



THE PENNSYLVANIA HOUSING FINANCE AGENCY

Basic Financial Statements and Supplementary Information

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

PENNSYLVANIA HOUSING FINANCE AGENCY

Basic Financial Statements and Required Supplementary Information

June 30, 2015 and 2014

CONTENTS

Independent Auditors' Report.....	1
Management's Discussion and Analysis (unaudited)	4
Basic Financial Statements	
Balance Sheet.....	13
Statement of Revenues, Expenses and Changes in Net Position	14
Statement of Cash Flows	15
Notes to Financial Statements.....	17
Required Supplementary Information	
Schedule of Changes in the Agency's Net Pension Liability and Related Ratios (unaudited)	68
Schedule of Employer Contributions to Agency Employees' Retirement Plan and Government Excess Benefit Plan (unaudited)	69
Schedule of Investment Returns of Agency Employees' Retirement Plan and Government Excess Benefit Plan (unaudited)	70
Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Postemployment Benefits Plan (unaudited).....	71
Supplementary Information	
Combining Balance Sheet, June 30, 2015	72
Combining Statement of Revenues, Expenses and Changes in Net Position, Year Ended June 30, 2015.....	73
Combining Statement of Cash Flows, Year Ended June 30, 2015	74
Combining Balance Sheet, June 30, 2014	76
Combining Statement of Revenues, Expenses and Changes in Net Position, Year Ended June 30, 2014.....	77
Combining Statement of Cash Flows, Year Ended June 30, 2014	78
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	80



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Independent Auditors' Report

Management and Members of the Board of Directors
Pennsylvania Housing Finance Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the Pennsylvania Housing Financing Agency (the Agency), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Homeowners' Emergency Mortgage Assistance Program (HEMAP) which represents 1 percent of total assets, 6 percent of total net position, and 5 percent of total operating revenues. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for HEMAP, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Pennsylvania Housing Finance Agency as of June 30, 2015 and 2014, and the changes in its financial position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 3 to the financial statements, in 2015, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which required the Agency to record its long-term obligation for pension benefits. This standard has been applied retrospectively, resulting in the restatement of beginning net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, the Schedule of Changes in the Agency's Net Pension Liability and Related Ratios, the Schedule of Employer Contributions to Agency Employees' Retirement Plan and Government Excess Benefit Plan, Schedule of Investment Returns of 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 4-12, 67, 68, 69, and 70, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The supplementary information, as presented in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated October 13, 2015 on our consideration of the Agency'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* in considering the Agency's internal control over financial reporting and compliance.

KPMG LLP

Harrisburg, Pennsylvania
October 13, 2015

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2015 and 2014 (amounts rounded)

Management's Discussion and Analysis

Introduction

The discussion and analysis provided herein are designed to furnish an objective and easily understandable review of the financial activities of the Pennsylvania Housing Finance Agency ("Agency"). Readers are encouraged to consider the information presented in conjunction with the basic financial statements as a whole, which follow this section.

Understanding the Basic Financial Statements

The basic financial statements are designed to provide a broad overview of the Agency's finances, and include three required statements: The Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows.

The Balance Sheet presents financial information respective of all of the Agency's assets, liabilities and deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position reflects revenue and expenses within a given period in order to measure the success of the Agency's operations during that period and to illustrate how the Agency has funded its costs of operations.

The Statement of Cash Flows is presented using the direct method, which reports cash receipts and cash payments in three major classes of activities: Operating, Investing and Financing. Cash receipts and disbursements are presented within these statements in order to illustrate the net increase or decrease in cash and cash equivalents within a given period.

The basic financial statements are accompanied by a set of notes. The notes to the basic financial statements provide additional information necessary to acquire a full understanding of the data presented in the basic financial statements and a means to obtain a more comprehensive assessment of factors affecting the Agency's financial condition.

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2015 and 2014 (amounts rounded)

Condensed Summary Balance Sheet (In thousands)

	2015	2014* (as restated)	Increase/(Decrease)	
Assets:				
Mortgage loans receivable	\$ 3,333,356	\$ 3,643,411	\$ (310,055)	(8.5%)
Capital assets	31,338	31,216	122	0.4%
Other assets	850,574	873,798	(23,224)	(2.7%)
Total Assets	<u>4,215,268</u>	<u>4,548,425</u>	<u>(333,157)</u>	<u>(7.3%)</u>
Deferred Outflows of Resources	<u>35,815</u>	<u>44,306</u>	<u>(8,491)</u>	<u>(19.2%)</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 4,251,083</u>	<u>\$ 4,592,731</u>	<u>\$ (341,648)</u>	<u>(7.4%)</u>
Liabilities:				
Current liabilities	237,018	228,845	8,173	3.6%
Noncurrent liabilities	<u>3,247,819</u>	<u>3,628,641</u>	<u>(380,822)</u>	<u>(10.5%)</u>
Total Liabilities	<u>3,484,837</u>	<u>3,857,486</u>	<u>(372,649)</u>	<u>(9.7%)</u>
Deferred Inflows of Resources	<u>3,880</u>	<u>3,936</u>	<u>(56)</u>	<u>(1.4%)</u>
Net Position				
Net Investment in Capital Assets	11,688	11,216	472	4.2%
Restricted	155,079	165,564	(10,485)	(6.3%)
Unrestricted	<u>595,599</u>	<u>554,529</u>	<u>41,070</u>	<u>7.4%</u>
Total Net Position	<u>762,366</u>	<u>731,309</u>	<u>31,057</u>	<u>4.2%</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 4,251,083</u>	<u>\$ 4,592,731</u>	<u>\$ (341,648)</u>	<u>(7.4%)</u>

* - See Note 3 to the financial statements for details of restatement of Net Position.

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2015 and 2014 (amounts rounded)

Condensed Summary Balance Sheet (In thousands)

	2014* (as restated)	2013* (as restated)	Increase/(Decrease)	
Assets:				
Mortgage loans receivable	\$ 3,643,411	\$ 3,947,866	\$ (304,455)	(7.7%)
Capital assets	31,216	30,879	337	1.1%
Other assets	873,798	891,140	(17,342)	(1.9%)
Total Assets	4,548,425	4,869,885	(321,460)	(6.6%)
Deferred Outflows of Resources	44,306	65,600	(21,294)	(32.5%)
Total Assets and				
Deferred Outflow of Resources	<u>\$ 4,592,731</u>	<u>\$ 4,935,485</u>	<u>\$ (342,754)</u>	<u>(6.9%)</u>
Liabilities:				
Current liabilities	228,845	172,639	56,206	32.6%
Noncurrent liabilities	3,628,641	4,071,594	(442,953)	(10.9%)
Total Liabilities	3,857,486	4,244,233	(386,747)	(9.1%)
Deferred Inflows of Resources	3,936	-	3,936	100.0%
Net Position				
Net Investment in Capital Assets	11,216	10,879	337	3.1%
Restricted	165,564	178,906	(13,342)	(7.5%)
Unrestricted	554,529	501,467	53,062	10.6%
Total Net Position	731,309	691,252	40,057	5.8%
Total Liabilities and Net Position	<u>\$ 4,592,731</u>	<u>\$ 4,935,485</u>	<u>\$ (342,754)</u>	<u>(6.9%)</u>

The following reclassifications were made to the June 30, 2013 Condensed Summary Balance Sheet in order to conform to the June 30, 2015 and 2014 presentation:

- \$12.6 million attributable to unamortized losses on bond refundings was previously reported within Current and Noncurrent Liabilities. This amount is now reported within Deferred Outflows of Resources. This reclassification comes as a result of the adoption of Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities ("GASB 65") during the 2014 fiscal year.

* - See Note 3 to the financial statements for details of restatement of Net Position.

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2015 and 2014 (amounts rounded)

Condensed Summary of Revenues, Expenses and Changes in Net Position (In thousands)

	2015	2014* (as restated)	Increase/(Decrease)	
Revenues:				
Mortgage loan interest	\$ 139,530	\$ 158,203	\$ (18,673)	(11.8%)
Other Operating Revenues	85,932	90,968	(5,036)	(5.5%)
Federal program awards	406,616	405,638	978	0.2%
Total Revenues	<u>632,078</u>	<u>654,809</u>	<u>(22,731)</u>	<u>(3.5%)</u>
Expenses:				
Interest and financing expenses	125,901	144,007	(18,106)	(12.6%)
Other Operating Expenses	68,504	65,107	3,397	5.2%
Federal program expenses	406,616	405,638	978	0.2%
Total Expenses	<u>601,021</u>	<u>614,752</u>	<u>(13,731)</u>	<u>(2.2%)</u>
Change in Net Position	31,057	40,057	(9,000)	(22.5%)
Net Position - Beginning of Year, restated*	<u>731,309</u>	<u>691,252</u>	<u>40,057</u>	<u>5.8%</u>
Net Position - End of Year	<u>\$ 762,366</u>	<u>\$ 731,309</u>	<u>\$ 31,057</u>	<u>4.2%</u>

	2014* (as restated)	2013* (as restated)	Increase/(Decrease)	
Revenues:				
Mortgage loan interest	\$ 158,203	\$ 175,240	\$ (17,037)	(9.7%)
Other Operating Revenues	90,968	76,190	14,778	19.4%
Federal program awards	405,638	405,153	485	0.1%
Total Revenues	<u>654,809</u>	<u>656,583</u>	<u>(1,774)</u>	<u>(0.3%)</u>
Expenses:				
Interest and financing expenses	144,007	156,124	(12,117)	(7.8%)
Other Operating Expenses	65,107	65,306	(199)	(0.3%)
Federal program expenses	405,638	405,153	485	0.1%
Total Expenses	<u>614,752</u>	<u>626,583</u>	<u>(11,831)</u>	<u>(1.9%)</u>
Change in Net Position	40,057	30,000	10,057	33.5%
Net Position - Beginning of Year, restated*	<u>691,252</u>	<u>661,252</u>	<u>30,000</u>	<u>4.5%</u>
Net Position - End of Year	<u>\$ 731,309</u>	<u>\$ 691,252</u>	<u>\$ 40,057</u>	<u>5.8%</u>

* - See Note 3 to the financial statements for details of restatement of Net Position.

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2015 and 2014 (amounts rounded)

Analysis of Overall Financial Position and Results of Operations

Comparison of Years Ended June 30, 2015 and 2014

Total Assets decreased by \$333 million from \$4.548 billion to \$4.215 billion. This was primarily attributable to decreases in mortgage loans receivable and cash and investments. The decrease in mortgage loans receivable, equal to \$310 million, is the result of balances of existing Single Family Mortgage Loan Program ("Single Family Program") and Multifamily Housing Program ("Multifamily Program") loans decreasing at a faster rate than the production of new mortgage loans owned by the Agency. The decrease in cash and investments, equal to \$38 million, resulted from a timing difference associated with the Agency's purchase and subsequent pooling of mortgage loans into mortgage-backed securities (MBSs), as single family mortgage loans held for sale at June 30, 2015 equaled nearly \$74 million.

Total Deferred Outflows of Resources decreased by \$8 million from \$44 million to \$36 million. The net decrease was brought about by a reduction of unamortized losses on bond refundings equal to \$2 million and a reduction in the accumulated decrease in the fair value of hedging derivatives equal to \$16 million offset by an increase in pension-related deferred outflows equal to \$10 million. The reduction of unamortized losses on bond refundings derived from the amortization and recognition of these balances over the remaining lives of the corresponding refunding bonds; the reduction of the accumulated decrease in the fair value of hedging derivatives resulted from the Agency reducing notional amounts associated with certain interest rate swaps and exercising embedded options at opportune economic times, as well as favorable market conditions at the June 30, 2015 valuation date. The increase in balances of pension-related deferred outflows resulted from changes in actuarial assumptions with respect to participant mortality, changes in actual versus expected compensation experience and the deferral of employer contributions made to the Agency Employees' Retirement Plan and Governmental Excess Benefit Plan after the plans' measurement dates.

Total Liabilities decreased by \$373 million from \$3.857 billion to \$3.485 billion. The net decrease was brought about, primarily, by reductions in the balances of bonds and notes payable and the fair value of interest rate swaps equal to \$349 million and \$16 million, respectively. The significant reduction to the balance of bonds and notes payable was brought about by timely payment of regularly scheduled debt service and by redeeming bonds payable in advance of their scheduled payment dates using prepayments received from borrowers and available cash; the reduction in the fair value of interest rate swaps resulted from the Agency reducing notional amounts associated with certain interest rate swaps and exercising embedded options at opportune economic times, as well as favorable market conditions at the June 30, 2015 valuation date.

Balances attributable to Deferred Inflows of Resources remained relatively consistent with those of the previous period.

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2015 and 2014 (amounts rounded)

The Agency's overall net position experienced an increase of \$31 million. While most of the Agency's revenues and expenses remained relatively consistent with those of the previous period, there was a notable decrease in mortgage loan interest revenue and a corresponding decrease in interest expense on bonds and notes. The decrease in mortgage loan interest revenue was caused by the decrease in balances of existing Single Family Program and Multifamily Program mortgage loans receivable discussed previously; the decrease in interest expense on bonds and notes was enabled by the significant reduction to balances of bonds payable discussed previously.

Comparison of Years Ended June 30, 2014 and 2013

Total Assets decreased by \$321 million from \$4.869 billion to \$4.548 billion. This was primarily attributable to decreases in balances of mortgage loans receivable and cash and investments. The decrease in mortgage loans receivable, equal to \$304 million, was the result of balances of existing Single Family Mortgage Loan Program and Multifamily Housing Program mortgage loans decreasing at a faster rate than the production of new mortgage loans owned by the Agency. The decrease in cash and investments, equal to \$55 million, was brought on by the ongoing need for liquidity necessary to purchase single family mortgage loans for purposes of pooling and selling MBSs. Because these MBSs consist of securitized mortgage loans, the underlying mortgage loans are not reported as assets of the Agency.

Total Deferred Outflows of Resources decreased by \$21 million from \$65 million to \$44 million. The total decrease was brought about by a reduction of unamortized losses on bond refundings equal to \$2 million and a reduction in the accumulated decrease in the fair value of hedging derivatives equal to \$19 million. The reduction of unamortized losses on bond refundings derived from the amortization and recognition of these balances over the remaining lives of the corresponding refunding bonds; the reduction of the accumulated decrease in the fair value of hedging derivatives resulted from the Agency reducing notional amounts associated with certain interest rate swaps and exercising embedded options at opportune economic times, as well as favorable market conditions at the June 30, 2014 valuation date.

Total Liabilities decreased by \$387 million from \$4.244 billion to \$3.857 billion. Fluctuations in the balances of varying Agency liabilities notwithstanding, the reduction in the balances of bonds and notes payable and the fair value of interest rate swaps, equal to \$375 million and \$20 million, respectively, is the primary cause for the reduction overall. The significant reduction to the balances of bonds and notes payable was brought about by timely payment of regularly scheduled debt service and by redeeming bonds payable in advance of their scheduled payment dates using prepayments received from borrowers and available cash; the reduction in the fair value of interest rate swaps resulted from the Agency reducing notional amounts associated with certain interest rate swaps and exercising embedded options at opportune economic times, as well as favorable market conditions at the June 30, 2014 valuation date.

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2015 and 2014 (amounts rounded)

The balance of Deferred Inflows of Resources reported at June 30, 2014 approached \$4 million, whereas no balance was reported in the prior period. This balance represents pension-related deferred inflows attributable to the difference between projected and actual earnings, where actual earnings exceeded projected earnings by approximately \$4 million at the December 31, 2013 measurement date and will be recognized evenly over five future periods.

Overall, net position of the Agency experienced an increase of \$40 million. Despite a decrease in mortgage loan interest revenue, caused primarily by the decrease in balances of existing Single Family Program and Multifamily Program mortgage loans receivable, the increase in overall net position was enabled by a notable increase in other operating revenues and a decrease in interest and financing expenses. The increase in other operating revenues was primarily attributable to an increase in the fair values of the Agency's investments equaling approximately \$2.4 million at year end, compared to an overall decrease experienced in the prior year equaling approximately \$20 million – a total change in value equal to \$22.4 million. The decrease in interest and financing expenses was enabled by timely payment of regularly scheduled debt service and by redeeming bonds payable in advance of their scheduled payment dates using prepayments received from borrowers and available cash.

Analysis of Capital Asset Activity *(In thousands)*

	Balances at June 30		Increase/ (Decrease)
	2015	2014	
Nondepreciable Capital Assets:			
Land	\$ 2,454	\$ 2,454	\$ -
Depreciable Capital Assets:			
Building	31,648	31,185	463
Furniture, fixtures and equipment	10,292	10,226	66
Less accumulated depreciation:			
Building	(7,161)	(6,582)	(579)
Furniture, fixtures and equipment	(5,895)	(6,067)	172
Total depreciable capital assets, net	<u>28,884</u>	<u>28,762</u>	<u>122</u>
Total Capital Assets, net	<u>\$ 31,338</u>	<u>\$ 31,216</u>	<u>\$ 122</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2015 and 2014 (amounts rounded)

	Balances at June 30		Increase/ (Decrease)
	2014	2013	
Nondepreciable Capital Assets:			
Land	\$ 2,454	\$ 2,454	\$ -
Depreciable Capital Assets:			
Building	31,185	30,096	1,089
Furniture, fixtures and equipment	10,226	10,412	(186)
Less accumulated depreciation:			
Building	(6,582)	(6,004)	(578)
Furniture, fixtures and equipment	(6,067)	(6,079)	12
Total depreciable capital assets, net	28,762	28,425	337
Total Capital Assets, net	\$ 31,216	\$ 30,879	\$ 337

While the balances of most of the Agency's capital assets remained consistent with those of the prior years, the notable increases for the years ended June 30, 2015 and 2014 are attributable to amounts associated with the Agency's building. The Agency is exploring plans to expand its headquarters to include the property adjacent to its headquarters; the costs of preliminary renovations have been capitalized. The adjacent property is owned by the Agency.

