securities	$ 57,204	$ -	$ -	$ 57,204
U.S. Government Agency Mortgage-Backed Securities	10,021	10,021	-	-
SLM Corporate Bonds	3,588	-	3,588	-
	$ 70,813	$ 10,021	$ 3,588	$ 57,204

Of the $502,383 fair value in money market investments, reported as cash equivalents, $493,891 is rated Aaa by Moody's Investors Service and $8,492 is not rated.

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 investment balance is held by bank trust departments, acting as the counterparty, in book-entry form in the Agency's name and, accordingly, is subject to custodial credit risk. Money market investments equaling $502,383, reported as cash equivalents, does not expose the Agency to custodial 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 investment issuer. The Agency has a concentration of credit risk with the Tennessee Valley Authority where the value of investments with this issuer is $57,204 at June 30, 2012, which exceeds 5% of the total value of the investment portfolio.

Agency policy indicates that the proportion of investments in government securities shall not exceed 70% of the portfolio and the proration of investments in certificates of deposit shall not exceed 30% of the portfolio. At June 30, 2012, concentrations in government securities, which represented nearly 100% of the portfolio, exceed the policy. The departure from policy has written approval from the Executive Director, as permitted by the Agency Investment Policy and Guidelines. Concentration limits are not established in the bond indentures and governing agreements for trust investments.

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 changing interest rates. For the year ended June 30, 2012, the Agency had investments with the following maturities:

Investment Type	Fair Value	Investment Maturities (in Years) Less than 1	1-5	6-10	More than 10
U.S. Government Agency Mortgage-backed Securities	$ 219,045	$ -	$ 10,021	$ -	$ 209,024
U.S. Government Agency Securities	57,879	154	417	89	57,219
U.S. Treasury Securities	22,496	11,009	8,542	2,945	-
SLM Corporate Bonds	3,588	-	3,588	-	-
	$ 303,008	$ 11,163	$ 22,568	$ 3,034	$ 266,243

Investments in mortgage-backed securities are sensitive to interest rate changes because, for example, borrowers have the option to prepay their mortgages. In addition to the amounts listed above, the Agency held money market investments with a fair value of $502,383, reported as cash equivalents, $493,891; have maturities of less than 90 days and $8,492 has an unstated maturity.

4. Mortgage Loans Receivable

Mortgage loans receivable for the years ended June 30 consisted of the following:

continued, next page

(in thousands of dollars)

	2012	2011
Multifamily Housing Program	$ 623,430	$ 639,337
Single Family Mortgage Loan Program	3,941,622	4,243,947
HEMAP	106,288	111,087
	4,671,340	4,994,371
Add:		
Loan premiums	34,911	36,918
Less:		
Loan discounts	2,777	2,777
Allowance for potential loan losses	227,617	222,902
Mortgage loans receivable, net	4,475,857	4,805,610
Less current portion	117,215	121,484
Long-term portion	$ 4,358,642	$ 4,684,126

Multifamily Housing Program mortgage loans receivable are collateralized by first mortgages on the related developments. The federal government subsidizes certain developments included in the Multifamily Housing Program.

Single Family Mortgage Loan Program loans receivable are secured by first liens on the related real property. Private mortgage insurance for the single-family mortgage loans is provided by commercial companies, certain federal programs or the Agency's Insurance Fund. Private mortgage insurance is required on all mortgage loans where the loan principal amount exceeds 80% of the lesser of the purchase price or the initial appraised value of the property.

HEMAP loans are generally unsecured, being in a second or third lien position, as those loans are provided to mortgagors facing foreclosure because of circumstances beyond their control.

REAL ESTATE OWNED BY THE AGENCY

Included in the Single Family Mortgage Loan Program loan balances are 325 properties with a value of $20,343 for the year ended June 30, 2012 and 252 properties with a value of $15,896 for the year ended June 30, 2011 that the Agency has acquired and is holding for sale because of foreclosure, acceptance of a deed in lieu of foreclosure or other defaults of nonperforming mortgage loans.

ALLOWANCE FOR POTENTIAL LOAN LOSS

The allowances for potential loan losses for the years ended June 30 consisted of the following:

	Multifamily Housing Program		Single Family Mortgage Loan Program		HEMAP	
	2012	2011	2012	2011	2012	2011
Beginning balance	$ 169,000	$ 166,973	$ 7,946	$ 5,304	$ 45,956	$ 44,101
Loss provision	3,000	3,100	5,000	5,000	10,976	11,252
Net charge-offs	(3,345)	(1,073)	(4,546)	(2,358)	(6,370)	(9,397)
Ending balance	$ 168,655	$ 169,000	$ 8,400	$ 7,946	$ 50,562	$ 45,956

SECURITIZATIONS

During the years ended June 30, 2012 and 2011, the Agency pooled mortgage loans with a principal balance of $196,610 and $141,584, respectively, into Government National Mortgage Association ("GNMA") Mortgage-Backed Securities. The securities were then purchased by private investors or held by the Agency. The Agency earns revenue for servicing loans in these GNMA pools, which is included as program income and fees on the Statements of Revenues, Expenses and Changes in Fund Net Assets. Mortgage loans that have been securitized into pools through GNMA are not included on the Agency's financial statements; however the risk of loss associated to loans sold to GNMA has been considered in management's evaluation of allowance for loan losses.

INSURANCE FUND

The Agency provides primary mortgage insurance coverage for certain Single Family Mortgage Loan Program loan borrowers who are unable to obtain insurance from other sources, which ranges from 20% to 35% (depending on the loan-to-value ratio at origination) of the unpaid principal balance. The Agency, for insuring itself against losses that might occur because of certain mortgages purchased under the Single Family Mortgage Loan program, collects insurance premiums from the borrowers. The activity of collecting premium revenues and paying claims expenses are included in the Insurance Fund in the accompanying financial statements. At June 30, 2012 and 2011, the total amount of mortgage loans insured by the Insurance Fund equaled $404,500 and $338,056, respectively.

INSURANCE FUND CLAIMS LIABILITY

GASB requires the basis for estimating the liability for unpaid claims to include the effects of specific incremental claim adjustment expenses and estimated recoveries. In addition, it requires disclosure of whether other allocated or unallocated claim adjustment expenses are included. The Agency establishes the estimated claims payable liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related loss adjustment expenses, based on the Agency's past claims experience. Claims are not discounted and are net of estimated recoveries, if any.

