



THE PENNSYLVANIA HOUSING FINANCE AGENCY

Basic Financial Statements and Supplementary Information

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

CONTENTS

Independent Auditors' Report.....	1
Management's Discussion and Analysis (unaudited)	4
Basic Financial Statements	
Balance Sheets	14
Statements of Revenues, Expenses and Changes in Net Position.....	15
Statements of Cash Flows.....	16
Notes to Financial Statements.....	18
Required Supplementary Information	
Schedule of Changes in the Agency's Net Pension Liability and Related Ratios (unaudited)	71
Schedule of Employer Contributions to Agency Employees' Retirement Plan and Government Excess Benefit Plan (unaudited).....	72
Schedule of Investment Returns of Agency Employees' Retirement Plan and Government Excess Benefit Plan (unaudited).....	73
Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Postemployment Benefits Plan (unaudited).....	74
Supplementary Information	
Combining Balance Sheet, June 30, 2016.....	75
Combining Statement of Revenues, Expenses and Changes in Net Position, Year Ended June 30, 2016.....	76
Combining Statement of Cash Flows, Year Ended June 30, 2016	77
Combining Balance Sheet, June 30, 2015.....	79
Combining Statement of Revenues, Expenses and Changes in Net Position, Year Ended June 30, 2015.....	80
Combining Statement of Cash Flows, Year Ended June 30, 2015	81



KPMG LLP
Suite 1000
30 North Third Street
PO Box 1190
Harrisburg, PA 17108-1190

Independent Auditors' Report

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

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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements for the years then ended 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 approximately 1 percent of total assets, 6 percent of total net position, and 5 percent of total operating revenues. Those statements were audited by other auditors whose report has 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 audits in accordance with auditing standards generally accepted in the United States of America. 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, 2016 and 2015, and the changes in financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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 4-13, 71, 72, 73, and 74 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 audits 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, the combining balance sheets, the combining statements of revenues, expenses, and changes in net position, and the combining statements of cash flows as of and for the years ended June 30, 2016 and 2015 on pages 75-82, is presented for purposes of additional analysis and is 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.

KPMG LLP

Harrisburg, Pennsylvania
October 7, 2016

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2016 and 2015 (amounts rounded)

Management's Discussion and Analysis

Introduction

The discussion and analysis provided herein is 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 four major classes of activities: Operating, Noncapital Financing, Capital Financing and Investing. 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, 2016 and 2015 (amounts rounded)

Condensed Summary Balance Sheet (In thousands)

	<u>2016</u>	<u>2015</u>	<u>Increase/(Decrease)</u>	
Assets:				
Mortgage loans receivable	\$ 3,224,510	\$ 3,311,371	\$ (86,861)	(2.6%)
Capital assets	30,843	31,338	(495)	(1.6%)
Other assets	808,540	871,420	(62,880)	(7.2%)
Total Assets	<u>4,063,893</u>	<u>4,214,129</u>	<u>(150,236)</u>	<u>(3.6%)</u>
Deferred Outflows of Resources	<u>28,612</u>	<u>35,815</u>	<u>(7,203)</u>	<u>(20.1%)</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 4,092,505</u>	<u>\$ 4,249,944</u>	<u>\$ (157,439)</u>	<u>(3.7%)</u>
Liabilities:				
Current liabilities	225,604	237,017	(11,413)	(4.8%)
Noncurrent liabilities	3,079,132	3,246,681	(167,549)	(5.2%)
Total Liabilities	<u>3,304,736</u>	<u>3,483,698</u>	<u>(178,962)</u>	<u>(5.1%)</u>
Deferred Inflows of Resources	<u>-</u>	<u>3,880</u>	<u>(3,880)</u>	<u>(100.0%)</u>
Net Position				
Net Investment in Capital Assets	11,558	11,688	(130)	(1.1%)
Restricted	149,947	155,079	(5,132)	(3.3%)
Unrestricted	626,264	595,599	30,665	5.1%
Total Net Position	<u>787,769</u>	<u>762,366</u>	<u>25,403</u>	<u>3.3%</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 4,092,505</u>	<u>\$ 4,249,944</u>	<u>\$ (157,439)</u>	<u>(3.7%)</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2016 and 2015 (amounts rounded)

Condensed Summary Balance Sheet (In thousands)

	<u>2015</u>	<u>2014</u>	<u>Increase/(Decrease)</u>	
Assets:				
Mortgage loans receivable	\$ 3,311,371	\$ 3,630,749	\$ (319,378)	(8.8%)
Capital assets	31,338	31,216	122	0.4%
Other assets	871,420	885,752	(14,332)	(1.6%)
Total Assets	<u>4,214,129</u>	<u>4,547,717</u>	<u>(333,588)</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>\$ 4,249,944</u>	<u>\$ 4,592,023</u>	<u>\$ (342,079)</u>	<u>(7.4%)</u>
Liabilities:				
Current liabilities	237,017	228,845	8,172	3.6%
Noncurrent liabilities	3,246,681	3,627,933	(381,252)	(10.5%)
Total Liabilities	<u>3,483,698</u>	<u>3,856,778</u>	<u>(373,080)</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	595,599	554,529	41,070	7.4%
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>\$ 4,249,944</u>	<u>\$ 4,592,023</u>	<u>\$ (342,079)</u>	<u>(7.4%)</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2016 and 2015 (amounts rounded)

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

	<u>2016</u>	<u>2015</u>	<u>Increase/(Decrease)</u>	
Revenues:				
Mortgage loan interest	\$ 124,179	\$ 139,530	\$ (15,351)	(11.0%)
Other operating revenues	105,879	85,080	20,799	24.4%
Federal program awards	412,619	406,616	6,003	1.5%
Total Revenues	<u>642,677</u>	<u>631,226</u>	<u>11,451</u>	<u>1.8%</u>
Expenses:				
Interest and financing expenses	120,316	125,049	(4,733)	(3.8%)
Other operating expenses	84,339	68,504	15,835	23.1%
Federal program expenses	412,619	406,616	6,003	1.5%
Total Expenses	<u>617,274</u>	<u>600,169</u>	<u>17,105</u>	<u>2.9%</u>
Change in Net Position	25,403	31,057	(5,654)	(18.2%)
Net Position - Beginning of Year	<u>762,366</u>	<u>731,309</u>	<u>31,057</u>	<u>4.2%</u>
Net Position - End of Year	<u>\$ 787,769</u>	<u>\$ 762,366</u>	<u>\$ 25,403</u>	<u>3.3%</u>
	<u>2015</u>	<u>2014</u>	<u>Increase/(Decrease)</u>	
Revenues:				
Mortgage loan interest	\$ 139,530	\$ 158,203	\$ (18,673)	(11.8%)
Other operating revenues	85,080	90,968	(5,888)	(6.5%)
Federal program awards	406,616	405,638	978	0.2%
Total Revenues	<u>631,226</u>	<u>654,809</u>	<u>(23,583)</u>	<u>(3.6%)</u>
Expenses:				
Interest and financing expenses	125,049	144,007	(18,958)	(13.2%)
Other operating expenses	68,504	65,107	3,397	5.2%
Federal program expenses	406,616	405,638	978	0.2%
Total Expenses	<u>600,169</u>	<u>614,752</u>	<u>(14,583)</u>	<u>(2.4%)</u>
Change in Net Position	31,057	40,057	(9,000)	(22.5%)
Net Position - Beginning of Year	<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>

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2016 and 2015 (amounts rounded)

Analysis of Overall Financial Position and Results of Operations

Comparison of Years Ended June 30, 2016 and 2015

Assets decreased by \$150 million from \$4.214 billion to \$4.064 billion. This was primarily attributable to decreases in cash and investments, mortgage loans receivable and mortgages held for sale. The net decrease in cash and investments, equal to \$24 million, resulted from a timing difference associated with the Agency's purchase and subsequent pooling of mortgage loans into mortgage-backed securities (MBSs) – single family mortgage loans held for sale at June 30, 2016 equaled \$39 million. The decrease in mortgage loans receivable, equal to \$86 million, was 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 origination and acquisition of new mortgage loans owned by the Agency. The decrease in mortgages held for sale, equal to \$34 million, resulted from the increased production of single family mortgages funded by mortgage revenue bond proceeds within the Agency's Single Family Program, which caused a decrease in the production of mortgages that are to be pooled into MBSs – mortgages intended to be pooled into MBSs constitute mortgages held for sale.

Deferred outflows of resources decreased by \$7 million from \$36 million to \$29 million. The net decrease stemmed from a reduction in the accumulated decrease in the fair value of hedging derivatives, which 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, 2016 valuation date.

Liabilities decreased by \$179 million from \$3.484 billion to \$3.305 billion. The net decrease was brought about, primarily, by reductions in the balances of bonds and notes payable, offset by an increase in the balances of other liabilities. The net reduction to the balances of bonds and notes payable, equal to \$206 million, 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. The increase in the balances of other liabilities, equal to \$16 million, included a \$5 million increase in the balance of the Agency's other post-employment benefit obligation and an \$11 million increase in multifamily project construction financed by federal home loan grant programs.

Deferred inflows of resources decreased in their entirety from \$4 million to zero. The \$4 million reported in the prior year was the result of smoothing the effects of prior years' actual investment earnings in excess of actuarially-determined expectations over current and future periods; that excess was eliminated by actual investment earnings for the 2015 calendar year, as of the most recent actuarial valuation dated December 31, 2015.

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2016 and 2015 (amounts rounded)

The Agency's overall net position experienced an increase of \$25 million – more than 11% of operating revenues for the period ended June 30, 2016. Notable increases in revenues included those attributable to program income and fees, brought on primarily by increased multifamily tax credit application and monitoring fees, and investment income, enabled by positive investment performance. The fair value of investments also experienced a sizeable increase, enabled by favorable market conditions at the June 30, 2016 valuation date. Increases in expenses included the change in the fair value of interest rate swaps, caused by interest rate swaps converting from hedging instruments to investments during the 2016 fiscal year; increased financing and program expenses, brought on by increased activity in issuing Single Family Program mortgage revenue bonds; increased salary and related benefit costs as a normal course of operations; and an increase in the valuation allowance applied to real estate owned by the Agency.

Comparison of Years Ended June 30, 2015 and 2014

Assets decreased by \$334 million from \$4.548 billion to \$4.214 billion. This was primarily attributable to decreases in mortgage loans receivable and cash and investments. The decrease in mortgage loans receivable, equal to \$319 million, was the result of balances of existing Single Family Program and Multifamily Program loans decreasing at a faster rate than the origination and acquisition of new mortgage loans owned by the Agency. The decrease in cash and investments, equal to \$38 million, resulted from increased repurchases of securitized mortgage loans from Agency-issued MBSs and the timing associated with pooling new mortgage loans into MBSs – single family mortgage loans held for sale at June 30, 2015 equaled nearly \$74 million.

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, 2016 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.

Liabilities decreased by \$373 million from \$3.857 billion to \$3.484 billion. The net decrease occurred, primarily, as a result of 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

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2016 and 2015 (amounts rounded)

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; 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.

The Agency's overall net position experienced an increase of \$31 million – nearly 14% of operating revenues for the period ended June 30, 2015. 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 owned by the Agency; the decrease in interest expense on bonds and notes was enabled by the significant reduction to balances of bonds payable discussed previously.

