

**BASIC FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION**

**Pennsylvania Housing Finance Agency  
Years Ended June 30, 2010 and 2009  
With Report of Independent Auditors**

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## Report of Independent Auditors

Members of the Board of Directors  
Pennsylvania Housing Finance Agency

We have audited the accompanying financial statements of the General Fund, 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, 2010 and 2009, 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, 2010 and 2009, and the respective changes in its financial position and its cash flows for the years then ended in conformity with US generally accepted accounting principles.

As discussed in Notes 1 and 7, PHFA adopted Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2010 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 Funding Progress for the Pennsylvania Housing Finance Agency Employees' Retirement Plan and Government Excess Benefit Plan, and the Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Postemployment Benefits Plan on pages 5 through 12, 52, and 53, 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*

December 15, 2010

**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, 2010, which collectively comprise the basic financial statements of the Pennsylvania Housing Finance Agency (PHFA), a component unit of the Commonwealth of Pennsylvania, and have issued our report thereon dated December 15, 2010. 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*

December 15, 2010

# **PENNSYLVANIA HOUSING FINANCE AGENCY**

Management's Discussion and Analysis (*Unaudited*)

June 30, 2010 and 2009

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*(Amounts rounded to facilitate easy reading)*

## **Introduction**

This discussion and analysis of the financial performance of the Pennsylvania Housing Finance Agency ("Agency") is required supplementary information. It introduces the financial statements for the year ended June 30, 2010 with selected comparative information for the years ended June 30, 2009 and June 30, 2008. It provides the financial highlights and assessments that, in management's view, significantly affected the Agency's overall financial position. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow this section.

## **Basic Financial Statements**

The Agency's basic financial statements include the Balance Sheet, the Statement of Revenues, Expenses and Change in Fund Net Assets, the Statement of Cash Flows and the Notes to 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 creditors (liabilities) and net assets. Net assets represent the amount of total assets, less liabilities. The organization of the statement separates assets and liabilities into current and noncurrent categories.

The Statement of Revenues, Expenses and Change in Fund 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.

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

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(Amounts rounded to facilitate easy reading)

### Condensed Balance Sheets

The following table presents summarized information about the financial position of the Agency as of June 30, 2010, 2009 and 2008, and the changes in the balances from the prior years (in thousands):

	<u>June 30,</u> <u>2010</u>	<u>June 30,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>	<u>Percentage</u> <u>Change</u> <u>2010/2009</u>	<u>Percentage</u> <u>Change</u> <u>2009/2008</u>
Assets:					
Capital assets	\$ 33,353	\$ 34,142	\$ 34,838	(2.3)%	(2.0)%
Other assets	6,232,043	5,399,678	5,364,699	15.4	0.7
Total Assets	<u>6,265,396</u>	<u>5,433,820</u>	<u>5,399,537</u>	<u>15.3</u>	<u>0.6</u>
Liabilities:					
Current liabilities	782,236	304,188	293,497	157.2	3.6
Long-term liabilities	4,712,074	4,383,159	4,362,207	7.5	0.5
Total liabilities	<u>5,494,310</u>	<u>4,687,347</u>	<u>4,655,704</u>	<u>17.2</u>	<u>0.7</u>
Net assets:					
Invested in capital assets, net of related debt	13,423	14,215	14,914	(5.6)	(4.7)
Restricted	239,098	252,277	126,715	(5.2)	99.1
Unrestricted	518,565	479,981	602,204	8.0	(20.3)
Total net assets	<u>\$ 771,086</u>	<u>\$ 746,473</u>	<u>\$ 743,833</u>	<u>3.3%</u>	<u>0.4%</u>

### Discussion and Analysis of the Significant Changes in the Balance Sheets

#### Assets

##### Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments equaled 24% of the total assets at June 30, 2010 and equaled 16% and 19% of the total assets at June 30, 2009 and 2008, respectively. The Agency's funding comes from a variety of sources, including the sale of its own securities to private investors, grants from federal and local governments, mortgage program income and earnings on investments. A majority of monies are invested in direct obligations and mortgaged-backed securities guaranteed by the U.S. government or its agencies. A portion of Agency expenses are paid by investment income; part of the investment earnings are used to subsidize housing programs.

Cash and cash equivalents increased to \$1.2 billion or 54% at June 30, 2010 from \$800 million at June 30, 2009. This can be compared to an increase of \$77 million or 11% to \$800 million at

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

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*(Amounts rounded to facilitate easy reading)*

June 30, 2009 from \$723 million at June 30, 2008. Investments increased 172% to \$242 million at June 30, 2010 from \$89 million at June 30, 2009. This can be compared to a decrease of \$235 million or 73% to \$89 million at June 30, 2009 from \$324 million at June 30, 2008.

### **Mortgage Loans Receivable, Net**

Loan portfolios of the Multifamily Housing Program, Single Family Mortgage Loan Program and the Homeowners' Emergency Mortgage Assistance Program ("HEMAP") are the Agency's primary performing assets that equaled 72% of the Agency's total assets at June 30, 2010 and 76% at June 30, 2009. Loan portfolios increased \$300 million or 7% to \$4.5 billion at June 30, 2010 from \$4.2 billion at June 30, 2009, which was due primarily to favorable interest rates and closing cost assistance on single-family mortgage loans. This is compared with a decrease of \$130 million or 2% to \$4.2 billion at June 30, 2009 from \$4.3 billion at June 30, 2008, after adjustments for principal payments and loan losses.

### **Multifamily Housing Program Loan Activity**

The Multifamily Housing Program funded approximately \$109 million of mortgage loans by providing financing for affordable housing developments compared with \$25 million in the prior year. The Multifamily loan portfolio decreased by 8% to \$498 million at June 30, 2010 from \$542 million at June 30, 2009, after adjustments of the provision for loan loss, prepayments and scheduled principal payments. This is compared to a decrease of 4% to \$542 million at June 30, 2009 from \$562 million at June 30, 2008.

Mortgage loans are reported net of allowances for potential loan loss. The total allowance for loan loss equaled 25% of Multifamily receivables at June 30, 2010. This is compared to 22% of the total Multifamily portfolio at June 30, 2009 and 2008. At June 30, 2010, the expense for the provision for loan loss decreased by 23% to \$2.3 million from \$3 million at June 30, 2009.

### **Single Family Mortgage Loan Program Activity**

The Single Family Mortgage Loan Program purchased approximately \$802 million of new single-family mortgage loans compared with \$365 million in the prior year. The Single Family loan portfolio increased 8% to \$3.9 billion at June 30, 2010 from \$3.6 billion at June 30, 2009, after adjustments of the provision for loan loss, prepayments and scheduled principal payments. This is compared to a decrease of 3% to \$3.6 billion at June 30, 2009 from \$3.7 billion at June 30, 2008.

Mortgage loans are reported net of allowances for potential loan loss. The total allowance for loan loss equaled 1% of the total loan receivables for years ended June 30, 2010, 2009 and 2008. The allowance remains very low since mortgage insurance companies insure a majority of the loan portfolio. At June 30, 2010, the expense for the provision for loan loss decreased by 14% to \$1.8 million from \$2.1 million at June 30, 2009.

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

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*(Amounts rounded to facilitate easy reading)*

### **HEMAP Loan Activity**

HEMAP disbursed approximately \$21 million of emergency mortgage assistance loans compared with \$19 million in the prior year. The total portfolio of HEMAP increased 10% to \$55 million at June 30, 2010 from \$50 million at June 30, 2009, after adjustments for the provision for loan loss, prepayments, and scheduled principal payments.

HEMAP loans are reported net of allowances for potential loan loss. The total allowance for loan loss equaled 45% of the total loan portfolio at June 30, 2010. This can be compared to 45% and 46% of the total loan portfolio at June 30, 2009 and 2008, respectively. Management believes the provision properly represents potential loan losses based on historical trends and the quality of the properties collateralized by the mortgage loan agreements. At June 30, 2010, the expense for the provision for loan loss decreased by 1% to \$8.9 million from \$9 million at June 30, 2009.

### **Liabilities**

#### **Bonds and Notes Payable**

Bonds and notes payable equaled 87% of the total liabilities at June 30, 2010; 90% at June 30, 2009; and 91% at June 30, 2008. The Multifamily Housing Program finances various housing developments throughout the Commonwealth of Pennsylvania with multifamily development bonds proceeds relating to the construction or rehabilitation of multifamily rental housing developments generally designed for persons or families of low and moderate income or the elderly. The Single Family Mortgage Loan Program provides residential mortgage financing programs that serve low to moderate and middle-income qualified homebuyers.

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 and, the spread between the rate on the Agency's mortgage 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 and investment interest income. If interest rates rise, mortgage and investment income should increase as new mortgage loans are originated and new investments are purchased at the higher rates. If interest rates fall, mortgage and investment income will decrease as new mortgage loans are originated and new investments are purchased at the lower rates. Any decrease in general mortgage interest rates may also cause an increase in prepayments on higher rate mortgages. The Agency uses many of these prepayments to call 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.

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

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*(Amounts rounded to facilitate easy reading)*

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

During the 2010 fiscal year, the Multifamily Housing Program did not issue any bonds. As a result, the total outstanding bonds balance at June 30, 2010 decreased by 19% or \$51 million because of scheduled debt payments and redemptions. The Multifamily Housing Program did not issue any bonds during the years ended June 30, 2009 and 2008.

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

During the 2010 fiscal year, the Agency issued approximately \$1.2 billion of Single Family Mortgage Revenue Bonds Series 105 through Series 108. The Agency borrowed an additional \$2.5 million of PNC Note Purchase agreements credit to fund the Homeowners' Equity Recovery Opportunity Loan Program. Total debt outstanding of the Single Family Mortgage Loan Program increased by 16% to \$4.6 billion because of the issuance of the aforementioned debt and note borrowing, adjusted by scheduled debt payments. During the years ended June 30, 2009 and 2008, the Agency issued Mortgage Revenue Bonds totaling \$350 million and \$610 million, respectively.

During the 2010 fiscal year, the United States Treasury, in partnership with Fannie Mae and Freddie Mac, announced the New Issue Bond Program (NIBP) as part of the Housing and Economic Recovery Act of 2008. This program provided the Agency with \$604,000 of available financing for purposes of issuing Single Family Mortgage Revenue Bonds. See Note 6 for further discussion of the New Bond Issue Program.

### **Net Assets**

Net assets are reported as those invested in capital assets, net of related debt; restricted by bond covenants or legislation and unrestricted.

Net assets invested in capital assets, net of related debt decreased \$800 thousand or 6% to \$13.4 million at June 30, 2010 from \$14.2 million at June 30, 2009. This is compared to a decrease of \$700 thousand or 5% to \$14.2 million at June 30, 2009 from \$14.9 million at June 30, 2008. A majority of this net asset is invested in the Agency headquarters constructed during 2004. The Agency issued Variable-rate Building Development Bonds, Series 2004 to fund the construction of its headquarters in Harrisburg. This net asset changes with additions of equipment or improvements to the headquarters, less depreciation expenses and retirement of the related bond issue debt.

Restricted net assets decreased to \$239 million or 5% at June 30, 2010 from \$252 million at June 30, 2009. This is compared to an increase of \$125 million or 98% to \$252 million at June 30, 2009 from \$127 million at June 30, 2008. Restricted net assets represent assets with constraints placed on their use by external groups, such as creditors and by law through enabling legislation.