Changes in the Insurance Fund's claim liability consisted of the following for the years ended June 30:

	2012	2011
Beginning balance	$ 2,511	$ 2,129
Current year estimated claims payable	600	600
Claim payments	(71)	(218)
Total claim liability	3,040	2,511
Less current portion	300	300
Long-term portion	$ 2,740	$ 2,211

5. Capital Assets

Capital assets activity for the year ended June 30, 2012 and a summary of balances are shown on page 50:

continued, next page

(in thousands of dollars)

	July 01, 2011	Additions	Deletions	June 30, 2012
Nondepreciable Capital Assets:				
Land	$ 2,454	$ -	$ -	$ 2,454
Depreciable Capital Assets:				
Building	29,882	37	(74)	29,845
Furniture, fixtures and equipment	10,229	337	(218)	10,348
Less accumulated depreciation:				
Building	(4,889)	(561)	-	(5,450)
Furniture, fixtures and equipment	(5,237)	(654)	218	(5,673)
Total depreciable capital assets, net	29,985	(841)	(74)	29,070
Total Capital Assets, net	$ 32,439	$ (841)	$ (74)	$ 31,524

Capital assets activity for the year ended June 30, 2011 and a summary of balances are shown below:

	July 01, 2010	Additions	Deletions	June 30, 2011
Nondepreciable Capital Assets:				
Land	$ 2,454	$ -	$ -	$ 2,454
Depreciable Capital Assets:				
Building	29,927	28	(73)	29,882
Furniture, fixtures and equipment	10,653	416	(840)	10,229
Less accumulated depreciation:				
Building	(4,317)	(572)	-	(4,889)
Furniture, fixtures and equipment	(5,364)	(713)	840	(5,237)
Total depreciable capital assets, net	30,899	(841)	(73)	29,985
Total Capital Assets, net	$ 33,353	$ (841)	$ (73)	$ 32,439

Depreciation expense for the years ended June 30, 2012 and 2011 totaled $1,215 and $1,285, respectively.

6. Bonds and Notes Payable

General Fund bonds outstanding for the years ended June 30 consisted of the following:

Description of Bonds as Issued	Maturity Date	Amounts Outstanding 2012	2011
Variable Rate Building Development Bonds	2034	$ 20,000	$ 20,000
Unamortized bond discount		(64)	(67)
Total bonds payable		19,936	19,933
Less current portion		-	-
Long-term portion		$ 19,936	$ 19,933

Multifamily Housing Program bonds outstanding for the years ended June 30 consisted of the following:

Description of Bonds as Issued	Maturity Date	Amounts Outstanding 2012	2011
Residential Development Refunding Bonds 2002 Issue A/B, 1.80%-5.25%	2024	$ 12,565	$ 18,420
Rental Housing Refunding Bonds Series 2008A/B, variable rate	2021	23,360	35,800
Series 2008C/D, variable rate	2020	51,335	63,825
Multifamily Development Bonds Issue 1998H, 6.30%	2028	4,075	11,180
Issue 2005K, variable rate	2036	23,890	24,555
Multifamily Development Refunding Bonds Issue 1993A, 5.38%	2022	5,000	7,525
Issue 2003, 3.25-4.80%	2019	6,775	8,050
Subordinate Limited Obligation Bonds Issue 1995, 5.50-6.15%	2021	1,763	1,929
		128,763	171,284
Unamortized deferred loss of refundings		(1,825)	(2,430)
Unamortized bond discount		(113)	(142)
Total bonds payable		126,825	168,712
Less current portion		20,324	23,926
Long-term portion		$ 106,501	$ 144,786

(in thousands of dollars)

Single Family Mortgage Loan Program bonds and notes outstanding for the years ended June 30 consisted of the following:

Description of Bonds and Notes as Issued	Maturity Date	Amounts Outstanding 2012	Amounts Outstanding 2011
Single Family Mortgage Revenue Bonds			
Series 1999 - 65, 3.25-5.25%	2030	$ 20,000	$ 22,275
Series 1999 - 67, 4.05-7.51%	2030	15,830	16,795
Series 1999 - 68, 4.30-7.02%	2031	-	415
Series 2000 - 69, 4.35-6.25%	2031	20,315	20,805
Series 2000 - 70, 4.30-5.90%	2032	15,450	16,065
Series 2001 - 72, 3.25-5.35%	2032	41,905	42,940
Series 2002 - 73, 1.75-5.45%	2033	20,695	52,595
Series 2002 - 74, variable rate	2032	62,135	93,950
Series 2002 - 75, variable rate	2033	77,030	79,300
Series 2003 - 77, variable rate	2033	59,930	61,510
Series 2003 - 78, variable rate	2025	48,940	51,920
Series 2003 - 79, variable rate	2034	63,805	67,050
Series 2004 - 81, variable rate	2034	66,460	70,490
Series 2004 - 82, variable rate	2034	63,495	69,185
Series 2004 - 83, variable rate	2035	40,055	73,410
Series 2004 - 84, variable rate	2034	27,495	76,260
Series 2004 - 85, variable rate	2035	80,945	83,025
Series 2004 - 86, variable rate	2035	42,335	91,290
Series 2005 - 87, variable rate	2035	87,025	89,400
Series 2005 - 88, variable rate	2037	69,470	74,585
Series 2005 - 89, variable rate	2035	63,485	63,485
Series 2005 - 90, variable rate	2036	97,765	102,145
Series 2005 - 91, variable rate	2036	101,260	105,895
Series 2006 - 92, variable rate	2036	113,095	116,195
Series 2006 - 93, variable rate	2037	69,415	80,940
Series 2006 - 94, variable rate	2037	83,185	88,380
Series 2006 - 95, variable rate	2037	116,030	140,905
Series 2006 - 96, 3.60-5.72%	2037	133,500	145,720
Series 2007 - 97, 3.50-5.50%	2037	127,665	136,580
Series 2007 - 98, variable rate	2037	130,585	147,810
Series 2007 - 99, 3.70-5.30%	2038	$ 95,425	$ 101,580
Series 2007 - 100, 3.40-5.35%	2038	65,700	111,205
Series 2007 - 101, variable rate	2038	22,495	24,360
Series 2007 - 102, variable rate	2038	55,425	69,510
Series 2008 - 103, 2.00-5.70%	2038	53,545	56,630
Series 2009 - 105, .80-5.00%	2039	186,480	189,610
Series 2009 - 106, .50-4.80%	2040	236,410	243,915
Series 2009 - 107, 3.96%	2041	596,780	602,950
Series 2010 - 108, .375-4.75%	2028	131,520	136,590
Series 2010 - 109, .45-4.50%	2028	97,280	102,640
Series 2010 - 110, .45-4.75%	2039	233,965	246,155
Series 2010 - 111, .45%	2011	-	82,750
Series 2011 - 112, .375-5.00%	2028	152,675	158,840
Series 2011 - 113, .50-4.85%	2041	81,120	-
2007 Note Purchase Agreement, 2.5%	2017	2,500	2,500
2009 Note Purchase Agreement, 2.5%	2019	1,000	1,000
2009 Note Purchase Agreement, 2.5%	2024	2,500	2,500
		3,974,120	4,414,055
Unamortized deferred loss of refundings		(13,102)	(15,014)
Unamortized bond discount		(7,235)	(9,509)
Total bonds and notes payable		3,953,783	4,389,532
Less current portion		61,940	163,500
Long-term portion		$ 3,891,843	$ 4,226,032

Interest paid on variable-rate tax-exempt bonds is closely correlated with the Securities Industry and Financial Markets Association Municipal Swap ("SIFMA") rate. Generally, note resets occur quarterly, monthly or weekly.

