

PENNSYLVANIA HOUSING FINANCE AGENCY

**BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTAL INFORMATION
WITH REPORT OF INDEPENDENT AUDITORS**

JUNE 30, 2007 AND 2006

PENNSYLVANIA HOUSING FINANCE AGENCY
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2007 and 2006

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Report of Independent Auditors

Members of the Board of Directors
Pennsylvania Housing Finance Agency

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

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

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

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

Management's Discussion and Analysis and the Schedule of Retirement Plan Funding Progress, on pages 5 through 9 and 39, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



September 26, 2007

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

Members of the Board of Directors
Pennsylvania Housing Finance Agency

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

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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



September 26, 2007

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis

June 30, 2007 and 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the financial performance of the Pennsylvania Housing Finance Agency ("Agency") is required supplementary information. It introduces the financial statements for the fiscal year ended June 30, 2007 with selected comparative information for the fiscal year ended June 30, 2006 and 2005. It provides the financial highlights and assessments that, in management's view, significantly affected the Agency's overall financial position. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow this section.

BASIC FINANCIAL STATEMENTS

The basic financial statements include three required statements that provide different views of the Agency. They are the Balance Sheet, the Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows and the accompanying notes to the financial statements.

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

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

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

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis

June 30, 2007 and 2006

FINANCIAL ANALYSIS

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

Changes in Financial Position

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

	June 30, 2007	June 30, 2006	June 30, 2005	Percentage Change 2007/2006	Percentage Change 2006/2005
Assets					
Mortgage loan receivables	\$ 3,859,214	\$ 3,368,407	\$ 2,954,440	14.6%	14.0%
Capital assets	35,411	35,434	35,445	-0.1%	0.0%
Other assets	1,192,595	1,070,958	1,238,934	11.4%	-13.6%
Total assets	\$ 5,087,220	\$ 4,474,799	\$ 4,228,819	13.7%	5.8%
Liabilities					
Long-term liabilities	4,137,254	3,550,821	3,371,236	16.5%	5.3%
Other liabilities	238,229	256,229	207,458	-7.0%	23.5%
Total liabilities	\$ 4,375,483	\$ 3,807,050	\$ 3,578,694	14.9%	6.4%
Net assets:					
Invested in capital assets	\$ 15,456	\$ 15,488	\$ 15,635	-0.2%	-0.9%
Restricted	83,060	90,126	87,867	-7.8%	2.6%
Unrestricted	613,221	562,135	546,623	9.1%	2.8%
Total net assets	\$ 711,737	\$ 667,749	\$ 650,125	6.6%	2.7%
Statement of Revenues, Expenses and Changes in Net Assets					
	June 30, 2007	June 30, 2006	June 30, 2005	Percentage Change 2007/2006	Percentage Change 2006/2005
Operating Revenues:					
Interest on mortgage loans	\$ 181,445	\$ 158,181	\$ 151,030	14.7%	4.7%
Federal program awards	311,745	289,228	280,033	7.8%	3.3%
Other income	86,255	56,215	73,426	53.4%	-23.4%
Total Operating revenue	579,445	503,624	504,489	15.1%	-0.2%
Operating Expenses	535,177	485,656	459,978	10.2%	5.6%
Non-operating Revenue (Expense)	(280)	(344)	792	-18.6%	-143.4%
Change in net assets	\$ 43,988	\$ 17,624	\$ 45,303	149.6%	-61.1%

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis

June 30, 2007 and 2006

Financial Highlights

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

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

Loan Portfolios

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

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis

June 30, 2007 and 2006

Long-Term Debt Activity

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

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

Change in Net Assets

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

Restricted net assets as those subject to constraints that are either externally imposed by creditors, grantors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation; these are presented as restricted net assets.

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

- Net assets of the General Fund decreased by approximately \$34 million to \$124 million at June 30, 2007 from \$158 million at June 30, 2006. The unrestricted portion of net assets that may be used to finance operations decreased by approximately \$33 million to \$109 million at June 30, 2007 from \$142 million at June 30, 2006. Net assets decreased by \$13 million or 7.8%, to \$158 million at June 30, 2006 from \$171 million at June 30, 2005.
- Net assets of the Multifamily Program increased by approximately \$23 million to \$263 million at June 30, 2007 from \$240 million at June 30, 2006. The unrestricted portion of net assets that may be used to finance operations increased by approximately \$23 million to \$261 million at June 30, 2007 from \$238 million at June 30, 2006. Net assets increased by \$16 million or 7.1%, to \$240 million at June 30, 2006 from \$224 million at June 30, 2005. The unrestricted portion of net assets that may be used to finance operations increased to \$238 million at June 30, 2006 from \$216 million at June 30, 2005.