Analysis of Capital Asset Activity *(In thousands)*

	<u>Balances at June 30</u>		<u>Increase/</u>
	<u>2016</u>	<u>2015</u>	<u>(Decrease)</u>
Nondepreciable Capital Assets:			
Land	\$ 2,454	\$ 2,454	\$ -
Depreciable Capital Assets:			
Building	32,056	31,648	408
Furniture, fixtures and equipment	9,584	10,292	(708)
Less accumulated depreciation:			
Building	(7,730)	(7,161)	(569)
Furniture, fixtures and equipment	(5,521)	(5,895)	374
Total depreciable capital assets, net	<u>28,389</u>	<u>28,884</u>	<u>(495)</u>
Total Capital Assets, net	<u>\$ 30,843</u>	<u>\$ 31,338</u>	<u>\$ (495)</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2016 and 2015 (amounts rounded)

	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>

Balances attributable to the Agency's building increased for the years ended June 30, 2016 and 2015. The Agency is exploring plans to expand its headquarters to include the property adjacent to it; the costs of preliminary renovations have been capitalized. The adjacent property is owned by the Agency.

Balances attributable to furniture, fixtures and equipment decreased for the year ended June 30, 2016; this was attributable to disposals of computers and related network equipment due to obsolescence. Balances attributable to furniture, fixtures and equipment increased for the year ended June 30, 2015; this was primarily attributable to the purchase of computers and related equipment.

Analysis of Long-Term Debt Activity (In thousands)

Agency Program	Long-Term Debt at June 30		Decrease
	2016	2015	
General Activities	\$ 19,285	\$ 19,650	\$ (365)
Multifamily Program	14,320	14,785	(465)
Single Family Program	<u>2,751,951</u>	<u>2,956,631</u>	<u>(204,680)</u>
Total Long-Term Debt	<u>\$ 2,785,556</u>	<u>\$ 2,991,066</u>	<u>\$ (205,510)</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2016 and 2015 (amounts rounded)

<u>Agency Program</u>	<u>Long-Term Debt at June 30</u>		<u>Decrease</u>
	<u>2015</u>	<u>2014</u>	
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	<u>\$ 2,991,066</u>	<u>\$ 3,340,013</u>	<u>\$ (348,947)</u>

Year Ended June 30, 2016

On September 22, 2015, the Agency issued Series 2015-117A and 2015-117B single family mortgage revenue bonds in the amounts of \$95,240 and \$55,000, respectively. The proceeds of Series 2015-117A and an Agency contribution were used to refund \$58,110 of Series 2005-90C bonds and \$38,775 of Series 2008-102C bonds; the proceeds of Series 2015-117B were used to fund new single family mortgage loan production in the Single Family Program.

On December 8, 2015, the Agency issued Series 2015-118A and 2015-118B single family mortgage revenue bonds in the amounts of \$141,165 and \$90,000, respectively. The proceeds of Series 2015-118A and an Agency contribution were used to refund \$22,340 of outstanding Series 2004-85B bonds, \$44,645 of Series 2004-85C bonds, \$30,035 of Series 2005-87B bonds and \$46,575 of Series 2005-87C bonds; the proceeds of Series 2015-118B were used to fund new single family mortgage loan production in the Single Family Program.

On April 28, 2016, the Agency issued Series 2016-119 single family mortgage revenue bonds in the amount of \$162,095. The proceeds of Series 2016-119 and an Agency contribution were used to refund \$110,680 of outstanding Series 2009-106C bonds and to fund new single family mortgage loan production in the Single Family Program.

Required principal payments on bonds and notes payable for the year ended June 30, 2016 totaled \$111,810. In addition to these required payments and the above-listed refunding transactions, the Agency also redeemed principal amounts of certain bonds totaling \$290,880 during the same period prior to their scheduled maturity, using cash from mortgage prepayments. The redemptions of additional principal produced net gains on early extinguishment of debt totaling \$742, which resulted from the recognition of bond premiums that would have otherwise been amortized over the life of the associated debt.

Year Ended June 30, 2015

On March 26, 2015, the Agency issued Series 2016-116A and 2016-116B single family mortgage revenue bonds in the amounts of \$98,795 and \$20,000, respectively. The proceeds of Series 2016-116A and an Agency contribution were used to refund \$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-

PENNSYLVANIA HOUSING FINANCE AGENCY

Management's Discussion and Analysis (unaudited)

June 30, 2016 and 2015 (amounts rounded)

92A bonds; the proceeds of Series 2016-116B were used to fund new single family mortgage loan production in the Single Family Program.

Required principal payments on bonds and notes payable for the year ended June 30, 2015 totaled \$92,000. In addition to these required payments, the Agency also redeemed principal amounts of certain bonds totaling \$286,100 during the same period prior to their scheduled maturity, using cash from mortgage prepayments. The redemptions of additional principal produced net gains on early extinguishment of debt totaling \$494, 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 are 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, 2016 and 2015 (in thousands)

ASSETS	2016	2015
Current assets:		
Cash and cash equivalents	\$ 248,011	\$ 309,475
Restricted cash and cash equivalents	122,895	105,710
Investments	10	1,997
Restricted investments	3,040	3,028
Accrued investment interest receivable	6,844	1,039
Mortgage loans receivable, net	100,787	98,005
Accrued mortgage loan interest receivable	20,592	25,732
Mortgages held for sale	38,932	72,468
Other current assets	2,410	2,205
Total Current Assets	543,521	619,659
Noncurrent Assets:		
Investments	182,613	145,619
Restricted investments	103,682	118,619
Mortgage loans receivable, net	3,123,723	3,213,366
Real estate owned	69,636	72,596
Capital assets, net	30,843	31,338
Other noncurrent assets	9,875	12,932
Total Noncurrent Assets	3,520,372	3,594,470
TOTAL ASSETS	4,063,893	4,214,129
DEFERRED OUTFLOWS OF RESOURCES		
Pension-related deferred outflows	12,800	11,889
Unamortized losses on bond refundings	6,526	8,090
Accumulated decrease in fair value of hedging derivatives	9,286	15,836
TOTAL DEFERRED OUTFLOWS OF RESOURCES	28,612	35,815
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 4,092,505	\$ 4,249,944
LIABILITIES		
Current Liabilities:		
Bonds and notes payable, net	\$ 91,915	\$ 113,220
Accrued interest payable	24,233	26,006
Accounts payable and accrued expenses	20,610	13,205
Escrow deposits and development reserves	69,532	65,996
Other current liabilities	19,314	18,590
Total Current Liabilities	225,604	237,017
Noncurrent Liabilities:		
Bonds and notes payable, net	2,693,641	2,877,846
Derivative instrument - interest rate swaps	37,440	41,762
Development reserves	77,643	76,598
Net pension liability	25,525	20,398
Other noncurrent liabilities	244,883	230,077
Total Noncurrent Liabilities	3,079,132	3,246,681
TOTAL LIABILITIES	3,304,736	3,483,698
DEFERRED INFLOWS OF RESOURCES		
Pension-related deferred inflows	-	3,880
NET POSITION		
Net investment in capital assets	11,558	11,688
Restricted	149,947	155,079
Unrestricted	626,264	595,599
TOTAL NET POSITION	787,769	762,366
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 4,092,505	\$ 4,249,944

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2016 and 2015 (in thousands)

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Interest income on mortgage loans	\$ 124,179	\$ 139,530
Program income and fees	64,969	59,880
Gain on sales of mortgage-backed securities	9,382	13,487
Investment income	13,755	8,542
Net increase in fair value of investments	17,031	2,677
Gain on early extinguishment of debt	742	494
	<u>230,058</u>	<u>224,610</u>
Total Operating Revenues	<u>230,058</u>	<u>224,610</u>
Operating Expenses:		
Interest expense on bonds and notes	99,302	113,243
Net decrease (increase) in fair value of swaps	3,278	(852)
Financing and program expenses	17,736	12,658
Salaries and related benefits	38,368	32,272
General and administrative	14,997	13,901
Provision for loan loss and real estate owned	30,974	22,331
	<u>204,655</u>	<u>193,553</u>
Total Operating Expenses	<u>204,655</u>	<u>193,553</u>
Operating Income	25,403	31,057
Non-operating Revenue		
Federal program awards	412,750	406,616
Non-operating Expense		
Federal program expense	<u>412,750</u>	<u>406,616</u>
Change in Net Position	25,403	31,057
Net Position - beginning of year	<u>762,366</u>	<u>731,309</u>
Net Position - end of year	<u>\$ 787,769</u>	<u>\$ 762,366</u>

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Cash Flows

Years Ended June 30, 2016 and 2015 (in thousands)

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Receipts of mortgage loan payments	\$ 653,992	\$ 753,852
Receipts of mortgage-backed security premiums	9,382	13,487
Receipts of fees and other income	63,787	70,596
Receipts of interest on mortgages	129,374	140,266
Receipts of escrow and development reserves	21,866	2,912
Payments for mortgages and purchases	(563,385)	(493,375)
Payments for salaries and related benefits	(35,969)	(29,507)
Payments for goods and services	(2,020)	(20,608)
Net Cash Provided By Operating Activities	<u>277,027</u>	<u>437,623</u>
Cash Flows From Noncapital Financing Activities		
Proceeds from the issuance of bonds	543,500	126,795
Payments for retirement of bonds and notes	(748,645)	(474,915)
Payments of bonds and notes interest	(100,313)	(117,188)
Payments of financing costs	(17,736)	(12,658)
Repayments of program advances	(2,456)	(10,813)
Receipts of federal program awards	412,750	406,616
Payments of federal program awards	(412,750)	(406,616)
Net Cash Used In Noncapital Financing Activities	<u>(325,650)</u>	<u>(488,779)</u>
Cash Flows From Capital Financing Activities		
Purchases of capital assets	(689)	(1,311)
Payments for retirement of capital financing bond	(365)	(350)
Interest paid on capital debt	(20)	(10)
Net Cash Used In Capital Financing Activities	<u>(1,074)</u>	<u>(1,671)</u>
Cash Flows From Investing Activities		
Proceeds from the sale or maturity of investments	146,473	55,024
Investment interest receipts	7,955	8,850
Purchases of investments	(149,010)	(76,820)
Net Cash Provided By (Used In) Investing Activities	<u>5,418</u>	<u>(12,946)</u>
Net Decrease In Cash and Cash Equivalents	(44,279)	(65,773)
Cash and cash equivalents, beginning of year	<u>415,185</u>	<u>480,958</u>
Cash and cash equivalents, end of year	<u>\$ 370,906</u>	<u>\$ 415,185</u>

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Statements of Cash Flows (continued)

Years Ended June 30, 2016 and 2015 (in thousands)

	<u>2016</u>	<u>2015</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:		
Operating Income	\$ 25,403	\$ 31,057
Investment income recognized	(13,755)	(8,542)
Net change in fair value of investments	(17,031)	(2,677)
Net change in fair value of swaps	3,278	(852)
Interest expense on bonds and notes	99,302	113,243
Financing expenses	17,736	12,658
Provision for loan loss and real estate owned	30,974	22,331
Depreciation	1,177	1,185
Early extinguishment of debt	(742)	(494)
Changes in Assets and Liabilities:		
Mortgage loans receivable, net	90,607	259,908
Mortgage loans interest receivable	5,140	662
Other assets	4,902	1,824
Accounts payable and accrued expenses	7,537	4,778
Escrow deposits and development reserves	4,581	1,011
Other liabilities	<u>17,918</u>	<u>1,531</u>
Net Cash Provided By Operating Activities	<u><u>\$ 277,027</u></u>	<u><u>\$ 437,623</u></u>

See accompanying notes to financial statements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

1. Organization

The Pennsylvania Housing Finance Agency (“Agency”) was created by the General Assembly of the Commonwealth of Pennsylvania (“Commonwealth”) in 1972 to provide affordable housing for older adults, persons and families of modest means and persons with disabilities. Pursuant to the Housing Finance Agency Law, Act of 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, including those 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. Additional powers have been provided by the General Assembly over the years to expand the Agency’s authority and to encourage related community activities.

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 or until their successors are appointed.