Unrestricted net assets increased to \$519 million or 8% at June 30, 2010 from \$480 million at June 30, 2009. This is compared to a decrease of \$122 million or 20% to \$480 million at June 30, 2009 from \$602 million at June 30, 2008. Unrestricted net assets do not meet the definition

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*(Amounts rounded to facilitate easy reading)*

of invested in capital assets, net of related debt or restricted net assets. This component includes net assets designated for specific purposes by the Members of the Board.

**Condensed Statements of Revenues, Expenses and Changes in Fund Net Assets**

The following table presents summarized information about the revenues, expenses and changes in net assets for the years ended June 30, 2010, 2009 and 2008, and the variances from the prior year (in thousands):

	<b>June 30, 2010</b>	<b>June 30, 2009</b>	<b>June 30, 2008</b>	<b>Percentage Change 2010/2009</b>	<b>Percentage Change 2009/2008</b>
Operating revenues:					
Mortgage Loan Interest	\$ 197,947	\$ 207,990	\$ 201,535	(4.8)%	3.2%
Federal program awards	630,348	474,847	461,231	32.7	3.0
Program income	53,821	49,825	46,791	8.0	6.5
Total operating revenues	<u>882,116</u>	<u>732,662</u>	<u>709,557</u>	20.4	3.3
Operating expenses	882,024	744,450	718,314	18.5	3.6
Nonoperating revenues, net	<u>24,521</u>	<u>14,428</u>	<u>40,853</u>	70.0	(64.7)
Change in net assets	<u>\$ 24,613</u>	<u>\$ 2,640</u>	<u>\$ 32,096</u>	832.3	(91.8)

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

The Agency's total change in net assets at June 30, 2010 was \$24.6 million of income at June 30, 2010, compared with \$2.6 million of income for June 30, 2009 and \$32 million of income at June 30, 2008. The most significant items related to these changes are discussed below.

**Operating Revenues****Interest Income on Mortgage Loans**

Total mortgage loan interest revenue decreased 5% to \$198 million at June 30, 2010 from \$208 million at June 30, 2009. Total mortgage loan interest revenue increased 3% to \$208 million at June 30, 2009 from \$202 million at June 30, 2008. During the year ended June 30, 2010, the Agency pooled mortgage loans with a principal balance of approximately \$163 million into Ginnie Mae Mortgage-Backed Securities. The Agency no longer earns interest on those loans, but earns revenue for servicing those loans, which is included as program income and fees on the Statements of Revenues, Expenses and Changes in Fund Net Assets. Additionally, the Agency

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Management's Discussion and Analysis (*Unaudited*)

June 30, 2010 and 2009

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*(Amounts rounded to facilitate easy reading)*

originated approximately \$802 million of new loans during the year at lower interest rates than in previous years.

### **Federal Program Awards and Related Expenses**

Federal awards represented 71% of the total operating revenue as compared to 65% of the total operating revenue in the prior year. The increase is the result of additional money available from the federal government related to The American Recovery and Reinvestment Act of 2009. Federal grant revenues and related expense are passed through the Agency, do not represent actual revenue obtained or useable by the Agency and are reported as required by the Governmental Accounting Standards Board.

The Agency receives federal program awards of federal financial assistance to transfer to various secondary recipients, predominately from the Department of Housing and Urban Development ("HUD") and the U.S. Department of Treasury. The most significant pass-through awards are summarized as follows:

- As a designated State Housing Finance Agency for HUD Section 8 Programs, the Agency requisitions and passes through Section 8 Program funds and makes disbursements to eligible multifamily housing developments. For the years ended June 30, 2010, 2009 and 2008, the Agency received and disbursed \$377 million, \$352 million and \$343 million, respectively.
- The Agency is designated as a participating entity under grant agreements with the Department of Community and Economic Development for HUD's HOME Program. The HOME Program provides funding for developing affordable housing for persons of low and very low income. Funding passed through the Agency for the year ended June 30, 2010, 2009 and 2008, was \$110 million, \$116 million and \$113 million, respectively.
- As a State Credit Agency, the Agency received funding that is part of the American Recovery and Reinvestment Act of 2009 that created two programs that relate to low-income housing tax credits. The first program is the Tax Credit Assistance Program (TCAP). TCAP provides funding for capital investments in Low Income Housing Tax Credit (LIHTC) projects. The second program is the Section 1602 Program (Exchange Program) which permits the Agency to "exchange" eligible low income housing tax credits for cash to finance construction or acquisition and rehabilitation of a qualified low-income housing building. During the year ended June 30, 2010, the Agency passed-through \$34 million for TCAP and \$99 million for the Section 1602 Program. No TCAP or Section 1602 funds were received during the years ended June 30, 2009 and 2008.
- As a participating entity under a grant agreement with the U.S. Department of Treasury, the Agency passes through NeighborWorks funding for the National Foreclosure Mitigation Counseling Program. The program provides counseling to homeowners who may be in

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Management's Discussion and Analysis (*Unaudited*)

June 30, 2010 and 2009

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(Amounts rounded to facilitate easy reading)

danger of foreclosure. For the year ended June 30, 2010, 2009 and 2008, the Agency passed through \$8 million, \$5 million and \$78 thousand, respectively.

The Agency earned approximately \$13 million for administering federal programs for the year ended June 30, 2010. Of those fees, approximately \$7 million was paid to Pennsylvania Multifamily Asset Managers for Section 8 Contract Administration work, which is reported as a general and administrative expense.

### **Operating Expenses**

#### **Interest on Bonds and Notes**

Interest on bonds and notes payable decreased 11% to \$191 million for the year ended June 30, 2010 from \$214 million for the year ended June 30, 2009. This is due to the cumulative effect of the Agency refunding long-term debt with lower interest rate long-term debt during prior years and the current year. For the years ended June 30, 2010 and 2009, the Agency refunded approximately \$217 million of debt contributing to the reduction of bond interest payments.

#### **Salaries, Related Benefits and Other Postemployment Benefit Liability Expense**

Salaries, related benefits and OPEB expense increased 16% to \$29 million at June 30, 2010 from \$25 million at June 30, 2009. The increase is predominately due to increases in pension and other postemployment benefit expenses. Actuarial analysis calculates the estimated costs of those benefits that vary from year to year based on factors such as investment returns on the pension fund investments portfolios, costs to provide current retirees healthcare, projected costs to provide postemployment healthcare and economic forecasts. The Agency paid or expensed \$6.9 million for June 30, 2010, compared to \$5.6 million for June 30, 2009 and \$5.7 million for June 30, 2008 for pension contributions and other postemployment obligation liabilities based upon actuarial analysis.

### **Nonoperating Revenue and Expenses**

#### **Investment Income and Net Increases in the Fair Values of Investments and Swaps**

Investment income, netted against the changes in the fair value of investments increased 67% to \$25 million of revenue at June 30, 2010 from \$15 million of revenue at June 30, 2009. Positive market conditions over the past year have resulted in an increase of interest earnings combined with the changes in the fair values of the investments held by the Agency over the prior year. The long-term investment holdings, mainly consisting of U.S. Government Agency Mortgage-Backed Securities, experienced significant fair value increases due to federal government intervention and stimulus creating demand for those securities by the investing public. The Agency adopted a new accounting pronouncement that required the Agency to report swap agreements outstanding at the end of the year onto its books. Adoption of that accounting principle decreased investment revenue by \$2.2 million for the current year. Swap agreements were previously reported in the footnotes to the financial statements only.

# PENNSYLVANIA HOUSING FINANCE AGENCY

## Balance Sheets

June 30, 2010 and 2009

(In thousands of dollars)

	2010							2009						
	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	\$ 20,782	\$ 74,159	\$ 872,373	\$ 35,624	\$ 1,002,938	\$ 457	\$ 1,003,395	\$ 36,254	\$ 235,675	\$ 294,646	\$ 25,308	\$ 591,883	\$ 28	\$ 591,911
Investments	7,421	2,254	1,021	-	10,696	-	10,696	6,631	234	-	2,029	8,894	-	8,894
Accrued interest receivable on investments	71	211	1,204	38	1,524	-	1,524	46	258	1,596	66	1,966	-	1,966
Mortgage loans receivable, net	-	32,714	69,592	-	102,306	7,156	109,462	-	31,719	65,997	-	97,716	6,594	104,310
Qualified tender bonds	-	-	-	-	-	-	-	-	-	302,575	-	302,575	-	302,575
Deferred financing costs and other assets	4,151	255	795	-	5,201	208	5,409	3,286	1,654	2,369	-	7,309	2,482	9,791
Operating advances to other funds	66,234	39,407	-	-	105,641	-	105,641	35,845	-	-	-	35,845	-	35,845
Restricted cash	30	135,986	91,608	-	227,624	-	227,624	-	5,279	203,079	-	208,358	-	208,358
Restricted investments	2,071	1,153	2,629	-	5,853	-	5,853	-	-	-	-	-	-	-
Total current assets	<u>100,760</u>	<u>286,139</u>	<u>1,039,222</u>	<u>35,662</u>	<u>1,461,783</u>	<u>7,821</u>	<u>1,469,604</u>	<u>82,062</u>	<u>274,819</u>	<u>870,262</u>	<u>27,403</u>	<u>1,254,546</u>	<u>9,104</u>	<u>1,263,650</u>
<b>Noncurrent assets:</b>														
Investments	41,947	10,353	65,883	3,531	121,714	-	121,714	37,661	1,739	31,324	9,748	80,472	-	80,472
Mortgage loans receivable, net	-	465,118	3,868,661	-	4,333,779	47,586	4,381,365	-	510,078	3,492,858	-	4,002,936	43,553	4,046,489
Capital assets, net	33,349	-	-	-	33,349	4	33,353	34,129	-	-	-	34,129	13	34,142
Deferred financing costs and other assets	1,461	2,896	7,151	-	11,508	6	11,514	2,028	2,480	4,553	-	9,061	6	9,067
Restricted investments	-	-	103,659	-	103,659	-	103,659	-	-	-	-	-	-	-
Deferred outflow of resources	1,628	16,161	126,398	-	144,187	-	144,187	-	-	-	-	-	-	-
Total noncurrent assets	<u>78,385</u>	<u>494,528</u>	<u>4,171,752</u>	<u>3,531</u>	<u>4,748,196</u>	<u>47,596</u>	<u>4,795,792</u>	<u>73,818</u>	<u>514,297</u>	<u>3,528,735</u>	<u>9,748</u>	<u>4,126,598</u>	<u>43,572</u>	<u>4,170,170</u>
<b>Total assets</b>	<u>\$ 179,145</u>	<u>\$ 780,667</u>	<u>\$ 5,210,974</u>	<u>\$ 39,193</u>	<u>\$ 6,209,979</u>	<u>\$ 55,417</u>	<u>\$ 6,265,396</u>	<u>\$ 155,880</u>	<u>\$ 789,116</u>	<u>\$ 4,398,997</u>	<u>\$ 37,151</u>	<u>\$ 5,381,144</u>	<u>\$ 52,676</u>	<u>\$ 5,433,820</u>
<b>LIABILITIES</b>														
<b>Current liabilities:</b>														
Bonds and notes payable, net	\$ -	\$ 27,064	\$ 494,725	\$ -	\$ 521,789	\$ -	\$ 521,789	\$ -	\$ 40,133	\$ 112,015	\$ -	\$ 152,148	\$ -	\$ 152,148
Accrued interest payable	384	4,301	41,547	-	46,232	-	46,232	390	5,167	44,878	-	50,435	-	50,435
Accounts payable and accrued expenses	3,629	109	1,472	3	5,213	715	5,928	2,304	131	1,188	-	3,623	922	4,545
Escrow deposits and other liabilities	121	47,407	54,818	300	102,646	-	102,646	511	17,283	43,120	301	61,215	-	61,215
Operating advances from other funds	-	-	100,302	-	100,302	5,339	105,641	-	394	31,099	-	31,493	4,352	35,845
Total current liabilities	<u>4,134</u>	<u>78,881</u>	<u>692,864</u>	<u>303</u>	<u>776,182</u>	<u>6,054</u>	<u>782,236</u>	<u>3,205</u>	<u>63,108</u>	<u>232,300</u>	<u>301</u>	<u>298,914</u>	<u>5,274</u>	<u>304,188</u>
<b>Noncurrent liabilities:</b>														
Bonds and notes payable, net	19,930	192,762	4,065,659	-	4,278,351	-	4,278,351	19,927	230,262	3,822,450	-	4,072,639	-	4,072,639
Derivative instrument - Interest rate swaps	1,628	17,179	127,613	-	146,420	-	146,420	-	-	-	-	-	-	-
Escrow deposits and other liabilities	14,193	245,072	22,132	1,829	283,226	4,077	287,303	9,715	264,381	31,509	1,445	307,050	3,470	310,520
Total noncurrent liabilities	<u>35,751</u>	<u>455,013</u>	<u>4,215,404</u>	<u>1,829</u>	<u>4,707,997</u>	<u>4,077</u>	<u>4,712,074</u>	<u>29,642</u>	<u>494,643</u>	<u>3,853,959</u>	<u>1,445</u>	<u>4,379,689</u>	<u>3,470</u>	<u>4,383,159</u>
<b>Total liabilities</b>	<u>39,885</u>	<u>533,894</u>	<u>4,908,268</u>	<u>2,132</u>	<u>5,484,179</u>	<u>10,131</u>	<u>5,494,310</u>	<u>32,847</u>	<u>557,751</u>	<u>4,086,259</u>	<u>1,746</u>	<u>4,678,603</u>	<u>8,744</u>	<u>4,687,347</u>
<b>NET ASSETS</b>														
Invested in capital assets, net of related debt	13,419	-	-	-	13,419	4	13,423	14,202	-	-	-	14,202	13	14,215
Restricted	-	5,564	188,252	-	193,816	45,282	239,098	-	5,279	203,079	-	208,358	43,919	252,277
Unrestricted	125,841	241,209	114,454	37,061	518,565	-	518,565	108,831	226,086	109,659	35,405	479,981	-	479,981
<b>Total net assets</b>	<u>139,260</u>	<u>246,773</u>	<u>302,706</u>	<u>37,061</u>	<u>725,800</u>	<u>45,286</u>	<u>771,086</u>	<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>
<b>Total liabilities and net assets</b>	<u>\$ 179,145</u>	<u>\$ 780,667</u>	<u>\$ 5,210,974</u>	<u>\$ 39,193</u>	<u>\$ 6,209,979</u>	<u>\$ 55,417</u>	<u>\$ 6,265,396</u>	<u>\$ 155,880</u>	<u>\$ 789,116</u>	<u>\$ 4,398,997</u>	<u>\$ 37,151</u>	<u>\$ 5,381,144</u>	<u>\$ 52,676</u>	<u>\$ 5,433,820</u>