PENNSYLVANIA HOUSING FINANCE AGENCY

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- Net assets of the Single Family Program increased by approximately \$51 million to \$235 million at June 30, 2007 from \$184 million at June 30, 2006. The unrestricted portion of net assets that may be used to finance operations increased by approximately \$59 million to \$154 million at June 30, 2007 from \$95 million at June 30, 2006. Net assets increased by \$13 million or about 7.6%, to \$184 million at June 30, 2006 from \$171 million at June 30, 2005. The unrestricted portion of net assets that may be used to finance operations increased to \$95 million at June 30, 2006 from \$91 million at June 30, 2005.
- Net assets of the Insurance Fund increased by approximately \$3 million to \$45 million at June 30, 2007 from \$42 million at June 30, 2006. Net assets decreased approximately \$1 million to \$42 million from \$43 million at June 30, 2006 and 2005, respectively.
- Net assets of HEMAP remained constant at \$44 million at June 30, 2007 and June 30, 2006, respectively. The unrestricted portion remained constant at \$44 million at June 30, 2007 and 2006. Net assets increased by \$3 million or about 7.3%, to \$44 million at June 30, 2006 from \$41 million at June 30, 2005.

Economic Factors and Other Financial Information

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

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

Capital Related Activities

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Balance Sheets

June 30, 2007 and 2006

(in thousands of dollars)

	2007							2006						
	General Fund	Multifamily Program	Single Family Program	Insurance Fund	Subtotal	HEMAP	Totals	General Fund	Multifamily Program	Single Family Program	Insurance Fund	Subtotal	HEMAP	Totals
Assets														
Current Assets:														
Cash and cash equivalents (Note C)	\$ 14,965	\$273,987	\$ 427,526	\$ 32,692	\$ 749,170	\$ -	\$ 749,170	\$ 31,728	\$184,620	\$ 346,822	\$ 29,624	\$ 592,794	\$ 541	\$ 593,335
Investments (Note C)	9,244	2,218	23,652	-	35,114	-	35,114	9,726	24,834	90,042	12,524	137,126	-	137,126
Accrued interest receivable on investments	503	655	3,357	131	4,646	-	4,646	1,112	3,414	10,328	104	14,958	-	14,958
Mortgage loans receivable (Note D)	-	27,507	57,271	-	84,778	6,335	91,113	-	23,266	40,610	-	63,876	6,285	70,161
Advances to other funds	24,073	-	-	-	24,073	-	24,073	43,831	-	-	-	43,831	(654)	43,177
Total current assets	48,785	304,367	511,806	32,823	897,781	6,335	904,116	86,397	236,134	487,802	42,252	852,585	6,172	858,757
Noncurrent assets:														
Restricted cash and cash equivalents (Note C)	-	1,960	81,100	-	83,060	-	83,060	-	1,960	88,166	-	90,126	-	90,126
Investments (Note C)	63,030	48,129	154,476	13,054	278,689	-	278,689	56,439	106,570	10,884	-	173,893	-	173,893
Mortgage loans receivable (Note D)	-	522,433	3,203,719	-	3,726,152	41,949	3,768,101	-	523,584	2,733,279	-	3,256,863	41,382	3,298,245
Capital assets, net (Note E)	35,377	-	-	-	35,377	34	35,411	35,406	-	-	-	35,406	28	35,434
Deferred assets	2,280	10,091	5,466	-	17,837	6	17,843	3,645	10,174	4,519	-	18,338	6	18,344
Total noncurrent assets	100,687	582,613	3,444,761	13,054	4,141,115	41,989	4,183,104	95,490	642,288	2,836,848	-	3,574,626	41,416	3,616,042
Total assets	\$149,472	\$886,980	\$ 3,956,567	\$ 45,877	\$ 5,038,896	\$48,324	\$ 5,087,220	\$181,887	\$878,422	\$ 3,324,650	\$ 42,252	\$ 4,427,211	\$47,588	\$ 4,474,799
Liabilities														
Current liabilities:														
Bonds payable (Note G)	\$ -	\$ 27,238	\$ 137,455	\$ -	\$ 164,693	\$ -	\$ 164,693	\$ -	\$ 26,368	\$ 144,665	\$ -	\$ 171,033	\$ -	\$ 171,033
Accrued interest payable (Note G)	392	6,253	37,648	-	44,293	-	44,293	390	6,927	29,599	-	36,916	-	36,916
Accounts payable and accrued expenses	3,222	11	899	258	4,390	780	5,170	3,534	11	873	213	4,631	472	5,103
Advances from other funds	-	2,366	20,398	-	22,764	1,309	24,073	-	2,611	40,566	-	43,177	-	43,177
Total current liabilities	3,614	35,868	196,400	258	236,140	2,089	238,229	3,924	35,917	215,703	213	255,757	472	256,229
Noncurrent liabilities:														
Bonds payable (Note G)	19,921	324,207	3,467,735	-	3,811,863	-	3,811,863	19,918	349,043	2,871,134	-	3,240,095	-	3,240,095
Escrow and other noncurrent liabilities	1,791	263,475	57,040	610	322,916	2,475	325,391	304	253,038	54,168	502	308,012	2,714	310,726
Total noncurrent liabilities	21,712	587,682	3,524,775	610	4,134,779	2,475	4,137,254	20,222	602,081	2,925,302	502	3,548,107	2,714	3,550,821
Total liabilities	25,326	623,550	3,721,175	868	4,370,919	4,564	4,375,483	24,146	637,998	3,141,005	715	3,803,864	3,186	3,807,050
Net Assets														
Invested in capital assets, net of related debt	15,456	-	-	-	15,456	-	15,456	15,488	-	-	-	15,488	-	15,488
Restricted by debt covenants	-	1,960	81,100	-	83,060	-	83,060	-	1,960	88,166	-	90,126	-	90,126
Unrestricted	108,690	261,470	154,292	45,009	569,461	43,760	613,221	142,253	238,464	95,479	41,537	517,733	44,402	562,135
Total net assets	124,146	263,430	235,392	45,009	667,977	43,760	711,737	157,741	240,424	183,645	41,537	623,347	44,402	667,749
Total liabilities and net assets	\$149,472	\$886,980	\$ 3,956,567	\$ 45,877	\$ 5,038,896	\$48,324	\$ 5,087,220	\$181,887	\$878,422	\$ 3,324,650	\$ 42,252	\$ 4,427,211	\$47,588	\$ 4,474,799