Analysis of Long-Term Debt Activity (In thousands)

Agency Program	Long-Term Debt at June 30		Decrease
	2015	2014	
General Activities	\$ 19,650	\$ 20,000	\$ (350)
Multifamily Program	14,785	53,245	(38,460)
Single Family Program	2,956,631	3,266,768	(310,137)
Total Long-Term Debt	\$ 2,991,066	\$ 3,340,013	\$ (348,947)

Agency Program	Long-Term Debt at June 30		Decrease
	2014	2013	
General Activities	\$ 20,000	\$ 20,000	\$ -
Multifamily Program	53,245	72,629	(19,384)
Single Family Program	3,266,768	3,622,732	(355,964)
Total Long-Term Debt	\$ 3,340,013	\$ 3,715,361	\$ (375,348)

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2015 and 2014 (amounts rounded)

On March 26, 2015, the Agency issued Series 2015-116A and 2015-116B bonds in the amounts of \$98,795 and \$20,000, respectively. \$1,200 of Series 2004-85A bonds, \$27,470 of Series 2005-90A bonds, \$7,665 of Series 2005-91A bonds and \$62,830 of Series 2006-92A bonds were refunded by the total proceeds of Series 2015-116A bonds. There were no bonds issued during the year ended June 30, 2014. Required principal payments on bonds and notes payable for the year ended June 30, 2015 and 2014 equaled \$90 million and \$81.7 million, respectively, but the Agency also redeemed additional principal amounts of certain bonds totaling \$286.1 million and \$290.5 million during the same periods, respectively, prior to their scheduled maturity, with cash from mortgage prepayments. The redemptions of additional principal produced net gains on early extinguishment of debt totaling \$494 thousand and \$1.2 million for the years ended June 30, 2015 and 2014, respectively, which resulted from the recognition of bond premiums that would have otherwise been amortized over the life of the associated debt.

Additional Information

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Balance Sheets

June 30, 2015 and 2014 (in thousands)

ASSETS	2015	2014
Current assets:		
Cash and cash equivalents	\$ 309,475	\$ 387,057
Restricted cash and cash equivalents	105,710	93,901
Investments	1,997	3,494
Restricted investments	3,028	4,037
Accrued investment interest receivable	1,039	1,347
Mortgage loans receivable, net	98,005	100,393
Accrued mortgage loan interest receivable	33,901	34,545
Mortgages held for sale	72,468	51,477
Other current assets	2,205	488
Total Current Assets	627,828	676,739
Noncurrent Assets:		
Investments	145,619	64,398
Restricted investments	118,619	169,587
Mortgage loans receivable, net	3,235,351	3,543,018
Real estate owned	43,581	37,303
Capital assets, net	31,338	31,216
Other noncurrent assets	12,932	26,164
Total Noncurrent Assets	3,587,440	3,871,686
TOTAL ASSETS	4,215,268	4,548,425
DEFERRED OUTFLOWS OF RESOURCES		
Pension-related deferred outflows	11,889	2,198
Unamortized losses on bond refundings	8,090	10,573
Accumulated decrease in fair value of hedging derivatives	15,836	31,535
TOTAL DEFERRED OUTFLOWS OF RESOURCES	35,815	44,306
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 4,251,083	\$ 4,592,731
LIABILITIES		
Current Liabilities:		
Bonds and notes payable, net	\$ 113,220	\$ 111,340
Accrued interest payable	26,006	30,455
Accounts payable and accrued expenses	13,206	16,607
Escrow deposits and development reserves	65,996	63,862
Other current liabilities	18,590	6,581
Total Current Liabilities	237,018	228,845
Noncurrent Liabilities:		
Bonds and notes payable, net	2,877,846	3,228,673
Derivative instrument - interest rate swaps	41,762	57,522
Development reserves	76,598	77,721
Net pension liability	20,397	12,218
Other noncurrent liabilities	231,216	252,507
Total Noncurrent Liabilities	3,247,819	3,628,641
TOTAL LIABILITIES	3,484,837	3,857,486
DEFERRED INFLOWS OF RESOURCES		
Pension-related deferred inflows	3,880	3,936
NET POSITION		
Net investment in capital assets	11,688	11,216
Restricted	155,079	165,564
Unrestricted	595,599	554,529
TOTAL NET POSITION	762,366	731,309
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 4,251,083	\$ 4,592,731

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCYStatements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2015 and 2014 (in thousands)

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Interest income on mortgage loans	\$ 139,530	\$ 158,203
Program income and fees	59,880	64,073
Gain on sales of mortgage-backed securities	13,487	12,470
Investment income	8,542	9,426
Net increase in fair value of investments	2,677	2,368
Net increase in fair value of swaps	852	1,390
Gain on early extinguishment of debt	494	1,241
	<u>225,462</u>	<u>249,171</u>
Total Operating Revenues	<u>225,462</u>	<u>249,171</u>
Operating Expenses:		
Interest expense on bonds and notes	113,243	130,589
Financing and program expenses	12,658	13,418
Salaries and related benefits	32,272	30,603
General and administrative	13,901	14,033
Provision for loan loss and real estate owned	22,331	20,471
	<u>194,405</u>	<u>209,114</u>
Total Operating Expenses	<u>194,405</u>	<u>209,114</u>
Operating Income	31,057	40,057
Nonoperating Revenue		
Federal program awards	406,616	405,638
Nonoperating Expense		
Federal program expense	<u>406,616</u>	<u>405,638</u>
Change in Net Position	31,057	40,057
Net Position - beginning of year, as restated (see note 3)	<u>731,309</u>	<u>691,252</u>
Net Position - end of year	<u>\$ 762,366</u>	<u>\$ 731,309</u>

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Cash Flows

Years Ended June 30, 2015 and 2014 (in thousands)

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Receipts of mortgage loan payments	\$ 753,852	\$ 725,908
Receipts of mortgage-backed security premiums	13,487	12,470
Receipts from fees and other income	70,596	64,073
Receipts from interest on mortgages	140,266	156,239
Receipts of escrow and development reserves	2,912	25,126
Payments for mortgages and purchases	(493,375)	(482,760)
Payments for salaries and related benefits	(29,507)	(30,819)
Payments for goods and services	(20,608)	(13,574)
Net Cash Provided By Operating Activities	<u>437,623</u>	<u>456,663</u>
Cash Flows From Noncapital Financing Activities		
Proceeds from the issuance of bonds	126,795	-
Payments for retirement of bonds and notes	(474,915)	(373,244)
Payments of bonds and notes interest	(117,188)	(135,432)
Payments of financing costs	(12,658)	(13,418)
Repayments of program advances	(10,813)	(1,664)
Receipts of federal program awards	406,616	405,638
Payments of federal program awards	(406,616)	(405,638)
Net Cash Used In Noncapital Financing Activities	<u>(488,779)</u>	<u>(523,758)</u>
Cash Flows From Capital Financing Activities		
Purchases of capital assets	(1,311)	(1,484)
Payments for retirement of capital financing bond	(350)	-
Interest paid on capital debt	(10)	(836)
Net Cash Used In Capital Financing Activities	<u>(1,671)</u>	<u>(2,320)</u>
Cash Flows From Investing Activities		
Proceeds from the sale or maturity of investments	55,024	79,001
Investment interest receipts	8,850	9,285
Purchases of investments	(76,820)	(49,469)
Net Cash (Used In) Provided By Investing Activities	<u>(12,946)</u>	<u>38,817</u>
Net Decrease In Cash and Cash Equivalents	(65,773)	(30,598)
Cash and cash equivalents, beginning of year	<u>480,958</u>	<u>511,556</u>
Cash and cash equivalents, end of year	<u>\$ 415,185</u>	<u>\$ 480,958</u>

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCY
 Statements of Cash Flows (continued)
 Years Ended June 30, 2015 and 2014 (in thousands)

	<u>2015</u>	<u>2014</u>
Reconciliation of Operating Income to		
Net Cash Provided By Operating Activities:		
Operating Income	\$ 31,057	\$ 40,057
Investment income recognized	(8,542)	(9,285)
Net change in fair value of investments	(2,677)	(2,368)
Net change in fair value of swaps	(852)	(1,390)
Interest expense on bonds and notes	113,243	130,589
Financing expenses	12,658	13,418
Provision for loan loss	22,331	20,471
Depreciation	1,185	1,147
Early extinguishment of debt	(494)	(1,241)
Changes in Assets and Liabilities:		
Mortgage loans receivable, net	259,908	243,148
Mortgage loans interest receivable	662	(1,964)
Accrued interest receivable on investments	-	(141)
Other assets	1,824	172
Accounts payable and accrued expenses	4,778	11,753
Escrow deposits and development reserves	1,011	(3,589)
Other liabilities	<u>1,531</u>	<u>15,886</u>
Net Cash Provided By Operating Activities	<u>\$ 437,623</u>	<u>\$ 456,663</u>

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

1. Organization

The Pennsylvania Housing Finance Agency (“Agency”) was created by the General Assembly of the Commonwealth of Pennsylvania (“Commonwealth”) in 1972 as a means to provide affordable housing for older adults, persons and families of modest means and persons with disabilities. Pursuant to the Housing Finance Agency Law, Act of 1959, P. L. 1688, No. 620 (“Act”), as amended, the Agency is authorized and empowered, among other things, to finance the construction and rehabilitation of housing units for persons and families of low and moderate income, persons with special needs or the elderly who receive assistance from federal government programs.

The Act was amended to authorize the Agency to make or purchase mortgage loans used 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 in order to finance its programs and operations. Debt obligations issued under the provisions of the Act are not a debt or liability of the Commonwealth or any of its political subdivisions or a pledge of the faith and credit of the Commonwealth or of any of its political subdivisions.

The Board of the Agency sets policy and oversees the organization's operations. The Board has 14 members. The Secretary of Banking and Securities, (chair), the Secretary of Community and Economic Development, the Secretary of Human Services and the State Treasurer serve by virtue of their offices. Four members of the Board serve at the pleasure of the majority and minority leaders of the State Senate and House of Representatives. Six private citizen members are appointed by the Governor, confirmed by the State Senate, and serve for staggered six-year terms.

The Agency is a component unit of the Commonwealth, as defined by the Governmental Accounting Standards Board (“GASB”) – the source of generally accepted accounting principles used by State and Local governments in the United States. The Agency’s financial information is discretely presented in the Commonwealth’s financial statements, but the Agency is not considered part of the Commonwealth’s primary government.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Agency presents its financial statements in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”), as established by GASB. For financial reporting purposes, the Agency is considered a special-purpose government engaged in business-type activities. The

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred. All significant intra-Agency transactions have been eliminated.

Description of Programs

The Agency accounts for its lending and operating activities in varying programs based upon management designations and for ease of accountability, summarized as follows:

General Activities – Consists of a group of accounts used to record income and expenses that are not directly pledged to or associated with the programs described below, and includes activity related to varying Agency programs and initiatives, including loan servicing and the payment of expenses related to the Agency’s administrative functions.

Multifamily Housing Program (“Multifamily Program”) – Records the activity related to financing 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 Program”) – Records the activity 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 Program – The Agency provides primary mortgage insurance coverage through this program for certain single-family borrowers.

Homeowners’ Emergency Mortgage Assistance Program (“HEMAP”) – Created by Act 91 of 1982 by the Pennsylvania General Assembly to provide emergency mortgage assistance loans to mortgagors facing foreclosure due to circumstances beyond their control. HEMAP’s primary operating revenues derive from funding received from the Commonwealth of Pennsylvania, and are reported as a component of Program Income and Fees within the Agency’s financial statements.

Cash and Cash Equivalents

Cash includes currency on hand and currency equivalents that may be accessed immediately or near-immediately. Cash equivalents are defined as short-term investments with maturities of three months or less that are readily convertible to known amounts of cash. Agency cash and cash equivalents consist of demand deposit checking and savings accounts, cash held in trust and money market funds.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Investments

Investments are reported at fair value. Fair value is determined by reference to published market prices and quotations, where available, at the closing of each reporting period. Changes in fair values are recognized separately within the Statement of Revenues, Expenses and Changes in Net Position.

Restricted Cash, Cash Equivalents and Investments

Restricted cash, cash equivalents and investments are restricted primarily by escrow agreements, bond resolutions, debt servicing agreements or other contractual agreements. The Agency collects mortgage payments on behalf of mortgagees for whom the Agency acts as a servicer. The Agency holds monies from multifamily property owners and single-family homeowners for payments of real estate taxes, property insurance and operating reserves, and has recorded a corresponding liability related to these balances. The Agency maintains certain balances of cash, cash equivalents and investments, restricted as to their use, in order to comply with bond debt capital reserve and self-insurance requirements and certain investor or creditor covenants.

Mortgage Loans Receivable, Net

Mortgage loans receivable consist primarily of single family and multifamily loans.

Mortgage loans that the Agency has the ability and intent to hold for the foreseeable future are deemed to be held-for-investment and are carried at amortized cost. Amortized cost includes the balances of unamortized premiums, discounts and capitalized origination costs and fees – all of which are amortized to interest income as further discussed below. Loans classified as held-for-investment also have an allowance for loan loss as needed. The current portion of mortgage loans receivable represents the contractual amount due within the forthcoming year.

Mortgage loans that the Agency has the ability and intent to sell within the foreseeable future are deemed to be held-for-sale and are reported at the lower of cost or fair value, determined on an individual basis by loan type as of the date of the financial statements. Mortgage loans held-for-sale include loans subject to investor purchase commitments (committed loans) and loans held on a speculative basis (uncommitted loans). Fair value of committed loans is based upon commitment prices; fair value of uncommitted loans is based upon the market in which the mortgage banking activity operates. Amounts, if any, by which cost exceeds fair value are included within an allowance for loan loss.

Mortgage servicing rights/servicing release premiums are amortized over the life of the related loans using the effective interest method, and include servicing rights associated with both mortgages owned by the Agency and mortgages sold by the Agency for which servicing rights were retained. Mortgage servicing rights respective of the servicing rights retained for loans sold by the Agency are reported at the lower of amortized cost or fair value.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

The allowance for loan losses represents an adjustment applied to the balances of mortgage loans receivable in order to reflect amounts deemed collectible, based upon management's best estimate of probable losses inherent in the portfolio and evaluation of the underlying loans and their likelihood of becoming Real Estate Owned. Factors considered by management include the estimated fair values of the properties representing collateral, mortgage insurance coverage on the collateral, the financial condition of the respective borrower, government guarantees and the economy as a whole.

Troubled Debt Restructuring

A troubled debt restructuring occurs when a creditor, for economic or legal reasons related to a debtor's financial difficulties, grants a concession to a debtor experiencing financial difficulties that the creditor would not otherwise consider. Regardless of the form of concession granted by the creditor to the debtor in a troubled debt restructuring, the creditor's objective is to assist the debtor in a difficult situation – the creditor expects to receive a return on investment or increase the probability of receipt of payment by granting the concessions than by not granting them. When conducted in a prudent manner, modifications of problem loans are generally in the best interest of both the creditor and the debtor and can lead to improved loan performance and reduced credit risk. The Agency engages in troubled debt restructuring activities by virtue of affording modifications to the terms and interest rates of its mortgage loans.

Real Estate Owned

Real estate owned represents single-family real estate acquired as a result of foreclosure, acceptance of a deed in lieu of foreclosure or other defaults of nonperforming mortgage loans. The outstanding balances attributable to these properties approximate the lower of cost or net realizable value, which equates to fair value less the cost to sell.

Capital Assets

The Agency capitalizes assets with an initial cost of \$1 (one-thousand dollars) or more. Depreciation is calculated using the straight-line method over the estimated useful lives, which are 5 years for furniture, fixtures and equipment and 45 years for the Agency's building. When capital assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded.

Other Assets

Other assets include federal and Pennsylvania grant and program funding receivable and prepaid expenses.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Deferred Outflows of Resources

Deferred outflows of resources include unamortized losses on bond refundings, which are amortized over the shorter of the remaining life of the old debt or the life of the new debt; accumulated decrease in fair value of hedging derivatives, which represents the anticipated future utilization of the net position of interest rate swap agreements deemed to be effective hedging derivatives; and pension-related deferred outflows, which result from the Agency's Employees' Retirement Plan ("Plan") and Governmental Excess Benefit Plan ("Excess Plan") (collectively "Pensions"). Pension-related deferred outflows represent differences between expected and actual experience, changes in assumptions and amounts resulting from timing differences of contributions made subsequent to Pensions measurement dates but as of the date of the basic financial statements, and are recognized over a closed period and are amortized over the remaining average service life of all active and inactive employees who are provided pensions through the aforementioned plans.

Bonds and Notes Payable, Net

The Agency issues bonds and notes to provide capital for its mortgage programs and other uses consistent with its mission. The resultant debt is a general obligation of the Agency, and is secured and payable by the respective mortgage loans, investments, other assets and revenues within the respective programs or accounts established by the associated bond indentures. Outstanding bonds and notes are stated at their unpaid balance less any unamortized discounts or premiums. The current portion of bonds and notes payable represents the scheduled principal payable within the forthcoming year.

Escrow Deposits and Development Reserves

Escrow deposits represent balances of receipts from Single Family Program homeowners and Multifamily Program developments for anticipated payments of real estate taxes, property insurance and mortgage insurance. Development reserves represent cash held on behalf of owners of multifamily properties for repairs and replacement, property improvements, supportive services and potential operating deficits experienced by Multifamily Program developments.

Derivative Instruments – Interest Rate Swaps

The Agency enters into interest rate swap agreements ("swaps") with various counterparties to hedge the interest rate exposure associated with variable-rate debt and to reduce overall borrowing costs. Swaps are structured whereby the Agency pays a fixed interest rate to a counterparty in exchange for the same counterparty paying to the Agency a variable interest rate, which is established based upon a common market index.

Swaps are stated at fair value, and are classified as either hedging derivatives, amended hedging derivatives or investment derivatives. Hedging derivatives include swaps with critical terms that have not changed since their inception; amended hedging derivatives include swaps with critical

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

terms that have since been amended. The changes in fair values of hedging derivatives and amended hedging derivatives are reported as accumulated decreases in fair values of hedging derivatives on the Balance Sheet, which equal the values of the corresponding swaps. Investment derivatives include swaps that are not considered to be effective hedges; the changes in fair values of investment derivatives are reported as a net increase or decrease in the fair value of swaps and recognized as a revenue or expense.

