

PENNSYLVANIA HOUSING FINANCE AGENCY

Basic Financial Statements and  
Required Supplementary Information

Years Ended June 30, 2009 and 2008  
With Report of Independent Auditors

**PENNSYLVANIA HOUSING FINANCE AGENCY**  
Basic Financial Statements and Required Supplementary Information  
Years Ended June 30, 2009 and 2008

---

Contents

Report of Independent Auditors.....	1
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	3
Management’s Discussion and Analysis ( <i>Unaudited</i> ).....	5
Audited Basic Financial Statements	
Balance Sheets .....	11
Statements of Revenues, Expenses and Changes in Net Assets .....	12
Statements of Cash Flows.....	13
Notes to Financial Statements.....	15
Required Supplementary Information ( <i>Unaudited</i> )	
Schedule of Retirement Plan Funding Progress.....	46
Schedule of Funding Progress for the Postemployment Healthcare Benefits Plan .....	47

## 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, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund and Homeowners Emergency Mortgage Assistance Program (“HEMAP”) as of and for the years ended June 30, 2009 and 2008, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund and HEMAP of PHFA as of June 30, 2009 and 2008, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 14 and 15, as of July 1, 2007, PHFA adopted Governmental 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 Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2009 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 Benefits Plan on pages 5 through 10 and 45 through 46, respectively, are not a required part of the basic financial statements but are supplementary information required by the GASB. 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*

October 5, 2009

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, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund and Homeowners Emergency Mortgage Assistance Program (“HEMAP”) as of and for the year ended June 30, 2009, 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 October 5, 2009. 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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of PHFA’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PHFA’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

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

### **Compliance and other matters**

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

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

*Ernst + Young LLP*

October 5, 2009

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Management's Discussion and Analysis (*Unaudited*)

Years Ended June 30, 2009 and 2008

---

### **Introduction**

This discussion and analysis of the financial performance of the Pennsylvania Housing Finance Agency (the "Agency") is required supplementary information. It introduces the financial statements for the year ended June 30, 2009 with selected comparative information for the years ended June 30, 2008 and 2007. 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 the Agency's primary business of funding homes and apartments throughout the Commonwealth of Pennsylvania. Nonoperating revenues and expenses are those that do not contribute directly to the Agency's 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 operating, 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, contingencies and developing events that could materially affect the Agency's financial position are disclosed.

**PENNSYLVANIA HOUSING FINANCE AGENCY**Management's Discussion and Analysis (*Unaudited*)

Years Ended June 30, 2009 and 2008

**Changes in Financial Position**

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

**Condensed Balance Sheets***(In thousands of dollars)*

	<b>June 30, 2009</b>	<b>June 30, 2008</b>	<b>June 30, 2007</b>	<b>Percentage Change 2009/2008</b>	<b>Percentage Change 2008/2007</b>
<b>Assets:</b>					
Current and other assets	\$ 5,399,678	\$ 5,364,699	\$ 5,051,809	0.7%	6.2%
Capital assets, net	34,142	34,838	35,411	(2.0)	(1.6)
<b>Total assets</b>	<b>5,433,820</b>	<b>5,399,537</b>	<b>5,087,220</b>	<b>0.6</b>	<b>6.1</b>
<b>Liabilities:</b>					
Current liabilities	304,188	293,497	294,438	3.6	(0.3)
Long-term liabilities	4,383,159	4,362,207	4,081,045	0.5	6.9
<b>Total liabilities</b>	<b>4,687,347</b>	<b>4,655,704</b>	<b>4,375,483</b>	<b>0.7</b>	<b>6.4</b>
<b>Net assets:</b>					
Invested in capital assets, net of related debt	14,215	14,914	15,456	(4.7)	(3.5)
Restricted	252,277	126,715	83,060	99.1	52.6
Unrestricted	479,981	602,204	613,221	(20.3)	(1.8)
<b>Total net assets</b>	<b>\$ 746,473</b>	<b>\$ 743,833</b>	<b>\$ 711,737</b>	<b>0.4%</b>	<b>4.5%</b>

**Condensed Statement of Revenues, Expenses and Change in Net Assets***(In thousands of dollars)*

	<b>June 30, 2009</b>	<b>June 30, 2008</b>	<b>June 30, 2007</b>	<b>Percentage Change 2009/2008</b>	<b>Percentage Change 2008/2007</b>
<b>Operating revenues:</b>					
Interest on mortgage loans	\$ 207,990	\$ 201,535	\$ 181,445	3.2%	11.1%
Federal program awards	474,847	461,231	311,745	3.0	48.0
Program income and fees	49,825	46,791	41,917	6.5	11.6
<b>Total operating revenues</b>	<b>732,662</b>	<b>709,557</b>	<b>535,107</b>	<b>3.3</b>	<b>32.6</b>
<b>Operating expenses</b>	<b>744,450</b>	<b>718,314</b>	<b>535,177</b>	<b>3.6</b>	<b>34.2</b>
<b>Nonoperating revenues, net</b>	<b>14,428</b>	<b>40,853</b>	<b>44,058</b>	<b>(64.7)</b>	<b>(7.3)</b>
<b>Change in net assets</b>	<b>\$ 2,640</b>	<b>\$ 32,096</b>	<b>\$ 43,988</b>	<b>(91.8)</b>	<b>(27.0)</b>

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Management's Discussion and Analysis (*Unaudited*)

Years Ended June 30, 2009 and 2008

---

### **Financial Highlights for the Year Ended June 30, 2009**

- During the year, the Agency purchased \$302,575 of its own bonds reported as qualified tender bonds on the Balance Sheets. This action was in response to the recent credit market conditions that have disrupted the remarketing of certain variable rate demand bonds. The IRS provided a special temporary rule which allows governmental issuers to purchase their own bonds on a temporary basis without resulting in a reissuance or retirement, provided those bonds are not held past December 31, 2009, or otherwise in accordance with IRS guidance.
- The Agency increased its total net assets by 1% as a result of this year's operations to \$746 million for the year ended June 30, 2009 from \$744 million for the year ended June 30, 2008. The prior year experienced a 5% increase in total net assets.
- Mortgages loans receivable decreased to \$4.2 billion for the year ended June 30, 2009 from \$4.3 billion in the prior year. This was primarily due to favorable interest rates resulting in single family borrowers refinancing with other lenders which exceeded newly originated first-time homebuyer loans and the sale of certain mortgages to the Federal National Mortgage Association ("FNMA").
- During the year ended June 30, 2009, the Agency approved the funding of 43 Multifamily Housing developments that will contain 1,786 housing units. The Agency originated 4,064 new Single Family Mortgage loans. The Homeowner's Emergency Mortgage Assistance Program ("HEMAP") funded 1,793 emergency mortgage assistance loans to mortgagors facing foreclosure because of circumstances beyond their control.
- Bonds and notes outstanding remained a constant \$4.2 billion for the years ended June 30, 2009 and 2008.
- Total operating revenues increased 4% to \$733 million for the year ended June 30, 2009 from \$710 million from the prior year. Those increases were primarily from strong interest earnings on mortgage loans which increased 3% over the prior year, despite a decrease in loan portfolio balances.
- The Agency experienced an increase in operating expenses of 4% to \$744 million for the current year ended June 30, 2009 from \$718 million in the prior year. The increase was mainly driven by the volatile interest rate environment that increased bond interest expense by 8% to \$214 million for the year ended June 30, 2009 from \$198 million during the prior year.
- Investment income decreased sharply due to the historically low interest rate environment. Investment income, reported as nonoperating revenue, fell 51% from the prior year.

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Management's Discussion and Analysis (*Unaudited*)

Years Ended June 30, 2009 and 2008

---

### **Financial Highlights for the Year Ended June 30, 2008**

- The Agency's total increase in net assets was \$32 million as a result of operations for the year ended June 30, 2008, compared with a \$44 million increase in net assets in the year ended June 30, 2007.
- Increases in interest paid for outstanding long-term debt exceeded the increase of interest receipts on mortgage loan repayments.
- The Agency implemented GASB 45 to recognize "Other Post Employment Benefits" ("OPEB") in 2007. The Agency recognized an expense of \$3.8 million as of June 30, 2008.
- Increased provision for loan loss was influenced by the mortgage loan environment during 2008.
- During the year ended June 30, 2008, the Agency's total assets increased by \$312 million over the year ended June 30, 2007 due primarily to increases in mortgage loan receivables and investments, which were made possible by the issuance of long-term debt. Total liabilities increased by \$280 million due to increases in the related debt to finance mortgage loans.

### **Loan Portfolio Activity**

Multifamily Housing Program and Single Family Mortgage Loan Program mortgage loan portfolios are the Agency's primary performing assets. The loan portfolio decrease was driven by the economy and the related declining demand for mortgage financing in the Commonwealth of Pennsylvania. The following are key highlights of loan related activities:

- The Multifamily Housing Program financed approximately \$25 million of loans to provide construction and permanent loans for rental housing developments. However, the loan portfolio decreased by 4% or \$20 million to \$542 million at June 30, 2009 from \$562 million at June 30, 2008 due to prepayments exceeding new construction or rehabilitation financing. During the prior year, the Multifamily Housing Program provided financing of approximately \$71 million that increased the portfolio to \$562 million as of June 30, 2009, from \$550 million as of June 30, 2007.
- The Single Family Mortgage Loan Program purchased approximately \$365 million of new mortgage loans during the year. However, the portfolio decreased 3% or \$111 million to \$3.6 billion as of June 30, 2009 from \$3.7 billion at June 30, 2008 due to prepayments exceeding loans purchased. During the prior year, the Single Family Mortgage Loan Program disbursed approximately \$642 million of new mortgage loans, increasing the portfolio by \$400 million to \$3.7 billion as of June 30, 2008, from \$3.3 billion as of June 30, 2007.