The accompanying notes are an integral part of these financial statements

PENNSYLVANIA HOUSING FINANCE AGENCY
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2007 and 2006

(in thousands of dollars)

	2007						2006							
	General Fund	Multifamily Program	Single Family Program	Insurance Fund	Subtotal	HEMAP	Totals	General Fund	Multifamily Program	Single Family Program	Insurance Fund	Subtotal	HEMAP	Totals
Operating revenues:														
Interest on mortgage loans	\$ -	\$ 35,484	\$ 144,986	\$ -	\$ 180,470	\$ 975	\$ 181,445	\$ -	\$ 37,120	\$ 120,120	\$ -	\$ 157,240	\$ 941	\$ 158,181
Fee income	27,122	38	2,454	451	30,065	351	30,416	22,574	451	2,564	616	26,205	388	26,593
Investment income	4,002	5,220	26,690	1,049	36,961	149	37,110	1,920	5,576	23,405	1,294	32,195	85	32,280
Net increase (decrease) in fair value of investments	202	3,536	1,118	2,372	7,228	-	7,228	(4,829)	(6,162)	(2,064)	(2,901)	(15,956)	-	(15,956)
Federal program awards	-	311,745	-	-	311,745	-	311,745	-	289,228	-	-	289,228	-	289,228
Other Income	-	1,501	-	-	1,501	10,000	11,501	-	1,708	-	-	1,708	11,590	13,298
Total operating revenue (loss)	31,326	357,524	175,248	3,872	567,970	11,475	579,445	19,665	327,921	144,025	(991)	490,620	13,004	503,624
Operating expenses:														
Interest on bonds	825	14,854	156,738	-	172,417	-	172,417	823	18,037	132,881	-	151,741	-	151,741
Salaries and related benefits	18,371	-	-	-	18,371	2,300	20,671	18,162	-	-	-	18,162	2,342	20,504
General and administrative	5,367	2,130	4,830	400	12,727	2,106	14,833	6,273	2,796	4,440	600	14,109	2,010	16,119
Provision for loan loss	-	6,200	1,600	-	7,800	7,711	15,511	-	1,000	2,000	-	3,000	5,064	8,064
Federal program awards expense	-	311,745	-	-	311,745	-	311,745	-	289,228	-	-	289,228	-	289,228
Total operating expenses	24,563	334,929	163,168	400	523,060	12,117	535,177	25,258	311,061	139,321	600	476,240	9,416	485,656
Net operating income (loss)	6,763	22,595	12,080	3,472	44,910	(642)	44,268	(5,593)	16,860	4,704	(1,591)	14,380	3,588	17,968
Nonoperating expenses:														
Loss on early extinguishment of debt	-	(132)	(148)	-	(280)	-	(280)	-	(124)	(220)	-	(344)	-	(344)
Income (loss) before transfers	6,763	22,463	11,932	3,472	44,630	(642)	43,988	(5,593)	16,736	4,484	(1,591)	14,036	3,588	17,624
Transfers:														
Interfund transfers in (out)	(40,358)	543	39,815	-	-	-	-	(7,746)	29	7,717	-	-	-	-
Increase (decrease) in net assets	(33,595)	23,006	51,747	3,472	44,630	(642)	43,988	(13,339)	16,765	12,201	(1,591)	14,036	3,588	17,624
Total net assets - beginning of year	157,741	240,424	183,645	41,537	623,347	44,402	667,749	171,080	223,659	171,444	43,128	609,311	40,814	650,125
Total net assets - end of year	\$124,146	\$ 263,430	\$ 235,392	\$ 45,009	\$ 667,977	\$ 43,760	\$ 711,737	\$157,741	\$ 240,424	\$ 183,645	\$ 41,537	\$ 623,347	\$ 44,402	\$ 667,749