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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

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 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 (as later amended) 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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

Fair Value Application and Measurement

Fair value is applied to assets and liabilities that the Agency holds primarily for the purpose of income or profit and that have a present service capacity based solely on their ability to generate cash or to be sold to generate cash. The Agency categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based upon valuation inputs used to measure the fair value of the respective asset or liability. Level 1 inputs include quoted prices in active markets for identical assets; Level 2 inputs include observable inputs other than quoted prices included in Level 1 inputs; Level 3 inputs include unobservable inputs.

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 original 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.

Investments

Investments are reported at fair value, determined by reference to published market prices and quotations. 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 consist of cash, cash equivalents and investments restricted primarily by escrow agreements, bond resolutions, debt servicing agreements, creditor 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. 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 hold for the foreseeable future are deemed to be held for investment and are valued at amortized cost. Amortized cost includes the balances of principal outstanding, unamortized premiums and discounts and capitalized

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

origination costs and fees. Mortgage loans held-for-investment also have an allowance for loan loss applied as needed.

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 costs exceeds fair value are included within an allowance for loan loss.

The allowance for loan loss represents an adjustment applied to the balances of mortgage loans receivable in order to reflect amounts deemed collectible, using 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. The allowance for loan loss is based upon the Agency's best information available under the circumstances, including the estimated market 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.

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 retained for underlying loans sold by the Agency are reported at the lower of amortized cost or fair value.

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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

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. Balances of real estate owned approximate net realizable value, based upon actual recoveries for similar asset disposals resulting from anticipated mortgage insurance settlement proceeds or estimated sales prices less costs to sell. Net realizable values of real estate owned also include an allowance for losses attributable to potentially foregone interest and corporate and escrow advances.

Capital Assets

Capital assets are valued at amortized cost. 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, 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.

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, 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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

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. Bonds and notes payable are stated at their outstanding balances 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 reported 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 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 included within fiduciary net position are reported at fair value.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

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.

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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

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 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.

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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

method. Net swap agreement payments are recorded as a component of interest expense on bonds and notes.

Adopted Accounting Standards

GASB Statement No. 72, *Fair Value Measurement and Application*, effective for the Agency's fiscal year ended June 30, 2016, provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. Adoption of this standard did not have a significant impact on the Agency's financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the Agency's fiscal year ending June 30, 2016, improves financial reporting by enabling governments to apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments. Adoption of this standard did not have a significant impact on the Agency's financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective for the Agency's fiscal year ending June 30, 2016, enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. The Agency was neither an external investment pool nor a participant in an external investment pool as of or during the years ended June 30, 2016 and 2015; therefore, adoption of this standard had no impact on the Agency's financial statements.

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. 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 2016. 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 2016. 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 2016. This statement is effective for the Agency's fiscal year ending June 30, 2018.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

- GASB Statement No. 77, *Tax Abatement Disclosures*, issued August 2016. This statement is effective for the Agency's fiscal year ending June 30, 2017.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, issued December 2016. This statement is effective for the Agency's fiscal year ending June 30, 2017.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, issued January 2016. This statement is effective for the Agency's fiscal year ending June 30, 2017.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, issued March 2016. This statement is effective for the Agency's fiscal year ending June 30, 2018.
- GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, issued March 2016. This statement is effective for the Agency's fiscal year ending June 30, 2017.

Reclassifications

Balances attributable to real estate owned include accrued interest on the previously underlying mortgage loans, escrow advances, corporate advances and amounts held in suspense. The following amounts have been reclassified to the balance of real estate owned at June 30, 2015 in order to conform to the June 30, 2016 presentation:

- \$8,169 of accrued interest previously reported within accrued mortgage loan interest receivable,
- \$5,440 of escrow advances and \$16,545 of corporate advances previously reported within mortgage loans receivable, and
- \$1,139 of amounts held in suspense previously reported within other liabilities.

3. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

Cash and cash equivalents are reported at fair value, measured by Level 1 inputs based upon quoted prices in active markets. The Agency maintains a policy whereby cash and cash equivalents must be held in insured depositories satisfactory to the Agency. Balances of cash and equivalents at June 30, 2016 and 2015 were as follows:

	2016	2015
Cash	\$ 59,222	\$ 44,780
Money market accounts	311,684	370,405
Total carrying amount of cash and cash equivalents	<u>\$ 370,906</u>	<u>\$ 415,185</u>
Bank balance of cash and cash equivalents	<u>\$ 375,537</u>	<u>\$ 419,198</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

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, 2016 and 2015, the fair value of the Agency's cash deposits equaled \$59,222 and \$44,780, respectively, with corresponding bank balances equal to \$62,103 and \$52,552, respectively, of which \$61,103 and \$51,552, respectively, was uninsured but collateralized in 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, 2016 and 2015, the fair value of the Agency's money market accounts, reported as cash equivalents, equaled \$311,684 and \$370,405, respectively, with corresponding bank balances equal to \$313,434 and \$366,646, 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 March 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 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;

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

- 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;
- 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 Nine 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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

Fair Value

Fair value of the Agency's investments are measured by Level 1 inputs based upon quoted prices in active markets or Level 2 inputs based upon quoted prices for identical or similar assets in markets that are not active or other observable inputs such as interest rates and yield curves observable at commonly quoted intervals. Balances of the Agency's investments at June 30, 2016 and 2015 were as follows:

Investment	2016		2015	
	Level 1	Level 2	Level 1	Level 2
U.S. Treasury bonds	\$ 2,319	\$ -	\$ 3,527	\$ -
GNMA mortgage-backed securities	-	107,703	-	126,117
Refco strips	-	164	-	244
Freddie Mac mortgage-backed securities	-	4,021	-	21,990
FNMA mortgage-backed securities	-	10,401	-	10,216
HUD bond	-	1,827	-	-
Private Export Funding Corporation bonds	-	8,634	-	-
Tennessee Valley Authority bonds	-	71,904	-	54,567
Federal Farm Credit Bank bonds	-	25,758	-	30,641
Federal Home Loan Bank bonds	-	56,614	-	21,961
	<u>\$ 2,319</u>	<u>\$287,026</u>	<u>\$ 3,527</u>	<u>\$265,736</u>

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, 2016 and 2015, as determined by Moody's Investors Service, are shown below. At June 30, 2016 and 2015, \$120,647 and \$162,094, 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.

Investment Type	Fair Value at June 30		Credit Rating
	2016	2015	
U.S. Government Agency Securities*	\$ 86,326	\$ 54,567	Aaa
U.S. Government Agency Mortgage-Backed Securities	82,372	52,602	Aaa
	<u>\$168,698</u>	<u>\$107,169</u>	

* - Amounts are comprised of securities implicitly guaranteed by the U.S. Government.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

Money market accounts with fair values of \$311,684 and \$370,405 at June 30, 2016 and 2015, respectively, that were held by the Agency and reported as cash equivalents were rated as follows by Moody's Investors Service:

Moody's Rating	Fair Value	
	2016	2015
Aaa	\$ 305,117	\$ 85,133
Aa1	-	263,983
Aa2	-	4,221
A1	-	11,397
A3	-	574
Not Rated	6,567	5,097
	<u>\$ 311,684</u>	<u>\$ 370,405</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 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, 2016 and 2015, the Agency had the following concentrations of credit risk:

Investment Issuer	2016		2015	
	Fair Value	% of Total Investments	Fair Value	% of Total Investments
GNMA	\$107,703	37.22%	\$126,117	46.84%
Tennessee Valley Authority	71,904	24.85%	54,567	20.27%
Federal Farm Credit Bank	25,758	8.90%	30,641	11.38%
Freddie Mac	4,021	1.39%	21,990	8.17%
Federal Home Loan Bank	56,614	19.57%	21,961	8.16%
	<u>\$266,000</u>	<u>91.93%</u>	<u>\$255,276</u>	<u>94.82%</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, 2016 and 2015, concentrations in government securities, which represented 100% of the portfolio, exceed the policy. This departure from policy was

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

approved by the Executive Director of the Agency, 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, 2016 and 2015, the Agency had investments with the following maturities:

Investment Type	2016				
	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Government Agency Mortgage-backed Securities	\$ 200,700	\$ 50	\$ 46,582	\$ 46,365	\$ 107,703
U.S. Government Agency Securities	86,326	1,999	12,068	-	72,259
U.S. Treasury Securities	2,319	-	2,319	-	-
	<u>\$ 289,345</u>	<u>\$ 2,049</u>	<u>\$ 60,969</u>	<u>\$ 46,365</u>	<u>\$ 179,962</u>

Investment Type	2015				
	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
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>

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 \$311,684 and \$370,405 at June 30, 2016 and 2015, respectively, reported as cash equivalents that have maturities of less than one year.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

4. Mortgage Loans

Amounts reported as mortgage loans receivable at June 30, 2016 and 2015 consisted of the following:

	2016				
	General Activities	Multifamily Program	Single Family Program	HEMAP	Total
Mortgage loans	\$ 7,264	\$ 463,719	\$ 2,851,469	\$ 91,106	\$ 3,413,558
Add:					
Loan premiums	-	-	298	-	298
Less:					
Loan discounts	-	2,777	-	-	2,777
Allowance for loan losses	4,358	126,341	9,973	45,897	186,569
Mortgage loans receivable	2,906	334,601	2,841,794	45,209	3,224,510
Current portion	-	12,549	82,769	5,469	100,787
Noncurrent portion	<u>\$ 2,906</u>	<u>\$ 322,052</u>	<u>\$ 2,759,025</u>	<u>\$ 39,740</u>	<u>\$ 3,123,723</u>

	2015				
	General Activities	Multifamily Program	Single Family Program	HEMAP	Total
Mortgage loans	\$ 7,260	\$ 490,534	\$ 2,914,807	\$ 97,266	\$ 3,509,867
Add:					
Loan premiums	-	-	298	-	298
Less:					
Loan discounts	-	2,777	-	-	2,777
Allowance for loan losses	4,356	135,148	9,035	47,180	195,719
Mortgage loans receivable	2,904	352,609	2,906,070	50,086	3,311,669
Current portion	-	14,689	77,427	5,889	98,005
Noncurrent portion	<u>\$ 2,904</u>	<u>\$ 337,920</u>	<u>\$ 2,828,643</u>	<u>\$ 44,197</u>	<u>\$ 3,213,664</u>

Securitizations, Gains on the Sale of Mortgage-Backed Securities and Mortgages Held for Sale

During the years ended June 30, 2016 and 2015, the Agency securitized mortgage loans with a principal balance of \$362,540 and \$472,314, 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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

mortgages of the MBSs at the time of settlement. Total gains on the sale of MBSs for the years ended June 30, 2016 and 2015 equaled \$9,382 and \$13,487, respectively.

Mortgages held for sale are reported at fair value measured by Level 2 inputs based upon observable quoted prices of similar assets. Mortgages held for sale totaled \$38,932 and \$72,468 at June 30, 2016 and 2015, 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, 2016 and 2015, the Agency's Single Family Program mortgage loan servicing portfolio equaled \$4.6 billion and \$4.5 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 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, 2016 and 2015, insurance coverage associated with Single Family Program mortgage loan servicing portfolio included the following:

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

	<u>2016</u>		<u>2015</u>	
Commercial Insurance	\$ 147,994	3.20%	\$ 166,535	3.69%
PHFA Insurance Program	200,275	4.33%	249,025	5.51%
FHA	2,440,470	52.77%	2,380,815	52.68%
VA	136,751	2.96%	131,012	2.90%
RD	354,963	7.68%	331,102	7.33%
FNMA	587,173	12.70%	526,197	11.64%
Other	-	0.00%	558	0.01%
Uninsured	756,836	16.37%	733,854	16.24%
Total Single Family Program Servicing Portfolio:	<u>\$ 4,624,462</u>	<u>100.00%</u>	<u>\$ 4,519,098</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, 2016 and 2015, no mortgage loans reported within General Activities were either delinquent or in pending foreclosure actions.