(in thousands of dollars)

DEBT SERVICE REQUIREMENTS

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

Fiscal Year Ending	General Fund Principal	General Fund Interest	Multifamily Housing Program Principal	Multifamily Housing Program Interest	Single Family Mortgage Loan Program Principal	Single Family Mortgage Loan Program Interest	Total
2013	$ -	$ 28	$ 20,324	$ 1,423	$ 61,940	$ 120,738	$ 204,453
2014	-	28	15,582	1,132	75,155	119,023	210,920
2015	350	28	13,692	973	87,715	117,137	219,895
2016	365	28	12,963	865	115,870	114,422	244,513
2017	380	27	12,655	755	119,295	111,073	244,185
2018-2022	2,170	127	34,487	2,170	707,735	499,569	1,246,258
2023-2027	2,675	110	7,135	650	765,860	389,929	1,166,359
2028-2032	3,310	89	6,780	140	840,830	264,610	1,115,759
2033-2037	10,750	29	5,145	24	855,265	135,586	1,006,799
2038-2042	-	-	-	-	344,455	24,541	368,996
	$ 20,000	$ 494	$ 128,763	$ 8,132	$ 3,974,120	$ 1,896,628	$ 6,028,137

EARLY EXTINGUISHMENT OF DEBT

During the years ended June 30, 2012 and 2011, using mortgage prepayments, the Agency repurchased or redeemed, prior to their scheduled maturity, the principal amount of certain bonds totaling approximately $431,750 and $554,840, respectively. Net losses of $2,549 and $2,763 on early extinguishments have been recorded as an expense for the years ended June 30, 2012 and 2011, 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 REFUNDING

The Agency did not refund any bonds, using new debt proceeds, during the year ended June 30, 2012. During the year ended June 30, 2011, using new debt proceeds, the Agency refunded the principal amount of certain Single Family Mortgage Loan Program bonds totaling approximately $378,473. The Agency realized an economic gain (difference between the present value of the old debt and new debt service payments) of $11,315. The Agency also recognized a deferred loss on refunding of $870. The Agency decreased its aggregate debt service payments by $34,041 over the next 30 years by the prior year's refunding activity.

ADVANCE REFUNDING

In prior years, the Agency effected an advanced refunding where the proceeds of issued bonds were used to defease outstanding debt of the Agency. The Agency defeased Multifamily Residential Development Bonds, Issue H in prior years. 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 defeased principal outstanding was $2,725 as of June 30, 2012 and 2011.

HEDGING DERIVATIVE INSTRUMENT PAYMENTS AND HEDGED DEBT

As of June 30, 2012, debt service requirements of the Agency's outstanding variable-rate debt of the associated bond series and net swap payments on the associated hedging derivative instruments, assuming current interest rates remain the same for their terms, are displayed in the following schedule. The net swap payment is the difference between the fixed-rate interest paid to the counterparty and the variable-rate interest received by the Agency. See Note 7 for information on derivative instruments.

Fiscal Year Ending June 30	Hedged Variable Rate Bond Principal	Hedged Variable Rate Bond Interest	Net Swap Payments	Total
2013	$ 16,645	$ 4,151	$ 38,544	$ 59,340
2014	16,350	4,104	36,298	56,752
2015	22,500	4,056	34,454	61,010
2016	32,435	3,990	32,874	69,299
2017	37,875	3,875	31,273	73,023
2018-2022	238,490	17,251	131,736	387,477
2023-2027	273,525	13,288	95,356	382,169
2028-2032	288,685	7,918	57,127	353,730
2033-2037	267,970	2,271	16,395	286,636
2038-2042	3,005	3	587	3,595
	$ 1,197,480	$ 60,907	$ 474,644	$ 1,733,031

CONDUIT DEBT OBLIGATIONS

During the year ended June 30, 2012, the Agency issued Series 2011-S Special Limited Obligation Multifamily Housing Development Notes in the amount of $8,000 to fund the construction and renovation of Cumberland Gardens - Phase 1 in Allentown. The notes are special limited obligations of the Agency payable solely from the Trust Estate pledged by the public housing authority and secured by the property financed.

(in thousands of dollars)

During prior years, the Agency issued series 2003J, 2008M and 2008O Special Limited Obligation Bonds to provide financing to local public housing authorities for construction or preservation of affordable housing stock in the Commonwealth of Pennsylvania. The bonds are secured by the properties financed and are payable solely from income generated by the local public housing authorities.

During a prior year, the Agency issued series 2005A Capital Fund Securitization Revenue Bonds to provide for financial assistance to various local public housing authorities. The bonds are secured by the properties financed and are payable solely from appropriations to be paid by the United States Department of Housing and Urban Development.

These bonds, which are considered conduit debt obligations under GASB rules, do not constitute a debt or pledge of the faith and credit of the Agency and, accordingly, have not been reported in the accompanying financial statements. At June 30, 2012 and 2011, conduit debt outstanding aggregated $86,778 and $90,156, respectively.

SHORT-TERM DEBT

Short-term debt activity for the year ended June 30, 2012, was as follows:

	Balance July 01, 2011	Issued	Redeemed	Balance June 30, 2012
Series 2011-111	$ 82,750	$ -	$ 82,750	$ -

BOND COVENANTS

Minimum capital reserves have been established by the Agency to meet the requirements of bond covenants. The capital reserve requirement of certain Multifamily Housing Program bonds requires that a one-year debt service minimum balance be maintained at all times. The capital reserve requirement for Single Family Mortgage Loan Program bonds must be equal to at least 3% of the aggregate principal amount of all Single Family Mortgage Loan Program bonds outstanding plus one million dollars. Bond covenant requirements regarding restricted cash and net assets were met at year end.

7. Derivatives

In order to both reduce the Agency's overall cost of borrowing long-term capital and protect against the potential of rising interest rates, the Agency entered into pay-fixed, receive-variable interest rate swap agreements. The objective of the swap agreements is to hedge against changes in the cash flows on the associated variable-rate bonds series.

Interest rate swap agreements are recorded and reported as either a hedging derivative instrument or investment derivative instrument based upon effectiveness of the agreements to hedge against interest rate exposure associated with variable-rate debt. The regression analysis method is used to determine whether the interest rate swap agreements are an effective hedge. The fair value of hedging derivative instruments is presented on the Balance Sheets as Derivative Instrument – Interest Rate Swaps and Deferred Swap Borrowing. The changes in fair values are presented on the Balance Sheets as Deferred Outflow of Resources. If interest rate swap agreements change from being an effective hedge to an ineffective hedge, they are recorded and reported as investment derivative instruments. Similar to hedging derivative instruments, the fair values of investment derivative instruments are presented as Derivative Instrument – Interest Rate Swaps on the Balance Sheets; however, the changes in fair values are no longer deferred, but recognized as investment revenue or expense.

Fair value amounts were obtained from mark to market statements from a third-party analyst and represent mid-market valuations that approximate the current economic value using market averages, reference rates and/or mathematical models. The fair value represents the current price to settle interest rate swap agreements assets or liabilities in the marketplace if interest rate swap agreements were to be terminated.

Because interest rates have generally decreased since the interest rate swap agreements became effective, all of the Agency's interest rate swap agreements have a negative fair value as of June 30, 2012. 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.

Each of the Agency's interest rate swap agreements requires the Agency to post collateral in the event the fair value of the swap falls below specific thresholds of negative worth. As of June 30, 2012, the Agency was not required to post collateral for any of its outstanding swaps.