The accompanying notes are an integral part of these financial statements

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Cash Flows

Years Ended June 30, 2007 and 2006

(in thousands of dollars)

	2007						2006							
	General Fund	Multifamily Program	Single Family Program	Insurance Fund	Subtotal	HEMAP	Totals	General Fund	Multifamily Program	Single Family Program	Insurance Fund	Subtotal	HEMAP	Totals
Cash flows from operating activities														
Cash disbursed on mortgage loans	\$ -	\$ (42,862)	\$ (727,863)	\$ -	\$ (770,725)	\$ (22,851)	\$ (793,576)	\$ -	\$ (38,149)	\$ (606,802)	\$ -	\$ (644,951)	\$ (22,448)	\$ (667,399)
Cash received on mortgage loans	-	39,772	240,762	-	280,534	22,199	302,733	-	24,028	243,520	-	267,548	15,518	283,066
Interest received on mortgages and other loans	-	38,243	151,957	-	190,200	975	191,175	-	40,630	131,175	-	171,805	868	172,673
Cash received from fees and charges	27,122	1,539	2,454	451	31,566	351	31,917	25,020	-	-	616	25,636	388	26,024
Cash paid to employees and vendors	(20,743)	(8,247)	(7,351)	(275)	(36,616)	(12,003)	(48,619)	(24,091)	(3,130)	(315)	(210)	(27,746)	(4,315)	(32,061)
Cash received for escrow and other liabilities	1,487	10,437	2,872	1	14,797	-	14,797	-	11,640	5,324	-	16,964	91	17,055
Cash received from other government sources	-	-	-	-	-	10,000	10,000	-	-	-	-	-	11,590	11,590
Net cash provided by (used in) operating activities	7,866	38,882	(337,169)	177	(290,244)	(1,329)	(291,573)	929	35,019	(227,098)	406	(190,744)	1,692	(189,052)
Cash flows from noncapital financing activities														
Transfers (to) from other funds	(20,600)	298	19,647	-	(655)	655	-	(23,203)	719	23,720	-	1,236	(1,236)	-
Proceeds from sale of bonds	-	12,600	916,935	-	929,535	-	929,535	-	22,010	529,815	-	551,825	-	551,825
Principal payments on bonds	-	(36,698)	(327,692)	-	(364,390)	-	(364,390)	-	(39,261)	(347,768)	-	(387,029)	-	(387,029)
Interest paid on bonds	-	(15,528)	(148,689)	-	(164,217)	-	(164,217)	-	(18,447)	(130,728)	-	(149,175)	-	(149,175)
Net cash provided by (used in) noncapital financing activities	(20,600)	(39,328)	460,201	-	400,273	655	400,928	(23,203)	(34,979)	75,039	-	16,857	(1,236)	15,621
Cash flows from capital financing activities														
Interest on capital asset debt	(820)	-	-	-	(820)	-	(820)	(823)	-	-	-	(823)	-	(823)
Purchases of capital assets	(1,304)	-	-	-	(1,304)	(16)	(1,320)	-	-	-	-	-	-	-
Net cash provided by (used in) capital financing activities	(2,124)	-	-	-	(2,124)	(16)	(2,140)	(823)	-	-	-	(823)	-	(823)
Cash flows from investing activities														
Purchase of investments	(33,999)	(63,896)	(1,725,327)	-	(1,823,222)	-	(1,823,222)	(14,591)	(3,563)	(6,392)	-	(24,546)	-	(24,546)
Proceeds from sales and maturities of investments	28,092	148,489	1,649,243	1,842	1,827,666	-	1,827,666	8,861	17,600	7,074	-	33,535	-	33,535
Investment income	4,002	5,220	26,690	1,049	36,961	149	37,110	1,920	5,576	23,405	1,175	32,076	85	32,161
Net cash provided by (used in) investing activities	(1,905)	89,813	(49,394)	2,891	41,405	149	41,554	(3,810)	19,613	24,087	1,175	41,065	85	41,150
Net increase (decrease) in cash and cash equivalents	(16,763)	89,367	73,638	3,068	149,310	(541)	148,769	(26,907)	19,653	(127,972)	1,581	(133,645)	541	(133,104)
Cash and cash equivalents, beginning of year	31,728	186,580	434,988	29,624	682,920	541	683,461	58,635	166,927	562,960	28,043	816,565	-	816,565
Cash and cash equivalents, end of year	\$14,965	\$ 275,947	\$ 508,626	\$ 32,692	\$ 832,230	\$ -	\$ 832,230	\$31,728	\$ 186,580	\$ 434,988	\$ 29,624	\$ 682,920	\$ 541	\$ 683,461