At June 30, 2016 and 2015, 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 \$113 and \$352, respectively, and no Multifamily Program mortgage loans were in pending foreclosure actions.

At June 30, 2016 and 2015, 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 \$267,399 and \$283,885, respectively. Included within these June 30, 2016 and 2015 balances of loans delinquent 91 days or greater were loans with pending foreclosure actions with aggregate principal balances of \$102,043 and \$100,681, respectively.

At June 30, 2016 and 2015, the principal balance of HEMAP mortgage loans delinquent 91 days or greater equaled \$27,045 and \$30,260, respectively.

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, reduce the number of mortgage insurance claims the Agency would otherwise file and to meet federal insurance program requirements.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

Details associated with Single Family Program cumulative loan modifications as of June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Aggregate recorded loan balance	\$ 249,458	\$ 207,818
Gross interest revenue, if the mortgage loan had been current	13,995	11,733
Actual amount of interest received and included in net position	\$ 6,740	\$ 10,477

The number of mortgage loans deemed troubled debt restructurings as of June 30, 2016 and 2015 totaled 3,068 (three-thousand sixty-eight) and 2,558 (two-thousand five-hundred fifty-eight), respectively. These totals exclude mortgage loans whose terms have been modified where, subsequent to restructuring, their effective interest rate has been equal to or greater than the rate 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, 2016 and 2015 consisted of the following:

	<u>2016</u>				<u>Total</u>
	<u>General Activities</u>	<u>Multifamily Program</u>	<u>Single Family Program</u>	<u>HEMAP</u>	
Beginning balance	\$ 4,356	\$ 135,148	\$ 9,035	\$ 47,180	\$ 195,719
Loss provision	2	(3,599)	7,530	4,136	8,069
Net losses	-	(5,208)	(6,592)	(5,419)	(17,219)
Ending balance	<u>\$ 4,358</u>	<u>\$ 126,341</u>	<u>\$ 9,973</u>	<u>\$ 45,897</u>	<u>\$ 186,569</u>

	<u>2015</u>				<u>Total</u>
	<u>General Activities</u>	<u>Multifamily Program</u>	<u>Single Family Program</u>	<u>HEMAP</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, 2016 and 2015 (in thousands)

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 \$37,614 and \$41,202 for the years ended June 30, 2016 and 2015, respectively, and the Agency’s repurchase reserve for securitized loans equaled \$3,962 and \$3,062 at June 30, 2016 and 2015, respectively. Repurchase reserve amounts are included within the Agency’s allowances for loan loss for those respective years in the Single Family Program.

5. Real Estate Owned by the Agency

Real estate owned by the Agency included 912 properties with a net realizable value of \$69,636 at June 30, 2016 and 838 properties with a net realizable value of \$72,596 at June 30, 2015.

6. 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, 2016 and 2015, the Agency capitalized mortgage servicing rights/service release premiums totaling \$5,519 and \$5,899, respectively. Amortization of mortgage servicing rights/servicing release premiums totaled \$4,609 and \$4,505 for the years ended June 30, 2016 and 2015, respectively, and unamortized mortgage servicing rights/service release premiums totaling \$37,385 and \$36,475 were outstanding at June 30, 2016 and 2015, respectively. Included in unamortized mortgage servicing rights/service release premium balances at June 30, 2016 and 2015 were mortgage servicing rights totaling \$5,006 and \$4,258, respectively, relating to loans sold by the Agency for which the Agency retained the servicing rights.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

7. Capital Assets

Capital assets activity for the years ended June 30, 2016 and 2015 and a summary of balances were as follows:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2016</u>
Nondepreciable Capital Assets:				
Land	\$ 2,454	\$ -	\$ -	\$ 2,454
Depreciable Capital Assets:				
Building	31,648	408	-	32,056
Furniture, fixtures and equipment	10,292	281	(989)	9,584
Less accumulated depreciation:				
Building	(7,161)	(569)	-	(7,730)
Furniture, fixtures and equipment	(5,895)	(608)	982	(5,521)
Total depreciable capital assets, net	<u>28,884</u>	<u>(488)</u>	<u>(7)</u>	<u>28,389</u>
Total Capital Assets, net	<u>\$ 31,338</u>	<u>\$ (488)</u>	<u>\$ (7)</u>	<u>\$ 30,843</u>

	<u>July 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2015</u>
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>

Depreciation expense for the years ended June 30, 2016 and 2015 totaled \$1,177 and \$1,185, respectively.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

8. 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, 2016, variable interest rates payable ranged from 0.40% to 1.65%. At June 30, 2015, variable interest rates payable ranged from 0.07% to 1.28%.

The aggregate principal amounts of bonds and notes payable outstanding at June 30, 2016 and 2015, maturity dates and corresponding interest rates at June 30, 2016 are illustrated in the following table.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

Bond Series	Interest rates at June 30, 2016		Maturity Date	Amounts Outstanding at June 30	
	Variable	Fixed		2016	2015
General Activities:					
Headquarters Bonds	41 bps	-	2034	\$ 19,285	\$ 19,650
Multifamily Program:					
Multifamily Development, Issue 2005K	72 bps	-	2036	14,320	14,785
Single Family Program:					
Mortgage Revenue Bonds					
Series 1999 - 67	97 bps	-	2029	12,330	13,130
Series 2000 - 69	80 bps	-	2031	17,995	18,635
Series 2000 - 70	64 bps	-	2028	12,740	13,460
Series 2001 - 72	64 bps	-	2032	37,100	38,410
Series 2002 - 73	62 bps	-	2032	18,010	18,740
Series 2002 - 75*	43 bps	-	2032	30,000	30,000
Series 2003 - 77*	43 bps	-	2023	17,075	19,210
Series 2003 - 78	62 bps	-	2024	35,925	39,375
Series 2003 - 79*	43 bps	-	2033	56,350	57,350
Series 2004 - 81*	43 bps	-	2024	21,645	23,935
Series 2004 - 82*	43 bps	-	2030	41,340	46,665
Series 2004 - 83*	43 bps	-	2027	17,180	22,575
Series 2004 - 84*	43 bps	-	2021	10,355	16,610
Series 2004 - 85	-	-	-	-	66,985
Series 2004 - 86*	43 bps	-	2027	26,625	30,295
Series 2005 - 87	-	-	-	-	77,805
Series 2005 - 88*	41 bps	-	2037	45,275	50,890
Series 2005 - 89*	43 bps	-	2026	50,225	54,370
Series 2005 - 90	-	-	-	-	58,110
Series 2005 - 91*	43 bps	-	2036	66,360	70,000
Series 2006 - 92*	93 bps	-	2036	40,350	41,625
Series 2006 - 93*	43 bps	-	2036	31,060	36,110
Series 2006 - 94*	41 bps	-	2026	25,720	28,860
Series 2006 - 95*	40 bps	-	2019	6,490	15,125
Series 2006 - 96	-	4.55-4.70%	2037	74,230	85,370
Series 2007 - 97	-	3.95-4.70%	2036	82,905	104,725
Series 2007 - 98*	40 bps	3.95-5.75%	2034	34,710	49,350
Series 2007 - 99*	43 bps	5.15%	2038	32,000	34,855
Series 2007 - 100*	40 bps	-	2036	22,690	25,615
Series 2007 - 101	165 bps	-	2023	14,740	16,720
Series 2007 - 102	-	-	-	-	42,475

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

Bond Series	Interest rates at June 30, 2016		Maturity Date	Amounts Outstanding at June 30	
	Variable	Fixed		2016	2015
Series 2008 - 103	-	4.375%	2018	1,070	10,260
Series 2009 - 105	-	2.90-4.25%	2024	40,830	81,320
Series 2009 - 106	-	-	-	-	172,685
Series 2009 - 107	-	3.16-3.96%	2041	474,970	520,640
Series 2010 - 108	-	3.00-4.50%	2025	77,785	85,680
Series 2010 - 109	-	2.50-4.50%	2028	63,800	74,010
Series 2010 - 110	-	2.50-4.50%	2030	125,135	145,990
Series 2011 - 112	-	3.25-5.00%	2028	70,830	85,125
Series 2011 - 113	-	2.20-4.125%	2041	28,585	48,365
Series 2012 - 114	-	1.55-3.70%	2042	187,965	202,780
Series 2013 - 115	-	1.35-4.35%	2043	116,155	125,530
Series 2015 - 116	-	0.80-4.00%	2045	113,730	118,795
Series 2015 - 117	-	0.75-4.15%	2045	140,585	-
Series 2015 - 118	-	0.55-4.10%	2045	227,080	-
Series 2016 - 119	-	0.60-3.50%	2041	162,095	-
Total Single Family Program Bonds Payable				<u>2,712,040</u>	<u>2,918,560</u>
Notes Payable					
General Obligation Note	-	4.50%	2023	14,000	16,000
General Obligation Note	-	3.60%	2025	9,000	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>29,000</u>	<u>32,000</u>
Unamortized bond premiums				<u>10,911</u>	<u>6,071</u>
Total bonds and notes payable				<u>2,785,556</u>	<u>2,991,066</u>
Current portion				<u>91,915</u>	<u>113,220</u>
Noncurrent portion				<u>\$ 2,693,641</u>	<u>\$ 2,877,846</u>

bps - basis points

* - 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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (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 standby purchase agreement provider as a term loan to the Agency. Details of certain Agency VRDO standby purchase agreements at June 30, 2016 and 2015 were as follows:

Bond Issue	Liquidity Provider at June 30, 2016	Effective Date	Expiration Date	Bond Balance Outstanding at June 30	
				2016	2015
Hdqrtrs Bond	PNC Bank	12/31/2014	2/3/2017	\$ 19,285	\$ 19,650
2002-75A	RBC	4/8/2014	4/8/2019	30,000	30,000
2003-77B	RBC	4/8/2014	4/8/2019	17,075	19,210
2003-79B	RBC	4/8/2014	4/8/2019	56,350	57,350
2004-81C	RBC	4/8/2014	4/8/2019	21,645	23,935
2004-82B	RBC	4/8/2014	4/8/2019	18,830	22,895
2004-82C	RBC	4/8/2014	4/8/2019	22,510	23,770
2004-83B	Bank of Tokyo	5/13/2014	5/13/2019	-	4,335
2004-83C	Bank of Tokyo	5/13/2014	5/13/2019	17,180	18,240
2004-84D	Bank of Tokyo	5/13/2014	5/13/2019	10,355	16,610
2004-85B	TD Bank	5/20/2014	5/20/2019	-	22,340
2004-85C	TD Bank	5/20/2014	5/20/2019	-	44,645
2004-86B	Bank of Tokyo	5/13/2014	5/13/2019	26,625	30,295
2005-88B	TD Bank	5/20/2014	5/20/2019	27,195	31,970
2005-88C	TD Bank	5/20/2014	5/20/2019	18,080	18,920
2005-89	Bank of Tokyo	5/13/2014	5/13/2019	50,225	54,370
2005-91B	Bank of Tokyo	5/13/2014	5/13/2019	66,360	70,000
2006-93B	Sumitomo	7/8/2014	7/8/2019	31,060	35,250
2006-94B	TD Bank	5/20/2014	5/20/2019	25,720	28,860
2006-95C	Sumitomo	7/8/2014	7/8/2019	6,490	6,850
2007-98C	Sumitomo	7/8/2014	7/8/2019	17,905	17,905
2007-99C	Sumitomo	7/8/2014	7/8/2019	12,145	15,000
2007-100C	Sumitomo	7/8/2014	7/8/2019	22,690	22,935
2007-102C	Bank of Tokyo	5/13/2014	5/13/2019	-	38,775
			Total	\$ 517,725	\$ 674,110