HEDGING DERIVATIVE INSTRUMENTS

The objective of the Agency's hedging derivative instruments is to hedge against changes in the cash flows on the associated variable-rate bonds series. The terms and other information of the Agency's hedging derivative instruments outstanding for June 30, 2012 were as follows:

Bond Series	Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
1999-67B	$ 15,830	7/2002	4/2029	5.950%	100% of USD-LIBOR+ 50bps
2001-72C	8,460	9/2001	10/2023	5.695	100% of USD-LIBOR
2002-75A	30,000	12/2002	10/2032	3.957	70% of USD-LIBOR
2003-77B[1]	59,900	4/2012	10/2033	2.783	Enhanced LIBOR
2003-79B[1]	57,350	10/2010	10/2033	3.992	65% of USD-LIBOR+ 25bps
2004-81C[1]	43,465	4/2012	10/2034	3.418	Enhanced LIBOR
2004-82B	35,535	5/2004	10/2030	3.643	61% of USD-LIBOR+ 39bps
2004-82C[1]	32,195	10/2011	10/2034	3.650	61% of USD-LIBOR+ 39bps
2004-83B	14,780	8/2004	10/2019	3.410	65% of USD-LIBOR+ 25bps
2004-83C[1]	24,790	4/2012	10/2028	3.830	65% of USD-LIBOR+ 25bps
2004-84D[1]	22,715	4/2012	10/2034	3.320	Enhanced LIBOR
2004-85B	14,205	11/2004	4/2019	3.168	65% of USD-LIBOR+ 25bps
2004-85C[1]	44,645	4/2012	10/2035	3.521	65% of USD-LIBOR+ 25bps
2004-86B[1]	41,810	4/2012	10/2033	3.397	Enhanced LIBOR
VRDB2004	20,000	2/2004	1/2034	3.945	65% of USD-LIBOR+ 25bps

continued, next page

(in thousands of dollars)

Bond Series	Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
2005-87B	26,060	3/2005	10/2023	3.460	65% of USD-LIBOR+ 25bps
2005-87C[1]	47,300	4/2012	10/2035	3.547	65% of USD-LIBOR+ 25bps
2005-88B	42,095	5/2005	10/2035	3.500	61% of USD-LIBOR+ 39bps
2005-88C[1]	27,930	4/2012	10/2035	3.210	61% of USD-LIBOR+ 39bps
2005-89[1]	61,425	9/2010	10/2035	3.605	Enhanced LIBOR
2005-90C[1]	56,585	4/2012	4/2035	3.692	65% of USD-LIBOR+ 25bps
2005-91B	70,000	12/2005	10/2036	3.953	Enhanced LIBOR
MF2005-K[1]	23,890	3/2005	1/2036	5.183	100% of USD-LIBOR
2006-92B	42,870	3/2006	10/2036	3.996	65% of USD-LIBOR+ 25bps
2006-93B	37,185	5/2006	4/2037	4.266	61% of USD-LIBOR+ 39bps
2006-94B	35,165	7/2006	4/2027	4.152	69% of USD-LIBOR
2006-95C[1]	19,515	4/2012	4/2026	3.865	65% of USD-LIBOR+ 25bps
2007-98C[1]	26,375	4/2012	10/2037	4.105	61% of USD-LIBOR+ 39bps
2007-99C	15,000	9/2007	10/2023	3.885	69% of USD-LIBOR
2007-100C	28,525	4/2012	4/2036	4.131	65% of USD-LIBOR+ 25bps
RH2008A,B[1]	27,645	12/2011	1/2021	3.407	67% of 1 Week USD-LIBOR
RH2008C[1]	35,185	6/2003	7/2020	3.457	70% of USD-LIBOR
RH2008D[1]	21,110	6/2011	7/2020	3.440	70% of USD-LIBOR

1 = Indicates embedded options without a payment to the counterparty
USD LIBOR = 1-month London Interbank Offered Rate in American Dollars.
Enhanced LIBOR = 67% of 1-month USD LIBOR
bps = Basis points

The notional amounts, fair value balances and the changes in fair values of hedging derivative instruments outstanding as of June 30, 2012 were as follows:

Bond	Notional	Changes in Fair Value		Fair Values at June 30, 2012	
Series	Amount	Classification	Amount	Classification	Amount
1999-67B	$ 15,830	Deferred outflow	$ (1,341)	Hedging derivative	$ (5,003)
2001-72C	8,460	Deferred outflow	(273)	Hedging derivative	(1,967)
2002-74A	-	Deferred outflow	1,423	Hedging derivative	-
2002-75A	30,000	Deferred outflow	767	Hedging derivative	(658)
2003-77B	59,900	Deferred outflow	(454)	Hedging derivative	(1,166)
2003-79B	57,350	Deferred outflow	(3,479)	Hedging derivative	(10,390)
2004-81C	43,465	Deferred outflow	(569)	Hedging derivative	(3,515)
2004-82B	35,535	Deferred outflow	1,998	Hedging derivative	(2,083)
2004-82C	32,195	Deferred outflow	387	Hedging derivative	(1,711)
2004-83B	14,780	Deferred outflow	215	Hedging derivative	(894)
2004-83C	24,790	Deferred outflow	(881)	Hedging derivative	(5,255)
2004-84D	22,715	Deferred outflow	(573)	Hedging derivative	(3,005)
2004-85B	14,205	Deferred outflow	174	Hedging derivative	(782)
2004-85C	44,645	Deferred outflow	(1,057)	Hedging derivative	(5,117)
2004-86B	41,810	Deferred outflow	(1,206)	Hedging derivative	(4,842)
VRDB2004	20,000	Deferred outflow	186	Hedging derivative	(1,172)
2005-87B	26,060	Deferred outflow	131	Hedging derivative	(1,893)
2005-87C	47,300	Deferred outflow	(1,173)	Hedging derivative	(5,638)
2005-88B	42,095	Deferred outflow	(197)	Hedging derivative	(3,277)
2005-88C	27,930	Deferred outflow	(548)	Hedging derivative	(2,392)
2005-89	61,425	Deferred outflow	(328)	Hedging derivative	(4,199)
2005-90C	56,585	Deferred outflow	(1,099)	Hedging derivative	(4,706)
2005-91B	70,000	Deferred outflow	(1,818)	Hedging derivative	(7,539)
MF2005-K	23,890	Deferred outflow	(2,226)	Hedging derivative	(7,450)
2006-92B	42,870	Deferred outflow	(1,177)	Hedging derivative	(4,705)

continued, next page

(in thousands of dollars)

Bond Series	Notional Amount	Changes in Fair Value Classification	Changes in Fair Value Amount	Fair Values at June 30, 2012 Classification	Fair Values at June 30, 2012 Amount
2006-93B	37,185	Deferred outflow	(591)	Hedging derivative	(4,157)
2006-94B	35,165	Deferred outflow	(901)	Hedging derivative	(5,459)
2006-95C	19,515	Deferred outflow	(189)	Hedging derivative	(1,478)
2007-98C	26,375	Deferred outflow	(1,155)	Hedging derivative	(2,819)
2007-99C	15,000	Deferred outflow	(877)	Hedging derivative	(2,925)
2007-100C	28,525	Deferred outflow	(731)	Hedging derivative	(4,515)
RH2008A,B	27,645	Deferred outflow	231	Hedging derivative	(2,829)
RH2008C	35,185	Deferred outflow	(107)	Hedging derivative	(3,433)
RH2008D	21,110	Deferred outflow	(21)	Hedging derivative	(2,281)
			Total (17,459)		Total (119,255)

CREDIT RISK

At June 30, 2012, the Agency was not exposed to credit risk on the outstanding interest rate swap agreements since all agreements have negative fair values. The Agency's interest rate swap agreements rely upon the performance of third parties who serve as interest rate swap agreement counterparties. If interest rates rise and the fair value of the swaps become positive, the Agency may be exposed to credit risk on those agreements – the risk that the counterparty fails to perform according to contractual obligations.

