

PENNSYLVANIA HOUSING FINANCE AGENCY

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

JUNE 30, 2008 AND 2007

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Report of Independent Auditors

Members of the Board of Directors
Pennsylvania Housing Finance Agency

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

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

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

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

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

Management's Discussion and Analysis, the Schedule of Retirement Plan Funding Progress, and the Schedule of Funding Progress for the Postemployment Healthcare Plan on pages 7 through 10 and 45 through 46, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

September 30, 2008

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

Members of the Board of Directors
Pennsylvania Housing Finance Agency

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

Internal control over financial reporting

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

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

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

FINDING FS-2008-1

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

reflecting a more accurate or collectible amount of assets relating to loans receivable on its financial statements and improve the design of the PHFA's internal control over financial reporting.

Auditee Position

Agree.

Explanation and Corrective Action to Be Taken

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

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

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

Timetable for Implementation

Immediately.

Monitoring to Be Performed

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

Responsible Person(s)

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

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

control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and other matters

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

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

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

Ernst & Young LLP

September 30, 2008

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis

Years Ended June 30, 2008 and 2007

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, 2008 with selected comparative information for the fiscal year ended June 30, 2007 and 2006. It provides the financial highlights and assessments that, in management's view, significantly affected the Agency's overall financial position. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow this section.

BASIC FINANCIAL STATEMENTS

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

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

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

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

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis

Years Ended June 30, 2008 and 2007

FINANCIAL ANALYSIS

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

Changes in Financial Position

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

<i>(in thousands of dollars)</i>	June 30, 2008	June 30, 2007	June 30, 2006	Percentage Change 2008/2007	Percentage Change 2007/2006
Assets:					
Mortgage loans receivable, net	\$ 4,281,078	\$ 3,859,214	\$ 3,368,407	10.9%	14.6%
Capital assets, net	34,838	35,411	35,434	-1.6%	-0.1%
Other assets	1,083,621	1,192,595	1,070,958	-9.1%	11.4%
Total assets	\$ 5,399,537	\$ 5,087,220	\$ 4,474,799	6.1%	13.7%
Liabilities:					
Long-term liabilities	4,410,731	4,081,045	3,550,821	8.1%	14.9%
Other liabilities	244,973	294,438	256,229	-16.8%	14.9%
Total liabilities	\$ 4,655,704	\$ 4,375,483	\$ 3,807,050	6.4%	14.9%
Net assets:					
Invested in capital assets, net of related debt	\$ 14,914	\$ 15,456	\$ 15,488	-3.5%	-0.2%
Restricted	84,185	83,060	90,126	1.4%	-7.8%
Unrestricted	644,734	613,221	562,135	5.1%	9.1%
Total net assets	\$ 743,833	\$ 711,737	\$ 667,749	4.5%	6.6%
Statement of Revenues, Expenses and Changes in Net Assets:					
<i>(in thousands of dollars)</i>	June 30, 2008	June 30, 2007	June 30, 2006	Percentage Change 2008/2007	Percentage Change 2007/2006
Operating revenues:					
Interest on mortgage loans	\$ 201,535	\$ 181,445	\$ 158,181	11.1%	14.7%
Federal program awards	461,231	311,745	289,228	48.0%	7.8%
Other income	46,791	41,917	72,171	11.6%	-41.9%
Total operating revenue	709,557	535,107	519,580	32.6%	3.0%
Operating expense	718,314	535,177	485,656	34.2%	10.2%
Non-operating expense (revenue)	(40,853)	(44,058)	16,300	-7.3%	-370.3%
Change in net assets	\$ 32,096	\$ 43,988	\$ 17,624	-27.0%	149.6%

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis

Years Ended June 30, 2008 and 2007

Financial Highlights

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

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

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

Loan Portfolios

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

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis

Years Ended June 30, 2008 and 2007

Long-Term Debt Activity

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

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

Change in Net Assets

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

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Balance Sheets

June 30, 2008 and 2007

(in thousands of dollars)