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Management's Discussion and Analysis (*Unaudited*)

Years Ended June 30, 2009 and 2008

---

- During the fiscal year ended June 30, 2009, the Agency sold Single Family Mortgage Loan Program loans with a principal balance of \$221,582 to FNMA.
- HEMAP disbursed approximately \$20 million of emergency mortgage assistance loans during the year. The total portfolio increased \$1 million to \$50 million as of June 30, 2009, from \$49 million as of June 30, 2008, after adjustments for principal payments and loan losses. During the prior year, HEMAP disbursed approximately \$20 million of emergency mortgage assistance loans, increasing the portfolio to \$49 million as of June 30, 2008 from \$48 million as of June 30, 2007.

### **Long-Term Debt Activity of the Multifamily Housing Program**

The Multifamily Housing Program finances various developments throughout the Commonwealth of Pennsylvania relating to the construction or rehabilitation of multifamily rental housing developments generally designed for persons or families of low and moderate income or the elderly with multifamily development bond proceeds. During the year, the Multifamily Housing Program did not issue any bonds. As a result, the total outstanding bonds balance decreased by 16% or \$53 million as a result of normal debt payments. The Multifamily Housing Program did not issue any bonds during the year ended June 30, 2008 and issued \$13 million of Multifamily Development bonds during the year ended June 30, 2007.

### **Long-Term Debt Activity of the Single Family Mortgage Loan Program**

The Agency provides residential mortgage financing programs that serve low to moderate and middle-income qualified homebuyers. During the year ended June 30, 2009, the Agency issued approximately \$350 million of Single Family Housing Revenue Bonds Series 103 and Series 104. The Agency borrowed an additional \$1 million of the PNC note purchase agreement to fund the Homeowners' Equity Recovery Opportunity Loan Program. Total debt outstanding of the Single Family Mortgage Loan Program increased by 1% or \$37 million as a result of the issuance of the aforementioned debt, note purchase agreement borrowing and the adjustment of normal debt payments. During the years ended June 30, 2008 and 2007, the Agency issued Mortgage Revenue Bonds totaling \$610 million and \$917 million, respectively.

### **Economic Factors and Other Financial Information**

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

The Agency's main sources of revenues include mortgage loan interest, investment interest income and externally funded grants and subsidies. Interest rates have an effect on both the mortgage programs and investment income revenues. If interest rates continue at current levels, the Agency expects mortgage and investment income to remain relatively stable. If interest rates rise, mortgage and investment income should increase as new loans are originated and new

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Management's Discussion and Analysis (*Unaudited*)

Years Ended June 30, 2009 and 2008

---

investments are purchased at the higher rates. If interest rates fall, mortgage and investment income will decrease as new loans are originated and new investments are purchased at the lower rates. Any decrease in interest rates may also cause an increase in prepayments on higher rate mortgages. The Agency uses many of these prepayments to call from certain bond series, which lowers the interest expense incurred on the Agency's overall bonds outstanding, or to recycle mortgages to obtain the maximum allowable spread. Changes in programs or funding levels could have a negative impact on externally funded program revenues.

# PENNSYLVANIA HOUSING FINANCE AGENCY

## Balance Sheets

June 30, 2009 and 2008

(In thousands of dollars)

	2009							2008						
	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
<b>ASSETS</b>														
<b>Current Assets:</b>														
Cash and cash equivalents	\$ 36,254	\$ 235,675	\$ 294,646	\$ 25,308	\$ 591,883	\$ 28	\$ 591,911	\$ 39,279	\$ 199,021	\$ 374,682	\$ 25,778	\$ 638,760	\$ 205	\$ 638,965
Investments	6,631	234	-	2,029	8,894	-	8,894	4,086	4,135	1,999	-	10,220	-	10,220
Accrued interest receivable	46	258	1,596	66	1,966	-	1,966	263	973	1,527	218	2,981	-	2,981
Mortgage loans receivable, net	-	31,719	65,997	-	97,716	6,594	104,310	-	28,496	64,270	-	92,766	6,404	99,170
Qualified tender bonds	-	-	302,575	-	302,575	-	302,575	-	-	-	-	-	-	-
Deferred financing costs and other assets	3,286	1,654	2,369	-	7,309	2,482	9,791	1,637	3,065	2,797	-	7,499	-	7,499
Operating advances to other funds	35,845	-	-	-	35,845	-	35,845	14,512	-	-	-	14,512	-	14,512
Total current assets	82,062	269,540	667,183	27,403	1,046,188	9,104	1,055,292	59,777	235,690	445,275	25,996	766,738	6,609	773,347
<b>Noncurrent assets:</b>														
Restricted cash and investments	-	5,279	203,079	-	208,358	-	208,358	-	3,838	80,347	-	84,185	-	84,185
Investments	37,661	1,739	31,324	9,748	80,472	-	80,472	39,112	65,480	185,773	23,640	314,005	-	314,005
Mortgage loans receivable, net	-	510,078	3,492,858	-	4,002,936	43,553	4,046,489	-	533,797	3,605,821	-	4,139,618	42,290	4,181,908
Capital assets, net	34,129	-	-	-	34,129	13	34,142	34,815	-	-	-	34,815	23	34,838
Deferred financing costs and other assets	2,028	2,480	4,553	-	9,061	6	9,067	2,456	4,597	4,196	-	11,249	5	11,254
Total noncurrent assets	73,818	519,576	3,731,814	9,748	4,334,956	43,572	4,378,528	76,383	607,712	3,876,137	23,640	4,583,872	42,318	4,626,190
<b>Total assets</b>	<b>\$ 155,880</b>	<b>\$ 789,116</b>	<b>\$ 4,398,997</b>	<b>\$ 37,151</b>	<b>\$ 5,381,144</b>	<b>\$ 52,676</b>	<b>\$ 5,433,820</b>	<b>\$ 136,160</b>	<b>\$ 843,402</b>	<b>\$ 4,321,412</b>	<b>\$ 49,636</b>	<b>\$ 5,350,610</b>	<b>\$ 48,927</b>	<b>\$ 5,399,537</b>
<b>LIABILITIES</b>														
<b>Current liabilities:</b>														
Bonds and notes payable, net	\$ -	\$ 40,133	\$ 112,015	\$ -	\$ 152,148	\$ -	\$ 152,148	\$ -	\$ 27,850	\$ 88,390	\$ -	\$ 116,240	\$ -	\$ 116,240
Accrued interest payable	390	5,167	44,878	-	50,435	-	50,435	387	5,936	41,550	-	47,873	-	47,873
Accounts payable and accrued expenses	2,304	131	1,188	-	3,623	922	4,545	3,321	79	1,014	-	4,414	501	4,915
Escrow deposits and other liabilities	511	17,283	43,120	301	61,215	-	61,215	1,260	56,205	52,191	301	109,957	-	109,957
Operating advances from other funds	-	394	31,099	-	31,493	4,352	35,845	-	206	11,500	-	11,706	2,806	14,512
Total current liabilities	3,205	63,108	232,300	301	298,914	5,274	304,188	4,968	90,276	194,645	301	290,190	3,307	293,497
<b>Noncurrent liabilities:</b>														
Bonds and notes payable, net	19,927	230,262	3,822,450	-	4,072,639	-	4,072,639	19,924	295,703	3,809,363	-	4,124,990	-	4,124,990
Escrow deposits and other liabilities	9,715	264,381	31,509	1,445	307,050	3,470	310,520	2,903	215,635	14,575	1,037	234,150	3,067	237,217
Total noncurrent liabilities	29,642	494,643	3,853,959	1,445	4,379,689	3,470	4,383,159	22,827	511,338	3,823,938	1,037	4,359,140	3,067	4,362,207
<b>Total liabilities</b>	<b>32,847</b>	<b>557,751</b>	<b>4,086,259</b>	<b>1,746</b>	<b>4,678,603</b>	<b>8,744</b>	<b>4,687,347</b>	<b>27,795</b>	<b>601,614</b>	<b>4,018,583</b>	<b>1,338</b>	<b>4,649,330</b>	<b>6,374</b>	<b>4,655,704</b>
<b>NET ASSETS</b>														
Invested in capital assets, net of related debt	14,202	-	-	-	14,202	13	14,215	14,891	-	-	-	14,891	23	14,914
Restricted by bond resolutions or legislation	-	5,279	203,079	-	208,358	43,919	252,277	-	3,838	80,347	-	84,185	42,530	126,715
Unrestricted	108,831	226,086	109,659	35,405	479,981	-	479,981	93,474	237,950	222,482	48,298	602,204	-	602,204
<b>Total net assets</b>	<b>123,033</b>	<b>231,365</b>	<b>312,738</b>	<b>35,405</b>	<b>702,541</b>	<b>43,932</b>	<b>746,473</b>	<b>108,365</b>	<b>241,788</b>	<b>302,829</b>	<b>48,298</b>	<b>701,280</b>	<b>42,553</b>	<b>743,833</b>
<b>Total liabilities and net assets</b>	<b>\$ 155,880</b>	<b>\$ 789,116</b>	<b>\$ 4,398,997</b>	<b>\$ 37,151</b>	<b>\$ 5,381,144</b>	<b>\$ 52,676</b>	<b>\$ 5,433,820</b>	<b>\$ 136,160</b>	<b>\$ 843,402</b>	<b>\$ 4,321,412</b>	<b>\$ 49,636</b>	<b>\$ 5,350,610</b>	<b>\$ 48,927</b>	<b>\$ 5,399,537</b>