BASIS RISK AND INTEREST RATE RISKS

The Agency is exposed to basis risk to the extent the changes in the index rates associated with the Agency's variable-rate bonds do not exactly offset the changes in the index rates associated with the corresponding interest rate swap agreements. The Agency is exposed to interest rate risk on all of its interest rate swap agreements. As the LIBOR index decreases, the Agency's net payment on the swaps increases.

ROLLOVER RISK

Rollover risk is the risk that an interest rate swap agreement associated with a bond issue does not extend to the maturity of that debt, thereby creating unhedged variable-rate debt. The following swaps expose the Agency to rollover risk:

Associated Bond Issue	Debt Maturity Dates	Swap Termination Dates
2001-72C	10/2032	10/2023
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
2005-90C	04/2036	04/2035
2007-100C	04/2038	04/2036

TERMINATION RISK

The Agency or the counterparty may terminate an interest rate swap agreement if either party fails to perform under the terms of the agreement. Furthermore, the Agency maintains the option to terminate interest rate swap agreements anytime. If the interest rate swap agreements have a negative fair value at the time of termination, the Agency would be liable to the counterparty for an amount equal to that negative fair value.

During the year ended June 30, 2012, ten interest rate swaps encountered termination events. **See Note 8 — Special Item** for further discussion of these termination events.

INVESTMENT DERIVATIVE INSTRUMENTS

During the year ended June 30, 2012, the interest rate swap agreement for bond series 2004-81B was determined to be an ineffective hedge per the provisions of GASB Statement No. 53. Additionally, the variable rate bonds associated with interest rate swap agreement 2004-84C were called and, therefore, the swap agreement is no longer a hedge against variable rate debt. As a result, these interest rate swaps are considered investment derivative instruments at June 30, 2012.

Interest rate swap agreements for bond series 2008-104#1, #2 and #4 were deemed investment derivative instruments in prior years, as they were originally issued to hedge variable rate bonds, which were subsequently refunded by fixed rate bonds. These interest rate swap agreements no longer hedge against variable interest rate debt and are accounted for as investment derivative instruments.

Interest rate swap agreements 2003-77C and 2008-104#3, reported as investment derivative instruments in prior years, matured and were removed from the financial statements during the year ended June 30, 2012. The terms and other information of the Agency's investment derivative instruments outstanding at June 30, 2012 were as follows:

Bond Series	Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
2004-81B	960	4/2004	4/2013	2.365%	Enhanced LIBOR
2004-84C	7,855	9/2004	4/2018	3.115	Enhanced LIBOR
2008-104#1	15,325	12/2007	10/2013	4.471	100% of USD-LIBOR
2008-104#2	7,995	3/2007	10/2014	4.922	100% of USD-LIBOR
2008-104#4	25,810	9/2007	4/2015	5.149	100% of USD-LIBOR

USD LIBOR = 1-month London Interbank Offered Rate in American Dollars.
Enhanced LIBOR = 67% of 1-month USD LIBOR

Interest rate swap agreements 2004-82B, 2005-88B, RH2008C have outstanding notional amounts, which exceed the related hedged variable rate bond amounts due to redemption and refunding. That portion of the swap agreement notional amount that exceeds the outstanding variable rate debt is considered an investment derivative instrument for financial reporting purposes.

Interest rate swap agreements 2005-89 and RH2008A, B and D had notional amounts, which previously exceeded the related outstanding debt. During the year ended June 30 2012, the Agency exercised options to bring the notional amounts of the swap agreements to be equal to the outstanding debt ending the investment derivative accounting treatment.

(in thousands of dollars)

The terms and other information of the hedging derivative instruments that have notional amounts exceeding the related outstanding debt at June 30, 2012 were as follows:

Bond Series	Notional Amount Exceeding Outstanding Debt	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
2004-82B	4,235	5/2004	10/2030	3.643	61% of USD-LIBOR+ 39bps
2005-88B	575	5/2005	10/2035	3.500	61% of USD-LIBOR+ 39bps
RH2008C[1]	5,060	6/2003	7/2020	3.457	70% of USD-LIBOR

1 = Indicates embedded options without a payment to the counterparty
USD LIBOR = 1-month London Interbank Offered Rate in American Dollars.
bps = Basis points

The changes in fair value of the investment derivatives for the year ended June 30, 2012 is shown below and is presented as a net increase (decrease) in fair value of swaps on the Statements of Revenues, Expenses and Changes in Fund Net Assets.

Bond	Notional	Changes in Fair Value		Fair Values at June 30, 2012	
Series	Amount	Classification	Amount	Classification	Amount
2003-77C	-	Investment Revenue	45	Investment derivative	-
2004-81B	960	Investment Revenue	45	Investment derivative	(13)
2004-82B	4,235	Investment Revenue	(1,639)	Investment derivative	(112)
2004-84C	7,855	Investment Revenue	(444)	Investment derivative	(444)
2005-88B	575	Investment Revenue	(46)	Investment derivative	(46)
2005-89	-	Investment Revenue	147	Investment derivative	-
2008-104#1	15,325	Investment Revenue	991	Investment derivative	(585)
2008-104#2	7,995	Investment Revenue	453	Investment derivative	(473)
2008-104#3	-	Investment Revenue	54	Investment derivative	-
2008-104#4	25,810	Investment Revenue	1,307	Investment derivative	(1,982)
RH2008A,B	4,285	Investment Revenue	100	Investment derivative	-
RH2008C	5,060	Investment Revenue	(13)	Investment derivative	(391)
RH2008D	-	Investment Revenue	101	Investment derivative	-
			Total 1,101		Total (4,046)

CREDIT RISK

At June 30, 2012, the Agency was not exposed to credit risk because all of its interest rate swap agreements had negative fair values.

INTEREST RATE RISK

The Agency is exposed to interest rate risk on all of its interest rate swap agreements. As the LIBOR index decreases, the Agency's net payment on the swaps increases.

8. Special Item

In effort to take advantage of the economic benefits associated with reducing the semiannual fixed payments to counterparties for 10 (ten) of its interest rate swaps, at various times during the year ended June 30, 2012 the Agency exercised options which had been embedded within these effective hedging derivative instruments. As a result, swap agreements 2003-77B, 2004-81C, 2004-82C, 2004-83C, 2004-84D, 2004-85C, 2005-87C, 2005-88C, 2006-95C and Rental Housing 2008 A&B were amended, whereby the Agency reduced its semiannual fixed rate payment to the swaps' counterparties. The total economic gains realized and recognized by exercising these options equaled $10,707, and are reported within Investment Income in the Statements of Revenues, Expenses and Changes in Fund Net Assets.

The aforementioned options were embedded within the respective swap agreements at the time the agreements were entered into, and there existed a cost to the Agency to have these rights embedded at the time the agreements were entered into; as such, these options were considered to be an additional element of each swap agreement. According to GASB Statement No. 53, however, by exercising embedded options – and reducing the Agency's fixed payments to counterparties – this changed the critical terms of the associated interest rate swap agreements. GASB Statement No. 53 identifies a change in the critical terms of a derivative instrument as a termination of hedge accounting. In the instance of a termination event, GASB Statement No. 53 requires the Deferred Outflow of Resources associated with these swaps, which had previously been reported on the Balance Sheet, to be recognized as income or expense – depending on the fair value of the interest rate swap at the time of termination – on the Statements of Revenues, Expenses and Changes in Fund Net Assets.