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

There were no failed remarketings or resultant liquidity draws during the years ended June 30, 2016 and 2015. 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, 2016, if the term-out agreements were exercised and assuming a term-out commencement date of July 1, 2016, respectively, were as follows:

Liquidity Provider	Term-Out Provisions	Payment Date	Interest Rate	Principal	Interest	Total Payment
PNC	Day 1 through 360:	1/1/2017	8%	\$ 380	\$ 771	\$ 1,151
	"bank rate" equal to	1/1/2018	8% & 12%	400	1,891	2,291
	the greater of PNC's	4/1/2018	12%	1,850	555	2,405
	prime rate, Federal	10/1/2018	12%	1,851	999	2,850
	Funds Open Rate +	4/1/2019	12%	1,850	888	2,738
	0.50%, or 8%. Day	10/1/2019	12%	1,851	777	2,628
	361 and thereafter:	4/1/2020	12%	1,850	666	2,516
	greater of bank rate	10/1/2020	12%	1,851	555	2,406
	+ 1% or 12%.	4/1/2021	12%	1,850	444	2,294
		10/1/2021	12%	1,851	333	2,184
		4/1/2022	12%	1,850	222	2,072
	10/1/2022	12%	1,851	111	1,962	
			Total	\$ 19,285	\$ 8,212	\$ 27,497
RBC	Day 1 through 90:	4/1/2017	8% & 10%	16,641	11,649	28,290
	"base rate" equal to	10/1/2017	10%	16,641	7,488	24,129
	the greater of RBC's	4/1/2018	10%	16,641	6,656	23,297
	prime rate + 2.5%,	10/1/2018	10%	16,641	5,824	22,465
	Federal Funds Rate	4/1/2019	10%	16,641	4,992	21,633
	+ 3.5%, or 8%. Day	10/1/2019	10%	16,641	4,160	20,801
	91 and thereafter:	4/1/2020	10%	16,641	3,328	19,969
	base rate + 2%.	10/1/2020	10%	16,641	2,496	19,137
		4/1/2021	10%	16,641	1,664	18,305
	7/1/2021	10%	16,641	416	17,057	
			Total	\$ 166,410	\$ 48,673	\$ 215,083

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (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%.	1/1/2017	8% & 9%	\$ 17,074	\$ 7,541	\$ 24,615
		7/1/2017	9%	17,075	6,915	23,990
		1/1/2018	9%	17,074	6,147	23,221
		7/1/2018	9%	17,075	5,378	22,453
		1/1/2019	9%	17,074	4,610	21,684
		7/1/2019	9%	17,075	3,842	20,917
		1/1/2020	9%	17,074	3,073	20,147
		7/1/2020	9%	17,075	2,305	19,380
		1/1/2021	9%	17,074	1,537	18,611
		7/1/2021	9%	17,075	768	17,843
			Total	\$ 170,745	\$ 42,116	\$ 212,861
TD Bank	LIBOR + 2%	4/1/2017	2.47%	\$ 7,099	\$ 1,315	\$ 8,414
		10/1/2017	2.47%	7,100	789	7,889
		4/1/2018	2.47%	7,099	701	7,800
		10/1/2018	2.47%	7,100	614	7,714
		4/1/2019	2.47%	7,099	526	7,625
		10/1/2019	2.47%	7,100	438	7,538
		4/1/2020	2.47%	7,099	351	7,450
		10/1/2020	2.47%	7,100	263	7,363
		4/1/2021	2.47%	7,099	175	7,274
		7/1/2021	2.47%	7,100	44	7,144
			Total	\$ 70,995	\$ 5,216	\$ 76,211
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%			
		4/1/2017	& 8.5%	\$ 9,029	\$ 5,455	\$ 14,484
		10/1/2017	8.5%	9,029	3,454	12,483
		4/1/2018	8.5%	9,029	3,070	12,099
		10/1/2018	8.5%	9,029	2,686	11,715
		4/1/2019	8.5%	9,029	2,302	11,331
		10/1/2019	8.5%	9,029	1,919	10,948
		4/1/2020	8.5%	9,029	1,535	10,564
		10/1/2020	8.5%	9,029	1,151	10,180
		4/1/2021	8.5%	9,029	767	9,796
		10/1/2021	8.5%	9,029	384	9,413
			Total	\$ 90,290	\$ 22,723	\$ 113,013

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (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, 2016 and 2015 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>2016</u>	<u>2015</u>
2005-87B	Wells Fargo	4/1/2014	4/1/2019	-	30,505
2005-87C	Wells Fargo	4/1/2014	4/1/2019	-	47,300
2005-90C	Wells Fargo	4/1/2014	4/1/2019	-	58,110
2006-92B	Wells Fargo	4/1/2014	4/1/2019	40,350	41,625
				<u>\$ 40,350</u>	<u>\$ 177,540</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, 2016 were as follows:

<u>Fiscal Year</u>	<u>June 30, 2016</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>
2017	\$ 380	\$ 79	\$ 455	\$ 102	\$ 88,080	\$ 78,244	\$ 88,915	\$ 78,425
2018	400	78	485	98	112,700	76,539	113,585	76,715
2019	415	75	505	95	128,535	73,961	129,455	74,131
2020	435	74	540	91	137,185	70,667	138,160	70,832
2021	450	73	565	87	133,570	67,032	134,585	67,192
2022-2026	2,565	333	3,300	371	549,490	288,192	555,355	288,896
2027-2031	3,170	275	4,015	242	538,660	218,296	545,845	218,813
2032-2036	11,470	132	4,455	80	578,710	135,716	594,635	135,928
2037-2041	-	-	-	1	406,790	50,148	406,790	50,149
2042-2046	-	-	-	-	67,320	5,774	67,320	5,774
	<u>\$ 19,285</u>	<u>\$ 1,119</u>	<u>\$ 14,320</u>	<u>\$ 1,167</u>	<u>\$ 2,741,040</u>	<u>\$ 1,064,569</u>	<u>\$ 2,774,645</u>	<u>\$ 1,066,855</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

Early Extinguishment of Debt

During the years ended June 30, 2016 and 2015, the Agency redeemed principal amounts of certain bonds totaling \$642,040 and \$385,265, respectively, prior to their scheduled maturity. The early extinguishments were enabled by the refunding proceeds resulting from the issuance of certain single family mortgage revenue bonds and through the use of mortgage prepayments received from borrowers. The early extinguishments of debt resulted in net gains totaling \$742 and \$494, 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

Year Ended June 30, 2016

On September 22, 2015, the Agency issued Series 2015-117A single family mortgage revenue bonds in the amount of \$95,240. The proceeds of this issuance and an Agency contribution were used to refund \$58,110 of Series 2005-90C bonds and \$38,775 of Series 2008-102C bonds. This refunding resulted in an economic gain (the difference between the present value of the old and new debt service payments) equal to \$10,210 and a reduction of future debt service payments equal to \$23,606.

On December 8, 2015, the Agency issued Series 2015-118A single family mortgage revenue bonds in the amount of \$141,165. The proceeds of this issuance and an Agency contribution were used to refund \$22,340 of Series 2004-85B bonds, \$44,645 of Series 2004-85C bonds, \$30,035 of Series 2005-87B bonds and \$46,575 of Series 2005-87C bonds. This refunding resulted in an economic gain equal to \$14,032 and a reduction of future debt service payments equal to \$21,078.

On April 28, 2016, the Agency issued Series 2016-119 single family mortgage revenue bonds in the amount of \$162,095. \$109,110 of the proceeds of this issuance and an Agency contribution were used to refund \$110,680 of Series 2009-106C bonds. This refunding resulted in an economic gain equal to \$6,152 and a reduction of future debt service payments equal to \$5,200.

Year Ended June 30, 2015

On March 26, 2015, the Agency issued Series 2016-116A single family mortgage revenue bonds in the amount of \$98,795. The proceeds of this issuance and an Agency contribution were used to refund \$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. This refunding resulted in an economic gain equal to \$6,070 and a reduction of future debt service payments equal to \$6,059.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

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, 2016 and 2015; 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, 2016 are displayed in the following schedule. The following incorporates variable rate values at June 30, 2016, 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 9. **Derivatives** for further information relative to derivative instruments.

June 30, 2016				
Fiscal Year	Hedged	Hedged	Net Swap	
Ending June 30	Variable Rate	Variable Rate	Payments	Total
	Bond Principal	Bond Interest		
2017	\$ 15,502	\$ 2,423	\$ 11,809	\$ 29,734
2018	19,648	2,345	11,316	33,309
2019	21,243	2,254	10,799	34,296
2020	27,058	2,151	10,176	39,385
2021	31,203	2,024	9,586	42,813
2022-2026	137,323	8,125	38,910	184,358
2027-2031	109,918	5,124	22,735	137,777
2032-2036	124,916	2,344	7,376	134,636
2037-2041	11,279	39	168	11,486
	<u>\$ 498,090</u>	<u>\$ 26,829</u>	<u>\$ 122,875</u>	<u>\$ 647,794</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

Conduit Debt Obligations

During the year ended June 30, 2016, the Agency issued Series 2015-Brinton Apartments, 2015-BB, 2015-CC, 2015-DD and Carson Towers Apartments 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.

Conduit debt issued in prior years with balances outstanding at June 30, 2016 and 2015 include:

- Series 2015-W, 2015-X, 2015-Y, 2015-Z and 2015-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.
- 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, 2016 and 2015, conduit debt outstanding aggregated \$193,003 and \$126,494, respectively.

Bond Covenants

Significant 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%

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

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, 2016 and 2015.

Bonds Authorized But Not Yet Issued

On February 11, 2016, the Agency Board authorized the issuance of Single Family Mortgage Revenue bonds Series 2016-120 in an amount not to exceed \$300,000. Proceeds are expected to include a portion for refunding certain Single Family Mortgage Revenue Bonds of the Agency issued previously and a portion for purchasing new single family mortgage loans.

9. 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 Outflows of Resources; the changes in fair 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, 2016 and 2015. Changes in fair values are countered by reductions or increases in total interest payments required under variable-rate bonds. Given that payments on the Agency's variable-rate bonds adjust to changing interest rates, the associated debt does not have corresponding increases in fair value.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

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 and for the years ended June 30, 2016 and 2015, the Agency was not required to post collateral for any of its swaps.

Fair Value

Interest rate swaps are reported at fair value measured by Level 2 inputs based upon observable values other than quoted prices, including interest rates and yield curves observable at commonly quoted intervals, implied volatilities and other market-corroborated inputs.