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, 2009 and 2008

(In thousands of dollars)

	2009							2008						
	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
<b>Operating revenues:</b>														
Interest on mortgage loans	\$ -	\$ 31,026	\$ 176,104	\$ -	\$ 207,130	\$ 860	\$ 207,990	\$ -	\$ 33,445	\$ 167,213	\$ -	\$ 200,658	\$ 877	\$ 201,535
Program income and fees	30,564	1,389	3,541	411	35,905	13,920	49,825	30,103	1,473	3,436	313	35,325	11,466	46,791
Federal program awards	-	454,784	20,063	-	474,847	-	474,847	-	459,687	1,544	-	461,231	-	461,231
Total operating revenues	<u>30,564</u>	<u>487,199</u>	<u>199,708</u>	<u>411</u>	<u>717,882</u>	<u>14,780</u>	<u>732,662</u>	<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>
<b>Operating expenses:</b>														
Interest on bonds	822	13,887	199,081	-	213,790	-	213,790	788	17,079	180,595	-	198,462	-	198,462
Salaries and related benefits	19,876	-	-	-	19,876	2,488	22,364	19,478	-	-	-	19,478	2,507	21,985
OPEB liability expense	2,559	-	-	-	2,559	349	2,908	2,677	-	-	-	2,677	364	3,041
General and administrative	4,700	3,473	6,044	600	14,817	1,579	16,396	5,288	2,359	5,076	600	13,323	2,065	15,388
Provision for loan loss	-	3,000	2,100	-	5,100	9,045	14,145	-	8,042	1,400	-	9,442	8,765	18,207
Federal program expense	-	454,784	20,063	-	474,847	-	474,847	-	459,687	1,544	-	461,231	-	461,231
Total operating expenses	<u>27,957</u>	<u>475,144</u>	<u>227,288</u>	<u>600</u>	<u>730,989</u>	<u>13,461</u>	<u>744,450</u>	<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>
Operating income (loss)	<u>2,607</u>	<u>12,055</u>	<u>(27,580)</u>	<u>(189)</u>	<u>(13,107)</u>	<u>1,319</u>	<u>(11,788)</u>	<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>
<b>Nonoperating revenues (expenses):</b>														
Investment income	1,790	1,123	13,432	1,520	17,865	60	17,925	1,343	6,471	26,827	1,989	36,630	151	36,781
Net increase (decrease) in fair value of investments	5,509	(3,117)	(1,453)	(4,224)	(3,285)	-	(3,285)	3,271	(2,177)	1,620	1,587	4,301	-	4,301
Loss on early extinguishment of debt	-	(9)	(203)	-	(212)	-	(212)	-	(31)	(198)	-	(229)	-	(229)
Total nonoperating revenue (expense), net	<u>7,299</u>	<u>(2,003)</u>	<u>11,776</u>	<u>(2,704)</u>	<u>14,368</u>	<u>60</u>	<u>14,428</u>	<u>4,614</u>	<u>4,263</u>	<u>28,249</u>	<u>3,576</u>	<u>40,702</u>	<u>151</u>	<u>40,853</u>
Income (loss) before transfers	<u>9,906</u>	<u>10,052</u>	<u>(15,804)</u>	<u>(2,893)</u>	<u>1,261</u>	<u>1,379</u>	<u>2,640</u>	<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>
Transfers	<u>4,762</u>	<u>(20,475)</u>	<u>25,713</u>	<u>(10,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,267)</u>	<u>(33,343)</u>	<u>55,610</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>14,668</u>	<u>(10,423)</u>	<u>9,909</u>	<u>(12,893)</u>	<u>1,261</u>	<u>1,379</u>	<u>2,640</u>	<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>
Total net assets - beginning 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>
Total net assets - end of year	<u>\$ 123,033</u>	<u>\$ 231,365</u>	<u>\$ 312,738</u>	<u>\$ 35,405</u>	<u>\$ 702,541</u>	<u>\$ 43,932</u>	<u>\$ 746,473</u>	<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>

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

# PENNSYLVANIA HOUSING FINANCE AGENCY

## Statements of Cash Flows

Years Ended June 30, 2009 and 2008

(In thousands of dollars)

	2009							2008						
	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
<b>Cash Flows From Operating Activities</b>														
Receipts of mortgage loan payments	\$ -	\$ 45,344	\$ 476,682	\$ -	\$ 522,026	\$ 8,048	\$ 530,074	\$ -	\$ 58,870	\$ 233,115	\$ -	\$ 291,985	\$ 10,750	\$ 302,735
Receipts from fees and other income	30,564	1,389	3,541	411	35,905	13,920	49,825	30,025	-	3,436	313	33,774	11,466	45,240
Receipts from interest on mortgages	-	31,741	176,035	-	207,776	860	208,636	-	33,127	169,043	-	202,170	948	203,118
Receipt of escrow deposits and other receipts	6,063	9,824	7,863	-	23,750	403	24,153	2,450	9,838	9,726	-	22,014	-	22,014
Payment for qualified tender bonds	-	-	(302,575)	-	(302,575)	-	(302,575)	-	-	-	-	-	-	-
Payments for mortgages purchased	-	(24,848)	(365,446)	-	(390,294)	(18,546)	(408,840)	-	(71,223)	(642,216)	-	(713,439)	(19,907)	(733,346)
Payments to employees and suppliers	(27,829)	(2,893)	(7,899)	(40)	(38,661)	(6,468)	(45,129)	(27,600)	(7,904)	(7,888)	(217)	(43,609)	(4,698)	(48,307)
Net cash provided by (used in) operating activities	8,798	60,557	(11,799)	371	57,927	(1,783)	56,144	4,875	22,708	(234,784)	96	(207,105)	(1,441)	(208,546)
<b>Cash Flows From Noncapital Financing Activities</b>														
Proceeds from the sale of bonds and notes	-	-	351,340	-	351,340	-	351,340	-	180,790	609,625	-	790,415	-	790,415
Payments for retirement of bonds and notes	-	(53,167)	(314,831)	-	(367,998)	-	(367,998)	-	(208,713)	(317,260)	-	(525,973)	-	(525,973)
Payments of bond interest	-	(14,656)	(195,753)	-	(210,409)	-	(210,409)	-	(17,396)	(176,693)	-	(194,089)	-	(194,089)
Transfers (to) other funds	(16,571)	(20,287)	45,312	(10,000)	(1,546)	1,546	-	(12,706)	(35,503)	46,712	-	(1,497)	1,497	-
Net cash provided by (used in) noncapital financing activities	(16,571)	(88,110)	(113,932)	(10,000)	(228,613)	1,546	(227,067)	(12,706)	(80,822)	162,384	-	68,856	1,497	70,353
<b>Cash Flows From Capital Financing Activities</b>														
Purchases of capital assets	(641)	-	-	-	(641)	-	(641)	(755)	-	-	-	(755)	(2)	(757)
Interest paid on capital debt	(816)	-	-	-	(816)	-	(816)	(790)	-	-	-	(790)	-	(790)
Net cash used in capital financing activities	(1,457)	-	-	-	(1,457)	-	(1,457)	(1,545)	-	-	-	(1,545)	(2)	(1,547)
<b>Cash Flows From Investing Activities</b>														
Proceeds from sales of and maturities of investments	15,433	96,575	663,455	7,639	783,102	-	783,102	91,412	82,955	996,371	-	1,170,738	-	1,170,738
Interest and dividends	1,790	1,123	13,432	1,520	17,865	60	17,925	1,343	6,471	26,827	1,990	36,631	151	36,782
Purchases of investments	(11,018)	(32,050)	(508,460)	-	(551,528)	-	(551,528)	(59,065)	(104,400)	(1,004,395)	(9,000)	(1,176,860)	-	(1,176,860)
Net cash provided by (used in) investing activities	6,205	65,648	168,427	9,159	249,439	60	249,499	33,690	(14,974)	18,803	(7,010)	30,509	151	30,660
Net increase (decrease) in cash and cash equivalents	(3,025)	38,095	42,696	(470)	77,296	(177)	77,119	24,314	(73,088)	(53,597)	(6,914)	(109,285)	205	(109,080)
Cash and cash equivalents, beginning 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
Cash and cash equivalents, end of year	\$ 36,254	\$ 240,954	\$ 497,725	\$ 25,308	\$ 800,241	\$ 28	\$ 800,269	\$ 39,279	\$ 202,859	\$ 455,029	\$ 25,778	\$ 722,945	\$ 205	\$ 723,150

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

# PENNSYLVANIA HOUSING FINANCE AGENCY

## Statements of Cash Flows (continued)

Years Ended June 30, 2009 and 2008

(In thousands of dollars)

	2009							2008						
	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>														
Operating income (loss)	\$ 2,607	\$ 12,055	\$ (27,580)	\$ (189)	\$ (13,107)	\$ 1,319	\$ (11,788)	\$ 1,872	\$ 7,438	\$ (16,422)	\$ (287)	\$ (7,399)	\$ (1,358)	\$ (8,757)
Interest expense on bonds	822	13,887	199,081	-	213,790	-	213,790	788	17,079	180,595	-	198,462	-	198,462
Provision for loan loss	-	3,000	2,100	-	5,100	9,045	14,145	-	8,042	1,400	-	9,442	8,765	18,207
Depreciation	1,327	-	-	-	1,327	10	1,337	1,317	-	-	-	1,317	13	1,330
Changes in assets and liabilities:														
Mortgage loans receivable, net	-	17,496	109,136	-	126,632	(10,498)	116,134	-	(20,395)	(410,501)	-	(430,896)	(9,175)	(440,071)
Accrued interest receivable	217	715	(69)	152	1,015	-	1,015	240	(318)	1,830	(87)	1,665	-	1,665
Deferred and qualified tender bond assets	(1,221)	3,528	(302,504)	-	(300,197)	(2,483)	(302,680)	(1,813)	2,429	(1,527)	-	(911)	1	(910)
Accounts payable and accrued expenses	(1,017)	52	174	408	(383)	421	38	99	68	115	43	325	(279)	46
Escrow deposits and other liabilities	6,063	9,824	7,863	-	23,750	403	24,153	2,372	8,365	9,726	427	20,890	592	21,482
Net cash provided by (used in) operating activities	<u>\$ 8,798</u>	<u>\$ 60,557</u>	<u>\$ (11,799)</u>	<u>\$ 371</u>	<u>\$ 57,927</u>	<u>\$ (1,783)</u>	<u>\$ 56,144</u>	<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>

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

# PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009 and 2008

---

*(In thousands of dollars)*

## 1. Description of the Agency

The Pennsylvania Housing Finance Agency (the “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. 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.