	2008							2007						
	General	Multifamily	Single Family	Insurance	Subtotal	HEMAP	Totals	General	Multifamily	Single Family	Insurance	Subtotal	HEMAP	Totals
	Fund	Program	Program	Fund				Fund	Program	Program	Fund			
Assets														
Current Assets:														
Cash and cash equivalents	\$ 39,279	\$ 199,021	\$ 374,682	\$ 25,778	\$ 638,760	\$ 205	\$ 638,965	\$ 14,965	\$ 273,987	\$ 427,526	\$ 32,692	\$ 749,170	\$ -	\$ 749,170
Investments	4,086	4,135	1,999	-	10,220	-	10,220	9,244	2,218	23,652	-	35,114	-	35,114
Accrued interest receivable on investments	263	973	1,527	218	2,981	-	2,981	503	655	3,357	131	4,646	-	4,646
Mortgage loans receivable, net	-	28,496	64,270	-	92,766	6,404	99,170	-	27,507	57,271	-	84,778	6,335	91,113
Advances to other funds	14,512	-	-	-	14,512	-	14,512	24,073	-	-	-	24,073	-	24,073
Total current assets	<u>58,140</u>	<u>232,625</u>	<u>442,478</u>	<u>25,996</u>	<u>759,239</u>	<u>6,609</u>	<u>765,848</u>	<u>48,785</u>	<u>304,367</u>	<u>511,806</u>	<u>32,823</u>	<u>897,781</u>	<u>6,335</u>	<u>904,116</u>
Noncurrent assets:														
Restricted cash and cash equivalents	-	3,838	80,347	-	84,185	-	84,185	-	1,960	81,100	-	83,060	-	83,060
Investments	39,112	65,480	185,773	23,640	314,005	-	314,005	63,030	48,129	154,476	13,054	278,689	-	278,689
Mortgage loans receivable, net	-	533,797	3,605,821	-	4,139,618	42,290	4,181,908	-	522,433	3,203,719	-	3,726,152	41,949	3,768,101
Capital assets, net	34,815	-	-	-	34,815	23	34,838	35,377	-	-	-	35,377	34	35,411
Deferred assets	4,093	7,662	6,993	-	18,748	5	18,753	2,280	10,091	5,466	-	17,837	6	17,843
Total noncurrent assets	<u>78,020</u>	<u>610,777</u>	<u>3,878,934</u>	<u>23,640</u>	<u>4,591,371</u>	<u>42,318</u>	<u>4,633,689</u>	<u>100,687</u>	<u>582,613</u>	<u>3,444,761</u>	<u>13,054</u>	<u>4,141,115</u>	<u>41,989</u>	<u>4,183,104</u>
Total assets	<u>\$ 136,160</u>	<u>\$ 843,402</u>	<u>\$ 4,321,412</u>	<u>\$ 49,636</u>	<u>\$ 5,350,610</u>	<u>\$ 48,927</u>	<u>\$ 5,399,537</u>	<u>\$ 149,472</u>	<u>\$ 886,980</u>	<u>\$ 3,956,567</u>	<u>\$ 45,877</u>	<u>\$ 5,038,896</u>	<u>\$ 48,324</u>	<u>\$ 5,087,220</u>
Liabilities														
Current liabilities:														
Bonds and notes payable	\$ -	\$ 27,850	\$ 88,390	\$ -	\$ 116,240	\$ -	\$ 116,240	\$ -	\$ 27,238	\$ 137,455	\$ -	\$ 164,693	\$ -	\$ 164,693