The termination events, which had occurred during the year ended June 30, 2012, were significant transactions within the control of management that were infrequent in occurrence; therefore, the events meet the GASB definition of a Special Item. As a result, the recognition of the Deferred Outflow of Resources associated with these interest rate swaps as either income or expense has been reported as a Special Item on the Statements of Revenues, Expenses and Changes in Fund Net Assets. Simultaneously, the fair values of these swaps at the time of termination were reclassified on the Balance Sheet from Derivative Instrument – Interest Rate Swaps to Deferred Swap Borrowing. In accordance with GASB Statement No. 53, the Deferred Swap Borrowing account will be amortized and recognized as a component of operating income over the lives of the underlying interest rate swaps in order to recoup the effects of the Special Item over time.

The amended interest rate swaps continue to be deemed effective hedging derivative instruments as of June 30, 2012. For the year ended June 30, 2012, $27,280 was recognized as a Special Item on the Statements of Revenues, Expenses and Changes in Fund Net Assets and at June 30, 2012, $26,146 was reported as the balance of the Deferred Swap Borrowing. Amounts were derived as follows:

continued, next page

(in thousands of dollars) June 30, 2012 and 2011

Special Item	Multifamily Housing Program	Single Family Mortgage Loan Program	Total
Deferred Outflows at Time of Termination	$ (34,953)	$ (3,034)	$ (37,987)
Gain/(Loss) on Exercising Options	10,733	(26)	10,707
Total Special Item for the Year Ended June 30, 2012	$ (24,220)	$ (3,060)	$ (27,280)

Deferred Swap Borrowing	Multifamily Housing Program	Single Family Mortgage Loan Program	Total
Deferred Swap Borrowing Balance at June 30, 2011	$ -	$ -	$ -
Interest Rate Swaps at Time of Termination	(34,953)	(3,034)	(37,987)
Gain/(Loss) on Exercising Options	10,733	(26)	10,707
Amortization	821	313	1,134
Deferred Swap Borrowing Balance at June 30, 2012	$ (23,399)	$ (2,747)	$ (26,146)

The effects of the termination events described above and the ultimate effects of the resultant Special Item on the Agency's net assets represent non-cash transactions. At no time was the Agency required to relinquish or exchange cash or any other monetary assets as a result of the termination events and resultant Special Item.

The Agency maintains contractual rights to exercise options of this nature within virtually all of its interest rate swap agreements. Options of this nature may be exercised in the future, should economic conditions once again prove to be beneficial in a similar fashion as those experienced during the year ended June 30, 2012.

9. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable, net	$ 4,572,177	$ 81,087	$ 558,720	$ 4,094,544	$ 82,264
Notes payable	6,000	-	-	6,000	-
Development reserves and escrow deposits	174,166	290,473	306,324	158,315	72,624
Other liabilities	245,057	435,061	416,303	263,815	7,014
Total net long-term liabilities	$ 4,997,400	$ 806,621	$ 1,281,347	$ 4,522,674	$ 161,902

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable, net	$ 4,794,140	$ 595,436	$ 817,399	$ 4,572,177	$ 187,426
Notes payable	6,000	-	-	6,000	-
Development reserves and escrow deposits	169,586	43,479	38,899	174,166	72,232
Other liabilities	220,363	279,359	254,665	245,057	20,975
Total net long-term liabilities	$ 5,190,089	$ 918,274	$ 1,110,963	$4,997,400	$ 280,633

10. Restricted Net Assets

The Multifamily Housing and the Single Family Mortgage Loan Program's June 30, 2012 net assets of $7,636 and $174,220, respectively, are restricted pursuant to the Agency's agreements with its bondholders within the respective bond indenture due to the specific provisions of each bond resolution. The Agency has restricted net assets in amounts sufficient to meet required debt service and operating expenses as defined by each bond resolution.

HEMAP's June 30, 2012 net assets of $30,399 have been restricted in accordance with GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*. Net assets are restricted by Commonwealth statute, which requires that net assets shall be used in providing mortgage assistance loans to mortgagors facing foreclosure because of circumstances beyond their control.

(in thousands of dollars)

11. Designated Net Assets

The Members of the Board have designated unrestricted net assets for the following purposes for the years ended June 30:

		2012		2011
General Fund:				
Homeownership Choice to fund housing opportunity in urban areas	$	15,000	$	15,000
Special Initiatives provide below market rate financing		11,850		11,850
Single Family Insurance to fund special hazard losses by homeowners		16,500		16,500
Homebuyer Counseling for education of first-time homebuyers		3,000		1,500
Multifamily Insurance for Agency insured or coinsured developments		10,000		10,000
Homeless Auxiliary Initiative provides assistance to homeless shelters		-		-
Total	$	56,350	$	54,850
Multifamily Housing Program:				
Penn HOMES Program to lower development costs for apartments	$	70,900	$	71,000
Preservation manages physical deterioration, financial or social distress		3,000		3,000
Senior Housing Supportive Services to fund elderly resident services		-		-
Supportive Services to fund multifamily resident services		-		-
Total	$	73,900	$	74,000
Single Family Mortgage Loan Program:				
Closing Cost Assistance	$	19,500	$	18,500
Additional Single Family Insurance to reduce the risk of default on loans		2,455		2,455
Total	$	21,955	$	20,955
Insurance Fund:				
Risk Retention to provide single family mortgage insurance	$	40,170	$	38,021

12. Interfund Balances and Interfund Transfers

To meet the liquidity requirements of the individual funds, the Agency transfers funds to and from the funds for mortgage related activities, debt service payments or to reimburse the General Fund for payments of shared services. Due to or from other funds result mainly from the time between when services are provided and reimbursements are made. Transfers and due to and due from other funds are summarized below for the year ended June 30, 2012:

Interfund transfers in:		
General Fund	$	6,100
Single Family Mortgage Loan Program		2,730
	$	8,830
Interfund transfers out:		
Multifamily Housing Program	$	8,830
Due from other funds:		
General Fund	$	49,514
Multifamily Housing Program		30,123
	$	79,637
Due to other funds:		
Single Family Mortgage Loan Program	$	79,637

Transfers due to and due from other funds are summarized below for the year ended June 30, 2011:

Interfund transfers in:		
General Fund	$	8,123
Single Family Mortgage Loan Program		23,704
	$	31,827
Interfund transfers out:		
Multifamily Housing Program	$	31,827
Due from other funds:		
General Fund	$	31,653
Multifamily Housing Program		54,685
	$	86,338
Due to other funds:		
Single Family Mortgage Loan Program	$	86,338

(in thousands of dollars)

13. Pension Plans

PLAN DESCRIPTION

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 defined benefit single-employer plans. Pension plan assets are included in the basic financial statements of the Agency. The Plan and Excess Plan do not issue stand-alone 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.

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 Internal Revenue Code ("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.

FUNDING POLICY

Employees hired on or after January 1, 2009 contribute 3% of compensation to the Plan. Employees hired on or before December 31, 2008 do not contribute to the Plan or Excess Plan. Contribution requirements and benefit provisions of the Plan and Excess Plan are established and may be amended by the Members of the Board.