Debt obligations issued under the provisions of the Act are not a debt or liability of the Commonwealth of Pennsylvania or any of its political subdivisions or a pledge of the faith and credit of the Commonwealth of Pennsylvania or of any of its political subdivisions.

The Agency is a component unit of the Commonwealth of Pennsylvania as described in Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The Agency is included in the Commonwealth of Pennsylvania’s Comprehensive Annual Financial Report as a discretely presented component unit.

## 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 GASB. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, was issued to give guidance in determining generally accepted accounting principles (“GAAP”) 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.

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009 and 2008

---

*(In thousands of dollars)*

### **Recently Adopted Accounting Standards**

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. 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 Agency adopted GASB Statement No. 45 during the prior year. See Note 15.

GASB Statement No. 50, *Pension Disclosures – an amendment of GASB 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 RSI by pension plans and by employers that provide pension benefits. The Agency adopted GASB Statement No. 50 during the prior year. See Note 14.

GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement incorporates the hierarchy of GAAP for state and local governments into the GASB’s authoritative literature. It is intended to make it easier for preparers of state and local government financial statements to identify and apply the “GAAP hierarchy,” which consists of sources of accounting principles used in the preparation of financial statements so that they are presented in conformity with GAAP and the framework for selecting those principles. During the year, the Agency adopted GASB Statement No. 55, which had no effect on its financial statements.

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This Statement incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (“AICPA”) auditing literature into the GASB’s accounting and financial reporting literature for state and local governments. The Statement 56 guidance addresses three issues from the AICPA’s literature – related party transactions, going-concern considerations and subsequent events. During the year, the Agency adopted GASB Statement No. 56, which had no effect on its financial statements.

### **Accounting Standards Issued but Not yet Adopted**

In June 2009, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. Derivatives are often complex financial arrangements used by the Agency to manage specific risks. By entering into these arrangements, the Agency receives or makes payment based on market prices without actually entering into the related financial transactions. Derivatives associated with changing financial prices result in changing cash flows and fair values that can be used as effective risk management tools. Derivatives, however, can also expose the Agency to significant risks and liabilities. The Agency is required to adopt GASB Statement No. 53 for its 2010 financial statements and is currently evaluating the impact of implementing this Statement.

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009 and 2008

---

*(In thousands of dollars)*

### **Description of Funds**

The accounts of the Agency are organized based on separate enterprise funds. Each fund represents a separate accounting entity. Agency resources are allocated to these funds based on legal responsibility, fiscal accountability and management designation, summarized as follows:

**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 Housing Program** – Multifamily Housing Program activity relates to the financing of construction or rehabilitation of multifamily rental housing developments generally designed for persons or families of low and moderate income or the elderly.

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

**Insurance Fund** – The Agency provides primary mortgage insurance coverage through the Insurance Fund for single family borrowers that are unable to obtain insurance from other sources.

**Homeowner's 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.

### **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**

Investments are accounted for at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires certain investments to be reported at fair value in the Balance Sheets. The Agency reports all investments at fair value in the Balance Sheets.

### **Mortgage Loans Receivable**

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

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

---

*(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 values of the properties that represent collateral, mortgage insurance coverage on the collateral, the financial condition of the borrower and the economy as a whole. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions.

### **Real Estate Owned**

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

### **Capital Assets**

Building, furniture and equipment are capitalized at cost. Depreciation is calculated using the straight-line method 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.

### **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.

### **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 GAAP, 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.

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009 and 2008

---

*(In thousands of dollars)*

### **Operating and Nonoperating Revenues and Expenses**

The Agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the Agency into mortgage loans to qualified housing sponsors and to individuals. The Agency's primary purpose is to borrow funds in the bond market and to use those funds to make multifamily and single-family mortgages. The Agency's primary operating revenue is derived from the mortgage interest income and fees from mortgage transactions. Additionally, the Agency passes through federal financial assistance programs for rental subsidies to tenants of various housing developments. The Agency records all revenues from mortgages and rental subsidies as operating revenues. The costs of providing these programs are recorded as operating expenses. The Agency's income on the invested proceeds from the bond issues is not considered part of the Agency's primary purpose. Consequently, income from investment activity, changes in the fair values of investments and early extinguishment of debt are considered nonoperating revenues or expenses.

### **Interest Income**

Interest income is recognized over the remaining time to maturity of investment securities, mortgage loans receivable and construction advances based upon the constant yield method. Multifamily Housing and Single Family Mortgage Loan 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.

### **Pension Plan and Other Postemployment Benefits**

GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, amended by GASB Statement No. 50, require the Agency to measure and disclose amounts for annual pension cost and net pension obligations. The funding policy is to pay actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due.

GASB Statement No. 45 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. The Agency does not fund its OPEB liability; rather, the Agency maintains health insurance for its retirees on a pay-as-you-go basis.

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009 and 2008

---

*(In thousands of dollars)*

### **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 compensated absence pay earned and upon retirement, termination or death, may be compensated for certain amounts at their current rate of pay. Compensated absence pay is recognized as an expense in the amount earned each year.

### **Net Assets**

Net assets are classified in the following three components:

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

**Restricted Net Assets** – Consists of net assets with constraints placed on their use by (1) external groups, such as creditors or (2) law through enabling legislation.

**Unrestricted** – Consists of net assets that do not meet the definition of invested in capital assets or restricted. This component includes net assets designated for specific purposes by the Members of the Board.

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

### **Reclassifications**

Certain reclassifications have been made in the June 30, 2008 financial statements to conform to the June 30, 2009 presentation.

## **3. Deposits and Investments**

### **Deposits**

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

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009 and 2008

---

*(In thousands of dollars)*

A summary of the Agency's cash and cash equivalents is shown below:

	<b>June 30, 2009</b>	<b>June 30, 2008</b>
Restricted cash and cash equivalents	\$ 208,358	\$ 84,185
Unrestricted cash and cash equivalents	591,911	638,965
Carrying amount of cash and cash equivalents	<u>\$ 800,269</u>	<u>\$ 723,150</u>
Bank balance of cash and cash equivalents	<u>\$ 804,172</u>	<u>\$ 722,897</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, 2009, the carrying value of the Agency's cash deposits equaled \$37,099 and the bank balance equaled \$45,557, of which \$44,699 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 \$763,170, with a bank balance of \$758,615 that does not expose the Agency to custodial credit risk.

### **Investments**

The investment policies of the Agency are governed by Commonwealth of Pennsylvania 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, 2009 and 2008

*(In thousands of dollars)*

As of June 30, 2009, the Agency held the following investments with the listed maturities:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>			
		<b>Less than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More than 10</b>
U.S. Government Agency Mortgage-Backed Securities	\$ 26,544	\$ 4,058	\$ 20,282	\$ -	\$ 2,204
U.S. Government Agency Securities	30,879	280	936	245	29,418
U.S. Treasury Securities	18,023	-	8,966	9,057	-
Corporate Bonds	13,920	4,556	7,615	1,749	-
	<u>\$ 89,366</u>	<u>\$ 8,894</u>	<u>\$ 37,799</u>	<u>\$ 11,051</u>	<u>\$ 31,622</u>

Investments in Mortgage-Backed Securities are sensitive to interest rate changes because, for example, borrowers have the option to prepay their mortgages.

In addition to the amounts listed above, the Agency held investments in Money Market Funds with a fair value of \$763,170, reported as cash equivalents, all with maturities of less than 90 days.

**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. As of June 30, 2009, no single issuer exceeded 5% or more of the Agency's total investment portfolio.

**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 prequalifying firms with which the Agency administers its investment activities.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

*(In thousands of dollars)*

As of June 30, 2009, the Agency's exposure to credit risk was as follows (rating provided by Moody's Investors Service):

<b>Investment Type</b>	<b>Fair Value</b>	<b>Quality Ratings</b>			<b>Unrated*</b>
		<b>Aaa</b>	<b>A</b>	<b>Ba</b>	
U.S. Government Agency Mortgage-Backed Securities	\$ 26,544	\$ 24,340	\$ -	\$ -	\$ 2,204
U.S. Government Agency Securities	30,879	-	-	-	30,879
U.S. Treasury Securities	18,023	-	-	-	18,023
Corporate Bonds	13,920	-	5,873	7,037	1,010
	<u>\$ 89,366</u>	<u>\$ 24,340</u>	<u>\$ 5,873</u>	<u>\$ 7,037</u>	<u>\$ 52,116</u>

\*Unrated investments represent securities that are not rated by a nationally recognized statistical rating organization.