Accrued interest payable	387	5,936	41,550	-	47,873	-	47,873	392	6,253	37,648	-	44,293	-	44,293
Accounts payable and accrued expenses	3,321	79	1,014	301	4,715	501	5,216	3,222	11	899	258	4,390	780	5,170
Escrow	-	16,274	44,858	-	61,132	-	61,132	-	40,501	15,708	-	56,209	-	56,209
Advances from other funds	-	206	11,500	-	11,706	2,806	14,512	-	2,366	20,398	-	22,764	1,309	24,073
Total current liabilities	<u>3,708</u>	<u>50,345</u>	<u>187,312</u>	<u>301</u>	<u>241,666</u>	<u>3,307</u>	<u>244,973</u>	<u>3,614</u>	<u>76,369</u>	<u>212,108</u>	<u>258</u>	<u>292,349</u>	<u>2,089</u>	<u>294,438</u>
Noncurrent liabilities:														
Bonds and notes payable	19,924	295,703	3,809,363	-	4,124,990	-	4,124,990	19,921	324,207	3,467,735	-	3,811,863	-	3,811,863
Escrow and other noncurrent liabilities	4,163	255,566	21,908	1,037	282,674	3,067	285,741	1,791	222,974	41,332	610	266,707	2,475	269,182
Total noncurrent liabilities	<u>24,087</u>	<u>551,269</u>	<u>3,831,271</u>	<u>1,037</u>	<u>4,407,664</u>	<u>3,067</u>	<u>4,410,731</u>	<u>21,712</u>	<u>547,181</u>	<u>3,509,067</u>	<u>610</u>	<u>4,078,570</u>	<u>2,475</u>	<u>4,081,045</u>
Total liabilities	<u>27,795</u>	<u>601,614</u>	<u>4,018,583</u>	<u>1,338</u>	<u>4,649,330</u>	<u>6,374</u>	<u>4,655,704</u>	<u>25,326</u>	<u>623,550</u>	<u>3,721,175</u>	<u>868</u>	<u>4,370,919</u>	<u>4,564</u>	<u>4,375,483</u>
Net Assets														
Invested in capital assets, net of related debt	14,891	-	-	-	14,891	23	14,914	15,456	-	-	-	15,456	-	15,456
Restricted by debt covenants	-	3,838	80,347	-	84,185	-	84,185	-	1,960	81,100	-	83,060	-	83,060
Unrestricted	93,474	237,950	222,482	48,298	602,204	42,530	644,734	108,690	261,470	154,292	45,009	569,461	43,760	613,221
Total net assets	<u>108,365</u>	<u>241,788</u>	<u>302,829</u>	<u>48,298</u>	<u>701,280</u>	<u>42,553</u>	<u>743,833</u>	<u>124,146</u>	<u>263,430</u>	<u>235,392</u>	<u>45,009</u>	<u>667,977</u>	<u>43,760</u>	<u>711,737</u>
Total liabilities and net assets	<u>\$ 136,160</u>	<u>\$ 843,402</u>	<u>\$ 4,321,412</u>	<u>\$ 49,636</u>	<u>\$ 5,350,610</u>	<u>\$ 48,927</u>	<u>\$ 5,399,537</u>	<u>\$ 149,472</u>	<u>\$ 886,980</u>	<u>\$ 3,956,567</u>	<u>\$ 45,877</u>	<u>\$ 5,038,896</u>	<u>\$ 48,324</u>	<u>\$ 5,087,220</u>