The accompanying notes are an integral part of these financial statements

PENNSYLVANIA HOUSING FINANCE AGENCY
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

(in thousands of dollars)

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

The accompanying notes are an integral part of these financial statements

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2007 and 2006

(in thousands of dollars)

A. Description of the Agency

The Pennsylvania Housing Finance Agency (“Agency”) is a corporate and political body created by the Housing Finance Agency Law, Act of December 3, 1959, P.L. 1688 (“Act”), as amended. Pursuant to the Act, the Agency is authorized and empowered, among other things, to finance the construction and rehabilitation of housing units for persons and families of low and moderate income or the elderly. Bonds issued under the provisions of the Act are not a debt or liability of the Commonwealth of Pennsylvania or any of its political subdivisions or a pledge of the faith and credit of the Commonwealth of Pennsylvania or of any of its political subdivisions.

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

B. Summary of Significant Accounting Policies

Basis of Accounting

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

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

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

Reporting Entity

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2007 and 2006

(in thousands of dollars)

Description of Funds

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

General Fund - The General Fund is utilized to record certain loan origination fees, service fees and revenue from investments not specifically pledged for the repayment of bonds in the other funds. All Agency expenses are recorded in this fund except provisions for potential loan losses and specific program expenses that are charged to the loan-related program funds.

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

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

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

HEMAP - The Homeowners Emergency Mortgage Assistance Program ("HEMAP") was created by Act 91 of the General Assembly. HEMAP provides emergency mortgage assistance loans to mortgagors facing foreclosure because of circumstances beyond their control.

Cash and Cash Equivalents

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

Investments

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

Pass-through Grants

The Agency follows Governmental Accounting Standards Board Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*. Statement No. 24 requires that all cash pass-through grants received by a governmental entity be reported in its financial statements. The effect of applying these provisions is to increase both operating income and expense when eligible expenditures occur.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2007 and 2006

(in thousands of dollars)

Pension Plan

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

Derivative Financial Instruments

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

Net Assets

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

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

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

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

Allowance for Potential Loan Losses

The allowance for loan losses is determined based upon management's evaluation of mortgage loans receivable and construction advances. Factors considered by management include the estimated fair market values of the properties that represent collateral, the amount of mortgage insurance to be received, if any, the past experience and financial condition of the borrowers, and the economy. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. Additions to the allowance are provided by charges to expense.

Interest Income

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2007 and 2006

(in thousands of dollars)

Operating and Nonoperating Revenues and Expenses

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

Debt Issuance Costs, Bond Discounts and Other Bond Related Costs

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

Advances To and From Other Funds and Interfund Transfers

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

Mortgage Loans Receivable

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

Real Estate Owned

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

Capital Assets

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

Compensated Absences

Agency employees are granted vacation and illness pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitations, unused vacation and illness pay earned and, upon retirement, termination or death, may be compensated for certain amounts at

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2007 and 2006

(in thousands of dollars)

their current rate of pay. Vacation and illness pay is recognized as an expense in the amount earned each year.

Implemented and Pending Governmental Accounting Standards Board Pronouncements

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

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

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

Governmental Accounting Standards Board Statement No. 48, “*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues Accounting for Termination Benefits.*” Historically, guidance for reporting the effects of those transactions in governmental financial statements either has been provided in several standards or, in certain cases, was not specifically addressed in authoritative literature. In addition, little or no information about pledged revenues was being disclosed in the notes to the financial statements. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. This Statement also provides additional guidance for sales of

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2007 and 2006

(in thousands of dollars)

receivables and future revenues within the same financial reporting entity. This Statement is effective for the Agency's June 30, 2008 financial statements. The Agency is currently evaluating the impact of implementing Statement No. 48 on its financial statements.