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

# PENNSYLVANIA HOUSING FINANCE AGENCY

## Statements of Revenues, Expenses and Changes in Fund Net Assets

Years Ended June 30, 2010 and 2009

(In thousands of dollars)

	2010						2009							
	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	\$ -	\$ 27,665	\$ 169,466	\$ -	\$ 197,131	\$ 816	\$ 197,947	\$ -	\$ 31,026	\$ 176,104	\$ -	\$ 207,130	\$ 860	\$ 207,990
Program income and fees	33,213	1,980	4,006	646	39,845	13,976	53,821	30,564	1,389	3,541	411	35,905	13,920	49,825
Federal program awards	-	608,232	22,116	-	630,348	-	630,348	-	454,784	20,063	-	474,847	-	474,847
Total operating revenues	33,213	637,877	195,588	646	867,324	14,792	882,116	30,564	487,199	199,708	411	717,882	14,780	732,662
<b>Operating expenses:</b>														
Interest on bonds	760	11,180	179,126	-	191,066	-	191,066	822	13,887	199,081	-	213,790	-	213,790
Salaries and related benefits	22,656	-	-	-	22,656	2,641	25,297	19,876	-	-	-	19,876	2,488	22,364
OPEB liability expense	3,289	-	-	-	3,289	448	3,737	2,559	-	-	-	2,559	349	2,908
General and administrative	4,459	2,958	9,077	600	17,094	1,396	18,490	4,700	3,473	6,044	600	14,817	1,579	16,396
Provision for loan loss	-	2,330	1,800	-	4,130	8,956	13,086	-	3,000	2,100	-	5,100	9,045	14,145
Federal program expense	-	608,232	22,116	-	630,348	-	630,348	-	454,784	20,063	-	474,847	-	474,847
Total operating expenses	31,164	624,700	212,119	600	868,583	13,441	882,024	27,957	475,144	227,288	600	730,989	13,461	744,450
Operating income (loss)	2,049	13,177	(16,531)	46	(1,259)	1,351	92	2,607	12,055	(27,580)	(189)	(13,107)	1,319	(11,788)
<b>Nonoperating revenues (expenses):</b>														
Investment income	1,855	50	7,027	569	9,501	3	9,504	1,790	1,123	13,432	1,520	17,865	60	17,925
Net increase (decrease) in fair value of investments	9,137	409	7,490	1,115	18,151	-	18,151	5,509	(3,117)	(1,453)	(4,224)	(3,285)	-	(3,285)
Net decrease in fair value of swaps	-	(1,018)	(1,215)	-	(2,233)	-	(2,233)	-	-	-	-	-	-	-
Total investment revenue	10,992	(559)	13,302	1,684	25,419	3	25,422	7,299	(1,994)	11,979	(2,704)	14,580	60	14,640
Loss on early extinguishment of debt	-	(36)	(865)	-	(901)	-	(901)	-	(9)	(203)	-	(212)	-	(212)
Total nonoperating revenue (expense), net	10,992	(595)	12,437	1,684	24,518	3	24,521	7,299	(2,003)	11,776	(2,704)	14,368	60	14,428
Income (loss) before transfers	13,041	12,582	(4,094)	1,730	23,259	1,354	24,613	9,906	10,052	(15,804)	(2,893)	1,261	1,379	2,640
Transfers	3,186	2,826	(5,938)	(74)	-	-	-	4,762	(20,475)	25,713	(10,000)	-	-	-
<b>Change in net assets</b>	16,227	15,408	(10,032)	1,656	23,259	1,354	24,613	14,668	(10,423)	9,909	(12,893)	1,261	1,379	2,640
Total net assets - beginning of year	123,033	231,365	312,738	35,405	702,541	43,932	746,473	108,365	241,788	302,829	48,298	701,280	42,553	743,833
Total net assets - end of year	\$ 139,260	\$ 246,773	\$ 302,706	\$ 37,061	\$ 725,800	\$ 45,286	\$ 771,086	\$ 123,033	\$ 231,365	\$ 312,738	\$ 35,405	\$ 702,541	\$ 43,932	\$ 746,473

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

# PENNSYLVANIA HOUSING FINANCE AGENCY

## Statements of Cash Flows

Years Ended June 30, 2010 and 2009

(In thousands of dollars)

	2010						2009							
	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	\$ -	\$ 152,583	\$ 423,089	\$ -	\$ 575,672	\$ 7,145	\$ 582,817	\$ -	\$ 45,344	\$ 476,682	\$ -	\$ 522,026	\$ 8,048	\$ 530,074
Receipts from fees and other income	33,213	1,980	4,006	646	39,845	13,976	53,821	30,564	1,389	3,541	411	35,905	13,920	49,825
Receipts from interest on mortgages	-	27,712	169,858	-	197,570	1,423	198,993	-	31,741	176,035	-	207,776	860	208,636
Receipt of escrow deposits and other receipts	4,088	10,815	2,321	-	17,224	-	17,224	6,063	9,824	7,863	-	23,750	403	24,153
Qualified tender bonds	-	-	302,575	-	302,575	-	302,575	-	-	(302,575)	-	(302,575)	-	(302,575)
Payments for mortgages purchased	-	(108,618)	(802,487)	-	(911,105)	(20,696)	(931,801)	-	(24,848)	(365,446)	-	(390,294)	(18,546)	(408,840)
Payments to employees and suppliers	(28,096)	(4,327)	(11,617)	(186)	(44,226)	(2,409)	(46,635)	(27,829)	(2,893)	(7,899)	(40)	(38,661)	(6,468)	(45,129)
Net cash provided by (used in) operating activities	9,205	80,145	87,745	460	177,555	(561)	176,994	8,798	60,557	(11,799)	371	57,927	(1,783)	56,144
<b>Cash Flows From Noncapital Financing Activities</b>														
Proceeds from the sale of bonds	-	-	1,190,640	-	1,190,640	-	1,190,640	-	-	351,340	-	351,340	-	351,340
Payments for retirement of bonds and notes	-	(50,605)	(565,586)	-	(616,191)	-	(616,191)	-	(53,167)	(314,831)	-	(367,998)	-	(367,998)
Payments of bonds and notes interest	-	(12,046)	(182,457)	-	(194,503)	-	(194,503)	-	(14,656)	(195,753)	-	(210,409)	-	(210,409)
Transfers (to) other funds	(27,203)	(36,975)	63,265	(74)	(987)	987	-	(16,571)	(20,287)	45,312	(10,000)	(1,546)	1,546	-
Net cash provided by (used in) noncapital financing activities	(27,203)	(99,626)	505,862	(74)	378,959	987	379,946	(16,571)	(88,110)	(113,932)	(10,000)	(228,613)	1,546	(227,067)
<b>Cash Flows From Capital Financing Activities</b>														
Purchases of capital assets	(526)	-	-	-	(526)	-	(526)	(641)	-	-	-	(641)	-	(641)
Interest paid on capital debt	(763)	-	-	-	(763)	-	(763)	(816)	-	-	-	(816)	-	(816)
Net cash used in capital financing activities	(1,289)	-	-	-	(1,289)	-	(1,289)	(1,457)	-	-	-	(1,457)	-	(1,457)
<b>Cash Flows From Investing Activities</b>														
Proceeds from sales of and maturities of investments	6,027	-	172,992	9,361	188,380	-	188,380	15,433	96,575	663,455	7,639	783,102	-	783,102
Interest and dividends	1,855	50	7,027	569	9,501	3	9,504	1,790	1,123	13,432	1,520	17,865	60	17,925
Purchases of investments	(4,037)	(11,378)	(307,370)	-	(322,785)	-	(322,785)	(11,018)	(32,050)	(508,460)	-	(551,528)	-	(551,528)
Net cash provided by (used in) investing activities	3,845	(11,328)	(127,351)	9,930	(124,904)	3	(124,901)	6,205	65,648	168,427	9,159	249,439	60	249,499
Net increase (decrease) in cash and cash equivalents	(15,442)	(30,809)	466,256	10,316	430,321	429	430,750	(3,025)	38,095	42,696	(470)	77,296	(177)	77,119
Cash and cash equivalents, beginning 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
Cash and cash equivalents, end of year	\$ 20,812	\$ 210,145	\$ 963,981	\$ 35,624	\$ 1,230,562	\$ 457	\$ 1,231,019	\$ 36,254	\$ 240,954	\$ 497,725	\$ 25,308	\$ 800,241	\$ 28	\$ 800,269