Of the \$763,170 fair value in Money Market Funds, reported as cash equivalents, \$755,993 is rated Aaa by Moody's Investors Service and \$7,177 is not rated.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of failure of the custodian or counterparty holding the investment, the Agency will not be able to recover the value of the investment. The Agency has not established a formal custodial credit risk policy for its investments. All of the Agency's \$89,366 investment balance at June 30, 2009 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 \$763,170, reported as cash equivalents, does not expose the Agency to custodial credit risk.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

*(In thousands of dollars)***4. Mortgage Loans Receivable**

Mortgage loans receivable at June 30, 2009 and 2008 consisted of the following:

	<b>June 30, 2009</b>	<b>June 30, 2008</b>
Multifamily Housing Program	\$ 711,993	\$ 732,889
Single Family Mortgage Loan Program	3,537,612	3,646,407
HEMAP	91,495	89,275
	<u>4,341,100</u>	<u>4,468,571</u>
Add:		
Loan discounts	23,793	25,072
Less:		
Allowance for potential loan losses	214,094	212,565
Mortgage loans receivable, net	4,150,799	4,281,078
Less current portion	104,310	99,170
Long-term portion	<u>\$ 4,046,489</u>	<u>\$ 4,181,908</u>

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

Mortgage loans held by the Single Family Mortgage Loan Program have stated interest rates and are secured by first liens on the related real property. Insurance for the single family mortgage loans is provided by commercial companies, certain federal programs, or 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 Loan Program 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, 2009 and 2008, the total loans covered under this program were \$73,083 and \$52,518, respectively.

GASB requires that the basis for estimating the liability for unpaid claims include the effects of specific incremental claim adjustment expenses and estimated recoveries. Also, it requires disclosure of whether other allocated or unallocated claim adjustment expenses are included. The Agency establishes the estimated claims payable liability for both reported and unreported insured events, which include estimates of both future payments of losses and related loss

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

*(In thousands of dollars)*

adjustment expenses, based on the Agency's past claim experience. Claims are not discounted and are net of any estimated recoveries, if any.

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

	<b>June 30, 2009</b>	<b>June 30, 2008</b>
Beginning balance	\$ 1,338	\$ 868
Current year estimated claims payable	600	600
Claim payments	(192)	(130)
Total claim liability	1,746	1,338
Less current portion	301	301
Long-term portion	<u>\$ 1,445</u>	<u>\$ 1,037</u>

Changes in the allowance for potential loan losses for the Multifamily Housing Program, Single Family Mortgage Loan Program and HEMAP were as follows at June 30, 2009 and 2008:

	<b>Multifamily</b>		<b>Single Family Mortgage</b>		<b>HEMAP</b>		<b>Totals</b>	
	<b>Housing Program</b>		<b>Loan Program</b>					
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Beginning balance	\$167,818	\$161,818	\$ 4,166	\$ 4,265	\$ 40,581	\$ 38,704	\$212,565	\$204,787
Loss provision	3,000	8,042	2,100	1,400	9,045	8,765	14,145	18,207
Net charge-offs	(3,399)	(2,042)	(939)	(1,499)	(8,278)	(6,888)	(12,616)	(10,429)
Ending balance	<u>\$167,419</u>	<u>\$167,818</u>	<u>\$ 5,327</u>	<u>\$ 4,166</u>	<u>\$ 41,348</u>	<u>\$ 40,581</u>	<u>\$214,094</u>	<u>\$212,565</u>

**5. Mortgage Loan Sales**

During the fiscal year ended June 30, 2009, the Agency sold Single Family Mortgage Loan Program loans with a principal balance of \$221,582 to the Federal National Mortgage Association ("FNMA"). The Agency also entered into an administration agreement with FNMA, whereby the Agency receives a fee for servicing those loans on behalf of the new owner. The amounts earned are included in program income and fees on the Statement of Revenues, Expenses and Changes in Net Assets.

**6. Servicing Portfolio**

The Agency receives fee income for servicing mortgage loans for other governmental agencies. The loans are not reported on the Balance Sheets of the Agency, since there is no exposure of loss relating to these loans. The total amount of loans serviced for others under servicing agreements is \$309,222 and \$121,734 at June 30, 2009 and 2008, respectively.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

*(In thousands of dollars)***7. Qualified Tender Bonds**

In response to the recent credit market conditions that have disrupted the remarketing of certain variable rate demand bonds, the Internal Revenue Service (“IRS”) issued Notice 2008-41, amended and supplemented by Notice 2008-88 which provides a special temporary rule that allows governmental issuers to purchase their own qualified tender bonds on a temporary basis without resulting in a reissuance or retirement, provided those bonds are not held past December 31, 2009. In response to credit and liquidity constraints in the variable rate bond sector of the bond markets, the Agency purchased approximately \$302,575 of its own bonds during the fiscal year. Those bonds are reported as qualified tender bonds. The Agency will continue to hold those bonds until the market stabilizes or until the bonds are redeemed, remarketed or refunded with fixed rate issues prior to December 31, 2009, or otherwise in accordance with IRS guidance.

**8. Capital Assets**

Capital assets activity and summary balances for the years ended June 30, 2009 and 2008 are as follows:

	<b>Beginning Balance July 1, 2008</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance June 30, 2009</b>
Nondepreciable capital assets:				
Land	\$ 2,454	\$ -	\$ -	\$ 2,454
Total nondepreciable capital assets	<u>2,454</u>	<u>-</u>	<u>-</u>	<u>2,454</u>
Depreciable capital assets:				
Building and improvements	29,741	206	12	29,935
Computers and equipment	6,034	254	749	5,539
Furniture and fixtures	4,349	193	41	4,501
Automobiles	112	-	-	112
Total depreciable capital assets	<u>40,236</u>	<u>653</u>	<u>802</u>	<u>40,087</u>
Less accumulated depreciation:				
Building and improvements	3,135	597	-	3,732
Computers and equipment	3,627	483	749	3,361
Furniture and fixtures	1,044	243	41	1,246
Automobiles	46	14	-	60
Total accumulated depreciation	<u>7,852</u>	<u>1,337</u>	<u>790</u>	<u>8,399</u>
Total depreciable capital assets, net	<u>32,384</u>	<u>(684)</u>	<u>12</u>	<u>31,688</u>
Capital assets, net	<u>\$ 34,838</u>	<u>\$ (684)</u>	<u>\$ 12</u>	<u>\$ 34,142</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

*(In thousands of dollars)*

	<b>Beginning Balance</b>			<b>Ending Balance</b>
	<b>July 1, 2007</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2008</b>
Nondepreciable capital assets:				
Land	\$ 2,454	\$ -	\$ -	\$ 2,454
Total nondepreciable 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>

Depreciation expense for the years ended June 30, 2009 and 2008 totaled \$1,337 and \$1,328, respectively.

**9. Bonds and Note Payable**

Bonds issued to provide capital for mortgage programs have the full faith and credit of the Agency pledged for repayment. The bonds are secured by the revenues, investments, mortgage loans and others assets in the fund and accounts established by the respective security agreements.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

*(In thousands of dollars)*

---

Bonds payable for the General Fund are as follows:

<b>Description of Bonds as Issued</b>	<b>Final Maturity Date</b>	<b>Amounts Outstanding</b>	
		<b>June 30, 2009</b>	<b>June 30, 2008</b>
Variable Rate Building Development Bonds	2034	\$ 20,000	\$ 20,000
Unamortized bond discount		<u>(73)</u>	<u>(76)</u>
Total bonds payable		19,927	19,924
Less current portion		-	-
Long-term portion		<u>\$ 19,927</u>	<u>\$ 19,924</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

*(In thousands of dollars)*

Bonds payable for the Multifamily Housing Program are as follows:

<b>Description of Bonds as Issued</b>	<b>Final Maturity Date</b>	<b>Amounts Outstanding</b>	
		<b>June 30, 2009</b>	<b>June 30, 2008</b>
Multifamily Development Bonds			
Issue 1990A, 7.5%	2023	\$ -	\$ 1,595
Subordinate Limited Obligation Bonds			
Issue 1995, 5.50-6.15%	2021	2,225	3,228
Rental Housing Refunding Bonds			
Series 2008A/B, variable rate	2021	62,990	73,740
Series 2008C/D, variable rate	2020	95,590	107,050
Residential Development Bonds			
Issue 2002 (refunding), 1.80%-5.25%	2024	25,970	29,535
Multifamily Development Bonds			
Issue 1989B, 8.25%	2019	345	365
Issue 1993A (refunding), 5.38%	2022	8,640	10,560
Issue 1993F, 6.53%	2019	4,055	5,020
Issue 1997G, 7.36%	2027	9,110	9,340
Issue 1998H, 6.3%	2028	14,960	15,345
Issue 2003 (refunding), 3.25-4.80%	2019	12,495	13,875
Issue 2005A, 4.00-5.00%	2026	-	20,615
Issue 2005K, variable rate	2036	25,785	26,350
Issue 2007L, 4.20%	2009	12,600	12,600
		<u>274,765</u>	<u>329,218</u>
Unamortized bond discount		(206)	(226)
Unamortized deferred loss of refundings		(4,164)	(5,439)
Total bonds payable		<u>270,395</u>	<u>323,553</u>
Less current portion		40,133	27,850
Long-term portion		<u>\$ 230,262</u>	<u>\$ 295,703</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