ANNUAL PENSION COST AND NET PENSION ASSET

The Plan and Excess 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.

The Agency's annual pension costs and net pension assets of the Plan and Excess Plan for the years ended June 30 were as follows:

	2012	2011
Annual required contribution (ARC)	$ 2,961	$ 2,829
Interest on net pension asset	(183)	(100)
Adjustment to ARC	276	151
Annual pension cost	3,054	2,880
Contributions made	(4,365)	(3,982)
Increase in net pension asset	(1,311)	(1,102)
Net pension asset beginning of year	(2,670)	(1,568)
Net pension asset end of year	$ (3,981)	$ (2,670)

The net pension asset is included as other noncurrent assets on the Balance Sheets of the General Fund.

THREE-YEAR TREND INFORMATION FOR THE PLAN AND EXCESS PLAN

Calendar Year Ended	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension (Asset)
December 31, 2011	$ 3,054	143%	$ (3,981)
December 31, 2010	2,880	138	(2,670)
December 31, 2009	3,084	104	(1,568)

FUNDED STATUS AND FUNDING PROGRESS

As of January 1, 2012, the most recent actuarial valuation date, the Plan and Excess Plan was 73.2% funded. The actuarial accrued liability for benefits was $67,072, and the actuarial value of assets was $49,073, resulting in an unfunded actuarial accrued liabilities ("UAAL") of $17,999. The covered payroll (annual payroll of active employees covered by the Plan and Excess Plan) was $15,697 and the ratio of the UAAL to the covered payroll was 114.7%.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of Plan and Excess Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS

In the actuarial valuation as of January 1, 2012, the aggregate actuarial cost method is used. The actuarial assumptions include a 7.5% investment rate of return, projected salary increases of 4.5% per year and no post-retirement benefit increases. Both the rate of return of investments and projected salary increases include a moderate rate of inflation component based on historical averages. The actuarial value of assets is determined using techniques that spread the effects of s hort-term volatility in the market value of investments smooth over a five-year period. Because the aggregate actuarial cost method does not identify or separately amortize the UAAL, information about the Plan and Excess Plan's funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose.

14. Postemployment Benefits Other than Pensions

PLAN DESCRIPTION

The Agency sponsors a single-employer defined benefit plan, which includes the Pennsylvania Housing Finance Agency Postemployment Benefits Plan ("Plan") to provide certain other postemployment benefits ("OPEB") to all former employees who are members of the Employees' Retirement 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 limited hospitalization, major medical insurance, physician services and prescription drug coverage. The Agency is under no statutory or contractual obligation to provide these postretirement healthcare benefits. Plan assets and liabilities are included in the basic financial statements of the Agency. 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.

(in thousands of dollars)

FUNDING POLICY

The Agency currently funds postemployment health care benefits on a pay-as-you-go basis by purchasing commercial health insurance. Premiums under the Plan for postemployment healthcare benefits are partially funded by retirees desiring such coverage in accordance with rates established by the Agency. Contribution requirements and benefit provisions of the Plan are established by and may be amended by the Members of the Board.

For the year ended June 30, 2012, contribution rates for Plan members equaled 5% of the insurance premium per participant per month. Plan members receiving benefits paid $32, which was used to offset the Agency's total outlays to insurance carriers for premiums equaling $637. As a result, the Agency's net outlay for premiums due equaled $605.

For the year ended June 30, 2011, contribution rates for Plan members equaled 5% of the insurance premium per participant per month. Plan members receiving benefits paid $28, which was used to offset the Agency's total outlays to insurance carriers for premiums equaling $564. As a result, the Agency's net outlay for premiums due equaled $536.

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 Agency's annual OPEB costs and net OPEB obligation for the years ended June 30 were as follows:

	2012	2011
Annual required contribution (ARC)	$ 5,042	$ 4,318
Interest on net OPEB obligation	526	417
Adjustment to ARC	(718)	(569)
Annual OPEB expense	4,850	4,166
Contributions made	(637)	(564)
Increase in net OPEB obligation	4,213	3,602
Net OPEB obligation beginning of year	13,288	9,686
Net OPEB obligation end of year	$ 17,501	$ 13,288

OPEB obligations are included as other noncurrent liabilities on the Balance Sheets of the General Fund and HEMAP.

THREE-YEAR TREND INFORMATION FOR OPEB

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	$ 4,850	13%	$ 17,501
June 30, 2011	4,166	14	13,288
June 30, 2010	4,225	12	9,686

FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2011, the most recent actuarial valuation date, the Plan was not funded. This resulted in an actuarial accrued liability for benefits and unfunded actuarial accrued liability ("UAAL") of $43,472. The covered payroll (annual payroll of active employees covered by the Plan) equaled $15,900, and the ratio of the UAAL to the covered payroll equaled 273.4%. 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 to past expectations and new estimates are made about the future.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS

Projection of benefits for financial reporting purpose are based on the substantive 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.

For the actuarial valuation dated July 1, 2011, 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, a moderate inflation rate based on historical averages and an annual healthcare cost trend rate of 8% in 2011, decreasing by 0.5% per year to 5.5% in 2016 and thereafter. The UAAL is being amortized as a level dollar amount over thirty years on an open basis.

15. Significant Contingencies and Commitments

FEDERALLY ASSISTED PROGRAMS

In the normal course of operations, the Agency receives funding from various federal government agencies. These funds are to be used for designated purposes only. If the grantor's funding reviews indicate that the funds have not been used for the intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the Agency for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Agency's grant programs is predicated upon the grantor's historical satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

(in thousands of dollars)

RISK MANAGEMENT

The Agency is exposed to various risks of loss from theft of, damage to or the destruction of assets; injuries to staff or visitors; loss related to torts, errors and omissions and employee dishonesty. All risks are managed through the purchase of various commercial insurance policies. The Agency bears a $1 deductible per claim for commercial property coverage and a $100 deductible per claim for fidelity bond coverage. There have been no settlements or actual losses in excess of coverage or decrease in insurance coverage over the last three years.

LITIGATION

In the normal course of business, the Agency may be involved with various claims or suits. In the opinion of the Agency's management, the amount of such losses that might result from claims or suits, if any, would not materially affect the Agency's financial position.

COMMITMENTS

Outstanding commitments by the Agency to make or acquire Single Family Mortgage Program and HEMAP loans were approximately $20,646 and $2,899, respectively, at June 30, 2012.

16. Significant Effects of Subsequent Events

HEMAP

On June 22, 2012, the Governor signed Senate Bill No. 1433 (Act 70 of 2012). This bill authorized 90% of the "Homeowner Assistance Settlement Agreement" to be appropriated to the HEMAP Program. HEMAP's share of these funds will total approximately $60,000 over a multiyear period. Because this appropriation provides sufficient funding to allow HEMAP to restart, a notice was published in the *PA Bulletin* on August 18, 2012 announcing the fact that lenders are again subject to the requirements of Act 91 effective October 2, 2012.

SINGLE FAMILY MORTGAGE REVENUE BOND ISSUE

On November 16, 2012, the Agency issued $229,710 of Single Family Mortgage Revenue Bonds, Series 114A through 114C. These bonds are general obligations of the Agency that bear interest at fixed rates payable on each April 1 and October 1, with a final maturity date of October 1, 2042. The proceeds from the bond issuance will be used to refund certain bonds of the Agency issued previously and to purchase new mortgage loans by the Agency.