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

Reclassifications

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

C. Deposits and Investments

Deposits

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

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

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

Custodial Credit Risk

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

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2007 and 2006

(in thousands of dollars)

Investments

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

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

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

**Securities that are not rated.

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2007 and 2006

(in thousands of dollars)

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

Foreign Currency Risk

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

D. Mortgage Loans Receivable

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

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

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

Insurance for the Single Family Program is provided by commercial companies and self-insurance through the Agency's Insurance Fund. Primary insurance is required on all single-family mortgage loans where the loan principal amount exceeds 80% of the lesser of the purchase price or the initial appraised value of the property. It is the eligible borrowers' responsibility to bear the cost of primary insurance.

The Agency provides primary mortgage insurance coverage for single-family mortgage loans through the Insurance Fund, which ranges from 20% to 30% (depending on the loan-to-value ratio at origination) of the unpaid principal balance. At June 30, 2007 and 2006, the total loans covered under this program were \$65,742 and \$84,953, respectively. The Agency discontinued originating mortgage loans under these agreements in September 1993. Additionally, the Agency has internally designated certain net assets for self-insurance for certain multifamily and single-family loans (see Note K.) HEMAP loans are uninsured and unsecured due to their lien position.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

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(in thousands of dollars)

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

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

The claims liability is based on the requirements of the Governmental Accounting Standards Board, which requires that the basis for estimating the liability for unpaid claims, including the effects of specific incremental claim adjustment expenditures/expenses, salvage, and subrogation and whether other allocated or unallocated claim adjustment expenditures/expenses are included. Changes in the allowance for potential loan losses for the Multifamily Program, Single Family Program and HEMAP are as follows at June 30, 2007 and 2006:

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

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E. Capital Assets

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

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

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

F. Servicing Portfolio

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

G. Bonds Payable

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

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

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

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

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

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

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

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Description of Bonds as Issued	Final Maturity Date	Amounts Outstanding June 30,	
		2007	2006
Series 2005 - 90, variable rate	2036	123,090	124,795
Series 2005 - 91, variable rate	2036	154,020	154,715
Series 2006 - 92, variable rate	2036	124,825	125,000
Series 2006 - 93, variable rate	2037	123,475	125,000
Series 2006 - 94, variable rate	2037	123,800	-
Series 2006 - 95, variable rate	2037	198,195	-
Series 2006 - 96, 3.60-5.72%	2037	194,975	-
Series 2007 - 97, variable rate	2037	199,415	-
Series 2007 - 98, variable rate	2037	199,240	-
		<u>3,634,474</u>	<u>3,045,545</u>
Unamortized bond discount		(9,549)	(8,702)
Unamortized deferred loss of refundings		(19,735)	(21,044)
Total bonds payable		<u>3,605,190</u>	<u>3,015,799</u>
Less current portion		<u>137,455</u>	<u>144,665</u>
Long-term portion		<u>\$ 3,467,735</u>	<u>\$ 2,871,134</u>

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

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

Variable Rate Demand Bonds

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

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Early Extinguishment of Debt

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

Current Refundings

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

Advance Refundings

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

Conduit Debt Obligations

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

Bond Covenants

Capital reserves have been established by the Agency to meet the requirements of bond covenants. The covenants require minimum capital reserve requirements for the Multi-Family and Single Family Programs. The capital reserve requirement for certain Multi-Family bonds requires that a one-year debt service minimum balance be maintained at all times. The capital reserve requirement for Single Family bonds must be equal to at least 3% of the aggregate principal amount of all Single Family bonds outstanding plus one million dollars.

PENNSYLVANIA HOUSING FINANCE AGENCY

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(in thousands of dollars)