Balances of the fair values of the Agency's interest rate swaps at June 30, 2016 and 2015 were as follows:

2016			
Interest Rate Swap Type	Multifamily Program	Single Family Program	Total
Hedging Derivatives	\$ (4,141)	\$ (5,145)	\$ (9,286)
Hedging Derivatives - Amended	-	(19,721)	(19,721)
Investment Derivatives	(2,319)	(6,114)	(8,433)
Total Interest Rate Swaps	<u>\$ (6,460)</u>	<u>\$ (30,980)</u>	<u>\$ (37,440)</u>

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>

Hedging Derivative Instruments

The change in fair value of the Agency's hedging derivative instruments for the years ended June 30, 2016 and 2015 equaled \$7,600 and \$14,908, respectively, and is accounted-for within the accumulated decrease in fair value of hedging derivatives on the Balance Sheet. The terms and other information respective of the Agency's hedging derivative instruments outstanding at June 30, 2016 and 2015 are detailed in the following schedule.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

<u>Bond Series</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Current Notional Amount</u>	<u>2015 Fair Value</u>	<u>Change In Fair Value</u>	<u>2016 Fair Value</u>
1999-67B	7/2002	4/2029	5.950%	100% of LIBOR + 50 bps	\$ 11,925	\$ (2,997)	\$ (264)	\$ (3,261)
2001-72C	9/2001	10/2023	5.695	100% of LIBOR	4,740	(956)	77	(879)
2003-77B ¹	4/2016	10/2033	2.101	Enhanced LIBOR	17,075	(91)	(20)	(111)
2003-79B ¹	4/2016	10/2033	3.503	65% of LIBOR + 25 bps	56,350	(5,286)	(315)	(5,601)
2004-81C ¹	4/2016	10/2034	3.000	Enhanced LIBOR	21,645	(1,277)	215	(1,062)
2004-82B ¹	4/2016	4/2030	1.615	61% of LIBOR + 39 bps	18,830	(22)	(98)	(120)
2004-82C ¹	4/2016	10/2033	1.975	61% of LIBOR + 39 bps	22,510	79	(294)	(215)
2004-83C ¹	10/2015	4/2027	3.830	65% of LIBOR + 25 bps	17,180	(2,712)	(253)	(2,965)
2004-84D ¹	10/2014	10/2034	3.320	Enhanced LIBOR	10,355	(1,221)	534	(687)
2004-85C ¹	10/2015	4/2027	2.908	65% of LIBOR + 25 bps	-	(2,317)	2,317	-
2004-86B ¹	4/2013	10/2033	3.397	Enhanced LIBOR	24,795	(2,217)	274	(1,943)
2005-87B ¹	4/2015	10/2023	2.875	65% of LIBOR + 25 bps	-	(229)	229	-
2005-87C ¹	10/2015	4/2027	2.937	65% of LIBOR + 25 bps	-	(2,183)	2,183	-
2005-88B	4/2016	10/2035	1.700	61% of LIBOR + 39 bps	27,195	(360)	170	(190)
2005-88C ¹	4/2016	10/2035	2.090	61% of LIBOR + 39 bps	18,080	12	(199)	(187)
2005-89 ¹	4/2016	10/2036	1.859	Enhanced LIBOR	41,285	34	(177)	(143)
2005-90C ¹	4/2015	10/2031	3.565	65% of LIBOR + 25 bps	-	(863)	863	-
2005-91B	4/2016	10/2036	2.590	Enhanced LIBOR	66,360	(1,918)	1,420	(498)
2006-92B	10/2015	10/2036	2.870	65% of LIBOR + 25 bps	40,350	(1,336)	607	(729)
2006-93B	4/2016	4/2037	2.600	61% of LIBOR + 39 bps	31,060	(916)	413	(503)
2006-94B	7/2006	4/2027	4.152	69% of LIBOR	25,720	(1,751)	1,165	(586)
2006-95C ¹	4/2016	4/2026	2.369	65% of LIBOR + 25 bps	100	(11)	9	(2)
2007-98C ¹	10/2014	10/2037	4.105	61% of LIBOR + 39 bps	7,945	(1,686)	(12)	(1,698)
2007-99C ¹	4/2016	10/2023	3.674	69% of LIBOR	11,165	(1,363)	110	(1,253)
2007-100C ¹	4/2016	4/2032	4.131	65% of LIBOR + 25 bps	9,105	(1,745)	(489)	(2,234)
MF2005-K	3/2005	1/2036	5.183	100% of LIBOR	14,320	(3,275)	(865)	(4,140)
Total:					<u>\$ 498,090</u>	<u>\$ (36,607)</u>	<u>\$ 7,600</u>	<u>\$ (29,007)</u>

1 = Indicates Agency has embedded options to partially terminate, exercisable without payment to the counterparty

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

Enhanced LIBOR = 67% of one-month LIBOR

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, 2016 and 2015. 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

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

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, 2016 and 2015:

2106		
Associated Bond Issue	Debt Maturity Dates	Swap Termination Dates
2001-72C	10/2032	10/2023
2005-88C	4/2037	10/2035
2007-100C	10/2036	4/2032

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

Termination Risk

The Agency maintains the option to terminate its swaps at any time, 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, 2016 and 2015 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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

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, 2016 and 2015 equaled \$2,481 and \$1,135, respectively.

Amended hedging derivative activity for the years ended June 30, 2016 and 2015 reflected the following:

2016	
	Single Family Program
Amended hedging derivative balance at July 1, 2015	\$ (20,771)
Loss on 2015/2016 swap terminations	(1,431)
Amortization	2,481
Amended hedging derivative balance at June 30, 2016	<u>\$ (19,721)</u>
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>

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, 2016 and 2015 (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, 2016 and 2015 were as follows:

2016					
Bond Series	Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
2004-85C	\$ 21,135	10/2015	4/2027	2.908%	65% of LIBOR + 25 bps
2005-87C	20,060	10/2015	4/2027	2.937	65% of LIBOR + 25 bps
RH2008A&B	13,450	12/2011	1/2021	3.407	67% of one-week LIBOR
RH2008C	14,500	6/2003	7/2020	3.457	70% of LIBOR
RH2008D	8,695	6/2011	7/2020	3.440	70% of LIBOR
Total:	<u>\$ 77,840</u>				

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>				

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, 2016 and 2015. 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, 2016 and 2015 are detailed in the following schedule.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

2016					
Bond Series	Excess Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
2003-77B	\$ 1,510	4/2016	10/2033	2.101%	Enhanced LIBOR
2004-81C	800	4/2016	10/2034	3.000	Enhanced LIBOR
2004-82B	505	4/2016	4/2030	1.615	61% of LIBOR + 39 bps
2004-82C	1,175	4/2016	10/2033	1.975	61% of LIBOR + 39 bps
2004-83C	2,290	10/2015	4/2027	3.830	65% of LIBOR + 25 bps
2004-84D	8,100	10/2014	10/2034	3.320	Enhanced LIBOR
2005-88B	785	4/2016	10/2035	1.700	61% of LIBOR + 39 bps
2005-88C	915	4/2016	10/2035	2.090	61% of LIBOR + 39 bps
2005-91B	3,640	4/2016	10/2036	2.590	Enhanced LIBOR
2006-92B	1,645	10/2015	10/2036	2.870	65% of LIBOR + 25 bps
2006-93B	6,125	4/2016	4/2037	2.600	61% of LIBOR + 39 bps
2006-94B	7,150	7/2006	4/2027	4.152	69% of LIBOR
MF2005K	2,475	3/2005	1/2036	5.183	100% of Libor
Total:	<u>\$ 37,115</u>				

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>				

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

The fair values of the investment derivatives for the year ended June 30, 2016 and 2015 are shown below, and the changes in fair value equal to \$3,278 and \$852, respectively, are presented as a net decrease and net increase, respectively, in fair value of swaps on the Statements of Revenues, Expenses and Changes in Net Position.

Bond Series	2016		2015	
	Notional Amount	Fair Value	Notional Amount	Fair Value
2003-77B	\$ 1,510	\$ (10)	\$ 90	\$ (1)
2004-81C	800	(39)	-	-
2004-82B	505	(3)	-	-
2004-82C	1,175	(11)	-	-
2004-83C	2,290	(395)	2,430	(361)
2004-84D	8,100	(537)	2,535	(186)
2004-85C	21,135	(2,515)	-	-
2005-87C	20,060	(2,270)	-	-
2005-88B	785	(5)	-	-
2005-88C	915	(10)	75	(1)
2005-91B	3,640	(27)	-	-
2006-92B	1,645	(30)	1,245	(40)
2006-93B	6,125	(99)	1,935	(50)
2006-94B	7,150	(163)	4,965	(301)
MF2005K	2,475	(716)	6,885	(1,525)
RH2008A,B	13,450	(725)	13,650	(1,195)
RH2008C	14,500	(550)	19,690	(937)
RH2008D	8,695	(328)	11,810	(558)
Total:	<u>\$ 114,955</u>	<u>\$ (8,433)</u>	<u>\$ 65,310</u>	<u>\$ (5,155)</u>

Credit Risk

At June 30, 2016 and 2015, 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, 2016 and 2015 (in thousands)

10. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2016 and 2015 was as follows:

	2016				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable, net	\$2,959,066	\$ 549,909	\$ 752,419	\$2,756,556	\$ 88,915
Notes payable	32,000	-	3,000	29,000	3,000
Escrow deposits and Development Reserves	142,594	267,825	263,244	147,175	69,532
Net Pension Liability	20,397	10,163	5,035	25,525	-
Other liabilities					
Accrued vacation and sick leave	3,005	252	-	3,257	50
Bond rebate	280	-	-	280	-
Borrower suspense accounts	4,306	62,952	63,119	4,139	4,139
Commonwealth grants	18,593	1,487	3,656	16,424	-
Federal grants	166,235	433,483	424,778	174,940	-
Other grants	3,030	11,955	9,697	5,288	-
GNMA/FNMA payables	6,384	10,426	6,384	10,426	10,426
OPEB obligation	26,309	5,229	-	31,538	-
PHFA Insurance Program Claims	1,407	2,696	2,534	1,569	1,338
Project receipts	3,307	2,888	3,093	3,102	483
Unearned revenue	5,499	-	592	4,907	-
Other	10,312	9	1,994	8,327	2,878
Total Other Liabilities	<u>248,667</u>	<u>531,377</u>	<u>515,847</u>	<u>264,197</u>	<u>19,314</u>
Total	<u>\$3,402,724</u>	<u>\$1,359,274</u>	<u>\$1,539,545</u>	<u>\$3,222,453</u>	<u>\$180,761</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

	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	4,343	59,578	59,615	4,306	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>257,949</u>	<u>523,357</u>	<u>532,639</u>	<u>248,667</u>	<u>18,590</u>
Total	<u><u>\$3,751,763</u></u>	<u><u>\$938,849</u></u>	<u><u>\$1,287,888</u></u>	<u><u>\$3,402,724</u></u>	<u><u>\$197,806</u></u>

11. Restricted and Designated Net Position

The Multifamily and Single Family Programs' June 30, 2016 and 2015 net position restrictions equaling \$329 and \$101,588 and \$500 and \$110,496, 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 \$48,030 and \$44,083 at June 30, 2016 and 2015, respectively, 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, 2016 and 2015 (in thousands)

	<u>2016</u>	<u>2015</u>
General Activities:		
Homeownership Choice to fund housing opportunity in urban areas	\$ 1,500	\$ 3,000
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>\$ 29,500</u>	<u>\$ 31,000</u>
Multifamily Housing Program:		
Penn HOMES Program to lower development costs for apartments	\$ 10,000	\$ 15,000
Preservation from physical deterioration, financial or social distress	<u>1,500</u>	<u>1,500</u>
Total	<u>\$ 11,500</u>	<u>\$ 16,500</u>
Single Family Mortgage Loan Program:		
Closing Cost Assistance	\$ 1,000	\$ 1,000
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>\$ 3,455</u>
Insurance Program:		
Risk Retention to provide single family mortgage insurance	<u>\$ 9,218</u>	<u>\$ 8,819</u>

12. 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, 2016 and 2015 (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)	
	2015	2014
Inactive employees or beneficiaries currently receiving benefits	159	146
Inactive employees entitled to but not yet receiving benefits	66	64
Active Employees	301	290
	<u>526</u>	<u>500</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. Contributions recognized by the Pensions during the reporting periods were \$4,151 and \$3,149

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

for the years ended December 31, 2015 and 2014, respectively. The Agency's average contribution rates for the years ended December 31, 2015 and 2014 equaled 22.24% and 17.04% 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, 2015 and 2014:

<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

At December 31, 2015 and 2014, 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, 2015 and 2014, the annual money-weighted rate of return on investments of the Agency's Pensions, net of investment expense, was 0.42% and 9.28%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Investments comprising the fiduciary net position of the Agency's Pensions are reported at fair value measured by Level 1 inputs based upon quoted market prices.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

The fiduciary net position of the Agency's Pensions at December 31, 2015 and 2014 was invested as follows:

	<u>2015</u>	<u>2014</u>
Cash Equivalents	\$ 1,412	\$ 1,208
Equity Securities		
Equity exchange traded funds	11,433	11,719
U.S. and International equity mutual funds	12,748	12,905
U.S. common and preferred stocks	23,139	22,699
Fixed Income Securities		
Fixed income exchange traded funds	1,187	1,130
Fixed income mutual funds	22,467	21,858
Total:	<u>\$72,386</u>	<u>\$71,519</u>

Actuarial Assumptions

The Agency's net pension liability was measured as of December 31, 2015 and 2014, 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, 2015 and 2014 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, 2015 actuarial valuations were based upon the Adjusted RP-2014 White Collar Mortality Table for males and females; incorporated into the table were rates projected using Scale MP-2015. Mortality rates used in the December 31, 2014 actuarial valuations were based upon the RP-2014 Total Mortality Table for males and females; incorporated into the table were rates projected using Scale MP-2014.