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

# PENNSYLVANIA HOUSING FINANCE AGENCY

## Statements of Cash Flows (continued)

Years Ended June 30, 2010 and 2009

(In thousands of dollars)

	2010							2009						
	General	Multifamily	Single Family	Insurance	Subtotal	HEMAP	Total	General	Multifamily	Single Family	Insurance	Subtotal	HEMAP	Total
	Fund	Housing	Mortgage	Fund				Fund	Program	Loan Program	Fund			
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>														
Operating income (loss)	\$ 2,049	\$ 13,177	\$ (16,531)	\$ 46	\$ (1,259)	\$ 1,351	\$ 92	\$ 2,607	\$ 12,055	\$ (27,580)	\$ (189)	\$ (13,107)	\$ 1,319	\$ (11,788)
Interest expense on bonds	760	11,180	179,126	-	191,066	-	191,066	822	13,887	199,081	-	213,790	-	213,790
Provision for loan loss	-	2,330	1,800	-	4,130	8,956	13,086	-	3,000	2,100	-	5,100	9,045	14,145
Depreciation	1,306	-	-	-	1,306	9	1,315	1,327	-	-	-	1,327	10	1,337
Changes in assets and liabilities:														
Mortgage loans receivable, net	-	41,635	(381,198)	-	(339,563)	(13,551)	(353,114)	-	17,496	109,136	-	126,632	(10,498)	116,134
Accrued interest receivable	(25)	47	392	28	442	-	442	217	715	(69)	152	1,015	-	1,015
Deferred and other assets	(298)	(14,239)	301,551	-	287,014	2,274	289,288	(1,221)	3,528	(302,504)	-	(300,197)	(2,483)	(302,680)
Accounts payable and accrued expenses	1,325	(22)	284	386	1,973	(207)	1,766	(1,017)	52	174	408	(383)	421	38
Escrow deposits and other liabilities	4,088	26,037	2,321	-	32,446	607	33,053	6,063	9,824	7,863	-	23,750	403	24,153
Net cash provided by (used in) operating activities	<u>\$ 9,205</u>	<u>\$ 80,145</u>	<u>\$ 87,745</u>	<u>\$ 460</u>	<u>\$ 177,555</u>	<u>\$ (561)</u>	<u>\$ 176,994</u>	<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>

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

# PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2010 and 2009

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*(In thousands of dollars)*

## 1. Reporting Entity

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

The Agency was created by the General Assembly in 1972 to provide affordable housing for older adults, persons and families of modest means and persons with disabilities. Pursuant to the Housing Finance Agency Law, Act of December 3, 1959, P.L. 1688 (“Act”), as amended, the Agency is authorized and empowered, among other things, to finance the construction and rehabilitation of housing units for persons and families of low and moderate income, persons with special needs or the elderly who receive subsidies or assistance from federal government programs.

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

The initial legislation and subsequent amendments grant the Agency the power to issue debt to finance its programs and operations. Debt obligations issued under the provisions of the Act are not a debt or liability of the Commonwealth of Pennsylvania or any of its political subdivisions or a pledge of the faith and credit of the Commonwealth of Pennsylvania or of any of its political subdivisions.

A fourteen member Board governs the Agency. The Secretary of Banking, the Secretary of Community and Economic Development, the Secretary of Public Welfare and the State Treasurer serve by virtue of their offices. The majority and minority leaders of the State Senate and House of Representatives name four members to the Board. Six private citizen members are appointed by the Governor and confirmed by the State Senate.

## 2. Summary of Significant Accounting Policies

### **Basis of Accounting**

The 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.

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2010 and 2009

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*(In thousands of dollars)*

The Agency complies with GASB pronouncements in conformity with GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, which was issued to give guidance in determining generally, accepted accounting principles for governmental proprietary funds. It provides that all proprietary funds follow all Financial Accounting Standards Board (“FASB”) pronouncements issued prior to November 30, 1989, unless they conflict with GASB pronouncements. It also provides that the governmental unit may elect whether to follow FASB pronouncements after that date. The Agency has elected not to follow FASB pronouncements issued after November 30, 1989.

### **Description of Funds**

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

**General Fund** – The General Fund consists of a group of accounts used to record the receipt of income not directly pledged to the repayment of specific bonds and notes and the payment of expenses related to the Agency’s administrative functions, including salary and related benefits.

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

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

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

**Homeowners’ Emergency Mortgage Assistance Program (“HEMAP”)** – 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.

### **Adopted Accounting Standards**

The Agency adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53) during the 2010 fiscal year. This Statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. In accordance with the provisions of GASB 53, retroactive

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2010 and 2009

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*(In thousands of dollars)*

application has been deemed to be impractical; further, the Agency has evaluated the effects of potential restatements of prior periods, and has determined such effects to be immaterial to the basic financial statements. See note 7 for details of the effects of this Statement.

During the 2010 fiscal year, the Agency also adopted the following GASB statements, which had no effect on the financial statements:

- Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.
- Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

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

During March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement will not affect the Agency's financial statements when adopted for the 2011 fiscal year.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer postemployment benefit plans. The Agency is required to adopt this Statement for the 2012 fiscal year. Management is currently evaluating the impact of this Statement on the financial statements.

On June 24, 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The Agency is required to adopt this Statement for its 2011 fiscal year. Management is currently evaluating the impact of this Statement on the financial statements.

### **Cash and Cash Equivalents**

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

### **Investments**

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

### **Mortgage Loans Receivable, Net of Allowance for Potential Loan Loss**

Mortgage loans receivable are carried at amounts disbursed plus accrued interest and fees, less repayments, mortgage loan discounts and allowance for loan losses, if any. The current portion

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2010 and 2009

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*(In thousands of dollars)*

of mortgage loans receivable represents the contractual amount due within the next year. The allowance for loan losses is determined based upon management's evaluation of mortgage loans receivable and construction advances. Factors considered by management include the estimated fair values of the properties that represent collateral, mortgage insurance coverage on the collateral, the financial condition of the borrower and the economy as a whole. While management uses available information to recognize losses on mortgage loans, future additions to the allowance may be necessary based on changes in economic conditions.

### **Real Estate Owned**

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

### **Capital Assets**

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

### **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.

### **Restricted Cash, Cash Equivalents and Investments**

Cash, cash equivalents and investments reported as restricted on the Balance Sheets are restricted primarily by escrow agreements, bond resolutions and debt service agreements. The Agency holds tax and insurance escrows of various mortgagors, owner's equity on behalf of multifamily developers for construction costs, and mortgage payments collected on behalf of mortgagees for whom the fund acts as a servicer. Assets derived from the Agency's bond programs are subject to the reserve provisions of the bond resolutions and are not available for other purposes.

### **Bonds and Notes Payable, Net of Discounts and Loss on Refunding**

The Agency issues bonds and notes to provide capital for its mortgage programs and other uses consistent with its mission. Outstanding bonds and notes are stated at their unpaid balance less any unamortized discounts and unamortized deferred loss of refunding. The current portion of bonds and notes payable represents the amounts payable within the next year.

## PENNSYLVANIA HOUSING FINANCE AGENCY

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*(In thousands of dollars)*

### **Derivative Financial Instruments - Interest Rate Swap Agreements**

The Agency enters into interest rate swap agreements with various counter-parties to hedge the interest rate exposure associated with variable-rate debt and reduce overall borrowing costs. The interest rate swap agreements are structured whereby the Agency pays the counter-party a fixed interest rate in exchange for a variable interest rate payment from the counter-party. In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, interest rate swap agreements are stated at fair value on the balance sheets. The change in the fair value of the interest rate swap agreements is recorded as deferred inflows or deferred outflows or as adjustments to nonoperating revenue or expense.

### **Net Assets**

Net assets are classified in the following three components:

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

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

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

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

### **Operating Revenues and Expenses**

The Agency separates operating and nonoperating activity on the Statements of Revenues, Expenses and Changes in Fund Net Assets. Operating revenue is defined as the result of issuing bonds to the investing public in order to create a flow of private capital through the Agency into mortgage loans to qualified borrowers and individuals. Primary operating revenue of the Agency is derived from the interest income on mortgage loans. The primary operating expense of the Agency is the interest on bonds issued. Revenue and expenses not meeting the definition of operating are reported as nonoperating.

### **Federal Program Awards and Expenses**

The Agency follows GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*. GASB Statement No. 24 requires that all cash pass-through grants received by a governmental entity be reported in its financial statements. The

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

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*(In thousands of dollars)*

Agency receives program grants and other federal financial assistance to transfer to various secondary recipients in the Commonwealth of Pennsylvania. The effect of applying these provisions is to increase both operating income and expense when eligible funds are disbursed to the subrecipients. The Agency receives administrative fees for the oversight of award distribution, monitoring of subrecipients, reporting to federal agencies and costs for required independent annual audits of the federal awards, which are recorded to program income and fees.

### **Interest Income and Arbitrage Liabilities**

Interest on mortgage loans and net investment income is an important measure of performance under the Agency's primary operation. Interest recorded for mortgage loans receivable and construction advances is based upon the constant yield method. Multifamily Housing and Single Family Mortgage Loan Program mortgage loans more than 180 days delinquent in scheduled payments are considered nonperforming mortgage loans, which result in the cessation of recognition of additional interest on such mortgage loans. Investment interest income is recognized over the remaining time to maturity of investment securities. Federal income tax rules limit the investment and loan yields that the Agency may retain for its own use from investing the proceeds from certain of its tax-exempt bond issues. Any excess yields are payable to the U.S. Treasury and are recorded as other liabilities on the Balance Sheets.

### **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*, as amended by GASB Statement No. 50, *Pension Disclosures*, requires the Agency to measure and disclose amounts for annual pension cost and net pension obligations. The funding policy is to pay actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. Pension expenses are recorded as salaries and related benefits on the Statement of Revenues, Expenses and Changes in Fund Net Assets.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, requires the Agency to establish standards for the measurement, recognition and disclosure of other postemployment benefits ("OPEB") expenses and related liabilities (assets) and note disclosures in the financial reports. The Agency does not fund its OPEB liability; rather, the Agency maintains health insurance for its retirees on a pay-as-you-go basis. The Agency records OPEB liability expense in accordance with GASB 45 on the Statement of Revenues, Expenses and Changes in Fund Net Assets.

### **Debt Issuance Costs, Discounts and Other debt Related Costs**

The Agency capitalizes cost related to bond issuance to deferred assets and amortizes those costs to interest expense over the contractual life of the bond using the effective interest method. Bond discounts and premiums are amortized over the lives of the bonds using the effective interest method. Gains and losses on debt refunding are deferred and amortized over the

**PENNSYLVANIA HOUSING FINANCE AGENCY**

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remaining life of the old debt or the life of the new debt, whichever is shorter. Net swap agreements payments are also recorded as a component to interest on bonds.