Net Pension Liability

Net pension liability represents the portion of the present value of projected benefit payments attributed to past periods of service to be provided through the Agency's Pensions to current active and inactive employees less the fiduciary net position of the Pensions. It represents the Agency's total pension liability minus the fiduciary net position available to pay that liability. Investments that comprise fiduciary net position are reported at fair value.

Other Liabilities

Other liabilities consist mainly of unearned revenues, other postemployment benefit ("OPEB") obligations, unearned federal funding and accrued expenses.

Deferred Inflows of Resources

Deferred inflows of resources include pension-related deferred Inflows, which represent the difference between projected and actual earnings on investments within the Agency's Pensions, are recognized over a closed period and are amortized over a 5-year period.

Net Position

Net position is classified in the following three components:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt attributable to the acquisition, construction or improvement of those assets.

Restricted – Consists of assets with constraints placed on their use by laws, regulations, Agency bond resolutions or external groups, such as creditors or grantors.

Unrestricted – Consists of assets that do not meet the definition of Net Investment in Capital Assets or Restricted. This component includes assets designated for specific purposes by the actions of the Board.

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Classification of Revenues and Expenses

Operating revenues include all revenue from mortgage and loan activity, mortgage servicing, investment income and gains on the sale of pooled loans via the Government National Mortgage Association (“GNMA”) and the Federal National Mortgage Association (“FNMA”). Operating revenues also include amounts received for the administration of grant programs, which includes administrative fees for the oversight of award distribution, monitoring of subrecipients and reporting to federal agencies and allocations for the costs of required independent annual audits of federal awards expended. The costs of mortgage loan servicing, investment and grant administration activity are reported as operating expenses.

Nonoperating revenues and expenses include federal program awards and the corresponding direct program costs for which those awards are received and recognized, and consist primarily of pass-through amounts related to the Agency’s role as contract administrator of the U.S. Department of Housing and Urban Development’s (“HUD”) Section 8 subsidy program.

Interest Income on Mortgage Loans

Interest received for mortgage loans is based upon the constant yield method. Loans more than 180 days delinquent in scheduled payments are considered nonperforming mortgage loans, which results in the cessation of recognition of additional interest on such mortgage loans.

Gain on Sales of Mortgage-Backed Securities

The Agency participates in the GNMA and FNMA Mortgage Backed Securities (“MBS”) programs, whereby GNMA or FNMA guarantees securities that are issued by the Agency and backed by pools of mortgage loans. Gains on sales of MBSs are recorded at the time of settlement and represent the difference between the sale price of the MBSs and the carrying value of the underlying pool of mortgages backing them.

Investment Income

Investment Income includes net receipts and payments associated with swaps deemed to be investment derivatives, gains or losses on sales of investment securities and investment interest income.

Pension Plan and Other Postemployment Benefits Expense

The Agency is required to measure and disclose amounts relating to net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense and the fiduciary net position of the Agency’s Pensions. Actuarially determined periodic contributions are made by the Agency in order to maintain sufficient assets to pay benefits when due. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Pension expenses are recorded as salaries and related benefits.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

The Agency is required to measure, recognize and disclose OPEB expenses, related liabilities and note disclosures. The Agency does not fund its OPEB liability; rather, the Agency provides health insurance for its retirees on a pay-as-you-go basis. The net OPEB obligation represents the cumulative difference between the actuarially determined annual required contribution and actual employee and employer contributions.

Compensated Absences

Employees earn vacation and illness leave benefits. Upon separation of service, employees are compensated for accumulated leave balances, limited by Agency policy. Compensated absence leave is recorded as an accrued expense in the period earned.

Debt Issuance Costs, Discounts and Other Related Costs

Costs related to bond and note issuance are expensed when incurred. Bond discounts and premiums are amortized over the lives of the corresponding bonds using the effective interest method. Net swap agreement payments are recorded as a component of interest expense on bonds and notes.

Adopted Accounting Standards

GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, enhances previous standards for financial reporting by governmental pension plans and was effective for the Agency's fiscal year ended June 30, 2015. While this statement did not affect the face of the Agency's basic financial statements, the reporting effects of this statement necessitated additional disclosures and schedules within Required Supplementary Information.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* ("GASB 68"), enhances previous standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenditures relating to pensions provided to state and local government employees, and identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. The financial reporting effects of the implementation of GASB 68, effective for the Agency's fiscal year ended June 30, 2015 and applied retroactively, are discussed in detail within Note 3.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for the Agency's fiscal year ended June 30, 2015, had no impact on the Agency's basic financial statements.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* ("GASB 71"), addresses an issue

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

in GASB 68, *Accounting and Financial Reporting for Pensions*, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of GASB 68 by employers and nonemployer contributing entities. This financial reporting effects of the implementation of GASB 71, effective for the Agency's fiscal year ending June 30, 2015 and applied retroactively, have been recognized simultaneously with the implementation of GASB 68, which are discussed in detail within Note 3.

Accounting Standards Issued But Not Yet Adopted

GASB issued the following Statements that will become effective in future reporting periods. Management is currently evaluating the potential impact on the Agency's financial statements.

- GASB Statement No. 72, *Fair Value Measurement and Application*, issued February 2015. This statement is effective for the Agency's fiscal year ending June 30, 2016.
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, issued June 2015. This statement is effective for the Agency's fiscal year ending June 30, 2017.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued June 2015. This statement is effective for the Agency's fiscal year ending June 30, 2017.
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015. This statement is effective for the Agency's fiscal year ending June 30, 2018.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued June 2015. This statement is effective for the Agency's fiscal year ending June 30, 2016.
- GASB Statement No. 77, *Tax Abatement Disclosures*, issued August 2015. This statement is effective for the Agency's fiscal year ending June 30, 2017.

3. Restatement of Net Position

Prior to the implementation of GASB 68, a Net Pension Asset or Liability included within an employer's Balance Sheet equaled the cumulative difference resulting from an actuarially determined annual required contribution and adjustments thereto less the employee and employer contributions made for a given year. The implementation of GASB 68 requires the liability of employers for defined benefit pensions ("Net Pension Liability") to be measured as the portion of the present value of the total projected benefit payments to be provided through a pension plan to current active and inactive employees – the total pension liability – less the amount of the pension plan's fiduciary net position. In short, GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits and to more comprehensively and comparably measure the annual costs of pension benefits.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

As a result of the adoption of GASB 68, Net Position of the Agency has been restated as follows:

July 1, 2013 Net Position, previously stated	\$ 712,461
Remove Net Pension Asset *	(5,008)
Add Deferred Outflow **	2,567
Add Effects of Net Pension Liability	<u>(18,768)</u>
July 1, 2013 Net Position, restated	<u>\$ 691,252</u>

* – The Agency maintained a net pension asset under previous pension accounting and reporting standards (GASB Statement No. 27).

** – Deferred outflows at July 1, 2013 represented contributions to the Pensions made subsequent to the Pensions' measurement date of December 31, 2012.

4. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

The Agency maintains a policy whereby cash and cash equivalents must be held in insured depositories satisfactory to the Agency. Cash and cash equivalents balances for the years ended June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Cash	\$ 44,780	\$ 48,712
Money market accounts	<u>370,405</u>	<u>432,246</u>
Total carrying amount of cash and cash equivalents	<u>\$ 415,185</u>	<u>\$ 480,958</u>
Bank balance of cash and cash equivalents	<u>\$ 419,198</u>	<u>\$ 483,161</u>

Custodial Credit Risk

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

At June 30, 2015 and 2014, the carrying value of the Agency's cash deposits equaled \$44,780 and \$48,712, respectively, with corresponding bank balances equal to \$52,552 and \$56,127, respectively, of which \$51,552 and \$55,127, respectively, was uninsured but collateralized in

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

accordance with Act 72 of the Commonwealth of Pennsylvania by securities held by the pledging financial institution, its trust department or agent, but not in the Agency's name.

At June 30, 2015 and 2014, the carrying value of the Agency's money market accounts, reported as cash equivalents, equaled \$370,405 and \$432,246, respectively, with corresponding bank balances equal to \$366,646 and \$427,034, respectively. These do not expose the Agency to custodial credit risk because they represent investments in open-end mutual funds and their existence is not evidenced by securities that exist in physical or book-entry form.

Investments

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

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

- Direct obligations of or obligations guaranteed by the United States of America;
- Any bond, debenture, note, participation certificate or other similar obligation issued by any of the following agencies: GNMA, Federal Land Bank, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation; Federal Intermediate Credit Banks, Federal Farm Credit Administration, Export-Import Bank and FNMA;
- Any other obligation of the United States of America or any federal agencies which may then be purchased with Agency funds or which are legal investments for savings banks, savings associations, or savings and loan associations in the Commonwealth;
- Public Housing Bonds issued by public agencies or municipalities and fully secured by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary loans, notes or project notes issued by public agencies or municipalities, in such case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
- Direct and general obligations of or obligations guaranteed by the Commonwealth, to the payment of the principal of the interest on which the full faith and credit of the Commonwealth is pledged;

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

- Direct and general obligations of any state of the United States, to the payment of which the full faith and credit of such state are pledged, but only if such obligations are rated not less than "AA" by Standard & Poor's and "Aa" by Moody's Rating Service or, upon the discontinuance of either or both of such services, another nationally recognized rating service;
- Deposits in interest-bearing time or demand deposits, or certificates of deposit, fully secured as provided under the laws of the Commonwealth or by obligations described in the six bullet points above;
- Repurchase agreements with Primary Government Securities Dealers fully collateralized by Investment Securities of the types described in the first three bullet points above provided that such collateral is valued at least monthly and that such collateral as applicable is held by the trustee or a third party;
- Deposits in mutual or money market funds which invest solely in Investment Securities of the types described in the first three bullet points above and with total assets (deposited funds) of five hundred million dollars or greater;
- Commercial paper (except that of the Agency or an affiliate) or finance company paper rated "P-1" by Moody's Investors Service and "A-1+" by Standard & Poor's Corporation;
- Non-collateralized certificates of deposit with institutions rated not less than "Aa" by Moody's Investors Service and "AA" by Standard & Poor's Corporation;
- Investment agreements with an entity whose obligations are rated not less than "AA" by Standard & Poor's Corporation and "Aa" by Moody's Investor's Service, or which fully secure such agreements with securities described in the first three bullet points above; and
- Reverse repurchase agreements as applicable to Agency funds.

Credit Risk

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

The credit quality ratings of the Agency's investments for the years ended June 30, 2015 and 2014, as determined by Moody's Investors Service, are shown below. At June 30, 2015 and 2014, \$162,094 and \$171,727, respectively, of U.S. Government Agency Mortgage-Backed Securities, U.S. Government Agency Securities and U.S. Treasury securities, which are explicitly guaranteed by the U.S. Government, were not considered to have credit risk and, therefore, are not included in the summary.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

<u>Investment Type</u>	2015		
	Fair	Credit Ratings	
	Value	Aaa	Not Rated
U.S. Government Agency Securities*	\$ 54,567	\$ -	\$ 54,567
U.S. Government Agency Mortgage-Backed Securities	52,602	52,602	-
	<u>\$ 107,169</u>	<u>\$ 52,602</u>	<u>\$ 54,567</u>

<u>Investment Type</u>	2014		
	Fair	Credit Ratings	
	Value	Aaa	Not Rated
U.S. Government Agency Securities*	\$ 51,809	\$ -	\$ 51,809
U.S. Government Agency Mortgage-Backed Securities	17,980	17,980	-
	<u>\$ 69,789</u>	<u>\$ 17,980</u>	<u>\$ 51,809</u>

* - Amounts are comprised of Tennessee Valley Authority bonds, which are implicitly guaranteed U.S. Government Agency Securities.

Money market accounts with book values of \$370,405 and \$432,246 at June 30, 2015 and 2014, respectively, that were held by the Agency and reported as cash equivalents were rated as follows by Moody's Investors Service:

Moody's Rating	Book Value	
	2015	2014
Aaa	\$ 85,133	\$ 49,365
Aa1	263,983	-
Aa2	4,221	-
Aa3	-	326,983
A1	11,397	-
A2	-	35,743
A3	574	-
Baa1	-	807
Not Rated	5,097	19,348
	<u>\$ 370,405</u>	<u>\$ 432,246</u>

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Agency's investment balances are in book-entry form in the Agency's name and are held by bank trust departments, acting as the counterparty; accordingly, these investments are not subject 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. At June 30, 2015 and 2014, the Agency had the following concentrations of credit risk:

<u>Investment Issuer</u>	<u>2015</u>		<u>2014</u>	
	<u>Fair Value</u>	<u>% of Total Investments</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Government National Mortgage Association	\$126,117	46.84%	\$148,797	61.61%
Tennessee Valley Authority	54,567	20.27%	51,809	21.45%
Federal Farm Credit Bank	30,641	11.38%	3,993	1.65%
Federal Home Loan Mortgage Corporation	21,990	8.17%	11,981	4.96%
Federal Home Loan Bank	21,961	8.16%	13,987	5.79%
	<u>\$255,276</u>	<u>94.82%</u>	<u>\$230,567</u>	<u>95.46%</u>

Agency policy indicates that the proportion of investments in government securities shall not exceed 70% of the portfolio and the proration of investments in certificates of deposit shall not exceed 30% of the portfolio. At June 30, 2015 and 2014, concentrations in government securities, which represented 100% of the portfolio, exceed the policy. This departure from policy was approved by the Executive Director, as permitted by the Agency Investment Policy and Guidelines. Concentration limits are not established in the bond indentures and governing agreements for trust investments.

Interest Rate Risk

The Agency's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. For the year ended June 30, 2015 and 2014, the Agency had investments with the following maturities:

<u>Investment Type</u>	<u>2015</u>				
	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. Government Agency Mortgage-backed Securities	\$ 210,925	\$ 3,990	\$ 62,576	\$ 17,877	\$ 126,482
U.S. Government Agency Securities	54,811	85	126	33	54,567
U.S. Treasury Securities	3,527	1,063	2,464	-	-
	<u>\$ 269,263</u>	<u>\$ 5,138</u>	<u>\$ 65,166</u>	<u>\$ 17,910</u>	<u>\$ 181,049</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Investment Type	2014				
	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Government Agency Mortgage-backed Securities	\$ 179,130	\$ -	\$ 29,960	\$ -	\$ 149,170
U.S. Government Agency Securities	52,132	85	198	40	51,809
U.S. Treasury Securities	10,254	6,479	3,775	-	-
	<u>\$ 241,516</u>	<u>\$ 6,564</u>	<u>\$ 33,933</u>	<u>\$ 40</u>	<u>\$ 200,979</u>

Investments in mortgage-backed securities are sensitive to interest rate changes because, for example, borrowers will have the option to refinance or prepay their mortgages in a declining interest rate environment, thereby leaving the Agency with those funds to invest at a lower rate. In addition to the amounts listed above, the Agency held money market accounts with a book value of \$370,405 and \$432,246 at June 30, 2015 and 2014, respectively, reported as cash equivalents that have maturities of less than one year.

5. Mortgage Loans

Amounts reported as mortgage loans receivable at June 30, 2015 and 2014 consisted of the following:

	2015				
	General Activities	Multifamily Program	Single Family Program	HEMAP	Total
Mortgage loans	\$ 7,260	\$ 490,534	\$ 2,936,494	\$ 97,266	\$ 3,531,554
Add:					
Loan premiums	-	-	298	-	298
Less:					
Loan discounts	-	2,777	-	-	2,777
Allowance for loan losses	<u>4,356</u>	<u>135,148</u>	<u>9,035</u>	<u>47,180</u>	<u>195,719</u>
Mortgage loans receivable	2,904	352,609	2,927,757	50,086	3,333,356
Current portion	<u>-</u>	<u>14,689</u>	<u>77,427</u>	<u>5,889</u>	<u>98,005</u>
Noncurrent portion	<u>\$ 2,904</u>	<u>\$ 337,920</u>	<u>\$ 2,850,330</u>	<u>\$ 44,197</u>	<u>\$ 3,235,351</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

	2014				
	General	Multifamily	Single Family	HEMAP	Total
	Activities	Program	Program		
Mortgage loans	\$ 4,916	\$ 509,022	\$ 3,228,650	\$ 101,950	\$ 3,844,538
Add:					
Loan premiums	-	-	298	-	298
Less:					
Loan discounts	-	2,777	-	-	2,777
Allowance for loan losses	2,581	137,855	10,946	47,266	198,648
Mortgage loans receivable	2,335	368,390	3,218,002	54,684	3,643,411
Current portion	-	17,938	75,833	6,622	100,393
Noncurrent portion	<u>\$ 2,335</u>	<u>\$ 350,452</u>	<u>\$ 3,142,169</u>	<u>\$ 48,062</u>	<u>\$ 3,543,018</u>

Securitizations and Gains on the Sale of Mortgage-Backed Securities

During the year ended June 30, 2015 and 2014, the Agency securitized mortgage loans with a principal balance of \$472,314 and \$404,910, respectively, into MBSs through GNMA and FNMA. MBSs are either sold to private investors or purchased by the Agency. Ongoing revenue for the Agency is generated from servicing the loans pooled into MBSs, which is reported as program income and fees, and by gains derived from the sale price less the value of the underlying mortgages of the MBSs at the time of settlement. Total gains on the sale of MBSs for the years ended June 30, 2015 and 2014 equaled \$13,487 and \$12,470, respectively.

Mortgage Loan Collateral and Insurance Coverage

General Activity mortgage loans receivable represent amounts disbursed through the Agency's Mixed-Use Facility Financing Initiative ("MUFFI") program. The loans are not insured, but they are secured by promissory notes and mortgages on the associated properties.

Multifamily Program mortgage loans receivable are not insured, but are collateralized by mortgages on the related projects. The federal government subsidizes certain projects included in the Multifamily Program mortgage loan portfolio.