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, 2016 and 2015 (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, 2015 and 2014 are summarized in the following table:

December 31, 2015		
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Equity	65.0%	5.5% - 7.5%
Fixed Income	35.0%	1.0% - 3.0%

December 31, 2014		
<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, 2015 and 2014 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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

Changes in the Net Pension Liability

	2015		
	Total Pension Liability (A)	Pension Fiduciary Net Position (B)	Net Pension Liability (A)-(B)
Balances at January 1, 2015	\$91,917	\$ 71,519	\$ 20,398
Service Cost	1,812	-	1,812
Interest Cost	6,896	-	6,896
Changes for Experience	(604)	-	(604)
Changes of Assumptions	1,455	-	1,455
Contributions - Employer	-	4,028	(4,028)
Contributions - Member	-	123	(123)
Net Investment Income	-	281	(281)
Benefit Payments, including refunds of member contributions	(3,565)	(3,565)	-
Net Changes	<u>5,994</u>	<u>867</u>	<u>5,127</u>
Balances at December 31, 2015	<u>\$97,911</u>	<u>\$ 72,386</u>	<u>\$ 25,525</u>
	2014		
	Total Pension Liability (A)	Pension Fiduciary Net Position (B)	Net Pension Liability (A)-(B)
Balances at January 1, 2014	\$77,757	\$ 65,538	\$ 12,219
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	-	92	(92)
Net Investment Income	-	6,071	(6,071)
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>\$91,917</u>	<u>\$ 71,519</u>	<u>\$ 20,398</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

The change in assumption reflected in the Changes in the Net Pension Liability for the period ended December 31, 2015 equal to \$1,455 was the result of incorporating the Adjusted RP-2014 White Collar Mortality Table for males and females using Scale MP-2015 to reflect mortality improvement. Prior to this change in assumption, mortality rates were based on the RP-2014 Total Mortality Table for males and females using Scale MP-2014.

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	
Pension Liability for	1% Decrease	Discount Rate	1% Increase
Calendar Year Ended	(6.50%)	(7.50%)	(8.50%)
December 31, 2015	\$ 38,464	\$ 25,525	\$ 14,659
December 31, 2014	32,840	20,397	9,951

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

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

For the years ended December 31, 2015 and 2014, the Pensions recognized pension expense of \$4,338 and \$2,060, respectively. At December 31, 2015 and 2014, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2015</u>	<u>2014</u>
<u>Deferred Outflows</u>		
Differences between Expected and Actual Experience	\$ 2,373	\$ 3,319
Changes in Assumptions	6,932	6,470
Contributions made after measurement date	2,075	2,100
Net Difference Between Projected and Actual Earnings on Investments	<u>1,420</u>	<u>-</u>
Gross Deferred Outflows	12,800	11,889
<u>Deferred Inflows</u>		
Net Difference Between Projected and Actual Earnings on Investments	<u>-</u>	<u>3,880</u>
Net Deferred Outflows	<u><u>\$12,800</u></u>	<u><u>\$ 8,009</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	
2016	\$ 3,198
2017	1,122
2018	2,107
2019	2,338
2020	1,317
Thereafter	<u>2,718</u>
	<u><u>\$12,800</u></u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

13. Postemployment Benefits Other than Pensions

Plan Description

The Agency sponsors a single-employer defined benefit plan, which includes the Pennsylvania Housing Finance Agency Postemployment Benefits Plan (“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, 2016 and 2015, contribution rates for OPEB Plan members per participant per month equaled 6% and 5% of the insurance premiums paid. For these periods, gross Agency outlays for insurance premiums totaled \$1,147 and \$956, respectively, and of the amounts paid to insurance carriers by the Agency, OPEB Plan members receiving benefits paid to the Agency \$69 and \$48, respectively. This resulted in net outlays for OPEB insurance premiums paid by the Agency equal to \$1,078 and \$908 for the years ended June 30, 2016 and 2015, respectively.

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, 2016 and 2015 (in thousands)

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

	<u>2016</u>	<u>2015</u>
Annual required contribution (ARC)	\$ 7,405	\$ 5,526
Interest on net OPEB obligation	1,350	1,161
Adjustment to ARC	<u>(1,841)</u>	<u>(1,584)</u>
Annual OPEB expense	6,914	5,103
Contributions made	<u>(1,147)</u>	<u>(956)</u>
Increase in net OPEB obligation	5,767	4,147
Net OPEB obligation beginning of year	<u>29,998</u>	<u>25,851</u>
Net OPEB obligation end of year	<u>\$ 35,765</u>	<u>\$ 29,998</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, 2016	\$ 6,914	17%	\$ 35,765
June 30, 2015	5,103	19	29,998
June 30, 2014	5,172	17	25,851

Funded Status and Funding Progress

As of July 1, 2015, 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 \$65,973 and \$49,455 for the years ended June 30, 2016 and 2015, respectively. For the same periods, covered payroll (annual payroll of active employees covered by the OPEB Plan) equaled \$18,523 and \$16,175, respectively, and the ratio of the unfunded actuarial accrued liability to the covered payroll equaled 356.18% and 305.75%, respectively. 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.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (in thousands)

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 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, 2015, 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 6% in 2015, decreasing to 5.5% for 2016 through 2020. The unfunded actuarial accrued liability is amortized as a level dollar amount over thirty years on an open basis.

14. 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 decreases in insurance coverage within the last three years.

PENNSYLVANIA HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2016 and 2015 (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 \$40,452 and \$1,647, respectively, at June 30, 2016.

15. Significant Effects of Subsequent Events

On July 14, 2016, the Agency Board authorized the issuance of Single Family Mortgage Revenue Bonds Series 2016-122 in an amount not to exceed \$375,000. These bonds will be general obligations of the Agency that bear interest at fixed rates payable on each April 1 and October 1 through their final maturity date. Proceeds are expected to include a portion to be used to refund certain Agency single family mortgage revenue bonds issued previously and a portion to purchase new single family mortgage loans.

On July 21, 2016, the Agency issued \$214,265 of Single Family Mortgage Revenue Bonds, Series 2016-120. These bonds are general obligations of the Agency that bear interest at fixed rates payable on each April 1 and October 1, with a final maturity date of October 1, 2046. The proceeds from the bond issuance were used to refund certain Agency single family mortgage revenue bonds issued previously equal to \$158,770 and to purchase new single family mortgage loans.

On October 3, 2016, the Agency issued \$254,835 of Single Family Mortgage Revenue Bonds, Series 2016-121. These bonds are general obligations of the Agency that bear interest at fixed rates payable on each April 1 and October 1, with a final maturity date of October 1, 2046. The proceeds from the bond issuance were used to refund certain Agency single family mortgage revenue bonds issued previously equal to \$131,440 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>2015</u>	<u>2014</u>	<u>2013</u>
Total Pension Liability			
Service Cost	\$ 1,812	\$ 1,545	\$ 1,622
Interest	6,896	5,826	5,472
Differences Between Expected and Actual Experience	(604)	2,596	615
Changes of Assumptions	1,455	7,432	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(3,565)</u>	<u>(3,239)</u>	<u>(2,582)</u>
Net Change in Total Pension Liability	5,994	14,160	5,127
Total Pension Liability - Beginning	<u>91,917</u>	<u>77,757</u>	<u>72,630</u>
Total Pension Liability - Ending (a)	<u>\$ 97,911</u>	<u>\$ 91,917</u>	<u>\$ 77,757</u>
Pensions Fiduciary Net Position			
Contributions - Employer	4,028	3,057	5,134
Contributions - Employee	123	92	66
Net Investment Income	281	6,071	9,058
Benefit Payments, Including Refunds of Employee Contributions	<u>(3,565)</u>	<u>(3,239)</u>	<u>(2,582)</u>
Net Change in Pensions Fiduciary Net Position	867	5,981	11,676
Pensions Fiduciary Net Position - Beginning	<u>71,519</u>	<u>65,538</u>	<u>53,862</u>
Pensions Fiduciary Net Position - Ending (b)	<u>72,386</u>	<u>71,519</u>	<u>65,538</u>
Agency's Net Pension Liability (a) - (b)	<u>\$ 25,525</u>	<u>\$ 20,398</u>	<u>\$ 12,219</u>
Pensions Fiduciary Net Position as a Percentage of Total Pension Liability	73.93%	77.81%	84.29%
Covered-Employee Payroll	\$ 17,383	\$ 17,440	\$ 15,771
Pensions Fiduciary Net Pension Liability as a Percentage of Covered-Employee Payroll	146.84%	116.96%	77.48%

Notes to Schedule:

The change of assumption reflected above for the period ended December 31, 2015 was the result of incorporating the Adjusted RP-2014 White Collar Mortality Table for males and females using Scale MP-2015; the change of assumption reflected above 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-2015 to reflect mortality improvement. Prior to the December 31, 2014 change of assumption, mortality rates were based on the GA1983 Mortality Table.

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
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%
2015	3,865,384	4,027,033	(161,649)	17,383,488	22.24%

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: Entry age

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 2006 through 2013 incorporated the GA1983 Mortality Table. Year 2014 incorporated the RP-2014 Total Mortality Table to reflect mortality improvement. Year 2015 incorporated the Adjusted RP-2014 White Collar Mortality Table to reflect 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
2015	0.42%
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)
7/1/2015	-	\$ 65,976	\$ 65,976	-	\$ 18,523	356.18%
7/1/2013	-	49,455	49,455	-	16,175	305.75%
7/1/2011	-	43,472	43,472	-	15,900	273.41%