**Compensated Absences**

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 as required by GASB Statement No. 16, *Accounting for Compensated Absences*.

**Reclassifications**

Certain reclassifications have been made in the June 30, 2009 financial statements to conform to the June 30, 2010 presentation.

**3. Cash, Cash Equivalents and Investments**

**Cash and Cash Equivalents**

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

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Unrestricted cash and cash equivalents	\$ 1,003,395	\$ 591,911
Restricted cash and cash equivalents	227,624	208,358
Carrying amount of cash and cash equivalents	<u>\$ 1,231,019</u>	<u>\$ 800,269</u>
Bank balance of cash and cash equivalents	<u>\$ 1,224,170</u>	<u>\$ 804,172</u>

At June 30, 2010, the carrying value of the Agency's cash deposits equaled \$46,867 and the bank balance equaled \$42,265, of which \$9,108 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 \$1,184,152, with a bank balance of \$1,181,905 that does not expose the Agency to custodial credit risk.

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## ***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.

## **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.

## ***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.

As of June 30, 2010, 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>Aaa</b>	<b>A</b>	<b>Ba</b>	<b>Unrated<sup>1</sup></b>
U.S. Government Agency Mortgage-Backed Securities	\$ 175,148	\$ 9,091	\$ -	\$ -	\$ 166,057
U.S. Government Agency Securities	38,439	-	-	-	38,439
U.S. Treasury Securities	18,178	-	-	-	18,178
Corporate Bonds	10,157	-	4,437	4,709	1,011
	<u>\$ 241,922</u>	<u>\$ 9,091</u>	<u>\$ 4,437</u>	<u>\$ 4,709</u>	<u>\$ 223,685</u>

1. Unrated investments represent securities that are not rated by a nationally recognized statistical rating agency.

Of the \$1,184,152 fair value in Money Market Funds, reported as cash equivalents, \$1,176,470 is rated Aaa by Moody's Investors Service and \$7,682 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 \$241,922 investment balance at June 30, 2010 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

## PENNSYLVANIA HOUSING FINANCE AGENCY

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equaling \$1,184,152, reported as cash equivalents, does not expose the Agency to custodial credit risk.

### ***Concentration of Credit Risk***

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

### ***Interest Rate Risk***

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

As of June 30, 2010, 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	\$ 175,148	\$ 1,021	\$ 8,070	\$ -	\$ 166,057
U.S. Government Agency Securities	38,439	293	763	179	37,204
U.S. Treasury Securities	18,178	2,009	11,717	4,452	-
Corporate Bonds	10,157	7,375	2,782	-	-
	<u>\$ 241,922</u>	<u>\$ 10,698</u>	<u>\$ 23,332</u>	<u>\$ 4,631</u>	<u>\$ 203,261</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 \$1,184,152, reported as cash equivalents, all with maturities of less than 90 days.

### ***Securitizations***

During the year ended June 30, 2010, the Agency pooled mortgage loans with a principal balance of \$163,364 into Ginnie Mae Mortgage-Backed Securities. The securities were then purchased by the Agency or private investors. The Agency earns revenue for servicing those loans, which is included as program income and fees on the Statements of Revenues, Expenses and Changes in Fund Net Assets.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2010 and 2009

*(In thousands of dollars)*

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**4. Mortgage Loans Receivable**

Mortgage loans receivable at June 30, 2010 and 2009 consisted of the following:

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Multifamily Housing Program	\$ 667,582	\$ 711,993
Single Family Mortgage Loan Program	3,911,032	3,537,612
HEMAP	98,844	91,495
	<u>4,677,458</u>	<u>4,341,100</u>
Add:		
Loan discounts	29,747	23,793
Less:		
Allowance for potential loan losses	216,378	214,094
Mortgage loans receivable, net	<u>4,490,827</u>	<u>4,150,799</u>
Less current portion	109,462	104,310
Long-term portion	<u>\$ 4,381,365</u>	<u>\$ 4,046,489</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. Private mortgage insurance for the single-family mortgage loans is provided by commercial companies, certain federal programs or self-insurance through the Agency's Insurance Fund. Private mortgage 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 borrowers' responsibility to obtain private mortgage insurance.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

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**Allowance for Potential Loan Loss**

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, 2010 and 2009:

	Multifamily		Single Family Mortgage		HEMAP		Totals	
	Housing Program		Loan Program					
	2010	2009	2010	2009	2010	2009	2010	2009
Beginning balance	\$ 167,419	\$ 167,818	\$ 5,327	\$ 4,166	\$ 41,348	\$ 40,581	\$ 214,094	\$ 212,565
Loss provision	2,330	3,000	1,800	2,100	8,956	9,045	13,086	14,145
Net charge-offs	(2,776)	(3,399)	(1,823)	(939)	(6,203)	(8,278)	(10,802)	(12,616)
Ending balance	<u>\$ 166,973</u>	<u>\$ 167,419</u>	<u>\$ 5,304</u>	<u>\$ 5,327</u>	<u>\$ 44,101</u>	<u>\$ 41,348</u>	<u>\$ 216,378</u>	<u>\$ 214,094</u>

**Insurance Fund**

The Agency provides private mortgage insurance coverage of certain Single Family Mortgage Loan Program loans through the Insurance Fund, which ranges from 20% to 35% (depending on the loan-to-value ratio at origination) of the unpaid principal balance. At June 30, 2010 and 2009, the mortgage loans under this program totaled \$196,839 and \$73,083, 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. In addition, it requires disclosure of whether other allocated or unallocated claim adjustment expenses are included. The Agency establishes the estimated claims payable liability for both reported and unreported insured events, which include estimates of both future payments of losses and related loss adjustment expenses, based on the Agency's past claim experience. Claims are not discounted and are net of estimated recoveries, if any.

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

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Beginning balance	\$ 1,746	\$ 1,338
Current year estimated claims payable	600	600
Claim payments	(217)	(192)
Total claim liability	<u>2,129</u>	<u>1,746</u>
Less current portion	300	301
Long-term portion	<u>\$ 1,829</u>	<u>\$ 1,445</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

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

In response to the recent credit market conditions that have disrupted the remarketing of certain auction rate bonds, the IRS issued Notice 2008-41, amended and supplemented by Notice 2008-88 which provides a special temporary rule which 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 prior fiscal year and sold those prior to December 31, 2009 and is not holding any of its own bonds as of June 30, 2010.

**5. Capital Assets**

Capital asset activity and balances for the year ended June 30, 2010 are as follows:

	<b>Beginning Balance July 01 2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance June 30 2010</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	29,935	4	12	29,927
Computers and equipment	5,539	524	-	6,063
Furniture and fixtures	4,501	10	33	4,478
Automobiles	112	-	-	112
Total depreciable capital assets	<u>40,087</u>	<u>538</u>	<u>45</u>	<u>40,580</u>
Less accumulated depreciation:				
Building and improvements	3,732	585	-	4,317
Computers and equipment	3,361	456	-	3,817
Furniture and fixtures	1,246	260	33	1,473
Automobiles	60	14	-	74
Total accumulated depreciation	<u>8,399</u>	<u>1,315</u>	<u>33</u>	<u>9,681</u>
Total depreciable capital assets, net	<u>31,688</u>	<u>(777)</u>	<u>12</u>	<u>30,899</u>
Capital assets, net	<u>\$ 34,142</u>	<u>\$ (777)</u>	<u>\$ 12</u>	<u>\$ 33,353</u>

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*(In thousands of dollars)*

Capital asset activity and balances for the year ended June 30, 2009 are as follows:

	<b>Beginning Balance July 01 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>

Depreciation expense for the years ended June 30, 2010 and 2009 totaled \$1,315 and \$1,337, respectively.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2010 and 2009

*(In thousands of dollars)*

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**6. Bonds and Notes Payable**

The Agency issues bonds to provide capital for mortgage programs. The bonds are secured by revenue, investments, mortgage loans and other assets in the funds and accounts established by the respective security agreements.

Bonds outstanding 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, 2010</b>	<b>June 30, 2009</b>
Variable Rate Building Development Bonds	2034	\$ 20,000	\$ 20,000
Unamortized bond discount		(70)	(73)
Total bonds payable		19,930	19,927
Less current portion		-	-
Long-term portion		<u>\$ 19,930</u>	<u>\$ 19,927</u>

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June 30, 2010 and 2009

*(In thousands of dollars)*

Bonds outstanding 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, 2010</b>	<b>June 30, 2009</b>
Special Limited Obligation Rental Housing Funding Bonds			
Issue 1995, 5.50-6.15%	2021	\$ 2,083	\$ 2,225
Rental Housing Refunding Bonds			
Series 2008A/B, variable rate	2021	47,675	62,990
Series 2008C/D, variable rate	2020	81,370	95,590
Residential Development Bonds			
Issue 2002 (refunding), 1.80%-5.25%	2024	22,270	25,970
Multifamily Development Bonds			
Issue 1989B, 8.25%	2019	-	345
Issue 1993A (refunding), 5.38%	2022	8,095	8,640
Issue 1993F, 6.53%	2019	3,025	4,055
Issue 1997G, 7.36%	2027	8,865	9,110
Issue 1998H, 6.3%	2028	14,555	14,960
Issue 2003 (refunding), 3.25-4.80%	2019	10,070	12,495
Issue 2005K, variable rate	2036	25,185	25,785
Issue 2007L, 4.20%	2009	-	12,600
		<u>223,193</u>	<u>274,765</u>
Unamortized deferred loss of refundings		(3,195)	(4,164)
Unamortized bond discount		<u>(172)</u>	<u>(206)</u>
Total bonds payable		219,826	270,395
Less current portion		<u>27,064</u>	<u>40,133</u>
Long-term portion		<u>\$ 192,762</u>	<u>\$ 230,262</u>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

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*(In thousands of dollars)*

Bonds and notes outstanding for the Single Family Mortgage Loan Program are as follows:

<b>Description of Bonds and Notes as Issued</b>	<b>Final Maturity Date</b>	<b>Amounts Outstanding</b>	
		<b>June 30, 2010</b>	<b>June 30, 2009</b>
Single Family Mortgage Revenue Bonds			
Series 1996 - 47, 4.20-6.75%	2027	\$ 1,455	\$ 2,820
Series 1997 - 58, 4.30-7.81%	2028	-	390
Series 1997 - 59, 4.00-5.15%	2029	-	180
Series 1997 - 60, 4.00-7.69%	2028	-	315
Series 1997 - 61, 4.00-6.80%	2029	34,940	37,655
Series 1998 - 62, 4.25-6.40%	2029	37,170	48,370
Series 1998 - 63, 3.95-5.50%	2030	38,913	48,799
Series 1998 - 64, 3.65-5.25%	2030	38,905	49,365
Series 1999 - 65, 3.25-5.25%	2030	26,195	46,320
Series 1999 - 66, 4.05-6.95%	2031	15,930	26,600
Series 1999 - 67, 4.05-7.51%	2030	18,115	30,805
Series 1999 - 68, 4.30-7.02%	2031	16,085	18,230
Series 2000 - 69, 4.35-6.25%	2031	33,890	34,670
Series 2000 - 70, 4.30-5.90%	2032	29,435	33,555
Series 2001 - 72, 3.25-5.35%	2032	121,620	152,225
Series 2002 - 73, 1.75-5.45%	2033	81,935	118,400
Series 2002 - 74, variable rate	2032	94,530	98,120
Series 2002 - 75, variable rate	2033	81,490	88,510
Series 2003 - 77, variable rate	2033	68,820	77,150
Series 2003 - 78, variable rate	2025	54,740	57,390
Series 2003 - 79, variable rate	2034	71,885	77,225
Series 2004 - 81, variable rate	2034	82,080	85,135
Series 2004 - 82, variable rate	2034	74,800	80,175
Series 2004 - 83, variable rate	2035	78,605	82,275
Series 2004 - 84, variable rate	2034	80,345	84,420
Series 2004 - 85, variable rate	2035	85,030	86,975
Series 2004 - 86, variable rate	2035	93,075	94,440
Series 2005 - 87, variable rate	2035	90,770	92,175
Series 2005 - 88, variable rate	2037	81,010	86,875
Series 2005 - 89, variable rate	2035	63,485	115,780
Series 2005 - 90, variable rate	2036	105,790	117,205
Series 2005 - 91, variable rate	2036	110,595	121,025