The accompanying notes are an integral part of these financial statements

PENNSYLVANIA HOUSING FINANCE AGENCY
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2008 and 2007

(in thousands of dollars)

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

The accompanying notes are an integral part of these financial statements

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

(in thousands of dollars)

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

The accompanying notes are an integral part of these financial statements

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

(in thousands of dollars)

	2008							2007						
	General	Multifamily	Single Family	Insurance	Subtotal	HEMAP	Totals	General	Multifamily	Single Family	Insurance	Subtotal	HEMAP	Totals
	Fund	Program	Program	Fund				Fund	Program	Program	Fund			
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:														
Operating income (loss)	\$ 1,872	\$ 7,438	\$ (16,422)	\$ (287)	\$ (7,399)	\$ (1,358)	\$ (8,757)	\$ 2,559	\$ 13,839	\$ (15,728)	\$ 51	\$ 721	\$ (791)	\$ (70)
Interest expense on bonds	788	17,079	180,595	-	198,462	-	198,462	825	14,854	156,738	-	172,417	-	172,417
Provision for loan loss	-	8,042	1,400	-	9,442	8,765	18,207	-	6,200	1,600	-	7,800	7,711	15,511
Depreciation, amortization and accretion	1,317	-	-	-	1,317	13	1,330	1,333	-	-	-	1,333	10	1,343
Changes in assets and liabilities:														
Mortgage loans receivable, net	-	(20,395)	(410,501)	-	(430,896)	(9,175)	(440,071)	-	(9,290)	(488,701)	-	(497,991)	(8,363)	(506,354)
Accrued interest receivable on investments	240	(318)	1,830	(87)	1,665	-	1,665	609	2,759	6,971	(27)	10,312	35	10,347
Deferred and other assets	(1,813)	2,429	(1,527)	-	(911)	1	(910)	1,365	83	(947)	1	502	43	545
Accounts payable and accrued expenses	99	68	115	43	325	(279)	46	(312)	-	2,872	152	2,712	26	2,738
Escrow and other liabilities	2,372	8,365	9,726	427	20,890	592	21,482	1,487	10,437	26	-	11,950	-	11,950
Net cash provided by (used in) operating activities	<u>\$ 4,875</u>	<u>\$ 22,708</u>	<u>\$ (234,784)</u>	<u>\$ 96</u>	<u>\$ (207,105)</u>	<u>\$ (1,441)</u>	<u>\$ (208,546)</u>	<u>\$ 7,866</u>	<u>\$ 38,882</u>	<u>\$ (337,169)</u>	<u>\$ 177</u>	<u>\$ (290,244)</u>	<u>\$ (1,329)</u>	<u>\$ (291,573)</u>

The accompanying notes are an integral part of these financial statements

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008 and 2007

(in thousands of dollars)

1. Description of the Agency

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

Reporting Entity

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008 and 2007

(in thousands of dollars)

Description of Funds

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

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

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

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

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

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

Cash and Cash Equivalents

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

Investments

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

Mortgage Loans Receivable

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008 and 2007

(in thousands of dollars)

Allowance for Potential Loan Losses

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

Capital Assets

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

Real Estate Owned

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

Derivative Financial Instruments

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

Advances To and From Other Funds and Interfund Transfers

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

Operating and Nonoperating Revenues and Expenses

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

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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008 and 2007

(in thousands of dollars)

Multifamily and Single Family Program loans more than 180 days delinquent in scheduled payments are considered nonperforming loans which result in the cessation of recognition of additional interest on such loans.

Pass-through Grants

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

Debt Issuance Costs, Bond Discounts and Other Bond Related Costs

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

Pension Plan and Other Post Employment Benefits

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

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

Compensated Absences

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

Net Assets

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

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008 and 2007

(in thousands of dollars)

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

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

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

Pending Governmental Accounting Standards Board Pronouncements

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

Recently Adopted Accounting Standards

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

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

Reclassifications

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008 and 2007

(in thousands of dollars)

3. Deposits and Investments

Deposits

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

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

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

Custodial Credit Risk

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

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

Investments

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

Interest Rate Risk

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008 and 2007

(in thousands of dollars)

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

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

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

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

Credit Risk

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

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

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

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

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Concentration of Credit Risk

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

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

Custodial Credit Risk

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

4. Mortgage Loans Receivable

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

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

Multifamily mortgage loans receivable are collateralized by first mortgages on the related properties. The federal government provides insurance to certain developments included in the Multifamily program, as well as subsidizes certain developments through its Section 8 Program. Construction advances are recorded as mortgage loans receivable. Amortization of the advances

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

The Agency provides primary mortgage insurance coverage for certain single-family mortgage loans through the Insurance Fund, which ranges from 20% to 30% (depending on the loan-to-value ratio at origination) of the unpaid principal balance. At June 30, 2008 and 2007, the total loans covered under this program were \$52,518 and \$65,742, respectively.

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

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

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

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

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

5. Servicing Portfolio

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

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*(in thousands of dollars)***6. Capital Assets**

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

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

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

	Beginning Balance July 1, 2006	Additions	Deletions	Ending Balance June 30, 2007
Non depreciable capital assets:				
Land	\$ 2,060	\$ 394	\$ -	\$ 2,454
Total non depreciable capital assets	<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 June 30, 2008 and 2007 totaled \$1,328 and \$1,343, respectively.