*(In thousands of dollars)*

Bonds and note payable for the Single Family Mortgage Loan Program are as follows:

<b>Description of Bonds as Issued</b>	<b>Final Maturity Date</b>	<b>Amounts Outstanding</b>	
		<b>June 30, 2009</b>	<b>June 30, 2008</b>
Single Family Mortgage Revenue Bonds			
Series 1996 - 47, 4.20-6.75%	2027	\$ 2,820	\$ 4,100
Series 1997 - 54, 5.37-7.22%	2028	-	870
Series 1997 - 58, 4.30-7.81%	2028	390	1,795
Series 1997 - 59, 4.00-5.15%	2029	180	1,360
Series 1997 - 60, 4.00-7.69%	2028	315	1,900
Series 1997 - 61, 4.00-6.80%	2029	37,655	39,540
Series 1998 - 62, 4.25-6.40%	2029	48,370	50,385
Series 1998 - 63, 3.95-5.50%	2030	48,799	50,178
Series 1998 - 64, 3.65-5.25%	2030	49,365	51,767
Series 1999 - 65, 3.25-5.25%	2030	46,320	50,270
Series 1999 - 66, 4.05-6.95%	2031	26,600	29,040
Series 1999 - 67, 4.05-7.51%	2030	30,805	37,380
Series 1999 - 68, 4.30-7.02%	2031	18,230	21,910
Series 2000 - 69, 4.35-6.25%	2031	34,670	36,125
Series 2000 - 70, 4.30-5.90%	2032	33,555	35,165
Series 2001 - 72, 3.25-5.35%	2032	152,225	157,970
Series 2002 - 73, 1.75-5.45%	2033	118,400	127,515
Series 2002 - 74, variable rate	2032	98,120	98,530
Series 2002 - 75, variable rate	2033	88,510	90,555
Series 2003 - 77, variable rate	2033	77,150	82,405
Series 2003 - 78, variable rate	2025	57,390	59,885
Series 2003 - 79, variable rate	2034	77,225	81,765
Series 2004 - 81, variable rate	2034	85,135	87,610
Series 2004 - 82, variable rate	2034	80,175	85,835
Series 2004 - 83, variable rate	2035	82,275	85,540
Series 2004 - 84, variable rate	2034	84,420	88,650
Series 2004 - 85, variable rate	2035	86,975	88,860
Series 2004 - 86, variable rate	2035	94,440	96,185
Series 2005 - 87, variable rate	2035	92,175	93,020
Series 2005 - 88, variable rate	2037	86,875	91,170
Series 2005 - 89, variable rate	2035	115,780	115,780
Series 2005 - 90, variable rate	2036	117,205	120,320
Series 2005 - 91, variable rate	2036	121,025	122,805

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

*(In thousands of dollars)*

<b>Description of Bonds and Note as Issued</b>	<b>Final Maturity Date</b>	<b>Amounts Outstanding</b>	
		<b>June 30, 2009</b>	<b>June 30, 2008</b>
Series 2006 - 92, variable rate	2036	\$ 122,255	\$ 123,635
Series 2006 - 93, variable rate	2037	110,380	117,700
Series 2006 - 94, variable rate	2037	112,435	117,850
Series 2006 - 95, variable rate	2037	175,045	187,570
Series 2006 - 96, 3.60-5.72%	2037	179,400	188,870
Series 2007 - 97, 3.50-5.50%	2037	154,260	197,510
Series 2007 - 98, variable rate	2037	188,230	196,855
Series 2007 - 99, 3.70-5.30%	2038	128,360	198,950
Series 2007 - 100, 3.40-5.35%	2038	140,180	199,975
Series 2007 - 101, variable rate	2038	56,905	59,625
Series 2007 - 102, variable rate	2038	148,885	150,000
Series 2008 - 103, 2.00-5.70%	2038	182,400	-
Series 2008 - 104, variable rate	2038	167,250	-
Note Purchase Agreement - 2.5%	2017	3,500	2,500
		<u>3,963,059</u>	<u>3,927,225</u>
Unamortized bond discount		(11,690)	(11,823)
Unamortized deferred loss of refundings		<u>(16,904)</u>	<u>(17,649)</u>
Total bonds and note payable		3,934,465	3,897,753
Less current portion		112,015	88,390
Long-term portion		<u>\$ 3,822,450</u>	<u>\$ 3,809,363</u>

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

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

*(In thousands of dollars)*

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

Fiscal Year Ending	General Fund		Multifamily Housing Program		Single Family Mortgage Loan Program		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2010	\$ -	\$ 60	\$ 40,133	\$ 4,645	\$ 112,015	\$ 124,152	\$ 281,005
2011	-	60	28,619	4,042	113,920	120,100	266,741
2012	-	60	27,151	3,680	118,470	115,892	265,253
2013	-	60	26,083	3,309	115,255	111,466	256,173
2014	-	60	21,547	2,853	112,980	107,121	244,561
2015-2019	1,910	289	84,267	10,389	654,890	469,230	1,220,975
2020-2024	2,355	258	24,800	5,014	724,220	354,155	1,110,802
2025-2029	2,915	219	13,095	1,531	829,485	238,410	1,085,655
2030-2034	12,820	172	6,905	171	762,049	117,332	899,449
2035-2039	-	-	2,165	12	419,775	24,171	446,123
	<u>\$ 20,000</u>	<u>\$ 1,238</u>	<u>\$ 274,765</u>	<u>\$ 35,646</u>	<u>\$ 3,963,059</u>	<u>\$ 1,782,029</u>	<u>\$ 6,076,737</u>

**Early Extinguishment of Debt**

During the years ended June 30, 2009 and 2008, 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 \$22,480 and \$51,781, respectively. Net losses of \$212 and \$229 on early extinguishments have been recorded as a nonoperating expense for the years ended June 30, 2009 and 2008, respectively. Losses arise because of immediate recognition of deferred bond issuance costs and discounts that would have been amortized over the life of the applicable bond issues had they not been retired.

**Current Refunding**

During the year ended June 30, 2009, because of new debt proceeds, the Agency refunded the principal amount of certain Single Family Mortgage Loan Program bonds, totaling approximately \$1,800. The Agency realized an economic loss (difference between the present value of the old debt and new debt service payments) of \$17. The Agency recognized a deferred loss of \$1,085. The Agency increased its aggregate debt service payments by \$54 over the next 30 years by the current year's refunding activity.

During the year ended June 30, 2008, because of new debt proceeds, the Agency refunded the principal amount of certain Single Family Mortgage Loan Program bonds, totaling approximately \$160,959. Although the current refunding resulted in the recognition of a deferred loss of \$484 for the year ended June 30, 2008, the Agency in effect reduced its aggregate debt service payments by \$12,398 over the next 30 years and obtained an economic gain (difference

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

---

*(In thousands of dollars)*

between the present value of the old debt and new debt service payments) of \$7,076 for the year ended June 30, 2008.

### **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. The defeased principal outstanding is \$2,725 for both years ended June 30, 2009 and 2008.

### **Conduit Debt Obligations**

The Agency issued series 2003J Limited Obligation Multifamily Development Bonds, series 2008M Limited Obligation Multifamily Housing Revenue Bonds, series 2008P Special Limited Obligation Housing Development Bonds and series 2008O Special Limited Obligation Housing Development Bonds to provide for the financing of new construction or preservation of affordable housing stock in the Commonwealth of Pennsylvania. The bonds are secured solely by the properties and related revenues.

The Agency issued series 2005A Capital Fund Securitization Revenue Bonds to provide for the financial assistance of a local public housing authority. The bonds are secured solely by the properties financed and related revenues or appropriations to be paid by the United States Department of Housing and Urban Development.

These bonds, which are considered conduit debt obligations under GASB rules, do not constitute a debt or pledge of the faith and credit of the Agency and, accordingly, have not been reported in the accompanying financial statements. At June 30, 2009 and 2008, conduit debt outstanding aggregated \$97,002 and \$10,621, 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 Multifamily Housing Program bonds requires that a one-year debt service minimum balance be maintained at all times. The capital reserve requirement for Single Family Mortgage Loan Program bonds must be equal to at least 3% of the aggregate principal amount of all Single Family Mortgage Loan Program bonds outstanding plus one million dollars. Bond covenant requirements regarding restricted cash and net assets were met at year-end.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

*(In thousands of dollars)***10. Interest Rate Swaps**

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

**Swap Payments**

At June 30, 2009, debt service requirements of the Agency's outstanding variable-rate debt and net swap payments, assuming current interest rates remain constant, are displayed in the following schedule. As interest rates vary, variable-rate bond interest payments and net swap payments will also vary.