At June 30, 2015 and 2014, the Agency's Single Family Program mortgage loan servicing portfolio equaled \$4.5 billion and \$4.4 billion, respectively; this included the balances of mortgage loans reported as assets by the Agency and insured loans that have been sold through MBSs, which are not reported as Agency assets but represent loans for which the Agency purchased and retained servicing rights. Single Family Program mortgage loans are secured by liens on the related real property, and private mortgage insurance is generally required on all mortgage loans where the loan principal amount exceeds 80% of the lesser of the purchase price or the initial appraised value of the property. Private mortgage insurance for Single Family Program mortgage loans is

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

provided by commercial companies, the Agency's Insurance Program, certain federal programs through the Federal Housing Administration ("FHA"), United States Department of Veterans Affairs ("VA") and United States Department of Agriculture – Rural Development ("RD"), FNMA and varying other sources. At June 30, 2015 and 2014, insurance coverage associated with Single Family Program mortgage loan servicing portfolio included the following:

	2015		2014	
Commercial Insurance	\$ 166,535	3.69%	\$ 159,872	3.59%
PHFA Insurance Program	249,025	5.51%	285,659	6.42%
FHA	2,380,815	52.68%	2,025,181	45.53%
VA	131,012	2.90%	129,339	2.91%
RD	331,102	7.33%	314,514	7.07%
FNMA	526,197	11.64%	367,053	8.25%
Other	558	0.01%	480	0.01%
Uninsured	733,854	16.24%	1,166,014	26.21%
Total Single Family Program Servicing Portfolio:	<u>\$ 4,519,098</u>	<u>100.00%</u>	<u>\$ 4,448,112</u>	<u>100.00%</u>

HEMAP loans are emergency loans provided to mortgagors facing foreclosure, are not insured and are unsecured, being in a second or third lien position; hence, HEMAP loans are not included in the above listing.

Loan Delinquency and Foreclosure

At June 30, 2015 and 2014, no mortgage loans reported within General Activities were either delinquent or in pending foreclosure actions.

At June 30, 2015 and 2014, the principal balance of Multifamily Program primary mortgage loans delinquent 91 days or greater for which the Agency was exposed to some level of loss equaled \$352 and \$429, respectively, and no Multifamily Program mortgage loans were in pending foreclosure actions.

At June 30, 2015 and 2014, the principal balances of Single Family Program mortgage loans delinquent 91 days or greater for which the Agency was exposed to some level of loss equaled \$283,885 and \$296,737, respectively. Included within these June 30, 2015 and 2014 balances of loans delinquent 91 days or greater were loans with pending foreclosure actions with aggregate principal balances of \$100,681 and \$97,495, respectively.

At June 30, 2015 and 2014, the principal balance of HEMAP mortgage loans delinquent 91 days or greater equaled \$30,260 and \$27,769, respectively.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Troubled Debt Restructurings

The Agency engages in troubled debt restructuring activities by virtue of affording modifications to the terms and interest rates of its Single Family Program mortgage loans. Such modifications are granted in order to assist qualified and distressed mortgagors facing foreclosure and to reduce the number of mortgage insurance claims the Agency would otherwise file with the Federal Housing Administration ("FHA") Mutual Mortgage Insurance Fund.

Details associated with Single Family Program cumulative loan modifications as of June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Aggregate recorded loan balance	\$ 207,818	\$ 151,638
Gross interest revenue, if the mortgage loan had been current	11,733	8,824
Actual amount of interest received and included in net position	\$ 10,477	\$ 6,209

The number of mortgage loans deemed to be troubled debt restructurings as of June 30, 2015 and 2014 totaled 2,558 (two-thousand five-hundred fifty-eight) and 1,993 (one-thousand nine-hundred ninety-three), respectively. These totals exclude those mortgage loans whose terms have been modified where, subsequent to restructuring, their effective interest rate has been equal to or greater than the rate that the Agency was willing to accept for a new mortgage loan with comparable risk.

Allowance for Loan Loss

The allowances for loan losses at June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>				
	<u>General</u>	<u>Multifamily</u>	<u>Single</u>		
	<u>Activities</u>	<u>Program</u>	<u>Family</u>	<u>HEMAP</u>	<u>Total</u>
Beginning balance	\$ 2,581	\$ 137,855	\$ 10,946	\$ 47,266	\$ 198,648
Loss provision	2,299	-	4,056	6,157	12,512
Net losses	(524)	(2,707)	(5,967)	(6,243)	(15,441)
Ending balance	<u>\$ 4,356</u>	<u>\$ 135,148</u>	<u>\$ 9,035</u>	<u>\$ 47,180</u>	<u>\$ 195,719</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

	2014				Total
	General Activities	Multifamily Program	Single Family Program	HEMAP	
Beginning balance	\$ 2,581	\$ 147,385	\$ 9,676	\$ 48,103	\$ 207,745
Loss provision	-	-	7,550	8,430	15,980
Net losses	-	(9,530)	(6,280)	(9,267)	(25,077)
Ending balance	<u>\$ 2,581</u>	<u>\$ 137,855</u>	<u>\$ 10,946</u>	<u>\$ 47,266</u>	<u>\$ 198,648</u>

Mortgage-Backed Security Repurchase Reserve

Mortgage loans securitized into MBSs through either GNMA or FNMA (“securitized loans”) are not included in the Agency’s financial statements. If a borrower fails to make a timely payment on a mortgage loan, the Agency must use its own funds to ensure that holders of Agency-issued MBSs receive timely payment. In circumstances of significant borrower delinquency, the Agency will repurchase a securitized loan from its respective MBS. Repurchased mortgage loans are included in the Agency’s financial statements; as a result, the risk of loss, net of mortgage insurance, associated with these loans is considered in management’s routine evaluation of the allowances for loan losses and the Agency has, therefore, established a loan loss reserve for these securitized loans. Securitized loans repurchased by the Agency totaled \$41,202 and \$35,793 for the years ended June 30, 2015 and 2014, respectively, and the Agency’s repurchase reserve for securitized loans equaled \$3,287 and \$3,062 at June 30, 2015 and 2014, respectively. Repurchase reserve amounts are included within the Agency’s allowances for loan loss for those respective years in the Single Family Program.

6. Real Estate Owned by the Agency

Real estate owned by the Agency included 838 properties with a total balance of \$43,581 at June 30, 2015 and 587 properties with a total balance of \$37,303 at June 30, 2014. These balances represent the net realizable value of the underlying properties, which equates to fair value less the cost to sell.

7. Mortgage Servicing Rights/Service Release Premiums

The Agency pays a fee to its participating lenders for the release of mortgage servicing rights associated with each mortgage loan it purchases for its Single Family Mortgage Loan Program. During the years ended June 30, 2015 and 2014, the Agency capitalized mortgage servicing rights/service release premiums totaling \$5,899 and \$5,948, respectively. Mortgage servicing rights/service release premiums are amortized over the life of the related loans using the

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

effective interest method, and include servicing rights associated with both mortgages owned by the Agency and mortgages sold by the Agency by means of MBS securitization. Amortization of mortgage servicing rights/servicing release premiums totaled \$4,505 and \$5,001 for the years ended June 30, 2015 and 2014, respectively, and unamortized mortgage servicing rights/service release premiums totaling \$36,475 and \$35,081 were outstanding at June 30, 2015 and 2014, respectively. Included in unamortized mortgage servicing rights/service release premium balances at June 30, 2015 and 2014 were mortgage servicing rights totaling \$4,258 and \$3,045, respectively, relating to loans sold by the Agency for which the Agency retained the servicing rights.

8. Capital Assets

Capital assets activity for the years ended June 30, 2015 and 2014 and a summary of balances were as follows:

	July 1, 2014	Additions	Disposals	June 30, 2015
Nondepreciable Capital Assets:				
Land	\$ 2,454	\$ -	\$ -	\$ 2,454
Depreciable Capital Assets:				
Building	31,185	463	-	31,648
Furniture, fixtures and equipment	10,226	848	(782)	10,292
Less accumulated depreciation:				
Building	(6,582)	(579)	-	(7,161)
Furniture, fixtures and equipment	(6,067)	(606)	778	(5,895)
Total depreciable capital assets, net	<u>28,762</u>	<u>126</u>	<u>(4)</u>	<u>28,884</u>
Total Capital Assets, net	<u>\$ 31,216</u>	<u>\$ 126</u>	<u>\$ (4)</u>	<u>\$ 31,338</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2014</u>
Nondepreciable Capital Assets:				
Land	\$ 2,454	\$ -	\$ -	\$ 2,454
Depreciable Capital Assets:				
Building	30,096	1,089	-	31,185
Furniture, fixtures and equipment	10,412	402	(588)	10,226
Less accumulated depreciation:				
Building	(6,004)	(578)	-	(6,582)
Furniture, fixtures and equipment	(6,079)	(569)	581	(6,067)
Total depreciable capital assets, net	<u>28,425</u>	<u>344</u>	<u>(7)</u>	<u>28,762</u>
Total Capital Assets, net	<u>\$ 30,879</u>	<u>\$ 344</u>	<u>\$ (7)</u>	<u>\$ 31,216</u>

Depreciation expense for the years ended June 30, 2015 and 2014 totaled \$1,185 and \$1,147, respectively.

9. Bonds and Notes Payable

The Agency issues bonds and notes payable to finance its lending programs. Proceeds from long-term debt of the Multifamily Program and Single Family Program are used to fund Multifamily and Single Family mortgage loans. General Activities long-term debt is used to finance the Agency's headquarters in Harrisburg, Pennsylvania.

Interest on bonds and notes payable is payable semi-annually. Interest rates on variable rate debt reset on a quarterly, monthly or weekly basis. Interest paid on indexed floating-rate tax-exempt bonds is closely correlated with the Securities Industry and Financial Markets Association Municipal Swap ("SIFMA") rate. Interest paid on indexed floating-rate taxable bonds is closely correlated with the London Interbank Offered Rate ("LIBOR"). At June 30, 2015, variable interest rates payable ranged from 0.07% to 1.28%. At June 30, 2014, variable interest rates payable ranged from 0.05% to 1.24%.

The aggregate principal amounts of bonds and notes payable outstanding at June 30, 2015 and 2014, maturity dates and corresponding interest rates at June 30, 2015 are illustrated in the following table.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Bond Series	Interest rates at June 30, 2015		Maturity Date	Amounts Outstanding at June 30	
	Variable	Fixed		2015	2014
General Activities:					
Headquarters Bonds ¹	8 bps	-	2034	\$ 19,650	\$ 20,000
Multifamily Program:					
Rental Housing					
Refunding, Series 2012	-	-	-	-	26,705
Multifamily Development, Issue 2005K	44 bps	-	2036	14,785	22,450
Multifamily Development Refunding, Issue 2003	-	-	-	-	4,090
Total Multifamily Program Bonds Payable				14,785	53,245
Single Family Program:					
Mortgage Revenue Bonds					
Series 1999 - 67	69 bps	-	2029	13,130	14,000
Series 2000 - 69	43 bps	-	2031	18,635	19,235
Series 2000 - 70	35 bps	-	2028	13,460	14,145
Series 2001 - 72	35 bps	-	2032	38,410	39,645
Series 2002 - 73	33 bps	-	2032	18,740	19,425
Series 2002 - 75 ¹	7 bps	-	2032	30,000	30,000
Series 2003 - 77 ¹	7 bps	-	2023	19,210	21,260
Series 2003 - 78	33 bps	-	2024	39,375	42,645
Series 2003 - 79 ¹	7 bps	-	2033	57,350	57,350
Series 2004 - 81 ¹	7 bps	-	2024	23,935	25,385
Series 2004 - 82 ¹	7 bps	-	2030	46,665	51,205
Series 2004 - 83 ¹	8 bps	-	2027	22,575	27,235
Series 2004 - 84 ¹	8 bps	-	2022	16,610	19,440
Series 2004 - 85 ¹	9 bps	-	2035	66,985	73,400
Series 2004 - 86 ¹	8 bps	-	2028	30,295	31,560
Series 2005 - 87 ¹	57 bps	-	2035	77,805	78,815
Series 2005 - 88 ¹	9 bps	-	2037	50,890	54,810
Series 2005 - 89 ¹	8 bps	-	2026	54,370	56,385
Series 2005 - 90 ¹	57 bps	-	2036	58,110	90,200
Series 2005 - 91 ¹	9 bps	-	2036	70,000	80,630
Series 2006 - 92 ¹	57 bps	-	2036	41,625	106,640
Series 2006 - 93 ¹	8 bps	5.84%	2037	36,110	41,500
Series 2006 - 94 ¹	9 bps	-	2026	28,860	31,730
Series 2006 - 95 ¹	8 bps	3.95-5.75%	2032	15,125	19,415

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Bond Series	Interest rates at June 30, 2015		Maturity Date	Amounts Outstanding at June 30	
	Variable	Fixed		2015	2014
Series 2006 - 96	-	3.90-4.70%	2037	85,370	117,485
Series 2007 - 97	-	3.90-5.50%	2037	104,725	109,885
Series 2007 - 98 ¹	8 bps	3.90-5.75%	2034	49,350	66,335
Series 2007 - 99 ¹	8 bps	5.15%	2038	34,855	37,595
Series 2007 - 100 ¹	8 bps	4.00-4.05%	2036	25,615	29,125
Series 2007 - 101	128 bps	-	2023	16,720	18,675
Series 2007 - 102 ¹	8 bps	3.875-3.95%	2038	42,475	45,685
Series 2008 - 103	-	3.95-4.375%	2018	10,260	13,245
Series 2009 - 105	-	2.65-4.625%	2029	81,320	84,870
Series 2009 - 106	-	2.80-4.50%	2040	172,685	211,850
Series 2009 - 107	-	3.16-3.96%	2041	520,640	546,070
Series 2010 - 108	-	2.35-4.50%	2025	85,680	120,535
Series 2010 - 109	-	2.10-4.50%	2028	74,010	81,955
Series 2010 - 110	-	2.10-4.50%	2030	145,990	208,615
Series 2011 - 112	-	3.00-5.00%	2028	85,125	97,730
Series 2011 - 113	-	1.55-4.625%	2041	48,365	52,775
Series 2012 - 114	-	0.90-3.70%	2042	202,780	215,545
Series 2013 - 115	-	1.00-4.35%	2043	125,530	132,190
Series 2015 - 116	-	0.19-4.00%	2045	118,795	-
Total Single Family Program Bonds Payable				<u>2,918,560</u>	<u>3,236,220</u>
Notes Payable					
General Obligation Note	-	4.50%	2023	16,000	18,000
General Obligation Note	-	3.60%	2025	10,000	-
2007 Purchase Agreement	-	2.50%	2017	2,500	2,500
2009 Purchase Agreement	-	2.50%	2019	1,000	1,000
2009 Purchase Agreement	-	2.50%	2024	2,500	2,500
Total Single Family Program Notes Payable				<u>32,000</u>	<u>24,000</u>
Unamortized bond premiums				<u>6,071</u>	<u>6,548</u>
Total bonds and notes payable				2,991,066	3,340,013
Current portion				<u>113,220</u>	<u>111,340</u>
Noncurrent portion				<u>\$ 2,877,846</u>	<u>\$ 3,228,673</u>

1 – All or a portion of the balances of these bonds payable include variable rate demand obligations, discussed in detail in the following section of this note.

bps = basis points

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Variable Rate Demand Obligations

The balances of certain General Activities and Single Family Program bonds payable include variable rate demand obligations (“VRDO’s”). Interest rates on these VRDO’s reset on a weekly basis, and VRDO’s may be redeemed at the holder’s option. Standby purchase agreements are utilized in the event these VRDO’s are unable to be successfully remarketed and/or become held by the counterparty as a term loan to the Agency. Details of certain Agency VRDO standby purchase agreements at June 30, 2015 and 2014 were as follows:

Issue	Liquidity Provider at June 30, 2015	Effective Date	Expiration Date	Balance at June 30	
				2015	2014
Hdqrtrs Bond	PNC Bank	12/31/2014	2/3/2017	\$ 19,650	\$ 20,000
2002-75A	RBC	4/8/2014	4/8/2019	30,000	30,000
2003-77B	RBC	4/8/2014	4/8/2019	19,210	21,260
2003-79B	RBC	4/8/2014	4/8/2019	57,350	57,350
2004-81C	RBC	4/8/2014	4/8/2019	23,935	25,385
2004-82B	RBC	4/8/2014	4/8/2019	22,895	26,865
2004-82C	RBC	4/8/2014	4/8/2019	23,770	24,340
2004-83B	Bank of Tokyo	5/13/2014	5/13/2019	4,335	8,995
2004-83C	Bank of Tokyo	5/13/2014	5/13/2019	18,240	18,240
2004-84D	Bank of Tokyo	5/13/2014	5/13/2019	16,610	19,440
2004-85B	TD Bank	5/20/2014	5/20/2019	22,340	25,225
2004-85C	TD Bank	5/20/2014	5/20/2019	44,645	44,645
2004-86B	Bank of Tokyo	5/13/2014	5/13/2019	30,295	31,560
2005-88B	TD Bank	5/20/2014	5/20/2019	31,970	35,365
2005-88C	TD Bank	5/20/2014	5/20/2019	18,920	19,445
2005-89	Bank of Tokyo	5/13/2014	5/13/2019	54,370	56,385
2005-91B	Bank of Tokyo	5/13/2014	5/13/2019	70,000	70,000
2006-93B	Sumitomo	7/8/2014	7/8/2019	35,250	37,185
2006-94B	TD Bank	5/20/2014	5/20/2019	28,860	31,580
2006-95C	Sumitomo	7/8/2014	7/8/2019	6,850	6,850
2007-98C	Sumitomo	7/8/2014	7/8/2019	17,905	17,905
2007-99C	Sumitomo	7/8/2014	7/8/2019	15,000	15,000
2007-100C	Sumitomo	7/8/2014	7/8/2019	22,935	22,935
2007-102C	Bank of Tokyo	5/13/2014	5/13/2019	38,775	38,775
			Total	\$ 674,110	\$ 704,730