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2010 and 2009

*(In thousands of dollars)*

<b>Description of Bonds and Notes as Issued</b>	<b>Final Maturity Date</b>	<b>Amounts Outstanding</b>	
		<b>June 30, 2010</b>	<b>June 30, 2009</b>
Series 2006 - 92, variable rate	2036	\$ 119,185	\$ 122,255
Series 2006 - 93, variable rate	2037	91,535	110,380
Series 2006 - 94, variable rate	2037	96,550	112,435
Series 2006 - 95, variable rate	2037	154,700	175,045
Series 2006 - 96, 3.60-5.72%	2037	160,180	179,400
Series 2007 - 97, 3.50-5.50%	2037	142,840	154,260
Series 2007 - 98, variable rate	2037	167,185	188,230
Series 2007 - 99, 3.70-5.30%	2038	106,500	128,360
Series 2007 - 100, 3.40-5.35%	2038	113,890	140,180
Series 2007 - 101, variable rate	2038	26,200	56,905
Series 2007 - 102, variable rate	2038	103,040	148,885
Series 2008 - 103, 2.00-5.70%	2038	159,750	182,400
Series 2008 - 104, variable rate	2038	144,620	167,250
Series 2009 - 105, .80-5.00%	2039	192,455	-
Series 2009 - 106, .50-4.80%	2040	249,455	-
Series 2009 - 107	2011	394,260	-
Series 2009 - 107A, 3.96%	2040	210,000	-
Series 2010 - 108, .375-4.75%	2028	140,210	-
2007 Note Purchase Agreement - 2.5%	2017	2,500	2,500
2009 Note Purchase Agreement - 2.5%	2019	1,000	1,000
2009 Note Purchase Agreement - 2.5%	2024	2,500	-
		<u>4,590,193</u>	<u>3,963,059</u>
Unamortized deferred loss of refundings		(16,097)	(16,904)
Unamortized bond discount		(13,712)	(11,690)
Total bonds and notes payable		<u>4,560,384</u>	<u>3,934,465</u>
Less current portion		494,725	112,015
Long-term portion		<u>\$ 4,065,659</u>	<u>\$ 3,822,450</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, note resets occur quarterly, monthly or weekly.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2010 and 2009

*(In thousands of dollars)***Debt Service Requirements**

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

<b>Fiscal Year Ending</b>	<b>General Fund</b>		<b>Multifamily Housing Program</b>		<b>Single Family Mortgage Loan Program</b>		<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2011	\$ -	\$ 58	\$ 27,064	\$ 3,797	\$ 494,725	\$ 126,314	\$ 651,958
2012	-	58	25,576	3,465	91,930	124,514	245,543
2013	-	58	24,789	3,122	91,115	121,725	240,809
2014	-	58	20,352	2,693	84,935	118,935	226,973
2015	350	58	17,457	2,412	101,665	116,437	238,379
2016-2020	1,995	274	70,429	8,938	698,110	518,894	1,298,640
2021-2025	2,455	242	18,186	4,255	764,611	407,393	1,197,142
2026-2030	3,040	203	11,510	1,035	914,627	284,457	1,214,872
2031-2035	12,160	129	7,275	141	853,585	147,867	1,021,157
2036-2040	-	-	555	2	488,040	37,633	526,230
2041-2045	-	-	-	-	6,850	136	6,986
	<u>\$ 20,000</u>	<u>\$ 1,138</u>	<u>\$ 223,193</u>	<u>\$ 29,860</u>	<u>\$ 4,590,193</u>	<u>\$ 2,004,305</u>	<u>\$ 6,868,689</u>

**Early Extinguishment of Debt**

During the years ended June 30, 2010 and 2009, using mortgage prepayments, the Agency repurchased or redeemed, prior to their scheduled maturity, the principal amount of certain bonds totaling approximately \$89,755 and \$22,480, respectively. Net losses of \$901 and \$212 on early extinguishments have been recorded as a nonoperating expense for the years ended June 30, 2010 and 2009, 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, 2010, using new debt proceeds, the Agency refunded the principal amount of certain Single Family Mortgage Loan Program bonds, totaling approximately \$215,420. The Agency realized an economic loss (difference between the present value of the old debt and new debt service payments) of \$8,950. The Agency recognized a deferred loss of \$1,039. The Agency increased its aggregate debt service payments by \$19,473 over the next 30 years by the current year's refunding activity.

During the year ended June 30, 2009, using new debt proceeds, the Agency refunded the principal amount of certain Single Family Mortgage Loan Program bonds, totaling

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2010 and 2009

*(In thousands of dollars)*

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.

### Advance Refunding

In previous fiscal years, the Agency effected an advanced refunding by issuing bonds to refund the Agency's Multifamily Residential Development Bonds, Issue H. The result was an in-substance defeasance, whereby the Agency purchased securities that were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. The defeased principal outstanding was \$2,725 at June 30, 2010 and 2009.

### Hedging Derivative Instrument Payments and Hedged Debt

As of June 30, 2010, debt service requirements of the Agency's outstanding variable-rate debt and net swap payments on the associated hedging derivative instruments, assuming current interest rates remain the same, for their terms are displayed in the following schedule. The net swap payment is the difference between the fixed rate interest paid to the counterparty and the variable-rate interest received by the Agency. See Note 7 for information on derivative instruments.

<b>Fiscal Year Ending June 30</b>	<b>Variable Rate Bond Principal</b>	<b>Variable Rate Bond Interest</b>	<b>Net Swap Payments</b>	<b>Total</b>
2011	\$ 27,835	\$ 4,113	\$ 52,345	\$ 84,293
2012	26,200	4,033	49,050	79,283
2013	21,610	3,960	46,315	71,885
2014	20,790	3,898	44,000	68,688
2015	28,865	3,834	42,051	74,750
2016-2020	238,605	17,499	180,939	437,043
2021-2025	280,640	13,853	139,882	434,375
2026-2030	375,540	9,044	89,562	474,146
2031-2035	345,010	4,152	38,390	387,552
2036-2040	111,200	455	2,576	114,231
	<u>\$ 1,476,295</u>	<u>\$ 64,841</u>	<u>\$ 685,110</u>	<u>\$ 2,226,246</u>

### Conduit Debt Obligations

During the 2010 fiscal year, the Agency issued series 2010Q Special Limited Obligation Multifamily Housing Development Bonds. The Agency issued the special limited obligation tax-exempt bonds in an amount of approximately \$10,000 to fund the construction of Mantua-Phase II housing development in Philadelphia. The bonds are secured solely by the property and revenues generated by the property.

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2010 and 2009

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*(In thousands of dollars)*

In prior years, the Agency issued series 2003J, 2008M, 2008P and 2008O Special Limited Obligation 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 revenues generated by the property.

Also in prior years, the Agency issued series 2005A Capital Fund Securitization Revenue Bonds to provide for the financial assistance to local public housing authorities. The bonds are secured solely by the properties financed, revenues generated by the property 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, 2010 and 2009, conduit debt outstanding aggregated \$105,943 and \$97,002, respectively.

### **Bond Covenants**

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

### **New Issue Bond Program**

During the 2010 fiscal year, the United States Treasury, in partnership with Fannie Mae and Freddie Mac, announced the New Issue Bond Program (NIBP) as part of the Housing and Economic Recovery Act of 2008. In December 2009, the Agency issued \$604,000 of Single Family Mortgage Revenue Bonds, Series 2009-107, to Fannie Mae and Freddie Mac under the NIBP. The proceeds of these bonds are to be held in escrow until converted into long-term fixed rate bonds. On March 31, 2010, the Agency converted \$210,000 of the NIBP escrow into long-term fixed rate bonds, leaving approximately \$394,000 of pre-conversion bonds in escrow at June 30, 2010. The Agency also converted \$156,000 of the NIBP escrow into long-term fixed rate bonds on October 14, 2010. The NIBP expires on December 31, 2011, and any escrowed bonds not converted to fixed rate long-term bonds at that time are subject to mandatory redemption on February 1, 2012.

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2010 and 2009

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*(In thousands of dollars)*

### 7. Derivatives

#### Summary

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

Interest rate swaps are recorded and reported as either a hedging derivative instrument or investment derivative instrument based upon the effectiveness of the interest rate swap to hedge against interest rate exposure associated with variable-rate debt. The regression analysis method is used to determine whether the interest rate swaps are an effective hedge or not. The fair value of hedging derivative instruments is presented in the Balance Sheets as a derivative instrument liability (negative fair values amount.) Changes in fair values are recorded as a deferred outflow of a resource (negative fair values change.) If an interest rate swap changes from being an effective hedge to an ineffective hedge, it is recorded and reported as an investment derivative instrument. The fair values of investment derivative instruments are presented as derivative instruments liabilities or assets; however, the changes in fair values are no longer deferred, but recognized as investment revenue or expense.