SUPPLEMENTARY INFORMATION

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Balance Sheet

June 30, 2016 (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	\$ 6,485	\$ 53,387	\$ 166,621	\$ 10,787	\$10,731	\$ -	\$ 248,011
Restricted cash and cash equivalents	781	46,442	75,672	-	-	-	122,895
Investments	10	-	-	-	-	-	10
Restricted investments	514	911	1,615	-	-	-	3,040
Accrued investment interest receivable	1,786	76	4,982	-	-	-	6,844
Mortgage loans receivable, net	-	12,549	82,769	-	5,469	-	100,787
Accrued mortgage loan interest receivable	-	3,797	16,648	-	147	-	20,592
Mortgages held for sale	-	-	38,932	-	-	-	38,932
Other current assets	2,390	1	17	-	2	-	2,410
Total Current Assets	<u>11,966</u>	<u>117,163</u>	<u>387,256</u>	<u>10,787</u>	<u>16,349</u>	<u>-</u>	<u>543,521</u>
Noncurrent Assets:							
Investments	72,867	36	109,710	-	-	-	182,613
Restricted investments	514	966	102,202	-	-	-	103,682
Mortgage loans receivable, net	2,906	322,052	2,759,025	-	39,740	-	3,123,723
Real estate owned	-	-	69,636	-	-	-	69,636
Capital assets, net	30,843	-	-	-	-	-	30,843
Intra-agency receivables	98,827	64,724	-	-	-	(163,551)	-
Other noncurrent assets	4,159	1,303	4,413	-	-	-	9,875
Total Noncurrent Assets	<u>210,116</u>	<u>389,081</u>	<u>3,044,986</u>	<u>-</u>	<u>39,740</u>	<u>(163,551)</u>	<u>3,520,372</u>
TOTAL ASSETS	<u>222,082</u>	<u>506,244</u>	<u>3,432,242</u>	<u>10,787</u>	<u>56,089</u>	<u>(163,551)</u>	<u>4,063,893</u>
DEFERRED OUTFLOWS OF RESOURCES							
Pension-related deferred outflows	12,800	-	-	-	-	-	12,800
Unamortized losses on bond refundings	-	-	6,526	-	-	-	6,526
Accumulated decrease in fair value of hedging derivatives	-	4,141	5,145	-	-	-	9,286
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>12,800</u>	<u>4,141</u>	<u>11,671</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,612</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 234,882</u>	<u>\$ 510,385</u>	<u>\$ 3,443,913</u>	<u>\$ 10,787</u>	<u>\$56,089</u>	<u>\$ (163,551)</u>	<u>\$4,092,505</u>
LIABILITIES							
Current Liabilities:							
Bonds and notes payable, net	\$ 380	\$ 455	\$ 91,080	\$ -	\$ -	\$ -	\$ 91,915
Accrued interest payable	7	787	23,439	-	-	-	24,233
Accounts payable and accrued expenses	2,509	-	17,813	-	288	-	20,610
Escrow deposits and development reserves	709	16,515	52,308	-	-	-	69,532
Other current liabilities	58	482	14,025	1,338	3,411	-	19,314
Total Current Liabilities	<u>3,663</u>	<u>18,239</u>	<u>198,665</u>	<u>1,338</u>	<u>3,699</u>	<u>-</u>	<u>225,604</u>
Noncurrent Liabilities:							
Bonds and notes payable, net	18,905	13,865	2,660,871	-	-	-	2,693,641
Derivative instrument - interest rate swaps	-	6,460	30,980	-	-	-	37,440
Development reserves	-	77,643	-	-	-	-	77,643
Intra-agency payables	-	-	163,551	-	-	(163,551)	-
Net pension liability	25,525	-	-	-	-	-	25,525
Other noncurrent liabilities	40,010	191,798	8,484	231	4,360	-	244,883
Total Noncurrent Liabilities	<u>84,440</u>	<u>289,766</u>	<u>2,863,886</u>	<u>231</u>	<u>4,360</u>	<u>(163,551)</u>	<u>3,079,132</u>
TOTAL LIABILITIES	<u>88,103</u>	<u>308,005</u>	<u>3,062,551</u>	<u>1,569</u>	<u>8,059</u>	<u>(163,551)</u>	<u>3,304,736</u>
DEFERRED INFLOWS OF RESOURCES							
Pension-related deferred inflows	-	-	-	-	-	-	-
NET POSITION							
Net investment in capital assets	11,558	-	-	-	-	-	11,558
Restricted	-	329	101,588	-	48,030	-	149,947
Unrestricted	135,221	202,051	279,774	9,218	-	-	626,264
TOTAL NET POSITION	<u>146,779</u>	<u>202,380</u>	<u>381,362</u>	<u>9,218</u>	<u>48,030</u>	<u>-</u>	<u>787,769</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 234,882</u>	<u>\$ 510,385</u>	<u>\$ 3,443,913</u>	<u>\$ 10,787</u>	<u>\$56,089</u>	<u>\$ (163,551)</u>	<u>\$4,092,505</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Revenues, Expenses and Changes in Net Position Year Ended June 30, 2016 (in thousands)

	General Activities	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Program	HEMAP	Total
Operating Revenues:						
Interest income on mortgage loans	\$ 15	\$ 7,798	\$ 115,882	\$ -	\$ 484	\$124,179
Program income and fees	48,972	1,404	2,141	1,502	10,950	64,969
Gain on sales of mortgage-backed securities	9,382	-	-	-	-	9,382
Investment income	1,270	-	12,450	-	35	13,755
Net increase (decrease) in fair value of investments	17,153	(39)	(83)	-	-	17,031
Gain on early extinguishment of debt	-	-	742	-	-	742
Total Operating Revenues	76,792	9,163	131,132	1,502	11,469	230,058
Operating Expenses:						
Interest expense on bonds and notes	26	2,110	97,166	-	-	99,302
Net (increase) decrease in fair value of swaps	-	(1,897)	5,175	-	-	3,278
Financing and program expenses	1	152	17,583	-	-	17,736
Salaries and related benefits	35,717	-	-	-	2,651	38,368
General and administrative	10,765	411	3,086	-	735	14,997
Provision for loan loss and real estate owned	2	(2,770)	28,424	1,182	4,136	30,974
Total Operating Expenses	46,511	(1,994)	151,434	1,182	7,522	204,655
Operating Income (Loss)	30,281	11,157	(20,302)	320	3,947	25,403
Non-operating Revenue						
Federal program awards	-	412,619	131	-	-	412,750
Non-operating Expense						
Federal program expense	-	412,619	131	-	-	412,750
Income (Loss) Before Transfers	30,281	11,157	(20,302)	320	3,947	25,403
Intra-agency transfers	(28,840)	(10,813)	39,574	79	-	-
Change in Net Position	1,441	344	19,272	399	3,947	25,403
Net Position - beginning of year	145,338	202,036	362,090	8,819	44,083	762,366
Net Position - end of year	\$ 146,779	\$ 202,380	\$ 381,362	\$ 9,218	\$48,030	\$ 787,769

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Cash Flows

Year Ended June 30, 2016 (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	\$ -	\$ 33,773	\$ 613,286	\$ -	\$ 6,933	\$ 653,992
Receipts of mortgage-backed security premiums	9,382	-	-	-	-	9,382
Receipts of fees and other income	48,972	1,404	2,141	320	10,950	63,787
Receipts of interest on mortgages	15	8,409	120,466	-	484	129,374
Receipts of escrow and development reserves	7,714	8,666	5,486	-	-	21,866
Payments for mortgages and purchases	(2)	(12,995)	(544,196)	-	(6,192)	(563,385)
Payments for salaries and related benefits	(35,969)	-	-	-	-	(35,969)
Payments for goods and services	(6,015)	(411)	7,065	162	(2,821)	(2,020)
Net Cash Provided By Operating Activities	<u>24,097</u>	<u>38,846</u>	<u>204,248</u>	<u>482</u>	<u>9,354</u>	<u>277,027</u>
Cash Flows From Noncapital Financing Activities						
Proceeds from the issuance of bonds	-	-	543,500	-	-	543,500
Payments for retirement of bonds and notes	-	(465)	(748,180)	-	-	(748,645)
Payments of bonds and notes interest	-	(2,563)	(97,750)	-	-	(100,313)
Payments of financing costs	(1)	(152)	(17,583)	-	-	(17,736)
Payments (receipts) of program advances	(23,024)	(3,678)	26,623	79	(2,456)	(2,456)
Receipts of federal program awards	-	412,619	131	-	-	412,750
Payments of federal program awards	-	(412,619)	(131)	-	-	(412,750)
Net Cash (Used In) Provided By Noncapital Financing Activities	<u>(23,025)</u>	<u>(6,858)</u>	<u>(293,390)</u>	<u>79</u>	<u>(2,456)</u>	<u>(325,650)</u>
Cash Flows From Capital Financing Activities						
Purchases of capital assets	(689)	-	-	-	-	(689)
Payments for retirement of capital financing bond	(365)	-	-	-	-	(365)
Interest paid on capital debt	(20)	-	-	-	-	(20)
Net Cash Used In Capital Financing Activities	<u>(1,074)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,074)</u>
Cash Flows From Investing Activities						
Proceeds from the sale or maturity of investments	2,847	7,194	136,432	-	-	146,473
Investment interest receipts	(396)	(58)	8,374	-	35	7,955
Purchases of investments	-	(5,187)	(143,823)	-	-	(149,010)
Net Cash Provided By Investing Activities	<u>2,451</u>	<u>1,949</u>	<u>983</u>	<u>-</u>	<u>35</u>	<u>5,418</u>
Net Increase (Decrease) In Cash and Cash Equivalents	<u>2,449</u>	<u>33,937</u>	<u>(88,159)</u>	<u>561</u>	<u>6,933</u>	<u>(44,279)</u>
Cash and cash equivalents, beginning of year	<u>4,817</u>	<u>65,892</u>	<u>330,452</u>	<u>10,226</u>	<u>3,798</u>	<u>415,185</u>
Cash and cash equivalents, end of year	<u>\$ 7,266</u>	<u>\$ 99,829</u>	<u>\$ 242,293</u>	<u>\$ 10,787</u>	<u>\$ 10,731</u>	<u>\$ 370,906</u>

PENNSYLVANIA HOUSING FINANCE AGENCY

Combining Statement of Cash Flows

Year Ended June 30, 2016 (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 (Loss)	\$ 30,281	\$ 11,157	\$ (20,302)	\$ 320	\$ 3,947	\$ 25,403
Investment income recognized	(1,270)	-	(12,450)	-	(35)	(13,755)
Net change in fair value of investments	(17,153)	39	83	-	-	(17,031)
Net change in fair value of swaps	-	(1,897)	5,175	-	-	3,278
Interest expense on bonds and notes	26	2,110	97,166	-	-	99,302
Financing expenses	1	152	17,583	-	-	17,736
Provision for loan loss and real estate owned	2	(2,770)	28,424	1,182	4,136	30,974
Depreciation	1,177	-	-	-	-	1,177
Early extinguishment of debt	-	-	(742)	-	-	(742)
Changes in Assets and Liabilities:						
Mortgage loans receivable, net	(2)	20,778	69,090	-	741	90,607
Mortgage loans interest receivable	-	611	4,584	-	(55)	5,140
Other assets	1,333	-	3,569	-	-	4,902
Accounts payable and accrued expenses	741	-	6,582	-	214	7,537
Escrow deposits and development reserves	110	643	3,828	-	-	4,581
Other liabilities	8,851	8,023	1,658	(1,020)	406	17,918
Net Cash Provided By Operating Activities	\$ 24,097	\$ 38,846	\$ 204,248	\$ 482	\$ 9,354	\$ 277,027

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	21,232	-	92	-	25,732
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	506,563	10,226	9,781	-	619,659
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	2,828,345	-	44,197	-	3,213,366
Real estate owned	-	-	72,596	-	-	-	72,596
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	3,107,607	-	44,197	(176,502)	3,594,470
TOTAL ASSETS	212,208	500,049	3,614,170	10,226	53,978	(176,502)	4,214,129
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	\$ 3,634,821	\$ 10,226	\$ 53,978	\$ (176,502)	\$ 4,249,944
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	1,767	-	11,231	-	207	-	13,205
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	2,791	19,186	208,221	745	6,074	-	237,017
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	20,398	-	-	-	-	-	20,398
Other noncurrent liabilities	32,405	183,693	9,496	662	3,821	-	230,077
Total Noncurrent Liabilities	72,088	282,102	3,064,510	662	3,821	(176,502)	3,246,681
TOTAL LIABILITIES	74,879	301,288	3,272,731	1,407	9,895	(176,502)	3,483,698
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	\$ 3,634,821	\$ 10,226	\$ 53,978	\$ (176,502)	\$ 4,249,944

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	16,811	7,100	3,673	1,683	1,790	31,057
Non-operating Revenue						
Federal program awards	-	406,442	-	-	174	406,616
Non-operating Expense						
Federal program expense	-	406,442	-	-	174	406,616
Income Before Transfers	16,811	7,100	3,673	1,683	1,790	31,057
Intra-agency 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	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

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 of fees and other income	53,773	1,021	2,982	1,791	11,029	70,596
Receipts of 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

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 and real estate owned	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