7. Bonds and Notes Payable

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

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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,	
		2008	2007
Variable Rate Building Development Bonds	2034	\$ 20,000	\$ 20,000
Unamortized bond discount		(76)	(79)
Total bonds payable		19,924	19,921
Less current portion		-	-
Long-term portion		<u>\$ 19,924</u>	<u>\$ 19,921</u>

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

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

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

Description of Bonds and Notes as Issued	Final Maturity Date	Amounts Outstanding June 30,	
		2008	2007
Single Family Mortgage Revenue			
Series 1996 - 47, 4.20-6.75%	2027	\$ 4,100	\$ 5,290
Series 1996 - 52, 4.40-7.00%	2027	-	1,560
Series 1996 - 53, 4.20-6.15%	2027	-	1,545
Series 1997 - 54, 5.37-7.22%	2028	870	2,790
Series 1997 - 55, 3.70-5.75%	2013	-	2,145
Series 1997 - 56, 4.00-6.15%	2028	-	2,015
Series 1997 - 57, 4.30-6.15%	2029	-	1,015
Series 1997 - 58, 4.30-7.81%	2028	1,795	2,665
Series 1997 - 59, 4.00-5.15%	2029	1,360	7,655
Series 1997 - 60, 4.00-7.69%	2028	1,900	2,320
Series 1997 - 61, 4.00-6.80%	2029	39,540	47,955
Series 1998 - 62, 4.25-6.40%	2029	50,385	51,035
Series 1998 - 63, 3.95-5.50%	2030	50,178	53,949
Series 1998 - 64, 3.65-5.25%	2030	51,767	52,910
Series 1999 - 65, 3.25-5.25%	2030	50,270	54,605
Series 1999 - 66, 4.05-6.95%	2031	29,040	41,165
Series 1999 - 67, 4.05-7.51%	2030	37,380	43,270
Series 1999 - 68, 4.30-7.02%	2031	21,910	26,230
Series 2000 - 69, 4.35-6.25%	2031	36,125	36,960
Series 2000 - 70, 4.30-5.90%	2032	35,165	36,780
Series 2001 - 72, 3.25-5.35%	2032	157,970	167,580
Series 2002 - 73, 1.75-5.45%	2033	127,515	155,110
Series 2002 - 74, variable rate	2032	98,530	98,920
Series 2002 - 75, variable rate	2033	90,555	92,535
Series 2003 - 77, variable rate	2033	82,405	87,900
Series 2003 - 78, variable rate	2025	59,885	67,345
Draw Down Series 2003, variable rate	2008	-	60,000
Series 2003 - 79, variable rate	2034	81,765	88,050
Series 2003 - 80, variable rate	2024	-	3,855
Series 2004 - 81, variable rate	2034	87,610	91,155
Series 2004 - 82, variable rate	2034	85,835	90,855
Series 2004 - 83, variable rate	2035	85,540	118,610
Series 2004 - 84, variable rate	2034	88,650	92,980
Series 2004 - 85, variable rate	2035	88,860	92,565
Series 2004 - 86, variable rate	2035	96,185	98,835
Series 2005 - 87, variable rate	2035	93,020	96,590
Series 2005 - 88, variable rate	2037	91,170	96,565
Series 2005 - 89, variable rate	2035	115,780	120,130

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Description of Bonds and Notes as Issued	Final Maturity Date	Amounts Outstanding June 30,	
		2008	2007
Series 2005 - 90, variable rate	2036	120,320	123,090
Series 2005 - 91, variable rate	2036	122,805	154,020
Series 2006 - 92, variable rate	2036	123,635	124,825
Series 2006 - 93, variable rate	2037	117,700	123,475
Series 2006 - 94, variable rate	2037	117,850	123,800
Series 2006 - 95, variable rate	2037	187,570	198,195
Series 2006 - 96, 3.60-5.72%	2037	188,870	194,975
Series 2007 - 97, variable rate	2037	197,510	199,415
Series 2007 - 98, variable rate	2037	196,855	199,240
Series 2007 - 99, variable rate	2038	198,950	-
Series 2007 - 100, variable rate	2038	199,975	-
Series 2007 - 101, variable rate	2038	59,625	-
Series 2007 - 102, variable rate	2038	150,000	-
Note Purchase Agreement - 2.5%	2017	2,500	-
		<u>3,927,225</u>	<u>3,634,474</u>
Unamortized bond discount		(11,823)	(9,549)
Unamortized deferred loss of refundings		(17,649)	(19,735)
Total bonds and notes payable		<u>3,897,753</u>	<u>3,605,190</u>
Less current portion		88,390	137,455
Long-term portion		<u>\$ 3,809,363</u>	<u>\$ 3,467,735</u>