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

Because interest rates have generally decreased since the interest rate swaps became effective, all of the Agency's interest rate swaps have a negative fair value as of June 30, 2010. 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.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2010 and 2009

*(In thousands of dollars)*

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2010 basic financial statements are as follows:

<b>Bond Series</b>	<b>Notional Amount</b>	<b><u>Changes in Fair Value</u></b>		<b><u>Fair Value at June 30, 2010</u></b>	
		<b>Classification</b>	<b>Amount</b>	<b>Classification</b>	<b>Amount</b>
<b>Cash Flow Hedges:</b>					
1999-67B	\$ 17,800	Deferred outflow	\$ (846)	Debt	\$ (4,273)
2000-70B	1,025	Deferred outflow	138	Debt	(25)
2001-72C	12,855	Deferred outflow	(173)	Debt	(2,126)
2002-74A	30,000	Deferred outflow	(317)	Debt	(2,289)
2002-75A	30,000	Deferred outflow	(519)	Debt	(2,001)
2003-77B	59,900	Deferred outflow	258	Debt	(2,566)
2003-77C	5,760	Deferred outflow	116	Debt	(153)
2003-79B	57,350	Deferred outflow	(2,170)	Debt	(8,373)
2004-81B	4,340	Deferred outflow	40	Debt	(119)
2004-81C	43,465	Deferred outflow	2,163	Debt	(192)
2004-82B	39,580	Deferred outflow	(809)	Debt	(3,030)
2004-82C	35,220	Deferred outflow	(5,070)	Debt	(6,837)
2004-83B	21,750	Deferred outflow	(19)	Debt	(1,230)
2004-83C	42,905	Deferred outflow	(1,207)	Debt	(5,141)
2004-84C	11,265	Deferred outflow	(90)	Debt	(694)
2004-84D	58,335	Deferred outflow	(361)	Debt	(3,299)
2004-85B	19,775	Deferred outflow	(587)	Debt	(1,186)
2004-85C	44,645	Deferred outflow	(5,039)	Debt	(8,564)
2004-86B	57,700	Deferred outflow	(987)	Debt	(4,488)
VRDB2004	20,000	Deferred outflow	(708)	Debt	(1,628)
2005-87B	32,775	Deferred outflow	(469)	Debt	(2,422)
2005-87C	47,300	Deferred outflow	(5,615)	Debt	(9,160)
2005-88B	47,175	Deferred outflow	(1,205)	Debt	(3,627)
2005-88C	31,930	Deferred outflow	(1,163)	Debt	(2,009)
2005-89	63,485	Deferred outflow	502	Debt	(4,004)
2005-90C	60,820	Deferred outflow	(2,180)	Debt	(4,963)
2005-91B	70,000	Deferred outflow	(1,581)	Debt	(6,891)
MF2005-K	25,185	Deferred outflow	(1,134)	Debt	(5,776)
2006-92B	42,870	Deferred outflow	(1,101)	Debt	(4,346)

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2010 and 2009

*(In thousands of dollars)*

Bond Series	Notional Amount	Changes in Fair Value		Fair Value at June 30, 2010	
		Classification	Amount	Classification	Amount
<b>Cash Flow Hedges (cont.)</b>					
2006-93B	37,185	Deferred outflow	(790)	Debt	(4,208)
2006-94B	35,165	Deferred outflow	(1,130)	Debt	(5,126)
2006-95C	39,180	Deferred outflow	(1,076)	Debt	(4,116)
2007-98C	41,955	Deferred outflow	(7)	Debt	(2,449)
2007-99C	15,000	Deferred outflow	(612)	Debt	(2,321)
2007-100C	40,000	Deferred outflow	(1,439)	Debt	(4,748)
RH2008A,B	47,675	Deferred outflow	397	Debt	(3,629)
RH2008C	40,685	Deferred outflow	(1,085)	Debt	(3,942)
RH2008D	40,685	Deferred outflow	(26)	Debt	(2,814)
2008-104#1	43,525	Deferred outflow	1,041	Debt	(2,789)
2008-104#2	17,830	Deferred outflow	299	Debt	(1,474)
2008-104#3	6,105	Deferred outflow	311	Debt	(269)
2008-104#4	51,565	Deferred outflow	613	Debt	(4,890)
<b>Investment Derivatives:</b>					
2004-82B	1,030	Expense	(79)	Investment derivative	(79)
2005-89	18,005	Expense	(1,136)	Investment derivative	(1,136)
RH2008A&B	3,530	Expense	(269)	Investment derivative	(269)
RH2008C	4,515	Expense	(437)	Investment derivative	(437)
RH2008D	4,515	Expense	(312)	Investment derivative	(312)
			Total \$ (35,870)	Total \$ (146,420)	

There were no derivative instruments reclassified from hedging derivative instruments to investment derivative instruments during the year ended June 30, 2010 for hedging instrument effectiveness for the purposes of GASB 53. However, five interest rate swaps, illustrated above, have outstanding notional amounts that exceed the related hedged variable rate bond amounts due to redemption and refunding. The portion of each interest rate swap that exceeds the outstanding variable rate debt is no longer considered a hedging derivative instrument on the associated variable rate bond debt; rather, that amount is accounted for as an investment derivative instrument.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2010 and 2009

*(In thousands of dollars)*

**Hedging Derivative Instruments**

The objective of the hedging derivative instruments is to hedge against changes in the cash flows on the related variable rate bonds series. The terms of the Agency's hedging derivative instruments for June 30, 2010 are as follows. The interest rate swaps have a total negative fair value of \$146,420, which is classified as a noncurrent interest rate swap liability on the Balance Sheets:

Bond Series	Notional Amount	Effective Date	Maturity Date	Terms	
				Fixed Rate Paid	Variable Rate Received
1999-67B	\$ 17,800	8/2002	4/2029	5.950%	1M LIBOR + 50bps
2000-70B	1,025	4/2001	4/2011	6.927	1M LIBOR
2001-72C	12,855	9/2001	10/2023	5.695	1M LIBOR
2002-74A	30,000	8/2002	10/2032	4.285	67% of 1M LIBOR
2002-75A	30,000	12/2002	10/2032	3.957	70% of 1M LIBOR
2003-77B <sup>1</sup>	59,900	9/2003	10/2033	4.060	67% of 1M LIBOR
2003-77C	5,760	9/2003	4/2012	2.690	67% of 1M LIBOR
2003-79B <sup>1</sup>	57,350	12/2003	10/2033	3.997	65% of 1M LIBOR+25bps
2004-81B	4,340	4/2004	4/2013	2.365	67% of 1M LIBOR
2004-81C <sup>1</sup>	43,465	4/2004	10/2034	3.557	67% of 1M LIBOR
2004-82B	39,580	5/2004	10/2030	3.643	61% of 1M LIBOR+39bps
2004-82C <sup>1</sup>	35,220	5/2004	10/2034	3.933	61% of 1M LIBOR+39bps
2004-83B	21,750	8/2004	10/2019	3.410	65% of 1M LIBOR+25bps
2004-83C <sup>1</sup>	42,905	8/2004	10/2035	4.060	65% of 1M LIBOR+25bps
2004-84C	11,265	9/2004	4/2018	3.115	67% of 1M LIBOR
2004-84D <sup>1</sup>	58,335	9/2004	10/2034	3.746	67% of 1M LIBOR
2004-85B	19,775	11/2004	4/2019	3.168	65% of 1M LIBOR+25bps
2004-85C <sup>1</sup>	44,645	11/2004	10/2035	3.879	65% of 1M LIBOR+25bps
2004-86B <sup>1</sup>	57,700	12/2004	10/2033	3.417	67% of 1M LIBOR
VRDB2004	20,000	2/2004	1/2034	3.945	65% of 1M LIBOR+25bps
2005-87B	32,775	3/2005	10/2023	3.460	65% of 1M LIBOR+25bps
2005-87C <sup>1</sup>	47,300	3/2005	10/2035	3.882	65% of 1M LIBOR+25bps
2005-88B	47,175	5/2005	10/2035	3.500	61% of 1M LIBOR+39bps
2005-88C <sup>1</sup>	31,930	5/2005	10/2035	3.712	61% of 1M LIBOR+39bps
2005-89 <sup>1</sup>	63,485	6/2005	10/2035	3.605	67% of 1M LIBOR
2005-90C <sup>1</sup>	60,820	9/2005	4/2036	3.692	65% of 1M LIBOR+25bps
2005-91B	70,000	12/2005	10/2036	3.953	67% of 1M LIBOR
MF2005-K <sup>1</sup>	25,185	3/2005	1/2036	5.183	1M LIBOR
2006-92B	42,870	3/2006	10/2036	3.996	65% of 1M LIBOR+25bps

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2010 and 2009

(In thousands of dollars)

Bond Series	Notional Amount	Effective Date	Maturity Date	Terms	
				Fixed Rate Paid	Variable Rate Received
2006-93B	37,185	5/2006	4/2037	4.266	61% of 1M LIBOR+39bps
2006-94B	35,165	7/2006	4/2027	4.152	67% of 1M LIBOR
2006-95C <sup>1</sup>	39,180	9/2006	4/2026	4.115	65% of 1M LIBOR+25bps
2007-98C <sup>1</sup>	41,955	5/2007	10/2037	4.105	61% of 1M LIBOR+39bps
2007-99C	15,000	9/2007	10/2023	3.885	67% of 1M LIBOR
2007-100C	40,000	12/2007	4/2038	4.136	65% of 1M LIBOR+25bps
RH2008A&B <sup>1</sup>	47,675	7/2002	1/2021	3.575	67% of 1W LIBOR
RH2008C <sup>1</sup>	40,685	6/2003	7/2020	3.457	70% of 1M LIBOR
RH2008D <sup>1</sup>	40,685	6/2003	7/2020	3.547	70% of 1M LIBOR
2008-104#1	43,525	12/2007	10/2013	4.471	1M LIBOR
2008-104#2	17,830	3/2007	10/2014	4.922	1M LIBOR
2008-104#3	6,105	3/2007	4/2012	4.862	1M LIBOR
2008-104#4	51,565	9/2007	4/2015	5.149	1M LIBOR

1 = Indicates an embedded option to reduce the notional amount without a payment to the counterparty

LIBOR = London Interbank Offered Rate.

bps = Basis Points.

***Credit Risk***

At June 30, 2010, the Agency was not exposed to credit risk on the outstanding interest rate swaps since all interest rate swaps have negative fair values. The Agency's entire collection of interest rate swaps rely upon the performance of the third parties who serve as interest rate swap counterparties. If interest rates rise and the fair value of these swaps become positive, the Agency may be exposed to credit risk - the risk of the counterparty failing to perform according to contractual obligations.

***Basis Risk 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 interest rate swap. The Agency is exposed to interest rate risk on all of its interest rate swaps; as the LIBOR index decreases, the Agency's net payment on interest rate swaps increases.

***Termination Risk***

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

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2010 and 2009

(In thousands of dollars)

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### ***Rollover Risk***

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

<b>Associated Bond Issue</b>	<b>Debt Maturity Dates</b>	<b>Swap Termination Dates</b>
2000-70B	10/2028	04/2011
2001-72C	10/2032	10/2023
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 #1	10/2037	10/2014
2008-104 #2	10/2037	04/2012
2008-104 #3	04/2038	04/2015
2008-104 #4	04/2038	10/2013

### **Investment Derivative Instruments**

At June 30, 2010, five interest rate swaps had notional amounts that exceeded the associated outstanding variable rate debt. The excess portions of those interest rate swaps had a total negative fair value of \$2,233, were no longer considered to be hedging derivative instruments, and are classified as a noncurrent interest rate swap liability on the Balance Sheets.

### ***Credit Risk***

At June 30, 2010, the Agency was not exposed to credit risk because the interest rate swap agreements, reported as investment derivative instruments, have a negative fair value.