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

There were no failed remarketings or resultant liquidity draws as of June 30, 2015 and 2014. Upon the occurrence of a failed remarketing, the liquidity providers would be afforded the opportunity to exercise term-out provisions embedded within the standby purchase agreements, which call for payment of debt service on an accelerated basis at a rate of interest higher than the existing weekly mode. The provisions of each term-out agreement and potential debt service requirements at June 30, 2015, if the term-out agreements were exercised and assuming a term-out commencement date of July 1, 2015, respectively, were as follows:

Liquidity Provider	Term-Out Provisions	Payment Date	Interest Rate	Principal	Interest	Total Payment
PNC	Day 1 through 360:	1/1/2016	8%	\$ 365	\$ 786	\$ 1,151
	"bank rate" equal to	1/1/2017	8% & 12%	380	1,929	2,309
	the greater of PNC's	4/1/2017	12%	1,890	567	2,457
	prime rate, Federal	10/1/2017	12%	1,891	1,021	2,912
	Funds Open Rate +	4/1/2018	12%	1,890	907	2,797
	0.50%, or 8%. Day	10/1/2018	12%	1,891	794	2,685
	361 and thereafter:	4/1/2019	12%	1,890	681	2,571
	greater of bank rate	10/1/2019	12%	1,891	567	2,458
	+ 1% or 12%.	4/1/2020	12%	1,890	454	2,344
		10/1/2020	12%	1,891	340	2,231
		4/1/2021	12%	1,890	227	2,117
	10/1/2021	12%	1,891	113	2,004	
		Total		<u>\$ 19,650</u>	<u>\$ 8,386</u>	<u>\$ 28,036</u>
RBC	Day 1 through 90:	4/1/2016	8% & 10%	17,716	12,401	30,117
	"base rate" equal to	10/1/2016	10%	17,716	7,972	25,688
	the greater of RBC's	4/1/2017	10%	17,716	7,086	24,802
	prime rate + 2.5%,	10/1/2017	10%	17,716	6,201	23,917
	Federal Funds Rate	4/1/2018	10%	17,716	5,315	23,031
	+ 3.5%, or 8%. Day	10/1/2018	10%	17,716	4,429	22,145
	91 and thereafter:	4/1/2019	10%	17,716	3,543	21,259
	base rate + 2%.	10/1/2019	10%	17,716	2,657	20,373
		4/1/2020	10%	17,716	1,772	19,488
	7/1/2020	10%	17,716	443	18,159	
		Total		<u>\$ 177,160</u>	<u>\$ 51,819</u>	<u>\$ 228,979</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Liquidity Provider	Term-Out Provisions	Payment Date	Interest Rate	Principal	Interest	Total Payment
Bank of Tokyo	Day 1 through 30: "bank rate" equal to the greater of Bank of Tokyo's prime rate + 2%, Federal Funds Rate + 4%, or 8%. Day 31 and thereafter: bank rate + 1%.	1/1/2016	8% & 9%	\$ 23,262	\$ 10,274	\$ 33,536
		7/1/2016	9%	23,263	9,421	32,684
		1/1/2017	9%	23,262	8,375	31,637
		7/1/2017	9%	23,263	7,328	30,591
		1/1/2018	9%	23,262	6,281	29,543
		7/1/2018	9%	23,263	5,234	28,497
		1/1/2019	9%	23,262	4,187	27,449
		7/1/2019	9%	23,263	3,140	26,403
		1/1/2020	9%	23,262	2,094	25,356
		7/1/2020	9%	23,263	1,047	24,310
			Total	<u>\$ 232,625</u>	<u>\$ 57,381</u>	<u>\$ 290,006</u>
TD Bank	Libor + 2%	4/1/2016	2.77%	\$ 14,673	\$ 3,048	\$ 17,721
		10/1/2016	2.77%	14,674	1,829	16,503
		4/1/2017	2.77%	14,673	1,626	16,299
		10/1/2017	2.77%	14,674	1,423	16,097
		4/1/2018	2.77%	14,673	1,219	15,892
		10/1/2018	2.77%	14,674	1,016	15,690
		4/1/2019	2.77%	14,673	813	15,486
		10/1/2019	2.77%	14,674	610	15,284
		4/1/2020	2.77%	14,673	406	15,079
				7/1/2020	2.77%	14,674
			Total	<u>\$ 146,735</u>	<u>\$ 12,092</u>	<u>\$ 158,827</u>
Sumitomo	Day 1 through 30: "base rate" equal to the greater of Sumitomo's prime rate + 2%, Federal Funds Rate + 3%, or 6.5%. Day 31 through 90: base rate + 1%. Day 91 and thereafter: base rate + 2%.		6.5%, 7.5%			
		4/1/2016	& 8.5%	\$ 9,794	\$ 5,917	\$ 15,711
		10/1/2016	8.5%	9,794	3,746	13,540
		4/1/2017	8.5%	9,794	3,330	13,124
		10/1/2017	8.5%	9,794	2,914	12,708
		4/1/2018	8.5%	9,794	2,497	12,291
		10/1/2018	8.5%	9,794	2,081	11,875
		4/1/2019	8.5%	9,794	1,665	11,459
		10/1/2019	8.5%	9,794	1,249	11,043
		4/1/2020	8.5%	9,794	832	10,626
		10/1/2020	8.5%	9,794	416	10,210
			Total	<u>\$ 97,940</u>	<u>\$ 24,648</u>	<u>\$ 122,589</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

The balances of certain Single Family Program bonds payable include VRDO's directly purchased and owned by Wells Fargo Bank. The VRDO's bear interest at a weekly indexed rate mode. These VRDO's are subject to mandatory tender upon the expiration of the Agency's agreement with Wells Fargo Bank. Details of these VRDO agreements at June 30, 2015 and 2014 were as follows:

<u>Issue</u>	<u>Registered Owner</u>	<u>Effective Date</u>	<u>Expiration Date</u>	<u>Balance at June 30</u>	
				<u>2015</u>	<u>2014</u>
2005-87B	Wells Fargo	4/1/2014	4/1/2019	30,505	31,515
2005-87C	Wells Fargo	4/1/2014	4/1/2019	47,300	47,300
2005-90C	Wells Fargo	4/1/2014	4/1/2019	58,110	59,740
2006-92B	Wells Fargo	4/1/2014	4/1/2019	41,625	42,870
				<u>\$ 177,540</u>	<u>\$ 181,425</u>

Debt Service Requirements

The approximate principal and interest payments required on all outstanding bonds and notes over the next five years and thereafter at June 30, 2015 were as follows:

<u>Fiscal Year</u>	<u>June 30, 2015</u>							
	<u>General Activities</u>		<u>Multifamily Program</u>		<u>Single Family Program</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 365	\$ 16	\$ 465	\$ 64	\$ 112,390	\$ 76,201	\$ 113,220	\$ 76,281
2017	380	15	455	62	121,845	73,570	122,680	73,647
2018	400	15	485	60	128,490	70,747	129,375	70,822
2019	415	15	505	58	133,210	67,737	134,130	67,810
2020	435	14	540	56	150,215	64,552	151,190	64,622
2021-2025	2,455	67	3,145	240	600,410	274,327	606,010	274,634
2026-2030	3,040	56	3,845	164	586,115	206,243	593,000	206,463
2031-2035	12,160	36	4,965	70	589,875	125,090	607,000	125,196
2036-2040	-	-	380	1	458,630	51,200	459,010	51,201
2041-2045	-	-	-	-	69,380	3,289	69,380	3,289
	<u>\$ 19,650</u>	<u>\$ 234</u>	<u>\$ 14,785</u>	<u>\$ 775</u>	<u>\$ 2,950,560</u>	<u>\$ 1,012,956</u>	<u>\$ 2,984,995</u>	<u>\$ 1,013,965</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Early Extinguishment of Debt

During the years ended June 30, 2015 and 2014, the Agency redeemed principal amounts of certain bonds totaling \$286,100 and \$290,460, respectively, prior to their scheduled maturity through the use of mortgage prepayments and favorable cash flows, resulting in net gains on early extinguishment of debt totaling \$494 and \$1,241, respectively. Gains or losses on early extinguishments of debt arise because of the immediate recognition of original issuance discounts or premiums that would have otherwise been amortized over the life of the related bond issues had they not been retired prior to scheduled maturity.

Current Refunding

On March 26, 2015, the Agency issued Series 2015-116A and 2015-116B bonds in the amounts of \$98,795 and \$20,000, respectively. \$1,200 of Series 2004-85A bonds, \$27,470 of Series 2005-90A bonds, \$7,665 of Series 2005-91A bonds and \$62,830 of Series 2006-92A bonds were refunded by the total proceeds of Series 2015-116A bonds and \$370 of the proceeds of Series 2015-116B bonds. This refunding resulted in an economic gain (the difference between the present value of the old and new debt service payments) equal to \$6,070 and a reduction of debt service payments over the next fifteen years equal to \$6,059. There were no refundings during the year ended June 30, 2014.

Advance Refunding

In prior years, the Agency effected an advance refunding of Multifamily Residential Development Bonds, Issue H, where the proceeds of refunding bonds issued were used to defease the outstanding bonds attributable to Issue H. The result was an in-substance defeasance, whereby the Agency purchased securities, which were deposited into an irrevocable trust with an escrow agent, to provide for future debt service payments on the refunded bonds. The defeased principal outstanding attributable to Issue H equaled \$2,725 at June 30, 2015 and 2014; no defeased principal is scheduled to be retired until May, 2023, at which time all defeased principal outstanding will be retired.

Hedging Derivative Instrument Payments and Hedged Debt

Debt service requirements of the Agency's outstanding variable-rate debt and net swap payments of the associated derivative instruments at June 30, 2015 and 2014 are displayed in the following schedules. The following incorporates variable rate values at June 30, 2015 and 2014, which are subject to change in future periods. The net swap payment equals the difference between the fixed rate of interest paid to the counterparties and the variable rate of interest received by the Agency. See Note 10 for further information relative to derivative instruments.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

June 30, 2015				
Fiscal Year Ending June 30	Hedged	Hedged	Net Swap Payments	Total
	Variable Rate Bond Principal	Variable Rate Bond Interest		
2016	\$ 20,740	\$ 1,689	\$ 21,466	\$ 43,895
2017	25,040	1,649	20,760	47,449
2018	28,293	1,605	19,970	49,868
2019	34,647	1,556	19,156	55,359
2020	46,318	1,550	18,202	66,070
2021-2025	187,533	6,567	75,767	269,867
2026-2030	191,852	4,732	48,137	244,721
2031-2035	196,486	2,354	18,397	217,237
2036-2040	55,484	121	902	56,507
	<u>\$ 786,393</u>	<u>\$ 21,823</u>	<u>\$ 242,757</u>	<u>\$1,050,973</u>

Conduit Debt Obligations

During the year ended June 30, 2015, the Agency issued Series 2014-W, 2014-X, 2014-Y, 2014-Z and 2014-AA Special Limited Obligation Multifamily Housing Development Bonds in order to provide financing for the construction or preservation of affordable multifamily housing. The bonds are secured by the properties financed and are payable from income generated by the properties.

In prior years, the Agency issued:

- Series 2003-J, 2008-M and 2008-O Special Limited Obligation Bonds in order to provide financing for construction or preservation of affordable housing within the Commonwealth of Pennsylvania. The bonds are secured by the properties financed and are payable solely from income generated by the property and pledged to the transaction by the property owners.
- Series 2005A Capital Fund Securitization Revenue Bonds in order to provide for financial assistance to various local public housing authorities. The bonds are secured by the properties financed and are payable solely from appropriations to be paid by the United States Department of Housing and Urban Development.

The bonds discussed above represent conduit debt obligations and do not constitute a debt, guarantee or pledge of the faith and credit of the Agency. Accordingly, they have not been reported in the accompanying basic financial statements. At June 30, 2015 and 2014, conduit debt outstanding aggregated \$126,494 and \$74,403, respectively.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Bond Covenants

Noteworthy bond covenants of the Agency include a capital reserve requirement and a self-insurance requirement for the Single Family Program bonds. The capital reserve requirement for the Single Family Program bonds obliges the Agency to maintain a balance of funds equal to at least 3% of the aggregate principal amount of all Single Family Program bonds outstanding plus one million dollars, which is required to be invested in securities having a maturity of a year or less. The self-insurance requirement for the Single Family Program bonds obliges the Agency to maintain a balance of funds equal to the following percentages of outstanding principal amounts of mortgage loans funded from the following respective series:

Series I and J:	2.00%
Series K:	1.10%
Series L through Series 2006-96:	2.00%

The Agency is not expected to fund or maintain the self-insurance requirement under the Single Family Program bond indenture in any amount with respect to any series of bonds issued after November 2006.

The Agency was in compliance with its bond covenant requirements at June 30, 2015 and 2014.

Bonds Authorized But Not Yet Issued

On May 9, 2013, the Agency Board authorized the issuance of Single Family Mortgage Revenue Bonds Series 117 ("Series 117") in an amount not to exceed \$300,000. Series 2015-117 was issued on September 22, 2015 in an amount equal to \$150,240. See **note 16** for additional discussion.

10. Derivatives

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

Swaps are deemed either hedging derivative instruments or investment derivative instruments based upon the effectiveness of the agreements to hedge against interest rate exposure associated with variable-rate debt. The regression analysis method is used to determine whether the swaps are an effective hedge.

The fair values of both hedging derivative instruments and investment derivative instruments are reported as Derivative Instruments – Interest Rate Swaps. The changes in fair values of hedging derivative instruments are reported within Deferred Outflow of Resources; the changes in fair

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

values of investment derivative instruments are reported as either an investment revenue or expense. Fair values are obtained from mark-to-market calculations prepared by a valuation provider and approximate the current economic value using market indexes, interest rates and cash flow models. The fair value represents the current price to settle the swaps in the marketplace if the swap agreements were to end unexpectedly.

Because interest rates have generally decreased since the swaps became effective, the Agency's portfolio of swaps had a negative fair value at June 30, 2015 and 2014. Changes in fair values are countered by reductions or increases in total interest payments required under variable-rate bonds. Given that payments on the Agency's variable-rate bonds adjust to changing interest rates, the associated debt does not have corresponding increases in fair value.

Each of the Agency's swaps requires the Agency to post collateral in the event the fair value of the swap falls below specific thresholds of negative worth. As of June 30, 2015 and 2014, the Agency was not required to post collateral for any of its swaps.

Balances of the fair values of the Agency's interest rate swaps at June 30, 2015 and 2014 were as follows:

2015			
Interest Rate Swap Type	Multifamily Program	Single Family Program	Total
Hedging Derivatives	\$ (3,275)	\$ (12,561)	\$ (15,836)
Hedging Derivatives - Amended	-	(20,771)	(20,771)
Investment Derivatives	(4,216)	(939)	(5,155)
Total Interest Rate Swaps	<u>\$ (7,491)</u>	<u>\$ (34,271)</u>	<u>\$ (41,762)</u>

2014			
Interest Rate Swap Type	Multifamily Program	Single Family Program	Total
Hedging Derivatives	\$ (4,893)	\$ (26,642)	\$ (31,535)
Hedging Derivatives - Amended	-	(19,980)	(19,980)
Investment Derivatives	(4,648)	(1,359)	(6,007)
Total Interest Rate Swaps	<u>\$ (9,541)</u>	<u>\$ (47,981)</u>	<u>\$ (57,522)</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Hedging Derivative Instruments

The change in fair value of the Agency's hedging derivative instruments for the years ended June 30, 2015 and 2014 equaled \$14,908 and 18,462, respectively, and is presented within Deferred Outflows on the Balance Sheet. The terms and other information respective of the Agency's hedging derivative instruments outstanding at June 30, 2015 and 2014 were as follows:

Bond Series	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received	Current Notional Amount	2014 Fair Value	Change In Fair Value	2015 Fair Value
1999-67B	7/2002	4/2029	5.950%	100% of LIBOR + 50 bps	\$ 12,700	\$ (3,131)	\$ 134	\$ (2,997)
2001-72C	9/2001	10/2023	5.695	100% of LIBOR	5,530	(1,154)	198	(956)
2003-77B ¹	4/2015	10/2033	2.348	Enhanced LIBOR	19,210	(273)	182	(91)
2003-79B ¹	4/2015	10/2033	3.708	65% of LIBOR + 25 bps	57,350	(6,206)	920	(5,286)
2004-81C ¹	4/2015	10/2034	3.227	Enhanced LIBOR	23,935	(1,697)	420	(1,277)
2004-82B ¹	4/2015	4/2030	1.800	61% of LIBOR + 39 bps	22,895	(318)	296	(22)
2004-82C ¹	4/2015	10/2033	2.220	61% of LIBOR + 39 bps	23,770	(140)	219	79
2004-83B ¹	8/2004	10/2019	3.410	65% of LIBOR + 25 bps	-	(130)	130	-
2004-83C ¹	4/2015	4/2027	3.830	65% of LIBOR + 25 bps	18,240	(1,785)	(927)	(2,712)
2004-84D ¹	10/2014	10/2034	3.320	Enhanced LIBOR	16,610	(1,544)	323	(1,221)
2004-85B	11/2004	4/2019	3.168	65% of LIBOR + 25 bps	-	(133)	133	-
2004-85C ¹	4/2015	10/2035	2.908	65% of LIBOR + 25 bps	44,645	(2,273)	(44)	(2,317)
2004-86B ¹	4/2013	10/2033	3.397	Enhanced LIBOR	27,340	(2,696)	479	(2,217)
2005-87B ¹	4/2015	10/2023	2.875	65% of LIBOR + 25 bps	17,595	(583)	354	(229)
2005-87C ¹	4/2015	10/2035	2.937	65% of LIBOR + 25 bps	47,300	(2,448)	265	(2,183)
2005-88B	5/2005	10/2035	3.500	61% of LIBOR + 39 bps	31,675	(1,296)	936	(360)
2005-88C ¹	4/2015	10/2035	2.520	61% of LIBOR + 39 bps	18,920	(171)	183	12
2005-89 ¹	4/2015	10/2035	2.144	Enhanced LIBOR	43,775	(1,228)	1,262	34
2005-90C ¹	4/2015	10/2031	3.565	65% of LIBOR + 25 bps	45,620	(1,992)	1,129	(863)
2005-91B	12/2005	10/2036	3.953	Enhanced LIBOR	70,000	(4,133)	2,215	(1,918)
2006-92B	3/2006	10/2036	3.996	65% of LIBOR + 25 bps	41,625	(2,624)	1,288	(1,336)
2006-93B	5/2006	4/2037	4.266	61% of LIBOR + 39 bps	35,250	(2,104)	1,188	(916)
2006-94B	7/2006	4/2027	4.152	69% of LIBOR	28,860	(2,922)	1,171	(1,751)
2006-95C ¹	4/2015	4/2020	2.719	65% of LIBOR + 25 bps	435	(166)	155	(11)
2007-98C ¹	10/2014	10/2037	4.105	61% of LIBOR + 39 bps	7,945	(1,657)	(29)	(1,686)
2007-99C ¹	4/2015	10/2023	3.782	69% of LIBOR	15,000	(1,878)	515	(1,363)
2007-100C ¹	4/2015	4/2033	4.131	65% of LIBOR + 25 bps	11,870	(1,940)	195	(1,745)
MF2005-K	3/2005	1/2036	5.183	100% of LIBOR	14,785	(4,893)	1,618	(3,275)
Total:					\$ 702,880	\$ (51,515)	\$ 14,908	\$ (36,607)

¹ = Indicates embedded options exercisable without payment to the counterparty

LIBOR = one-month London Interbank Offered Rate in American Dollars

Enhanced LIBOR = 67% of one-month LIBOR

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Credit Risk

The Agency was not exposed to credit risk on its swaps because the total fair values of swaps with each of the swap counterparties were negative at June 30, 2015 and 2014. The Agency's swaps rely upon the performance of counterparties. If interest rates rise and the total fair value of swaps with any counterparty becomes positive, the Agency may be exposed to credit risk on those agreements – the risk that the counterparty fails to perform according to contractual obligations.