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

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

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Early Extinguishment of Debt

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

Current Refundings

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

Advance Refunding

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

Conduit Debt Obligations

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

Bond Covenants

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

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Note Purchase Agreement

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

8. Long-Term Liabilities

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

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

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

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

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9. Restricted and Unrestricted Net Assets

General Fund

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

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

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

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

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

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

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

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

Multifamily Program

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

	June 30,	
	2008	2007
Net assets restricted by debt covenants	<u>\$ 3,838</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.

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

	June 30,	
	2008	2007
PennHOMES Program	\$ 137,000	\$ 137,000
Senior Housing with Supportive Services	4,000	4,000
Supportive Services	2,300	2,300
Preservation	3,000	3,000
	<u>\$ 146,300</u>	<u>\$ 146,300</u>

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

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

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

Single Family Program

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

	June 30,	
	2008	2007
Net assets restricted by debt covenants	<u>\$ 80,347</u>	<u>\$ 81,100</u>

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.

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June 30, 2008 and 2007

(in thousands of dollars)

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

	June 30,	
	2008	2007
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 program assists qualified single-family homebuyers with the initial costs incurred at the inception of a mortgage.

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

Insurance Fund

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

	June 30,	
	2008	2007
Risk Retention	\$ 48,298	\$ 45,009

Risk Retention provides private single-family mortgage insurance.

HEMAP

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

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

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

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(in thousands of dollars)

10. Pension Plans

Plan Description

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

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

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

Funding Policy

The Plan's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due.

Annual Pension Cost and Net Pension Asset

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

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

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Notes to Financial Statements

June 30, 2008 and 2007

(in thousands of dollars)

Three-Year Trend Information for the Plan:

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

Funded Status and Funding Progress

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

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

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

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

Actuarial valuation dates	January 01, 2008 and 2007
Actuarial cost method	Aggregate*
Asset valuation method	Market value as determined by the trustee

Actuarial assumptions:

Investment rate of return**	7.5%
Projected salary increases**	4.5%

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

**Includes moderate inflation rate assumption.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements presents multiyear trend information about whether the

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008 and 2007

(in thousands of dollars)

actuarial value of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

11. Postemployment Benefits Other Than Pensions

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

Plan Description

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

Funding Policy

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

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

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

Annual OPEB Cost and Net OPEB Obligation

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

PENNSYLVANIA HOUSING FINANCE AGENCY

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June 30, 2008 and 2007

(in thousands of dollars)

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

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

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation - End of Year</u>
June 30, 2008	\$ 3,363	10.0%	\$ 3,041

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

Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$28,071, resulting in an unfunded actuarial accrued liability (UAAL) of \$28,072. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$13,382, and the ratio of the UAAL to the covered payroll equaled 209.8%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008 and 2007

(in thousands of dollars)

Actuarial Methods and Assumptions

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

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

SCHEDULE OF FUNDING PROGRESS FOR THE POSTEMPLOYMENT HEALTHCARE PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/(c))
07/01/2007	\$ -	\$ 28,072	\$ 28,072	0.0%	\$ 13,382	209.8%

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

12. Interest Rate Swaps

Swap Objectives

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008 and 2007

(in thousands of dollars)

Swap Payments

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

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

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

Fair Value

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

Credit Risk

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008 and 2007

(in thousands of dollars)