### ***Interest Rate Risk***

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

### **Contingencies**

Each of the Agency's interest rate swap agreements require the Agency to post collateral in the event the fair value of the interest rate swaps falls below specific thresholds of negative worth. As of June 30, 2010, the Agency was not required to post collateral for any of its outstanding swaps.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2010 and 2009

*(In thousands of dollars)***8. Long-Term Liabilities**

The changes in long-term liabilities for the year ended June 30, 2010 were as follows:

	<b>July 1, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2010</b>	<b>Due Within One Year</b>
Bonds and notes payable	\$4,257,824	\$1,773,180	\$1,197,618	\$4,833,386	\$521,789
Net bond premium (discount)	(11,969)	(3,612)	(1,627)	(13,954)	-
Deferred refunding loss	(21,068)	(1,038)	(2,814)	(19,292)	-
Bonds and notes payable, net	<u>4,224,787</u>	<u>1,768,530</u>	<u>1,193,177</u>	<u>4,800,140</u>	<u>521,789</u>
Net OPEB obligation	5,949	4,225	488	9,686	-
Escrow deposits	165,497	232,930	228,841	169,586	73,164
Other liabilities	200,289	387,461	377,073	210,677	29,482
Escrow and other liabilities	<u>371,735</u>	<u>624,616</u>	<u>606,402</u>	<u>389,949</u>	<u>102,646</u>
Total net long-term liabilities	<u>\$4,596,522</u>	<u>\$2,393,146</u>	<u>\$1,799,579</u>	<u>\$5,190,089</u>	<u>\$624,435</u>

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

	<b>July 1, 2008</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2009</b>	<b>Due Within One Year</b>
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>

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2010 and 2009

*(In thousands of dollars)***9. Designated Net Assets**

The Members of the Board have designated unrestricted net assets for the following purposes at June 30, 2010 and 2009:

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
<b>General Fund:</b>		
Home Choice Program to fund the housing opportunity in urban areas	\$ 47,150	\$ 47,150
Housing Initiatives provide below market rate financing	11,850	11,850
Single Family Insurance to fund special hazard losses by homeowners	16,500	16,500
Home Buyer Counseling for education of first time homebuyers	7,500	6,500
Multifamily Insurance for Agency insured or coinsured developments	10,000	10,000
Homeless Auxiliary Initiative provides assistance to homeless shelters	1,593	1,593
Total	<u>\$ 94,593</u>	<u>\$ 93,593</u>
<b>Multifamily Housing Program:</b>		
PennHOMES Program to lower development costs for apartments	\$139,000	\$137,000
Preservation manages physical deterioration, financial or social distress	3,000	3,000
Senior Housing Supportive Services to fund elderly resident services	4,000	4,000
Supportive Services to fund multifamily resident services	2,300	2,300
Total	<u>\$ 148,300</u>	<u>\$ 146,300</u>
<b>Single Family Mortgage Loan Program:</b>		
Closing Cost Subsidy Program to assist borrowers with closing costs	\$ 15,750	\$ 14,750
Additional Single Family Insurance to reduce the risk of default on loans	2,455	2,455
Total	<u>\$ 18,205</u>	<u>\$ 17,205</u>
<b>Insurance Fund:</b>		
Risk Retention Program to provide single family mortgage insurance	<u>\$ 35,530</u>	<u>\$ 35,405</u>

**10. Restricted Net Assets**

Multifamily Housing Program and Single Family Mortgage Loan Program June 30, 2010 net assets of \$5,564 and \$188,252, respectively, are restricted by bond resolutions included within certain bond indentures whose proceeds are to be used to fund loan programs.

HEMAP's June 30, 2010 net assets of \$45,282 have been restricted in accordance with GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. Net assets are restricted by Commonwealth statute, which requires that net assets shall be used in providing mortgage assistance loans to mortgagors facing foreclosure because of circumstances beyond their control.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2010 and 2009

*(In thousands of dollars)*

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**11. Interfund Transfers, Advances, Receivables and Payables**

Transfers are used to move funds between the General Fund and the other funds of the Agency for financing mortgage related activities, subsidizing debt service payments, moving revenue to the General Fund from the bond program funds and for reimbursement to the General Fund that pays shared service expenses for the separate enterprise funds. Advances outstanding between funds result mainly from the time lag between the dates that interfund services are provided and reimbursement payments between funds are made.

Transfers and advance balances outstanding to and from the funds are summarized below for the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
<b>Interfund transfers in:</b>		
General Fund	\$ 3,186	\$ 4,762
Single Family Mortgage Loan Program	-	25,713
Multifamily Housing Program	2,826	-
	<u>\$ 6,012</u>	<u>\$ 30,475</u>
<b>Interfund transfers out:</b>		
Single Family Mortgage Loan Program	\$ 5,938	\$ -
Multifamily Housing Program	-	20,475
Insurance Fund	74	10,000
	<u>\$ 6,012</u>	<u>\$ 30,475</u>
<b>Advance receivable fund:</b>		
General Fund	\$ 66,234	\$ 35,845
Multifamily Housing Program	39,407	-
	<u>\$ 105,641</u>	<u>\$ 35,845</u>
<b>Advance payable fund:</b>		
Single Family Mortgage Loan Program	\$ 100,302	\$ 31,099
Multifamily Housing Program	-	394
HEMAP	5,339	4,352
	<u>\$ 105,641</u>	<u>\$ 35,845</u>

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2010 and 2009

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*(In thousands of dollars)*

### 12. Pension Plans

#### **Plan Description**

As of June 30, 2010, 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 Plan and Excess Plan do not issue stand-alone financial statements.

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

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

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2010 and 2009

*(In thousands of dollars)*

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Annual required contribution (ARC)	\$ 3,037	\$ 2,348
Interest on net pension asset	(92)	(67)
Adjustment to ARC	139	102
Annual pension cost	3,084	2,383
Contributions made	(3,200)	(2,700)
Increase in net pension asset	(116)	(317)
Net pension asset beginning of year	(1,452)	(1,135)
Net pension asset end of year	<u>\$ (1,568)</u>	<u>\$ (1,452)</u>

**Three-Year Trend Information for the Plan and Excess Plan:**

<b>Calendar Year Ended</b>	<b>Annual Pension Cost (“APC”)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension (Asset)</b>
December 31, 2009	\$ 3,084	104%	\$ (1,568)
December 31, 2008	2,383	113	(1,452)
December 31, 2007	2,364	110	(1,135)

**Funded Status and Funding Progress**

As of January 1, 2010, the most recent actuarial valuation date, the Plan and Excess Plan was 70.8% funded. The actuarial accrued liability for benefits was \$57,218, and the actuarial value of assets was \$40,521, resulting in an unfunded actuarial accrued liability (“UAAL”) of \$16,697. The covered payroll (annual payroll of active employees covered by the Plan and Excess Plan) was \$14,489 and the ratio of the UAAL to the covered payroll was 115.2%.

Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2010
Actuarial cost method	Aggregate
Amortization method	*
Remaining amortization period	*
Amortization period open or closed	*
Asset valuation method	Market Value for 1/1/2008 and 1/1/2009 and Five-Year Smoothed Value for 1/1/2010.
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

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2010 and 2009

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*(In thousands of dollars)*

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

The Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Employees' Retirement Plan and Government Excess Benefit Plan, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of Plan and Excess Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

### **13. Postemployment Benefits Other than Pensions**

#### **Plan Description**

The Agency sponsors a single-employer defined benefit plan, which includes the Pennsylvania Housing Finance Agency Postemployment Benefits Plan ("Plan") to provide certain other postemployment benefits ("OPEB") to all former employees who are members of the Employees' Retirement Plan currently receiving retirement income. Such benefits are available to members' spouses during the life of the retiree. Specific details of the Plan include the provision of limited hospitalization, major medical insurance, physician services and prescription drug coverage. The Agency is under no statutory or contractual obligation to provide these postretirement healthcare benefits. Plan assets and liabilities are included in the basic financial statements of the Agency. Because the Plan consists solely of the Agency's commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated for the Plan.

#### **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 years ended June 30, 2010 and 2009, contribution rates for Plan members equaled 2.5% of the insurance premium per participant per month. For the years ended June 30, 2010 and 2009, Plan members receiving benefits paid \$12 and \$10, respectively, which was used to offset the Agency's total outlays to insurance carriers for premiums equaling \$488 and \$408, respectively. As a result, the Agency's net outlays for premiums due equaled \$476 and \$398 for the years ended June 30, 2010 and 2009, respectively.

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.

**PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2010 and 2009

*(In thousands of dollars)*

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

**Annual OPEB Cost and Net OPEB Obligation**

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

The following table presents 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, 2010</b>	<b>June 30, 2009</b>
Annual required contribution (ARC)	\$ 4,318	\$ 3,363
Interest on net OPEB obligation	255	131
Adjustment to ARC	(348)	(178)
Annual OPEB expense	4,225	3,316
Contributions made	(488)	(408)
Increase in net OPEB obligation	3,737	2,908
Net OPEB obligation beginning of year	5,949	3,041
Net OPEB obligation end of year	<u>\$ 9,686</u>	<u>\$ 5,949</u>

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation are 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, 2010	\$ 4,225	12%	\$ 9,686
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, 2009, the most recent actuarial valuation date, the Plan was not funded. This resulted in an actuarial accrued liability for benefits and unfunded actuarial accrued liability ("UAAL") of \$36,652. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$15,320, and the ratio of the UAAL to the covered payroll equaled 239.2%. 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.

## **PENNSYLVANIA HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2010 and 2009

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*(In thousands of dollars)*

The Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Postemployment Benefits Plan, presented as Required Supplementary Information 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 as understood by the Agency and Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Agency and Plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the actuarial valuation dated July 1, 2009, 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. The annual healthcare cost trend rate is 8% in 2009, decreasing by 0.5% per year to 5.5% in 2015 and thereafter.

## **14. Significant Contingencies and Commitments**

### **Federally Assisted Programs**

The Agency participates in several federally assisted programs. Those programs are subject to compliance 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 the Agency's 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.

## PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2010 and 2009

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*(In thousands of dollars)*

### **Commitments**

Outstanding commitments by the Agency to make or acquire Multifamily Housing, Single Family Mortgage and HEMAP Loans were approximately \$1,267, \$88,466 and \$7,542, respectively, at June 30, 2010.

### **15. Significant Effects of Subsequent Events**

On October 14, 2010, the Agency converted \$156,000 of Single Family Mortgage Revenue Bonds, Series 107B, which were part of the New Issue Bond Program escrow, into long-term fixed rate bonds. The 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 April 01, 2041. The bonds will be primarily secured by program obligations consisting of qualifying single-family mortgage loans purchased with bond proceeds. Approximately \$238,260 of New Issue Bond Program escrow remains available for conversion.

On October 14, 2010, the Agency issued \$104,000 of Single Family Mortgage Revenue Bonds, Series 109. 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 April 01, 2028. The bonds will be primarily secured by program obligations consisting of qualifying single-family mortgage loans purchased with bond proceeds.

On October 14, 2010, the Agency issued \$250,000 of Single Family Mortgage Revenue Bonds, Series 110A through 110B. 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 01, 2039. The bonds will be primarily secured by program obligations consisting of qualifying single-family mortgage loans purchased with bond proceeds.

On or about December 22, 2010, the Agency plans to issue \$82,750 of Single Family Mortgage Revenue Bonds, Series 111. These bonds will be general obligations of the Agency, secured by all monies, assets and revenues established by the indenture and bear interest at fixed rates, with a final maturity of September 22, 2011. The bonds will be primarily secured by program obligations consisting of qualifying single-family mortgage loans purchased with bond proceeds.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

June 30, 2010

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*(In thousands of dollars)***SCHEDULE OF FUNDING PROGRESS FOR THE PENNSYLVANIA HOUSING FINANCE AGENCY EMPLOYEES' RETIREMENT PLAN AND GOVERNMENT EXCESS BENEFIT PLAN**

<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>
01/01/2010	\$ 40,521	\$ 57,218	\$ 16,697	70.8%	\$ 14,489	115.2%
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

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

June 30, 2010

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*(In thousands of dollars)***SCHEDULE OF FUNDING PROGRESS FOR THE PENNSYLVANIA HOUSING FINANCE AGENCY POSTEMPLOYMENT 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>
07/01/2009	\$ -	\$ 36,652	\$ 36,652	0.0%	\$ 15,320	239.2%
07/01/2007	-	28,072	28,072	0.0	13,382	209.8