Basis Risk and Interest Rate Risks

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

Rollover Risk

Rollover risk is the risk that a swap associated with a bond issue does not extend to the maturity of that debt, thereby creating unhedged variable-rate debt. The following swaps exposed the Agency to rollover risk at June 30, 2015 and 2014:

2015		
Associated Bond Issue	Debt Maturity Dates	Swap Termination Dates
2001-72C	10/2032	10/2023
2005-87B	4/2030	10/2023
2005-88C	4/2037	10/2035
2005-90C	4/2036	10/2031
2007-100C	10/2036	4/2033

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

2014		
Associated Bond Issue	Debt Maturity Dates	Swap Termination Dates
2001-72C	10/2032	10/2023
2004-83B	10/2023	10/2019
2004-85B	10/2031	04/2019
2005-87B	10/2030	10/2023
2005-88C	04/2037	10/2035
2005-90C	04/2036	10/2032
2007-100C	10/2036	04/2034

Termination Risk

The Agency maintains the option to terminate its swaps at anytime, while the Agency or the counterparty may terminate a swap if either party fails to perform under the terms of the agreement. If a 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. In certain instances, the Agency has embedded par termination rights within its swaps; these termination rights enable the Agency to trigger partial or whole termination of the associated swaps without liability for negative fair value.

Amended Hedging Derivative Instruments

At various times during the years ended June 30, 2015 and 2014 the Agency exchanged exercisable options, which had been embedded within effective hedging derivative instruments, in efforts to take advantage of the economic benefits associated with reducing the semiannual fixed rate payments to counterparties for certain swaps.

The aforementioned options were embedded within the respective swaps at the time the swap agreements were initiated, and were reflected in the fixed rate payable by the Agency to the respective counterparties. Exchanging the exercisable options amended the respective swap agreements by reducing the fixed rate paid to the counterparty, thereby changing the critical terms of the associated swaps. GAAP dictates that such changes trigger a termination of hedge accounting. In the instance of a termination event, amounts representing the accumulated decrease in the fair value of hedging derivatives and reported as a deferred outflow are to be recognized immediately as an item of income or expense, depending on the fair value of the swap at the time of termination. The balances recognized as an item of income or expense, respective of the amended swaps, are then amortized and recognized as a component of interest expense over the lives of the underlying hedgable items in order to recoup the effects of termination events over time. Amortization of the effects of termination events for the years ended June 30, 2015 and 2014 equaled \$1,135 and \$706, respectively.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Amended hedging derivative activity for the years ended June 30, 2015 and 2014 reflected the following:

2015	
	Single Family Program
Amended hedging derivative balance at July 1, 2014	\$ (19,980)
Loss on 2014/2015 swap terminations	(1,926)
Amortization	1,135
Amended hedging derivative balance at June 30, 2015	<u>\$ (20,771)</u>
2014	
	Single Family Program
Amended hedging derivative balance at July 1, 2013	\$ (19,583)
Loss on 2013/2014 swap terminations	(1,103)
Amortization	706
Amended hedging derivative balance at June 30, 2014	<u>\$ (19,980)</u>

The effects of the termination events described above and the ultimate effects on the Agency's net position represent non-cash transactions. At no time did the Agency either receive, relinquish or exchange cash or any other monetary assets as a result of termination events.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Investment Derivative Instruments

Certain balances of variable rate bonds associated with certain swaps were either redeemed in total or refunded by fixed-rate bonds; therefore, the associated swaps are no longer a hedge against variable rate debt. As a result, these swaps are deemed investment derivative instruments. The terms and other relevant information respective of the aforementioned investment derivative instruments outstanding at June 30, 2015 and 2014 were as follows:

2015					
Bond Series	Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
RH2008A&B	\$ 13,650	12/2011	1/2021	3.407	67% of one-week LIBOR
RH2008C	19,690	6/2003	7/2020	3.457	70% of LIBOR
RH2008D	11,810	6/2011	7/2020	3.440	70% of LIBOR
Total:	<u>\$ 45,150</u>				
2014					
Bond Series	Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
2004-84C	\$ 5,180	9/2004	4/2018	3.115	Enhanced LIBOR
2008-104#2	590	3/2007	10/2014	4.922	100% of LIBOR
2008-104#4	6,875	9/2007	4/2015	5.149	100% of LIBOR
RH2008A&B	18,890	12/2011	1/2021	3.407	67% of one-week LIBOR
RH2008C	24,935	6/2003	7/2020	3.457	70% of LIBOR
RH2008D	14,960	6/2011	7/2020	3.440	70% of LIBOR
Total:	<u>\$ 71,430</u>				

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Because of early redemptions of portions of the variable rate debt associated with certain swaps, the particular swaps had outstanding notional amounts in excess of the related hedged variable-rate bond balances at June 30, 2015 and 2014. The portion of the swaps' notional amount in excess of the outstanding variable-rate debt is deemed an investment derivative instrument for financial reporting purposes. The terms and other information of hedging derivative instruments that have notional amounts exceeding their related outstanding debt at June 30, 2015 and 2014 were as follows:

2015

Bond Series	Excess Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
2003-77B	\$ 90	4/2015	10/2033	2.348%	Enhanced LIBOR
2004-83C	2,430	4/2015	10/2027	3.830	65% of LIBOR + 25 bps
2004-84D	2,535	10/2014	10/2034	3.320	Enhanced LIBOR
2005-88C	75	4/2015	10/2035	2.520	61% of LIBOR + 39 bps
2006-92B	1,245	3/2006	10/2036	3.996	65% of LIBOR + 25 bps
2006-93B	1,935	5/2006	4/2036	4.266	61% of LIBOR + 39 bps
2006-94B	4,965	7/2006	4/2027	4.152	69% of LIBOR
MF2005K	6,885	3/2005	1/2036	5.183	100% of Libor
Total:	<u>\$ 20,160</u>				

2014

Bond Series	Excess Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
2003-77B	\$ 1,155	4/2013	10/2033	2.470	Enhanced LIBOR
2004-81C	705	4/2013	10/2034	3.346	Enhanced LIBOR
2004-82B	920	5/2004	10/2030	3.643	61% of LIBOR + 39 bps
2004-82C	2,560	4/2014	10/2034	3.420	61% of LIBOR + 39 bps
2004-83B	1,515	8/2004	10/2019	3.410	65% of LIBOR + 25 bps
2004-83C	3,640	4/2014	10/2027	3.830	65% of LIBOR + 25 bps
2004-84D	3,275	4/2012	10/2034	3.320	Enhanced LIBOR
2005-88B	85	5/2005	10/2035	3.500	61% of LIBOR + 39 bps
2006-94B	3,150	7/2006	4/2027	4.152	69% of LIBOR
Total:	<u>\$ 17,005</u>				

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

The fair values of the investment derivatives for the year ended June 30, 2015 and 2014 are shown below and the changes in fair value of \$852 and \$1,390, respectively, are presented as a net increase in fair value of swaps on the Statement of Revenues, Expenses and Changes in Net Position.

Bond Series	2015		2014	
	Notional Amount	Fair Value	Notional Amount	Fair Value
2003-77B	\$ 90	\$ (1)	\$ 1,155	\$ (15)
2004-81C	-	-	705	(47)
2004-82B	-	-	920	(11)
2004-82C	-	-	2,560	(15)
2004-83B	-	-	1,515	(22)
2004-83C	2,430	(361)	3,640	(356)
2004-84C	-	-	5,180	(76)
2004-84D	2,535	(186)	3,275	(260)
2005-88C	75	(1)	-	-
2005-88B	-	-	85	(3)
2006-92B	1,245	(40)	-	-
2006-93B	1,935	(50)	-	-
2006-94B	4,965	(301)	3,150	(291)
2008-104#2	-	-	590	(14)
2008-104#4	-	-	6,875	(249)
MF2005K	6,885	(1,525)	-	-
RH2008A,B	13,650	(1,195)	18,890	(1,562)
RH2008C	19,690	(937)	24,935	(1,933)
RH2008D	11,810	(558)	14,960	(1,153)
Total:	<u>\$ 65,310</u>	<u>\$ (5,155)</u>	<u>\$ 88,435</u>	<u>\$ (6,007)</u>

Credit Risk

At June 30, 2015 and 2014, the Agency was not exposed to credit risk with respect to its investment derivative instruments because all investment swaps had negative fair values.

Interest rate risk

The Agency is exposed to interest rate risk on all of its swaps. As the LIBOR index decreases, the Agency's net payments on the swaps increase.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2015 and 2014 was as follows:

	2015				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable, net	\$3,316,013	\$119,163	\$ 476,110	\$2,959,066	\$110,220
Notes payable	24,000	10,000	2,000	32,000	3,000
Escrow deposits and					
Development Reserves	141,583	268,930	267,919	142,594	65,996
Net Pension Liability	12,218	17,399	9,220	20,397	-
Other liabilities					
Accrued vacation and sick leave	3,263	-	258	3,005	59
Bond rebate	280	-	-	280	-
Borrower suspense accounts	5,482	59,578	59,615	5,445	5,445
Commonwealth grants	10,780	11,231	3,418	18,593	-
Federal grants	160,058	422,865	416,688	166,235	-
Other grants	5,290	11,702	13,962	3,030	-
GNMA/FNMA payables	9,539	6,383	9,538	6,384	6,384
OPEB obligation	22,705	3,604	-	26,309	-
PHFA Insurance Program Claims	2,310	3,954	4,857	1,407	745
Project receipts	3,696	3,495	3,884	3,307	90
Unearned revenue	6,022	-	523	5,499	-
Other	29,663	545	19,896	10,312	5,867
Total Other Liabilities	<u>259,088</u>	<u>523,357</u>	<u>532,639</u>	<u>249,806</u>	<u>18,590</u>
Total	<u><u>\$3,752,902</u></u>	<u><u>\$938,849</u></u>	<u><u>\$1,287,888</u></u>	<u><u>\$3,403,863</u></u>	<u><u>\$197,806</u></u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

	2014				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable, net	\$3,689,361	\$ -	\$ 373,348	\$3,316,013	\$109,340
Notes payable	26,000	-	2,000	24,000	2,000
Escrow deposits and					
Development Reserves	144,219	264,277	266,913	141,583	63,862
Net Pension Liability	18,768	7,708	14,258	12,218	-
Other liabilities					
Accrued vacation and sick leave	2,962	301	-	3,263	58
Bond rebate	280	-	-	280	-
Borrower suspense accounts	3,792	56,680	54,990	5,482	5,482
Commonwealth grants	10,925	2,848	2,993	10,780	31
Federal grants	151,874	414,648	406,464	160,058	-
Other grants	4,176	14,862	13,748	5,290	352
GNMA/FNMA payables	4,378	9,539	4,378	9,539	-
OPEB obligation	18,979	3,726	-	22,705	-
PHFA Insurance Program Claims	3,263	1,878	2,831	2,310	300
Project receipts	6,579	3,218	6,101	3,696	358
Unearned revenue	6,880	-	858	6,022	-
Other	34,354	170	4,861	29,663	-
Total Other Liabilities	<u>248,442</u>	<u>507,870</u>	<u>497,224</u>	<u>259,088</u>	<u>6,581</u>
Total	<u>\$4,126,790</u>	<u>\$779,855</u>	<u>\$1,153,743</u>	<u>\$3,752,902</u>	<u>\$181,783</u>

12. Restricted and Designated Net Position

The Multifamily and Single Family Programs' June 30, 2015 and 2014 net position restrictions equaling \$500 and \$110,496 and \$619 and \$122,652, respectively, are restricted pursuant to the Agency's obligations to HUD and its bondholders; provisions are present within certain Multifamily Program agreements with HUD and the Single Family Program bond indenture. Net position restrictions within HEMAP totaling \$44,083 and \$42,293 at June 30, 2015 and 2014 represent amounts restricted for the purpose of making mortgage assistance loans.

The Agency has designated certain amounts of the unrestricted net position of the Agency's various activities and programs for purposes indicated in the following table. These designations of net position are not binding and may be changed by the Agency.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

	<u>2015</u>	<u>2014</u>
General Activities:		
Homeownership Choice to fund housing opportunity in urban areas	\$ 3,000	\$ 5,000
Single Family Insurance to fund homeowners' special hazard losses	16,500	16,500
Homebuyer Counseling for education of first-time homebuyers	1,500	1,500
Multifamily Insurance for Agency insured or coinsured developments	<u>10,000</u>	<u>10,000</u>
Total	<u>\$ 31,000</u>	<u>\$ 33,000</u>
Multifamily Housing Program:		
Penn HOMES Program to lower development costs for apartments	\$ 15,000	\$30,000
Preservation from physical deterioration, financial or social distress	1,500	1,500
Energy Efficiency Improvements - energy usage reduction initiatives	<u>-</u>	<u>250</u>
Total	<u>\$ 16,500</u>	<u>\$ 31,750</u>
Single Family Mortgage Loan Program:		
Closing Cost Assistance	\$ 1,000	\$ 1,000
Utility Company Initiative to provide energy efficiency improvements	-	500
Additional Single Family Insurance to reduce the risk of loan default	<u>2,455</u>	<u>2,455</u>
Total	<u>\$ 3,455</u>	<u>\$ 3,955</u>
Insurance Program:		
Risk Retention to provide single family mortgage insurance	<u>\$ 8,819</u>	<u>\$ 43,340</u>

13. Pension Plans**Plan Description**

Full-time employees of the Agency participate in the Agency Plan or Excess Plan, which are both defined benefit single employer plans with financial reporting years ending December 31. The Pensions do not issue stand-alone statements.

Benefits Provided

A participant's benefits vest upon the completion of five years of service. Under the provisions of the Pensions, 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 attaining age 65, age 55 and completion of 30 years of service, or at any age after completion of 35 years of service. The normal retirement pension is payable monthly during the participant's lifetime with payments ceasing upon the participant's death.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Employee normal retirement monthly benefits are equal to 2% of an employee's average monthly pay multiplied by the completed years and completed months of service at normal retirement date, where average monthly pay is based on an employee's highest twelve calendar quarters of pay (excluding any lump sum annual and/or sick leave payouts upon retirement for employees hired after 12/31/06). Normal retirement benefits are reduced by 1/6 of 1% per month for each month (2% per year) prior to the employee's normal retirement date. If employment is terminated by reason of total and permanent disability, employees are entitled to a disability pension after three months of disability, regardless of years of service. Disability pension is equal to an employee's pension benefit accrued to date with no reduction for early retirement. If an employee dies while employed by the Agency, the employee's beneficiary will receive a lump sum death benefit payment equal to the actuarial equivalent of the employee's accrued pension as of the date of death. If an employee dies after terminating employment but before retiring, the employee's beneficiary will receive a lump sum death benefit payment equal to the vested accrued pension.

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, provided such funding has been transferred to the Plan. Pension payments under the Excess Plan are paid in the same form as the pension benefits payable under the Plan.

Employees Covered by Benefit Terms

At December 31, the following employees were covered by the benefit terms:

	(not in thousands)	
	2014	2013
Inactive employees or beneficiaries currently receiving benefits	146	138
Inactive employees entitled to but not yet receiving benefits	64	62
Active Employees	290	280
	<u>500</u>	<u>480</u>

Contributions

Contribution requirements and benefit provisions of the Pensions are established and may be amended by the Agency Board. The Pensions' funding policy provides for actuarially determined periodic contributions at amounts that will enable sufficient assets to be available to pay benefits when due. Employees hired on or after January 01, 2009 contribute 3% of compensation to the Plan. Employees hired on or before December 31, 2008 do not contribute to the Pensions. The

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Agency's average contribution rates for the years ended December 31, 2014 and 2013 equaled 17.62% and 21.18% of covered payroll, respectively.