Significant Terms

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

Counter-Party and Rating*	Bond Issue	Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received	Fair Value of Contract
Goldman Sachs	1999-67B	\$ 19,885	8/2002	4/2029	5.950%	1-month LIBOR plus 50bps	\$ (2,061)
AAA/Aaa	2001-72C	20,210	9/2001	10/2023	5.695%	1-month LIBOR	(1,327)
	RHR2002A**	55,765	7/2002	1/2021	3.575%	67% of 1-week LIBOR	(2,814)
	RHR2002B**	18,520	7/2002	1/2021	3.575%	67% of 1-week LIBOR	-
	2002-74A	30,000	8/2002	10/2032	4.285%	67% of 1-month LIBOR	(1,556)
	2003-77B**	59,900	9/2003	10/2033	4.060%	67% of 1-month LIBOR	(1,460)
	2003-77C	13,075	9/2003	4/2012	2.690%	67% of 1-month LIBOR	(103)
	2004-81B	9,262	4/2004	4/2013	2.365%	67% of 1-month LIBOR	(10)
	2004-81C**	62,740	4/2004	10/2034	3.557%	67% of 1-month LIBOR	(46)
	2004-84C	15,365	9/2004	4/2018	3.115%	67% of 1-month LIBOR	(174)
	2004-84D**	58,335	9/2004	10/2034	3.879%	67% of 1-month LIBOR	(1,164)
	2004-86B**	68,120	11/2004	10/2033	3.417%	67% of 1-month LIBOR	(1,088)
	2004-86C**	19,790	12/2004	10/2035	4.125%	67% of 1-month LIBOR	(95)
	2005-89**	115,215	6/2005	10/2035	3.605%	67% of 1-month LIBOR	(1,030)
	2005-91B	70,000	12/2005	10/2036	3.953%	67% of 1-month LIBOR	(2,129)
	2006-94B	35,165	7/2006	4/2027	4.152%	69% of 1-month LIBOR	(2,365)
	2007-99C	15,000	9/2007	10/2023	3.885%	69% of 1-month LIBOR	(865)
	2007-99D	69,255	9/2007	4/2015	5.149%	1-mth LIBOR rounded up .001%	(3,258)
UBS AG	2000-70B	5,545	4/2001	4/2011	6.927%	1-month LIBOR	260
AA-/Aa1	2002-73C	5,270	3/2002	4/2010	5.017%	1-month LIBOR	107
	2002-75A	30,000	12/2002	10/2032	3.957%	70% of 1-month LIBOR	313
	2003-79B**	57,350	12/2003	10/2033	3.997%	65% of 1-month LIBOR + 25bps	3,114
	2004-83B	26,815	8/2004	10/2019	3.410%	65% of 1-month LIBOR + 25bps	462
	2004-83C**	42,905	8/2004	10/2035	4.060%	65% of 1-month LIBOR + 25bps	2,001
	2004-85B	26,505	11/2004	4/2019	3.168%	65% of 1-month LIBOR + 25bps	(116)
	2004-85C**	44,645	11/2004	10/2035	3.879%	65% of 1-month LIBOR + 25bps	1,687
	2005-87B	40,440	3/2005	10/2023	3.460%	65% of 1-month LIBOR + 25bps	680
	2005-87C**	47,300	3/2005	10/2035	3.882%	65% of 1-month LIBOR + 25bps	1,358
	2005-90C**	60,820	9/2005	4/2036	3.692%	65% of 1-month LIBOR + 25bps	82
	2006-92B**	42,870	3/2006	10/2036	3.996%	65% of 1-month LIBOR + 25bps	1,234
	2006-95C**	39,180	9/2006	4/2026	4.115%	65% of 1-month LIBOR + 25bps	1,609
	2007-97D1	26,610	3/2007	10/2014	4.922%	1-month LIBOR	927
	2007-97D2	12,710	3/2007	4/2012	4.862%	1-month LIBOR	383
	2007-100C	40,000	12/2007	4/2038	4.136%	65% of 1-month LIBOR + 25bps	4,524
	2007-100D	59,230	12/2007	10/2013	4.471%	1-month LIBOR	1,584

PENNSYLVANIA HOUSING FINANCE AGENCY

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(in thousands of dollars)