Required SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS FOR THE PENNSYLVANIA HOUSING FINANCE AGENCY EMPLOYEES' RETIREMENT PLAN AND GOVERNMENT EXCESS BENEFIT PLAN

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)
01/01/2012	$ 49,073	$ 67,072	$ 17,999	73.2%	$ 15,697	114.7%
01/01/2011	44,969	61,750	16,781	72.8	15,566	107.8
01/01/2010	40,521	57,218	16,697	70.8	14,489	115.2

SCHEDULE OF FUNDING PROGRESS FOR THE PENNSYLVANIA HOUSING FINANCE AGENCY POSTEMPLOYMENT BENEFITS PLAN

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)
07/01/2011	$ -	$ 43,472	$ 43,472	0.0%	$ 15,900	273.4%
07/01/2009	-	36,652	36,652	0.0	15,320	239.2
07/01/2007	-	28,072	28,072	0.0	13,382	209.8

Tami Blessing, a compliance officer with PHFA, researches files of homeowners saved from foreclosure. Tami has been with the agency since 2006.

STAFF *of the* Pennsylvania Housing Finance Agency

Executive

Brian A. Hudson, Sr., Executive Director & CEO
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Finance and Administration

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Anne C. Klitsch, Senior Servicing Officer
Nancy J. Lackey, Servicing Officer II
Brenda M. Lawrence, Servicing Officer I

2003

PHFA Comprehensive Housing Counseling Network is established as a result of a foreclosure study with the state Department of Banking.

2004

PHFA moves into new home at 211 North Front Street, Harrisburg — a LEED-certified green building.

2004

Commonwealth Cornerstone Group is incorporated as a PHFA nonprofit to promote beneficial mixed-use development across Pennsylvania.

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Stephanie Parent, Financial Analyst I
Nichole L. Proctor, Housing Management Representative I

2007

PHFA launches Pennsylvania Apartment Locator, or PAL.

2010

Agency funds record number of home loans — almost 8,000 — with support from federal New Issue Bond Program.

2010

PHFA offers lowest home mortgage rate in 38-year history: 3.25 percent.

2011

HEMAP has provided approximately $500 million in loans to help more than 46,000 Pennsylvania households avoid foreclosure.

2011

Agency launches PAHousingSearch.com, a housing locator service, in partnership with PEMA, DPW and DCED.

2011

Agency helps 3,038 Pennsylvania households in danger of foreclosure by committing $108 million of federal assistance through Emergency Homeowners' Loan Program.

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Samantha Spahr, Voucher Analyst
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Marianne Romanski, Administrative Assistant
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Mary Ann Sipos, Senior Housing Management Representative
Charles E. Swope, Senior Technical Services Representative
Aloise E. Tomich, Housing Management Representative II

2011

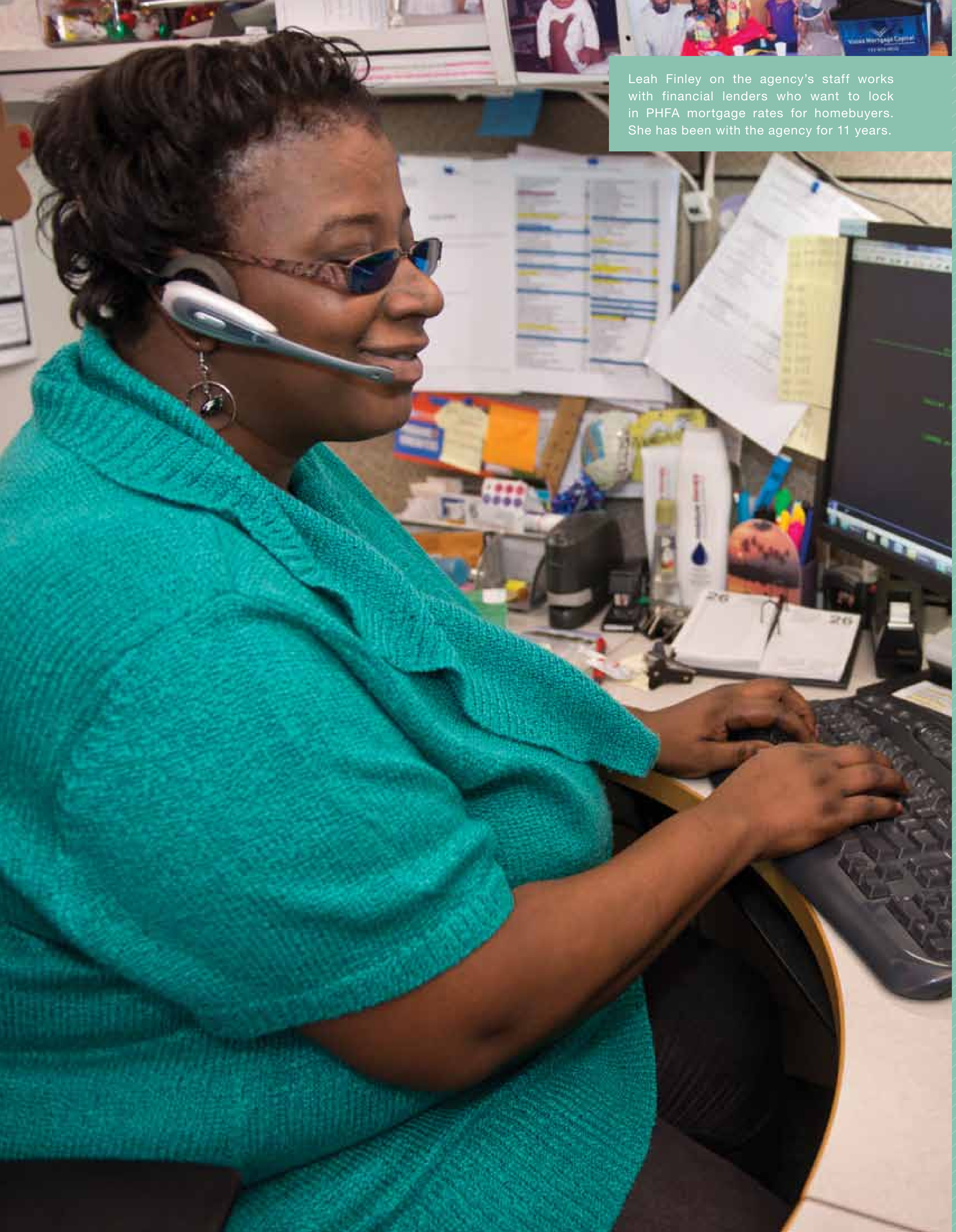
Agency's single-family servicing portfolio (not including HEMAP) tops 60,000 loans with a balance of more than $4.5 billion.

2012

PHFA staff stands at 286 employees, including satellite offices in Pittsburgh and Norristown.

2012

PHFA launches reinvigorated single-family homeownership programs offering more competitive rates and other attractive features.



Leah Finley on the agency's staff works with financial lenders who want to lock in PHFA mortgage rates for homebuyers. She has been with the agency for 11 years.

At the Pennsylvania Housing Finance Agency, we care about the environment. That's why this annual report has been printed using recycled paper and inks. It also is being posted on our website to minimize the number of printed paper copies.

PHFA

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