H. Interest Rate Swap

Swap Objectives

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

Swap Payments

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

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

Fair Value

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

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Significant Terms

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

Counter-Party and Rating*	Bond Issue	Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received	Fair Value of Contract
Goldman Sachs	1999-67B	\$ 21,005	8/2002	4/2029	5.950%	1-month LIBOR plus 50bps	\$ (631)
AAA/Aaa	2000-69B	1,890	3/2000	4/2008	7.305%	3-month LIBOR	(22)
	2001-72	24,350	9/2001	10/2023	5.695%	1-month LIBOR	(346)
	RHR2002A**	63,585	7/2002	1/2021	3.575%	67% of 1-week LIBOR	(871)
	RHR2002B**	21,115	7/2002	1/2021	3.575%	67% of 1-week LIBOR	-
	2002-74	30,000	8/2002	10/2032	4.285%	67% of 1-month LIBOR	(80)
	2003-77B**	59,900	9/2003	10/2033	4.060%	67% of 1-month LIBOR	645
	2003-77C	17,150	9/2003	4/2012	2.690%	67% of 1-month LIBOR	274
	2004-81B	10,650	4/2004	4/2013	2.365%	67% of 1-month LIBOR	285
	2004-81C**	62,740	4/2004	10/2034	3.557%	67% of 1-month LIBOR	2,724
	2004-84C	18,635	9/2004	4/2018	3.115%	67% of 1-month LIBOR	388
	2004-84D**	58,335	9/2004	10/2034	3.879%	67% of 1-month LIBOR	1,161
	2004-86B**	71,565	11/2004	10/2033	3.417%	67% of 1-month LIBOR	1,761
	2004-86C**	19,790	12/2004	10/2035	4.125%	67% of 1-month LIBOR	320
	2005-89**	122,070	6/2005	10/2035	3.605%	67% of 1-month LIBOR	3,372
	2005-91B	70,000	12/2005	10/2036	3.953%	67% of 1-month LIBOR	1,335
	2006-94B	35,165	7/2006	04/2027	4.152%	69% of 1-month LIBOR	(396)
UBS AG	2000-70	8,190	4/2001	4/2011	6.927%	1-month LIBOR	213
AA+/Aaa	2002-73	11,750	3/2002	4/2010	5.017%	1-month LIBOR	(38)
	2002-75	30,000	12/2002	10/2032	3.957%	70% of 1-month LIBOR	(1,221)
	2003-79B**	57,350	12/2003	10/2033	3.997%	65% of 1-month LIBOR + 25bps	(277)
	2004-83B	30,565	8/2004	10/2019	3.410%	65% of 1-month LIBOR + 25bps	(567)
	2004-83C**	42,905	8/2004	10/2035	4.060%	65% of 1-month LIBOR + 25bps	(224)
	2004-85B	30,235	11/2004	4/2019	3.168%	65% of 1-month LIBOR + 25bps	(1,113)
	2004-85C**	44,645	11/2004	10/2035	3.879%	65% of 1-month LIBOR + 25bps	(708)
	2005-87B	44,285	3/2005	10/2023	3.460%	65% of 1-month LIBOR + 25bps	(1,097)
	2005-87C**	47,300	3/2005	10/2035	3.882%	65% of 1-month LIBOR + 25bps	(970)
	2005-90C**	60,820	9/2005	4/2036	3.692%	65% of 1-month LIBOR + 25bps	(3,048)
	2006-92B**	42,870	3/2006	10/2036	3.996%	65% of 1-month LIBOR + 25bps	(1,032)
	2006-95C**	39,180	9/2006	04/2026	4.115%	65% of 1-month LIBOR + 25bps	(81)
	2007-97D1	27,535	3/2007	10/2014	4.922%	1-month LIBOR	(160)
	2007-97D2	13,365	3/2007	4/2012	4.862%	1-month LIBOR	(422)

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Counter-Party and Rating*	Related Bond Issue	Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received	Fair Value of Contract
Bear Stearns AAA/Aaa	RHR2003A**	58,775	6/2003	7/2020	3.457%	70% of 1-month LIBOR	(1,247)
	RHR2003B**	58,775	6/2003	7/2020	3.547%	70% of 1-month LIBOR	(1,172)
Lehman AAA/Aaa	MF2003	20,660	6/2003	4/2019	3.860%	1-month LIBOR + 15bps	1,613
PNC Bank A+/Aa3	VRBD2004	20,000	2/2004	1/2034	3.945%	65% of 1-month LIBOR + 25bps	652
Merrill Lynch AA-/Aa3	2004-82B	48,060	5/2004	10/2030	3.643%	61% of 1-month LIBOR + 39bps	786
	2004-82C**	35,220	5/2004	10/2034	4.164%	61% of 1-month LIBOR + 39bps	(1)
	2005-88B	53,955	5/2005	10/2035	3.500%	61% of 1-month LIBOR + 39bps	1,318
	2005-88C**	31,930	5/2005	10/2035	3.975%	61% of 1-month LIBOR + 39bps	561
	2006-93B	37,185	5/2006	4/2037	4.266%	61% of 1-month LIBOR + 39bps	(390)
	2007-98C**	41,955	5/2007	10/2037	4.105%	61% of 1-month LIBOR + 39bps	678
Royal Bank AA-/Aaa	MF2005-K**	26,885	3/2005	1/2036	5.183%	1-month LIBOR	964

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

** Indicates an embedded option to reduce the notional amount without a payment to the counterparty.

LIBOR = London Interbank Offered Rate

bps = Basis points.