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/NR	RHR2003A**	54,455	6/2003	7/2020	3.457%	70% of 1-month LIBOR	1,647
	RHR2003B**	54,455	6/2003	7/2020	3.547%	70% of 1-month LIBOR	1,901
Lehman NR/Aaa	MF2003	18,870	6/2003	4/2019	3.860%	1-month LIBOR + 15bps	(397)
PNC Bank AA-/Aa3	VRBD2004	20,000	2/2004	1/2034	3.945%	65% of 1-month LIBOR + 25bps	(192)
Merrill Lynch A/A1	2004-82B	45,390	5/2004	10/2030	3.643%	61% of 1-month LIBOR + 39bps	(860)
	2004-82C**	35,220	5/2004	10/2034	4.164%	61% of 1-month LIBOR + 39bps	(1,088)
	2005-88B	51,910	5/2005	10/2035	3.500%	61% of 1-month LIBOR + 39bps	(711)
	2005-88C**	31,930	5/2005	10/2035	3.975%	61% of 1-month LIBOR + 39bps	(401)
	2006-93B	37,185	5/2006	4/2037	4.266%	61% of 1-month LIBOR + 39bps	(2,062)
	2007-98C**	41,955	5/2007	10/2037	4.105%	61% of 1-month LIBOR + 39bps	(1,017)
RBC Capital Markets AA-/Aaa	MF2005-K**	26,350	3/2005	1/2036	5.183%	1-month LIBOR	(1,526)

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

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

LIBOR = London Interbank Offered Rate

bps = Basis points.

Basis, Interest Rate and Termination Risks

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

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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008 and 2007

(in thousands of dollars)

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

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

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

13. Advances Receivable, Payable and Transfers

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

Advance payable fund:

Multifamily Program	\$ 206
Single Family Program	11,500
HEMAP	2,806
Total	<u>\$ 14,512</u>

Advance receivable fund:

General fund	<u>\$ 14,512</u>
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Interfund transfers in:

Single Family Program	<u>\$ 55,610</u>
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Interfund transfers out:

General fund	\$ 22,267
Multifamily Program	33,343
	<u>\$ 55,610</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2008 and 2007

(in thousands of dollars)

14. 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 \$2,890 and \$48,333, respectively, at June 30, 2008.

Litigation

In the normal course of business, there are various claims or suits pending against the Agency. In the opinion of Agency management and counsel, the amount of such losses that might result from these claims or 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. There have been no significant reductions in insurance coverage from the prior year, and settlements have not exceeded insurance coverage during the past three years.

15. Subsequent Events

On August 15, 2008, the Agency issued \$183,090 of Single Family Mortgage Revenue Bonds, Series 103A through 103C. These 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 October 1, 2038. The bonds will be primarily secured by program obligations consisting of qualifying single-family mortgage loans purchased from bond proceeds.

Due to recent events in the credit markets, certain counterparties with which PHFA has or had a financial relationship were either sold to or merged with another entity, or the counterparty declared bankruptcy. As a result, the following financial transactions were affected:

- PHFA maintains interest rate swap agreements with various counterparties. Bear Stearns was bought by JP Morgan Chase, the relationship is continuing, and the agreement is unaffected with this entity.
- Lehman Brothers filed for bankruptcy, which triggered an interest rate swap termination event. As a result, the fair value of the swap agreement was \$283, as of September 16, 2008, and currently is due to PHFA.
- PHFA has investments in mortgage-backed securities with the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). FNMA and FHLMC were put under conservatorship of the federal government on September 7, 2008.

Required Supplemental Information

PENNSYLVANIA HOUSING FINANCE AGENCY

Required Supplemental Information (Unaudited)

June 30, 2008

*(in thousands of dollars)***SCHEDULE OF RETIREMENT PLAN FUNDING PROGRESS**

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

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

Valuation date	January 01, 2008
Actuarial cost method	Aggregate
Amortization method	*
Remaining amortization period	*
Amortization period open or closed	*
Asset valuation method	Market Value as determined by the Trustee

Actuarial assumptions:

Investment rate of return	7.5%
Projected salary increases	4.5%
Includes inflation at:	Moderate rate based on historical averages
Post-retirement benefit increases	none

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Required Supplemental Information (Unaudited)

June 30, 2008

(in thousands of dollars)

**SCHEDULE OF FUNDING PROGRESS FOR THE POSTEMPLOYMENT
HEALTHCARE PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/(c)
07/01/2007	\$ -	\$ 28,072	\$ 28,072	0.0%	\$ 13,382	209.8%

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