<b>Fiscal Year Ending June 30</b>	<b>Variable Rate Bond Principal</b>	<b>Variable Rate Bond Interest</b>	<b>Interest Rate Swap, Net</b>	<b>Total</b>
2010	\$ 31,360	\$ 9,901	\$ 59,358	\$ 100,619
2011	31,190	9,773	54,221	95,184
2012	29,665	9,648	52,088	91,401
2013	24,875	9,532	49,202	83,609
2014	24,005	9,432	54,414	87,851
2015-2019	231,550	44,384	199,319	475,253
2020-2024	282,580	36,895	148,916	468,391
2025-2029	400,500	26,895	103,906	531,301
2030-2034	389,960	13,900	50,492	454,352
2035-2039	179,735	2,410	6,062	188,207
Totals	<u>\$ 1,625,420</u>	<u>\$ 172,770</u>	<u>\$ 777,978</u>	<u>\$ 2,576,168</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

*(In thousands of dollars)*

**Significant Terms**

The terms, fair value and credit ratings of the Agency's outstanding swaps as of June 30, 2009, are included in the following schedule (credit ratings supplied by Standard and Poor's/Moody's):

<b>Counter-Party and Ratings</b>	<b>Related Bond Issue</b>	<b>Notional Amount</b>	<b>Effective Date</b>	<b>Maturity Date</b>	<b>Fixed Rate Paid</b>	<b>Variable Rate Received</b>	<b>Fair Values of Contract</b>
JP Morgan AA-/Aa1	RHR2008C*	\$ 49,935	6/2003	7/2020	3.457%	70% of 1-month LIBOR	\$ (2,857)
	RHR2008D*	49,935	6/2003	7/2020	3.547	70% of 1-month LIBOR	(2,788)
PNC Bank A+/A1	VRDB2004	20,000	2/2004	1/2034	3.945	65% of 1-month LIBOR+25bps	(920)
Merrill Lynch A/A2	2004-82B	42,905	5/2004	10/2030	3.643	61% of 1-month LIBOR+39bps	(2,221)
	2004-82C*	35,220	5/2004	10/2034	4.164	61% of 1-month LIBOR+39bps	(1,767)
	2005-88B	49,575	5/2005	10/2035	3.500	61% of 1-month LIBOR+39bps	(2,422)
	2005-88C*	31,930	5/2005	10/2035	3.975	61% of 1-month LIBOR+39bps	(846)
	2006-93B	37,185	5/2006	4/2037	4.266	61% of 1-month LIBOR+39bps	(3,418)
	2007-98C*	41,955	5/2007	10/2037	4.105	61% of 1-month LIBOR+39bps	(2,442)
RBC Capital AA-/Aaa	MF2005-K*	30,045	3/2005	1/2036	5.183	1-month LIBOR	(4,642)
UBS AG A+/Aa2	2000-70B	3,155	4/2001	4/2011	6.927	1-month LIBOR	(163)
	2002-73C	2,505	3/2002	4/2010	5.017	1-month LIBOR	(65)
	2002-75A	30,000	12/2002	10/2032	3.957	70% of 1-month LIBOR	(1,482)
	2003-79B*	75,800	12/2003	10/2033	3.997	65% of 1-month LIBOR+25bps	(6,203)
	2004-83B	23,365	8/2004	10/2019	3.410	65% of 1-month LIBOR+25bps	(1,211)
	2004-83C*	54,185	8/2004	10/2035	4.060	65% of 1-month LIBOR+25bps	(3,934)
	2004-85B	22,990	11/2004	4/2019	3.168	65% of 1-month LIBOR+25bps	(599)
	2004-85C*	58,860	11/2004	10/2035	3.879	65% of 1-month LIBOR+25bps	(3,525)
	2005-87B	36,485	3/2005	10/2023	3.460	65% of 1-month LIBOR+25bps	(1,953)
	2005-87C*	60,425	3/2005	10/2035	3.882	65% of 1-month LIBOR+25bps	(3,545)
	2005-90C*	62,465	9/2005	4/2036	3.692	65% of 1-month LIBOR+25bps	(2,783)
	2006-92B	43,745	3/2006	10/2036	3.996	65% of 1-month LIBOR+25bps	(3,245)
	2006-95C*	46,910	9/2006	4/2026	4.115	65% of 1-month LIBOR+25bps	(3,040)
	2007-97D1	23,185	3/2007	10/2014	4.922	1-month LIBOR	(1,773)
	2007-97D2	10,130	3/2007	4/2012	4.862	1-month LIBOR	(580)
	2007-100C	44,395	12/2007	4/2038	4.136	65% of 1-month LIBOR+25bps	(3,309)
	2007-100D	54,220	12/2007	10/2013	4.471	1-month LIBOR	(3,830)

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands of dollars)

Counter-Party and Ratings	Related Bond Issue	Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received	Fair Values of Contract
Goldman Sachs	1999-67B	\$ 18,795	8/2002	4/2029	5.950%	1-month LIBOR + 50bps	\$ (3,427)
	2001-72C	16,390	9/2001	10/2023	5.695	1-month LIBOR	(1,953)
AAA/Aa1	RHR2002A*	63,460	7/2002	1/2021	3.575	67% of 1-week LIBOR	(4,026)
	2002-74A	30,000	8/2002	10/2032	4.285	67% of 1-month LIBOR	(1,972)
	2003-77B*	59,900	9/2003	10/2033	4.060	67% of 1-month LIBOR	(2,824)
	2003-77C	9,280	9/2003	4/2012	2.690	67% of 1-month LIBOR	(269)
	2004-81B	6,285	4/2004	4/2013	2.365	67% of 1-month LIBOR	(159)
	2004-81C*	62,740	4/2004	10/2034	3.557	67% of 1-month LIBOR	(2,355)
	2004-84C	13,230	9/2004	4/2018	3.115	67% of 1-month LIBOR	(604)
	2004-84D*	58,335	9/2004	10/2034	3.879	67% of 1-month LIBOR	(2,938)
	2004-86B*	62,785	11/2004	10/2033	3.417	67% of 1-month LIBOR	(3,501)
	2005-89*	109,870	6/2005	10/2035	3.605	67% of 1-month LIBOR	(4,506)
	2005-91B	70,000	12/2005	10/2036	3.953	67% of 1-month LIBOR	(5,310)
	2006-94B	35,165	7/2006	4/2027	4.152	69% of 1-month LIBOR	(3,996)
	2007-99C	15,000	9/2007	10/2023	3.885	69% of 1-month LIBOR	(1,709)
	2007-99D	62,990	9/2007	4/2015	5.149	1-mth LIBOR rounded up .001%	(5,503)

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

**Fair Value**

Because interest rates have changed since the agreements became effective, all of the Agency's interest rate swaps have a negative fair value as of June 30, 2009. 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.

**Termination Risk**

The Agency or the counterparty may terminate any of the swaps if either party fails to perform under the terms of the swap agreements. Furthermore, the Agency maintains the option to terminate swap agreements anytime. If at the time of termination the swap has a negative fair value, the Agency would be liable to the counterparty for a payment equal to the swap's fair value. Lehman Brothers, counterparty to one of the Agency's swaps, filed for bankruptcy, which triggered an interest rate swap termination event on September 16, 2008. As a result, the fair value of the swap agreement of \$283 at the time of the termination was due to the Agency during the year ended June 30, 2009.

# PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009 and 2008

*(In thousands of dollars)*

## Basis and Interest Rate 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.

## 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 a swap counterparty fails to perform according to contractual obligations. The appropriate measurement of the risk at the reporting date is the positive fair values of the outstanding swaps, as shown in the column labeled "Fair value of contract" in the table above. As of June 30, 2009, the Agency was not exposed to credit risk on the outstanding swaps because all swaps had negative fair values.

## Rollover Risk

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

<u>Associated Bond Issue</u>	<u>Debt Maturity Dates</u>	<u>Swap Termination Dates</u>
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
2008-104	10/2037	10/2014
2008-104	10/2037	04/2012
2008-104	04/2038	04/2015
2008-104	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.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands of dollars)

**11. Long-Term Liabilities**

The changes in long-term liabilities for the year ended June 30, 2009 were as follows:

	<u>July 1,</u> <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2009</u>	<u>Due Within</u> <u>One Year</u>
Bonds and notes payable	\$4,276,443	\$ 351,340	\$ 369,959	\$4,257,824	\$ 152,148
Net bond premium (discount)	(12,125)	(1,279)	(1,435)	(11,969)	-
Deferred refunding loss	(23,088)	(1,085)	(3,105)	(21,068)	-
Bonds and notes payable, net	<u>4,241,230</u>	<u>348,976</u>	<u>365,419</u>	<u>4,224,787</u>	<u>152,148</u>
Net OPEB obligation	3,041	3,316	408	5,949	-
Escrow deposits	168,901	212,397	215,801	165,497	60,520
Other liabilities	175,232	390,199	365,142	200,289	695
Escrow and other liabilities	<u>347,174</u>	<u>605,912</u>	<u>581,351</u>	<u>371,735</u>	<u>61,215</u>
Total net long-term liabilities	<u>\$4,588,404</u>	<u>\$ 954,888</u>	<u>\$ 946,770</u>	<u>\$4,596,522</u>	<u>\$ 213,363</u>

The changes in long-term liabilities for the year ended June 30, 2008 were as follows:

	<u>July 1,</u> <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2008</u>	<u>Due Within</u> <u>One Year</u>
Bonds and notes payable	\$4,010,676	\$1,056,211	\$ 790,444	\$4,276,443	\$ 116,240
Net bond premium (discount)	(9,631)	(3,353)	(859)	(12,125)	-
Deferred refunding loss	(24,489)	(2,108)	(3,509)	(23,088)	-
Bonds and notes payable, net	<u>3,976,556</u>	<u>1,050,750</u>	<u>786,076</u>	<u>4,241,230</u>	<u>116,240</u>
Net OPEB obligation	-	3,041	-	3,041	-
Escrow deposits	164,143	205,139	200,381	168,901	61,132
Other liabilities	161,248	349,499	335,515	175,232	48,825
Escrow and other liabilities	<u>325,391</u>	<u>557,679</u>	<u>535,896</u>	<u>347,174</u>	<u>109,957</u>
Total net long-term liabilities	<u>\$4,301,947</u>	<u>\$1,608,429</u>	<u>\$1,321,972</u>	<u>\$4,588,404</u>	<u>\$ 226,197</u>

**12. Restricted Net Assets**

Multifamily Housing Program and Single Family Mortgage Loan Program net assets of \$5,279 and \$203,079, respectively, are restricted by bond resolutions required under certain bond indentures whose proceeds are used to fund loan programs, including the Self-Insurance Fund, which has been established at not less than 1% of anticipated mortgages to be originated on Series I through Series 2006-96 and held by a trustee.

# PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009 and 2008

(In thousands of dollars)

HEMAP's net assets of \$43,919 have been restricted in accordance with GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. Net assets have been restricted by the Commonwealth of Pennsylvania, which requires that net assets shall be used in providing assistance loans to mortgagors facing foreclosure because of circumstances beyond their control.

## 13. Designated Net Assets

Unrestricted net assets have been designated by the Members of the Board for the following purposes at June 30, 2009 and 2008:

	<u>June 30,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>
<b>General Fund:</b>		
Single Family Insurance to fund special hazard losses by homeowners	\$ 16,500	\$ 16,500
Multifamily Insurance for Agency insured or coinsured developments	10,000	10,000
Housing Initiatives provide below market rate financing to developments	11,850	11,850
Home Buyer Counseling for education of first time homebuyers	6,500	6,500
Home Choice Program to fund the development of homes in urban areas	47,150	47,031
Homeless Auxiliary Initiative to provide assistance to homeless shelters	1,593	1,593
Total	<u>\$ 93,593</u>	<u>\$ 93,474</u>
<b>Multifamily Housing Program:</b>		
PennHOMES Program to lower development costs for certain apartments	\$ 137,000	\$ 137,000
Senior Housing with Supportive Services to fund elderly resident services	4,000	4,000
Supportive Services to fund multifamily resident services	2,300	2,300
Preservation manages physical deterioration, financial or social distress	3,000	3,000
Total	<u>\$ 146,300</u>	<u>\$ 146,300</u>
<b>Single Family Mortgage Loan Program:</b>		
Closing Cost Subsidy Program to assist borrowers with closing costs	\$ 14,750	\$ 14,750
Additional Single Family Insurance to reduce the risk of default on loans	2,455	2,455
Total	<u>\$ 17,205</u>	<u>\$ 17,205</u>
<b>Insurance Fund:</b>		
Risk Retention Program to provide single family mortgage insurance	<u>\$ 35,405</u>	<u>\$ 48,298</u>

## 14. Pension Plans

### Plan Description

As of June 30, 2009, 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. Pension plan assets and liabilities are not included in the basic financial statements of the Agency. The Plans do not issue stand-alone financial statements.

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009 and 2008

*(In thousands of dollars)*

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

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

### Funding Policy

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

### Annual Pension Cost and Net Pension Asset

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

	<b>June 30, 2009</b>	<b>June 30, 2008</b>
Annual required contribution (ARC)	\$ 2,348	\$ 2,364
Interest on net pension asset	(67)	-
Adjustment to ARC	102	-
Annual pension cost	2,383	2,364
Contributions made	(2,700)	(2,600)
Increase in net pension asset	(317)	(236)
Net pension asset beginning of year	(1,135)	(899)
Net pension asset end of year	\$ (1,452)	\$ (1,135)

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

*(In thousands of dollars)***Three-Year Trend Information for the Plan:**

<u>Calendar Year Ended</u>	<u>Annual Pension Cost ("APC")</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension (Asset)</u>
December 31, 2008	\$ 2,383	113%	\$ (1,452)
December 31, 2007	2,364	110	(1,135)
December 31, 2006	2,335	103	(899)

**Funded Status and Funding Progress**

As of January 1, 2009, the most recent actuarial valuation date, the Plan was 67.1% funded. The actuarial accrued liability for benefits was \$52,204, and the actuarial value of assets was \$35,042, resulting in an unfunded actuarial accrued liability ("UAAL") of \$17,162. The covered payroll (annual payroll of active employees covered by the Plan) was \$13,447 and the ratio of the UAAL to the covered payroll was 127.6%. Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2009
Actuarial cost method	Aggregate
Amortization method	*
Remaining amortization period	*
Amortization period open or closed	*
Asset valuation method	Market Value for 1/1/2007 and 1/1/2008 and Five-Year Smoothed Value for 1/1/2009.
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.

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

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2009 and 2008

---

*(In thousands of dollars)*

### 15. Postemployment Benefits Other than Pensions

#### **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. Plan assets and liabilities are included in the basic financial statements of the Agency. Because the Plan consists solely of the Agency’s commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated for the Plan.

#### **Funding Policy**

Premiums under the Plan for post-employment healthcare benefits are partially funded by retirees desiring such coverage via co-pays paid to the Agency in accordance with rates established by the Agency. For the year ended June 30, 2009, contribution rates for Plan members equaled 2.5% of the insurance premium per participant per month. For the year ended June 30, 2009, Plan members receiving benefits paid \$10, which was used to offset the Agency’s total outlays to insurance carriers equaling \$408 for current year premiums due. The net outlay from the Agency, which equaled \$398, 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.

Because 2007 was the transition year for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the OPEB liability balance was zero upon implementation.

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**

Notes to Financial Statements

June 30, 2009 and 2008

*(In thousands of dollars)*

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

	<b>June 30, 2009</b>	<b>June 30, 2008</b>
Annual required contribution (ARC)	\$ 3,363	\$ 3,363
Interest on net OPEB obligation	131	-
Adjustment to ARC	(178)	-
Annual OPEB expense	3,316	3,363
Contributions made	(408)	(322)
Increase in net OPEB obligation	2,908	3,041
Net OPEB obligation beginning of year	3,041	-
Net OPEB obligation end of year	<u>\$ 5,949</u>	<u>\$ 3,041</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, 2009 and 2008 was as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
June 30, 2009	\$ 3,316	12%	\$ 5,949
June 30, 2008	3,363	10	3,041

**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 \$28,072, resulting in a 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%. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The schedule of funding progress for the postemployment healthcare plan, presented as RSI following the notes to the financial statements presents multiyear trend information, when available, about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Actuarial Methods and Assumptions**

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

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

---

*(In thousands of dollars)*

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.

**16. Advances Receivable, Payable and Transfers**

Advances to and from other funds is summarized below for the year ended June 30, 2009:

<b>Advance payable fund:</b>	
Multifamily Housing Program	\$ 394
Single Family Mortgage Loan Program	31,099
HEMAP	4,352
Total	<u>\$ 35,845</u>
<b>Advance receivable fund:</b>	
General Fund	<u>\$ 35,845</u>
<b>Interfund transfers in:</b>	
General Fund	\$ 4,762
Single Family Mortgage Loan Program	25,713
	<u>\$ 30,475</u>
<b>Interfund transfers out:</b>	
Insurance Fund	\$ 10,000
Multifamily Housing Program	20,475
	<u>\$ 30,475</u>

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009 and 2008

---

*(In thousands of dollars)*

### **17. 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.

#### **Risk Management**

The Agency is subject to normal risks associated with its operations including property damage, personal injury and employee dishonesty. All risks are managed through the purchase of commercial insurance. There have been no losses or decreases in insurance coverage over the last three years.

#### **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.

#### **Commitments**

Outstanding commitments by the Agency to make or acquire Multifamily Housing and Single Family Mortgage loans were approximately \$8,540 and \$5,655, respectively, at June 30, 2009.

### **18. Subsequent Events**

On September 25, 2009, as a result of credit and liquidity constraints in the variable rate bond sector of the bond markets, the Agency purchased \$71,987 of its own qualified tender bonds. As temporarily allowed by the IRS, the bonds purchased will be recorded as an asset on the Agency's Balance Sheets as qualified tender bonds. The Agency will hold those bonds awaiting remarketing when the market stabilizes or until those bonds are redeemed, remarketed or refunded with fixed rate issues prior to December 31, 2009, or otherwise in accordance with IRS guidance.

On September 30, 2009, the Agency issued \$193,670 of Single Family Mortgage Revenue Bonds, Series 105A through 105C. These bonds are general obligations of the Agency that bear interest at fixed rates payable on each April 1 and October 1, with a final maturity date of October 1, 2039. The bonds will be primarily secured by program obligations consisting of qualifying single family mortgage loans purchased from bond proceeds.

## Required Supplementary Information

**PENNSYLVANIA HOUSING FINANCE AGENCY**Required Supplementary Information (*Unaudited*)

June 30, 2009

---

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

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets ( a )</b>	<b>Actuarial Liability (AAL) - Entry Age ( b )</b>	<b>Unfunded AAL (UAAL) ( b - a )</b>	<b>Funded Ratio ( a / b )</b>	<b>Covered Payroll ( c )</b>	<b>UAAL as a Percentage of Covered Payroll ( b - a ) / ( c )</b>
01/01/2009	\$ 35,042	\$ 52,204	\$ 17,162	67.1%	\$ 13,447	127.6%
01/01/2008	37,040	46,470	9,430	79.7	12,652	74.5
01/01/2007	31,939	41,823	9,884	76.4	12,464	79.3

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Required Supplementary Information (*Unaudited*)

June 30, 2009

(*In thousands of dollars*)

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

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets ( a )</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age ( b )</b>	<b>Unfunded AAL (UAAL) ( b - a )</b>	<b>Funded Ratio ( a / b )</b>	<b>Covered Payroll ( c )</b>	<b>UAAL as a Percentage of Covered Payroll ( b - a ) / ( c )</b>
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.