Basis, Interest Rate and Termination Risks

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

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Credit Risk

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

Rollover Risk

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

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

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2007 and 2006

(in thousands of dollars)

I. Advances Receivable, Payable and Transfers

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

Advance payable fund:

Multifamily Program	\$ 2,366
Single Family Program	20,398
HEMAP	1,309
Total	<u>\$ 24,073</u>

Advance receivable fund:

General fund	<u>\$ 24,073</u>
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Interfund transfers in:

Multifamily Program	\$ 543
Single Family Program	39,815
	<u>\$ 40,358</u>

Interfund transfers out:

General fund	<u>\$ 40,358</u>
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Advances and the subsequent transfers are used to (1) move funds between the General Fund and the other funds of the Agency for financing mortgage related activities, subsidize debt service payments and other operating advances, (2) to move general Agency revenue to the General Fund from the other funds, and (3) to reimburse the General Fund from the other funds for expenditures paid on behalf of the other funds by the General Fund.

J. Long-Term Liabilities

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

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2007 and 2006

(in thousands of dollars)

K. Net Assets

Invested in Capital Assets, net of related debt

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

Restricted Net Assets

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

Unrestricted Net Assets

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

General Fund

The net assets of the General Fund are not restricted under the terms of the various bond resolutions and can be used by the Agency for any purpose authorized by the Act. The Agency has internally designated a portion of the General Fund unrestricted net assets as follows:

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

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

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

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

PENNSYLVANIA HOUSING FINANCE AGENCY

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

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

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

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

Multifamily Program

Restrictions on the Multifamily Program net assets are as follows:

	June 30, 2007	June 30, 2006
Net assets restricted by debt covenants	<u>\$ 1,960</u>	<u>\$ 1,960</u>

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

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

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

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

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

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

Preservation is a joint venture with the National Housing Trust to preserve and improve affordable multifamily homes for low and moderate-income use. The program saves multifamily developments, which are at risk of conversion to market rate housing, and resolves the problems of "troubled" properties that suffer from physical deterioration and financial and social distress.

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Notes to Financial Statements

June 30, 2007 and 2006

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Single Family Program

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

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Net assets restricted by debt covenants	\$ 81,100	\$ 88,166

Net assets restricted by debt covenants are required under certain bond indentures, whose proceeds are used to fund the Agency's Single Family loan programs, including the Single Family Insurance Fund which has been established at not less than 1% of anticipated mortgages to be originated on Issues I and subsequent issues, and held by a trustee.

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

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Closing Cost Subsidy Program	\$ 14,750	\$ 14,750
Additional Single Family Insurance Program	2,455	2,455
	<u>\$ 17,205</u>	<u>\$ 17,205</u>

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

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

Insurance Fund

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

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Risk retention	\$ 45,009	\$ 41,527

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

HEMAP

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

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Emergency Mortgage Assistance Program	\$ 43,760	\$ 44,402

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

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June 30, 2007 and 2006

(in thousands of dollars)

L. Pension Plans

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

Plan Descriptions

Full-time employees become eligible for participation in the Plan after completion of one year of service. A participant's benefits vest upon the completion of five years of service. Under the provisions of the Plan, participants with prior military service may receive credit for their time of service providing they contribute funds equivalent to the cost of their pension benefits accumulated during their military service. A participant is eligible for normal retirement after attainment of age 65, or age 55 and completion of 30 years of service, or at any age after completion of 35 years of service. The Plan also provides early and late retirement provisions and death and disability benefits. The normal retirement pension is payable monthly during the participant's lifetime with payments ceasing upon the participant's death.

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

Funding Policy

Contribution requirements of the Plan and Excess Plan are established and may be amended by the Members of the Board. The Plan's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due.

Annual Pension Cost and Net Pension Obligation

The Agency's annual pension cost and net pension obligation to the Plan are as follows:

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

The Agency's contribution to the Plan and Excess Plan is shown in the following schedule and exceeded the actuarial required and actual contribution. The actuarial required contribution was computed as part of an actuarial valuation as of January 01, 2007, using the aggregate actuarial cost method. Significant actuarial assumptions used in the valuation include (a) a rate of return on

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present and future assets of 7.5% per year compounded annually and (b) projected salary increases of 4.5% per year. Both (a) and (b) include an unstated moderate inflation component based on long-term historical average rates. The actuarial value of assets is determined using market values determined by the trustee.

Three-Year Trend Information for the Plan:

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

M. Contingencies and Commitments

Contingent Liabilities

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

Commitments

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

Litigation

In the normal course of business, there are various claims and suits pending against the Agency. In the opinion of the Agency's management and counsel, the amount of such losses that might result from these claims and suits, if any, would not materially affect the Agency's financial position.

Risk Management

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

N. Subsequent Events

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

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

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99D and receive from the counterparty a variable rate equal to 69% of one-month LIBOR and one-month LIBOR, respectively, for Series 2007-99C and Series 2007-99D.

PENNSYLVANIA HOUSING FINANCE AGENCY**Required Supplemental Information (Unaudited)****June 30, 2007 and 2006***(in thousands of dollars)***Schedule of Retirement Plan Funding Progress**

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

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