Investments

Policies pertaining to the allocation of investments within the Agency's Pensions are established and may be amended by the Agency's Pension Committee. It is the policy of the Pension Committee to invest pension assets in securities that provide growth and income while maintaining a balanced level of risk tolerance. The following table illustrates the approved asset allocation policy at December 31, 2014 and 2013:

<u>Intestment Type</u>	<u>% Range of Allocation</u>		
	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Equity Securities	55%	65%	75%
Fixed Income Securities	25%	35%	45%
Cash Equivalents	0%	0%	20%

Permitted securities in which assets of the Agency's Pensions may be invested include any of the following:

Cash Equivalents

Money market mutual funds
Short-term money market instruments

Equity Securities

U.S. common and preferred stocks
U.S. equity mutual funds
Equity exchange traded funds
International equity mutual funds

Fixed Income Securities

U.S. governments
U.S. mortgage and asset-backed
U.S. corporate bonds
Taxable municipal bonds
Fixed income mutual funds
Fixed income exchange-traded funds

The fair value of investments is determined by published market prices and quotations.

At December 31, 2014 and 2013, there were no concentrations of investments in any organization that represented 5% or more of the Pensions' fiduciary net position.

For the years ended December 31, 2014 and 2013, the annual money-weighted rate of return on investments of the Agency's Pensions, net of investment expense, was 9.28% and 16.60%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

The fiduciary net position of the Agency's Pensions at December 31, 2014 and 2013 was invested as follows:

	<u>2014</u>	<u>2013</u>
Cash Equivalents	\$ 1,208	\$ 2,574
Equity Securities		
Equity exchange traded funds	11,719	9,644
U.S. and International equity mutual funds	12,905	14,893
U.S. common and preferred stocks	22,699	19,387
Fixed Income Securities		
Fixed income exchange traded funds	1,130	973
Fixed income mutual funds	21,858	18,067
Total:	<u>\$71,519</u>	<u>\$65,538</u>

Actuarial Assumptions

The Agency's net pension liability was measured as of December 31, 2014 and 2013, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of those dates.

The total pension liability in the December 31, 2014 and 2013 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>Rate</u>
Inflation	3.0%
Salary Increases (average, including inflation)	4.5%
Investment Rate of Return (including inflation)	7.5%
Post-Retirement Cost of Living Increase	0.0%

Mortality rates used in the December 31, 2014 actuarial valuation were based upon the RP-2014 Total Mortality Table for males and females; incorporated into the table are rates projected using Scale MP-2014 to reflect mortality improvement. Mortality rates used in the December 31, 2013 actuarial valuation were based upon the GA1983 Mortality Table for males and females; this table does not include projected mortality improvements.

The long-term expected rate of return on the Pensions' investments was determined using a building-block method, in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the years ended December 31, 2014 and 2013 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Equity	65.0%	5.0% - 7.0%
Fixed Income	35.0%	1.5% - 2.5%

The discount rate used to measure the total pension liability at December 31, 2014 and 2013 was 7.5%. The Pensions' fiduciary net positions are projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on the Pensions' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	2014		
	Total Pension Liability (A)	Pension Fiduciary Net Position (B)	Net Pension Liability (A)-(B)
Balances at January 1, 2014	\$77,756	\$ 65,538	\$ 12,218
Service Cost	1,545	-	1,545
Interest Cost	5,826	-	5,826
Changes for Experience	2,596	-	2,596
Changes of Assumptions	7,432	-	7,432
Contributions - Employer	-	3,057	(3,057)
Contributions - Member	-	93	(93)
Net Investment Income	-	6,070	(6,070)
Benefit Payments, including			
refunds of member contributions	(3,239)	(3,239)	-
Net Changes	<u>14,160</u>	<u>5,981</u>	<u>8,179</u>
Balances at December 31, 2014	<u>\$91,916</u>	<u>\$ 71,519</u>	<u>\$ 20,397</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

	2013		
	Total	Pension	Net Pension
	Pension	Fiduciary	
	Liability	Net Position	Liability
	(A)	(B)	(A)-(B)
Balances at January 1, 2013	\$72,630	\$ 53,862	\$ 18,768
Service Cost	1,622	-	1,622
Interest Cost	5,472	-	5,472
Changes for Experience	614	-	614
Contributions - Employer	-	5,134	(5,134)
Contributions - Member	-	66	(66)
Net Investment Income	-	9,058	(9,058)
Benefit Payments, including			
refunds of member contributions	(2,582)	(2,582)	-
Net Changes	<u>5,126</u>	<u>11,676</u>	<u>(6,550)</u>
Balances at December 31, 2013	<u>\$77,756</u>	<u>\$ 65,538</u>	<u>\$ 12,218</u>

The change in assumption reflected in the Changes in the Net Pension Liability for the period ended December 31, 2014 equal to \$7,432 was the result of incorporating the RP-2014 Total Mortality Table for males and females using Scale MP-2014 to reflect mortality improvement. Prior to this change in assumption, mortality rates were based on the GA1983 Mortality Table for males and females, which did not include projected mortality improvements.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Pensions, calculated using the discount rate of 7.5%, as well as what the Pensions' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

Pensions Net	Current		
	1% Decrease	Discount Rate	1% Increase
Pension Liability for	(6.50%)	(7.50%)	(8.50%)
Calendar Year Ended			
December 31, 2014	\$ 32,840	\$ 20,397	\$ 9,951
December 31, 2013	22,194	12,218	3,727

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended December 31, 2014 and 2013, the Pensions recognized pension expense of \$2,060 and \$1,851, respectively. At December 31, 2014 and 2013, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2014</u>	<u>2013</u>
<u>Deferred Outflows</u>		
Differences between Expected and Actual Experience	\$3,319	\$ 669
Changes in Assumptions	6,470	-
Contributions made after measurement date	2,100	1,529
<u>Deferred Inflows</u>		
Net Difference Between Projected and Actual Earnings on Investments	<u>(3,880)</u>	<u>(3,936)</u>
December 31 Net Deferred Outflows/(Inflows)	<u><u>\$8,009</u></u>	<u><u>\$(1,738)</u></u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	
December 31	
2015	\$ 2,118
2016	18
2017	18
2018	1,002
2019	1,234
Thereafter	<u>3,619</u>
	<u><u>\$8,009</u></u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

14. Postemployment Benefits Other than Pensions

Plan Description

The Agency sponsors a single-employer defined benefit plan, which includes the Pennsylvania Housing Finance Agency Postemployment Benefits Plan (“OPEB Plan”) to provide certain other postemployment health care 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. 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 OPEB Plan.

Funding Policy

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

For the years ended June 30, 2015 and 2014, Agency outlays to insurance carriers for premiums totaled \$956 and \$888, respectively, OPEB Plan members receiving benefits paid \$48 and \$44, respectively, and the resultant net outlays for OPEB insurance premiums paid by the Agency equaled \$908 and \$844, respectively. Contribution rates for OPEB Plan members equaled 5% of the insurance premium per participant per month for the years ended June 30, 2015 and 2014.

Annual OPEB Cost and Net OPEB Obligation

The calculation of the Agency’s annual OPEB cost is based upon the actuarially determined annual required contribution (“ARC”) of the Agency. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

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

	<u>2015</u>	<u>2014</u>
Annual required contribution (ARC)	\$ 5,526	\$ 5,526
Interest on net OPEB obligation	1,161	970
Adjustment to ARC	<u>(1,584)</u>	<u>(1,324)</u>
Annual OPEB expense	5,103	5,172
Contributions made	<u>(956)</u>	<u>(888)</u>
Increase in net OPEB obligation	4,147	4,284
Net OPEB obligation beginning of year	<u>25,851</u>	<u>21,567</u>
Net OPEB obligation end of year	<u>\$ 29,998</u>	<u>\$ 25,851</u>

OPEB obligations are reported as Other Noncurrent Liabilities.

Three-Year Trend Information for OPEB

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2015	\$ 5,103	19%	\$ 29,998
June 30, 2014	5,172	17	25,851
June 30, 2013	4,783	15	21,567

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the OPEB Plan was not funded. This resulted in an actuarial accrued liability for benefits and unfunded actuarial accrued liability of \$49,455 for the years ended June 30, 2015 and 2014. The covered payroll (annual payroll of active employees covered by the OPEB Plan) equaled \$16,175 and the ratio of the unfunded actuarial accrued liability to the covered payroll equaled 305.75% for the years ended June 30, 2015 and 2014. Amounts determined with respect to the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared to past expectations and new estimates are made about the future.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information illustrating 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 purposes is based on the substantive OPEB Plan as understood by the Agency and OPEB Plan members and includes the types of benefits provided

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

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

For the actuarial valuation dated July 1, 2013, the entry age normal cost method was used. Because the Agency funds its OPEB on a pay-as-you-go basis, the OPEB Plan has no assets (investments) used specifically for paying the post-retirement medical benefits; therefore, the actuarial assumptions included a 4.5% discount rate, which approximates the expected rate of return on non-pension investments held by the Agency, a moderate inflation rate based on historical averages and an annual healthcare cost trend rate of 7% in 2013, decreasing by 0.5% per year to 5.5% in 2016 and to 5.3% in 2017 and thereafter. The unfunded actuarial accrued liability is amortized as a level dollar amount over thirty years on an open basis.

15. Significant Contingencies and Commitments

Federally Assisted Programs

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

Risk Management

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2015 and 2014 (in thousands)

Litigation

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

Commitments

Outstanding commitments by the Agency to make or acquire Single Family Mortgage Program and HEMAP loans were approximately \$57,875 and \$3,045, respectively, at June 30, 2015 and \$40,555 and \$13,634, respectively, at June 30, 2014.

16. Significant Effects of Subsequent Events

On September 10, 2015, the Agency authorized the issuance of Single Family Mortgage Revenue Bonds, Series 2015-118 ("Series 2015-118"), in an amount not to exceed \$275,000. Proceeds are expected to include a portion to be used to refund certain Single Family Mortgage Revenue Bonds of the Agency issued previously and a portion to purchase new single family mortgage loans. Series 2015-118 is expected to price and sell no later than calendar year ending December 31, 2015.

On September 22, 2015, the Agency issued \$150,240 of Single Family Mortgage Revenue Bonds, Series 2015-117A and 2015-117B. 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 of October 1, 2045. The proceeds from the bond issuance were used to refund certain Single Family Mortgage Revenue Bonds of the Agency issued previously and to purchase new single family mortgage loans.

REQUIRED SUPPLEMENTARY INFORMATION

PENNSYLVANIA HOUSING FINANCE AGENCY

Schedule of Changes in the Agency's Net Pension Liability and Related Ratios

(in thousands) (unaudited)

	December 31	
	<u>2014</u>	<u>2013</u>
Total Pension Liability		
Service Cost	\$ 1,545	\$ 1,622
Interest	5,826	5,472
Differences Between Expected and Actual Experience	2,596	615
Changes of Assumptions	7,432	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(3,239)</u>	<u>(2,582)</u>
Net Change in Total Pension Liability	14,160	5,127
Total Pension Liability - Beginning	<u>77,757</u>	<u>72,630</u>
Total Pension Liability - Ending (a)	<u>\$ 91,917</u>	<u>\$ 77,757</u>
Pensions Fiduciary Net Position		
Contributions - Employer	3,057	5,134
Contributions - Employee	93	66
Net Investment Income	6,071	9,058
Benefit Payments, Including Refunds of Employee Contributions	<u>(3,239)</u>	<u>(2,582)</u>
Net Change in Pensions Fiduciary Net Position	5,982	11,676
Pensions Fiduciary Net Position - Beginning	<u>65,538</u>	<u>53,862</u>
Pensions Fiduciary Net Position - Ending (b)	<u>71,520</u>	<u>65,538</u>
Agency's Net Pension Liability (a) - (b)	<u>\$ 20,397</u>	<u>\$ 12,219</u>
Covered-Employee Payroll	\$ 17,440	\$ 15,771
Pensions Fiduciary Net Position as a Percentage of Covered-Employee Payroll	17.04%	20.72%

Notes to Schedule:

The change in assumption reflected in the Changes in the Net Pension Liability for the period ended December 31, 2014 was the result of incorporating the RP-2014 Total Mortality Table for males and females using Scale MP-2014 to reflect mortality improvement. Prior to this change in assumption, mortality rates were based on the GA1983 Mortality Table for males and females, which did not include projected mortality improvements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Schedule of Employer Contributions to Agency Employees' Retirement Plan and Government Excess Benefit Plan (in thousands) (unaudited)

Year	Actuarially Determined Contribution	Contributions From Agency	Contribution Deficiency/ (Excess)	Covered Employee Payroll	Contribution as a % of Payroll
2005	1,482,239	1,450,000	32,239	11,367,214	13.04%
2006	2,335,066	2,400,000	(64,934)	12,463,572	18.74%
2007	2,364,109	2,600,000	(235,891)	12,652,368	18.69%
2008	2,347,806	2,700,000	(352,194)	13,447,522	17.46%
2009	3,036,331	3,200,000	(163,669)	14,489,523	20.96%
2010	2,828,546	3,981,586	(1,153,040)	15,565,761	18.17%
2011	2,960,784	4,364,850	(1,404,066)	15,696,415	18.86%
2012	3,082,424	4,252,852	(1,170,428)	16,588,324	18.58%
2013	3,267,088	4,083,791	(816,703)	15,771,186	20.72%
2014	2,971,451	4,107,163	(1,135,712)	17,439,680	17.04%

Notes to Schedule:

Valuation Date: Actuarially determined contribution rates are calculated as of January 1 prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates –

Actuarial cost method: Aggregate

Amortization method: N/A

Remaining amortization period: N/A

Asset valuation method: Smoothed value with a corridor of 80% to 120% of market value

Inflation: 3.00%

Salary increases: 4.5%

Investment rate of return: 7.5%

Retirement age: Normal retirement age

Mortality: Years 2005 through 2013 incorporated the GA1983 Mortality Table, which does not include projected mortality improvements. Year 2014 incorporated the RP-2014 Total Mortality Table, which reflects mortality improvement.

PENNSYLVANIA HOUSING FINANCE AGENCY

Schedule of Investment Returns of Agency Employees' Retirement Plan and Government Excess Benefit Plan (unaudited)

Annual money-weighted rate of return, net of investment expense:

Year ended	
December 31	Rate
2014	9.28%
2013	16.60%

PENNSYLVANIA HOUSING FINANCE AGENCYSchedule of Funding Progress for the Pennsylvania Housing Finance Agency Postemployment Benefits Plan (in thousands) (unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a)/(c)
07/01/2013	-	\$ 49,455	\$ 49,455	-	\$ 16,175	305.7
07/01/2011	-	43,472	43,472	-	15,900	273.4
07/01/2009	-	36,652	36,652	-	15,320	239.2

SUPPLEMENTARY INFORMATION

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Balance Sheet

June 30, 2015 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Intra-Agency Eliminations	Total
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 3,897	\$ 26,507	\$ 265,047	\$ 10,226	\$ 3,798	\$ -	\$ 309,475
Restricted cash and cash equivalents	920	39,385	65,405	-	-	-	105,710
Investments	-	-	1,997	-	-	-	1,997
Restricted investments	201	762	2,065	-	-	-	3,028
Accrued investment interest receivable	115	18	906	-	-	-	1,039
Mortgage loans receivable, net	-	14,689	77,427	-	5,889	-	98,005
Accrued mortgage loan interest receivable	-	4,408	29,401	-	92	-	33,901
Mortgages held for sale	-	-	72,468	-	-	-	72,468
Other current assets	2,186	1	16	-	2	-	2,205
Total Current Assets	7,319	85,770	514,732	10,226	9,781	-	627,828
Noncurrent Assets:							
Investments	58,592	152	86,875	-	-	-	145,619
Restricted investments	806	3,045	114,768	-	-	-	118,619
Mortgage loans receivable, net	2,904	337,920	2,850,330	-	44,197	-	3,235,351
Real estate owned	-	-	43,581	-	-	-	43,581
Capital assets, net	31,338	-	-	-	-	-	31,338
Intra-agency receivables	104,643	71,859	-	-	-	(176,502)	-
Other noncurrent assets	6,606	1,303	5,023	-	-	-	12,932
Total Noncurrent Assets	204,889	414,279	3,100,577	-	44,197	(176,502)	3,587,440
TOTAL ASSETS	212,208	500,049	3,615,309	10,226	53,978	(176,502)	4,215,268
DEFERRED OUTFLOWS OF RESOURCES							
Pension-related deferred outflows	11,889	-	-	-	-	-	11,889
Unamortized losses on bond refundings	-	-	8,090	-	-	-	8,090
Accumulated decrease in fair value of hedging derivatives	-	3,275	12,561	-	-	-	15,836
TOTAL DEFERRED OUTFLOWS OF RESOURCES	11,889	3,275	20,651	-	-	-	35,815
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 224,097	\$ 503,324	\$ 3,635,960	\$ 10,226	\$ 53,978	\$ (176,502)	\$ 4,251,083
LIABILITIES							
Current Liabilities:							
Bonds and notes payable, net	\$ 365	\$ 465	\$ 112,390	\$ -	\$ -	\$ -	\$ 113,220
Accrued interest payable	1	1,240	24,765	-	-	-	26,006
Accounts payable and accrued expenses	1,768	-	11,231	-	207	-	13,206
Escrow deposits and development reserves	599	16,917	48,480	-	-	-	65,996
Other current liabilities	59	564	11,355	745	5,867	-	18,590
Total Current Liabilities	2,792	19,186	208,221	745	6,074	-	237,018
Noncurrent Liabilities:							
Bonds and notes payable, net	19,285	14,320	2,844,241	-	-	-	2,877,846
Derivative instrument - interest rate swaps	-	7,491	34,271	-	-	-	41,762
Development reserves	-	76,598	-	-	-	-	76,598
Intra-agency payables	-	-	176,502	-	-	(176,502)	-
Net pension liability	20,397	-	-	-	-	-	20,397
Other noncurrent liabilities	32,405	183,693	10,635	662	3,821	-	231,216
Total Noncurrent Liabilities	72,087	282,102	3,065,649	662	3,821	(176,502)	3,247,819
TOTAL LIABILITIES	74,879	301,288	3,273,870	1,407	9,895	(176,502)	3,484,837
DEFERRED INFLOWS OF RESOURCES							
Pension-related deferred inflows	3,880	-	-	-	-	-	3,880
NET POSITION							
Net investment in capital assets	11,688	-	-	-	-	-	11,688
Restricted	-	500	110,496	-	44,083	-	155,079
Unrestricted	133,650	201,536	251,594	8,819	-	-	595,599
TOTAL NET POSITION	145,338	202,036	362,090	8,819	44,083	-	762,366
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 224,097	\$ 503,324	\$ 3,635,960	\$ 10,226	\$ 53,978	\$ (176,502)	\$ 4,251,083

See independent auditors' report.

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2015 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
Operating Revenues:						
Interest income on mortgage loans	-	9,725	129,242	-	563	139,530
Program income and fees	43,057	1,021	2,982	1,791	11,029	59,880
Gain on sales of mortgage-backed securities	13,487	-	-	-	-	13,487
Investment income	1,080	220	7,142	93	7	8,542
Net increase (decrease) in fair value of investments	(824)	(21)	3,723	(201)	-	2,677
Net increase in fair value of swaps	-	432	420	-	-	852
Gain on early extinguishment of debt	-	4	490	-	-	494
Total Operating Revenues	56,800	11,381	143,999	1,683	11,599	225,462
Operating Expenses:						
Interest expense on bonds and notes	10	3,655	109,578	-	-	113,243
Financing and program expenses	-	116	12,542	-	-	12,658
Salaries and related benefits	29,507	-	-	-	2,765	32,272
General and administrative	10,072	510	2,432	-	887	13,901
Provision for loan loss and real estate owned	400	-	15,774	-	6,157	22,331
Total Operating Expenses	39,989	4,281	140,326	-	9,809	194,405
Operating Income (Loss)	16,811	7,100	3,673	1,683	1,790	31,057
Nonoperating Revenue						
Federal program awards	-	406,442	-	-	174	406,616
Nonoperating Expense						
Federal program expense	-	406,442	-	-	174	406,616
Income (Loss) Before Transfers	16,811	7,100	3,673	1,683	1,790	31,057
Interfund transfers	12,609	(27,146)	50,741	(36,204)	-	-
Change in Net Position	29,420	(20,046)	54,414	(34,521)	1,790	31,057
Net Position - beginning of year, as restated (see note 3)	115,918	222,082	307,676	43,340	42,293	731,309
Net Position - end of year	\$ 145,338	\$ 202,036	\$ 362,090	\$ 8,819	\$ 44,083	\$ 762,366

See independent auditors' report.

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Cash Flows

Year Ended June 30, 2015 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
Cash Flows From Operating Activities						
Receipts of mortgage loan payments	\$ 61	\$ 25,851	\$ 719,904	\$ -	\$ 8,036	\$ 753,852
Receipts of mortgage-backed security premiums	13,487	-	-	-	-	13,487
Receipts from fees and other income	53,773	1,021	2,982	1,791	11,029	70,596
Receipts from interest on mortgages	-	10,084	129,619	-	563	140,266
Receipts (payments) of escrow and development reserves	2,127	3,644	(2,859)	-	-	2,912
Payments for mortgages and purchases	(513)	(10,070)	(473,179)	-	(9,613)	(493,375)
Payments for salaries and related benefits	(29,507)	-	-	-	-	(29,507)
Payments for goods and services	(11,404)	(272)	(4,876)	(903)	(3,153)	(20,608)
Net Cash Provided By Operating Activities	28,024	30,258	371,591	888	6,862	437,623
Cash Flows From Noncapital Financing Activities						
Proceeds from the issuance of bonds	-	-	126,795	-	-	126,795
Payments for retirement of bonds and notes	-	(38,460)	(436,455)	-	-	(474,915)
Payments of bonds and notes interest	-	(4,119)	(113,069)	-	-	(117,188)
Payments of financing costs	-	(116)	(12,542)	-	-	(12,658)
Repayments of program advances	(31,979)	(76,970)	145,153	(36,204)	(10,813)	(10,813)
Receipts of federal program awards	-	-	406,616	-	-	406,616
Payments of federal program awards	-	-	(406,616)	-	-	(406,616)
Net Cash Used In Noncapital Financing Activities	(31,979)	(119,665)	(290,118)	(36,204)	(10,813)	(488,779)
Cash Flows From Capital Financing Activities						
Purchases of capital assets	(1,311)	-	-	-	-	(1,311)
Payments for retirement of capital financing bond	(350)	-	-	-	-	(350)
Interest paid on capital debt	(10)	-	-	-	-	(10)
Net Cash Used In Capital Financing Activities	(1,671)	-	-	-	-	(1,671)
Cash Flows From Investing Activities						
Proceeds from the sale or maturity of investments	107	22,148	31,399	1,370	-	55,024
Investment interest receipts	1,093	493	7,080	177	7	8,850
Purchases of investments	-	(1,999)	(74,821)	-	-	(76,820)
Net Cash Provided By (Used In) Investing Activities	1,200	20,642	(36,342)	1,547	7	(12,946)
Net Increase (Decrease) In Cash and Cash Equivalents	(4,426)	(68,765)	45,131	(33,769)	(3,944)	(65,773)
Cash and cash equivalents, beginning of year	9,243	134,657	285,321	43,995	7,742	480,958
Cash and cash equivalents, end of year	\$ 4,817	\$ 65,892	\$ 330,452	\$ 10,226	\$ 3,798	\$ 415,185

See independent auditors' report.

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Cash Flows

Year Ended June 30, 2015 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
Reconciliation of Operating Income to						
Net Cash Provided By Operating Activities:						
Operating Income	\$ 16,811	\$ 7,100	\$ 3,673	\$ 1,683	\$ 1,790	\$ 31,057
Investment income recognized	(1,080)	(220)	(7,142)	(93)	(7)	(8,542)
Net change in fair value of investments	824	21	(3,723)	201	-	(2,677)
Net change in fair value of swaps	-	(432)	(420)	-	-	(852)
Interest expense on bonds and notes	10	3,655	109,578	-	-	113,243
Financing expenses	-	116	12,542	-	-	12,658
Provision for loan loss	400	-	15,774	-	6,157	22,331
Depreciation	1,185	-	-	-	-	1,185
Early extinguishment of debt	-	(4)	(490)	-	-	(494)
Changes in Assets and Liabilities:						
Mortgage loans receivable, net	(1,021)	15,781	246,725	-	(1,577)	259,908
Mortgage loans interest receivable	-	359	377	-	(74)	662
Other assets	999	238	589	-	(2)	1,824
Accounts payable and accrued expenses	7,769	-	(3,033)	-	42	4,778
Escrow deposits and development reserves	-	(1,748)	2,759	-	-	1,011
Other liabilities	2,127	5,392	(5,618)	(903)	533	1,531
Net Cash Provided By Operating Activities	\$ 28,024	\$ 30,258	\$ 371,591	\$ 888	\$ 6,862	\$ 437,623

See independent auditors' report.

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Balance Sheet

June 30, 2014 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Intra-Agency Eliminations	Total
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 6,688	\$ 107,873	\$ 220,759	\$ 43,995	\$ 7,742	\$ -	\$ 387,057
Restricted cash and cash equivalents	2,555	26,784	64,562	-	-	-	93,901
Investments	125	-	3,369	-	-	-	3,494
Restricted investments	105	2,378	1,554	-	-	-	4,037
Accrued investment interest receivable	128	291	844	84	-	-	1,347
Mortgage loans receivable, net	-	17,938	75,833	-	6,622	-	100,393
Accrued mortgage loan interest receivable	-	4,767	29,778	-	-	-	34,545
Mortgages held for sale	-	-	51,477	-	-	-	51,477
Other current assets	472	-	16	-	-	-	488
Total Current Assets	10,073	160,031	448,192	44,079	14,364	-	676,739
Noncurrent Assets:							
Investments	59,390	350	3,087	1,571	-	-	64,398
Restricted investments	910	20,420	148,257	-	-	-	169,587
Mortgage loans receivable, net	2,335	350,452	3,142,169	-	48,062	-	3,543,018
Real estate owned	-	-	37,303	-	-	-	37,303
Capital assets, net	31,216	-	-	-	-	-	31,216
Intra-agency receivables	60,055	22,035	-	-	-	(82,090)	-
Other noncurrent assets	19,010	1,542	5,612	-	-	-	26,164
Total Noncurrent Assets	172,916	394,799	3,336,428	1,571	48,062	(82,090)	3,871,686
TOTAL ASSETS	182,989	554,830	3,784,620	45,650	62,426	(82,090)	4,548,425
DEFERRED OUTFLOWS OF RESOURCES							
Pension-related deferred outflows	2,198	-	-	-	-	-	2,198
Unamortized losses on bond refundings	-	981	9,592	-	-	-	10,573
Accumulated decrease in fair value of hedging derivatives	-	4,893	26,642	-	-	-	31,535
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,198	5,874	36,234	-	-	-	44,306
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 185,187	\$ 560,704	\$ 3,820,854	\$ 45,650	\$ 62,426	\$ (82,090)	\$ 4,592,731
LIABILITIES							
Current Liabilities:							
Bonds and notes payable, net	\$ 350	\$ 14,260	\$ 96,730	\$ -	\$ -	\$ -	\$ 111,340
Accrued interest payable	1	1,708	28,746	-	-	-	30,455
Accounts payable and accrued expenses	2,178	-	14,264	-	165	-	16,607
Escrow deposits and development reserves	599	17,542	45,721	-	-	-	63,862
Other current liabilities	58	544	5,679	300	-	-	6,581
Total Current Liabilities	3,186	34,054	191,140	300	165	-	228,845
Noncurrent Liabilities:							
Bonds and notes payable, net	19,650	38,985	3,170,038	-	-	-	3,228,673
Derivative instrument - interest rate swaps	-	9,541	47,981	-	-	-	57,522
Development reserves	-	77,721	-	-	-	-	77,721
Intra-agency payables	-	-	82,090	-	-	(82,090)	-
Net pension liability	12,218	-	-	-	-	-	12,218
Other noncurrent liabilities	30,279	178,321	21,929	2,010	19,968	-	252,507
Total Noncurrent Liabilities	62,147	304,568	3,322,038	2,010	19,968	(82,090)	3,628,641
TOTAL LIABILITIES	65,333	338,622	3,513,178	2,310	20,133	(82,090)	3,857,486
DEFERRED INFLOWS OF RESOURCES							
Pension-related deferred inflows	3,936	-	-	-	-	-	3,936
NET POSITION							
Net investment in capital assets	11,216	-	-	-	-	-	11,216
Restricted	-	619	122,652	-	42,293	-	165,564
Unrestricted	104,702	221,463	185,024	43,340	-	-	554,529
TOTAL NET POSITION	115,918	222,082	307,676	43,340	42,293	-	731,309
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 185,187	\$ 560,704	\$ 3,820,854	\$ 45,650	\$ 62,426	\$ (82,090)	\$ 4,592,731

See independent auditors' report.

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2014 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
Operating Revenues:						
Interest income on mortgage loans	-	12,358	145,270	-	575	158,203
Program income and fees	43,961	3,551	3,323	1,879	11,359	64,073
Gain on sales of mortgage-backed securities	12,470	-	-	-	-	12,470
Investment income	662	336	8,004	417	7	9,426
Net increase (decrease) in fair value of investments	5,009	(275)	(1,282)	(1,084)	-	2,368
Net increase in fair value of swaps	-	1,314	76	-	-	1,390
Gain on early extinguishment of debt	-	1	1,240	-	-	1,241
Total Operating Revenues	62,102	17,285	156,631	1,212	11,941	249,171
Operating Expenses:						
Interest expense on bonds and notes	374	4,065	126,150	-	-	130,589
Financing and program expenses	-	188	13,230	-	-	13,418
Salaries and related benefits	23,778	-	-	-	2,541	26,319
OPEB liability expense	3,726	-	-	-	558	4,284
General and administrative	10,303	2,121	889	-	720	14,033
Provision for loan loss and real estate owned	-	-	12,041	-	8,430	20,471
Total Operating Expenses	38,181	6,374	152,310	-	12,249	209,114
Operating Income (Loss)	23,921	10,911	4,321	1,212	(308)	40,057
Nonoperating Revenue						
Federal program awards	-	397,241	4,642	-	3,755	405,638
Nonoperating Expense						
Federal program expense	-	397,241	4,642	-	3,755	405,638
Income (Loss) Before Transfers	23,921	10,911	4,321	1,212	(308)	40,057
Interfund transfers	(3,948)	(2,833)	6,509	272	-	-
Change in Net Position	19,973	8,078	10,830	1,484	(308)	40,057
Net Position - beginning of year, as restated (see note 3)	95,945	214,004	296,846	41,856	42,601	691,252
Net Position - end of year	\$ 115,918	\$ 222,082	\$ 307,676	\$ 43,340	\$ 42,293	\$ 731,309

See independent auditors' report.

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Cash Flows

Year Ended June 30, 2014 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
Cash Flows From Operating Activities						
Receipts of mortgage loan payments	\$ -	\$ 53,083	\$ 665,213	\$ -	\$ 7,612	\$ 725,908
Receipts of mortgage-backed security premiums	12,470	-	-	-	-	12,470
Receipts from fees and other income	43,961	3,551	3,323	1,879	11,359	64,073
Receipts from interest on mortgages	-	12,531	143,133	-	575	156,239
Receipts (payments) of escrow and development reserves	4,637	(764)	21,253	-	-	25,126
Payments for mortgages and purchases	-	(12,320)	(451,445)	-	(18,995)	(482,760)
Payments for salaries and related benefits	(29,749)	-	-	-	(1,070)	(30,819)
Payments for goods and services	(9,426)	(2,121)	(354)	(953)	(720)	(13,574)
Net Cash Provided By (Used In) Operating Activities	<u>21,893</u>	<u>53,960</u>	<u>381,123</u>	<u>926</u>	<u>(1,239)</u>	<u>456,663</u>
Cash Flows From Noncapital Financing Activities						
Payments for retirement of bonds and notes	-	(19,384)	(353,860)	-	-	(373,244)
Payments of bonds and notes interest	-	(4,397)	(131,035)	-	-	(135,432)
Payments of financing costs	-	(188)	(13,230)	-	-	(13,418)
Repayments of program advances	-	-	-	-	(1,664)	(1,664)
Receipts of federal program awards	-	397,241	4,642	-	3,755	405,638
Payments of federal program awards	-	(397,241)	(4,642)	-	(3,755)	(405,638)
Transfers from (to) other funds	(37,118)	(3,060)	39,906	272	-	-
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(37,118)</u>	<u>(27,029)</u>	<u>(458,219)</u>	<u>272</u>	<u>(1,664)</u>	<u>(523,758)</u>
Cash Flows From Capital Financing Activities						
Purchases of capital assets	(1,484)	-	-	-	-	(1,484)
Interest paid on capital debt	(836)	-	-	-	-	(836)
Net Cash Used In Capital Financing Activities	<u>(2,320)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,320)</u>
Cash Flows From Investing Activities						
Proceeds from the sale or maturity of investments	680	34,089	44,232	-	-	79,001
Investment interest receipts	630	251	7,993	404	7	9,285
Purchases of investments	(79)	(44,988)	(3,997)	(405)	-	(49,469)
Net Cash Provided By (Used In) Investing Activities	<u>1,231</u>	<u>(10,648)</u>	<u>48,228</u>	<u>(1)</u>	<u>7</u>	<u>38,817</u>
Net Increase (Decrease) In Cash and Cash Equivalents	<u>(16,314)</u>	<u>16,283</u>	<u>(28,868)</u>	<u>1,197</u>	<u>(2,896)</u>	<u>(30,598)</u>
Cash and cash equivalents, beginning of year	<u>25,557</u>	<u>118,374</u>	<u>314,189</u>	<u>42,798</u>	<u>10,638</u>	<u>511,556</u>
Cash and cash equivalents, end of year	<u>\$ 9,243</u>	<u>\$ 134,657</u>	<u>\$ 285,321</u>	<u>\$ 43,995</u>	<u>\$ 7,742</u>	<u>\$ 480,958</u>

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PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Cash Flows

Year Ended June 30, 2014 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:						
Operating Income (Loss)	\$ 23,921	\$ 10,911	\$ 4,321	\$ 1,212	\$ (308)	\$ 40,057
Investment income recognized	(630)	(251)	(7,993)	(404)	(7)	(9,285)
Net change in fair value of investments	(5,009)	275	1,282	1,084	-	(2,368)
Net change in fair value of swaps	-	(1,314)	(76)	-	-	(1,390)
Interest expense on bonds and notes	374	4,065	126,150	-	-	130,589
Financing expenses	-	188	13,230	-	-	13,418
Provision for loan loss	-	-	12,041	-	8,430	20,471
Depreciation	1,147	-	-	-	-	1,147
Early extinguishment of debt	-	(1)	(1,240)	-	-	(1,241)
Changes in Assets and Liabilities:						
Mortgage loans receivable, net	-	40,763	213,768	-	(11,383)	243,148
Mortgage loans interest receivable	-	173	(2,137)	-	-	(1,964)
Accrued interest receivable on investments	(32)	(85)	(11)	(13)	-	(141)
Other assets	(2,254)	-	599	-	1,827	172
Accounts payable and accrued expenses	(261)	-	12,318	-	(304)	11,753
Escrow deposits and development reserves	52	(4,842)	2,154	(953)	-	(3,589)
Other liabilities	4,585	4,078	6,717	-	506	15,886
Net Cash Provided By (Used In) Operating Activities	\$ 21,893	\$ 53,960	\$ 381,123	\$ 926	\$ (1,239)	\$ 456,663

See independent auditors' report.



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

Management and Members of the Board of Directors
Pennsylvania Housing Finance Agency:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Pennsylvania Housing Finance Agency (the Agency), a component unit of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated October 13, 2015, which contained an emphasis of matter paragraph related to the Agency's adoption of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion was not modified with respect to this matter. We did not audit the financial statements of the Homeowners' Emergency Mortgage Assistance Program (HEMAP). These financial statements were audited by other auditors. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Harrisburg, Pennsylvania
October 13, 2015